Record inflation is driving mass poverty in Germany

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The consequences of the coronavirus pandemic and the sanctions imposed on Russia have led to an explosion in prices worldwide. While managers and the rich continue to pile up wealth, the working population and the poorest are bearing the costs of inflation. The result is an intensification of the international class struggle.

In Germany, annual inflation rose to 7.3 percent in March. This is the highest price increase since the Iran-Iraq war in 1981. Inflation is being fuelled mainly by the Ukraine war, which is causing prices for gas, heating oil and petrol to go through the roof. In February, the inflation rate was lower, at 5.1 percent. In some federal states the rate is even higher. In North Rhine-Westphalia it is 7.8 and in Hesse 8.0 percent.

These figures are based on initial estimates by the German Statistical Office. The detailed examination shows that the prices for food, energy and other daily necessities have risen disproportionately. For example, cooking fats and vegetable oils rose by 19.7 percent, vegetables by 14.2 percent and bread by 7 percent.

In addition, the major German supermarket chain, Aldi, and other grocery chains, which had already raised the prices of key food items in recent weeks, have announced a new round of double-digit price increases, some of which were implemented 4 April. Butter will become about 30 percent more expensive at Aldi, and other foodstuffs such as meat, sausage and dairy products will increase by 20 to 50 percent.

The prices for petrol and diesel have risen to well over €2 per litre, with the main oil companies raking in bumper profits. The *Tagesschau* newspaper reported a fortnight ago that “the surplus—that is, the sum that the companies rake in minus crude oil costs and taxes—has recently risen massively. At the beginning of February, the surplus was around 29 cents per litre of diesel, by mid-March it had risen to as much as 68 cents.” The report is based on data from the Federal Cartel Office’s Market Transparency Unit for Fuels and published on the Benzinpreis.de portal.

The price increase for heating oil was particularly drastic. Here, the price had already climbed to new highs before the outbreak of war in Ukraine, and now it has practically doubled. In March it was 99.8 percent higher than last year, in February it stood at “only” 37.7 percent. Petrol and diesel have risen by 49.1 percent, gas for consumers by 30.1 percent.

The drastic price increases hit the working population and the poorest in society particularly hard. Previously these sections of society had barely enough to live on, but after the price increases for food, daily necessities and energy, millions of workers and their families can no longer make ends meet. Often they do not earn enough to put sufficient food on the table every day for themselves and their families.

The high energy costs mean that low-income earners, Hartz IV welfare recipients, pensioners, students and basic income recipients can no longer pay their rents and utilities and are threatened with homelessness. On average, German households spend 37 percent of their net income on housing and energy, and up to 50 percent for those with a monthly household income below €1,300.

Inflation had already risen sharply before the Ukraine war. The huge sums of money used by the German government and the European Central Bank to drive shares and the fortunes of the rich to dizzying heights, while workers’ incomes fell and 20 million lives were sacrificed to the pandemic worldwide, have fuelled inflationary trends. The pandemic-related disruption of supply chains and the sanctions against Russia have accelerated this process and the working class is now being made to pay.

A crucial role in passing the rising prices on to the working class is played by the trade unions. They have already concluded wage agreements below the rate of inflation in recent years, i.e., lowering real wages. To prevent industrial action for higher wages, they have often agreed on a pay-out term of several years for the miserly deals agreed.

The unions have now reacted immediately to prevent the compensation of workers for their declining wages. In the chemical and pharmaceutical industry, the IG BCE union has simply postponed the upcoming collective bargaining process for half a year. Negotiations on a new collective agreement are not to begin until October.

As a "bridging solution," the union has agreed with the Federal Employers' Association for the Chemical Industry on a one-off payment of €1,400. This corresponds to an annual increase of only 5.3 percent, and is not part of the collectively agreed sum upon which the next wage increase will be based. "In real terms, workers are currently losing a great deal of income," commented the *Frankfurter Allgemeine*.

According to the newspaper, the deal has a "signalling effect." Other employers' associations could take the same path: "The lump sum helps soothe employees who are currently groaning under high energy prices while giving employers financial flexibility, since they are not burdening themselves with long-term wage increases."

At the same time, there are many indications that inflation is far from peaking.

According to a recent YouGov survey commissioned by Postbank, more and more people are worried about their day-to-day existence because of high inflation. According to their own statements, more than 15 percent of adults in Germany can barely meet their living costs. In a survey carried out in January, 11 percent had stated that high inflation was threatening their day-to-day lives.

Of respondents with a monthly household net income of less than €2,500, 23.6 percent now say they are barely able to meet their regular expenses due to rising prices. In January, this figure stood still at 17 percent.

"Incomes can hardly keep up with general inflation," commented Postbank Chief Economist Marco Bargel. "While wages and salaries recently rose by 3.6 percent year-on-year, the cost of living increased by 7.3 percent. The loss of real income also affects households with a middle income."

According to the YouGov survey, 53.4 percent are very worried about rising prices for goods and services. This compares to 44 percent in January, an increase of almost 10 percent in three months. Economists do not expect inflation rates to fall in the coming months. "In the short term, inflation could continue to rise from the current already high levels due to high energy prices," Bargel said.

More than 60 percent of the respondents would like to see more government support in the face of rising inflation. The "relief package" recently adopted by the German government is not enough to mitigate the effects of inflation, he said.

The "traffic light" coalition (Greens, Social Democrats and Free Democrats) has decided to lower the energy tax for three months to make petrol and diesel cheaper. Those in work are to receive a one-time energy allowance of €300 on their gross salary, and families a bonus of €100 per child on their child allowance. This is less than a drop in the ocean for workers, while millions of Hartz IV recipients, pensioners, students and the poor will be left with virtually nothing.

Volunteer food banks, which support poor people with donated food, are also reaching their limits. The number of people in need of support has doubled in some cases. In addition to the victims of inflation there are now tens of thousands of refugees from Ukraine. At the same time, the amount of food donations is decreasing because supermarkets are donating fewer goods.

Der Spiegel reports on a study by the consulting firm Deloitte, which has run through several scenarios for the future. It concludes that the war in Ukraine is already having a noticeable impact on the German economy, which will only remain manageable if the war ends soon. This is highly unlikely, however, as NATO powers are doing everything they can to intensify the war.

"If the fighting in Ukraine and the conflict with the West continue until autumn, only 2.3 percent growth and 5.1 percent inflation can be expected. In particular, persistently high energy prices and disrupted supply chains will slow the economic recovery from the corona pandemic and drive up prices," Deloitte's second scenario states.

In the event that the war lasts well into 2023, Deloitte projects just 0.6 percent economic growth and 8.3 percent inflation. This approximates to stagflation and prices levels not seen since the Second World War.

Deloitte has not calculated the effects of an immediate supply stop of gas and oil from Russia, which is now being advocated from many quarters. Such a development cannot be modelled in because there are no empirical values and little historical data, Deloitte chief economist Alexander Boersch told *Der Spiegel*. But a recession would be the likely outcome, resulting in mass layoffs and mass unemployment.

In many countries around the world, the working class has reacted to the explosion of inflation with mass protests and hunger riots, e.g., in Tunisia, Sudan, Peru and Sri Lanka, where the government has been forced to resign. All of these struggles must be united internationally and armed with a socialist perspective.