 by William Engdahl

'Five Wise Men' search for upswing

Industry data show that the real German economy is far worse off than any Bonn politician admits.

Yes, we agree that the results for the German economy for the first quarter of this year were below our expectations," a spokesman for the respected Hamburg economic think-tank, HWWA, told *EIR* the first week in June. "But these poor results were not due to *fundamentals*. They were things like weather, the dollar, oil price uncertainty. Yes, a lot of uncertainty."

The economist could not restrain his enthusiasm. "But, look at April; here are the results—industrial production, employment, retail sales—all are up. Now the upswing is renewing its course in Germany. We predict that overall the German economy will grow by 3% average."

The entire electoral strategy of the coalition government of Helmut Kohl in Bonn is based on an evaluation made last year by HWWA and four other economic research centers in the Federal Republic whose heads are the notorious "Five Wise Men" who advise the government on economic policy. That evaluation was extrapolated from a secular short-term "uptick" in export orders for German industrial goods, based, to a large extent, on a German mark some 30% more competitive than the dollar. This brief spurt appears to have vanished since the dollar began its recent precipitous fall.

Another of the five, the IFO in Munich, using the same estimate of 3% overall growth in so-called GNP, reached the opposite conclusions regarding the state of the West German economy.

"Since the middle of 1985, the German economy has been characterized by stagnation," a spokesman for this prestigious institute revealed. "If you look at exports, the figures for the period are actually negative. Production in the Federal Republic is not rising, and our conjunctural test says that at least for the next three months, it will not rise either. At this time, there is absolutely no dynamic to the German economy. We hope, maybe, with low inflation and low oil prices and lower interest rates—that maybe the year will finish with perhaps a 3% GNP increase. You cannot look at one single month, but at least three-month trends to say anything."

Actual industry data reveals that the real condition of the German economy is far more serious than any Bonn politician is willing to admit. The German Engineering Machinery Association, VDMA, put out preliminary figures for April, which show that the critical figure, "new orders received" by engineering firms—by far the most important export group in Germany's export-dependent economy—are down.

Unlike the manipulations at HWWA, VDMA rightly compares April 1986 with April 1985 to eliminate seasonal "weather" and related external factors. HWWA is comparing April 1986 to March 1986 to inflate the positive trend of their figures. VDMA shows all engineering manufacturing down 6% on average, and a worrisome 8% for exports. For the first three months of the year, the average decline is 8%. Similarly, chemicals, led by the giant Hoechst, Bayer, and BASF: All are reporting drops in income for the first quarter, primarily because of the dramatic drop in the dollar.

Mannesmann, whose world sales are off 5% for the quarter, has just announced it will lay off 6,500 workers from its oil pipe division. Mannesmann's exports account for some 55% to 65% of its total sales, and the world oil price collapse has hit the company hard as new exploration projects are being stopped.

Overall demand for German steel, according to a just-released European Community study, is also expected to fall sharply over the summer. Although the report gives no figures, the EC cites the low dollar as especially damaging EC exports compared to last year. Further import quotas on certain steels by the United States will also hurt.

And what about agriculture? It seems that the HWWA, unlike some 1,372,000 German farmers and hundreds of thousands of supplier-industry personnel dependent on agricultural equipment manufacture, is not worried about the worst crisis since the 1957 creation of the Common Agriculture Policy of the EC. "Agriculture?" the HWWA spokesman asked. "That is simply not significant to the German economy. It's a political question, not an economic one. It's for the politicians in Brussels."

West Germany is the third largest producer of agricultural commodities in the European Community, after France and Italy, and recent price austerity policies are driving an estimated 100,000 to 200,000 German farmers to ruin, according to industry estimates. The impact of the widespread farm collapse could rock the regional and national banking system, to say nothing of destroying the economy of entire regions. No wonder many people stuff their ears when these "Five Wise Men" speak.