

Germany's Crisis in Employment And Investment Can Be Solved

by Lothar Komp

Mr. Komp is Economics Editor of EIR and the German weekly Neue Solidarität. He gave this speech on Sept. 25 at the Schiller Institute's conference in Idstein, Germany. Before he spoke, EIR Ibero-America Editor Dennis Small had presented an overview of the global economic crisis.

When Dennis Small was showing you all those graphs about the world economic crisis, I guess some people here in this room may have had some secret thoughts: Isn't the world much different if you look at towns like Idstein? Isn't there some prosperity left if you go over to this neat little marketplace? I have to tell you the truth: Yes, there is some prosperity left, but all this prosperity was produced by institutions like the industrial *Mittelstand* [small and medium-sized enterprises], under economic policies which are now being abandoned and destroyed. Exactly that is taking place, because something like the industrial *Mittelstand* simply cannot work in a world of globalization, in a world of cutting investments in infrastructure and investments in the corporate sector, and also in a world where the living standards of private households are shrinking rapidly.

And so what is the great problem? Money is not the problem. Money is a technical problem which can be solved, but there are much more important problems which have to be overcome in the current situation. The biggest problems are in the minds of the people, and you could see this very clearly with the program of the BüSo [Civil Rights Movement Solidarity—the LaRouche party in Germany]—“How To Create 8 Million Jobs in Germany.” Wherever you presented it to economic experts, people in the government, even trade unionists or leftist parties, you always got the same response: “Oh my God, what are you proposing? Isn't this completely crazy? 8 million jobs, it's impossible and we should not come up with such programs, because that means we make promises we can't live up to.”

Even in the PDS [the Party of Democratic Socialism, successor to the ruling party of communist East Germany], you find people these days who tell you, the government is unable to produce any jobs. Perhaps in the past, but not in the present world. The policy of the trade unions today is just to try to prevent or slow down measures like the government's Hartz 4 austerity plan, but without any program. These people are

depressed and they have no solution whatsoever, because their outlook is just to somehow slow down a process which they think is unstoppable, and to which they have no positive alternative.

The first conclusion you can draw from this, is that at least here in Germany we are without any competition in presenting the solution to the economic problem. There is no other party, no trade union, which has an alternative program to overturn mass unemployment in Germany.

And there is a reason for this: Now in Germany we have reached a depression level of unemployment. This simply cannot be overcome by little tricks here and there. The mass unemployment in Germany today is a result of a systemic crisis hitting the financial, the monetary, and the real economy, and it can only be overcome if you make systemic changes.

The first step to a positive alternative, therefore, is to admit and accept the fact that the present financial, monetary, and economic system, including all the dogmas and the policies



Lothar Komp: “The mass unemployment in Germany today is a result of a systemic crisis hitting the financial, the monetary, and the real economy, and it can only be overcome if you make systemic changes.”

which sustain it, is bankrupt and has to be replaced by new policies. If you have this in mind and study economic history, you will easily find that there have been phases in human history, just a few decades ago, when we didn't have these insane policies and we were doing quite well. So there is a solution, but it requires systemic changes.

Mass Unemployment

So let's take a look at the mass unemployment in Germany—and you can be sure, that in other places in Europe the situation is not much better. If you deal with unemployment, you can take a look at the prevailing economic dogmas and what they tell us about unemployment.

First you have the neo-liberal school, which is alive today and claims that there *is no unemployment problem*, because all unemployment is always *voluntary*. That's by definition, because the job market is the place where employees and employers come together and trade in jobs. The employer offers to hire somebody for a certain wage, and the worker can accept the offer or not, and there is always a wage level—not at 20 euros an hour but perhaps EU 1 an hour—where the employer would say, “Okay, at this wage level I will hire you,” and if one person is left unemployed, that can only be because this person said, “Oh no, at this wage level I won't work.” So, it is “voluntary unemployment.” That is one of the axioms of the liberal school.

Then came the Depression of the 1920 and 1930s, and this theory looked rather strange with millions of unemployed people in America and Europe on the streets. There was obviously something wrong with this theory, so they had to introduce John Maynard Keynes to change one of the axioms, in order to save the rest of the axioms. And since Keynes, economic theory accepts that, yes, there are certain circumstances in which there can be unemployment. This is a real breakthrough, that we now know that unemployment is possible, and it comes in cyclical waves, and what you have to do is anticyclical deficit spending, and then you are able to overcome the problem.

