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Franco-German industry hit by non-linear collapse

by William Engdahl

Germany's largest automobile maker, the Volkswagen group, has made public a dramatic shift in traditional company policy. Henceforth, VW, maker of the VW and Audi cars, will buy its components from the "cheapest source," regardless of where they are produced, unless the company's traditional German suppliers agree to a 5% price cut this year, as part of a company goal of slashing costs by some 30% over the next four years.

Immediate company investment will be slashed by 33% this year from DM 9 billion ($5.6 billion) down to DM 6 billion, while construction of an ultramodern new production facility at Mosel in eastern Germany will be delayed indefinitely, and 12,500 VW jobs cut permanently in the next 18 months. Daniel Goeudevert, deputy chairman of the group, states his view of the company's problem as one of cutting "cost, cost, cost, to lower the breakeven level." Some 90% of all VW car assembly components are still made in Germany. "We want to start real global sourcing," said a company spokesman in announcing the new policy. VW also announced that it intends to make a profit this year, despite an estimated 20% drop in German new car sales.

At the same time, Germany's largest industrial company, Daimler-Benz of Stuttgart, announced that it would construct a new auto production facility in South Korea, the first time the once-technology-proud Daimler group has moved car production out of Germany.

French industry representatives have told *EIR* of a similar process savaging French industry in every sector at accelerating rates. Only extraordinary decisions from the Socialist government to control soaring unemployment before the March elections has delayed the full impact of these pressures. Industry observers expect a dramatic explosion of new and permanent industrial unemployment following the certain installation of a conservative coalition government in April. The term used to describe the process which has now hit German and French manufacturing industry is "structural crisis," that is, a permanent shift.

The representative of one French chemical producer with facilities worldwide told *EIR*, "We could eliminate 40% of our employees today and still produce the same volume given computerized automation techniques and such, but for political reasons we have not . . . yet."

A senior representative of the French Chamber of Industry and Commerce added, "The world of trade has changed dramatically in the past 30 years. Before, we produced most goods domestically and exported a tiny portion. Now, transport and global deregulation of markets has changed this. The industrial G-7 [Group of Seven] economies as a result are in a suicidal self-competition. Hoover Co. leaves France because wage costs are cheaper in Scotland. Fish from Russia via Norway is being sold in France two to three times cheaper than what our French fleets can sell. The new economies of eastern Europe are exporting agriculture products, textiles, steel at two to three times less what we can sell it for in France or Germany. The result is that more and more French firms are laying off French workers and buying the cheaper goods from the East. Unemployment is well above 10% officially, and rising rapidly. This is something very different from the crises of the 1960s or 1970s."

These reports from French and German industry underscore the fact that a sea-change within the industrial economies of the world is under way, more devastating than the world depression of the 1930s. Until recently, France and Germany had held on to a distinctive tradition of national industrial policy and commitment to high-technology R&D as essential for industrial viability. This was in stark contrast to the Anglo-Saxon trend, more and more evident since the 1970s, of pushing "globalized production" and cheap "sourc-

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ing" of raw materials and labor inputs for multinational production. The American and British model, which took cancerous form during the Thatcher and Reagan era in those two countries, was the simple-minded foolishness of Adam Smith's free trade: the national economy regarded as a giant shop. The only dictum is "buy cheap, sell dear." The national economy is reduced to an idiotic shopkeeper's bookkeeping of "profit" and "expenses." The long-term necessity of national economic infrastructure, education of the labor force, and investment into science and R&D under this shopkeeper's calculus, becomes "unnecessary overhead."

The fallacy of cheap labor policy

The significance of the shift now beginning to savage the remaining industrial base of continental European economies cannot be overestimated. "We are engaged now in a process, as shown by the reports on the state of French and German economies, as well as the British and North American economies, in which North America and continental Europe are heading toward becoming part of what we call the Third World," insisted American economist Lyndon LaRouche in a recent statement. "Instead of having highly skilled labor producing goods which are the envy of the world, the United States, under its present policies, is heading toward becoming a nation of coolies, qualified for nothing more because their educational and cultural level is that of Jonathan Swift's fictional Yahoos."

