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World Trade by William Engdahl

West German machine tools' potential

In the discussion of Marshall Plan-scale economic help to select East European economies, no sector is more critical.

In a press statement in West Berlin Nov. 14, West German Economics Minister Helmut Haussmann suggested the possibility of some form of major economic assistance from West Germany to select East European nations analogous to the Marshall Plan aid the U.S. provided to help Western Europe's economic recovery in the postwar years. Assuming conditions do open up serious possibilities of Western industrial assistance to rebuild the collapsing economies of Eastern Europe, no other economy is better positioned to address the task than West Germany's. And no sector of West German industry is more vital to long-term industrial improvement than machine tools. Recent discussions I've had with representatives of this industry point up some interesting problems in the challenging job of rebuilding parts of Eastern Europe.

Unlike the U.S. or Japanese machine tool industry, Germany's is dominated by hundreds of small-to-medium size firms, known as *Mittelstand*. The industry was plunged into its deepest crisis of the postwar period in the early 1980s. The soaring world oil prices and the parallel Volcker high interest rate levels from 1979 to 1982 created a world depression in trade and production. Germany's machine tool industry plunged into deep decline, reaching bottom in 1983-84. Employment dropped 17% from just under 100,000 to 83,000. Unit production dropped 25%.

But beginning in the mid-1980s the industry began a typically "German" resolution of the crisis, part of the cultural heritage of the 19th-century national economist Friedrich List—it began massive investment in quality upgrading. It dramatically stepped up production of high-precision numerically controlled machines. It rapidly made up for a slow start, and today is one of the world's most important producers of laser machine tools as well.

In terms of quality and diversity, no producer can compete with Germany. Japan, which recently surpassed Germany as the world's leading producer measured in dollar terms, restricts most of its production for auto industry applications. There is no other maker of machine tools in Western Europe on the scale of Germany. Italy, perhaps the second most important maker, and Switzerland, are one-third the size of Germany's industry.

According to Dr. Gutmann Habig, a spokesman for the German Machine Tool Association in Frankfurt, "our industry capacity utilization rate is presently averaging between 91-98% of capacity. Order backlog for the industry is over nine months, only slightly below all-time peaks."

With this situation, I asked, why doesn't the industry launch a major program to expand capacity? "People here are cautious about building big new capacity," Habig stressed. He noted the severe depression from which many firms are only beginning to recover. "In addition, if a mid-sized firm adds large numbers of new workers and later is hit by an unexpected economic downturn, German labor laws make it very expensive for him." Instead, they have concentrated investment in production rationalization and upgrade of the quality of tool produced.

Because of the sharp international swings of the past decade, however, the German industry has held back on expanding capacities. One German machine tool representative, Bernhard Kapp of Kapp & Co. in Coburg, pointed out, "We have reached the limits of our capacity. But firms' own investment is unfortunately not expanding that rapidly." Because the German industry lives or dies, far more than any other in the world, on export, it is most sensitive to sharp shifts such as the 40% swing of the U.S. dollar against the German mark since March 1985. West Germany in 1988 was the world's main exporter of machine tools, accounting for a full quarter of the total trade.

This brings us to a salient point which latter-day "Adam Smith" free trade purists would do well to grasp. According to informed industry assessments, needed expansion of capacity from Germany or the rest of Western Europe's vital machine tool sector to retool East European industry cannot occur, especially given the political uncertainties, unless governments, or the European Community in Brussels, provide some form of state backup to reduce the companies' risk of loss should international events change unexpectedly as they did in Poland in 1981. This need not even cost German or European taxpayers a single penny of net expense, if it is in the form of a state export guarantee or some form of insurance against specific loss. With this backup, the West German industry says it is ready and able to tackle one of the most challenging economic problems of the postwar period, beginning in Poland and East Germany. Given the virtual collapse since the late 1970s of the once-potent U.S. machine tool industry, such potentials as Germany's must be regarded as of world importance to rebuild our faltering economies.

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