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 Euromarkets, 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
EXPORTS	1976 IV qtr.	46.24	29.76	3.61	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
IMPORTS	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

Table 2
West German Exports and Imports by Country
(million DM)

	Exports				Imports			
	9/76	10/76	1-10/76	% Change 1-10/76	9/76	10/76	1-10/76	% Change 1-10/76
EEC	10,780	11,008	101,526	+ 5.0	9,607	9,788	93,354	+ 5.5
France	3,118	2,391	27,851	+ .3	2,299	2,370	22,458	+ 5.5
Italy	1,534	1,562	15,454	+ .8	1,713	1,837	17,292	+ 9.8
Britain	1,177	1,543	11,925	+19.9	974	934	8,546	+22.8
Benelux	1,929	1,886	17,842	+ 5.9	1,671	1,647	16,172	+ 1.7
Holland	2,424	2,480	22,750	+11.5	2,541	2,553	25,312	+ .2
Denmark	532	540	4,971	— 9.1	322	367	2,850	+ 5.4
United States	1,759	1,649	14,662	+23.7	1,250	1,327	14,075	+ 2.4
Soviet Bloc	1,312	1,386	13,369	— 6.3	939	1,026	8,976	+ .2
OPEC	1,922	2,230	20,358	+22.0	1,841	1,918	19,688	— 1.2
LDC's	2,887	3,483	30,911	+ 4.5	2,590	2,707	27,424	+

Source. Bundesbank monthly report, December 1977.

a development by leading West German industry and banking spokesmen.

A leading spokesman for a European investment house stated recently in New York that as far as he was concerned, a "dollar-deutschemark axis" already exists. Linkage of the two currencies has been proposed by leading monetarist economists as a device whereby West German hyperinflation, closely resembling the 1960s explosion of international dollar lending, can be channeled into refinancing City of London- and Wall Street-held international dollar debt.

Enhances London Control

The strong inflationary pressure within the economy, partly shown by the 16 percent growth in overall money supply last year, has not shown up in prices in part because massive amounts of funds are being sent abroad, for example into the Euro-deutschemark bond market. Last year, Euro-deutschemark bonds rose to 27 percent of total European bond market sales (compared to 16 percent the year before), while in November, deutschemark bonds outstripped Eurodollar bonds both in number of issues and volume.

This burgeoning bond market, coupled with the spurt in government borrowing, as well as the recent jump in West Germany corporate investment abroad, is contributing to a massive discrepancy between international circulation of deutschemark-denominated debt instruments and a shrinking West German industrial base. While Jenkins and his friends may not yet have the same political control over distribution of deutschemark flows as they do over international dollar markets, the City of London's political leverage in dictating European-wide austerity programs under these conditions is greatly enhanced.

Unemployment levels over 1 million (4.8 percent in December compared to 4.4 percent in November) are now a chronic feature of the West Germany economy. Unemployment compensation and shrinking social insurance funds strongly influenced the government's decision to increase its borrowing plans for this year.

The response of West Germany's Thyssen Corporation, the nation's largest steel producer, to last year's 10 percent fall in raw iron and steel output shows how the City of London's leverage works.

Thyssen Director Dieter Spethmann, a proponent of international export restrictions against Japanese steel producers, has put the company on a full-scale international diversification program aimed at reducing the raw steel component of the firm. Over 1977, only 12 million tons of raw steel were produced from a total company capacity of 17 million, while over a third of company profits came from its expansion into capital and industrial goods production. Similarly, Mannesmann Corporation announced a 29 percent drop in crude steel output from the second and third quarters.

Most recently, though, Thyssen has jumped on the City of London bandwagon to pour European investments into gobbling up U.S. companies — so-called asset-stripping aimed at an international rationalization of production and a net reduction in world output. This month Thyssen announced that it will purchase Michigan's Budd automotive parts corporation for a quarter of a billion dollars, a sum which is nearly one-third of all West German investments in U.S. industry last year.

In contrast to this overseas investment push into real estate and old equipment, domestic industrial investments in West Germany are expected to rise by 3.5 percent in real terms in 1978. A recent study by the IFO Institute in Munich asserts in addition that 50 percent of these investments will go into rationalization. City of London machinations through "environmentalist" court actions have, in addition, had the immediate, crippling effect of holding back an estimated 15-25 billion deutschemarks in investments in coal-powered and nuclear-powered energy plants and related transport projects.

One of the hardest hit manufacturing sectors last year was the high-technology chemicals industry. Both BASF and Bayer took on sharp third quarter declines in pre-tax earnings, BASF slipping by 199 million deutschemarks and Bayer by 32.2 percent. In contrast, during 1976 chemicals exports were an important stabilizing factor throughout manufacturing. Similarly, the Hoechst chemical corporation was forced under rising deutschemark values to cease all exports of synthetic fibers to Italy, where it had previously been a major supplier. This year, in fact, Italian fiber producers entered the West German domestic market to take advantage of the lira decline.

