Germany: Government pulling out of a nosedive?

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A crisis was not unexpected in 2020. Many Marxists, including us, had predicted it long before the Corona pandemic, although not its historical extent. It is already far worse than the Great Recession of 2007/08.

Economic data and forecasts

In April, value added in Germany's manufacturing industry, the core sector of value-added production, slumped by more than a quarter compared with the previous month. This was the sharpest fall in monthly statistics since the series began in January 1991 and bear in mind that, by March, the decline was already 11.3 percent. The stock market experienced a rare crash from mid-February onwards, when the lockdown measures began: The DAX plummeted from its record level of 13,800 points to 8,450, only getting back to 12,560 again on 9 June. This "V-curve" is fed by speculators' expectations of a strong recovery after the deep recession, given the effectiveness of government aid packages and economic stimulus packages. In addition, companies are using the crisis to cut costs, partly by cutting jobs but, above all, through short time working.

This is one of the reasons why a wave of bankruptcies has so far failed to materialise. Another reason for optimism on the stock market is the renewed flow of money into the financial markets from the vaults and printing presses of the ECB and major central banks. Finally, investors are withdrawing funds from developing and emerging countries and placing them in the "safe haven" of, for example, German government bonds. Nevertheless, scepticism is also being voiced among stock market participants: How strong will the recovery be and when will it come? How will the car industry get out of the crisis of structural change? What will be the consequences of the intensified conflict between China, the EU and the USA and of Brexit?

In contrast to the financial crisis of 2007/08, the global economy will also shrink this year. For Germany, the German Institute for Economic Research (DIW), which has close ties to the corporate sector, expects economic output to decline by 9.4 percent in 2020 and economic growth of only 3 percent in 2021. The unemployment rate is expected to rise to 5-6 percent. After the announcement of the first EUR 130 billion for the economic stimulus package, with an estimated effect of 1.3 percent, the slump was thus estimated at 8.1 percent, still far more than in 2009.

The German government is more optimistic (2020: - 6.3 percent; 2021: + 5.2 percent). This optimism is not even shared by the industrialised nations organisation OECD, which is predicting between - 6.6 percent and 8.8 percent for 2020.

In its pessimistic forecast, the DIW does not expect a second wave of the pandemic in the autumn. According to its estimate, investments in equipment and software will be one fifth (!) lower this year than in 2019, and consumption will fall by 8.5 percent. In contrast to the last crisis, the German economy will not be able to export itself out of the "corona crisis", because, unlike in 2009, world trade as a whole shrank.
dramatically by around a third. The world market is collapsing. In addition to the economic stimulus package, the DIW is therefore calling for an investment programme of EUR 192 billion for the next 10 years. The money is to be invested in education, debt relief for local authorities, boosts for digitalisation and the restructuring of industry in a way that conserves resources and protects the climate.

The rather pessimistic scenario is supplemented by Germany's foreign trade in May. At 80.3 billion euros, it was 29.7 percent below the same month last year. Exports to the USA and Great Britain, which were severely affected by the pandemic, were particularly down. Compared with April 2020, however, they rose again by 9 percent. At a total value of 73.2 billion euros, imports were 21.7 percent lower than in May 2019.

The situation in the East

Although Eastern Germany is less dependent on exports, the economic slump there was also massive. The Dresden-based Ifo Institute is forecasting an annual average of -5.9 percent. On the basis of two fundamental assumptions, that there will be no second wave of infection and the global economy will recover, the institute expects the East to come through the recession neither better nor worse than the German economy as a whole (-6.7 percent; Saxony: -6.4 percent). Since the end of the Second World War, there has not been such a slump anywhere except in 1990, when the GDR economy was wound down and the number of people employed in industry fell by 70 percent. For 2020, it expects a drop of 1 percent and an increase of 0.3 percent next year. This is because Ifo expects many companies to become insolvent. According to the survey, 21.5 percent of the companies in East Germany's manufacturing sector had reported the situation as threatening their existence.

The Ifo Institute criticises the government's economic stimulus packages for relying too heavily on loans instead of compensation grants. In addition to the high entry barriers for the programmes, this could deter applications, because the companies would then have even higher debts if they nevertheless went bankrupt.

Looking ahead to the immediate future, the Institute is optimistic that the low point will be reached as early as the second quarter of the year. For the end of 2021, it predicts that the pre-crisis GDP level will be reached: nationwide +5.8 percent; Saxony: +6.3 percent.

The economic stimulus package: Turbocharge or burst pipe?

