

history, the relevant word for optimism is “Franklin Delano Roosevelt.” Modern history shows, that there is always a road to economic recovery; the word “Depression” must be used, but it must be used as a way of saying, that the time has come to scrap those misguided policies which have led us down the road to this mess, and to adopt, instead, the appropriate economic-recovery program.

Therefore, the fight is between those who cling stubbornly to the policies which have caused this Depression, and those who are committed to scrapping failed policies, in favor of viable alternatives. There are no national recovery programs which do not depend upon returning to the role of the sovereign nation-state, and no international economic recovery, which does not require compacts among cooperating, sovereign nation-states.

## Germany: The Great Depression of 1997

by Lothar Komp

The release of the latest unemployment figures on Feb. 6 has put Germany into a state of shock. Not since 1933 has Germany seen such high official unemployment. And not since the beginning of official unemployment record-keeping in the 1920s, has there been such a huge one-month jump in the unemployment figures. Unemployment hit 4.658 million in January 1997, an increase of 510,000 unemployed in one month—more than 10% higher than the previous month.

However, as will be demonstrated here, by taking into account the camouflaged unemployment, the demographic structure, and the structure of employment, the situation today is, in effect, even worse than that of 1932-33. Only one term can describe the present state of the German economy: depression. A depression cannot be fought by minor corrections, only by reversing its major causes. Three such principal causes of the 1997 German depression can be identified:

- The worldwide slump in productive investments, apart from some locations in eastern Asia, caused by the “pyramid scheme” inflating of the global financial system. Under these circumstances, an economy like that of Germany, fully dependent on the export of high-quality capital goods, cannot survive.
- The failure of the government of Chancellor Helmut Kohl to push through a great reconstruction policy for eastern Europe, as it was elaborated in the 1990 Productive Triangle program of Lyndon LaRouche, and the government’s imposition of a Weimar-style budget-cutting policy, as demanded by the European Union’s Maastricht Treaty: As the historical chance of the reunification was missed, the “Reconstruction East” degenerated into an “abortion” of the post-communist eastern German economy.

- The transformation of political, industrial, and banking leaders in Germany toward a globalist, neo-liberal (that is, free trade) outlook, thereby abandoning the traditional strength of the German economy: an excellent physical and soft infrastructure, as well as a technology-oriented *Mittelstand*. The *Mittelstand* were a success not because they did business cheaply, but because they maintained a high rate of technological improvements.

### Worse than Weimar 1932

The last time in German history that official unemployment rose above the 4.5 million level, was in June 1933. The January 1997 unemployment is even 400,000 higher than the previous post-war record high of February 1996. As a share of the total workforce, the official unemployment rate increased from 10.8% to 12.2% between December 1996 and January 1997. In eastern Germany, this figure jumped from 15.9% to 18.7%. Meanwhile, in western Germany, for the first time ever, official unemployment, surpassed 3 million, reaching 3.26 million in January 1997.

The most devastating decline in employment was in the construction sector. Here, the unemployment exploded in January 1997 toward 251,000 in western Germany, and 150,000 in eastern Germany. This corresponds to a shocking 57% increase in western Germany, and 75% in eastern Germany, compared with the month before. The main reason for this unprecedented increase in unemployment in the construction sector is not the cold weather, but the shrinkage of public investment in infrastructure and housing. According to the latest figures available, orders in the construction sector fell in November 1996 by 15.5% in western Germany, and by 8.7% in eastern Germany. In the case of public orders only, the western German construction sector collapsed by 31.3% in November 1996. According to the German construction industry, this is the biggest ever monthly drop (**Figures 1 and 2**).

