The West German showdown over AEG: bankruptcy versus nationalization

by Renée Sigerson

After weeks of stalemate, the West German federal government and 24 banks reached agreement Aug. 18 on a financial lifeboat package for the insolvent Allgemeine Elektrizitäts-Gesellschaft (AEG), the nation's seventh-largest corporation, which nearly plunged into bankruptcy in mid-August. Using government guarantees, the banks are providing two large loans, adding up to just under $900 million. This lifeboat now allows AEG to go through composition proceedings in court for a reorganization of its payments and debt backlog, which amounts to $1.5 billion.

Immediately at stake in the AEG crisis are 120,000 jobs; more broadly, the results of the reorganization of AEG will affect the entire West German economy for years to come. The financial collapse of AEG marks a pivot-point for the country. Either the Federal Republic will plunge into British conditions of permanent depression, or it will seize upon the challenge posed by a collapse-ridden world economy to launch an export-based drive for economic development in the Third World. Whatever the outcome of the AEG reorganization, it serves as a bitter reminder to West German leaders of the penalty for continuing the present drift, and a blow to their capacity to reduce it.

Unemployment in Germany now stands at its highest level since 1950, 7.5 percent. Early this month, the Federal Labor Office, which foresees an aggravated downturn of indutrial output, issued a report predicting that by 1990, Germany will have 3 million permanently unemployed, as Britain does.

Within the banking consortium there is operating a clique of financiers around electronics magnate Peter von Siemens, who view dismembering AEG as a stepping stone to top-down, "post-industrial" reorganization of the German economy. Von Siemens, acting here in his capacity as a board member of the Deutsche Bank, is coordinating his moves in the consortium with AEG's foreign creditors in Switzerland, as well as with the U.S. "technetronic age" bastion, United Technologies Corporation (UTC) of Connecticut.

Poised against this crowd is a large faction around the German trade union movement which wants to settle the entire crisis through partial nationalization. To strengthen the trade union demand, Helga Zepp-LaRouche, Chairman of the European Labor Party and frequent contributor to *EIR*, issued a statement Aug. 15 calling for nationalization to be part of a government-led drive for export-generation to Third World countries. In an open letter also aimed at influencing September elections in the industrial state of Hesse, Zepp-LaRouche calls for Germany to assume world leadership in the founding of a New World Economic Order.

The European Labor Party is acting to make Zepp-LaRouche's proposal a centerpiece of mass demonstrations on the economic crisis called for Sept. 7 by the German Trade Union Federation.

Most contested in this showdown is the fate of AEG's leading subsidiary, AEG-Technik, which produces heavy capital goods.

Royal Bavarian swindling

The stage for the current fight was set some months ago when von Siemens convinced AEG Chairman Heinz Dürr that the company was condemned to failure unless a foreign investor could be convinced to purchase a large shareholding in AEG-Technik.

The first buyer who entered onto the scene was General Electric of Great Britain. Upon announcement that Britain's GE was ready to buy into AEG, the German trade unions launched a furious campaign of denunciation. The condition of the British economy, they argued, was such that a British shareholder would have to be committed to broadscale cutbacks in production and employment to prevent German competition from wrecking their markets.

GE withdrew its offer, at which point von Siemens brought in UTC. UTC approached AEG with much more finesse, first reaching agreement on setting up a minor joint venture.

The trade unions stuck to their calls for nationalization. According to insider reports, von Siemens walked into the banking consortium meetings blaming the difficulties of the firm on the trade unions. Nationalizations, he said, according to report, were proven to be complete failures by the British and French experience. Above all, a "free market" system must be preserved in Germany.

The utter fraudulence of this argument is underlined by the fact that the one troubled firm in Germany which had to be nationalized, Salzgitter AG, a machinery producer, has been a successful, well-managed firm ever since.

With both sides at complete loggerheads by early July, two other events intervened to spell AEG's tailspin. Reports began to come out that the German economy overall was in worse shape than had been broadly expected for the year. In June, industrial output fell 5 percent compared to May. The mechanical engineering sector, the largest industrial grouping, was even reporting an exports decline over 1981.

In addition, the imposition by the U.S. government of extraterritorial sanctions against Western trade with the Soviet Union cast a dark light on AEG. AEG is contracted for delivery of turbines, using American GE rotor licenses, to the Soviets. A major subdivision of the firm, AEG-Kanis, has been surviving on this contract. In July, a U.S. Treasury task force discussed at a closed meeting that the U.S. sanctions move, if upheld, would probably drive AEG into bankruptcy.

