deficit in 1975. This concern accounts for 15 percent of Italy's trade with the Soviet Union.

Two major private companies, Fiat auto and Pirelli rubber, are slated for major capital investments in 1977 based on increased trade with the Soviet Union and the developing countries. Fiat received a major infusion of capital in a deal signed Dec. 5 with Libya which increased the auto company's capital from 150 to 165 billion lire. With this capital investment, Fiat intends to reopen its nuclear energy production sector and invest heavily in Italy and Brazil, particularly in improved plants, and increased industrial vehicle production. On Feb. 2 Carlo Rossi, the executive in charge of Fiat's Termeccanica and Turbogas announced the sector's merger under the name Termeccanica Nucleare, the new nuclear development sector of Fiat.

Fiat director general, Romiti, a representative of Italy's pro-industrial expansion faction announced a total investment of one trillion lire for 1977, 860 billion lire of which the auto, industrial vehicles, and specialized steel sections of Fiat will receive 50 percent of which will be invested in model changes and production improvements. Of the 290 billion lire for the auto industry, 260 billion will be invested in Italy and 30 billion will be invested in Brazil. Of the total industrial vehicle investment of 385 billion lire, 275 billion will go to Italy to complete the modernized Grottamindara plant. Fiat — Romiti will only slightly increase passenger car production in 1977, producing a projected 1,308,000 vehicles as compared to 1,339,000 in 1975.

Pirelli rubber company, and its subsidiaries, announced on Jan. 9 that it will increase its capital from 70 to 130 billion lire. The capital inflow — despite incessant rumors — is not from the Arabs but from state-owned Mediobanco, which is underwriting 50 percent of Pirelli's new stock purchases.

The Pirelli company, despite the fact that it has paid negligible stock dividends in four years, is expected to break even this year. Plans for reorganization protend a major expansion. Pirelli is expected to restructure the companies into four major categories — pneumatic, cable, industrial products and consumer products. According to *Il Mondo* of Feb. 2 Pirelli is ready to "deprovincialize" its operations. A spokesman for the company stated that Pirelli technology is the most advanced in Europe and that the company is now ready to reach out into the international markets.

West German Policy And Production At The Crossroads

WEST GERMANY

Private and governmental policymakers are now debating the underlying crisis in the West German economy. At the end of 1976, industry chalked up some gains relative to the shattering minus signs of 1976; but the economy is running at a loss in real terms, as its productive base deteriorates, new capital investment declines, and crucial margins of its erratic liquidity flows go into public debt financing rather than expanded capacity and technological innovation.

The exports on which at least half of West German economic activity directly depends grew 14 percent in 1976, and though imports rose 17 percent, a $14 billion trade surplus was achieved which the BRD press pointedly compared with the U.S. deficit of the same size. Sales to the most essential single group of trading partners, the Common Market, rose, especially in the fourth quarter as demand from Britain, Italy, and even France picked up. December industrial production (providing a 6.5 percent increase in the index for the calendar year) showed a 10 percent decline from November; but incoming orders that month, especially for the crucial capital goods sector, climbed counter to the overall orders' plummet in the fourth quarter (Tables I and II).

Yet heavy industry, especially the steel and machinery sectors, is still in deep trouble, with so much excess capacity that upward blips in orders could easily be handled without new investment. Investment growth, along with the expansion of capital goods exports it presupposes, has now emerged as the subject of policy debate.

Reporting this month that investment plans for industry as a whole for the 1977 remain below the minimal 1976 levels, a deputy director of the influential German Chamber of Commerce, Dr. Broicher, complained that "rationalization still holds priority over expansion." However, Broicher did not venture beyond familiar pleas for expanded research and development through corporate tax relief and a corresponding willingness on the part of companies to overcome their "defensive investment tendency." For its part, the government has insisted that real export-led growth of investment will be pursued in opposition to inflationary fiscal and monetary attempts to "stimulate" the still-depressed economy.

This week, too, the Dresdner Bank insisted that, owing to the soundness of the USSR's economy, its indebtedness to the West should be no obstacle to trade; BRD industrialists and their financial daily, *Handelsblatt*, have welcomed and publicized the Comecon central bank's transferable ruble proposal for gold-backed clearinghouse settlement and promotion of trade and investment arrangements among the socialist sector, Third World, and advanced sector. Nevertheless, a low ceiling persists on the BRD's ability to generate the giant increments in credit facilities for the East-West, North-South transfers of capital goods it seeks.

