

# Dollar Collapse Takes Heavy Toll On Europe

Despite the Federal Reserve's recent substantial intervention in support of the U.S. currency, Americans continue to be deluged with economic commentary purporting to show that the dollar collapse has relatively little to do with their lives, that it will have minimal effects on the U.S. economy and could even benefit U.S. exports.

The truth is that Treasury Secretary Blumenthal's "soft dollar" policy this fall administered a painful shock to Western European industry and investment, particularly in West Germany. As a direct result, Europe is leading the way to severe worldwide depression, which will eventually engulf the U.S. as well. The latest European production figures tell the story (see Table 1).

As this publication has documented at great length in the past, the U.S. trade deficit actually has had nothing to do with oil imports but stems from the failure of the U.S. to fulfill its role as a supplier of advanced technologies and capital goods to less-developed sectors of the world. The decline of American capital goods exports reflects both the declining productivity of U.S. industry (resulting from low rates of capital formation and diminished research and development expenditures) and the huge overhang of Eurodollar debts owed by less-developed and Eastern European nations.

### Blumenthal's "Cure"

But Blumenthal's method of "correcting" the trade deficit is not to reindustrialize the U.S. but to deindustrialize Europe. The forced appreciation of the deutschemark, rising 13.3 percent against the dollar between the end of 1976 and the end of 1977, has penalized West Germany's export-oriented capital-intensive industrial

sectors. German firms' profits have shrunk drastically, since in order to remain competitive in international markets they have had to maintain level prices in spite of rising costs.

Even if West Germany *never* reflatates to the degree demanded by Carter Administration officials or OECD staff economists, the deutschemark revaluation has *de facto* shifted West German investment away from "unprofitable" heavy industry into unproductive services and speculative merger and "asset-stripping" activities.

One little-noticed effect of the dollar plunge has been that the deutschemark has been pushed up relative to weaker European currencies, including a 6.5 percent hike against the French franc, 3.8 percent against the Italian lira, and 3.1 percent against the other "joint float" currencies during 1977. This has forced France and Belgium, in particular, to jack up their domestic interest rates, exacerbating the deflationary tendencies already evident in those economies (although rates in these countries have been eased slightly with the dollar stabilization). Despite the theory that currency devaluations benefit weak economies by boosting their "export competitiveness," the stagnation of West Germany — Europe's linchpin — has had a palling effect on intra-European trade as a whole.

As a result, France, Italy, and other weaker economies have been "competing" for a nonexistent European market, leaving trade with OPEC, the East bloc, and the developing sector as their sole remaining prop.

The so-called "strong" deutschemark simply lacks the industrial base to serve as a substitute international reserve currency. An economist at a Rothschild-associated European bank recently remarked that West Germany's foreign accounts are looking more and more like those of the U.S. in the early 1960s. Just as the U.S. has been turned into another Britain, West Germany is being "Americanized." The country's shrinking trade surplus and overall balance of payments *deficit* during 1977 reflect the fact that West German banks and corporations are investing heavily abroad—vastly increasing the international circulation of deutschemarks—without simultaneously increasing the industrial exports which should "back up" that paper.

At the same time, the City of London has encouraged a dangerous trend toward 1930s Keynesian-style protectionism and cartelization within the EEC that will result in *permanent* reductions in global production, the scrapping of "unnecessary" plant capacity, while propping prices. The EEC is in the process of establishing a "minimum selling price" scheme for European steel modeled on the U.S. plan. Limits have also been placed on the

**Table 1**  
Europe's Industry Is Shutting Down  
Industrial Production (1970 = 100)

	10/77	9/77	8/77	10/76	% change on year
Italy .....	128.1	132.9	71.0	135.6	- 5.5
France .....	123.0	125.0	124.0	128.0	- 3.9
Great Britain .....	101.4	102.7	102.7	102.8	- 1.4
W. Germany .....	121.3	116.3	98.0	119.0	+1.9
Holland.....	126.0*	120.0	109.0	128.0	- 1.6
	<b>8/77</b>	<b>7/77</b>	<b>6/77</b>	<b>8/76</b>	
Belgium .....	108.7	76.1	121.3	123.3	-11.8

\* Provisional.

