Economic Crisis Behind Industrialist Threat To Break With Dollar

Oct. 8 (NSIPS) — Behind the rush to denounce the Eurodollar market and the International Monetary Fund by European and Japanese policy makers this week is the cold wind of economic reality. Beginning in August, official figures show international trade, and with it, real industrial production, taking a sharp downturn in every national sector.

Dieter Spethmann, chief executive of August-Thyssen-Huette A.G., Germany and Europe's biggest steel maker, summed up the hideous results this week: 44 per cent of the workers in the Ruhr and Saar steel belt face short-time work hours this fall, the equivalent of laying off 25 per cent of Germany's 214,000-man steel workforce.

Industrialists and governments know the latest downslide is the direct result of the built-in rules of the dollar system. Since January, a series of currency devaluations and austerity programs, designed to hold the current dollar-dominated "system" of floating rates and wild speculative flows together, have slashed funds for current production and capital investment. Since the creation of international credit is almost totally dominated by the handful of huge international banks in the $600 billion Euromarket-Cayman Island complex, the lion's share of new credit created during the past year has gone instead to the refinancing of the outstanding and unpayable obligations of the Third World, Italy, Britain. The result has been a production slide of historic magnitude and a concomitant rise in inflation.

Looking at the rotten fruits of this policy, European and Japanese leaders will break with the dollar before going through another round. Despite U.S. Treasury Secretary Simon's call for sacrifice from Britain, Italy, Japan, et. al., "there isn't going to be any austerity," a Citibank economist complained yesterday. European industry is in no shape for another credit squeeze, he said, and besides, "It's a political hot potato."

The recent rise in lending rates (Denmark, 9 to 11 per cent; Italy, 12 to 15 per cent; Belgium, 9 to 12.5 per cent; Britain, 11.5 to 15 percent; France 9.5 to 10.5 per cent; Sweden 6 to 8 per cent) and other highly visible austerity moves made in Europe the past two weeks were "just to stop speculative currency flows," a Bankers Trust exchange expert said this week. These countries still intend to supply credit to industry by "talking big but making no change in their rate of increase of money supply," the Citibank man stated. The director of the Swedish Riksbank (central bank) said Oct. 4 after the hiking of the lending rate: "Those industries that need credit will get it."

Germany: Crisis Within A Crisis

In West Germany, the austerity import cuts already perpetrated in the rest of Europe, which takes 50 per cent of German exports, has sealed the economy's fate. The vaunted trade surplus fell by more than half between July and August, from DM 2.6 billion to DM 1.2 billion, because, although imports fell, exports fell even further — a full 9.4 per cent. Worse, the Economic Ministry reported yesterday that new foreign orders, the exports of the immediate future, fell an incredible 28.1 per cent during August. June and July export orders, which were slightly up, had been the entire basis for the government's claims of "recovery." "Those were one-shot-deal Mideast contracts," said Citibank, "and the trend is down from here."

Exports, rebuilding of inventories, and last fall's government spending bonanzas were the only demand holding up European production to this point, a top EEC economist told today's Journal of Commerce. All three, he said, "have now run their course and-or expired. The situation is beginning to worry me."

Beginning with the August trade figures, the entire West German domestic economy is looking over the cliff. In steel, one of the worst industries hit by the export fall, Thyssen's Septhmann sees a "crisis within a crisis." With the mills now at 70 per cent of capacity, as low as 50 per cent in certain products like steel plate, the 1976 production goal of 44 million tons, only 80 per cent of 1974's production, won't even be reached, he told the JOC. Already, the number of workers on short time in steel this week is double the August levels.

The Christian Democratic Union (CDU) issued a campaign statement Oct. 1 scorning the Schmidt government's reported drop in unemployment during September as mere seasonal statistical fraud. "We view with alarm the drop in job vacancies, the depressing 50 per cent increase in temporary layoffs, and the still rising youth unemployment," a campaign release stated. "All major German economic research institutes are certain," added the JOC Oct. 4, "that the ranks of unemployed will swell again during the last quarter ... to the 1 million mark."