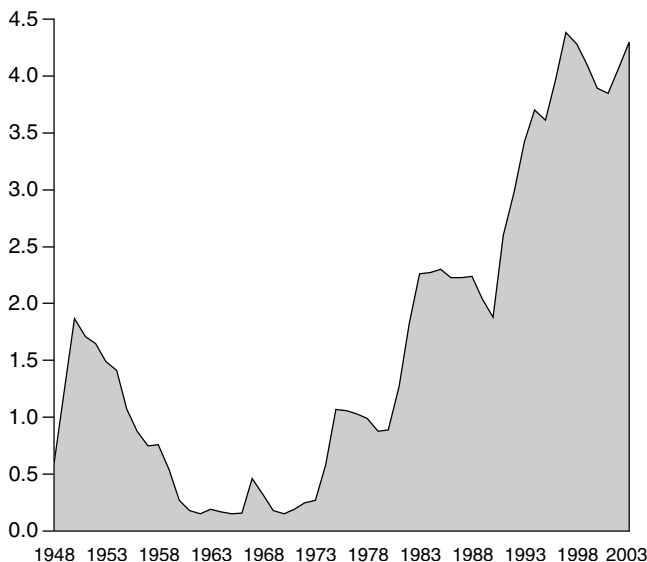
I will show you here that reality is quite different. Unemployment in Germany is *not* voluntary; it is not a cyclical phenomenon, but a systemic crisis. **Figure 1** shows that we have practically two different phases. We started after the Second World War with a quite terrible situation here: A lot of infrastructure, including housing, was destroyed. On top of this, more than 8 million people, refugees, were coming here from the east; these people didn't have apartments and jobs in the beginning, and there was a currency reform which was quite brutal for many people. So we had nearly 2 million unemployed in the 1950s.

But by sound economic policies, by a very dirigist investment approach, we were able to reach full employment in Germany during the 1960s. We reached a quite stable level of 200,000 unemployed over a full decade. Then in 1967-68, there was a big crisis—500,000 unemployed—but we were

FIGURE 1

Official Unemployment in Germany

(Millions)



Source: EIRNA.

able to come back to full employment.

But then a phase-shift started in the early 1970s. What happened? We had a global shift in international financial policy: the breakdown of the Bretton Woods system. Since then we had one speculative bubble worldwide; all prices shot up, inflation of all kinds of materials shot up; and unemployment was shooting up and since then, since the breakdown of the Bretton Woods system, since the breakdown of the other sound economic policies, with all the garbage that was introduced later, the “service-sector society,” we have never been able to return to the low level of unemployment we had once reached.

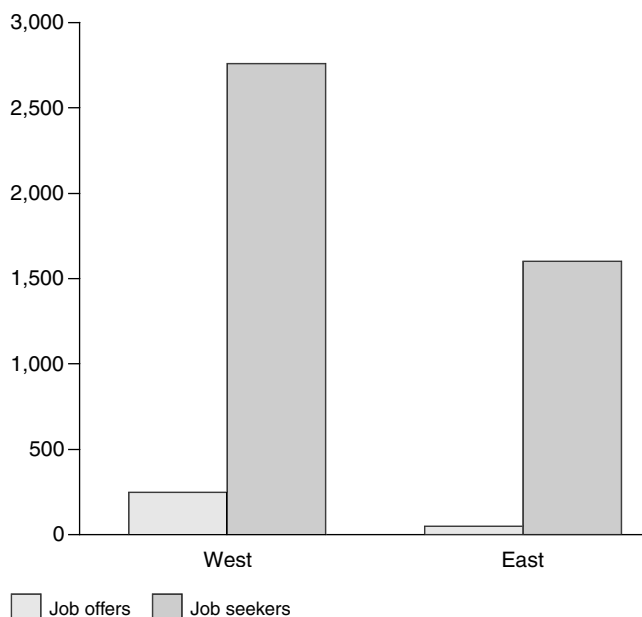
The best we had were the two years of stagnant unemployment, but then unemployment shot up again. The peaks are always doubling: 500,000 in 1967, 1 million then in the '70s, then 2 million in the early '80s, 4 million during the '90s. And we are now in a relatively stable phase again, and you can guess that the next years will bring us to 6 million or 8 million people unemployed.

Now, an additional word about voluntary unemployment. **Figure 2** shows job offers, compared to unemployed people. In western Germany, you have 11 officially unemployed people for every job offered by a company, which is bad enough; but if you then look to the east, we actually have 32 unemployed people for every job that is being offered. Obviously “voluntary unemployment” is not the problem; there are just no jobs available.