The German government's economic stimulus package is a "boom" - at least according to Finance Minister Olaf Scholz. No sooner had 130 billion euros been approved than the Economics Minister, Peter Altmaier, criticised the fact that there would be no new edition of the purchase premium for cars with petrol and diesel engines. The IG Metall union and works councils from the automobile industry also attacked the SPD sharply for this. Its chairperson, Saskia Esken, defended the decision to promote only future technology, that is electric vehicles. Ecologically, both are nonsense.

Instead, what is needed is a coordinated plan to phase-out individual transportation in general and to expand public transport, especially on the railways. Due to lack of space, we cannot go into further sector-specific details such as the promotion of the hydrogen strategy and investments in health care at this point. The Federal Minister for Family Affairs, Franziska Giffey, of the SPD, was as positive about the economic stimulus package as her party colleague, since families and single parents will receive a bonus of 300 euros per child. In addition, small and medium-sized companies with particularly big drops in sales are to receive 25 billion euros in bridging aid.

By way of comparison, the short time working allowance will be paid from the social security funds of wage
earners themselves, without any state aid. By contrast, the state will reimburse companies for their social contributions in the event of short time working. In addition, the Federal Government and the Länder want to compensate for the loss of trade tax revenue for the municipalities. The latest tax estimate is for a loss of 40.5 billion euros.

It is questionable whether this goody bag, together with the six months' reduction in VAT already agreed, will lead to an expansion of private consumption. In a survey, less than one in five said this would influence their likely expenditure, and two thirds even strongly denied this. Childless people will be left empty-handed anyway, and with almost 12 million employees in short-time work until the end of May, a large proportion will have to reckon with far less income than the VAT reduction and child bonus will bring in.

Because of the economic stimulus package and reduced tax revenues due to the crisis, the federal government will have to take on 218.5 billion euros in new debt this year. In addition to the 156 billion euros approved in March, the Bundestag adopted a second supplementary budget of 62.5 billion euros on 2 July. For comparison: in 2010, in the wake of the financial crisis, the figure was 44 billion. The Federal Government's debt ratio will thus rise from below 60 to 77 percent of GDP. From 2023, Scholz wants to pay off the majority of the new loans over a period of 20 years. Gesine Lötzsch, spokeswoman for budgetary policy of the Left Party in the Bundestag, complained that it was completely open who would pay the bill and renewed her party's demand for a levy on wealthy assets. Her colleague, Fabio De Masi, demanded that the suspension of the debt brake be extended, and that there should be no return to "black zero", that is, a balanced budget with no deficit. Left Party co-chairman Bernd Riexinger criticised that the billions would mainly help companies, while parents, the unemployed and care workers would hardly get anything. From 2023 at the latest, we can expect more demands that put social benefits in question.

A repair programme for the European Union (EU)

From 1 July, Germany will take over the Presidency of the Council of the EU. The focal points of its activities will be the reconstruction fund for the ailing economy and the long-term budget from 2021 to 2027. The European confederation is divided over the relationship between subsidies and real loans for the aid fund, as well as over conditions and control mechanisms. Denmark, the Netherlands, Austria and Sweden have so far generally rejected subsidies. Concrete decisions on reconstruction are to be taken at a special summit of the heads of state and government on 17 and 18 July.

After the departure of Great Britain, future relations are to be finally settled by the end of the year. Despite rivalry over geostrategic influence, especially in Africa, the shaping of cooperation with China will be a further priority. The EU does not have a unified position on this, which is likely to further delay the investment agreement that has been in negotiation for years. The controversial EU-Mercosur deal with Argentina, Brazil, Paraguay and Uruguay is also stuck for the same reason. The head of the Munich Security Conference, Wolfgang Ischinger, wants more "hard power" for the EU. In international conflicts like Libya, the EU must use the "language of power".

In view of the deep crisis of the world economy, the intensified global competition and the internal contradictions of the EU, the German Presidency will try to push forward the imperialist unification of the continent. If this does not succeed, after a year of falling further behind the USA and China, the EU is in danger of drifting apart, even breaking up. In any case, the development of the EU and the euro will decisively determine the political and economic development in Germany in the coming years.

Crisis winners - for the time being

In contrast to 2007/08, the banks have so far hardly been affected by the crisis. With the start of the
lockdown in March, new lending business picked up, despite low key interest rates, with domestic companies and the self-employed, sectors that had been weak for several years. Especially, short-term liquidity loans shot up (doubling to 7.3 percent). One of the winners is Deutsche Bank. Its margins could be expanded everywhere, including in private banking, by increasing current account fees.