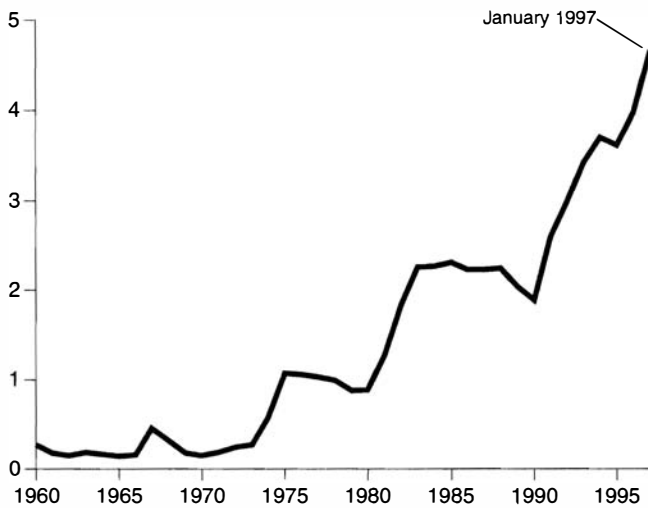
When Hitler took power in January 1933, the official unemployment stood at 6.0 million. The record-high of 6.1 million had already been reached in February 1932. At that time, the total workforce, as registered at social security offices, amounted to 18.6 million; that is, one out of every three persons in the workforce was unemployed. Today, we are dealing with 4.66 million unemployed people out of a total work force of 39.18 million; that is, one out of every eight is unemployed. However, to compare the German depression of 1997 with that of the late Weimar period, the above figures are not sufficient.

First, the real unemployment in Germany today is much higher than the official figures suggest. For example, the German unemployment offices registered 7 million people, who had been at least temporarily unemployed during the year 1996. A detailed account of the various categories of hidden, or camouflaged, unemployment was recently given by the Nuremberg-based Institute for Labor Market Research (IAB), which is part of the Federal Labor Office. It should be noted here, that the board of the Federal Labor Office, in late December 1996, presented a resolution to the German government,

FIGURE 1

**Average annual unemployment in Germany\***

(millions)



\* From 1991 onward, includes new eastern German states.

Sources: German Federal Statistical Office, EIR.

employers' associations, and trade unions, warning that the unemployment in Germany had reached a level, which is "threatening the democratic society." In 1996, states the IAB, the overall unemployment in Germany averaged 7.7 million. This includes the official unemployment of 4.0 million people (west, 2.8 million; east, 1.2 million), but also some hidden unemployment categories. According to the IAB, during 1996, there were on average 260,000 people (west, 70,000; east, 191,000) participating in state-funded job creation measures, the so-called ABM jobs. Part-time work during 1996 amounted to the equivalent of 102,000 full-time jobs (west, 74,000; east, 38,000). Another 1.06 million people (west, 560,000; east, 500,000), after losing their jobs, were not registered as unemployed because they were temporarily participating in job training measures or took part in an early retirement scheme.

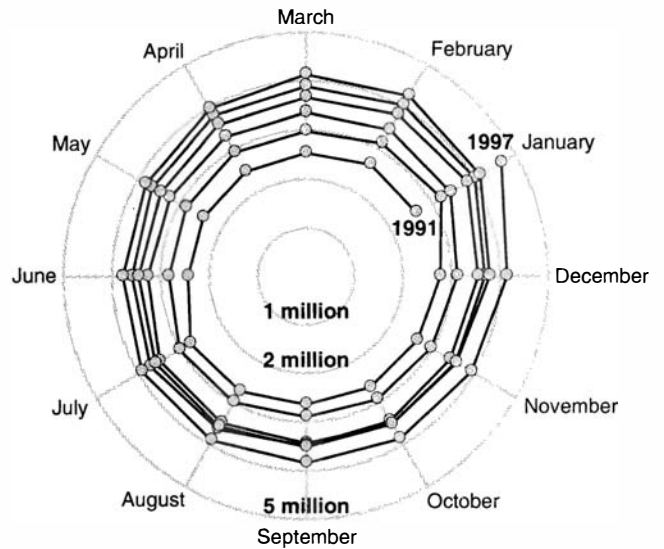
In addition to this, the IAB states, there are about 2.2 million people without a job (west: 1.9 million; east: 0.3 million), who have given up on finding a job and are no longer registering themselves at the unemployment office. Altogether, in 1996, this makes 7.7 million people, on average, without a job in Germany.

There is a continuous net flow of people from the official unemployment categories into the hidden categories, not the other way around. That is, the increase from a 1996 average of 4.0 million, to a January 1997 figure of 4.66 million, is not caused by having the hidden unemployed achieve a status of official unemployment, but by the cancellation of real jobs. The hidden unemployment in January 1997, therefore, is at least as high as the 1996 average. A fair estimate of the total

FIGURE 2

**Monthly unemployment, 1991-97**

(millions)



Sources: German Federal Statistical Office, EIR.

unemployment in Germany in January 1997, all categories included, is 8.5 million to 9 million. A year ago, in January 1996, the IAB had already put the total unemployment at 8.3 million, at a time, when the official unemployment was half a million less than it is now.

