Turning point in de-industrialization: the West German steel shutdown

by George Gregory, Bonn Bureau Chief

The de-industrialization of post-war Germany, City of London bankers and their American counterparts first conceived the Morgenthau Plan of 1944 to carry out, is now being accomplished by the effects of Federal Reserve Chairman Paul Volcker's high interest rates. The accelerating collapse of world trade in the third and fourth quarters of 1982, to which the export-dependent West German "economic miracle" was all too vulnerable, is taking the German steel and other industries down with it.

A major component of de-industrializing Germany has been to "decouple" the domestic banking system and German industry. Up until the present, a sizeable proportion of the domestic banks' reserves were "good as gold" interests in productive industries. In the face of imminent international financial crisis, both the banking and industrial sectors are being put through a "radical cure," a process of asset-stripping to build up liquidity.

Over the past months, the German press has repeatedly noted that banks, particularly the Dresdner Bank and Commerzbank, are selling off their physical assets, and increasingly relying on interest-rate differentials for earnings.

The last in a series of "adjustments" to worldwide depression is to be the creation of a series of "united steel producer" cartelized financial entities which will make the ultimate decisions on what industries, and what industrial cities, will survive. Yet the current collapse is accelerating at such a rate that events are overtaking the planned rate of this cartelization: official figures on capacity cuts and layoffs are proving to be gross underestimates one month later.

Since the breakdown of the Bretton Woods system over the 1971-73 period, the entire German export capacity has veered towards riding the speculative wave in the Eurodollar market rather than building domestic technology and long-term industrial markets in the developing sector. The 1960s saw both the period when West Germany, after being held to 15 years of industrial stagnation by the post-war occupation and the Marshall Plan, finally closed the "technology gap" with the United States, and initiated whatever high-technology industrial investments are still sustaining the economy.

The immediate effect on West German exports of the 1973-74 Great Oil Hoax was that with the swelling of the Eurodollar markets with petrodollars, the world monetary system could temporarily afford to pay good money for good machinery. But the massive increase in energy costs, and the overall contraction in production meant that importing nations could scarcely afford to utilize their imports, much less sustain them. German exporters have been left high and dry.

The demolition of steel

The German steel industry, which survived World War II bombing raids aimed more toward terrorizing the population than destroying Germany's war-fighting capability, is now facing demolition as the result of both international and domestic economic war. The construction industry, which through the 1960s was the primary indicator of the direction of the West German economy, has, with over 200,000 official unemployed, been retired from the field. Steel is now the focus of the most acute economic and political crisis.

Within the month, a team of three representatives of West German industry, handpicked by Economics Minister Count Lambsdorff, will present a report of a "consensus" plan to manage the cartelization of the steel industry. This team consists of Günther Vogelsang, on the boards of VEBA, the BP-controlled German oil company, Thyssen Industries and Deutsche Bank, Frankfurt; Marcus Beirich of Mannesmann steel; and Alfred Herrhausen of Conti rubber, German Texaco, Deutsche Bank, Frankfurt, and of Enka, a Dutch-linked chemical firm, created in the late 1960s-early 1970s at the same time that Deutsche Bank also arranged the merger of Hoesch steel with the Dutch Estel firm. Enka is now overseeing the shutdown of the chemical industry in Kassel.

In final homage to the *Wunderwirtschaft*, or miracle economy, of the 1960s, the German steel industry continues to report its overall productive capacity to the European Community commission as 67 million tons per year. But the EC's Davignon Plan to limit European steel production has done its work far better than these official figures would suggest. The best industrial economists now estimate top technical capacity at 58 million tons, on the basis of production figures from the last "boom" year, 1974.

Estimates of actual output are far lower, and, far worse, production is collapsing so rapidly that production figures are being revised downward on a day-to-day basis. Best estimates from the steel industry for the September-October period were for annual production of some 36-37 million tons, or utilization of only 64 percent of capacity. As of early

December, the annual production rate had collapsed to 28 million tons, meaning that the industry is now operating at 49 percent of capacity.

These conditions mean that it will not be difficult to enforce a consensus that the steel industry should lose nearly one-third of its officially reported capacity. Davignon is calling for EC members to cut productive capacity by 35 to 40 million tons. Industry sources report that the special team assembled by Count Lambsdorff will recommend that Germany must cut 15 million tons of its technical capacity, leaving 43 million tons capacity on line. But this will not violate Davignon's policy, because, with the decimation of the labor force, West Germany does not have the manpower to operate at top technical capacity. Under present conditions, there is little chance that the actual 49 percent capacity utilization can be turned around.