FIGURE 2

Job Offers Versus Unemployment

(Thousands)



Source: EIRNA.

When I said we have now a level of 5 million people unemployed, that is the *official* unemployment, and I can tell you a lot of nice stories, about how the U.S. government is faking job data by a variety of funny methods. But we in Germany are doing the same thing! We have also learned some clever tricks, how to manipulate job figures down. **Figure 3** shows the official unemployment of 4.3 million people. But on top of this, we have more than 1 million people who are temporarily put in a work program, but they are actually also unemployed; the government is taking care of them, giving them some money, offering some job training. But the main effect is to take these people out of the official unemployment statistics for awhile, to make the statistics look better.

The chart also shows the early retirement, a scheme which was actually invented under the Helmut Kohl Administration. That was another brilliant idea for reducing the official unemployment figures: giving people at the age of 55 the chance to get a little bit of money to retire, so that they are no longer listed as unemployed.

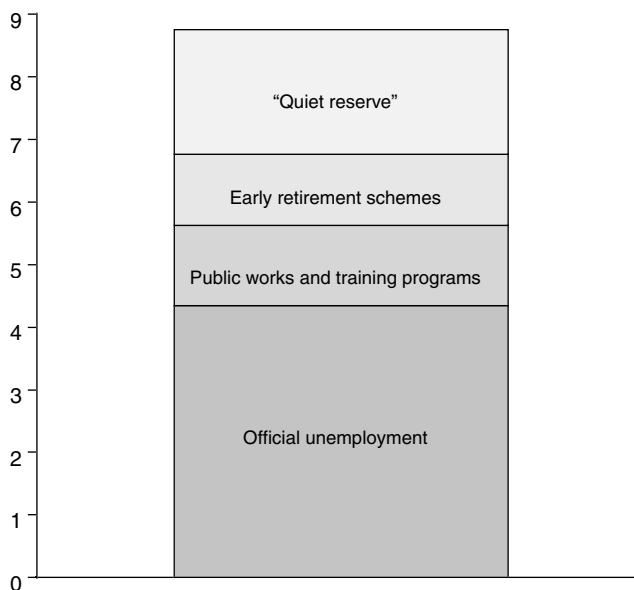
And then, of course, there is the so-called “quiet reserve” of 2 million people, who would like to have a job, but have given up looking for one—especially in east Germany, where there is only one job for 32 unemployed applicants.

This is clearly a depression level, if you add all this up. If

FIGURE 3

Total Unemployment

(Millions)



Source: EIRNA.

you include the early retirement and the quiet reserve, you get estimates ranging from 7.8 million to 8.6 million people; but you can clearly say that we have more than 8 million people unemployed in Germany. This means, to reach full employment we have to create 8 million jobs, and this is now a dimension which has never been reached in Germany before.

The cost of the official unemployment in Germany alone is an incredible EU 83 billion, which the government spends every year to maintain that level of official unemployment. We have the losses in taxes, losses in social security income, and social expenditures of an additional EU 83 billion a year; even three times higher are the losses in economic output and the income of households due to the lack of jobs.

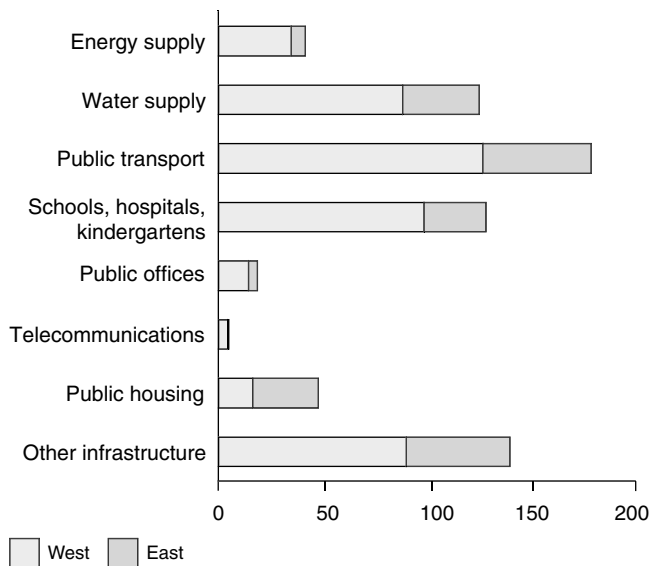
The Need for Productive Investment

Now, at the same time, we have built up a giant backlog in investment in the economy.