As for eastern Germany, the president of the German Association of Unemployed People, Klaus Grehn, is warning, that by taking into account hidden unemployment, about 50% of all people of working age will soon lack a regular job, a figure without precedent anywhere in the European Union.

Of course, techniques for camouflaging unemployment existed in the Weimar period. However, the effect was much smaller than it is today. In November 1932, the chief economist of the federal trade union (ADGB), Wladimir Woytynski, calculated that a hidden unemployment of about 2 million should be added to the official figures. A much more dramatic correction must be made by taking a closer look at the 1933 workforce figures. The above-mentioned total workforce of 18.6 million included only those workers who were registered at the various health insurance companies. The 9 million Germans working in the agriculture sector, and several more millions in other areas, were not included in this category. Therefore, the actual workforce was much higher. The Federal Statistical Office gives a 1933 figure of a 32.3 million workforce, including the 6 million people unemployed. Before dividing this work force into different economic sectors, let us start with a look at the overall demographic pattern, then and now.

In the year 1925, in which a detailed population census had taken place, there were 16.1 million people in Germany

TABLE 1

**Employed workforce in Germany, 1933**

Sector	Employed workforce
Agriculture	9.0 million
Mining	0.5 million
Industry	7.0 million
Construction	1.1 million
Energy, water	.2 million
Transport	1.3 million
Trade	2.7 million
Services	4.5 million
<b>Total</b>	<b>26.3 million</b>

below age 15, and another 3.6 million people aged 65 and older. The working-age population totalled 42.7 million. In early 1933, the estimated figures were 15.1 million below the age of 15, 4.4 million at least 65 years old, and 45.7 million of working age. Out of the last category, there were 32.3 million people recognized as in the workforce; that is, 26.3 million people with jobs and another 6.0 million people officially unemployed (**Table 1**).

The latest detailed review of the German population by the Federal Statistical Office is for the year 1994. Out of a total population of 81.5 million, there were 13.3 million children below the age of 15, and 12.5 million people aged 65 and older. This leaves a working-age population of 55.7 million. These figures have not changed significantly in January 1997. As mentioned before, the present workforce totals 39.2 million, out of which 34.5 million are employed and 4.7 million unemployed. **Table 2** lists all these figures as percentages of the total population; the year 1964 was added to the table, to give an example of a sound economy. The hidden unemployment is included in the category "working age, unemployed"; that is, 8.5 million in January 1997, and 8.0 million in January 1933.

The table shows that, in addition to record-high figures in absolute unemployment, such as those of 1933, today there is a dramatic decline in the numbers of young people in the demographic structure. While the percentage of children below the age of 15 falls from 22.5% to 16.3%, between 1964 and 1997, the percentage of older people increased from 11.7% to 15.3%. The problem is not these figures per se, but

TABLE 2

**Demographic characteristics of Germany in 1933, 1964, and 1997**

Population group	1933	1964	1997
Children	23.2%	22.5%	16.3%
Working age, employed	40.3%	45.8%	42.3%
Working age, unemployed	12.3%	0.3%	10.4%
Working age, not in workforce	17.5%	19.7%	15.7%
Elderly	6.7%	11.7%	15.3%
Total	100.0%	100.0%	100.0%

the dynamic they indicate for the years ahead. This can be seen more clearly in a comparison of a Weimar-era age-pyramid with a modern German example (**Figures 3 and 4**).

In the year 1925, for example, the female sector in age groups above 15 is an ideal version of an age pyramid. There is an obvious deficiency in the category of children below the age of 15 years, in particular, in the age group of 5 to 9 years. This is a consequence of a collapse in the birth rate during World War I, and the depression period which immediately followed. Another deficit can be seen in the male sector in age groups of 25 to 44 years; this is caused by the millions of men killed during the war.

