 by William Engdahl

The German recovery: What happened?

Since the January elections, the truth has come out about the Federal Republic's collapsing export economy.

Just a few days after the Jan. 25 West German elections, the widely proclaimed German "Second Economic Miracle" is collapsing. One by one, the illustrious wise men of the national economic institutes are rushing to "revise" their earlier predictions of sustained growth.

The Kiel Institute was even so brazen as to change its forecast only two days after the election.

EIR has the only accurate record on the real state of the West German industrial economy. In a study published in our Dec. 16, 1986 issue, we detailed the collapse of German industrial orders. We warned that if a sharp new shift toward an export offensive did not take place, "we can date the onset of the *second industrial recession* since 1980 for Germany from [the] April-May downturn in new orders for engineering goods." Sadly, we have just that result developing.

Disregarding the prevalent Gross National Product method of economic forecasting used by every major forecaster, we pointed in that review to the growing decline in future orders of capital equipment, steel, chemicals, and machinery in the export-dependent West German economy.

For political reasons, this underlying process of decline has been hidden from the larger public. Now that the elections are over, the campaign to continue the "economic upswing" has ended, and reality can no longer be hidden.

The most dramatic decline has hit the heart of Western Europe's and Germany's industry, the engineering and machinery branch. According to a report issued by the Association of German Engineering Industry (VDMA) on March 5, the total value of sales for the nation's second most important industrial sector, machinery, plunged a frightening 38% in January compared with December of last year.

While some seasonal "year-end" closeout is to be expected, the size of this year's fall to date is alarming. Most alarming for the export dependent industry is the collapse of 57% for foreign sales for the industry. The most important single market, the United States, has been hard hit by the falling dollar.

In January, following several months of relative calm, the dollar began to plunge. This meant almost a 10% loss on currency to the dollar for exports priced in deutschemarks in a matter of days. Economist Dr. Frank Paetzold cited the dollar, as well as the particular problems in European Community and world agriculture investment as major problems.

"In the U.S. business world, the dollar is becoming more and more burdensome," stressed Dr. Paetzold, "and in the raw materials countries there may not be any more stabilization in sight."

The prospects for the Federal Republic's second most important industrial branch, chemicals, are equally grim. With more than 50% of output going to export, this branch is also dependent on the export market.

The Chemical Employers Association announced on March 10 that its expectations for this year are for an actual decline in sales for the first time since the crisis of 1982. Expectations, they say, are "lowered." The industry group blames this on "turbulence in the oil price and in the value of the dollar."

Chemical prices are under pressure, and collapsed an alarming 8% during the final quarter of 1986 compared with the same quarter a year before. Such a downturn in immediate sales translates into declining future plans to build new plant and invest in new equipment. This further aggravates the results in the engineering goods industry.

Further evidence of the deterioration of German industry is the announcement that the steel industry plans over the next three years to close still another major portion of present steel producing capacity, despite five years of savage cuts under the infamous Davignon Plan of the European Community.

This will mean at least 25,000 jobs out of the present total of 142,000. Already, steel towns in parts of the Ruhr are becoming depressed areas.

The *Financial Times,* London's leading economics daily, reported on March 8 that unnamed Western diplomats in Bonn believe that "the country may face an international crisis of confidence by the summer should the second quarter fail to provide growth, and should difficult wage and working-hour negotiations with the powerful IG-Metall result in strikes."

It is not surprising that more than one German industrialist is looking closely at the possibilities of reopening such potential export markets as Brazil. Brazil's historic decision to declare a moratorium on interest payments on its foreign debt on Feb. 20 opens the way for a new relationship.