Britain: In the Vise

"Britain is being squeezed in the vise," says the lead article in the Journal of Commerce today. Yesterday's announcement of the "tightest ever credit squeeze in modern day Britain" hiked the minimum lending rate (MLR) from 13 to 15 per cent, and froze another $700 million of the banks' cash reserves, bringing the total frozen to 2.1 billion. If continued for any length of time, this will bring industrial lending to a halt. In reaction, the London stock market plunged 14.6 points on Oct. 7 and 10 points more yesterday, down to 286.0, the first slide under the 300 mark since August 1975. Expectation of "slowing down of investment, a fall in consumer spending due to dearer interest rates, and higher unemployment," says the JOC, drove down stocks "across the whole spectrum."

Furthermore, the Bank of England announced that while the target rate of growth of the money supply is 12 per cent annually under the austerity programs being stipulated by U.S. Secretary of the Treasury William Simon and the IMF, M 1 in Britain continued to grow in September at the August rate of 20 per cent. If the IMF demands are actually to be met, even the current round of squeeze will therefore be dwarfed.

Even the measures already in place before yesterday's announcements have so damaged investment in basic industry and production generally that the new measures **must be** only stopgap. Unless they are superceded within weeks by a general revamping of the sterling currency and international monetary system, British industry will be a thing of the past.

As early as Monday, Oct. 5, the Confederation of British Industry (CBI), the London Chamber of Commerce, and the government Department of Industry, released surveys documenting complete chaos in every sector of the economy.

Although the surveys were done even before last week's dramatic new sterling plunge from $1.71 to a low of $1.63, the CBI found distress at "a general falling off of production and new incoming orders." The LCC found "widespread disillusionment with the economy ... growth stagnant."

The ugly result is that not only is investment in plant and equipment down, but it will remain **below 1971 levels**, reports CBI. The reason: "profits are severely down," and, the LCC adds, "crisis-level interest rates are hardly likely to encourage investment." Therefore, the backbone of the economy, the capital goods sectors — engineering, machinery, machine tools, and construction — are the most depressed. The LCC predicts as a result "renewed inflation and rising unemployment." Unemployment in Britain in fact rose by 9,200 in September to 1.266 million.

Reached after the pound's fall, CBI surveyers found industrialists even more frantic. Rising oil costs and interest rates, and general import price increases, will mean immediately rocketing unemployment, they said.

France: Overkill

Jacques Ferry, leading French steel industrialist, summed up the state of the entire European steel industry yesterday in a statement to the press. In Europe as a whole, he revealed, incoming orders have fallen a full 40-50 per cent during the first half of 1976 over 1975's already depressed first half levels, and continue to fall. Costs of production have risen 30 per cent over the same period while prices are at their lowest level in nearly three years. Ferry predicted mass unemployment, especially in the French steel sector, where the major corporations Usiner, Saciler, and others, are already paying out annually more in debt service than the magnitude of their absolute profit losses.

In response to the New York banks' speculative attack on the French franc a month ago, the Giscard government tamely issued the overkill austerity program the banks demanded. Not satisfied, the banks this week renewed heavy speculation against the franc, bringing it from close to $0.21 to $0.2020.

The industrialists' outcry inside **and outside** of France, however, indicates that even the original austerity program may be defeated. Business Week in its Oct. 11 issue lays out "New Trading Worries for France's Partners": "(The) program calls for tax changes that would sop up $3.6 billion of private and corporate money. It would also clamp down on the rate of expansion of the money supply to 12 per cent from 18 per cent.... The program is expected to bite heavily into auto sales. Gasoline prices will rise 15 per cent, and auto registration will cost from 43 per cent to 125 per cent more."

One-fourth of France's cars come from her EEC trading partners, especially West Germany, which sold $10 billion total exports to France last year. Business Week quotes industrialists from the Germany Machinery Association, the Italian Confinidustria, Belgium, and Holland, as being particularly worried about the 10-15 per cent of their exports that go to France.