Some 20 years ago, U.S. industry, under pressures from the dollar and from the failure to invest in a higher-quality labor force and new technologies, began its steady decline. R&D budgets were cut, engineers were replaced at the top of corporate leadership by accountants, and short-term quarterly "profit" came to be called, in the vulgar idiom, "the bottom line." Today, the results are clear. When we strip away the speculative bubble of New York stock price levels, we find that U.S. industry has all but destroyed itself. GM, IBM, McDonnell Douglas, the entire machine tool sector are in a shambles. The decision by the U.S. corporate and financial establishment to push for the North American Free Trade Agreement with Mexico signifies the decision to turn the once-advanced U.S. industrial base into a cheap labor Third World one. Even Mexico is unable to compete with Asian labor. In recent months, more than 150 Mexican textile plants were forced to close because of "cheap Asian imports."

Until recently, French and German industry had stubbornly resisted what they rightly viewed as "typical American shortsighted pursuit of profit." Now this is changing with breathtaking speed. If the trend is not soon reversed, Germany and France will follow the United States and Britain to become former industrial economies. It is little consolation to term it a "post-industrial" society, as millions more are added to unemployment rolls.

For example, in France, the large state electronics group, Thomson, had an impressive R&D team working on an advanced supercomputer to rival the American Cray. Under cost pressures and lack of immediate success, management foolishly decided to abandon all supercomputer R&D and dismantle the research team. That is now gone forever.

Similarly, the decision by Daimler-Benz under Edzard Reuter's leadership, to buy MBB, one of the world's most advanced aerospace firms, was quite rational per se. But now, under the growing competitive pressures, management has made the devastating American-style error of eliminating the once-strong R&D commitment of what was MBB. "It costs too much," it is said.

Now, with the decision by VW to go to Asia and other cheap labor countries to buy parts, a process is under way which could destroy German "Mittelstand" within months.

The secret of Germany's 'Mittelstand'

The "secret" of Germany's impressive postwar economy has been the symbiosis between large, export-oriented companies like Daimler-Benz or VW, and a complex circle of small to medium-sized machine tool shops or suppliers who are able to turn out the highest quality parts for the large company, or to modify to rapidly changing specifications. Historically, unlike in the United States or even Japan, Germany's machine tool sector has been composed precisely of such "Mittelstand" (often family-owned) firms. German machine tool producers pride themselves on being the "most diverse producers of all types of machine tools in the world." Japan, the largest in total export sales, concentrates on mass-production of a small number of machine tools used for auto production. Now, under fierce financial pressures and a collapsing world capital investment in infrastructure and industry, the German machine tool industry is beginning to abandon this unique role and talk about this specialization as a "liability."

IMF destroyed export markets

The problem is that current OECD industrial policy is fatally flawed with the poison of British "free market" assumptions. Failure of Germany, France, or Japan to resist British and American pressures in the beginning of the 1980s is a fundamental factor in the present crisis. When London and New York bankers successfully proposed to impose International Monetary Fund austerity "conditionalities" on Third World debtor countries for the private banks, this ensured the destruction of any developing markets in the less-developed sector for advanced machine tools, industrial goods, and technology. Instead, under the foolish consumer debt binge of the 1980s, misnamed the "Reagan recovery," Japan, Germany, and France began to shift industrial exports to the U.S. market, away from the collapsing Third World. A vicious new form of monetary neo-colonialism, driven by IMF dictates for competitive currency devaluations in debtor countries to spur cheap exports in order to gain currency to repay foreign debt, took hold after 1982.

Germany, France, and Japan today are reaping the fruits of that failure to prevent what people like Alfred Herrhausen, the assassinated former chairman of Deutsche Bank, correct-

ly saw as a suicidal debt policy of Washington and London.

But, it is not even a matter of thousands of jobs. Unless Europe's surviving industrial nations impose intelligent protectionism, combined with careful non-IMF investment in infrastructure in eastern Europe as outlined in LaRouche's 1989 Paris-Berlin-Vienna Productive Triangle proposal, continental Europe will soon follow Britain and the United States into a depression without bottom.