In contrast, the 1994 age "pyramid" is completely different, with a rather erratic character. Apart from the surprising difference between the male and female section, with an almost equal division among the female age groups, there are two main features to address. First, not surprisingly, there is a much higher percentage today of older people, thanks to improvements in medicine. However, there is a worrying shrinkage of the younger age groups. In spite of the fall in births during war-time, 46% of the population was below the age of 25 in 1925; today this figure is less than 28%. The German baby boomer generation—in the year 1994, these were the age groups between 25 and 34 years—does not really represent a "boom," but rather the last occurrence of a somewhat normal birth rate. As the age group below 25 years enters the workforce in the years ahead, the percentage of the population that is of working-age will shrink further.

Every job eliminated under these circumstances will be much more serious than in previous years, because one employed person will have to produce the goods for a larger and larger number of people who are not employed.

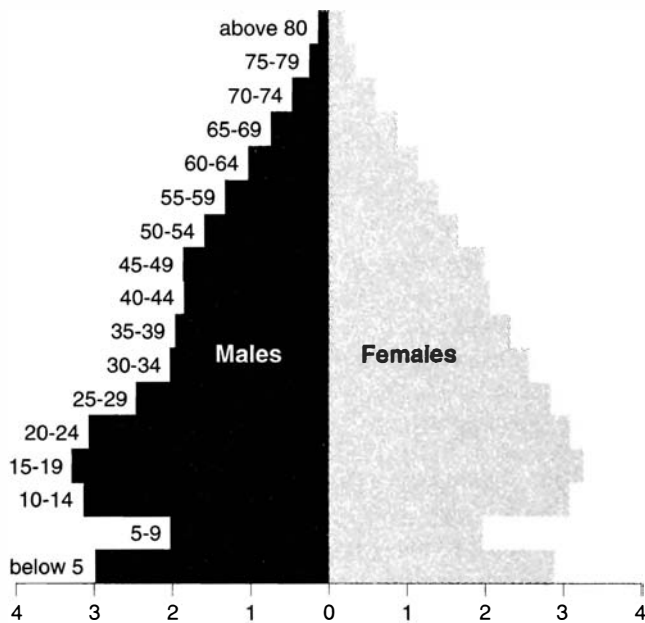
Even worse, a growing percentage of the remaining jobs is not productive. If we list as productive categories the economic sectors of agriculture, mining, industry, and construction, as well as those public works devoted to soft and physical infrastructure, the number of productive employees in 1933 was about 20 million. Today, far less than half of the jobs can be counted in the productive category—roughly 15 million. A large and rapidly growing part of the service jobs today is only part-time jobs. For every 100 productive jobs in 1933, there were 225 people who were not productively employed; today this figure has doubled, to 444 (**Figure 5**).

**Destruction of the 'Mittelstand'**

The present German depression, unlike former post-war recession periods, is characterized by an unprecedented wave of corporate bankruptcies. Many of the medium-sized companies that failed in recent years had been around for 50 years, often for more than 100 years. There will be no quick replacement for these companies, even if orders were to start to increase again. The present record-high unemployment, therefore, is not a consequence of temporary layoffs, but of the irretrievable loss of the economy's productive capacity.

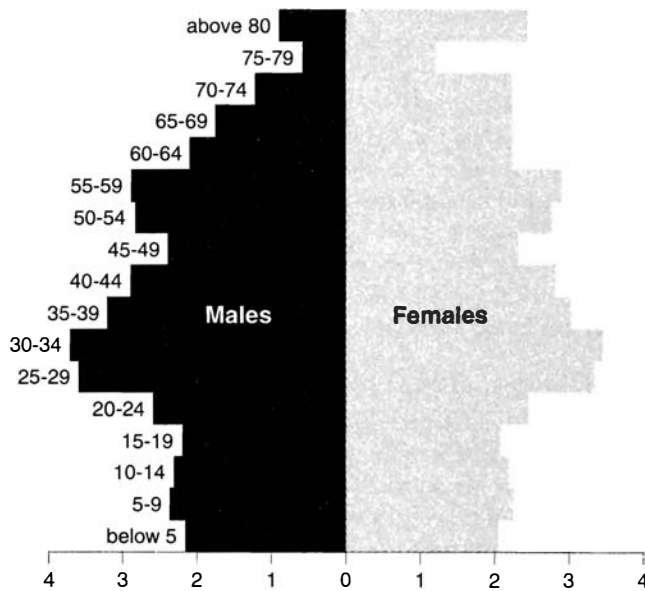
The sharp increase of corporate bankruptcies in Germany

