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Behind the myth of 'exploding social expenditures' in Germany

by Lothar Komp

Official unemployment in Germany has passed the 4 million mark, a postwar record high. Every productive sector of the economy is being squeezed by the European Union's Maastricht Treaty, with its demands for free-market austerity and fiscal conservatism. According to the daily barrage of media propaganda, the problem is simple: "Social expenditures are too high." That propaganda—the German version of Newt Gingrich's Conservative Revolution—is an outright fraud.

About 3 million industrial jobs have been eliminated in Germany since 1991, and, according to the agenda of the influential head of the German section of the business consulting firm McKinsey, Herbert Hentzler, another 3 million industrial jobs will have to be eliminated by the year 2000. Long-standing symbols of German postwar economic successes are in crisis. Since the assassination of Deutsche Bank Chairman Alfred Herrhausen on Nov. 29, 1989, Deutsche Bank has plunged into one disaster after the other. Simultaneously, almost every operation of the biggest German industrial group, Daimler-Benz, has turned into a catastrophe.

One current popular myth in Germany, is that the reason for all of this, is that the German employee, in these times of globalization, has to compete with cheap labor from the Czech Republic, China, or Thailand. Therefore, the propaganda line says, labor costs in Germany have to be cut down, and labor market regulations have to be swept aside. Every day, new proposals are being put forth to cut public expenditures for health and social programs, accompanied by admonitions that the "welfare State" can no longer be afforded.

However, as we shall show, the real reason for the destruction of Germany's economic strength is not "exploding social expenditures," but rather a disintegrating global financial system, which is not being helped by the incompetence of the German political and economic leadership. While the big German banks are adjusting their operations in order to satisfy the demands of the gigantic bubble on the global financial markets—currently about $3 trillion of turnover every day—credit for small and mid-size industry (the *Mittelstand*) is no longer seen as a "profitable investment."

Costs of economic incompetence

Let's first take a look at the development of social costs in the last 30 years. In 1994, overall social program expenditures in Germany were DM 1,106 billion ($763 billion), which at first glance might seem to be a gigantic figure. However, once social expenditures are compared with economic figures such as Gross Domestic Product, any initial appearance of "explosive" growth is dispelled (**Figure 1**). Social expenditures in 1975 stood at 34% of GDP, just about the same as in 1994. An increase of social entitlements, compared to the overall economic activity, never happened.

Were the costs of unemployment benefits subtracted from social program budgets, then social expenditures measured as a percentage of GDP would be seen to have sharply fallen during the past 20 years. In this respect, there are three categories to look at: welfare payments, early retirement programs, and unemployment benefits. The primary engine that generates an increase in the number of people receiving welfare, is the failure of economic policies for dealing with mass unemployment (**Figure 2**). While unemployment figures went up from almost zero to now 4 million, the number of welfare recipients took a leap up toward 5 million. This is not hard to understand, since many long-term unemployed persons shift from the unemployed category onto the welfare rolls after 2-3 years. Welfare payments today total about DM 60 billion ($41 billion) per year.

The different forms of early retirement schemes that were used to soften the blow of mass job eliminations, have now reached a yearly cost of DM 20 billion ($14 billion). Such schemes were invented years ago, on the government's assumption that a recovery was "just around the corner." Today, there are now more than DM 100 billion (about $70 billion) per year of outlays by the Federal Labor Office, mainly for unemployment payments, financing of education programs for the unemployed, and similar measures. Altogether, it can be stated that about one-sixth of all social expenditures in Germany today are a direct consequence of mass unemployment. Up to DM 180 ($124 billion) per year in social expenditures would be saved, once an approach of creating millions of new productive jobs by great infrastruc-

