International Credit by William Engdahl

The panic of the short-sighted

You'd have to be crazy to think a revival of European steel and nuclear industries is a threat to the United States.

There is a "secret" behind the program put forward by American economist Lyndon LaRouche, and increasingly being echoed from the governments of Helmut Kohl in Bonn and François Mitterrand in France, as well as the European Community in Brussels. LaRouche's proposal to create a fulcrum of expanding industrial growth radiating out of a rail and electrification project in a triangle from Paris to Berlin to Vienna, draws on a little understood secret of successful economic policy, all but forgotten in postwar American economic classrooms.

What is going to come from the governments of Western Europe and most probably also Japan, will not be any new charity or "foreign aid." Rather, the tens of billions of dollars in long-term low interest credit backed by the governments and the new European Bank for Reconstruction and Development (EBRD), will result in a net public "payback" over the next decade or more, many times more than any nominal sums lent.

Core infrastructure investment by governments—transport infrastructure, water, electricity—unlike other forms of government spending, acts as a "lever" or catalytic impulse for subsequent private sector investment utilizing on that new infrastructure. The increase in net government revenues from the private sector boom repays the public coffers a factor of 3-400% over say, a 10-15 year investment cycle. This is the real secret behind the Japanese economic miracle of the past three decades.

But this will fail if, as many in Washington and Wall Street foolishly hope, economies of Eastern Europe are opened like Mexico or Bolivia for new raw "colonial" looting by large foreign multinationals of their "cheap" labor and raw materials.

For the first time since the 1970s, Western Europe faces an immediate large market for export of *capital goods* to a less developed region. In the center of this capital goods transfer and investment will be some of Europe's best known corporations. Framatome, the French nuclear supplier which leads the world in state-of-the-art nuclear plant construction technology, has formed a consortium with the Kraftwerke Union Group of Siemens of West Germany, Nuclear Power International. This will focus revitalization of the stagnating West European nuclear industry in the process of rebuilding Eastern Europe's electric capacities.

That will be a catalyst to a new "boom" in West European steel and engineering, especially high-quality specialty steels and other specialized metals. Power plant experience from such firms as VEBA, Preussen Elektra, and Deutsche Babcock AG will also be in strong demand.

Steel itself, from Thyssen, ARBED, Hoesch, Voest Alpine, Hoogovens in the Benelux region, Ilva Spa in Italy, and Sollac in France will rapidly become a precious and scarce commodity. For 10 years West European steel industry has cut and idled steel-making capacities under the Davignon Plan under a perspective of a collapsing world demand. This will now begin to reverse. Dramatic expansion of heavy construction firms as well as creation of new joint firms with East European partners will be a major focus. Firms such as Hochtief, Philipp Holzmann AG, Oerlikon Buehrle, Dyckerhoff & Widmann AG, and Spie Batignolles and Bouygues from France will be critical.

A second area will draw on the capacities of West European machine tools. West Germany today dominates the world machine tool sector, together with Japan. Italy, Switzerland, and Germany together form the world's biggest concentration of machine tool infrastructure and engineering skills. Capacities of West European machine tool production are already at their limits or beyond. Only some form of government backing such as credit guarantees from the new European Development Bank will insure rapid capacity expansion to meet the urgent needs of the reconstruction in East Europe. Trumpf in Baden-Wuerttemburg, Kapp & Co. of Coburg, Zeiss in Oberkochen, Rofin-Sinar of Hamburg, and Kuka in Augsburg are some of the leaders of this expansion.

The implications of significant investment in construction, steel, electric energy, and transportation will be a spillover into thousands of feeder companies and industries across Western and Eastern Europe well into the next century.

This prospect seems to terrify some U.S. financier circles. For example, David Hale, of Kemper Financial in Chicago, on Jan. 29, warned his clients of "potential consequences of Eastern European economic developments for the global financial equilibrium which permitted America to borrow over a trillion dollars externally during the 1980s." Hale added, "The destruction of the Wall symbolized an upheaval which could ultimately divert hundreds of billions of capital." From what, pray tell—leveraged buyouts and junk bonds?

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