

EIR Economics

Germany Cannot Survive Under the Euro System

by Lothar Komp

Helga Zepp-LaRouche's call for Germany to return to the deutschmark (see International) has sparked broad debate about the question of national currencies. This article shows how the euro has deliberately destroyed the German economy, which is vital to Europe's well-being.

A strange divergence now characterizes the German economy. On the one hand, the export volume moves from one record to the next. In 2004, German exports, mainly composed of high-value capital goods, rose to 731 billion euros. This was significantly higher than the export volume of any other country. The German export surplus rose to the all-time record of 157 billion euros, which is more than those of Japan and China combined. Other important industrial nations have only slight surpluses, or even run huge deficits. Thus, if one thinks that products "made in Germany" are not competitive on international markets, because the wages are too high, or because the state is absorbing too much in tax revenues and social costs, this is patently absurd.

On the other hand, the domestic economy is shrinking. Retail sales are stagnating. The construction sector is in the worst and longest continuing crisis of the post-war period. And the unemployment figures are higher than ever.

How does this fit together? Naturally, one can note that German exports contain a permanently increasing share of components that have been produced abroad. For example, in every "German" automobile today, there are a good deal of Czech or Hungarian parts. However, this is the case for most export goods worldwide. What is decisive is something else: Since the mid-1990s, the domestic German economy has found itself in an artificially created emergency situation, which in several sectors has already reached the stage of deflation or depression.

The instrument for this is the European Monetary Union. The implementation of the EU's Maastricht Treaty and its later revisions has led to the self-reduction of economic activity. An important issue to mention in this respect, is the maintenance of physical infrastructure, whose quality and density decisively affect the productivity, and with it, the wage levels, of German jobs.

Because the Maastricht Treaty limits the state deficit to 3% of GDP, without any consideration of the composition of state expenditures or the current economic situation, the Federal government, the states, and the municipalities are no longer in a position to secure the condition of infrastructure. In municipalities, which account for two-thirds of infrastructure expenditures in Germany, investments have collapsed by one-third during the last ten years. An enormous backlog in infrastructure investments has been built up, which in the case of municipal infrastructure alone, amounts to roughly 650 billion euros, according to official estimates. If this deterioration in physical capital is allowed to continue for a few years more, every sector of the economy, including exports, will be hit, resulting in a further loss of millions of jobs.

Even in times of the most serious economic crises, the hands of the Euro-Zone members are tied. In Germany, the "Law for Promotion of Stability and Growth of the Economy," better known as the "Stability Law," was voted up in 1967. According to this law, the government and the Bundesbank (central bank) are bound to consider the "Demands of the overall economic balance." Four elements of this balance are explicitly emphasized: the "stability of price levels," a "high employment level," "balanced foreign trade," and a "steady and appropriate economic growth."

As soon as acute disturbances appear, which today are evident in employment and growth, the government and the

Bundesbank are legally bound to introduce corrective measures. This includes as a central element the increase of public expenditures, and, above all, “particularly important investments of the Federal states and municipalities”—that is, infrastructure investments. With such investments, it is possible to rapidly boost overall economic activity and create many new jobs, while the new infrastructure will have a long-lasting effect to improve the productivity of the economy as a whole.

Although the Stability Law is still in force, and should actually be immediately applied, it has been ignored by German governments for years, as it collides with the regulations of the Maastricht Treaty that permanently limit the maneuvering room of governments and explicitly forbid the Bundesbank and European Central Bank from participating in this kind of activity.

No Prosperity Without Sovereignty

This self-gagging of the European Monetary Union has often been described. Now, someone might raise the question whether a “reform euro” project, a kind of “euro without Maastricht” could be implemented. Isn’t it practical for business and households to be able to pay in the same currency, in France or in Italy, and perhaps soon everywhere in eastern Europe? The answer, and particularly from the standpoint of the German economy, is *no*. The neo-liberal and anti-democratic structure of the monetary union is inseparable from the fact that this monetary union is established without a political union, a union of governments.

Only governments are duty-bound to respect the common good. When governments hand over the sovereignty of their monetary policy—a key tool for overcoming economic crises—to a joint, supranational institution, which, because of expected petty jealousies, is to operate rigorously according to a set of fixed rules, a monstrosity will always be the result.

No less important are the distortions which a common currency necessarily creates, when it forces national economies of dramatically different levels all to adopt the same monetary policy. Compared to Ireland, Portugal, and Spain, and even more so compared to the Euro-candidates in eastern Europe, Germany is a country with high wages and a high level of social security. This is possible, and tenable, only as long as a certain level of productivity is maintained. Important preconditions for this are high expenditures for education, health, and physical infrastructure.

From the standpoint of a European-wide corporation, this whole package of German productivity thereby produces two important characteristics. On the one hand, there are relatively high taxes, the price paid for the high standard of infrastructure; on the other hand, there is a long-term stable currency and lower interest rates than in neighboring states. When the national currency was eliminated, this advantage was suddenly taken away, but the relatively higher cost level still exists. As a result, investments have been booming in countries like Ireland and Spain, and untenable speculative bubbles

have arisen in the real estate markets there. In the last eight years, real estate prices in Germany have fallen 0.2%, whereas in Spain and Ireland they have exploded by 145% and 192% respectively.

Germany currently faces deflation and depression. After the complete transfer of sovereignty in currency matters (exchange rate, interest rates, unorthodox financing of investment programs) and the far-reaching limitation of sovereignty in budget matters (Maastricht criteria, Stability Pact), there is only one of the classical tools left for ensuring employment: cutting wages. In this way, the common currency produces a constant pressure to adapt wages and social security to the lowest level that can be found within the monetary union.

Nominal wages in Germany, contrary to most other members of the Euro-Zone, have been frozen for years. Wages per output, when adjusted for inflation, have actually been declining for years. Full-time jobs requiring social insurance have been transformed into part-time jobs with little or no social security coverage, so that the social security system, in addition to the effects of mass unemployment, has fallen into difficulties. According to the latest monthly report of the Bundesbank, from 1991 to 2004, almost 6 million full-time jobs, one fifth of the total, were lost.

Deliberate Destruction

This is not fate; it was a *desired* result. On July 20, the pro-euro chief economist of Morgan Stanley Europe, Joachim Fels, declared in a public meeting in Frankfurt that Italy, like Germany in recent years, must now finally begin a long-term wage-cutting “cure.” Only then could Italian exports get back on their feet. This, he said, is the way for countries to adapt to the monetary union. Naturally this could devastate the domestic economy, but that is simply the inevitable price of adaptation. The entire Euro-Zone must implement tough “reforms” as fast as possible, Fels said. Otherwise, the monetary union will fall apart in a few years; the probability here is 30%.

Especially in the City of London, scenarios are being discussed for the imminent collapse of the European Monetary Union, as a result of its internal tensions. The British bank HSBC, Europe’s largest, entitled its July report “European Meltdown?” It suggested that Germany, but also Italy and the Netherlands, leave the Euro-Zone as soon as possible. The special reasons motivating the City of London are secondary. What German right-wing radicals or Italian separatists think about this, is irrelevant. The technical and legal obstacles to abandoning the euro are solvable. Even French central bank governor Christian Noyer acknowledged that one could not prevent any country from exiting the Euro-Zone.

One thing is decisive: An industrial nation, which is to play an important role as a worldwide leading supplier of high-value capital goods, and, therefore, has to maintain a high level of infrastructure and living standards, necessarily requires full sovereignty over its economic, financial, and monetary policy.