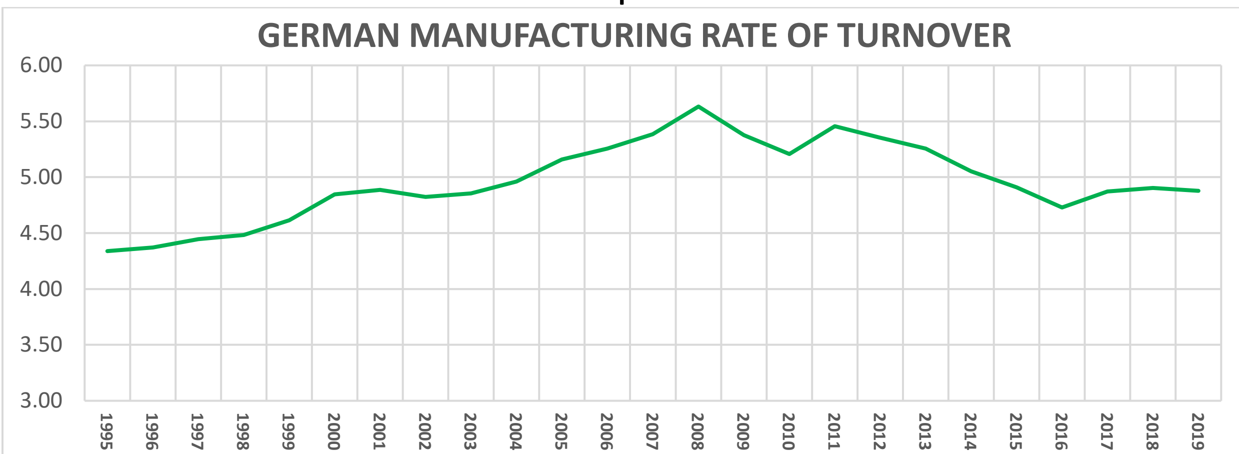
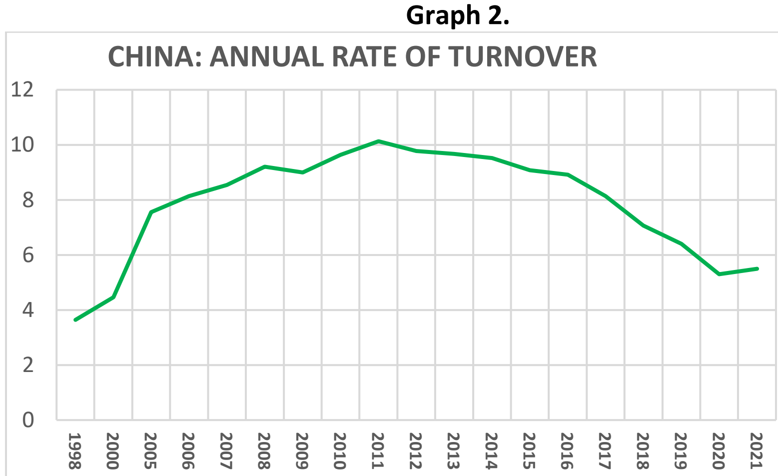
PRELIMINARY INVESTIGATION OF GERMAN PROFITABILITY.

We will begin by examining and comparing the rate of turnover of German industry from 1991 - 2019.