The effects on world steel production will be disastrous. West Germany imports a large portion of its steel, both from other EC nations and the developing sector. If, as Davignon intends, Germany cuts off all imports, the industry might be able to maintain current (i.e., 28 million tons annually) production levels, but expansion would be impossible.

The destruction of the labor force

The decimation of the West German labor force shows how rapidly the nation is moving to a point of no return. Maintaining some kind of workforce has been a critical factor in the domestic steel war, where companies have been pitted against each other in a contest for outright survival.

By the end of 1982, there will be approximately 256,000 employees in the steel sector, broadly defined. This is 15 percent, or 44,000 workers fewer than 1978—the last year in which there was any remnant of capital investment. As of November, the Steel Employers Association had estimated that 9,000 workers would have lost their jobs so far this year, and that another 4,000 would be out of work by January 1983. These estimates are already obsolete. Krupp alone laid off 1,300 workers in September-October, and another 3,600 in the beginning of December. From 1972 to 1982, the industry has lost 118,000 workers, a full one-third.

In attempting to survive, steel companies have put 50 percent of their workers on short work. But, although short work in the industry normally means only 30 to 40 percent of normal work time, given the 49 percent production levels, some 78,000 of these 120,000 workers on short work are actually "redundant!"

The government has recently extended the period a worker can legally be on short work from 24 to 36 months. The Labor Office will have to pay the difference between 68 percent of what a worker normally earns and what he makes on short work for these 78,000 for another year—but this policy may be the final blow to the steel companies. Many are not solvent enough to carry their short-time workers for that period.

From 1978 onwards, most steel firms in West Germany have been forced to use funds needed for crucial maintenance of plant and equipment just to carry their manpower in the domestic industrial war that has pitted Thyssen against most of the rest of the industry. Some 25 percent of the price of a ton of steel is necessary just to maintain technical productivity. Now, firms that were using that 25 percent of earnings just to carry manpower necessary to keep producing, are announcing layoffs, signalling financial disaster. In addition, during this five-year period, almost no investments in merely maintaining physical capacity could be made, meaning that the industry has essentially cannibalized itself. Industry sources have estimated that the steel sector could survive such cannibalization for at most 6 to 7 years.

Thyssen steel is surviving in this depression for one reason: like U.S. Steel, it has diversified for financial earnings, like an insurance company. While other companies announced layoffs, in October Thyssen put 18,000 workers, 50 percent of its workforce, on short work, with the intention of bringing at least a portion back after other companies have been forced to permanently shut down technical capacity. Thyssen will then be able to dominate whatever market remains. Thyssen's steel operations will reportedly not pay any dividends to shareholders this year in order to outlast the other steel producers.

Permanent shut-down

Mannesmann steel head Overbeck has said that Germany really does not need any more than two steel companies. The Finance Ministry special team is reported to also be coming to this same conclusion, with the survivors already selected. One possible "consensus" will be to have Thyssen and Krupp combine, and Klöckner, Salzgitter, and Hoesch steel, all middle-sized companies, form the other. The remains of other steel-producers will be divided between these two. One of the most drastic features of the forthcoming Finance Ministry report is said to be a recommendation that basic steel capacity be maintained only if it is located on the Rhine river, Germany's major transportation artery. That would mean that steel centers in Dortmund, and the Saar would be closed down.

As Jürgen Krakow, head of Arbed Saarstahl, states, the Saarland steel operations have already "complied" with Davignon's policies—any further cuts will mean total shutdown. Crude steel capacities have been cut by 37 percent since 1977, and rolled steel by 26.5 percent. Production overall has dropped by 35 percent. Employment, down by the same percent, is now at 20,000. Close to 40,000 workers are on short work, including the *entire* work force of Arbed. The projected Krupp-Hoesch "cooperation" may also still be carried out—Krupp steel has already applied for the funds to invest in the new type of cold rolling mill that Hoesch was to have built in Dortmund—but the two-year time-frame for this merger is obviously too slow. The German steel industry will be little more than stripped-down financial entities by that time.