Report from Bonn by Volker Hassmann

Huge debt buildup in Germany

Has Germany has gone too far into debt following reunification? Not necessarily, provided it gets serious about infrastructure.

By the end of this year, Germany's public indebtedness will have reached the staggering sum of 1.33 trillion deutschemarks—almost $2 trillion according to current exchange rates. This represents a growth in public indebtedness of 32% over the previous year, and if this trend continues, financial experts predict it will have reached DM 1.5 trillion by 1993, and DM 1.9 trillion by 1995. In the coming year, it will be 50% the size of Germany's expected Gross Domestic Product.

This debt burden itself is already gobbling up large amounts of new loan money in order to sustain it. For the first time this year, interest payments will constitute the second-largest item in the German government's budget, and by 1995 banks will be raking in 20% of all federal tax revenues. Some people are speaking of national bankruptcy and debt mountains; and this powerful debt rocket doesn't even include the red figures of Germany's postal and railway systems. Indeed, the flood of new figures about indebtedness makes it difficult for citizens to have any idea what debt is due when, and it is doubtful whether many German politicians have much idea, either.

In itself, it's not a sin for a country to incur national debt. On the contrary, under certain circumstances—namely when that debt is tied to productive economic activities oriented to the production of physical goods—national credit creation can be a blessing for economic health and physical growth. However, if the state merely lends out money so that it can be re-loaned for purchase of consumer goods, without investing at least an equal portion into future-oriented projects, infrastructure, etc., then the nation is in effect stealing from its future generations, since the latter will have to pay back the debt without enjoying any of its benefits.

Judged from this standpoint, the current financial policies of the ruling coalition in Bonn are actually built on sand. Since reunification, all the monetary expenditures have created little actual economic substance. Only about one-third of the DM 150 billion which are to go to Germany's new states each year well beyond the year 2000, have gone, for example, into infrastructural measures such as expanding roads, railways, and communications systems, or in bringing the educational system up to par. The remaining two-thirds of these funds—most of it coming directly as loans from Bonn—are going into private consumption, primarily into social services such as unemployment compensation, social security, child-support money, and housing and education assistance. The fact that the number of such people forced to rely on such state aid is relatively larger in the new eastern states than in the west, is the result of Bonn's failure so far to use the wonderful opportunities opened up by the collapse of communism, in order to rescue the country from the shackles of the equally evil policy of free-market dogmatism. It now looks like the new eastern states will be dependent on these welfare funds for a long time to come, to the tune of DM 1.6 trillion over the next 10 years.

What the coalition partners in Bonn lack in economic competence, has been compensated for by a considerable degree of acrobatic skill in keeping the full extent of the crisis away from prying eyes. More than half of the federal budget is currently hidden in a number of so-called shadow budgets:

- The Credit Transaction Fund, created according to Article 23 of the Reunification Treaty, includes not only former East Germany's DM 28 billion foreign debt, but also has a DM 70 billion fund used to settle accounts with east German banks in the wake of the currency conversion.
- The debt of the Treuhandanstalt, the entity responsible for disposing of the state-owned assets of the former communist state, is projected to be DM 250 billion by 1994, against assets of only DM 40-50 billion.

All this goes on top of the deficits in Germany's national, state, and municipal budgets, which in 1991 amounted to DM 110 billion—almost 4% of GDP. Municipalities in west Germany are now reaching their limits of indebtedness.

With the debt bomb ticking, politicians are becoming nervous. Chancellor Helmut Kohl, who showed so much leadership in bringing about Germany's political unity, is failing to show the same decisiveness in the economic realm, and his calming words about the coming recovery in the east are not addressing the nub of the crisis. The mood among many responsible circles was summed up recently by Helmut Geiger, president of the German Association of Savings Banks, when he issued a call to "Germany's political class" to finally acknowledge the seriousness of the situation which has arisen in the east.