To reduce costs in order to compete with companies based in eastern Europe, Asia, and elsewhere, which can produce for a much cheaper price, we are being told to respect the laws of globalization: that is, to cut costs. Costs are being cut by pushing down living standards. They are also being pushed down by cutting investments into infrastructure and into the corporate sector.

Let’s start with infrastructure. **Figure 4** shows one estimate concerning municipal infrastructure, which in Germany

FIGURE 4
Municipal Infrastructure Requirements 2000-09
 (Billions Euros)



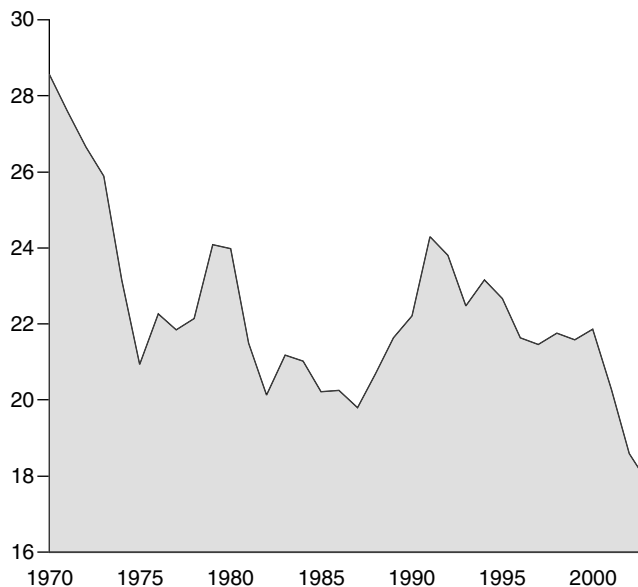
Source: EIRNA.

is quite important, because two-thirds of all infrastructure investment here is done, not by the Federal government or the states, but by the municipalities. And in every one of the categories shown, you can see a giant backlog. One of the biggest backlogs is in water supply: Something like EU 130 billion are desperately needed to repair and maintain the canals, some of which were built during a time when there was still an emperor ruling in Berlin, more than 100 years ago. Some canals have been built in the meantime, but they are rotting out; several tens of thousands of kilometers of canals in Germany—you don't see it, you don't smell it yet, but they have been transformed into a paradise for rats, because of no investments. You have leaks, where the water is lost, which make the water prices rise.

The same is true for public transport: buses, subways; but also schools, hospitals, and so on. If you add all these things up, you come up with the sum of EU 650 billion in investments which are urgently required to maintain and save the municipal infrastructure in Germany.

Now you have similar things for the Federal transportation sector—the railway lines, highways: another several hundred billion euros are desperately needed to replace over-aged powerplants in Germany and in Europe. For the whole European Union, EU 2 trillion in investments is needed for the energy sector alone, in order to prevent blackouts across Europe, just a few years from now.

FIGURE 5
Gross Capital Investment
 (Percentage of GDP)



Source: EIRNA.

Of course, the same is happening in the corporate sector. **Figure 5** shows that systematically, since the 1960s, the share of investments into German industry has been shrinking. The share of investments, as a percentage of overall economic activity, was once 30%, but has now fallen below 20% for the first time since the Second World War. And what is even worse, is that an ever larger part of the investments that are still taking place are limited to the service sector. These investments are in things like building office buildings for banks, so they don't improve the productivity of the German economy.

In the manufacturing sector alone, if you look at investment into factories, machines, and other equipment, you see that we have now arrived at a point where these investments are less than what is necessary even to maintain the existing level of the cycle of reproduction. That is, net investment in the German manufacturing sector is now negative, for the first time ever.

One side effect of this systematic reduction in investments, is the worst crisis in the construction sector since the Second World War (**Figure 6**). Employment there has been cut in half since the mid-1990s.

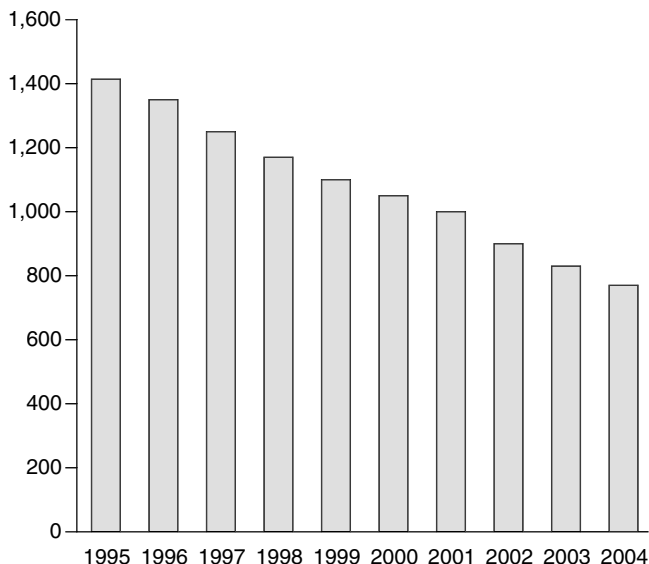
Deindustrialization: The Case of Coking Coal