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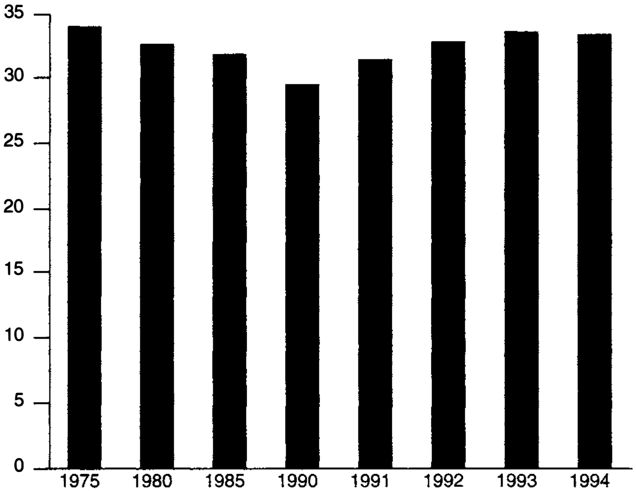
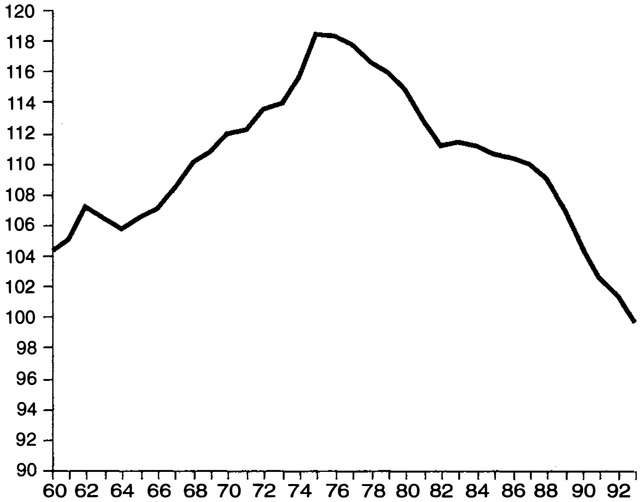
FIGURE 1
German social expenditures
(in percent of GDP)



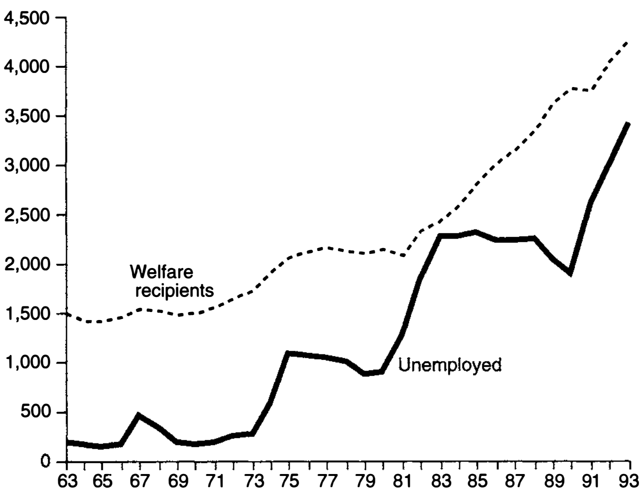
Sources: German Federal Statistical Office; EIR

FIGURE 3
Hospital beds in Germany
(per 10,000 population)



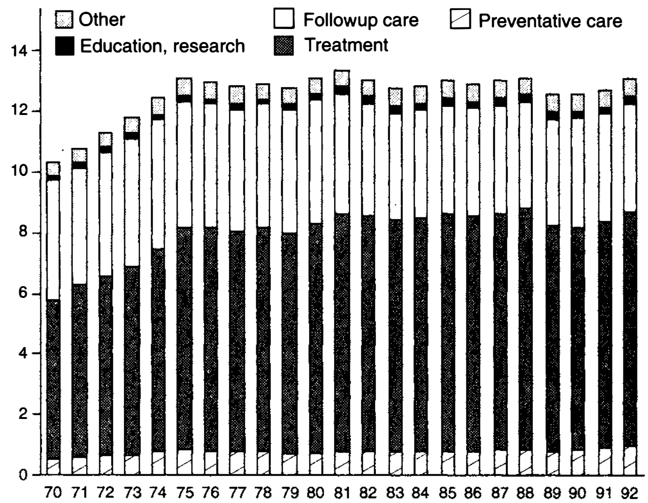
Sources: German Federal Statistical Office; EIR.

FIGURE 2
Unemployment and welfare benefit recipients in Germany
(in thousands)



Sources: German Federal Statistical Office; EIR.

FIGURE 4
Health expenditures in Germany
(in percent of GDP)



Sources: German Federal Statistical Office; EIR.

ture and technological projects, as defined in Lyndon LaRouche's "Productive Triangle" program for Europe, were to be enacted.

Now, what about "exploding health expenditures"? Looking first at hospital beds per capita (**Figure 3**), it can be seen that already in 1975, the buildup of German health infrastructure had gone into reverse. This continues at an alarming rate today. Because of this reversal, the growth of total health expenditures measured in GDP terms came to an abrupt halt in 1975 (**Figure 4**). Today, health expenditures are about 13% of GDP, exactly the same as in 1975.

The majority of social expenditures, about DM 450 billion ($314 billion), are pension payments, including more than DM 371 billion ($255 billion) coming from the State social security agency. These pension payments are not some kind of generous gifts for indigent persons, organized by the State out of taxpaxers' money. Pension payments are basically financed out of contributions from currently employed people, and are given in precise proportion to the social security contributions each pensioner had paid in earlier. Therefore, pension payments in Germany are property-like entitlements that are constitutionally guaranteed. Of course, should the physical economy collapse, the pension system will also.

Attacks on the pension system

So far, the budget-cutters in Germany are carrying out a two-pronged attack against the pension system. First, their daily warning cries of the alleged unsustainability of the public pension system have led to the growth of private pension schemes, such as life insurance policies. As an example, the life insurance companies based in Luxembourg recently reported a 450% increase in new policies during 1995, primarily from German and Belgian customers. Meanwhile, Deutsche Bank's chief economist Norbert Walter is campaigning for transferring the pension funds of German companies into the global financial bubble. He had already attacked the "collective" pension systems in his book *The New Wealth of Nations,* explicitly including the old-age pension programs of private companies, where the pensions for the former employees are financed out of their current income. A recent study by Deutsche Bank Research, directed by Walter, has discovered an "additional financial market potential" of DM 260 billion ($179 billion), if all the old-age annuities of private German companies were not financed out of pension plan income, but out of financial market earnings such as interest rates. (Currently, speculative investment of private firms' pension funds is prohibited.) Of course, the ultimate goal of Walter's gang is to impose an analogous solution for all "collective" pension payments. It can easily be seen that another giant financial bubble would have to be built up, of around DM 10 trillion ($6.8 trillion), in order to finance all German old-age payments out of interest rates, dividends, or other capital gains.

The real historical record

Despite all the propaganda about "exploding social costs," the Conservative Revolution maniacs are not really concerned with making companies "more competitive on world markets." Their real aim is to destroy the power of nation-states to develop the productivity of the labor force by investing in education, health care, transport and energy infrastructure, and so on. The development of German industry during the 19th century is full of examples of such a successful approach, including the education reforms by Wilhelm von Humboldt and the efforts by Friedrich List to integrate and overcome the parochialism of 41 separate German kingdoms and principalities, by means of railways and the Zollverein customs union.

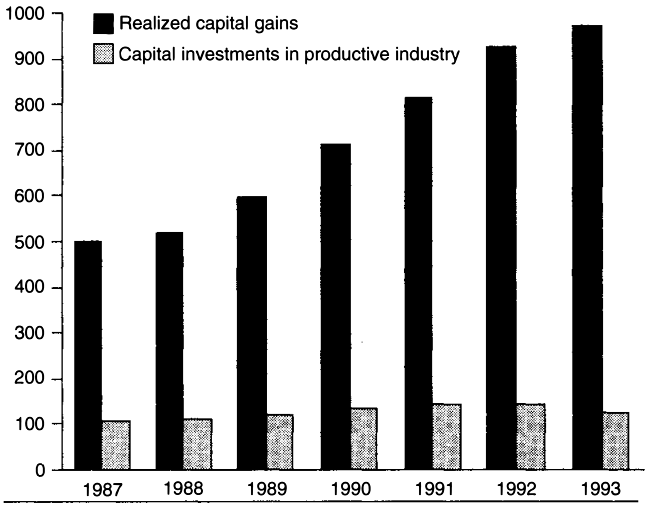
It is useful to look at the establishment of social security systems in the late 19th century. After the end of the 1860s, a worldwide financial speculation bubble developed, which by 1873 had resulted in a wave of bank collapses and stock market crashes around the world. Berlin stock market prices collapsed by half during 1873, and trust in the blessings of Adam Smith's "invisible hand" was fading away. The State was called upon to nationalize railway lines and to defend private business against cheap British imports. However, one of the most important—and successful—State interventions at that time was the introduction of mandatory social security for every working household, something which did not exist anywhere in the world prior to that time.

This was a period when rapid growth of cities had caused catastrophic hygienic situations. In 1866, and again in 1871, cholera epidemics killed many thousands of people in Berlin alone. Average life expectancy in Berlin was less than 30 years; infant mortality stood at 50%. Only in 1873 did the construction of a modern sanitation system finally begin. One year later, mandatory vaccination was introduced. Hospitals and medical research centers were established. While the population density in Berlin increased from 14,000 (1871) to 33,000 (1910) per square kilometer, the number of hospital beds per capita did not merely keep pace, but increased from 24 to 63 per 10,000 inhabitants. In 1883, the health insurance law, the first of the social security laws enacted under Bismarck, guaranteed free medical treatment and medicine for the industrial workforce. Later, health insurance was extended to other economic sectors, such as agriculture and transport. Mandatory accident insurance followed in 1884. And finally, in 1889, the pension system was introduced, guaranteeing a pension for every employee who reached 70 years of age, or had become disabled. Already at that time, free-market liberal propaganda was groundlessly warning about the ruin of German exports due to social expenditures. However, supported by the rapid buildup of infrastructure and new branches of industry—for instance, chemical products and electrical manufactures—German companies took over, step by step, export markets from Britain, which refused to introduce a health security system until 1911.