Corporate clients seem to be demanding higher interest rates than before the Corona crisis. Moreover, not every company gets money. The credit conditions have been tightened in view of a possible hot autumn, when the nationwide obligation to file for insolvency is due and a flood of company bankruptcies is to be expected. The IMF warns that corporate and household debt could become unmanageable in some countries.

In mid-June, a so-called EU banking package passed its last hurdle in the Strasbourg parliament. It loosens equity capital cover, but also increases the risk in granting loans. The banking conference "Frankfurt Finance Summit" comforted its clients by saying that this time the distortions had not begun in the financial system. In addition, central bank support measures are creating a stable banking system. The thinning of the branch network, which has been ongoing for years, is continuing.

Current and last crisis: comparisons and prospects

There is no talk of a financial crisis at the present time. However, this term never did accurately describe the causes of the last recession. The US economy had already reached its depressive phase (from the IV quarter of 2007) before the investment bank Lehman Brothers filed for bankruptcy (see: Guenther Sandleben, Politik des Kapital in der Krise, p. 22f.), there was a profit squeeze before the credit squeeze! And, as we pointed out in our last 3 economic articles in this newspaper, the signs of a recession were already abundantly clear before the corona eruption. Hence, the term "corona crisis" also misses the cause of its outbreak.

Between 1992 and 2007, the share of central bank money injections in global liquidity almost doubled from 3.7 to 7.2 percent. At the same time, the share of bank loans and debt in GDP tripled. Between 2007 and 2019, the share of such injections doubled again. With the outbreak of COVID-19, the balance sheets of the 4 largest central banks increased by 3 trillion US dollars (3.5 percent of global GDP).

Given the various rescue packages, this will presumably continue until the end of the year. It has already lifted stock market prices back to pre-crisis levels. However, corporate profits experienced their worst fall since the recession of 2008/09, and the gap between fictitious capital and its real value is larger today than it was before the bursting of the dot.com bubble at the end of the 1990s. In addition, the stock boom is fuelled by the optimistic assumption of all governments that the COVID 19 shutdown will soon be over.

In May, the US unemployment rate fell but, at 13.3 percent, it was still a third higher than at the bottom of the last crisis (with part-time workers who would like to work full-time: 21 percent; with another 3 million "unclassified" people: 25 percent).

Profitability in the largest economies almost reached a post-war low. Compared to the forecasts before the outbreak of the pandemic, GDP estimates are -5.3 percent (USA) and -4 percent (euro zone) lower (under optimistic assumptions). Expectations are worse for Argentina (-10 percent), Brazil (-7 percent) and Mexico (-9 percent). With the exception of short phases (2001-2005, 2009-2010), profitability in the G7 economies has been falling since 1997 and will reach an all-time low in 2020, with only moderate growth in 2021. Moreover, during this period the growth in debt exceeded the growth in value. Together with the very low PMI index, which reflects business expectations, these figures suggest that an upswing cannot be expected in the near future.
Growing indebtedness

Michael Roberts in his blog of 29.6.2020 "Deficits, debt and deflation after the pandemic" estimates the extent of the rescue packages and fiscal programmes of governments for wage replacement benefits, short-time work benefits, credit and support measures for companies, the health sector and other public sectors in the form of new government debt, at 5-6 percent of GDP worldwide. In addition, there is roughly equal spending on guarantees and other credit-supporting measures for banks and companies. These fiscal and monetary stimuli are thus already more than twice as high as in 2008/09!

In the largest economies, government budget deficits will triple in 2020 compared to 2019 (10.7 percent; USA: 15.4 percent), breaking all negative records of the last 150 years including two world wars (122 percent of GDP; 62 percent in dependent economies)! Can this situation continue when the lockdown ends, whether the pandemic dies down or not? This time, governments and analysts are not talking about having to get finances "under control". This in itself is a sure sign that the public sector alone should bail out the private capitalist sector at any cost. If, apart from servicing the interest on debt, public expenditure rises faster than tax revenue, this means that the interest burden will increase, even if the interest rate is very low. Even now, the servicing of public debt in the large economies amounts to 10 percent of tax revenues. Government spending on the Keynesian model can therefore only replace a lack of private consumption and investment for a short time. That is why they must be reduced at some point. In the last 30 years, printing money to cover the payment deficit of the USA has even caused a 25 percent loss of parity for the world's reserve currency, the US dollar.

After COVID-19, it will be mainly corporate debt that is the decisive factor. The crisis started with a supply shock (standstill of businesses), followed by a collapse in demand (households cut back on payments, companies cut back on investments). But a third sword of Damocles hovers in the air: the financial crash. According to the IMF, private and corporate debt was already high at the end of 2019. In the last two months, questionable debt in the USA has risen by 161 percent to more than half a trillion US dollars. In April, companies were unable to raise a total of USD 35.7 billion in bonds and loans due. In 2020, bankruptcy filings have already overtaken those in every full year since 2009.

