German company profits explode

Ludwig Niethammer
18 August 2006

The semi-annual balance sheets of some of the largest companies listed on the DAX (the *Deutsche Aktienindex*—Germany's leading stock market index), released in August, reveal the extent of the profits bonanza currently being enjoyed by German big business. The huge increases in profit levels characteristic of the last several years have continued in the first half of 2006, despite a dramatic jump in oil and energy prices.

The figures released exceeded the expectations of many financial analysts. Champagne flowed in the bars near the stock exchanges and in the corporate boardrooms, while at the same, companies announced plans for further mass redundancies that will deprive hundreds of thousands of workers of any future.

Analysts attribute the booming profits not only to an improved world economic situation, but also to the ongoing stagnation of wages and salaries in Germany.

BMW scored a record increase in pre-tax profits of 2.5 billion euros (US$3.2 billion) for the first six months of this year. This amounts to an increase of 44.5 percent for one of the most profitable auto companies worldwide.

The giant steel concern ThyssenKrupp was able to record the best quarterly result in its history. In the second quarter, its pre-tax profit rose to 806 million euros (US$1.03 billion). This amounted to an increase of some 39.7 percent over the same quarter last year and is being attributed to strong demand and high prices for steel.

During the same period, the steel firm's net profits rose by 81 percent to 468 million euros (US$600 million)—a clear result of drastic rationalisation measures. ThyssenKrupp, which completed its merger eight years ago, has dismissed several thousand workers and has now increased its turnover by 8 percent to a total of 12.1 billion euros (US$15.5 billion).

The world's largest chemical enterprise, BASF, also racked up unexpectedly large profits and improved its balance-sheet by 1.91 billion euros (US$2.45 billion) over the half-year.

Germany's largest pharmaceutical company, Boehringer Ingelheim, increased its turnover by 17 percent to a total of 5.5 billion euros (US$7.1 billion)—principally through the sales of new, expensive prescription medicines. Its earnings before interest payments and taxes rose by more than 34 percent to 1 billion euros (US$1.28 billion).

The financial data specialist Factset JCF is predicting that companies listed on the DAX will increase their net margins by 12.6 percent, and that for companies on the M-DAX (medium-sized enterprises), an increase of 34 percent in profits is forecast.

Producing this orgy of profits—or as it is officially called, the rising "competitiveness of Germany"—are, of course, the companies' employees whose daily effort generates these immense values. However, there is also a political reason for the massive increase in profits and bonuses for managers.

Despite widespread propaganda over allegedly high wages in Germany, the economy has now witnessed stagnating wages for a number of years. Labour costs are currently increasing in Germany at the lowest rate in Europe. In 2006, wages and salaries in Europe are expected to rise by an average of nearly 3 percent; in Germany, however, they will increase by only 0.8 percent.

Since the beginning of the 1990s, the German trade unions have negotiated cuts in real wages on an annual basis, while agreeing to increased hours (unpaid) and generally opening the door for ever more intolerable conditions of work—all in the name of "defending Germany as an industrial location." For years, the trade unions have argued that only by accepting such concessions is it possible to prevent even sharper attacks on wages and working conditions.

In close co-operation with the trade unions, Germany's major companies have wiped out hundreds of thousands of jobs. These mass redundancies are currently taking place in the auto industry—at Opel, Volkswagen, DaimlerChrysler—and at telecommunications giant Telekom, and the trade unions have done nothing to oppose them.

The Allianz Company is the best example of the extreme forms this development has taken. The insurance company based in Munich increased its profit prognosis for 2006 from an original 4.9 billion euros (US$6.3 billion) to 5.5-6.0 billion euros (US$7.1-$7.7 billion). Company executive chairman Helmut Perlet proudly announced last week that the corrected estimate took into consideration redundancy payments to the 5,700 workers due to be axed in the insurance division and the 2,500 in its banking subsidiary.

The consequences of trade union subordination to the profit sheets of big business are now very evident. While many large companies have racked up gigantic profits, the constant cuts in wages have done nothing to secure jobs, nor have they led to a let-up in the drive by companies for even greater profit maximisation, which has reached new dimensions in line with the globalisation of production.

Business and industry have not only relied on the reformist trade unions. Germany's former Social Democratic Party (SPD)-Green Party government faithfully obeyed the commands of the big business lobby during its seven years in power. Those included drastic cuts in company taxation, the creation of an extensive low-wage sector, which now embraces nearly 5 million workers, and the punitive Hartz IV laws, involving sweeping cuts in welfare and unemployment assistance.

In the face of popular discontent and growing resistance to its antisocial policies, the Gerhard Schröder-led SPD-Green government responded to a further demand from the business elite and cleared the way for early elections and the assumption of power by the current "grand coalition" (Christian Democratic Union—CDU, Christian Social Union—CSU and SPD).

The regime headed by Angela Merkel of the CDU is now pushing ahead with the work of her predecessor in an intensified fashion. She relies on SPD ministers such as Franz Müntefering (labour) and Peer Steinbrück (finance) to play leading roles in enforcing further cuts in social spending.

The government is planning a new tax gift for business estimated to be worth 5 billion euros (US$6.4 billion), which, taking into consideration a recently published report, can only be described as perverse.

The federal finance ministry undertook its own investigation into company profits, and the results have just been made known. A ministry spokesperson confirmed a report published in *Die Welt* that, based on an internal government document, revealed that German companies are evading paying taxes to the tune of some 65 billion euros (US$83 billion) a year.

Companies use entirely legal loopholes to avoid paying corporate tax in Germany by shifting their profits abroad. This transfer of profits has been an accepted practice for years and was tolerated by the SPD-Green government.

According to figures from the Commerzbank, private households in Germany will be expected to pay out an additional 40 billion euros (US$51 billion) in taxes over the next three years. Eckhart Tuchtfeld, leading political economist for Commerzbank, explained with evident pleasure: "Unlike private households, Germany's companies will have nothing to complain about under the grand coalition."