Capital Investments Plunging in Germany

by Lothar Komp

Looking at export figures for the last few years, it seems that the German economy is stronger than ever. No other country, including Japan and China, sold more goods in international markets in 2005. The German export of machines, automobiles, and other capital goods even surpassed the export volume of the supposedly booming U.S. economy, which is five times bigger. The German trade surplus last year reached 150 billion euros, the biggest surplus ever, in spite of the extreme price increases for imported commodities.

But how does this export success story match with the extremely high unemployment in the country? After all, it is exactly that sector of the German economy which is responsible for nearly all exports—manufacturing—that has eliminated 3 million jobs, or one in four, during the last 15 years. In three of the four leading branches of manufacturing—machine building, electrical engineering, and chemistry—one-third of the jobs disappeared since 1991. Only the automobile sector has maintained its employment in this time period, but is now running into big trouble all over the globe.

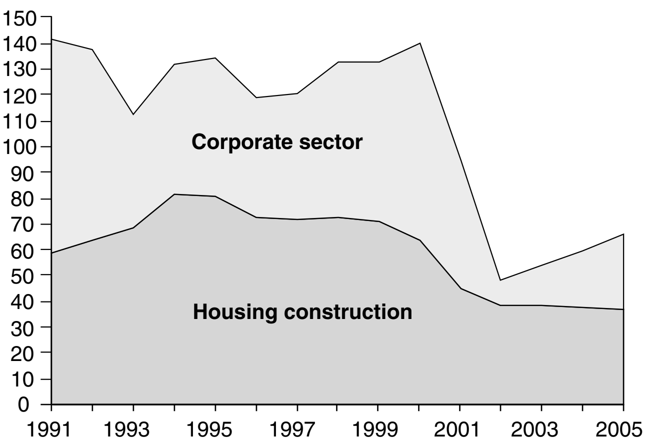
The combination of record-high export volumes and shrinking employment would seem to indicate rising productivity. However, the term "productivity" can be used to mean very different things. As an example, productivity measured in production costs per unit can easily be boosted over a short time by simply cutting everything from research expenditures to capital investments. But, in the long run, such measures would inevitably lead to the destruction of that corporation.

Any substantial increase in the long-term, genuine productivity of German corporations would have required a boom in capital investments, that is, investments in new production facilities and equipment. But such a process simply hasn't taken place. Instead of long-term capital investments, cost-cutting schemes for short-term "productivity" gains, including the outsourcing of employment and reduction of wages, have dominated the scene.

Capital investments by the state (infrastructure), corporations (factories, equipment), and private households (housing), have steadily fallen in recent years (**Figures 1-3**). Since the year 2000, they plunged from 450 billion euros, to below 400 billion euros last year. Most of the capital investments are now going to the various service sectors. In the manufacturing sector, annual capital investments have fallen from 69 billion euros in 1991, to less than 60 billion euros in the recent few years. Housing construction is falling as well. However, the most dramatic collapse in capital investments is taking place in the public sector. Here, investments plunged from 47 billion euros in 1992, to 29 billion euros in 2005. In the case of municipalities, which account for two-thirds of public investments, expenditures to maintain or upgrade roads, canals, waste management, schools, hospitals, and other infrastructure, crashed almost by half, from 30 billion euros in 1992, to 16 billion euros last year.

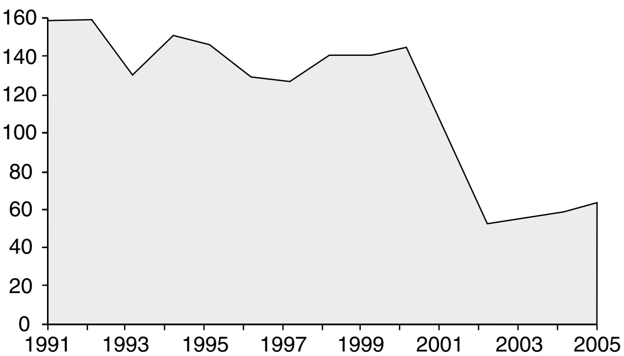
The mass unemployment is strongly related to the fall in capital investments. For years, the Civil Rights Movement Solidarity (BüSo), the LaRouche party in Germany, has called for an overall economic and financial reform that would allow for an additional 200 billion euros of annual capital investments. By reaching a volume of 600 billion euros per year, capital investments would again reach a share of about 30% in gross domestic product (GDP)—currently less than 20%—

FIGURE 1
Private Net Capital Investments, Germany
(Billions Euros)



