Germany

Strongest Economy of Europe in Depression

by Rainer Apel

The continuous rise of Germany's unemployment to 4 million, despite repeated, desperate "temporary work" and "part-time work" schemes by which the last two governments have tried to hide the problem since 1998, is the clear sign that Europe's strongest economy is in depression. Germany is drowning in debt, the worst being its "new economy" telecom sector; Germans have been hit by the steady collapse of the very widely held Deutsche Telecom stock, finished off by a spectacular stock-jobbing swindle by Deutsche Bank in early July. But it is unemployment, rising ever faster, which is the center of pressure on Gerhard Schröder's government, and Schröder's own hysterical denials of obvious reality.

It is almost certain, now, that the "Autumn of discontent" that arrived in Germany and the rest of Europe last September, with mass protests, labor strikes, and road blockades, will return punctually, also this year. And, if discontent takes to the streets, once again, it occurs against a background of bad economic news throughout the Summer—unlike last year, when most of the media still tried to portray a rosy picture of the economic situation.

During the ten days after July 31, Germany, with a work force of less than 40 million, heard announcements of planned industrial layoffs in the range of 35,000 to 40,000—about 4,000 layoffs daily. Aug. 10 saw two such announcements: 4,000 jobs to be killed by the pharmaceutical giant Bayer, and the electronic giant Siemens added another 3,000 to its previous list of 10,000 being axed in its catastrophic mobile-phone division.

The month of July, alone, saw an increase of unemployment by 104,000. A net loss of another 750,000 jobs between July and the end of the year is not ruled out by experts who are closer in touch with reality than most of the usual forecasters. And, as the big wave of layoffs in the "New Market" segment of the economy has already taken place, the new layoffs will hit the German manufacturing and construction sector, where about 200,000 jobs are greatly endangered, according to managers in these two sectors.

As of July 31, no fewer than 45,000 jobs had already been put on short-work schedules, which, in this gloomy economic situation, means that they will be axed sooner rather than later. Twenty-five percent of German firms have already advertised plans for reducing their workforces this Autumn—even in the state of Bavaria, where unemployment is the lowest, 20% of firms have announced layoffs.

Particularly bad is the situation in the German machine-building sector, the crucial engine of the nation's industry: The official statistics for June show a drop in new manufacturing contracts by 2.5% from May. Worse, the capital goods sector recorded a drop in new domestic contracts by 10.8% for June. Had it not been for a few major foreign contracts (China, United Kingdom, and Russia, for example) over the same period, contributing to an increase by 3.5% on the export markets, the picture would be much gloomier.

The development in labor corresponds to this picture: Short work, on top of outright unemployment, was significantly up in machine-building and in optics/electronics, in June. As these are skilled workers, firms try to keep them semi-employed, for the time being—without confidence, however, that the situation will improve in the near future.

Schröder's Voodoo Economics

Chancellor Gerhard Schröder and the coalition government between his Social Democrats and the Greens, are now faced with a big problem: When taking over government in October 1998, Schröder had promised to cut national unemployment by half, by the end of his four-year term. But even now, with 14 months left in his term, unemployment is at least 3.8 million, just shy of 4 million, where it stood when this "red-green" government took office. For obvious reasons, the Chancellor is embarrassed over a development that he cannot get under control, because his economic policy is incompetent. Calls from among Schröder's own Social Democrats (SPD), and from the labor unions, asking the national government for pump-priming measures to increase production, are arrogantly discarded by the government, and critics are being clubbed down politically.

On July 2, Gov. Siegmar Gabriel (SPD) of Lower Saxony state, attacked the government's budget-balancing policy as "voodoo economics." Schröder and Finance Minister Hans Eichel charged Gabriel with sabotage of the government. Some unprecedented arm-twisting was applied against Gabriel, and he has not opened his mouth since. But reality has chosen other mouthpieces: for example, an interview with Schröder, published on Aug. 9 in *Stern* magazine. When confronted by the interviewers with the new jobless figures and the question, whether he still thought he was in control of the situation, Schröder exploded: "What planet are you living on?" And soon after, when confronted with a similar question, he yelled: "Which star are you living on?"

Schröder then tried to counter with neo-liberal economic "facts": listing the economic growth rate of 3% last year, the neo-liberal tax cuts, the budget-balancing policy, as purportedly incontestable success stories of his government. Like a doctor whose patient is dying after multiple amputations, Schröder insisted that each procedure had been carried out successfully! He otherwise confessed to his incompetence, stating that Germany's present economic troubles were to be blamed on the "international economy which we are not

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responsible for." At the same time, he vehemently rejected the idea of an incentives program for the domestic economy. With this interview, Schröder revealed himself to be the "Chancellor of inaction."