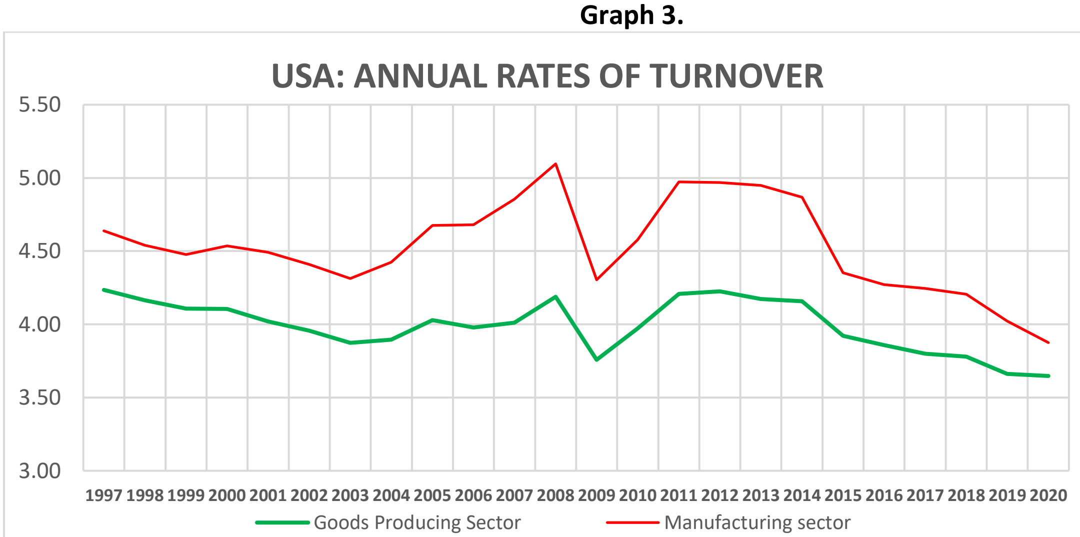
Graph 1.



Graph 2.



Graph 3.

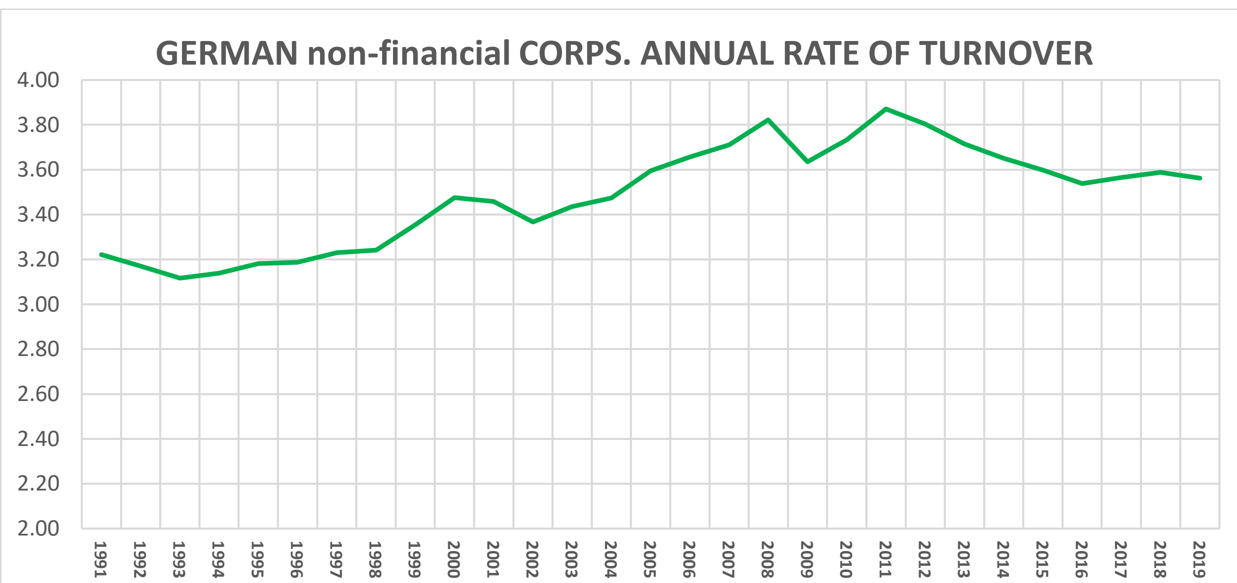


I have adjusted the size of the above graphs so the years match. This reveals that the German rate of turnover, having recovered from the financial crash in 2008, peaked in 2011. This coincided with the steam running out of the Chinese investment boom which had dragged the world economy out of the rut dug by 2008. This is significant because it coincides with falls in the rate of turnover in both China and the USA. However, the fall after 2011 in turnover is shallower in Germany than it is in China and the USA. The German fall coincides with China substituting German industrial goods for its own locally produced goods, setting off tensions between German industrialists and their Chinese counter-parts. It is also worth noting that as the US was the epicentre of the financial crash the fall in its turnover is much more pronounced than in the other two countries. And whereas both German and US turnovers peaked in 2008 before recovering to a lower peak in 2011, this was not the case for China which fell consistently.