One other aspect I have to shed some light on, is the physical destruction of the German economy in recent years

FIGURE 6

Employment in Construction Sector

(Thousands)



Source: EIRNA.

by deindustrialization. A particular part of our reconstruction program has to deal with this problem. We have had deindustrialization in West Germany since the 1970s, which you can see these days in the Ruhr region quite clearly. But in the German East it is much worse.

Just compare the employment distribution which we had in West Germany in the 1960s, with the situation today (**Figure 7**). You can see that in the 1960s, for every productive job, there was less than one job in the nonproductive sector. But this has shifted dramatically, to the effect that now every productive job carries the burden of more than three nonproductive jobs.

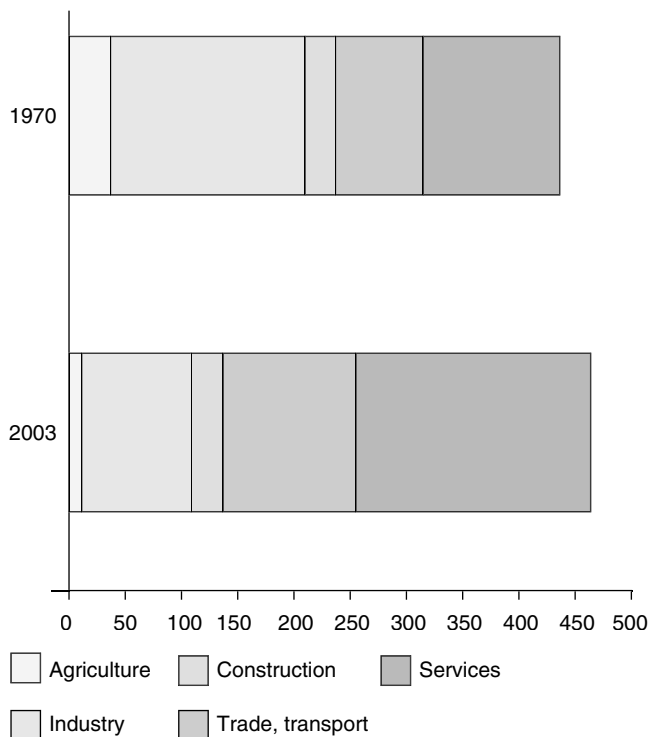
Let me tell you a little story which shows you the destructive effects of deindustrialization and globalization. Looking at the coal, coking coal, and steel sector in Germany, you find some funny things. Just a few decades ago, Germany was one of the leading steel producers in the world, also in respect to coal, and it was the biggest exporter of coke in the world (and coke doesn't mean Coca Cola; coke is a special coal product which you need for steel production. The German word *Koks* has also some different meanings [such as "cocaine," or simply "money"]).

Coke has become very important in the global economy just in the last 12 months, because it was decided in recent years that, okay, we have this coal in Germany, but isn't it much cheaper to shut down our coal mines, and to import coal from Poland, from Colombia, from China, and other places

FIGURE 7

Employment Distribution

(Jobs per 1,000 Inhabitants)



Source: EIRNA.

which can produce coal much cheaper than we can do? So this was done. We shut down one coal mine after the other. The same was done with the coke needed for steel production. We had 65 cokeries in Germany in the 1970s (**Figure 8**). Here you see how we successfully shut down the German coke industry, from being the best in the world, to something which hardly exists presently. From the 65 cokeries in Germany, only one today is left; it is located somewhere in Bottrop in the Ruhr region. You can visit it, because it is the only one that now exists.