A recent report by David Roche, a London economist of the Wall Street investment firm Morgan Stanley, points to the absurdity of trying to compete in such a global race for cheap labor. "The world is awash with workers," Roche wrongly insists. "Germany and Japan have increased manufacturing employment. Germany did it by producing perfectly engineered products, which even Mercedes says it now cannot sell because its labor costs too much ($24 per hour)." Roche reviews the cheap labor horizon from the view of a financial speculator: "Unemployment is 15% and rising in eastern Europe, where labor costs $1-2 per hour, and is highly educated to boot. The trains to Shanghai are full of peasants looking for jobs at 2-5¢ an hour, and they matter in a globally integrating economy. China received foreign direct investment commitments worth $15 billion in the first half of last year."

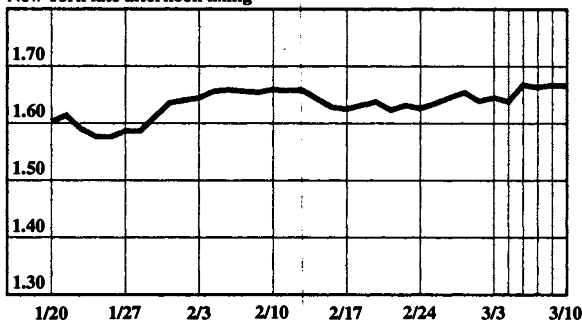
Instead of looting the cheap labor of China or Mexico or Poland, the OECD must return to a long-term infrastructure commitment to build national economies in the capital goods deficit parts of this planet. This ensures advancing employment again in Europe and North America, and at the same time builds a growing, healthy market in the less-developed parts of the world for German machine tools and French steel, high-speed trains, and nuclear technology. This, not the foolish accountants' cost-benefit calculus of productivity of labor, is what really defines economic success. Contrary to what corporate accountants and Wall Street speculators like Morgan Stanley believe, highly skilled labor is priceless.

As LaRouche has stressed for more than two decades, such a cheap labor policy is a recipe for global depression and collapse of advanced industrial capacities. By walking away from its traditional skilled labor base in western Europe, French and German industry will ensure that their fate will repeat that of Britain after World War II, but far worse. Edzard Reuter is an accountant by training, but he is also a trained physicist who should know the effects of non-linear disintegration in organic structures. This is the real meaning of what is politely being termed Europe's present "structural crisis." No sacrifice, however great, in some new "solidarity pact" for cuts in labor costs will reverse this process. The capitulation of the Paris and Bonn governments and industry to the General Agreement on Tariffs and Trade regime of "absolute free trade" and the foolish "cost-reduction" accounting, will ensure national economic suicide in the coming months, regardless of how it helps the short-term balance sheet of Daimler-Benz.

Currency Rates

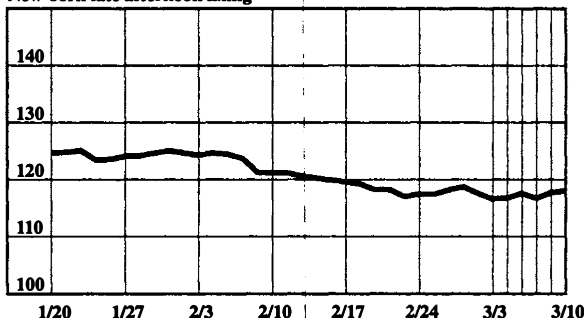
The dollar in deutschemarks

New York late afternoon fixing



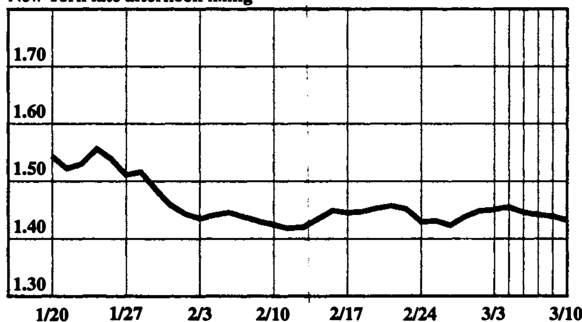
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing