The German Economy

A Giant with Feet of Clay

by Rainer Apel and Susan Welsh

Nov. 2—The German government has launched a propaganda drive to convince investors—domestic and foreign—of the success of the "German economic model." Germany is widely touted as the European Union's success story, where the October unemployment rate, for example, was a relatively low 6.5% (2.8 million unemployed). More Germans have a job than at any time in the last 23 years.

The facts, however, tell a different story. There are major structural problems:

• The employment picture is distorted by the large proportion of part-time and so-called minijobs (which allow someone to earn up to EU450 [$619] per month without paying taxes, but also have few benefits and low job security). Nearly one fifth of all working Germans hold minijobs, which have even begun to replace full-time positions in some service sectors, such as restaurants and retail. About two-thirds of minijob workers have no other unemployment.

• The government's green energy policy, with the exit from nuclear power and the shift to taxpayer-subsidized wind and solar energy (the *Energiewende*), has been an economic disaster. Electricity prices have soared to the extent that industries may be forced to relocate abroad, and more than 300,000 households per year are having their electricity shut off for non-payment (*Forbes*, Oct. 4, 2013).

• Budget cuts at every level of government have left Germany's infrastructure—roads, rail, canals, bridges—in a state of disrepair.

Investment Falling

A survey conducted by the *Wall Street Journal* of 19 German blue-chip companies found that although German industry is still increasing investments abroad, domestic investments have reached historic lows. "High production costs—especially high energy prices in Germany compared with the U.S. and some European or emerging countries—and lingering uncertainty about the longer-term cohesion of the euro zone—are also commonly cited reasons for holding back on domestic investment," the paper notes.

Chancellor Angela Merkel's insistence on budget austerity and lowering wages has ruined the domestic market, forcing companies to look for sales abroad, the daily reports. The Chemical Industry Association, among others, is calling on the government to stop a further rise in electricity prices, warning that the 30% rise in the past five years, will prompt companies to relocate more production abroad.

Moreover, foreign direct investment (FDI) into Germany plummeted to EU5.1 billion ($6.9 billion) in 2012, down from EU58.6 (!) billion in 2007, according to data from the Bundesbank. The decline continued in the first six months of 2013, when FDI amounted to EU800,000.

Jobs: The Real Story

A decade ago, Germany's Social Democratic-Green government instituted "reforms" that drove down wages, boosted the low-paid and temporary job sectors, cut welfare benefits, and forced the unemployed to accept any job available, at pay as low as EU1 per hour. (Germany has no minimum wage.) Hundreds of thousands of working poor lived close to the poverty line. In 2005, Chancellor Gerhard Schröder boasted: "We have built up one of the best low wage sectors in Europe." His policy was enthusiastically continued by Chancellor Merkel after her election in 2005.

Under Merkel's chancellorship, the number of people at or below the poverty line has grown from about 400,000 in 2005 to 12 million, AP reported on Sept. 5, 2013, citing the Federal Statistics Office.

Marcel Fratzscher, president of the German Institute for Economic Research (DIW Berlin), told AP that while it was good news that unemployment fell from 12% in 2005 to 6.8% in September 2013, "there's a significant number of Germans whose real income is lower today than it was a decade ago." One in ten Germans employed full time also requires a second or third job to make ends meet.

'Renewable Energy' Kills

New statistics from Eurostat, widely reported in German media, confirm that while the large industrial firms in Germany pay only 6.4 euro cents per kw/hour for electricity, medium-sized firms pay twice as much. The burden is thus enormous for the latter, in particular for industries that need a lot of electricity for their production process (smelting, high-pressure forming, etc.)

Besides the special rebates which the major industries received in exchange for accepting the exit from nuclear energy decided two years ago by Chancellor Merkel, those same companies purchase large quantities of electricity at the Leipzig electricity exchange EEX, where prices have reached a historic low due to the massive input of "renewables"—which are heavily subsidized by the taxpayers at the rate of 6.5 euro cents per kw/hour. Smaller firms have no such rebates.

For industrial giants that consume huge amounts of electricity, further price increases would make production unaffordable. If steel producer Thyssen Krupp, for example, were to pay the full price for electricity, that would mean EU200 million per year—a burden that international rivals in the steel market do not have to carry. Relocation abroad would mean the further loss of industrial jobs in Germany.

This situation is receiving increasing attention from media that for years had cheered the green "energy shift." *Spiegel Online* published a commentary by Alexander Neubacher on Oct. 25, titled "Germany's Defective Green Energy Game Plan," which reports that the switch to renewables has massively increased coal consumption (5% increase in the first half of 2013), spewing more CO_2 into the air than ever. "Indeed," writes Neubacher, "Merkel's *Energiewende* is morphing into an environmental killer." And the subsidized wind and solar power is also forcing other power plants out of the market; only cheap coal can compete on price.

Another *Spiegel Online* article, "How Electricity Became a Luxury Good" (Sept. 4), provides a detailed rundown of the problems the *Energiewende* has caused, reporting that electricity costs "have reached levels comparable only to the eurozone bailouts." When the wind doesn't blow and the Sun doesn't shine, and when demand rises in the Winter, heavy oil and coal plants have to be fired up, releasing more CO_2 into the atmosphere. If there is a shortfall, energy-hungry plants like steel mills are sometimes asked to shut down production to protect the grid.

Meanwhile, 8 out 17 nuclear plants have been shut down, and all will be closed by 2022.

Transport Infrastructure Decay

Another particularly acute problem is chronic underinvestment in public transportation and other infrastructure in Germany. The Austrian weekly *Format* reported last week, in an article headlined, "A Country Budget-Cuts Itself to Death," that German municipalities were forced to cut their investments by 11% in 2012, and that there has been a shortfall of some EU120 billion in needed investments in municipal infrastructure over the past 20 years.

Large parts of the roads were built in the 1960s and 1970s. "And after about 50 years, a fundamental overhaul is inevitable, particularly overhaul of bridges. Several thousand railway bridges were built in the 19th century," the paper wrote.

The *DIW Economic Bulletin* (October 2013) reported the results of a survey of the transport sector: that despite the importance of the sector for the German economy, "there is a serious lack of investment in the maintenance and quality assurance of transport infrastructure."

Germany's highly developed transport infrastructure is the result of "continuous investment activity up until the end of the 1980s, especially in West Germany, and investments made since 1991 to meet the backlog demand for the renovation and modernization of the transport infrastructure in eastern Germany," the report states. But in more recent years, funding for infrastructure has declined, causing a significant deterioration in the condition of roads and railways. Fully 46% of highway bridges are rated below the acceptable level.

DIW Berlin calculates that "there is an annual investment gap of around 3.8 billion euros for the necessary reinvestment in infrastructure alone. In addition, there are pent-up replacement investment needs, and a need for investment in rolling stock and the expansion and extension of the network. In total, this results in an investment gap of at least ten billion euros per year."

Where is the money going to come from? Nobody knows. And under the Eurozone system, there is no solution. Only an international Glass-Steagall transformation of the banking system, a shift toward a genuine credit system, and a German *Energiewende* back to nuclear power and high-technology development, can solve the problem.