Clearly this inflection point in 2011 is of major significance. It marked the deceleration in Chinese investment in the face of falling profitability. No other country was willing or able to take up the reigns of investment. The centrality of the Chinese economy to the world economy could no longer be denied. And as Chinese investment decelerated weakening demand globally, production everywhere slowed down.

In this article we will be dealing mainly with German non-financial corporations where manufacturing plays a bigger role than it does in the USA, but not in China, which has become and remains the workshop of the world despite the US's best efforts to sabotage this. Accordingly, I have also prepared a rate of turnover for non-financial corporations. Unlike the BEA, the Federal Statistical Office Germany provides Gross Output data for non-financial corporations allowing a specific rate of turnover to be estimated for this sector. This data is found in the Statistical Office's '*sector accounts annual results'*. Most of the data found in the accompanying spreadsheet has been transplanted from these accounts.

Graph 4.

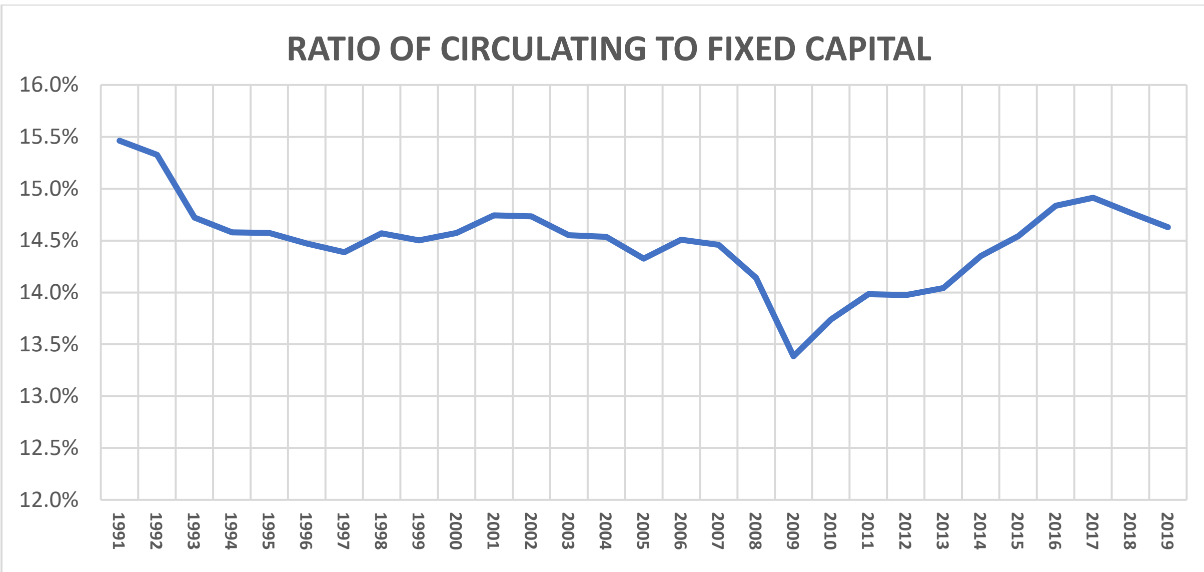


We note that the rate of turnover, because of the inclusion of unproductive service companies, is only about three quarters that found in manufacturing alone. While similar in most instances to the German Manufacturing Sector in terms of profile, the rate above shows a higher peak in 2011 bringing it closer to the one found in the USA.