FIGURE 3  
**Age pyramid for Germany, 1925**  
 (millions)



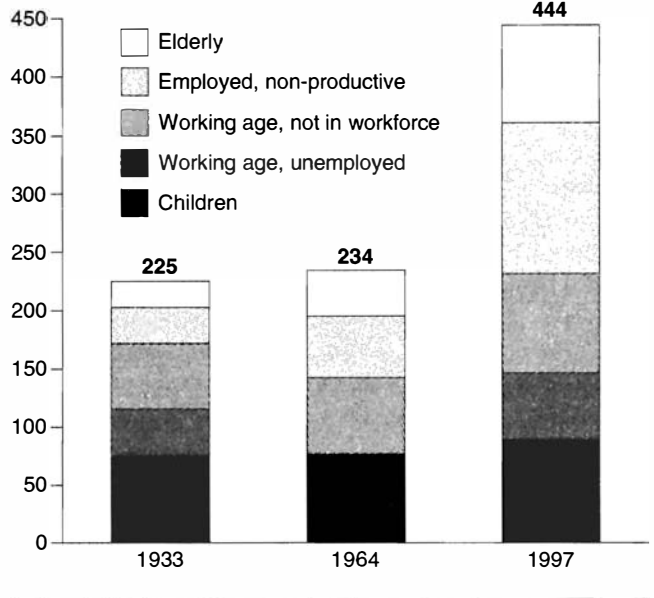
Sources: German Federal Statistical Office, EIR.

FIGURE 4  
**Age pyramid for Germany, 1994**  
 (millions)



Sources: German Federal Statistical Office, EIR.

FIGURE 5  
**Distribution of non-productive population in 1933, 1964, and 1997**  
 (per 100 productive jobs)



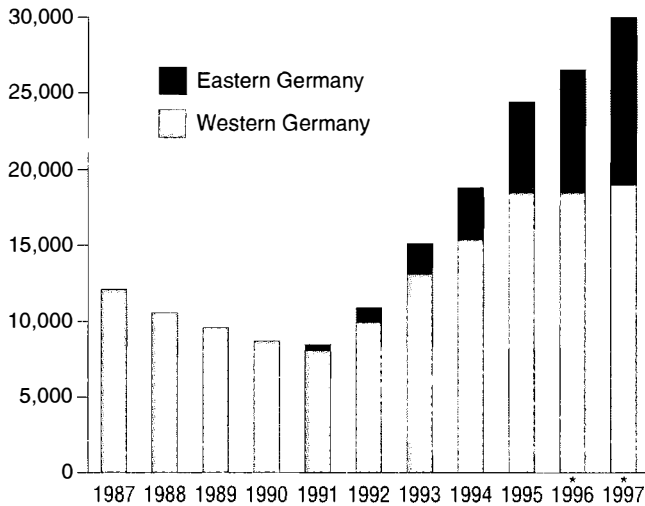
is documented by figures from the economic research agency Creditreform. In 1996, corporate bankruptcies totalled 26,500, which is 19% more than the year before. The estimate for 1997 is 30,000. For the fifth year in a row, the bankruptcy wave has reached new post-war record highs. The immediate damage of the 1996 corporate bankruptcies amounted to DM 45 billion in western Germany, and another DM 17 billion in eastern Germany. In this process, 317,000 jobs were eliminated in the west, and 170,000 in the east. For eastern Germany, this means an increase in jobs lost of 67%, compared with the year before. Almost 90% of the jobs cancelled through bankruptcies, belong to small and medium-sized companies. Since 1991, the rate of corporate bankruptcies in Germany has tripled (Figure 6).

In this respect, it is noteworthy that no other German state suffered such a skyrocketing increase of unemployment during the recent 10 years, than the supposed powerhouse of the German *Mittelstand*, the southwestern German state of Baden-Württemberg. Unlike the agricultural regions of northern Germany and parts of Bavaria, and unlike the former centers of German heavy industry in western Germany, the state of Baden-Württemberg was synonymous with medium-sized high-tech industry, in particular, machine building. However, it is exactly these categories of high-tech *Mittelstand*, as well as the most advanced sections of big industry—that is, aerospace, defense, and nuclear technology—which are showing the most devastating decline in employment. In the last five years, 550,000 jobs were cancelled in the German machine-building sector, 310,000 in western Germany, and

