EIR Economics

The red-green 'program for the future' is economic suicide

by Lothar Komp

If a given work-place in Germany has much higher productivity, and generates correspondingly more income, than a comparable work-place in eastern Europe, that can hardly be attributed to harder work, in this "land of the world-champions of recreation." Rather, the decisive factors are the skill level of the operatives, the production technologies in the firms, together with the quality and density of basic infrastructure, from transportation to energy and water supply, as well as facilities for health care, education, and research. Whoever cuts expenditures for the maintenance of infrastructure in times when the government's wallet is in dire straits, or whoever auctions off public services to the highest bidder for the sake of short-term profit, or whoever aims at paralyzing central areas of infrastructure out of environmentalist motives, is sawing off the branch upon which the German economy sits, and is threatening millions of productive jobs.

Yet, that is precisely what the ruling Social Democratic-Green party coalition government's "Program for the Future" is doing. The damage that it is inflicting on the German economy, and the reaction of voters, are so severe, that this government may not long remain in power (see p. 32).

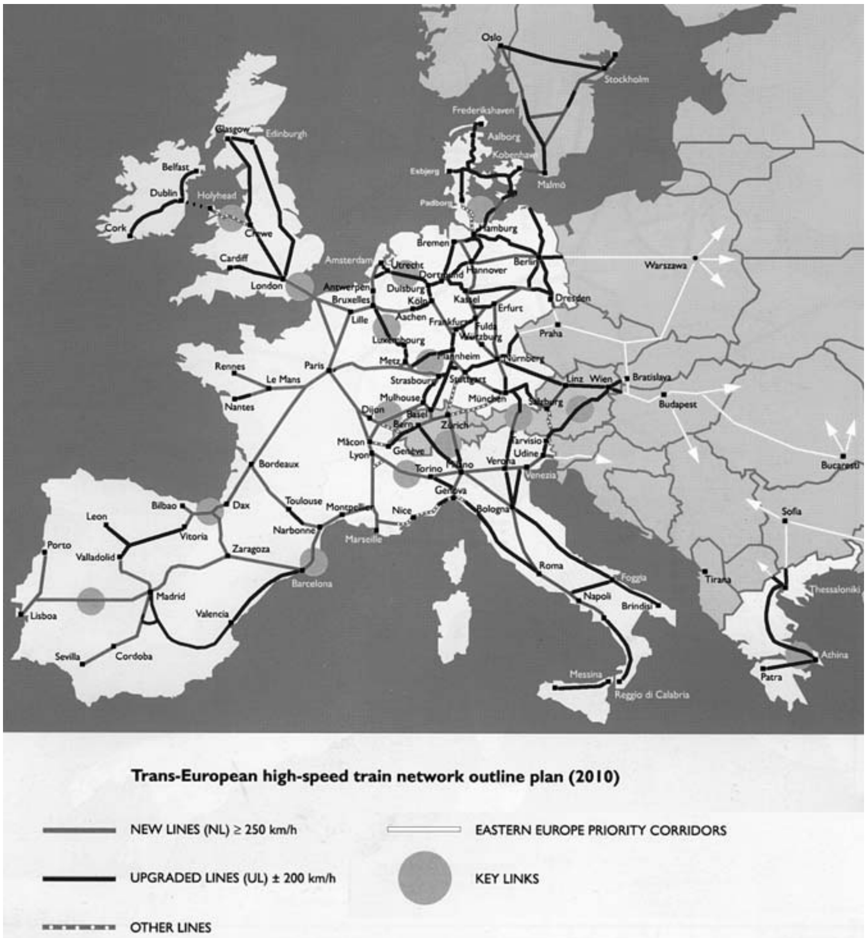
The previous Christian Democratic government also continuously wound down expenditures for public infrastructure. The proportional share of government expenditures allotted to infrastructure in public budgets has dropped by half since 1970. Despite the challenge of German reunification, capital investment by the federal government, states, and municipalities fell, between 1992 and 1998, from 107 billion deutschemarks (roughly $65 billion), to DM 87 billion. In the new German states over the same period, municipalities' expenditures for infrastructure collapsed by one-third. An immense backlog of urgently needed investments in Germany's physical infrastructure. has accumulated in the meantime.