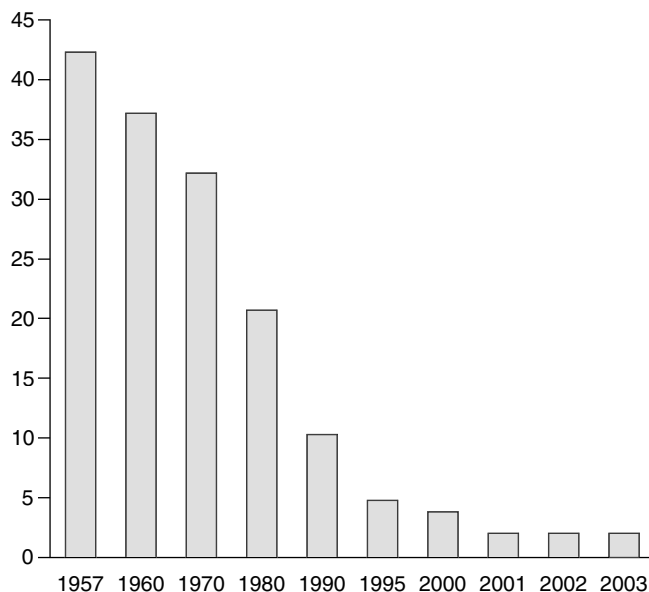
The last cokery in Germany, the Kaiserstuhl in Dortmund, built in the 1990s, was the most productive cokery in the world, in terms of its output in relation to workers and to consumption of material. It was decided to dismantle this cokery into 2 million pieces, which were put in boxes and sold to China. They are now setting up the Kaiserstuhl cokery in China!

But China has now become the largest steel producer in the world. Their steel production is rising by 40% every year. For this steel, they need coke. China in the last two years has been the only exporter of coke in the world, because all other countries said, "Let this job be done by China, since they do

FIGURE 8

Coke Production

(Million Tons)



Source: EIRNA.

it in the cheapest way; we'll shut down our own." So China is the only country with excess capacities available for other countries to get some coke. But now China says, our steel production is growing so rapidly, that we have to tell you now we need the coke for ourselves. We are sorry, but we have priorities: We need it for our own production.

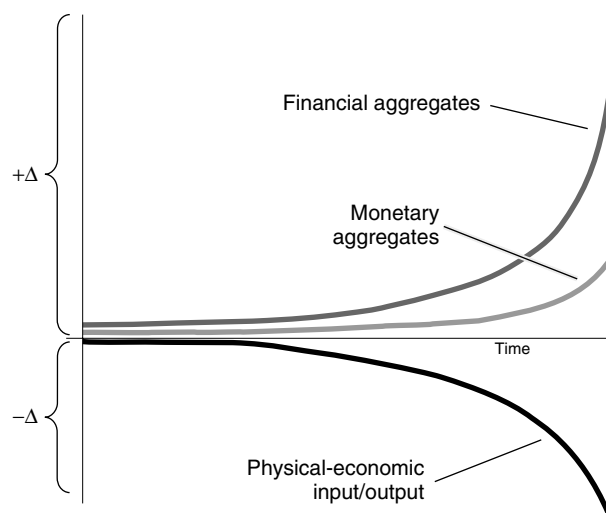
So then complete chaos broke out. The coke prices on the world market grew from EU 50 per ton to EU 100, EU 200, EU 300, and EU 400; EU 450 was the peak that was reached just a few weeks ago. Because there is no coke left, the speculators are going wild.

This process led to a global crisis not only in coke production, but also in steel production. There have been emergency meetings in Berlin with the government and the steel-consuming industry, on how to get out of this disaster. One week ago, RAG (Ruhrkohle) offered to build a new cokery in Germany, in a complete shift from the original plan. And, of course, all the prices are shooting up for coal, coke, and steel; the word went out that there was a "coke infarct" of the German economy, as an effect of this insane deindustrialization, globalization process.

Signs of the Times

Another element: Quite strange things happened recently in Poland. In Gdansk, a 200 meter-long steel bridge was stolen overnight! It was there one day, and it was no longer there the

FIGURE 9

A Typical Collapse Function

next. Who would steal a 200 meter-long steel bridge? Isn't this completely insane? You can steal cars, but not steel bridges. When the police caught the robbers, they interrogated them as to why they were doing this. It's because scrap steel prices have increased four- and fivefold in the recent few months. So, these people took apart the bridge into 1,000 parts, and tried to sell it to the steel factories as scrap.

Even the Bundesbank in Germany is scared, because there was a debate a few months ago, about eliminating the one and two cent coins, ostensibly because it requires too much bureaucracy to deal with them. The real story is, that those one and two cent coins contain so much copper and steel, that the production price of the coins is higher than their nominal value. So I can only advise everybody here: Hold on to your one and two cent pieces, because they soon may have a higher value than banknotes. You never know.

All of this exemplifies, of course, Lyndon LaRouche's triple curve very directly (**Figure 9**).