FIGURE 6

### Corporate bankruptcies in Germany

(number of bankruptcies)



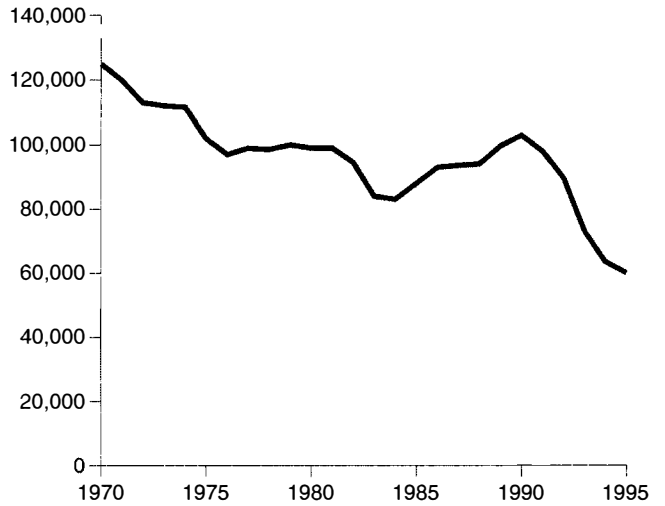
\* Estimated.

Sources: German Federal Statistical Office, Hermes, EIR.

FIGURE 7

### Employment in German machine tool sector\*

(number of employees)



\* Not including new eastern German states.

Sources: VDW, EIR.

240,000 in eastern Germany. Only 950,000 jobs in the German machine-building sector had survived at the end of 1996. That is, more than one-third was wiped out (Figure 7).

Even more dramatic is the collapse process in the German machine tool sector. Since 1990, the number of jobs in eastern German machine tool companies dropped from 100,000 to 10,000, while jobs in western German machine tool production fell from 100,000 to 60,000. Almost every week, another traditional German machine tool company is forced to file for bankruptcy. In October 1996, the Chemnitz-based machine tool producer, Heckert, collapsed, following the failure of its western German mother company Traub. Founded in 1885, Heckert became Europe's leading producer in several categories of metal-cutting machines. In 1990, Heckert still had 4,300 employees, and was perceived as being one of the most successful privatizations of former East German companies.

Shortly before Heckert, the other leading eastern German machine tool company, Fritz Werner & Niles, had collapsed. In December 1996, the well-known western German machine tool company Hermann Kolb followed. In January 1997, the Pittler group went bankrupt. In early February, Naxos-Union Schleifmittel und Schleifmaschinenfabrik AG, with 250 employees, had to file for bankruptcy. Just days later, Mikromat Werkzeugmaschinenfabrik Dresden GmbH, founded in 1869, collapsed. With 380 employees, Mikromat had been one of the largest remaining machine-building companies in eastern Germany. Mikromat is a specialist in high-speed and high-precision cutting technology, and recently constructed the first worldwide facility for overall micro-processing of steel. It collapsed, in spite of increasing orders from China,

because of the dramatic shrinkage in orders from its customers in the German machine-building and automobile sectors.

### Good-bye, Germany

The new depression in Germany is also indicated by another important factor: emigration. The yearly rate of emigration by Germans (not including emigrations by foreigners out of Germany) has reached a new post-war high—that is, 130,000 during 1996. This figure was announced in January 1997 by Christopher Layden, General Secretary of the Hamburger Raphaelswerk, a church-run advisory office for emigrants. In an radio interview, Layden warned that because of the mass unemployment and other individual economic problems, the rate of German emigration has increased for the last four years by 20,000 annually. The majority of the emigrants are relatively young. It should be noted, in this regard, that the mass cancellation of jobs is being accompanied by a dramatic shrinkage of apprenticeships in German companies, the traditional method of entry to the job market for young people. With the number of new apprenticeships falling to 400,000, there will be about 200,000 fewer apprentices by September 1997.

The federal trade union, DGB, has just declared a "state of emergency" for the apprentice system, a backbone of the German *Mittelstand* model. According to figures by the Federal Statistical Office in Wiesbaden, the yearly emigration of Germans had been very high in the early post-war phase, reaching 114,000 in 1956, but then fell to 50,000 to 60,000 during 1970 and 1988. In just a few years, this figure has more than doubled.