Hanging by the rope of austerity

Bankers and government bureaucrats are cutting funds for the very projects that could save the economy.

Something that is very unusual in the German debate on economic priorities, happened on March 11: Horst Koehler, president of the association of the savings and loans banks, attacked Hilmar Kopper, chairman of Deutsche Bank, Germany's largest private bank, for conducting financial policies that ignore the necessity for industrial investment.

In a speech, given in Boppard on the Rhine, Koehler warned that the replacement of traditional loans by new instruments for tradings with bonds, is not only increasing the anonymity between lenders and borrowers, but it is also increasing the trend toward a short-term, speculative orientation of the financial markets.

Koehler charged that such decisions by investors absorb enormous financial resources, while at the same time, long-term, job-creating investments in the physical economy are disappearing. Furthermore, this is occurring at a time when, officially, 4.3 million are jobless (11.2%), and, in reality, 7-8 million (20-23%) are without regular jobs.

Considering that Koehler is a former assistant finance minister, his remarks ought to be seen in the light of current federal finance policy spokesmen such as Jürgen Stark, now "sherpa" for international financial affairs. Meeting in Brussels with his colleagues from the European Union (EU) on March 11, Stark provided a perfect example of what Koehler ridiculed as "short-term thinking."

Stark cast himself in opposition to plans of the European Commission (EC) to provide more funding to the Trans-European Nets (TEN) program for joint all-European projects of infrastructure development. His main argument (fully in line with what his "boss" at the German Finance Ministry, Theodor Waigel, says on this) was that irregardless of any EU financial flexibility, it should not be invested into "costly" projects, but rather be spent to consolidate public sector budget deficits.

The "flexibility" refers to the EC proposal to cut the farm-sector budget by ECU 1 billion (about $1.5 billion) and transfer the money saved to the TEN program. Stark's argument was that the billion ECU be used to reduce the burden on other parts of the EU budget.

The fact is also noteworthy that the TEN program, originally worked out and proposed in late 1993 by former EC President Jacques Delors, only won the approval of EU governments and finance ministers in December 1994, but has barely budged since. The 14 priority transport and telecommunications projects defined in the TEN program, are only just starting to be acted upon.

The delay has to do with the problem of the notorious slowness of the EU bureaucracies, but also with the fact that the EU governments and central banks flatly rejected the proposal by Delors, in 1993, to create a special credit facility outside the EU budget, but guaranteed by the governments, to fund these TEN projects, which require at least ECU 200 billion in investments.

Instead, the EU governments committed a maximum of 1% of the annual EU budget for the TEN, on condition that these projects, of great public benefit, be funded by the private banking and industry sector. Thus, governments have "opted out" from funding the type of projects that clearly ought to be, and have always been in the history of economic development, a priority task of the State sector, and have handed the job over to a private sector that is hardly capable, or even willing to finance it—when high interest rates and a shortage of banking credit-lines for industrial projects prevail.

The pretext of the governments of the EU in objecting to the original Delors Plan was to keep their budgets free from any additional burdens. But the real point was that the governments, especially the finance ministers, central banks, and also the big banks like Deutsche Bank, wanted to prevent anything that might interfere with the demands of the financial markets to maintain free access to all monies available. They wanted to prevent any funding mechanism that might absorb money "away" from the markets and into projects. Creating this "mixed approach" monster of TEN funding by primarily private means, met the interests of the money markets.

Now, this is a very short-sighted policy, for the delay of infrastructure modernization and development makes the EU economies less and less competitive for investors that have an interest in the unhindered flow of goods across Europe. According to the European Commission's own estimates, the transport bottlenecks caused by traffic jams and accidents on overcrowded highways, and by a lack of modern, high-speed railway or maglev systems, creates extra costs of about ECU 100 billion per year on the EU economies. With this approach, the EU is hanging itself by the rope of its fiscal austerity dogma.