Transportation is being crippled

In the transportation sector alone, needed investments are estimated at some DM 400 billion. In order to keep the German airports fit for the increasing volume of passengers, DM 30 billion of investments are needed. Germany's public sewerage network, 400,000 kilometers long, somewhat more than the distance from the Earth to the Moon, and the additional 800,000 kilometers of private sewer lines, require short- and medium-term investments, according to most recent estimates, of at least DM 300 billion, but probably closer to DM 500 billion, simply for needed maintenance.

Where former Chancellor Helmut Kohl and the liberals stopped, current Chancellor Gerhard Schröder and his Green partners are picking up, taking things from bad to worse. The most severe austerity budget in the last 30 years of German history—DM 30 billion of cuts planned next year, and DM 161 billion over four years—involves considerable, direct cuts in the federal government's transportation investments. At the same time, the "Program for the Future" shifts social expenditures in grand style from the federal government, onto the shoulders of the states and municipalities—which will further cut into their own investment budgets.

The larger federal transportation projects are headed for catastrophe. According to Transportation Minister Franz Müntefering, there is a DM 90 billion hole in the projected budget for the federal transportation plans for 1992-2012. All of the projects which have not yet been started are under



Trans-European high-speed train network outline plan (2010)

review, and most of them are scheduled to be postponed by five to ten years, or eliminated entirely. This also hits one-third of the 17 "German Unity Transportation Projects," which is a minimal program for the transportation integration of the old and new German federal states. Whether it is the rail lines, roads, waterways, or the Transrapid magnetically levitated railway lines, there is not a single transportation project which is protected from the Social Democrats' push for austerity and the Greens' sabotage of vitally needed infrastructure.

Construction on the new ICE high-speed rail route from Nuremberg to Erfurt has been halted indefinitely, although DM 1.5 billion out of DM 8 billion has already been spent on the project. This is a severe blow to passenger transportation from Thuringia to Bavaria, which may well also land the federal government in a lawsuit with the European Union, because the Nuremberg-Erfurt route is one of the most important western European north-south transportation corridors. It runs from Italy, via Munich and Berlin, to the new Baltic routes, to Sweden. The construction of the high-speed route Verona-Munich-Berlin is, accordingly, one of the 14 priority projects designated in the Trans-European Network, decided at the European Union summit meeting in Essen in 1994. The halt to construction on the Nuremberg-Erfurt route, primarily for ecological reasons, would effectively decouple Thuringia from the European high-speed rail network. The construction timetable of the Erfurt-Halle route, which links up with the Nuremberg-Erfurt route, and which is the only high-speed rail connection through Saxony-Anhalt, has been pushed back, at least till 2010. Construction of the Stuttgart-Ulm ICE route, which is part of the route from Paris to Budapest, was cancelled by the German side, while all of the other countries involved still have great interest in the project.

For ideological reasons, planned cuts in road construction are at least as drastic as those for rail. According to the German Automobile Club, there exist scenarios in the Federal Ministry for Transportation up to the year 2003, which foresee 50% cuts in highway construction, and the planned investments for the western German states would drop to one-quarter of currently planned investments. Highway projects in the new German states, such as the A71 and the A73 routes from Thuringia to Bavaria, or the Baltic highway A20 through Mecklenburg-Prepomerania, are seriously threatened. The same goes for the southern Harz route, A38, and the Bavarian highways A93 and A96. While only DM 600 million out of a planned DM 4.5 billion have been invested in the waterways of the Elbe, Havel, and Saale rivers, the lion's share of the outstanding investments are likely to be sacrificed because of the prejudices of the Green party.

Also, the future of the Transrapid route from Berlin to Hamburg, the first rail line for this revolutionary magnetic levitation technology worldwide, is still hanging by a thread.

The economy and debt

If this blockage of urgently needed infrastructure investments is not reversed, the danger is that the German economy will collapse to a second-rate status, with the attendant dramatic loss of jobs and income. Then, despite all the efforts to save money, Germany's national debt will really explode out of control.

