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***Political Economy* by Dave Goldman**

West German Industrial Collapse Will Help BAIL Out Dollar Sector

Oct. 11— Unless West Germany breaks with the U.S. dollar, its industry will undergo a massive collapse during the last quarter of 1975, according to a report by ICLC intelligence. The industrial collapse will help finance the dollar sector's debt-rollover requirements during the next three months, the report concludes, and will provoke the virtually general bankruptcy of the West German credit sector by the outset of 1976. Without the early creation of alternative credit institutions now mooted in European political and industrial circles, the following will take place:

-The decline in output exemplified by a one-third cutback in raw steel production will precipitately intensify;

-This erosion of the profit-making base of the economy will make it impossible to continue to squeeze out liquidity to prop up the dollar and domestic state debt, as production cutbacks have enabled West German bankers to do up through the September payments deadline;

-The net capital outflow from West Germany (BRD) -- which rose 350 per cent from the first quarter of 1975 to the second, and has continued this autumn — will either be accelerated to add transfusions to the dollar sector at the expense of the BRD economy, or will ebb in the face of dollar collapse and leave West Germany, along with the rest of Europe, in the vortex of monetary breakdown.

West German bankers Ludwig Poullain and Jurgen Ponto have come out in favor of the former policy, which is not a policy at all but a step-up of the most murderous elements of the collapse process now taking place. Acting on the assumption that the Rockefellers will be able to shore up the international dollar sector by way of the New York banks, Poullain called for heightened reflation in the BRD and capital exports to the U.S. This proposal by the head of the Westdeutsche Landesbank, made on Oct.3 during a New York visit, was echoed five days later by Ponto, who is chairman of the Dresdner Bank, in a statement to the Bonn press corps.

The process Poullain and Ponto aspire to intensify is the following: During July and August, a decline of $5.3 billion in the hands of European and Third World central banks (excluding the three largest oil-producing countries) reflected unprecedented outflows of capital from dollar-dependent nations to the United States credit system. In turn, European central banks compensated for the decline in their reserves— the first in 30 years of continuous growth — through "reflation programs" of printing money to cover the needs of debt-strapped national and local governments and corporations.

In a downward spiral, European trade and production contracts; European liquidity is drawn out to refinance the dollar sector's debts; and European governments print money to paper over the collapse of corporate earnings and government tax receipts. In the case of West Germany, Europe's industrial heartland, the dollar liquidity spiral would lead to national ruin by year's end.

Decline in Output

Basic industry has fallen into what West Germans call "the valley" (See Figure 1). Only Comecon and oil producers' orders plus a June rush to use an expiring capital goods investment writeoff, kept the decline of mechanical and electrical engineering output at 9-11 per cent. Raw steel output is over a third below 1974. More than half the business of machinery, electrical engineering, steel and auto depends on foreign orders; the recent pickup in car demand was dismissed by industry spokesmen themselves, who stressed that no recovery can take place while exports fall to 40 per cent below 1973, the last "normal" year.

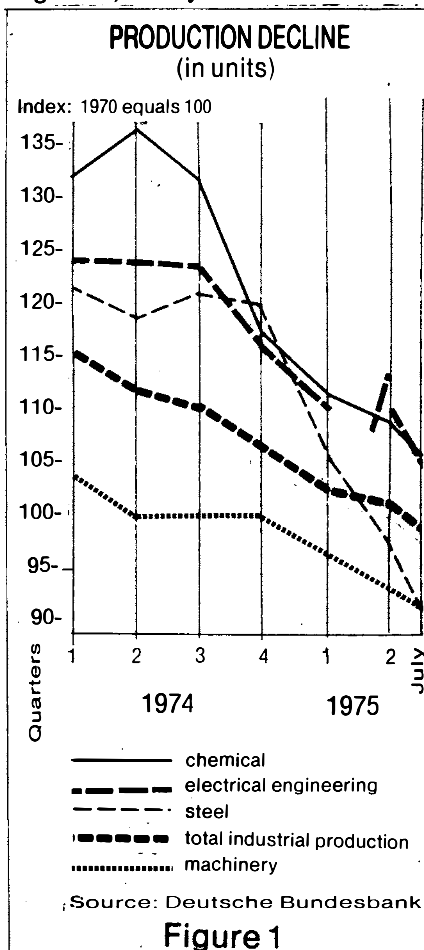

Figure 1

The output declines express the self-aggravating process of depression: at current levels of capacity utilization (under 70 per cent in chemicals, under 60 per cent in steel), unit costs for capital-intensive producers become literally prohibitive. The profit decline— pre-tax returns for the Big Three chemical firms fell by one half in the first six months of this year—compounds itself at a time when credit has been forthcoming solely to finance old debt.

When questioned as to the liquidity position of West German corporations, the average financial officer points to the BRD's low interest rates and the central bank's resolute use of the printing presses to reply that no problem exists; his proof is that corporations are taking so little credit! Everyone knows, of course, that the Bundesbank's reflation has gone into financing the state debt and adding to bank reserves which have not reached corporations.

Credit "Consolidation"

The fact of the matter is that a real decline in manufacturing credit has taken place since 1973; this autumn, at a time when the capital markets unloaded their corporate paper instead of buying new private obligations, the banks have merely provided enough credit to keep industry from juridical bankruptcy.

Bankers now purr that the slump is an opportune time for firms to settle back and "consolidate" that short-term debt. This has amounted to refinancing of obligations --- specifically in the most capital-intensive sector -- at slightly longer terms, while net bank credit to business continues to decline.

