International Credit by David Goldman

Mass unemployment in West Germany

The officially reported rise in joblessness attributed to seasonal factors is only a very small part of the story.

West German unemployment officially stands at 10.6%, the highest count since the currency reform of 1947, the supposed kickoff of the country's "postwar economic miracle." In fact, about 25% of West Germany's working-age population is not now working. Real unemployment in West Germany at present does not compare favorably with 1930.

True, there is no generalized hunger, and the social services system continues to function. Nonetheless, the aggravation of the unemployment problem threatens to crack the thin ice upon which German society now treads.

No matter that the German authorities characterized the rise in the official unemployment rate from 9.2% in December to 10.6% in January as a one-time affair linked to unseasonably cold weather. If it had not happened in January, it would nonetheless have come soon, in light of the Bundesbank's half-point rise in its Lombard lending rate the previous week. That was a signal to the banks that excessive financing of German exports was no longer encouraged. Since West German financing of trade partners' imports of West German goods has been the sole foundation for export levels—and so, employment levels—the Bundesbank's action assured rising unemployment.

For example, a 7.6% rise in German exports stabilized unemployment at the 9.2% level throughout 1984. The conditions for continued stabilization have meanwhile ceased to exist.

To the 2.619 million West German workers registered as unemployed at federal labor offices must be added 1.3 million "discouraged workers," i.e., workers who are unemployed but whose unemployment benefits have run out. And to these must also be added 446,000 workers on involuntary short-time. Including these categories of unemployment, the official rate would be not 10.6% but 17.7%.

However, that does not take into account a drastic decline in the proportion of certain sections of the West German population officially reckoned as part of the labor force. This decline in the "labor force participation rate" also represents disguised unemployment.

For example, only 51% of West German women of working age actually work, against 62% of American women. Relative to the requirements of a growing population, both figures are probably high. But German women bear, on average, 1.3 children each, against 1.8 for American women. It is a fair conclusion that 10% of working-age West German women, or about 5% of the labor force, are doing nothing at all.

That adds another 5% to the unemployment rate.

In addition, only 40% of German men aged 60 to 65 work, the result of a widespread early retirement program which represents a form of disguised unemployment. Only 47% of men aged 15 to 20 work now, as opposed to 59% a decade ago, and not because more are going to university. Increasing numbers of school-leavers are staying with their families, doing nothing in particular because of lack of job opportunities.

Overall, the "labor force participation rate" of West German men aged 15 to 65 fell from 87.7% in 1973 to 82.0% in 1983. The nearly 6% difference represents disguised unemployment.

The standard prescription of the International Monetary Fund, which just released a study claiming that European wages were too high, or Morgan Guaranty Trust of New York, which echoed the IMF's viewpoint, is simple: Throw the unemployed onto the garbage pile by reducing the social safety net. Morgan, in a December 1984 study, claims European employers won't hire because social service costs are too high, as reflected in employers' taxes:

"In Europe, the transfer of wealth and income entailed by the increase in oil prices came at the expense of profits, not wages. Labor use declined as its price increased relative to capital. . . . Labor cost problems were heightened by increased social charges and indirect taxes such as social security levies, which typically are a much higher multiple of wage costs in Europe than in Japan or the United States. The pervasive social welfare system is financed, in many cases, through charges on labor use."

That is not merely a formula for political breakdown in Western Europe, it is also insane economics. A healthy West German economy is a capital-goods producing economy, and a capital-goods exporting economy. Why not merely let West Germany do what it is best at, namely, export capital goods to the developing sector?