The actual cause behind the doubling of the mountain of debt in the 1990s, lies in successive governments' failure to ensure that a productive industrial landscape emerged in the new federal German states, and also in the resulting failure to combat mass unemployment in both parts of the country. While a mere 3% of German exports are produced by firms located in the eastern states, the approximate equalization of standards of living in the east and west can only be maintained by sustaining a net transfer of funds from the west to the east to the tune of DM 200 billion annually. Out of this sum, DM 150 billion involves transfers to the public budgets in the east.

On the other hand, official unemployment in both parts of the country, according to the unemployment office (IAB), led to an increase of expenditures and a shortfall in income in 1997 of DM 166 billion. The western German states accounted for DM 120 billion of that sum. Even if the remaining DM 46 billion is accounted for by the transfers to the east, the total national cost of unemployment and eastern deindustrialization, run at about DM 270 billion annually. And, these costs will increase with each new slice taken from the investment budgets.

It is instructive to consider the effects of reversing this policy. Every billion deutschemarks invested in physical infrastructure creates 12,000 jobs, half of them in the construction sector. Every new job relieves the state of a burden of DM 40,000, so that half of the expenditures immediately flow back to the treasuries of the federal, state, and municipal governments. In addition, there are the effects of every investment on private households and firms. The current underemployment in Germany, according to IAB calculations, costs the economy about DM 530 billion annually. Conversely, investments made in infrastructure lead to lasting increases in the productivity of the entire economy. To put it straightforwardly:

- There should be no cuts in the "German Unity Transportation Projects" and the other projects in the federal transportation network.
- To the contrary, drastic expansion of public infrastructure investments should be undertaken immediately as part of a program for overcoming mass unemployment and as a contribution to the reindustrialization of eastern Germany. If the share of capital investments in the federal budget in total investments is steered back to the proportion of 1970, that alone would create more than a million jobs.
- The construction of the Trans-European Network needs to be quickly expanded with large infrastructure projects in eastern Europe, including in Ukraine and Russia. The reconstruction of eastern Europe, in the context of a new, Marshall Plan-style investment program, with a focal point centered in southeastern Europe, is indispensable for peace in Europe, and would at the same time be a motor for industrial reconstruction in the new German states. The European East is also the bridge for German firms to the largest export market worldwide in the 21st century: China, India, and the other nations of Southeast Asia.

Sober realities aired at Alpbach economic debate

by Mark Burdman

From Aug. 21 to Sept. 4, the annual Alpbach European Forum was held in the Austrian village of Alpbach. The yearly gatherings are patronized by leading Austrian officials and private military-strategic, political, and financial institutions. One of the central events was an Economic Symposium, on Sept. 2-4. Despite the efforts of some prominent individuals there to obfuscate or distort what is going on in the global financial and economic realm, a number of important voices were raised, to bring a strong dose of reality into the proceedings.

Clinical insanity

The economic debate did not begin on a very promising note. During a Sept. 2 panel on whether the world financial system was or was not just a "global casino," Klaus Liebscher, Governor of Austria's central bank, the Österreische Nationalbank, spoke on "Macroeconomic causes and effects of international financial crises."

In a presentation filled with central banker double-talk, Liebscher noted that, in the recent period, in response to a number of "crises" and "turbulences," there have "emerged calls for sweeping changes to the global financial framework." He advised: "I do, however, believe that it would not do any good to push too far in one direction or other. . . . There is no reason, in my opinion, to fret about the escalating global crisis, . . . in view of the stability of the financial markets and banking systems of the European Union."

So, in the same breath, Liebscher admitted that the global crisis was "escalating," and insisted that there was no reason to "fret"!

Liebscher further noted that there are dangers "which can plunge big parts of the financial system into turbulences and lead to a massive loss of confidence," and then advised that the key measure required is to "improve the manageability of systemic risks," especially through "an effective supervisory system." He stated: "When crisis strikes in a developed financial market, . . . assistance should be sought from a credible international institution, such as the International Monetary Fund." He failed to note that this supposedly "credible" institution has done more than any other to wreck nations—from Mexico to Russia to Indonesia.