The panic engendered over the nationalizations issue, combined with these events, produced a breakdown of deliberations within the banking consortium. Von Siemens started having open shouting matches at meetings with AEG's major creditor, Dresdner Bank chairman Hans Friderichs.

The lifeboat proposal, which had originally been proposed on June, was temporarily shelved. Chancellor Schmidt offered the banks a $100 million government guarantee to at least provide the firm—entering into a tough payments squeeze—a series of promised export credits. For 10 days, the banks appeared to be coming to agreement on Schmidt's proposal.

On Saturday evening, Aug. 4, UTC announced it was withdrawing its bid for 40 percent of AEG-Technik unless a complete reorganization were undertaken. The banks panicked, and Monday morning, pushed AEG into composition proceedings.

Days later, a Swiss financial newsletter, the *Platow Brief* started placing calls to German industrial suppliers, urging them to immediately call in cash payments for deliveries to AEG. Until the Aug. 18 deal was reached, it was entirely open whether even the composition proceedings would succeed in getting off the ground.

Von Siemens is multiply tied to Swiss interests. His faction in the consortium includes the Bavarian Union Bank, which, as the Royal Bank of Bavaria, was set up by—and still services—the oligarchic Wittelsbach, Thurn und Taxis, and other households in Bavaria which put Hitler in power. Von Siemens is also the chief benefactor of Armin von Möhler, an ideological proponent of the doctrine of "universal fascism" who runs the Siemens Foundation. Von Möhler is an associate of the Geneva-based Fascist International. This internationally-based network is striving to take command over the German economy in this crisis situation. Bavaria has strengthened its hand, in the course of the AEG affair, against the Ruhr, Germany's traditional industrial center of gravity; it remains to be seen whether they will capture the high ground for good.

On Aug. 18, AEG's foreign creditors met in Zürich, Switzerland. It remains to be seen how they will respond to the government-backed credit package. Leading up to their meeting, rumors were widespread that they intended to immediately call in their loans, on a cash basis, and drain the lifeboat of its funds. Even if they withhold such sabotage action, the composition proceedings will now drag on for three months. If the Schmidt government refuses to nationalize the firm during that period, AEG can be punctured again and again by the fascist bankers' clique which aims to seize control of it.

Behind the crisis in Canadian banking

by Richard Freeman

The Canadian banking system is on the brink of a collapse far greater than that of the 1930s. This year Canada's Big Five Banks—Bank of Montreal, Royal Bank of Canada, Canadian Imperial Bank of Commerce, Toronto Dominion, and Bank of Nova Scotia—will lose $1.5 billion; they already have $5.3 billion in loans that earn no interest and may have to be written off before the end of the year. Canada's banks lent wildly during the energy spree occasioned by Prime Minister Trudeau's National Energy Program, increasing total loans outstanding to largely speculative ventures by a whopping 64 percent between mid-July 1979 and November 1981. Now, the banks are overextended.

On July 8, depositors withdrew $148 million from the Canadian Imperial Bank of Canada, and in Newfoundland, a large run started at the branches of the Bank of Nova Scotia, which was quelled only when the bank's chairman issued statements assuring the public that the bank was sound.

Part I of this report showed the seriousness of the Canadian banking crisis, and reported that if Canadian banks fail, dian banking they could take American banks down with them, because they have borrowed between $25 and $50 billion from American banks on the interbank market. Part II will show how the transformation of the Canadian economy laid the basis for a Canadian banking collapse.

Canada has never been allowed to develop as a sovereign nation. Originally nurtured as a British outpost from which to run subversive operations against the United States, Canada was granted dominion status by the British monarchy in 1867, but the parliament and ministers of Canada report not to the federation's Prime Minister but to the Queen of England, a point recently re-emphasized in the 1982 Canadian constitution, which made Queen Elizabeth II the direct sovereign of Canada.

For the most part, Canada has been kept as an underdeveloped raw-materials preserve of the large British mineral extractive companies, banks, and transportation companies, such as Hudson Bay Company, the oldest company in North America and the continuator of the British East India Company, and the Canadian Railroad and Steamship Company, which has its links to the Chinese opium trade, and the large forestry company, MacMillan Bloedel. British raw material looting firms, such as Rio Tinto Zinc, or representatives of the South African based Harry Oppenheimer's Anglo-American gold empire, can be found throughout Canada.