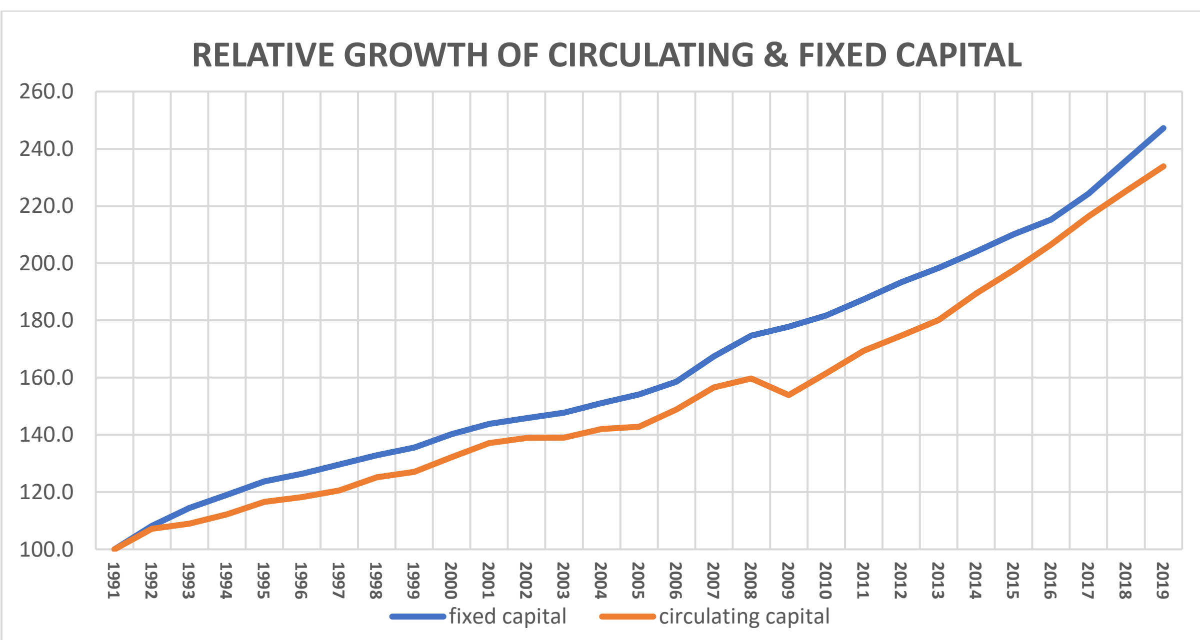
The ratio of circulating to fixed capital.

The rate of turnover enables an estimation of the size of circulating capital to be made. The formula used is *annual gross output less the net surplus, yielding the cost of gross output divided by turnover*. Here we see a similar pattern found in the USA where the ratio of circulating capital rises post-2008. This is both a function of a deceleration in the rate of fixed investment coupled with an acceleration in the rate of hiring labour cheapened by the expansion of the reserve army of labour courtesy of the financial crash. It is also worth pointing out that the ratio is lower than in the USA because of the higher density of industry.

Graph 5.

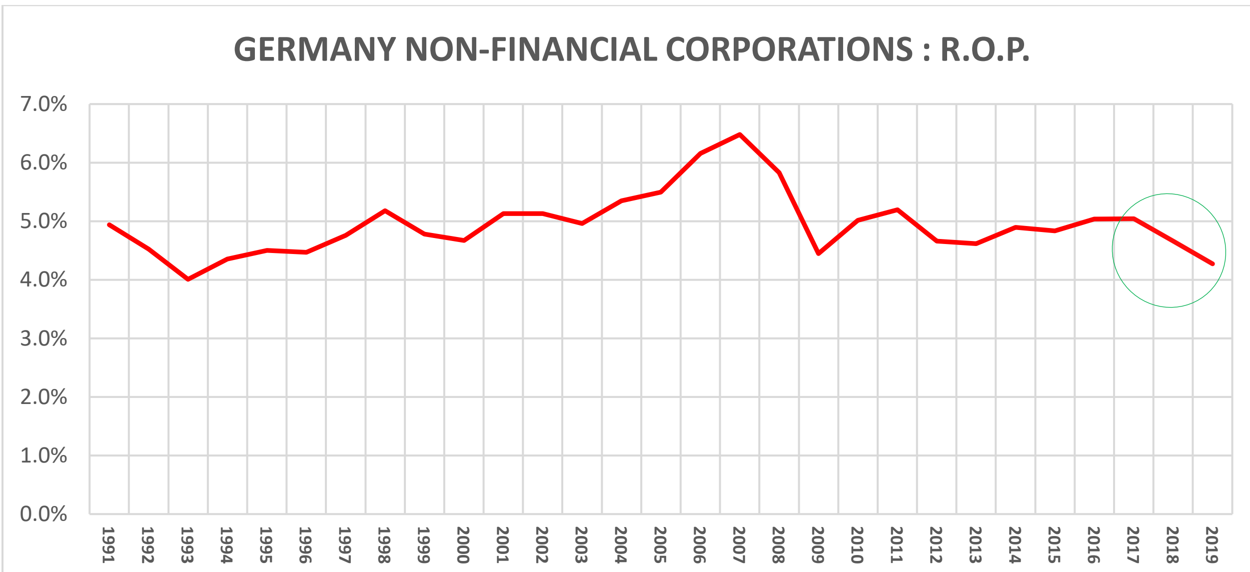


Graph 6.