To the extent that 1977 production and orders figures did not show how desperate West German producers really are, this is largely attributable to the low bank lending interest rates which permitted consumers to purchase automobiles and durable electrical goods on a large scale. The automobile industry produced a record 4.1 million units in 1977, with the largest producer, Volkswagen, showing a 25 percent rise in sales. However, even in this case, the weak condition of basic industry shone through in a two percent decline in truck and commercial vehicles sales for the industry; and a 7 percent drop in truck exports.

The Bundesbank's (central bank) decision in December to impose restrictions on foreign capital flows into domestic banks by cutting off interest payments on foreign deposits will have the cosmetic effect of easing money growth figures in their accounting books. However, these funds will simply shift into the Euro-deutschemark market, where, according to one New York investment source, West German banks are even marketing government debt paper. Overall, the pressure of international claims on the country's basic industry can only be eased by an aggressive exports and investments push which places real productive growth behind the currency.

—Renee Sigerson

France:

Barre Plan Austerity Self Destructs

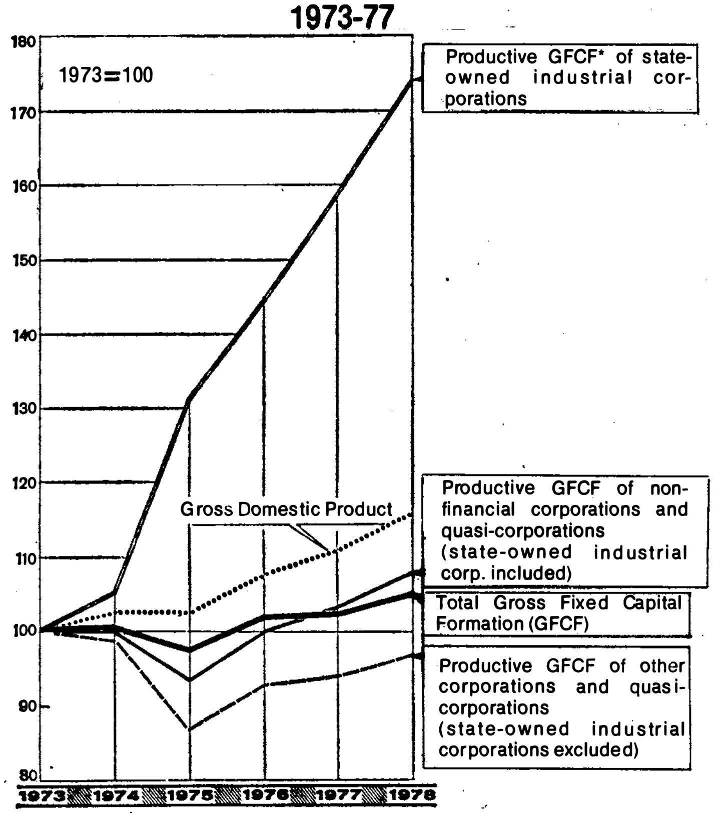
The situation of French investment, industrial output, and employment at year's end has dissipated any pretense that the "Barre Plan," named after French Premier and Economics Minister Raymond Barre, can salvage the economy with either its basic austerity thrust or its current patchwork "stimulation" amendments. French exports have been rescued — for the time being — from acute decline by foreign borrowing to extend new trade credits, and more positively by a general development push in the Third World and Mideast. The extinction of private sector investment, and the risky basis of public sector financing, however, remain a time bomb for the franc and the economy.

The latest news is the halving of France's annual trade deficit from $4.4 billion in 1976 to $2.4 billion. This occurred partly because of oil-import cutbacks (total petroleum consumption decreased 4 percent last year) as well as the abatement of drought-induced foodstuff imports. But the drastic total December import drop of 12.2 percent ultimately expresses the decline of industrial and consumer demand. Aggressive diplomacy recouped exports from the dramatic July-September drop of 10 percent, which affected all regional customers except the U.S.

Whereas average third-quarter monthly exports had been an unadjusted 24 billion francs, in December they reached 31 billion, subsuming a capital goods trade surplus of 2.5 billion, which brought the yearly capital goods margin of exports over imports to 17.8 billion (including, however, both autos and military equipment). This partly reflected a sharp depreciation of franc parities, especially toward year's end, vis-a-vis its European trading partners — from January 1976 to January 1977, 7 percent against the deutschemark, about 4 percent against the British pound and Dutch guilder,

Graph I

France's Gross Fixed Capital Formation—1973-77



Source : CRÉDIT NATIONAL

(*) Gross Fixed Capital Formation

Since 1974 State-owned industrial corporations have contributed by far the largest share of investment.