Report From Germany by Rainer Apel

Elites Begin New Year in Denial

Claims about an inevitable "upswing" in Germany's economic situation will be dashed by a reality shock.

Leading members of Germany's establishment are promising that 2004 will bring an upswing, notably an end to the crisis in the labor market (unemployment is nearly 10.4%). They are promising that the new round of budget and tax cuts will improve the average citizen's economic and social situation. However, the 300-500 euros per year, into which the total tax cuts of EU 20 billion will translate for the average citizen, have already been wiped out by price increases for electricity, gas, water, garbage removal; and the increase of individual shares in the cost of medical care. Potential new price increases for gasoline and heating oil are not even taken into account yet.

Chancellor Schröder's government, meanwhile, seems to have accepted the crazy idea of a "jobless recovery."

In fact, the parliament's budget cuts in social services, which go into effect this month, will make the poverty worse for many low-income people, according to the national association of non-state welfare organizations, PWV, in its annual report.

Long-term jobless citizens will no longer receive unemployment benefits, but welfare payments only. This will affect approximately 1 million Germans who have been without a job for more than 12 months. State welfare checks no longer provide a minimum living standard anyway, the PWV says, because the standards have not been revised since 1992, and no longer correspond to current conditions.

Furthermore, the long-term sick and welfare recipients will be under increased pressure to accept a job, even a part-time one, and if they don't or simply can't accept, they'll face cuts in benefits. A half million more children will be forced to live below official poverty levels, the PWV guesses, because their parents (for 25% of these children, that means single mothers) face these pay cuts from 2004 on.

This may bring bad surprises for the governing Social Democrats, in the 14 elections they face this year—municipal and state parliament elections, and those for the European Parliament. Chancellor Schröder's Social Democratic Party has seen whole sections of its base boycotting the recent elections, or switching to another party. With unemployment remaining high and always dangerously close to the 4.5-5.0 million level, a time-clock is ticking for the Schröder government.

A new survey published by the econometrists at the Berlin-based institute DIW notes that during 2003, the German economy lost 392,000 jobs; which, with the losses in 2002, adds up to a net loss of 630,000 jobs in only two years. Statistically, several hundred thousand new "mini-jobs" are covering up the reality, but a mini-job is not a full job, or even a part-time job. And, the other ugly fact documented in that DIW report, is that whereas 59.2% of all employed Germans worked in the service sector in 1991, this was up to 70% in 2003.

The core productive sector only employs 21.2% of all Germans. Germany may still be listed as an industrial nation, but only one-fifth of its workforce still works in industry and other productive sectors of the economy. Nominally, Germany is the world champion in terms of machine exports; but in Europe, it ranks as one of the nations with the lowest ratio of domestic industrial investments: Less than one-third of firms in Germany plan new investments in 2004.

A survey published by the association of German engineers, VDI, at the end of 2003, notes a positive trend in exports of machines to, notably, China and other Asian countries. This is expected to prevail, even if Chinese imports should continue to slow down a bit, as in the past 2-3 months.

But the problem with German machine-builders maintaining this export boom to Asia, with a capacity utilization of 84% already, is that new investments into domestic German production facilities have been called off. The export drive to the East at present rates cannot fully compensate the rapid loss of markets in the West, notably in the United States, non-eurozone Europe, and Ibero-America. All in all, sales of machine-tools—Germany's traditional showcase industry—showed the biggest net decline inside Germany, with an 8% fall in 2003; farming machines a net decline of 6%; and mining machines, 3%. Total productive investments in Germany in 2003 were down by a whopping 11%, as compared to 2002.

Most, if not all, of these downward trends will continue in 2004, unless the German elites and the government adopt some kind of crash-program approach, with the perspective of rapidly improving the economic and especially the employment situation. Such an approach exists, already: It has been laid out in proposals that Lyndon H. LaRouche, U.S. Presidential candidate in 2004, has published over the recent period, and which are being circulated by the LaRouche movement in Germany.