Rising public spending and deficits for crisis programmes will not only increase the share of unproductive spending at the expense of public services and investment, resulting in social welfare cuts, but will also put the capitalist sector in a quandary because the drastic public demand for credit will make the private sector more expensive. If governments finance their spending with central bank money, sooner or later the spectre of inflation will return.

Does the example of Japan not show the opposite, with government debt to GDP: 250 percent; central bank share 75 percent? The M2 money supply in the national economies is growing by 25 percent a year, but prices are hardly rising at all. This is because hardly any of this money is spent on consumption and investments, but rather on debt repayment, fictitious capital (financial investments) and hoarding. Inflation does not occur because hardly any new value is created. When the lockdown is lifted, profits and wage payments will increase. Due to the low profit rate, economic growth will be weak. If the central banks continue to pump money and credit into the cycle, prices will rise. Roberts estimates at 3-4 percent - bad for real wages, which have already suffered from the crisis. The sheer weight of the total debt will strangle the recovery and fuel inflation and interest rates. The danger of corporate collapses, financial crises and inflation is increasing. The stagflation of the 1970s would be back.

Prospects and demands for resistance

During the last crisis, in 2008/09, all capitalists agreed on the first act (bank bailout). In the second act,
differences emerged between money capital (especially banks) and functioning capital (especially industry): the latter insisted on loosening credit to its companies at low interest rates. In the third act, the aim was to prevent individual company bankruptcies.

While Opel could be rescued with massive concessions from the workforce, the trading group Arcandor (Karstadt/Quelle) went bankrupt. In the first case, trade unions, works councils and bourgeois workers' parties (SPD, DIE LINKE) stood behind capital and government, in the second on the side of industry, in the third on that of "their" companies. In general, class struggles broke out against the austerity programmes, especially in Greece and France, when Keynesianism was switched back to neoliberalism to pay off the state debt.

Despite the deep proletarian leadership crisis, anti-crisis alliances appeared on the scene in Germany from 2009 onwards, which later showed solidarity with the struggle of the Greek working class in particular, and the New Anti-Capitalist Organisation NaO was formed in 2013. This was a significant and correct step forward, which could mobilise trade unionists as well as the radical left. Today, even the "radical" left is hesitating to form anti-crisis alliances, despite some exceptions. This is probably due to the defeat of those earlier class struggles, which had strategically negative effects on the European labour movement, as well as to the restrictions imposed by the lockdown. That is no excuse!

Once again, the reformists have nothing worth mentioning to oppose the course of capital and government. Anja Piel (DGB-Bundesvorstand; in the New Germany, 23.6.2020) is full of praise for all government measures and even includes the short-time working allowance as if it was a gift from the state and not a seizure of the workers' funds. She only laments the relaxation of the working time regulations. DIE LINKE proves to be a left-Keynesian model force in its demand for the abolition of the "black zero". None of them want to make capital pay for the crisis caused by its system. The unions at Lufthansa, above all UFO, side with the boss, Carsten Spohr, even though the state, as a silent partner, is content with a 20 percent percent share of votes on the supervisory board for a sum of 9 billion euros, for which it could have bought the airline twice - without any guarantees for jobs or collective bargaining standards.

However, the individual employees who demanded the nationalisation of the airline during the protests, give grounds for hope. It is also to be expected and hoped that the class struggles will increase and become more radical, as they did from 2010 onwards, when - as we have tried to show - the triad of company collapses, financial crises and inflation raises its head. But, for this to happen, the extreme left and the VKG must not wait, but act. Take your marks! Build up an anti-crisis alliance and show solidarity with the employees of Galeria Karstadt-Kaufhof and Lufthansa, including subsidiaries, now, without sharing their illusions in the social partnership and their reformist leaderships!

For this we propose the following demands:

We will not pay for the pandemic or the crisis!

- Free health care for all! Continued payment of full wages instead of short-time work benefits! Minimum income of 1,600 Euro for all unemployed, pensioners, students and the sick!
- No billion-euro gifts for the corporations - massive taxation of assets and profits! Expropriation without compensation of banks and big business under the control of the employees!
- Abolition of camp systems and racist asylum laws: Open borders and citizenship rights for all!
- Abolition of all restrictions on the right to demonstrate, assemble and strike! Counter racism and fascism - build self-defence!
- Support all strikes and struggles against dismissals, wage robbery and housing evictions! International
solidarity instead of isolation!

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