Employ 8 Million People

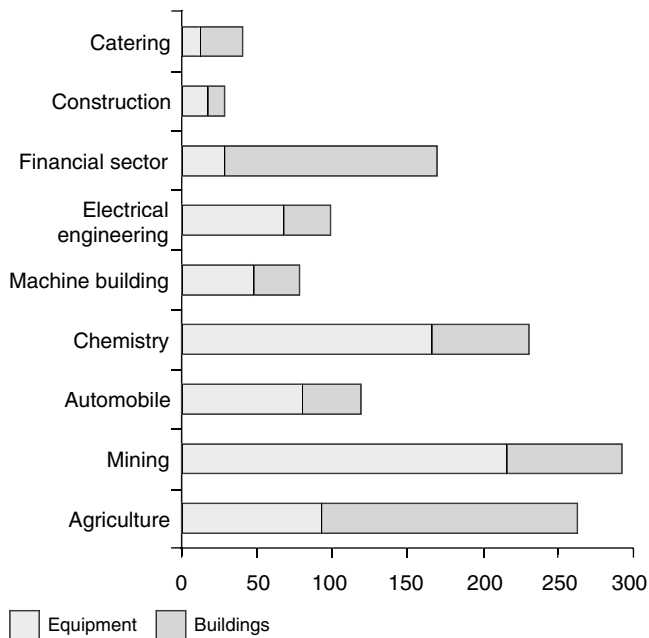
So, how can we come out of this situation? We have 8 million people who have no work; we have something like a trillion euros in infrastructure backlog, and also a giant backlog in investments in private companies. So, we have to bring these together. We must start a huge investment offensive, which will then create jobs immediately with an infrastructure buildup and by creating new jobs in the private sector.

The way to get this started—because this is the thing which you can do immediately—is a big offensive in infrastructure investment. Here you can immediately employ several million people in Germany's construction sector. What we need is roughly EU 100 billion per year in additional infra-

FIGURE 10

Capital Intensity

(Fixed Capital, Thousand Euros Per Job)



Source: EIRNA.

structure investments in Germany. Half of this sum will immediately flow back due to reducing the costs of unemployment. Thus 50% of this infrastructure buildup, so to speak, is for free: The money goes directly back to the fiscal budget.

For the other EU 50 billion, we have to create new mechanisms to make these investments possible by national banking systems. That means we have to change the legislation of the Bundesbank.

Another EU 100 billion investment will be needed in the private sector, which requires some dramatic changes, because in order to enable private companies to invest in their machines and their factories, they need, first, orders; and second, they need credits.

The orders will be taken care of by getting the infrastructure projects started. For this we need EU 100 billion per year inside Germany, plus the Eurasian Land-Bridge program or other vital infrastructure. Wherever this takes place, you need a giant amount of machines and all kinds of investment goods, in the production of which Germany once specialized.

Here in this respect it is necessary to note: Jobs in the corporate sector don't grow on trees. You have to create them by investing in new factories, new machines, and equipment. And if you go through the various sectors of the economy you have a quite differentiated picture of how much capital stock is needed for different sorts of jobs (**Figure 10**). For example,

in some areas like catering, and also in the construction sector, the physical capital required for one job is relatively low. But you have other sectors in the economy—the energy/water sector didn't fit on the scale of this graph—where you need something like EU 1 million of physical capital per job.

This has to be built up, and that means we have to put EU 100 billion into upgrading the private-sector capital stock to make the jobs possible; which means to bring back the investment share in the overall economic activity in Germany from 20% to 30% where it once was in the 1960s. So, it is not something completely wild.

The Crucial Role of the 'Mittelstand'

One more point has to be made about the requirements for this solution: The *Mittelstand*, in particular the industrial *Mittelstand*, has to play a crucial role in this. What is the secret of this *Mittelstand*? Today in Germany, something like 70% of all jobs are still in the small and medium-sized companies with 100 to 200, or maximum 500 employees, which, as one little company, has been able over generations to maintain a position in a very special sector, a special kind of machine tools, for example, to maintain a position worldwide as the leader in the market, producing 40% of the world production in this specialty area. There are hundreds of such companies.