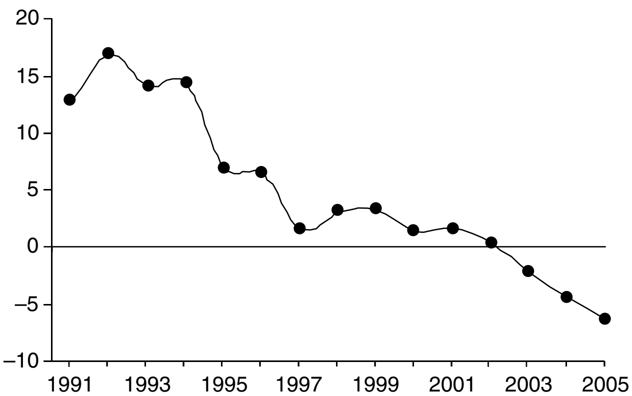
Source: Bundesbank.

FIGURE 2
Net Capital Investments, Germany
(Billions Euros)



Source: Bundesbank.

FIGURE 3
Public Net Capital Investments in Infrastructure, Germany
(Billions Euros)



Source: Bundesbank.

as during the full employment period in the 1960s.

Once physical capital has been built up, it can serve as a crucial ingredient for productive processes over years, or even several decades. Nevertheless, it slowly decays. While roads or canals can be in operation over decades, some machines in high-tech sectors are already more or less obsolete after three to five years. To estimate the volume and quality of physical capital, it's therefore not enough to just add up the capital investments of the past. The relative decay of physical capital, due to depreciation as well as the emergence of newer technology, has to be taken into account. The Federal Statistical Office is trying to quantify this depreciation. Rather than just adding up the depreciation figures presented by corporation for tax-deduction purposes, the Statistical Office calculates the depreciation of physical capital by distinguishing the various categories of existing capital—for example, housing, automobiles, or highways—and then defining average lifespans for each. The term "net investments" stands for the remaining "gross investments" after such depreciation has been subtracted. Only in the case where gross capital investment surpasses depreciation, does the physical capital really increase.

While gross capital investments have fallen slightly year by year, net capital investments have actually collapsed during the last five years. Every year, the Bundesbank publishes the relevant figures in its June monthly report. These are based on preliminary reports by the Federal Statistical Office as well as on calculations by the Bundesbank. The latest report reveals that net capital investments in Germany have crashed by 58%, just since the year 2000, that is, from 141 to 59 billion euros. Housing net investments by private households fell from 63 to 36 billion euros (43%). Corporate net capital investments imploded from 76 to 29 billion euros (62%), again, just since the year 2000. And in the case of public infrastructure, net investments even plunged into negative territory. Since 1991, they fell from 12.8 billion to a negative 6.4 billion euros.

Speculation Replaces Capital Investments

The same Bundesbank report publishes figures on the savings by private households and corporations. In the usual theoretical framework of macroeconomic transactions, there is a very tight relationship between savings and net investments. This framework, intended to somehow quantify overall economic processes, is a mixed bag. Its most often reported parameter, gross domestic product (GDP), is supposed to indicate whether an economy is growing. However, any and every kind of economic activity is thrown into this GDP figure, whether it's useful for the long-term health of the economy or extremely damaging. The calculation of net capital investments and its factors belongs to the more useful parts of this macroeconomic framework.

On the microeconomic level, this relationship is reflected in the traditional process, in which a private household doesn't spend its entire income on consumption. The money saved by private households is transferred to a bank, which makes use of it by granting a credit to a business or corporation for investments.

All of that works fine—in theory. However, according to the data published in the Bundesbank report, the transmission from savings to net capital investments has almost completely broken down since about the year 2000. Net capital investments are now rapidly shrinking, while savings are rising to all-time highs. Last year, private household savings amounted to 174 billion euros, corporate savings to another 56 billion euros. Even after subtracting 82 billion euros for the public state deficit, there were still 147 billion euros in total savings by the German economy. But net capital investments amounted to only 59 billion euros. The difference is made up by financial investments of private households and corporations, which then are channelled abroad. This means that almost 100 billion euros in capital investments per annum are now being taken out of the savings/investment cycle by financial speculation. Instead of maintaining and upgrading its physical capital, Germany is shifting to accumulating speculative paper claims. On paper, Germans are thereby getting richer and richer. Total paper claims of private households by the end of 2005 reached the volume of 4.26 trillion euros, of course spread quite unequally among households. At the same time, Germany allows the takeover of any remaining valuable asset in the country, in terms of *Mittelstand* (small and medium-sized) firms and their physical capital, plus real estate, by foreign speculative funds.

At some point in the near future, Germans will wake up to the fact that their foreign debtors have just announced a moratorium on all the nice paper claims, while the physical capital of the German economy is fully controlled by the various speculative "locust" funds.