

# Germany faces massive shrinkage of investments in infrastructure

by Lothar Komp

On May 4, German Finance Minister Hans Eichel informed the Parliament that severe budget cuts were necessary because of the “dramatic financial situation” of the federal state. In regard to what would be cut from the budget, no “taboos” could be tolerated, he said.

Eichel noted that the share of debt service in public expenditures has sharply increased in recent years, and it will rise even further in the years ahead. Every fourth deutschemark of federal tax revenue is already being eaten up by debt service, he emphasized.

Indeed, interest payments by federal, state, and municipal governments—133.5 billion deutschemarks (roughly \$84 billion) in 1998—have already by far surpassed their total infrastructure investments, which amounted to DM 86.7 billion last year. Thereby, a decisive factor for improved productivity of the German labor force, and of the postwar export successes of German companies, is being undermined.

Actually, this process has been under way since the early 1970s. With the exception of a very short post-reunification phase (1990-92), public infrastructure investments in Germany have systematically fallen relative to other economic activities during the last 30 years, from 4.5% of Gross Domestic Product in 1970, to less than 2% in 1998. In the same time period, the share of the public sector in capital investments (infrastructure, buildings, capital goods), has been cut in half, from 18% to 9%, while the remaining 82%

and 91% belong to the private sector. Even more dramatic, the share of infrastructure investments in German municipal budget outlays has fallen from 30% in 1980, to less than 15% today.

## Investments falling since 1992

Since 1992, public infrastructure investments in Germany have been falling, even in absolute terms. As the Bundesbank states in its April 1999 monthly report, overall public infrastructure investments per capita have fallen, from DM 1,700 in 1992 to DM 1,300 in 1998 in eastern Germany, and from DM 1,000 to DM 750 in western Germany. During 1992-98, infrastructure investments by the municipalities, which are much larger than those of the federal and state budgets combined, have been shrunken, from DM 73.3 billion to DM 55.0 billion.

The main cause for this trend is the desperate fiscal situation of the municipalities, which worsened in recent years because of widespread unemployment and budget-cutting pressures arising from efforts to meet the criteria to join the European Monetary Union.

The shrinkage of public infrastructure investments is not limited to western Germany, but is taking place in eastern Germany as well, where the need for infrastructure development is gigantic. While eastern German municipalities in 1992 invested DM 18.7 billion in local infrastructure, only DM 13.3 billion was invested in 1997. The Institute for

TABLE 1

### Public infrastructure investments in Germany

(billions of deutschemarks)

	1991	1992	1993	1994	1995	1996	1997	1998
Federal	11.0	13.8	12.5	12.0	12.2	12.0	12.0	12.2
States	18.7	20.2	19.5	19.8	19.9	19.5	18.9	18.2
Municipalities	60.9	73.3	71.5	67.9	64.8	60.0	56.3	55.0
Total	90.6	107.3	103.5	99.7	96.9	91.5	87.4	86.7

Source: Bundesbank, Monthly Report, April 1999.

TABLE 2

## The Federal Transport Infrastructure Plan 1992-2012

	Planned investments (billions of deutschemarks)
Railways	213.6
Highways	209.6
Waterways	30.3
Total	453.5

An important part of the FTIP are the 17 "Transport Projects German Unity," intended to modernize the eastern German transport infrastructure with an investment volume of DM 57 billion.

Economic Research in Halle (IWH) recently warned that this rapid contraction of infrastructure investments could destabilize the entire economic reconstruction in eastern Germany.

The IWH brought up the example of the eastern German city of Halle, where the gas pipeline network needed 13,500 repairs during 1992 to 1995, about eight times more than in the western German city of Karlsruhe, which has the same population. At the same time, 4,400 repairs in the water system had been reported in Halle. And even after several years of modernization efforts, the leaks in the Halle water system still accounted for 23.4% of the total water flow, compared to 3.4% in Karlsruhe.

### A growing backlog

According to estimates by the German construction industry, the backlog in urgent physical infrastructure investments in Germany has reached DM 800 billion, including DM 400 billion for roads and rail lines and DM 300 billion for modernizing the German water grid.

The cuts in infrastructure investments are now becoming ever more visible in national rail and road projects.

Germany's Transportation Minister Franz Müntefering recently stated that the schedule of the long-term "Federal Transport Infrastructure Plan 1992"—consisting of DM 210.9 billion for maintenance and another DM 242.6 billion for upgrading and expanding rail lines, highways, and waterways for the 1992-2012 period—cannot be fulfilled. There is already a DM 80-90 billion shortfall in funding, Müntefering said. He announced that the plan will have to be revised, that several projects will have to be postponed for at least five years, and that we have to "say good-bye to many illusions."

### Construction industry hit

The German construction industry is facing the immediate consequences. According to the Berlin-based German Institute for Economic Research (DIW), public sector construction orders fell from DM 67.5 billion to DM 57.2 billion

between 1994 and 1998. In eastern Germany, public sector orders for the construction industry fell from DM 30.3 billion to DM 25.9 billion in the same time period.

Simultaneously, construction orders from the corporate sector shrank—from DM 121.2 billion to DM 108.9 billion in the West, and from DM 54.8 billion to DM 41.8 billion in the East—while new orders for housing construction are stagnating.

As a consequence, German construction employment has been massively shrunk in recent years. In eastern Germany, 150,000 out of 850,000 construction jobs were lost during 1995-98. At the same time, employment in the western German construction industry fell by 219,000 jobs, to 1.81 million. Between mid-1996 and mid-1997 alone, 125,000 construction jobs were eliminated, and another 141,000 in the following 12 months.

Taking into account that every job lost in the German economy causes a reduction in revenue (taxes) and additional expenditures (unemployment compensation, social security) of altogether DM 40,000 per year for federal, state, and municipal governments, the job losses in the construction industry between 1995 and 1998 have produced a further hole in the public budgets of DM 15 billion per year. This is almost the amount required for implementing the Federal Transport Infrastructure Plan.

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