Table I: West Germany's Trade By Selected Area

(IN BILLIONS OF DM)

YEAR/MONTH	TOTAL IMPORTS	TOTAL EXPORTS	EEC-9 IMPORTS	EEC-9 EXPORTS	EAST BLOC * IMPORTS	EAST BLOC * EXPORTS
1973 (MA)	12.1	14.9	6.3	7.0	.6	.9
1974 (MA)	15.0	19.2	7.2	8.6	.7	1.3
1975 (MA)	15.4	18.5	7.6	8.0	.7	1.5
1976 JAN.	15.9	18.4	7.8	8.4	.8	1.4
FEB.	16.9	19.1	8.2	9.3	.8	1.1
MARCH	18.9	22.8	9.5	10.8	.9	1.8
APRIL	18.6	20.8	9.3	9.7	.9	1.4
MAY	18.0	21.3	9.0	9.9	.9	1.5
JUNE	18.6	20.7	9.2	9.7	.9	1.3
JULY	18.7	21.3	9.0	9.3	.9	1.6
AUG.	18.0	19.2	8.3	8.4	1.0	1.4
SEPT.	18.4	23.0	8.9	10.5	.9	1.4
OCT.	19.3	22.5	9.3	10.4	.9	1.3
NOV.	19.2	22.2	9.0	10.1	.9	1.4
1976 BAL. OF TRADE (ESTIMATE)	+33.7		+9.8		+6.3	

* INCLUDING COMMUNIST CHINA AND OTHER COMMUNIST COUNTRIES IN ASIA

MA = MONTHLY AVERAGE

SOURCE: DEUTSCHE BUNDESBANK

Three Crucial Branches

Machinery orders rose by only 7 per cent during 1976: the Association of German Machinery Producers reports that this climb was the result of a few large foreign orders in late summer. Domestic orders declined by 10 percent for the year, with a pickup of 12 percent in December over November owing to rationalization moves in industry. Capacity utilization has improved to 81 percent, but the order books are relatively short at 5.9 months. The breakdown per subsector of machinery is mixed (Table III); the declines in orders for steam turbines (40 percent) and construction machinery (27 percent) partially reflect the cutbacks in infrastructural outlays by key Third World trading partners like Iraq.

By contrast, the best industrial performer over 1976 was the *chemical* industry, whose 92 billion DM in total sales last year (16 percent above 1975) more than compensated for its 10 percent sales loss the previous 12 months. Most of the recovery occurred in the first half of 1976, reflecting in part the short-term upswing in domestic auto demand. Further progress has been hampered by sluggish international purchases and a narrowing of profit margins from the mark's revaluation (see Table IV).

Chemical industry spokesmen do not expect 1977 to show the same growth; current turnover and profit margins tend to confirm this expectation, but the industry — by its nature reliant on high-technology innovations — plans some significant investment projects. As an offshoot of British expansion plans for North Sea oil reserves, Deutsche BP (the West German subsidiary of British Petroleum) and the Bayer chemical firm plan invest 2 billion DM in the Dinslaken oil refinery outlet, aimed at transforming it into a major petrochemical complex. During 1976, the other two chemical giants, BASF and Hoechst, dispatched their petrochemical sub-

Table II: New Orders Booked By West German Industry 1976

(1970 = 100 SEASONALLY ADJUSTED)

MANUFACTURING AS A WHOLE	TOTAL	% CHANGE	DOMESTIC	% CHANGE	FOREIGN	% CHANGE
THIRD QTR.	163		140		243	
FOURTH QTR.	158	- 3%	145	-4%	200	-22%
NOVEMBER	156		144		195	
DECEMBER	163	+4.5%	150	+3%	202	+4%
RAW MATERIALS AND SEMI-MANUFACTURE						
THIRD QTR.	152		140		191	
FOURTH QTR.	153	+ .7%	143	+2%	185	-3%
NOVEMBER	152		143		181	
DECEMBER	155	+ 2%	145	+1%	186	+3%
INVESTMENT GOODS						
THIRD QTR.	181		139		276	
FOURTH QTR.	168	- 7%	153	+10%	205	-26%
NOVEMBER	162		146		202	
DECEMBER	179	+10.5%	163	+11%	216	+7%
CONSUMER GOODS						
THIRD QTR.	144		138		199	
FOURTH QTR.	144	0%	137	-.7%	199	0%
NOVEMBER	144		138		192	
DECEMBER	140	- 3%	133	-4%	188	-2%

Table III: Machinery Orders In West Germany 1976

(% CHANGE FROM 1975)

TOTAL	+ 7%
FOREIGN	+22%
FOREIGN MINUS LARGE DEALS	+10%
DOMESTIC	-10%
TEXTILE MACHINES	+32%
OFFICE EQUIPMENT	+20%
TRACTORS	+14%
MINING MACHINERY	-33%
CONSTRUCTION MACHINERY	-27%
STEAM TURBINES	-40%

SOURCE: ASSOCIATION OF GERMAN MACHINERY PRODUCERS

Table IV: West German Chemical Production 1976

(COMPARED TO 1975)

NITROGENOUS FERTILIZERS	-20.2%
PHOSPHATE FERTILIZERS	-14.1%
AGROCHEMICALS	-21.9%
PLASTICS	+41.9%
CHLORINE	+21.0%

sidiaries to work with the state petroleum company, Veba-Gelsenberg, on plans for the cooperative expansion of European state oil refining and distributing capacity as a whole. At the same time, BASF and Hoechst increased their foreign investment by 400 and 300 percent respectively last year, mainly in quest of cheaper labor.

