Report from Bonn by Rainer Apel

Fiscal constraints block employment

Continuing to pay the debt leaves no money for investment in housing and infrastructure projects.

It was a "catastrophically wrong decision" by the cabinet of Chancellor Helmut Kohl to propose, on July 5, drastic budgets cuts in the range of DM 25 billion (roughly $16 billion) for FY 1996, Christian Roth of the German construction industry association charged in a Bonn press conference on July 7. The cabinet proposal to cut the Transportation Ministry budget by 4.4% will, Roth warned, make delays in public sector construction projects even worse.

Roth said that already before the new cuts were announced, only an estimated 20% of the entire national "Transport Infrastructure Projects German Unity" program had been launched, so that now, an investment volume of DM 48 billion is blocked, and will remain blocked for some time, should the FY 96 budget be okayed by the parliament in autumn.

At the same time, spokesmen of the municipalities in the five eastern states reported that the official guideline given out by the federal government to seek less ambitious and less expensive projects, will mean that only 15% of the DM 10 billion municipal development program will be used in FY 95—for lack of concrete projects. This means that Finance Minister Theodor Waigel will "save" DM 8.5 billion, which will not have to be transferred to the municipalities in the east.

A similar picture exists in the state railways (DB). There, the DB could not invest DM 2.3 billion that is listed in the official plans for construction for 1994, because a combination of fiscal, ecological, and bureaucratic obstacles blocked projects, including the launching of work on the high-speed railway line from Cologne to Frankfurt, before FY 94 expired. Also in this case, Waigel "saved" DM 2.3 billion, which he otherwise would have had to transfer to the DB.

Given Waigel's obsession with austerity, these alleged "planning failures" on the municipal and other levels are now being taken as a pretext for drastic budget cuts.

In its draft for the FY 96 government budget, Waigel's staff proposed that child support, a direct benefit and aspect of postwar social policy which the state is obliged to pay, be transformed into a tax rebate that is handled by the revenue services—which are a municipal institution. This means the government would "save" DM 21 billion in the coming fiscal year, while the municipalities—which already suffer from immense indebtedness that keeps increasing, since tax revenue from industry is low because of the economic depression and the failure to attract new investments—would have to collect that money to continue child support. This money would have to be collected from new municipal taxes on consumption of public services, such as energy and water supply, or garbage removal.

Already, the so-called "extra expenses" are becoming a "second rent" to be paid by middle-income families: What you pay for your apartment or your home, you have to pay again for these municipal public services.

The Finance Ministry staff also proposed to cut the budget of the Transportation Ministry by 4.4%, that of agricultural affairs by 3.7%, and that of social and labor affairs by 7.3%. Support for workers who have "failed" to get employment for more than 150 days last year will be "phased out," and they will receive less from the unemployment offices, whose funds will be subsidized with DM 3.7 billion less by Bonn in FY 96.

This change not only hits low-skilled workers, but more and more it also hits the highest-qualified workers, who can't get employment because more and more German companies are in the process of "outsourcing"—either moving production abroad into low-salary zones of the world market, or replacing German workers and engineers with "less expensive" colleagues from, for example, eastern Europe. In the construction sector, an estimated 250,000 such "less expensive" workers are employed more or less legally. There is hardly a construction site in Germany where one doesn't hear workers speaking Polish, Czech, Hungarian, Romanian, or Portuguese—workers who earn one-third or less on average what is paid German workers.

The main reason for this process that is dequalifying the German labor force and slowing down public housing and infrastructure projects, delaying many by years, is the government's loyalty to the payment of debt service: In the FY 96 draft which Waigel proposed, almost 20% of the DM 452 billion budget, DM 89 billion, is earmarked for payments on government debt. Debt service is now the second largest budget item (DM 118 billion) after labor and social services. If things don't change, debt service will become the largest budget item before the end of the decade.

As if the situation weren't bad enough, the government plans to reduce direct investments in public sector projects from DM 72 billion in FY 95, down to DM 61 billion by 2000.