How could they do this? They could do this only by the special set-up which only *Mittelstand* companies can have. First, they have one person as the owner of the company—not banks or some big investment fund, but a person, whose interest is not to make a big profit in the next quarter, but who has a long-term outlook of maintaining his company in order to pass it on to the next generation, and to maintain this position in world production not by cutting costs, not by being the cheapest producer, but by always being the best in quality and technology. This requires upgrading the production process again and again, to upgrade the product, and this is only possible if you have workers who are used to this kind of flexibility, which also means education, which requires a health system, which requires a living standard in the broadest sense. And if you now try to destroy this, if you try to reduce the costs by cutting the living standard and by cutting investments, you are right now destroying exactly this kind of industrial *Mittelstand*, which has been the secret of all the economic successes in the past.

Solving the Problem of Money

Now one area is left, in respect to our investment offensive: the technical problem of money. Everybody knows there is no money. The finance ministers have to cut budgets; there are the Maastricht criteria of the European Union—nobody has money. So let's take a brief look at the postwar reconstruction of Germany. And this example shows that we are able to overcome the current mess, and that we were even able to do this at the times of worst economic crisis.



The Kaiserstuhl coke factory in Dortmund, Germany has being dismantled and shipped to China—a classic example of “globalization.”

After the war, 50% of all the apartments in German cities were destroyed or in need of repair. Then you had all the refugees coming over, so housing construction was one of the top priorities; another one was power. Coal mines and much of the infrastructure were destroyed, and all together a giant investment was needed to reconstruct the economy, like today. You also had millions of people unemployed.

Did we have money after 1945 to do this job? Most of the savings of the people had been destroyed, and were wiped out again by the currency reform [in 1948]. Getting money from abroad was completely impossible, because Germany at that time had “junk” status, or even “default” status on the international markets, so it was not possible to issue a bond on the international market to get funds. The German government held negotiations with the International Monetary Fund and World Bank to get some credits for investments, and in the end the World Bank offered the equivalent of EU 20 million for German reconstruction. This was coupled with some conditionalities, and the German government said: No thanks! Twenty million wouldn’t have done the job anyway.

The key to success then at that time was an extremely dirigist approach by the Kreditanstalt für Wiederaufbau [KfW, the Reconstruction Finance Agency], which was founded in 1948. Some bankers like Hermann Josef Abs, who was the main person responsible there, went to the Allies and told them: Look, we have a good idea. We want to copy F.D. Roosevelt. We want to do what he did—that is, Roosevelt’s Reconstruction Finance Corporation. That is what we want to implement here in Germany, to get reconstruction done.

So it was done. The Kreditanstalt für Wiederaufbau was established, and it was then allowed to collect all the money coming back from the Marshall Fund credits. These were credits from the U.S. government to German companies to buy certain U.S. goods. The credits actually had to be paid

back, but the U.S. government was not interested in getting back some deutschmarks from poor German companies. So the KfW took this money and invested it in the reconstruction.

It was not much—4 billion deutschmarks or \$1.4 billion—but it was spent very wisely. The KfW made a list of the most urgent investment priorities in Germany, and then made a map, which singled out those companies whose products would be required for these investments. Then the KfW people would pick up the phone and call up the heads of that company, directly telling him: “Mr. Director, you are very lucky, whether you know it or not: The machines you are producing are important to get the steel production built up in the Ruhr region. Your machines are good, but in order to do this job, your production has to be increased tenfold. This means you have to invest in your company. You need 5 million deutschmarks; so by tomorrow, we want from you a request for 5 million deutschmarks. The money from us is already in the mail.”

This was a kind of dirigist approach, completely different from what is done today (also the KfW is not doing that any longer today). But it shows how, once you recognize and state that you are in a systemic crisis, you can implement such policies and turn the situation around. Abs in later years (contradicting the myth that the “German economic miracle” was based on the free-market economy) made very clear again and again, that he used *gezielte Planung* (targetted planning). And he noted, with a smile, that the activity of the Kreditanstalt was not exactly oriented along the ideal image of the free-market economy.

Let’s face it, we were doing *Investitionslenkung* (directed investment). All these programmatic steps like public infrastructure spending, dirigist credit policies, regulations against globalization—obviously all of this is incompatible with the prevailing economic dogmas. It also violates a lot of legislation, including the Maastricht Treaty, the Stability Pact, and so on. Therefore, we have to make our choices. If these policies and dogmas and legislation are incompatible with reconstruction, with a sane economic solution, then they have to be changed or replaced.

I think the depression-like unemployment in Germany today is quite clearly an expression of the systemic crisis we are in worldwide, hitting the financial and monetary sphere, and the real economy. This means, a systemic response is needed. There is a solution, it can be done; it just requires that we declare the present system and the present set of dogmas and policies as being bankrupt, and implement those policies that have been proven to be successful in the past.

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