That is dangerous for him, because it is an echo of what happened with his Christian Democratic predecessor, Chancellor Helmut Kohl. One year before the September 1998 elections, Kohl could find no other escape from the ugly economic reality, than to launch a costly, but inefficient, program of make-work projects. With that, Kohl managed to keep close to 500,000 jobless people "employed," and (cosmetically) out of the unemployment statistics for the next 12 months—until after the national election. It did not help Kohl get re-elected. Should Schröder try the same, Germany is three years further into the economic depression, and the high rate of job loss will outpace the "jobs" artificially created by such make-work projects.

Corporate, Municipal Debt Disasters

Among the many writings on the wall, there is also the official report on corporate defaults for the first half of this year: They have reached the highest level in the 51 years of this report's existence. Some 250,000 jobs were eliminated by corporate bankruptcies, between January and July this year.

Meanwhile, the German capital, Berlin, is buried under a pile of unpayable debt. Not so long ago, one would immediately think of Ibero-America, Asia, or Africa, to hear about a place with almost $40 billion in debt. Nowadays, one can find it in the middle of Germany. Berlin has a debt of 78 billion deutschemarks in FY2001-02—approximately $37 billion, a very dramatic debt burden for a city of 3.5 million inhabitants.

The rapid growth of Berlin's debt has to do with the global crisis in real estate speculation, which has caused the 50% drop in expected revenues from real estate development projects in and around Berlin, since December 2000. At the end of

Germany's Growing Infrastructure Deficit

While German Chancellor Gerhard Schröder vehemently rejects the idea of any substantial economic package to create new jobs, his government is even intensifying mass unemployment by cutting down infrastructure investment. A new study by the German Institute for Urban Studies (DIFU), the economic research institute of the federal association of German municipalities, emphasizes that the backlog in municipal infrastructure spending alone has risen to more than 1.3 trillion deutschemarks.

The DIFU study, which was featured at a special press conference in Berlin on Aug. 13, states that DM 929 billion will have to be invested through 2009 into the municipal infrastructure in western Germany, and another DM 413 billion in eastern Germany. **Table 1** shows the DIFU estimates of the required municipal infrastructure investments in Germany through the year 2009.

TABLE 1
Investment in Germany's Infrastructure
(Billions of Deutschemarks)

Area	West	East	Total
Energy pipelines	68.5	13.0	81.5
Water infrastructure	173.1	71.8	244.9
Roads, local transport	248.2	101.8	350.0
Social infrastructure	193.2	58.3	251.5
Municipal buildings	28.6	8.1	36.7
Municipal telecommunication	9.0	1.0	10.0
Municipal housing construction	32.1	61.7	93.8
Other municipal infrastructure	116.4	85.3	201.7
Municipal real estate	60.0	12.0	72.0
Total	929.1	413.0	1,342.1

Note that these figures do not include all the federal infrastructure, such as railways, highways, and waterways. The DIFU study explicitly attacks the "saturation thesis" of some politicians, who claim that any further investment in infrastructure today would be "unnecessary luxury."

Professor Mäding of the DIFU emphasized at the press conference that in the first 30 years after World War II, infrastructure investments were sustained at a quite high level in West Germany. Those roads and canals which were built in that period, now require investments in maintenance and modernization, otherwise they are threatened with rapid decay. In eastern Germany, there had been many decades of under-investment in infrastructure, resulting in a huge backlog, despite the infrastructure investments that took place after German reunification.

In fact, since 1992, total infrastructure investments by German municipalities have been shrinking, not least because of the transfer of unemployment costs from the federal to the local level. In 2001, municipal infrastructure investments will be DM 20 billion below 1992. In eastern Germany, municipal infrastructure investments have collapsed by 45% compared to 1992. In order to meet the infrastructure investment need of DM 1.342 trillion until 2009, spending on municipal infrastructure would have to be increased by 40-50% above current levels. Mäding warned that "a long-enduring neglect of the infrastructure stock will have severe negative consequences" for the German economy.—*Lothar Komp*

last year, the bank holding company Bankgesellschaft Berlin sailed into very turbulent waters, when its real estate branch, IBG, threatened to pull the entire holding into default, over several billion marks of uncovered loans and acute losses of several hundred millions.