New banking credits to the private sector stood at 6.4 billion DM for the May-July period, as compared with 13.8 billion DM in the comparable three

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months of 1974 -- a 53 per cent rate of decline, at the same time the rate of increase of credit to finance the state deficit rose 63 per cent! Figure 2 shows the trend, taking both bank and market lending sources. Total credit out-

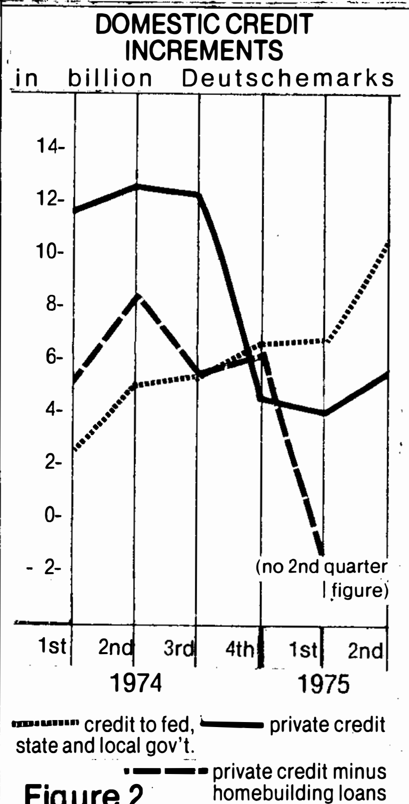

Figure 2

standing to manufacturing industries from the end of December to the middle of this year dropped 5 billion DM. The latest Bundesbank report concludes that it is lucky the state debt demands so much financing, since private demand for credit is so low -- much as an over-zealous mortician might console bereaved parents with the thought that savings on the dead child's food bill will facilitate installment payments on a topnotch coffin.

Forcing Out Liquidity

Figure 3 shows the beginning of the process by which the Rockefeller's BRD deputies have extracted enough liquidity from the productive sector to keep the economy's property titles formally solvent up to now. The ability of BRD corporations to finance investment out of their own profits was eroded in the 1970s by inflation and the drop in their rate of expansion.

A mass of relatively short-term loans was taken by a national sector already chronically operating on a high debt ratio: from 1970-1974, bank credits to domestic corporations rose 87 per cent. In 1973, the "consolidation" effort began. The financing deficit was narrowed by cutting investment, while companies were still obliged to seek more external credit. Since, as Wilfried Guth of the Deutsche Bank emphasized, it was and is impossible for corporations to obtain the kind of long-term credit at stable rates desirable for sound business financing from the capital markets, more debt was taken from the banks. And in 1974, three-fourths of manufacturing credits fom bankers were short-term.

Thus, as soon as BRD industry stopped growing toward 1974, its external liabilities rose and investment fell off. Now, when industry is not merely stagnating but declining, self-finance possibilities run down to a vertical drop. Not only is potential investment cut (one BRD foundation projects a further 25 per cent drop this year), but current costs of maintaining production itself are drained to provide temporary liquidity for the credit system.

The pile-up of short-term corporate debt has thus been "consolidated" on a somewhat longer-term basis, at the expense of industry's own reproductive powers. In the U.S., $15 billion has been directly pulled out of financing production this year into backup for dollar debt. It was a parallel 5 billion DM taken out of new business loans that enabled West Germany to roll over its old debt past this Sept. 30 deadline. Temptations also exist in cutbacks of trade finance; each 10 per cent cut in the $40-50 billion that finances European trade will yield $4-5 billion in liquidity for other purposes.

Such expedients will not be available next quarter for the BRD, because the deprivation of business ability to meet current operating costs is already putting major firms below the break-even point of profit. Neither the state debt nor the private sector can find sufficient credit under such conditions. The apparent conventional choices of deflation or hyperinflation are decisively ruled out.

The Poullain-Ponto option is to donate a transfusion of capital to U.S. debt titles and to the dollar empire. This plan corresponds to David Rockefeller's hope of sucking liquidity into a U.S. economy ruthlessly deflated by high interest rates, and secured by primitive accumulation against the U.S. working class. If Rockefeller is forced to go for hyperinflation, the West Germans will not only have to pull back from the Poullain scheme, but their economy will be loaded with a more toxic burden of worthless greenbacks than it was during the export of U.S. inflation earlier in the 1970s.

When the dollar itself reaches the edge of the cliff, the ordinary questions of increase or decrease in dollar reserves and dollar-DM parities are superceded. An effort to "dump" the dollar without breaking with the dollar system would simply erode the reserves West Germany needs to maintain any trade within the present world monetary system.

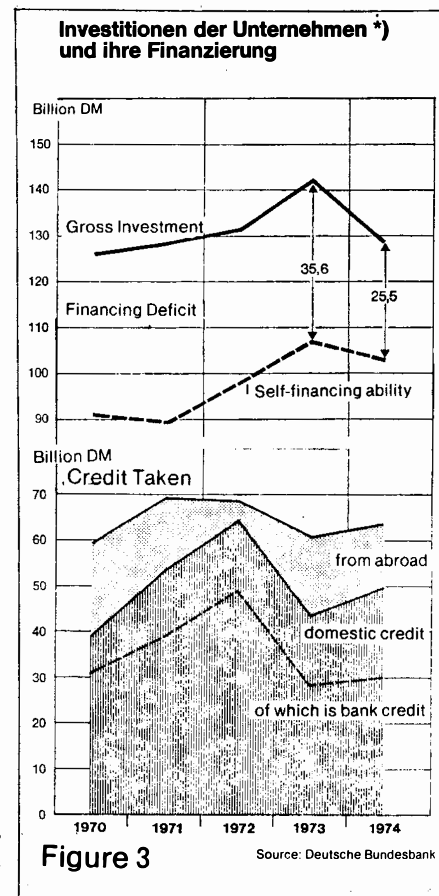

Figure 3