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Western Europe's economy being wrecked by the dollar's fall

by William Engdahl

A group of West German bankers gathered in Frankfurt in early December to hear Washington economist C. Fred Bergsten outline a series of proposals for stabilizing the current world financial markets.

Bergsten, director of the Institute for International Economics and policy spokesman for the Trilateral Commission group, told the audience that the solution was simple. "My proposal is that the U.S. gear its manufactures exports to achieve a net surplus of at least $200 billion per year for the next several years." How would he do this? "Well, this means that trade surplus countries must reduce their share of the world market. Japan, for example, must cut $70-80 billion of its exports. South Korea and Taiwan must reduce their trade surpluses, along with West Germany, to zero." The alternative, Bergsten suggested, with a Jimmy Carter grin, was global depression.

The largest economy in Western Europe is hard-hit by the collapse in exports, primarily the result of the Washington policy of "offensive devaluation" of the dollar. Dr. Bergsten, assistant secretary for international monetary affairs under Carter, was delivering what passes for current Washington "consensus" on economic strategy.

Bergsten refused an answer when one skeptical member of the elite Frankfurt audience questioned whether complex economic relations could be exchanged "like so many bricks, the brick of the West German trade surplus being added to the lack of bricks in the U.S. trade balance." That question goes to the heart of Bergsten's economic strategy.

West German locomotive?

West Germany is the world's largest export economy in dollar terms. It presently exceeds the United States and even Japan. Measured in exports per capita, Germany is four times more export-intensive than was the United States in 1986. Most of this export trade, some 67%, is with other members of the 12-nation European Community, particularly France and Great Britain. Some 10% of all German exports in 1986 went to the United States. Since 1947, the structure of Germany's economy has been built around capital goods industrial performance. Its steel, machine tools, chemicals, and transportation vehicles are the world standard, the main argument German industry has used in the last months to maintain export markets in the face of the catastrophic dollar fall.

It would be "economic suicide" to impose the Bergsten formula on this fragile export-oriented economy, a spokesman for the Munich IFO economic institute stated. But the effect of the continuing revaluation of the deutschemark against the dollar since mid-1985 is threatening to force just such economic euthanasia.

Washington is a simple-minded place these days, and Bergsten's associates don't vary from the norm. He reasons that Germany must stop exporting and begin importing U.S. goods. If Bonn won't do it willingly, well, Washington will force it to, by making German exports so expensive they will find no buyers.

It is an extremely dangerous strategy, because some 43% of all German manufacture is tied to the export market. Europe's largest automaker, Germany exports almost 60%. For steel, exports are only slightly lower. Machine tools and precision engineering products are above 50% for export. Put simply, if this export sector is killed, Germany plunges France, Italy, in fact all of Western Europe, into depression.

Dying with a DM 1.20 dollar

Current Washington strategy, underscored by George Bush adviser Martin Feldstein, another Trilateral colleague of Bergsten, is that the dollar must plunge to the level of DM 1.20. Many American citizens are unaware of what this means. In 1985, the German mark on international exchange markets stood at a level of 3.40. Since then, a combination of sharp changes in Federal Reserve monetary policy and Treasury Secretary Baker's "talking the dollar down" has steadily plunged the U.S. currency to its all-time postwar low of DM 1.63—even lower than the lowest point of the Carter years, when Bergsten was in office. That is a 52% plunge, or, viewed from the standpoint of German export competitiveness, a 52% inflation in the price of German goods.

According to a number of German industry spokesmen surveyed by *EIR*, German industry has tried to hold on to market share in exports by sharply cutting export profit margins. "Large German export companies like Mercedes-Benz or Siemens have prediscounted losses on exports under a falling dollar, reasoning that if they hold on to markets, they can recover somewhat when the dollar is revalued in the next

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'boom' cycle of world trade," a spokesman for a large Munich bank said. "But DM 1.60 or even 1.70 is well below where they can expect to catch up in the next boom. A DM below 1.60 would mean a crash for our economy." On Dec. 11, the mark hit 1.63.

The collapsing dollar is causing near panic in German industry. A spokesman for the machine tool sector recently emphasized, "For the export trade of German industry, the dollar zone directly affects 16% of our exports. In addition, it affects 10% of our imports, which are priced in dollars, and compete with domestic manufactures."

