Germany Must Retool Auto To Foster Growth

by Rainer Apel

Between 1991 and 2003, the German national economy lost 2.8 million jobs in the productive industrial sector, or one out of four jobs. Textiles, garments, and leather products lost two-thirds of their workforce during this process. These jobs were not replaced by other industrial jobs, and thus led to a drastic increase in long-term unemployment, which forced many workers, including engineers, to work in the service sector. Many of these job losses resulted from the policy of globalization, and the promotion of service sector jobs. This was especially the case with the insane deindustrialization of eastern Germany after the 1990 reunification, which eliminated 90-95% of the industrial workforce of the allegedly "outmoded" industries there.

This is the main reason that machines in Germany are now produced primarily for the automobile sector, and the dependency is especially strong in the machine-tool sector; 32% of this output goes to the automobile manufacturing industry directly, and another 21% goes to industries which supply the car manufacturers.

Machines and machine-tools for classical industrial sectors are now geared more toward export, because investments inside Germany have been steadily decreasing for the past 15 years. Forty percent of German machine exports go to the European Union, mostly to France and to Italy; but German exports to the EU are stagnating, under the anti-investment regulations of the Maastricht budget-cutting regime.

Exports have increased to countries outside of the European Union that are, first of all, outside of the Maastricht regime, and secondly, have ambitious industrialization programs and projects for the development of transport, energy, water, and other vital public infrastructure. Russia, China, and India are countries with the largest increase of imports of German machines, with 373, 329, and 321% (respectively) from 2000 to 2005. At present, one out of five machine-tools produced in Germany, goes to China.

The largest increase of all is Iran, to which German machine-tools exports have increased fourfold since 2000. Turkey, seemingly "modest" with its 87% increase in machine-tool imports from Germany since 2000, has recently shown remarkable rates of increase, and will soon link up to the aforementioned countries. Without these nations' ambitious national economic development programs, the German machine-building and, especially, machine-tool sector would not have been able to report any increase in output during the past five years. This underlines the importance of Eurasian markets for German industry.

Will the Government Act?

Will Germany be able to restore the 525,000 jobs it has lost in the machine-building sector since 1991? Eurasian trade is going well, but is proceeding through the free market; the German government has no role, except for the "Hermes" state-run export credit guarantee. A jump forward in productive output, which would allow reemployment on a broad scale, could be achieved only through long-term arrangements, with a prominent state role to encourage investments into new capacities for German industry. This is not to propose that Germany should establish five-year plans, but it should promote long-term state-to-state economic cooperation, including a state guarantee for the supply of low-interest investment loans. The performance of German industry in China is impressive, but it consists of thousands of various projects, which are part of the national development policy of China. What Germany lacks is a planning process that corresponds to the Chinese development designs, to push this to a new level of cooperation.

If China wants to build 40,000 kilometers of track for high-speed railways during the next 10-15 years, German industry should offer to make at least a prominent contribution to that: through exports of railway technology during the first phase, joint ventures with Chinese industry during the second phase, and the genuine development of improved technologies in German-Chinese cooperation during the third phase. Machines and machine-tools will have to be produced, in large numbers, for the German and Chinese sides of such a project. For every 300,000 jobs created in the Chinese railway-technology sector, 100,000 would be created in Germany.

Such multi-billion-dollar investment projects cannot be handled by the short-term profit interests of the free market. A 20-25 year cooperation agreement between the German Kreditanstalt für Wiederaufbau (Reconstruction Finance Agency) which already co-funded segments of the construction of the Chinese Three GorgesDam project, and the corresponding state development banks on the Chinese side, is required. A similar approach must be taken for India, Russia, and other prominent importers of German industrial goods.

If Germany manages to liberate itself from the anti-nuclear mindset that it has imposed upon itself, during the past 20-25 years of radical ecologism, the German nuclear industry would also be able to export again. Germany should also produce for its domestic economy. If Germany overcame its ecologist ideology, it could finally build power plants at home, again. Every standard 1,200-megawatt project generates 20,000 jobs in the domestic German industry. Up to 50 such plants will have to be replaced, during the coming 14 years. Although there will still be cars in Germany, the present disproportionate dependency of machine-builders on the automobile sector will be corrected.