

Great Projects To Reindustrialize Saxony

by Lothar Komp

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Fifteen years after the fall of the Berlin Wall, the unfinished job of rebuilding the eastern German economy is about to be abandoned altogether. Capital investments into industry and infrastructure had already peaked in the mid-1990s. Since then, the volume of orders and employment in the construction sector has imploded. The density of industrial jobs per capita is still extremely low; and official unemployment remains at a very high level. Right now, there is much talk in the large political parties concerning a possible reshaping of the reconstruction policies that have failed. Special committees are being set up and they are presenting all kinds of proposals. However, they are all just calling for somehow redistributing a shrinking volume of financial resources, and are otherwise bound to the existing economic axioms.

Is there no way out? Will the new German states forever be dependent on enormous transfer payments from the West, of roughly 100 billion euros a year? Certainly not! What has been achieved so far, is just the maximum of what could be expected by sticking to the neo-liberal rules of the free-trade game. Had the reconstruction of the Western German economy after the war been based on nothing but the forces of “the market,” the so-called “economic miracle” would never have happened. In particular, western German politicians have completely forgotten that it was the very dirigistic approach of the Kreditanstalt für Wiederaufbau (Reconstruction Finance Agency, KfW), which made sure that the rather limited amount of available Marshall Plan funds was used with maximum effect. The main problem today is not money, but the blocked minds of the people responsible for politics and economics. As soon as this dogmatism is overcome, it will be possible to recognize that for Germany in general and for the eastern state of Saxony in particular, the chance of the century for another “economic miracle” is right now opening up. This chance must not be missed.

Saxony's Economic Strength

Traditionally, Saxony (**Figure 1**) was among the leading industrial regions in Europe. Innumerable discoveries, technological breakthroughs, and industrial pioneer projects were achieved in that part of Germany in recent centuries. In the first half of the 19th Century, Saxony was an important engine

FIGURE 1



for developing the German railway system. Later, the region around Chemnitz made it to the top of world-wide machine building. And exactly 100 years ago, August Horch started to build up automobile production in Zwickau. The past 15 years have proven that the required talents and capabilities for such achievements do, in principle, still exist. At least in certain sectors, such as automobiles, electronics, and machine building, the traditional strengths could be rebuilt, even against very strong headwinds.

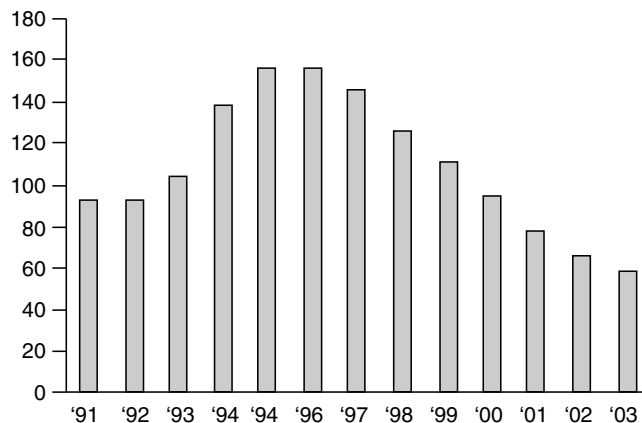
About 1 million Volkswagen engines are now being produced in Chemnitz per year. In Zwickau, a quarter million cars of the Volkswagen models Golf and Passat are produced each year. Other centers of Saxony automobile production have emerged in Dresden (VW) and Leipzig (Porsche, soon BMW). Around these large corporations, about 700 small and medium-sized suppliers and service companies have been established. In total, the Saxony automobile sector today sustains 60,000 jobs, which produce 40% of Saxony's total exports.

Dresden has meanwhile turned into the capital of the European chip sector. More than EU 7 billion has been invested since 1990 by the American and German chip producers AMD, Infineon, and Motorola, into new facilities, which are among the most advanced in the world. The fastest computer chips produced by AMD, based on the new copper technology, are "Made in Dresden" these days. The breakthrough for

FIGURE 2

Saxony, Construction Sector Employment

(thousands)



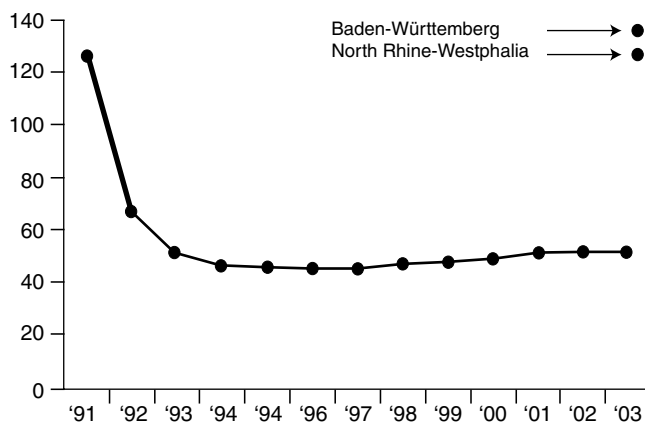
Source: Government of Saxony.

300 millimeter chip technology has been achieved by Infineon and Motorola at their Dresden joint venture. Including several hundred supplier firms, there are now about 20,000 jobs in the Dresden micro electronics industry.