Japanese Industrialists Rip Fukuda Line

Oct. 8 (NSIPS) — The fight of business leaders for a pro-development solution to the collapsing economy against the pro-Rockefeller faction headed by Deputy Premier Takeo Fukuda, smoldering behind the scenes for months, was forced into the open this week. The pro-development industrialist faction was spurred to action by economic figures just released that showed that overall production declined by 0.8 per cent in August. The Ministry of International Trade and Industry predicted further declines of 1.3 per cent and 0.6 per cent in September and October.

The primary cause of the downturn was month-to-month drops in custom-cleared exports of 10 per cent and 6 per cent in July and August, which resulted in a 2.4 per cent fall in production of autos and consumer durables. These two items have been the mainstay of the "mini-recovery" in Japan since January; their fall heralds economic disaster.

Additional bad news for September included the second highest monthly total for bankruptcies this year — 1,357, and the defaulting on $140 million in bills to small suppliers by the virtually bankrupt state-owned Japan National Railway, which has accumulated $21 billion debt. Last week, the leading business federation Keidanren issued a report saying that "Seven out of Japan's 22 principal industries are in serious difficulties that could affect the nation's economic security," including chemical fertilizers, machine tools, shipping and textiles, while others have serious problems.

Immediately after the release of the statistics, Fukuda called a press conference to say that the problems were only temporary and that Japan would continue its current policy: reliance on the "upswing" in the U.S. which has already become a strong downswing. According to the Mainichi Daily News Oct. 2, Fukuda stated his policy would be to continue concentrating on fighting inflation — the same thrust just announced by the International Monetary Fund.

Backing up Fukuda's anti-inflation poicy with a fast attack on Japan's working class, Employers Association head Takeshi Sakurada called for limiting wage increases for 1977 to a paltry 5 per cent, despite consumer inflation twice that figure, and rising. Consumer inflation rose a whopping 2.8 per cent in September. Real wages in July were 2.2 per cent below July 1975, the second consecutive year of real wage declines. In addition to pushing this severe austerity policy on wages, Sakurada has supported Fukuda's six-months' attempt to unseat pro-development Prime Minister Takeo Miki.

Leading the attack on Fukuda's disastrous policy line, MITI head Komoto — one of Miki's foremost supporters — called a press conference to announce that the economic recovery was not proceeding adequately and that his ministry would announce new measures to promote economic recovery after a review to be completed by mid-October. Two days earlier, Mitsuo Kono, a columnist for the pro-development Yomiuri newspaper whose columns often reflect the thinking of MITI officials, sharply attacked Sakurada: "Sakurada is saying that the way to save the Japanese economy from vicious inflation is to lower the living standard of the workers.... It is doubtful he can achieve (it)... If a wage rise is actually held down, there is a possibility of the economy again precipitating into a 'consumption recession.'" Kono had blamed the renewed recession in Japan on the collapse of the U.S. recovery a week earlier.

Keidanren head Toshio Doko, who will be leaving for a tour of Europe Oct. 15, announced that the trip will discuss East-West trade and that he will propose that European trade deficits with Japan be remedied by having Japan subcontract out to the European parts of capital-intensive development projects that Japan may contract with third countries — the Third World and Comecon nations.

Fuming at a hoax perpetrated on Japan by Kissinger at June's economic summit in Puerto Rico, industrial leaders have also indicated that they will push the Japanese government to abrogate the policy laid down by the U.S. at that meeting of charging the Soviet Union a special high interest rate on development loans. By following the guidelines — generally ignored in Europe — Japan lost out on at least $220 million worth of trade deals with the Soviet Union.

Contacts with anti-austerity, anti-Rockefeller business forces in the U.S. may also be solidified in the wake of a visit to Tokyo by Continental Illinois Bank chairman Roger Anderson. Anderson held a press conference in Japan to present ideas paralleling those of his Japanese counterparts, saying that the way to solve Third World payments deficits is through "far more capital to build industries ... so that these nations can generate enough revenue from exports to pay for the capital goods they must import to improve their industrial base."