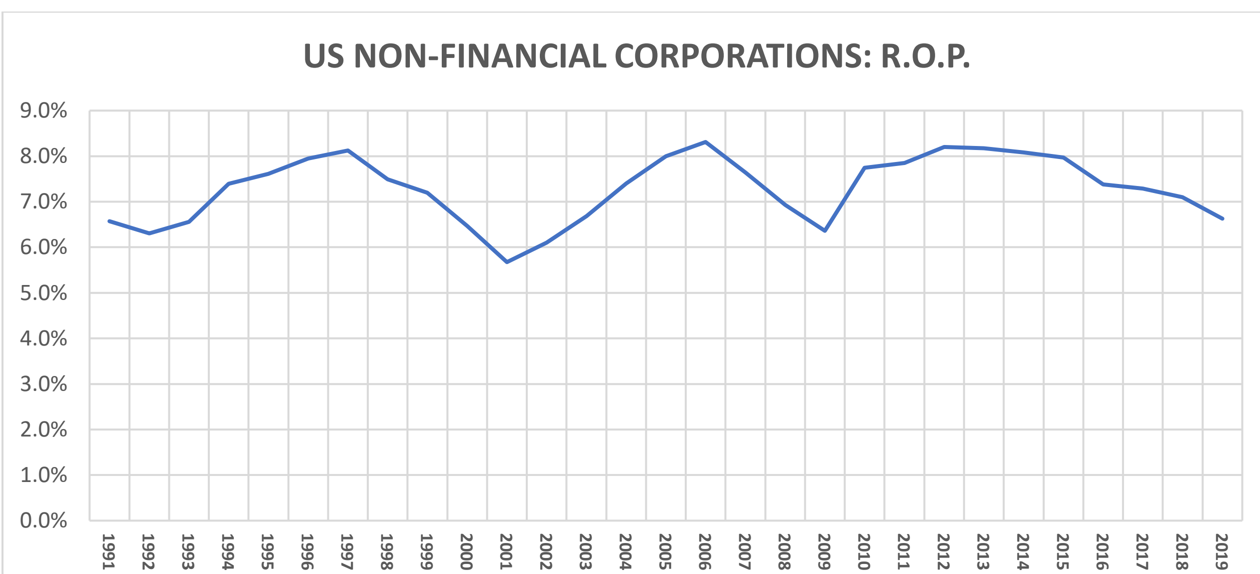
Between 2017 and 2019 the ratio falls from 14.9% to 14.6%. The reason for this is found in Graph 6. It is associated with a higher rate of investment. Seems the Trump bump included Germany, and in common with the USA, that temporary rise in fixed investment was rewarded by an immediate fall in the rate of profit as can be seen in Graph 7. (Methodology used for the German rate of profit: net operating surplus divided by both fixed and circulating capital. Because the net operating surplus was used rather than pre-tax profits as in the USA, the rates of profit between Germany and the USA are not strictly comparable.)

Graph 7.



By 2019 German profitability has collapsed to levels last seen in 2009 and also to the levels in the 1990s prior to globalisation proper. In the case of the USA the fall was more sequential. I have not included China, but once again, the Chinese economy saw the same fall in its *complex rate of return*, more or less concurrently with the other major economies.

Graph 8.



The German economy did not see the same recovery as the USA in profitability post-2008. This is likely due to a greater rise in fictitious capital in the USA generating extra consumer demand together with the waning benefit to German industry from the industrialisation of the Chinese economy.

Discussion.