The *steel* sector showed no semblance of recovery; output for the year was at the depression levels of 1975, and industry sources privately claim that they are losing over 200 million DM a month by continuing to operate. Twenty percent of the nation's steel workers are presently unemployed. Although orders for rolled steel products rose slightly in December, prices are falling and order books at year's end showed less than one month's span.

West German steel, decidedly competitive during periods of world economic growth, has dramatically lost foreign markets; and the country became a net steel importer for the first time this year. The nation's largest steel firm, August Thyssen, headed by a Trilateral Commission member, has sponsored output restrictions and anti-Japanese protection measures in the Common Market; meanwhile, Thyssen has reportedly been dumping the steel from its expanded Brazilian low-wage subsidiary into Western Europe.

Trade Policy

An alternative relationship with the Third World appears in the determination of other West German manufacturers to provide thermonuclear power facilities to Brazil. The Brazilian deal is especially important, from the point of view of West German industry as a whole, because it provides a touchstone of industrialist and governmental evolution beyond two traditional BRD maxims: one is to avoid state-to-state trade and investment arrangements as a violation of the "free market" principle. The Schmdit government has taken an extremely open and aggressive role in arranging and defending the deal.

The second maxim is simple enthusiasm for "big orders" of whatever kind. But the Brazilian nuclear plan is being justified by West Germany on the basis of mutual First World-Third World benefits in providing advanced energy resources to the latter as a precondition for their absorption of high-technology trade and investment from the former.

Earlier this month, Economics Minister Hans Friderichs announced two major trade promotion initiatives by the government. The Hermes Trade Credit Guarantee corporation, which operates on behalf of the government, will increase its total allocations for 1977 by 20 per cent to 127 billion DM. On Jan. 28, Friderichs had officially endorsed future proliferation of barter deals between BRD companies and petroleum companies by OPEC governments. This decision, announced the same day Friderichs arrived in Saudi Arabia for trade and cooperation negotiations — which produced nothing firm — draws on the experience of West Germany's largest engineering enterprise, Gutehoffnungshuette, which during 1976 delivered 750 DM worth of goods abroad in exchange for petroleum.

Financial Flows

Trade financing, as the Dresdner Bank debate indicates, is one painful problem of the BRD starvation of long-term capital for productive purposes. Germany was traditionally dependent on foreign investment for industrial growth; the BRD is even worse off — either overwhelmed by "hot-money" flows into short-term mark investments that help finance the public debt at the expense of threatening to hyperinflate the economy, or suffering, as at present, from lack of overseas interest in the stock and bond markets. Like a diabetic alternately stuffed with chocolate and starved altogether, the credit system cannot absorb nutrients, so to speak, much less generate them by itself.

The government's commitment to reduce deficit spending and consolidate expenditures produced a 4 billion DM decline in the 1976 year-end federal deficit. Public indebtedness remains higher in relation to GNP than that of the United States, and the bond market is largely devoted to financing it, along with the banking sector when the central bank deems it necessary. The chronic question in financial circles is how, if a promising "upswing" appears in the private sector, it can be financed at tolerable interest rates given the claims of government debt service on available credit (Table V).

Cutbacks in public spending have already damaged the country's never-adequate industrial infrastructure. The debt-strapped state railroad — whose new bond is being mournfully traded inter-bank well below par, unable to venture into the market — intends to make 32,000 workers redundant after an earlier 30,000 out in the 200,000-man railway force. Ten thousand construction workers are about to be idled in the Ruhr industrial center. Unemployment continues to climb above the one-million level.

Table V: Public Debt In West Germany

(IN BILLIONS OF DM)

LEVEL AT END OF MONTH	FEDERAL	STATE	LOCAL	BUNDESBAHN (STATE RAIL)	BUNDESPOST (STATE POST)
1970 DEC	47.3	27.8	40.3	17.0	20.3
1974 DEC	72.1	47.3	61.3	23.2	40.5
1975 DEC	108.5	67.0	68.8	26.3	40.1
1976 SEP	126.1	78.3	72.6	29.4	37.7

SOURCE: DEUTSCHE BUNDESBANK