# Bundesbank pulls plug on 'recovery'

*The bank has sent out the message that the party is over and that the Kohl regime is in serious trouble.*

One day after German Economics Minister Martin Bangemann told his country's parliament, the Bundestag, that no rise in interest rates was necessary or desireable, the West German central bank raised its Lombard rate (similar to the discount rate) to 6.0% from 5.5%.

To soften the government's humiliation, the directors of the central bank hastened to explain that this was a technical, not a policy measure, designed not to raise domestic interest rates but to improve the central bank's control over the money market.

Although the Bundesbank's explanation is true in the narrow sense, the entire Frankfurt banking community is aware that the props have been kicked out from under the country's supposed "economic recovery." In its own fashion, the Bundesbank has announced that the party is over: No longer will the German banks buy up 2 to 3 billion marks of their trading partners paper every month, to enable France, Italy, Denmark, and so forth to buy West German exports. Since the vast rise in West German exports during 1984 stabilized the sagging West German economy, the Bundesbank has signalled the rapid decline of the economy and, with it, the fortunes of the Kohl government in Bonn.

What is particularly striking about the Bundesbank decision is that it occurred despite the combined public opposition of the Kohl government, the trade unions, the powerful savings banks' association, and the Landesbanken (the banks of the 11 German states), as well as the financial press. All of the above inhabited a fool's paradise during 1984 in which West Germany attempted to accommodate itself to Paul Volcker's dollar regime. West Germany's heavily indebted European trading partners, on whose imports West Geman industry depends, required new credits to pay their dollar debt service. West Germany provided these credits in deutschemarks (DM), to the tune of 2 to 3 billion per month, feeding the selling pressure against the mark. West German industry was then able to continue selling to the rest of Europe, despite the fact that other European currencies were falling against the mark—making mincemeat out of the argument that the low DM benefited exports.

An even more ominous note in the Bundesbank report went unreported by the press: The central bank reported that a significant problem in controlling the German money supply emerged as a result of the flow of German cash abroad, in excess of any economic requirement for cash. According to sources at the central bank, this is mainly in the form of large-denomination notes, and reflects revenues of narcotics traffic in West Germany, tax-evaders shipping funds to Switzerland in the trunks of cars, and similar things.

The mark lost 12% of its market price against the dollar during 1984, and the Bundesbank emitted a strong warning in its January monthly report to the effect that a weaker currency implied higher inflation, and something had to be done. The debate then made the circuit of the financial press over whether a rise in interest rates makes the DM more attractive on the market.

That is not the issue: The weakness of the DM is the combined result of Volcker's regime of world usury, in which the DM and other European currencies must be sold to obtain dollars for debt service and for the flow of illegal funds into the dollar from West Germany among other countries.

So the Bundesbank has let the banks know that the flow of DM to West Germany's trading partners must slow or stop, Frankfurt bankers report. For the moment, money-market rates are not affected. The Lombard lending window was not an important source of reserves for the German banks in quantitative terms; most of their funding came through the Bundesbank's so-called tenders of funds for securities held by the banks, which the central bank is continuing to provide. However, the 5.5% Lombard rate in effect put a ceiling on interest rates since the banks knew they could always obtain funds at 5.5% (same as the money-market rate) when they needed them. Now the central bank is dangling the Lombard rate just above the money-market rate. This means, in effect, that rates will remain stable only if the banks stop lending when liquidity is not immediately available.

Since the German economy depends on accelerating bank lending merely to tread water, the implications are obvious. With 9.2% ployment (14% when officially counted "discouraged workers" are added to the definition of the labor force), West Germany is in serious trouble, and the first evidence that the economy is headed downwards will cause an earthquake in Bonn.