The fairytale of Germany's "miracle growth"

Peter Schwarz
26 August 2010

For days, the media and politicians have raved about the German economy's "miracle growth". Federal Economics Minister Rainer Brüderle talks about an "XL boom", the chief economist of Commerzbank speaks of a "summer fairytale". The crisis, so the message reads, has been overcome more quickly than was expected; the economy has picked up again and is now entering a phase of growing employment and rising wages.

The reason for the euphoric reports is the unexpectedly high increase in GDP in the second quarter of 2010. Compared with the previous quarter, the economy grew by 2.2 percent—the biggest quarterly rise since German reunification in 1990. Experts now believe that the German economy will grow this year by at least 3 percent, far more than previously forecast.

Looking at economic data more closely exposes the enthusiasm about "miracle growth" as transparent propaganda.

The German economy only appears to be growing so strongly at present because it had collapsed so completely last year. According to the Bundesbank, despite the strong growth, "the decline in production due to the crisis has only recovered by half". Regarding exports, which mainly underpin the current growth, barely "three-quarters of the losses due to the crisis have been recovered".

The current growth is mainly a result of the surge in exports to China, which last year increased by 60 percent. German plant, machinery and luxury cars are currently selling like hotcakes in China. But experts anticipate a significant slowdown in the Chinese economy in the autumn, and even optimistic forecasts assume that German growth will not continue into the autumn. The Bundesbank estimates that the global economy will grow in the second half, but only moderately. "Accordingly, the very high export growth will slow down", it concludes.

The current growth, however, has not been reflected in workers' incomes or an increase in the number of jobs. Meanwhile, company and bank profits are rising even more strongly than turnover. Thus the 30 DAX companies expect an increase in profits of 60 percent this year to €60 billion.

The Federal Labour Agency has reported that unemployment is falling, but this is due to the enormous expansion of the low-wage sector as a result of the Hartz labour and welfare "reforms", forcing the unemployed to accept low-paid work because it is impossible to survive on the state handouts. Currently, there are 1.3 million low-wage earners in Germany, who must work in addition to their paltry welfare benefits. There are some 5.3 million part-time workers.

The result is a general decline in wage levels that has contributed significantly to the current increase in exports.

"The level of wage restraint in Germany is really unique among the industrial nations", business daily *Handelsblatt* opined on July 27. The paper praised the unions, which have fully supported this decline in wages: "With their wage restraint, the German trade unions have helped ensure that local industry has been able to almost continuously win an ever larger share of the world market".

For the companies and their shareholders, this "wage restraint" has paid off, as *Handelsblatt* estimates: employees' recompense only increased by a 11 percent in the past 10 years, a drop when taking inflation into account, whilst income from business and investment has increased by 56 percent.

This trend will continue. The unions will firmly uphold the policy of "wage restraint" in any upturn, as they have in the recession. The wage demands that they are currently tabling do not even come near to making good the losses of recent years. The unions do not shrink from deliberately dividing the working class.

Since the strength of the German export industry is based on the high quality of the goods produced, and the specialists necessary to achieve this are scarce, wages in this area cannot continually be reduced. In manufacturing, Germany has the third highest hourly wage levels—€35.60 (gross wage plus ancillary wage costs)—in comparison to the rest of Europe, while the cost of general labour in

Germany has fallen behind Denmark, Belgium, Luxembourg, France, Austria, Finland and the Netherlands, and now ranks eighth.

Whole areas not directly relevant to production (like security, cleaning and other services) have been outsourced to low-wage operations. Business compensates for these fluctuations in production by employing contract or temporary workers, who can be fired at any time. Similarly, parts of the supply industry have been shifted to Eastern Europe, where wages are only a fraction of those in Germany. For example, a company in Germany pays on average €30.90 for an hour's work; in the Czech Republic it is €9.60 and is just €2.90 in Bulgaria.

As for permanent employees, the unions have above all ensured that companies can make savings through agreeing extensive flexibility. During the crisis, some workforces have been forced to take time off against overtime they had accumulated in previous years. At the same time, the state is paying €6 billion in short-time working compensation, so that companies can retain their core workforce without major additional costs.

The unions' "wage restraint" has contributed to the emergence of a deep social divide that cuts across Germany and Europe. At the same time, German industry's export drive is intensifying national tensions in Europe and across the globe.

While Germany is conquering new export markets, the austerity measures being imposed in southern Europe (largely under pressure from the German government) have triggered a deep recession, causing the European Union to drift further apart economically.

Unlike previous years, Germany has not been able to increase its trade surplus at the expense of the remaining members of the Eurozone, where income actually fell slightly, as imports from these countries rose twice as fast as exports to them. German exports to China, Brazil and other emerging economies have grown all the more strongly.

In Paris, this has triggered concerns that the German economy could become completely decoupled from the French. The daily newspaper *Le Monde* warned that this would have "potentially disastrous consequences". It fears that France, like Greece, will have to pay higher interest rates for its state debt if the French economy falls further behind the German. The French government would then have to resort to even harsher austerity measures than it has done already.

The German export drive also places new conflicts with China and the US on the agenda.

China's strong dependence on exports is cause for concern in German business circles on two counts. Firstly, the fear remains that a slowdown in Chinese growth would hit the German economy particularly hard. The German car industry is now heavily dependent on China, where VW sells more cars than in Germany. Daimler achieved a quarter of its recent sales growth in the Chinese market alone.

Secondly, Beijing is increasingly seen as a future competitor and rival. In its latest edition, *Der Spiegel* devoted a long article to this subject. "Already, China is building an automobile and an aircraft industry, manufactures high-speed trains, builds steel mills and chemical plants that can compete for Germany's crown on the world stage", writes the magazine. High-quality German products are often only imported or built in China so they can be copied and then be mass produced there. For example, China now produces better and cheaper solar cells than Germany.

Observers also expect a reaction from the US to Germany's export offensive.

The *Financial Times* warned on August 22 that the financial crisis had destroyed the precarious balance between surplus and deficit countries. Rather than countries reducing their trade deficits by cutting their surpluses, China and Germany have further increased their surpluses. "In the months ahead, the US will be forced to choose either protection or soaring trade deficits with rising unemployment", writes the business daily. "It will almost certainly choose the former".

In fact, Germany's "miracle growth" turns out to be a mechanism for aggravating all the social, economic and international contradictions and conflicts that precipitated the global economic crisis.