Deconstruction of construction sector

More and more construction firms are going bankrupt, while German banks are not lending for production.

The construction sector has always been one of the German economy's prime engines. This was especially the case during the immediate postwar reconstruction, in the late 1940s and 1950s, but it was also true for the later periods when it employed well over 1 million workers. Any crisis that looked worse than the seasonal "trend," has always been interpreted as a sign of an economic recession.

The establishment in Bonn keeps saying that although there are some problems, the economy is "just fine." But the news from the construction sector tells a different story.

For example: the collapse of the Ritter Bau group in mid-June. Once one of the fastest-growing firms in eastern Germany after unification in October 1990, its bankruptcy triggered the collapse of Erste Baugesellschaft Leipzig (EBL), the biggest construction firm in Leipzig. Some 750 employees of EBL and another 1,500 in the supply sector will lose their jobs. Numerous small and medium-sized supply firms will close, because many of these firms emerged in a "market" that was exclusively created, out of nowhere, by EBL. There is no other big contractor in the region, and no other big contracts on the horizon, at present, because of a municipal budget crisis in Leipzig.

The one factor that pushed EBL over the brink, however, was the decision of Deutsche Bank and other big banks not to grant a small bridge loan of DM 40 million (roughly $25 million) to the ailing firm. This says something about the situation in the banking sector. It is not true that the banks don't have the money. They simply don't want to loan it: Deutsche Bank and others have decided to walk out of production and into speculation.

Deutsche Bank has decided to transform itself into a "global player." The bank's chairman, Hilmar Kopper, recently boasted that "half of the bank is no longer German," that its branches abroad, such as the one in London, are rapidly growing, and the like.

Led by Deutsche Bank, banking elites have strongly resisted investing substantial sums in industrial entities in eastern Germany, and made investments only when, after a long debate, the banks finally were able to collect the so-called "bankers' billion" for such investments three years ago. The EBL was one of the firms which they reluctantly helped to create. To those obstructionists in the banks, the EBL collapse is a welcome pretext to launch renewed propaganda against "interference with the market forces." And the "market," they keep saying, simply does not exist in eastern Germany.

It has been the nasty practice of the banks in eastern Germany from 1990 on, to grant loans to small enterprises only on condition that they could name a big "name" in western Germany, or a subcontractor in the eastern states, as a guarantee for the banks. The EBL was such a guarantee, and now it is gone.

Already, Hallesche Mitteldeutsche Bau AG, another case of the same dimensions as EBL, is close to collapse and will fire 700 of its workers by the end of the year.

Bruno Köbele, chairman of the German construction workers union, warned on Aug. 8 that an estimated 1,500 firms in eastern Germany's construction sector may have to file bankruptcy before the end of this year. Indeed, 380 firms have already gone bankrupt, 71 in the Leipzig region alone, with a concomitant loss of 1,750 jobs. The construction sector in the east will lose 30,000 jobs, Köbele said.

A more explosive situation exists in Berlin, and the neighboring Brandenburg region. The post-unification speculative boom in real estate there has led to excessive construction of office buildings—of which Berlin already has 4 million square meters that simply cannot be rented. Projects for the completion of yet another 4 million square meters are still under construction, or are in preparation. Recently, the Interhotel group, with a debt burden of DM 5.2 billion, collapsed, of which only a minor portion can be compensated through emergency sales. Plans for new projects have been slowed down visibly in recent weeks.

Rolf Sterzel, head of the regional Berlin-Brandenburg construction association, said on Aug. 7 that contracts for the firms in his branch dropped by one-third in April compared to April 1994, and contracts for commercial and industrial construction by 45%.

Many smaller firms are faced with bankruptcy. Fewer contracts have been signed in recent weeks, because of their high indebtedness, and because many "developers" in Berlin's over-speculated real estate sector have not paid the firms for work that has already been done. About 10% of the 2,000 construction firms in Berlin will be wiped out by the end of 1995, Sterzel predicted, "an alarming situation," because the jobless rate among construction workers, which is now at 17.7% (10,400 out of work), will double.