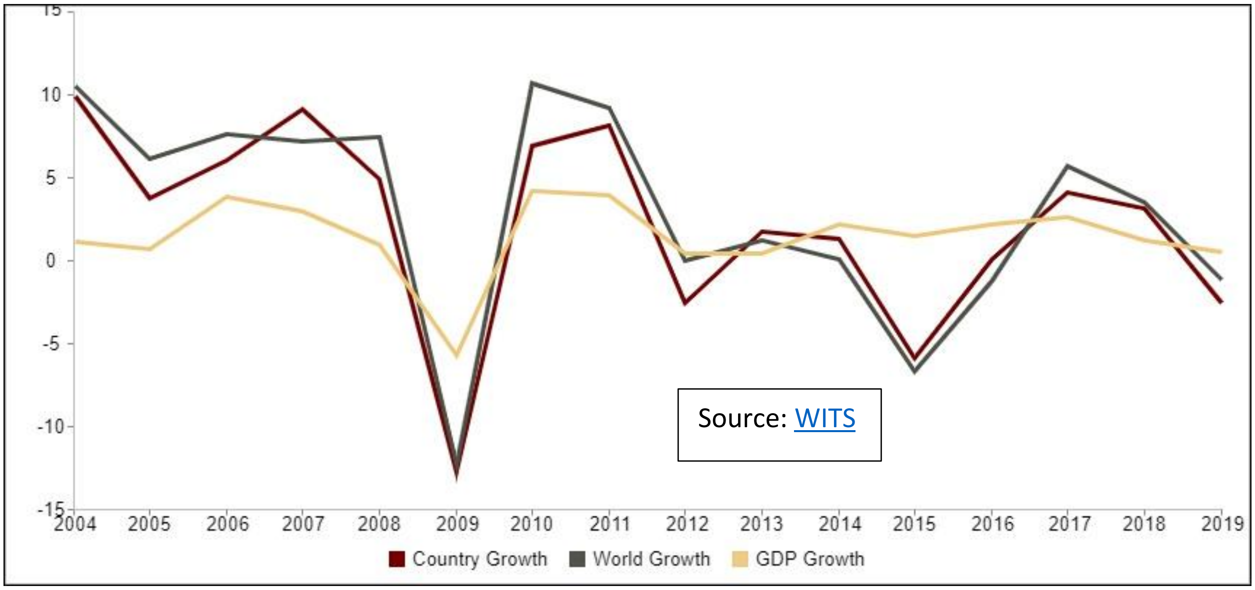
No attempt was made to assess the rate of profit in 2020 and 2021 because of the interruption and distortion caused by the pandemic. At a later date profitability will be updated.

A further analysis of the German economy is undertaken here. Unusually for a major economy, even China, Germany is highly dependent on its foreign trade. Its average for the second half of the second decade this century was over 45%. Interestingly from 2011 growth stalled and exports as a share of GDP remained in a narrow range of 2% of GDP. By 2019 it was no higher than in 2011. There is a definite connection between the plateauing of the rate of turnover at this time and the international division of labour. The plateauing of trade (exports) showed that the deepening of the international division of labour began to lessen because China was broadening and deepening its economy.

Graph 9.