Financial bubble kills jobs

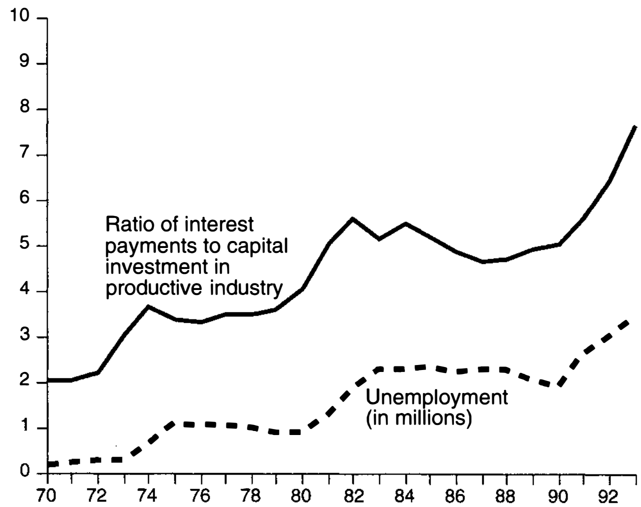
Contrary to the media hype about "exploding social costs," there are other categories of costs that really do show an alarming growth rate. What are the costs to the German economy, caused by the reorientation of big German banks toward short-term speculative profit? Or, to refer to examples recently emphasized by LaRouche: How much would it cost to reestablish the German education system that was essentially destroyed in the 1970s by Willy Brandt's re-

FIGURE 5
Interest payments versus productive investments
(in billion DM)



Sources: German Federal Statistical Office; EIR.

FIGURE 6
Interest dominance versus unemployment 1970-93



Sources: German Federal Statistical Office; EIR.

forms? What is the yearly economic damage caused by the destruction of the education system? What about the destruction of the giant AEG electrical firm, which for many decades served as a technological engine for the whole German economy?

Although it might be difficult to measure such costs, there are some other effects of the "post-industrial" utopia and the global financial speculation, however, which can easily be concretized. Already, the German industrial sector has to spend DM 180 billion ($124 billion), that is, 10% of total costs each year, on "special services," which are identified by the Federal Statistical Office as "advertising, marketing, agents' commissions, examinations, consultations, legal fees, insurance premiums, and others."

If we look at the German chemicals sector, in 1993 we see "special services" costs of DM 28 billion ($19 billion), more than half of the entire personnel costs (including wages, payroll taxes, and social security payments) of DM 52 billion ($30 billion).

Another disaster for all German export-oriented industries in recent years, has been the foreign exchange gyrations caused by global financial speculation. Let's assume that the most important German export branches, that is, those which produce machines, cars, electrical and chemical products, had eliminated 100% of their social costs during 1995. Social costs are basically social security payments, plus some additional social benefits paid by employers. With such a brutal cut in social expenditures by private businesses, total costs would have been reduced by about 4.5%. However, the foreign exchange speculation losses during February 1995 alone outstripped any cost savings that might have made even if the social benefits had been smashed in that way. In that single month, the foreign exchange value of the U.S. dollar, the British pound, and the Spanish peseta fell by 5% against the deutschemark, and the Italian lira fell by 10%.

Actually, explosive growth rates in Germany can indeed be observed—in interest payments. Each year, a flow of interest payments and other capital earnings of about DM 1,000 billion has to be commandeered inside Germany, just in order to fulfill financial obligations. This figure doubled in the six years from 1987 to 1993. At the same time, investment into agriculture, mining, industry, and construction has stagnated, and, since 1991, have even decreased (**Figure 5**). The ratio of interest-rate payments to the abovementioned categories of productive investments, here described as "interest rate dominance," since 1970, has increased in close correspondence with unemployment figures (**Figure 6**). Whenever interest payments become increasingly dominant over productive investments, several hundred thousand jobs were destroyed. This did not occur continuously, but in a series of shocks, as in 1972-75, 1979-83, and since 1990.

The cancerous growth of the international financial bubble, which is reflected in these shocks, is the primary cause of the burgeoning mass unemployment. Rather than a radically destructive "restructuring of the social State," what is actually necessary is the bankruptcy reorganization of the global financial system, to allow millions of new productive jobs to be created.