Since the dollar peak in early 1985, the level of new orders to the German engineering and machinery sector, the heart of the capital goods economy, has plunged 25% in price terms. Export sales led the collapse. According to official calculations by the German machinery association, export sales plunged 7% after inflation from January through October—prior to the latest wave of dollar collapse.

Hardest hit are new orders for machine tools, of which Germany has been the world's largest exporter since the early 1980s, when dollar gyrations and high interest rates destroyed the United States as a factor in advanced machine tools. Thus, a sector of the German economy Bergsten's strategy is destroying is a vital component of Western industry. New orders in this branch have plunged 30% from January through July of this year.

Automobile production is not only Germany's largest consumer of steel, and largest market for sophisticated industrial automation equipment, such as industrial robots. It is also the largest single component of the export economy. Mercedes, BMW, Audi, and Volkswagen are the largest group of car producers in Europe, and export fully 60% of its production. In 1987, the delayed impact of 18 months of dollar gyrations began to hit this sector. Overall, German car exports will decline this year for the first time since the early 1980s' recession, the estimate being 2%, according to industry sources. But the largest and most important export market, the United States, will drop 18%. "Most of this is directly related to the dollar," said a spokesman for VDA, the industry association.

But perhaps the most devastated is steel. Following the catastrophic energy and interest rate shocks of the late 1970s, Europe's largest and most advanced steel industry went into depression. From peak production levels of 53 million tons in 1974, German steel steadily collapsed to a low of 36 million tons in the 1982-83 recession. Following significant investment in advanced production capacities, especially continuous casting technologies, by 1985, production levels again began to rise, with producers in the Ruhr predicting stabilization. Then the dollar collapse hit.

"The dollar has direct effects as well as indirect," a spokesman for the Duesseldorf Iron and Steel Association stressed. "The direct effects have been the limiting of the U.S. market. But indirectly, we have an all-time record high of 14% steel imports flooding our domestic markets from Taiwan, Brazil, and other countries. We simply cannot compete with the cheap dollar." Production for 1987 will drop an estimated 12% below the 1985 levels to return to the depression levels of 1982.

The return to depression in German steel has produced emergency conditions, but the government in Bonn is refusing to grant aid to preserve jobs and steel companies facing desperate losses. The result, barring last minute action, will be huge layoffs in the industry. Krupp, Thyssen, and Mannesmann, the three giants of European steel, announced plans in early December to lay off 38,500 workers over the next three years. Trade unions have taken to the streets in angry protest. Some of the world's most modern production capacities are threatened with closure. After having decimated its labor force from 232,000 in 1974 down to 143,000 in 1986, the industry now approaches the 100,000 level. Entire regions of the Ruhr as well as Saar Basin are becoming as depressed as Pittsburgh.

The public make-work fraud

Since 1986, Washington has demanded that Germany "reflate" its economy by lowering interest rates to "stimulate" domestic demand rather than exports, as a way of taking the burden off the U.S. economy. Justifiably, the West German government and central bank officials have resisted this demand. "No one seems to be able to explain just what they mean by reflation," a senior German industry representative stated, commenting on Bergsten's recent war cry. Bonn is planning a DM 21 billion "infrastructure" investment stimulus as a response to Washington. "The problem here is that not a cent will go to aid industry or to improve real infrastructure of the economy. It is window-dressing to satisfy Baker. But the funds are earmarked for 'make work' local projects like erecting sound baffles along the autobahn."

If dollar devaluation continues in 1988, the devastation wrought so far will be only the beginning for Europe. "Firms abroad will soon reach the point where investment in West German equipment, no matter how superior the quality, is simply no longer profitable," stated the German industry representative.

Despite what Mr. Baker or Mr. Bergsten may claim, it is impossible to turn the world's largest export economy into a model of the import-dependent U.S. economy without plunging Western Europe and the United States into a depression far worse than the 1930s. The crazy Baker circle sees the option as "depression in Europe and Japan, or in the United States," and George Bush is desperate to ensure that the hit will be taken by Europe, at least until November 1989. That's the real secret behind Fred Bergsten's silly proposals in Frankfurt.

As Bergsten admitted then, he has not even considered the option of re-opening the developing sector to capital-goods exports from the United States, Europe, and Japan.