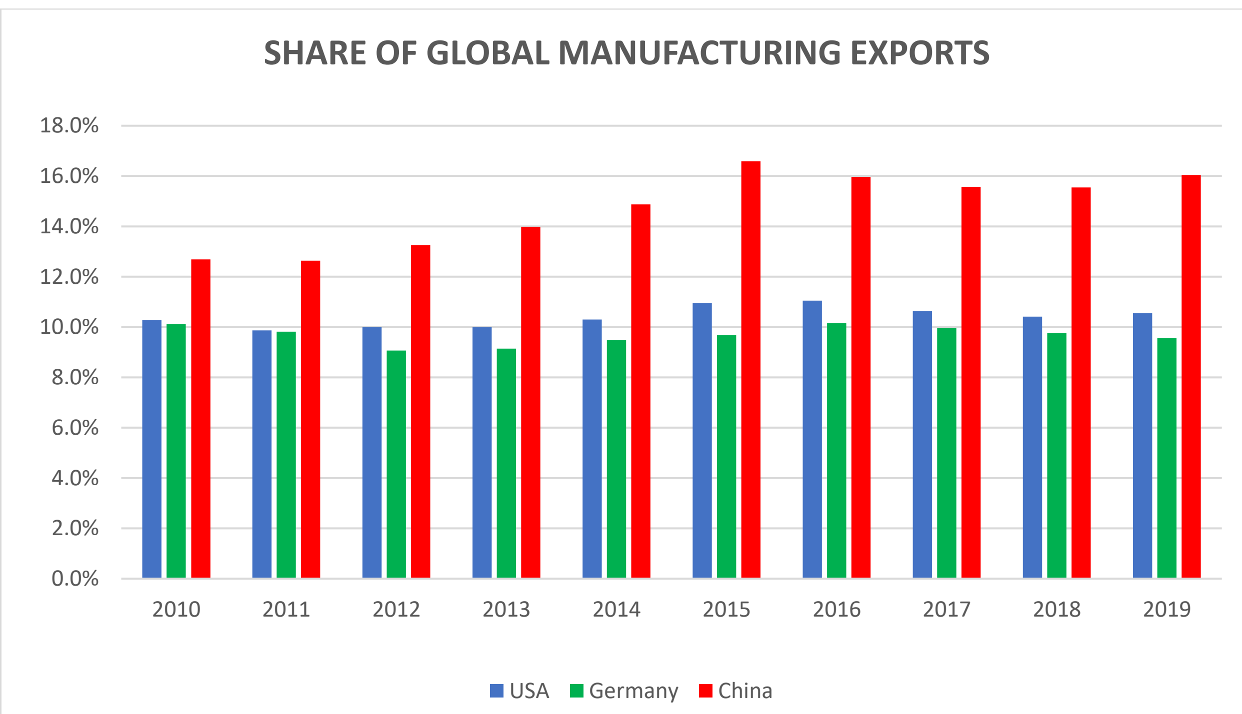
The graph below confirms what we have seen in Graph 7 circled. There was a definite slowdown in the period following 2017. The volume of both German and global exports fell, and given the weight of exports for German GDP, that fall depressed German GDP growth.

Graph 10. (Global exports volume changes)



The final graph shows Germany's share of global exports of manufactured goods. While it fell slightly compared to the USA it fell sharply compared to China. China was the real gainer. From being 20% bigger in 2010 relative to Germany and the USA, by 2019 it was 60% bigger. And that gap has grown over the period of the pandemic. Today, China dominates world trade and as well as manufacturing production, being a bigger manufacturer than Germany, the USA and Japan combined.

Graph 11.



(Source: World Trade Organisation page 111.)

What is less well known is that Germany has a larger trading relationship with China than it has with the USA and it is growing much faster as well. Which makes it even harder to understand why it meekly followed the USA into the Ukraine. Although one in seven of the polled German multinationals by KPMG admitted that China was their biggest foreign market for trade and profits, it was their fears about the rise of China which dominated their views. 47% of those polled in 2019, compared to 35% in 2016, felt Chinese firms were "likely" or "highly likely" to become *innovation leaders* (Figure 43). It could very well be the case that German multinationals view competition from China to be a greater threat to the standing of German industry than that posed by the USA.

Conclusion.

This is the first part of an analysis of Germany. For the first time an actual rate of profit for that country was constructed. It showed trends in profitability and turnover shared by its two biggest competitors. It also showed that by 2019, prior to the pandemic, the German economy like the global economy, was mired in stagnation. This is a vital observation which feeds into the current prospects for the world economy. A profitable vibrant world economy with ample reserves would have weathered the pandemic better and it would have emerged in better shape to deal with the residual problems caused by this unnecessary pandemic. Instead the fracturing of globalisation from the middle of the last decade due to its falling profitability, amplified by the pandemic and intensified by the war in the Ukraine, means that the possibility of a global crash is now becoming a probability.

Though Germany shares many common problems with its competitors it has added problems which makes it the most vulnerable of the three to a slump. The loss of Russian gas and oil, and its newfound dependency on much more expensive US supplies, means that it is paying the highest Producer Prices of the three. This makes it less competitive and at a disadvantage in the world market. Not a good place for the world's third largest exporter to be in. In addition with a war in its backyard it is the most susceptible to any fall out from this war. The Germans may be good at making cars, but it seems that when it comes to strategic decisions, such as not baiting Russia with NATO and allowing a war in Europe to break out, the EU has yet to grow up. This war has given new meaning to NATO's war cry: to keep the USA in Europe, Russia out and Germany down.

Brian Green, 4th May 2022.