Bankgesellschaft Berlin chose an insane, speculative "flight forward" response: It renamed IBG as IBAG, and moved it (with some help from J.P. Morgan experts) to the notorious Caribbean offshore tax haven in the Cayman Islands! Unreal hopes were raised that IBAG would be able to collect DM 2 billion in a short time, from interested investors, thereby relieving the Berlin holding from the obligation to write off at least several hundred million marks from non-performing real estate speculation.

But not even the many flight capital speculators from Russia and other places who frequent the Cayman Islands, showed any interest in placing their money on the bankrupt Berlin real estate accounts. The holding's problems were not just bank problems: After all, 56% of its shares are held by the Berlin city-state government, the Berlin Senate, which in FY2000-01 was already exposed to a debt of DM 66 billion. And addding to these troubles, was the decision in February by Germany's Credit Control, to look into that Cayman Islands deal, on well-founded grounds that a criminal act was being perpetrated there, at the expense of the German banking laws and of the taxpayer.

Within weeks, the entire IBAG construct collapsed, and by the end of May, it was clear that the majority shareholder of Bankgesellschaft Berlin—the Senate of Berlin itself—would collapse as well. On June 16, Mayor Eberhard Diepgen was voted out; new elections will be held on Oct. 21. Kurt Wowereit, the acting mayor, is a man of the banks: He wants to "consolidate" the debt, which, all of a sudden, climbed to DM 78 billion, according to the first official statements that Wowereit gave on the matter, late in July.

Wowereit wants to mobilize an extra DM 500 million to DM 1 billion, every fiscal year, for extra debt payments. For that, he is willing to sacrifice 15,000 jobs in Berlin's public sector, to privatize even more public property, to cut the budgets, and to sell Berlin Bankgesellschaft shares to other banks.

There is not the slighest hope for paying off any of that debt. The only way out for Berlin, is the same as for heavily indebted countries in Ibero-America and other parts of the developing sector: a moratorium on a large part of the old debt; new credit-lines for investments into the productive-industrial and infrastructure sectors; and continuous build-up of a sound tax revenue base, in the productive sectors of the economy.

This is what the Civil Rights Movement-Solidarity (BüSo), the LaRouche movement's party in Germany, has at the top of its campaign platform for the Oct. 21 election in Berlin. All other parties want to pay off the unpayable debt, leaving Berlin voters faced with a clear alternative: Survive with the LaRouche concept, or go under with the axioms and policies of the bankrupt system.

Only Orderly Bankruptcy Can Save Argentina

by Cynthia R. Rush

Fearful that Argentina's debt crisis could detonate a blowout in Brazil, or the rest of Ibero-America, International Monetary Fund (IMF) Managing Director Horst Köhler announced on Aug. 3, that the Fund had decided to grant Brazil a $15 billion credit line, while speeding up a planned $1.2 billion disbursement to Argentina.

Described by some Wall Street analysts as a way of putting a protective "fence" around Brazil, to cut it off from Argentine "contagion"—an absurd notion—the credit line is actually a pittance, given the magnitude of Brazil's economic dislocation and fragility of its $500 billion debt bubble.

Combined with the impact of the global financial breakdown, the Brazilian government's mismanagement of the ongoing energy crisis has thrown the economy into a tailspin. For the second quarter of this year, Gross Domestic Product grew only 0.8% compared to the same period a year ago, and is down from 4.3% growth in the first quarter. The national currency, the real, has declined by 22% this year, and the government continues to siphon off reserves to prop it up. President Fernando Henrique Cardoso's decision to comply with the Fund's demand for deeper austerity "reforms," in exchange for the paltry credit line, will only accelerate the rate of economic collapse.

When Argentina blows—and anything could set it off, at any moment—there won't be any "fences" to protect Brazil, or any other country from the explosion. Extending the $15 billion credit line to Brazil merely reflects the international financial oligarchy's panic over the unravelling of the global monetary system, and particularly over the growing acceptance of U.S. Democratic Presidential pre-candidate Lyndon LaRouche's proposals for an orderly bankruptcy reorganization of the world economy and creation of a New Bretton Woods system, based on protectionist policies.

The *Washington Post* spilled the beans in an Aug. 6 feature story, noting that since Argentina has always been a poster boy for free-market "reforms," its current difficulties are creating a "backlash to reform." Should the country default or devalue, "the anger and disappointment with market reforms could spread" throughout the continent, causing a return to protectionism, it nervously pointed out.

LaRouche's View Gains Ground

In remarks on Aug. 14, LaRouche reiterated that the only possible solution to the desperate global financial crisis, of which Argentina is a microcosm, is a declaration of debt mor-