Source: *Financial Times*

volume of steel imports into Europe based on EEC production levels in 1976—that is, if EEC production declines 10 percent from 1976 levels, foreign imports must be reduced by the same percentage.

As of now, the behind-the-scenes preparations of West German, Swiss, and French industrialists and bankers to establish a new gold-based monetary order centered around the Luxembourg financial market are all that

stands between the European economies and disaster. Even if the dollar were to stabilize for a few more months, based on strangling U.S. production through interest rate hikes and energy conservation, the net effect on the European economies will be the same as if the dollar had fallen—deindustrialization.

—Alice Blythe

## W. Germany :

### No Benefit From 'Strong Deutschemark'

The sharp rise in the deutschemark against the collapsing U.S. dollar in the second half of 1977 dealt a heavy blow to West German corporate earnings, sales, and orders. The City of London's attack on the dollar, launched in July, forced a decline in West German manufacturing output from the second to third quarters of the year at the same time that increased government spending and a glut on deutschemark capital markets were feeding inflationary pressures on the economy.

The threatened shift in the West German economy from heavy industry production to government-subsidized service employment will have devastating effects on industry European-wide, undermining intra-European trade. At this point, West German exporting firms are absorbing the inflationary pressures (industrial prices rose about two percent last year), and are borrowing funds, largely from the low-interest Euro-markets, to finance their own emergency trade credits — on the order of 5 billion deutschemarks in the latter half of the year.

A slight pickup in exports did occur in October and November, due to a few large contracts to OPEC countries, as well as early deliveries demanded by panicked customers trying to head off the decline of the dollar (see

Table 1). However, for the year, trade with the European Economic Community partners remained unchanged from 1976 in money terms — namely, suffered a real decline — while exports to West Germany's leading trade partner, France, registered a .2 percent fall in deutschemark terms alone (see Table 2).

As reported in a recent newsletter of the Bank für Gemeinschaft, "no new impulses" are expected for economic growth from exporting industries during 1978. Rather, the single major push behind the economy planned for this year is from the government authorities, which are expected to borrow a huge 60 billion deutschemarks on the highly liquid capital markets (compared to 47 billion last year) and to increase expenditures by 10 percent.

The stagnation in industrial output alongside the rise in government "stimulation" efforts shows that West Germany is currently at a crossroads. Long-term efforts by European Economic Community Commission head Roy Jenkins and his London-connected allies in OECD headquarters to force the West Germans to inflate their economy in order to link the deutschemark to dollar-denominated international debt paper is beginning to be implemented, despite massive political aversion to such

Table 1  
Quarterly Comparison of West German Exports and Imports  
(in billions of DM)

		Western Industrial	EEC	US	Developing Countries	OPEC	Soviet Bloc
E X P O R T S	1976 IV qtr. ....	46.24	29.76	3.6†	9.28	5.46	4.09
	1977 I qtr. ....	47.47	30.45	3.82	8.99	5.67	4.14
	II qtr. ....	47.82	30.55	4.54	9.51	6.52	3.96
	III qtr. ....	47.75	29.91	4.94	9.37	6.23	4.07
	% change II-III qtr. ....	— .1	—2.1	+8.8	—1.4	—4.4	+2.7
I M P O R T S	1976 IV qtr. ....	40.26	27.01	4.74	7.86	6.58	2.59
	1977 I qtr. ....	40.35	27.50	4.09	8.25	6.18	2.66
	II qtr. ....	40.93	27.54	4.51	8.24	5.73	2.76
	III qtr. ....	42.33	28.62	4.22	8.21	5.85	2.83
	% change II-III qtr. ....	+3.4	+3.9	— .1	0	+2	2.5

Source: Bundesbank monthly report, Nov 1977