Saxon machine building has emerged out of ashes as well. No other sector has seen a more devastating collapse since the fall of the Wall. Within a few years, about 90% of the former employment was eliminated. Now, a series of Saxon machine-building firms, in particular in the Chemnitz region, have already re-taken technological leadership in their specialty area. Out of the giant former Fritz Heckert machine-building conglomerate, several dozen medium-sized machine-building firms have emerged. In the case of Union Werkzeugmaschinenbau GmbH Chemnitz, the rescue of a top machine-tool company was achieved by the quite unusual method of a workers' buy-out. About 1,000 machine-building firms, most of them rather small, with a total employment of 34,000, are now active in Saxony. Saxony thereby accounts for half of the entire machine-building output in the new German states. The total export of Saxony, after stagnating at EU 3 billion between 1991 and 1996, has since then increased fivefold to EU 15 billion.

However, all of these particular success stories cannot hide the fact that the industrial base in Saxony is still much too weak. Without industry, there are also not enough services that can generate sufficient jobs, income, and a tax base. Apart from the automobile and chip producers, there are few other large corporations which could trigger the growth of an industrial *Mittelstand* (small- and medium-sized enterprises) by their supply orders. The boost in order volumes provided by public infrastructure expenditures has also become smaller and smaller in recent years, due to massive government bud-

FIGURE 3

Saxony, Industrial Employment

Corporations with at least 20 employees.

Source: Government of Saxony.

get cuts. At the same time, industrial producers in Saxony often have severe problems in getting export orders, because the average *Mittelstand* firms are much smaller than in the western states. In most cases they lack core capital, and the banks are therefore very hesitant to grant credits.

Between 1991 and 1994, the number of industrial jobs in Saxony (detailed figures exist only for corporations with at least 20 employees) dropped precipitously from 130 to 50 per 1,000 inhabitants. It's now slightly above 50 per 1,000 inhabitants. In the western German state of North Rhine Westphalia (N.R.W.), in spite of the dramatic deindustrialization in the last 30 years, the per-capita density of industrial jobs is still almost double that of Saxony. In Baden-Württemberg, which, like Saxony, has traditional roots in the industrial *Mittelstand*, the density of industrial jobs is currently at 130 per 1,000 inhabitants. In the case of per-capita exports, the situation is quite similar: Saxony remains at half the level of N.R.W. and only one-third that of Baden-Württemberg. (See Figures 2-5.)

Thus Saxony urgently needs an overall re-industrialization, going much further than what has been achieved in recent years. The number of industrial jobs in Saxony needs to be at least doubled.

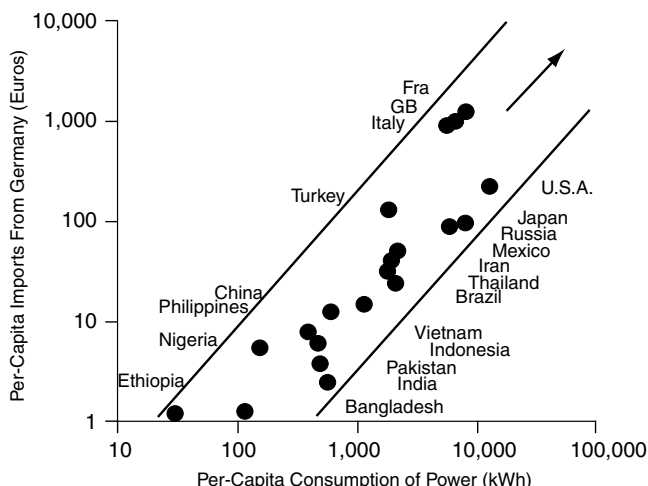
Extra-Regional Boundary Conditions

The global financial system is dying, and is strangling real economic activity worldwide. Governments, but even more, corporations and private households, are drowning in debt. The financial sector is caught in enormous speculative adventures. The whole speculative casino was boosted and generously fed by central banks with unprecedented injections of liquidity. They have delivered us the biggest financial asset

FIGURE 4

Industrial Development Will Boost Exports

(Listed are the 20 countries with the world's largest population)

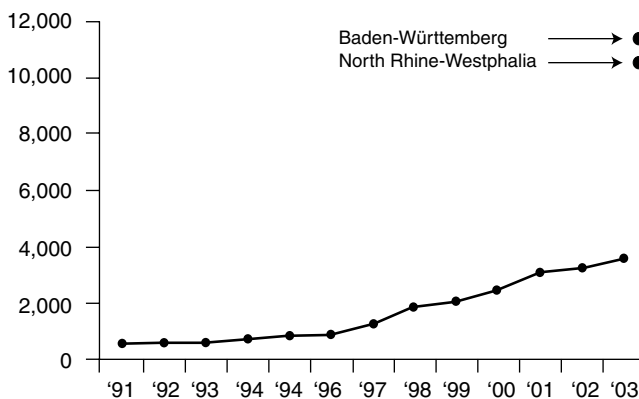


Source: UNDP, Federal Statistical Office.

FIGURE 5

Saxony, Per-Capita Exports

(Euros)



Source: Federal Statistical Office.

bubbles in history. The "new economy" bubble on the stock markets has, to some degree, already burst; and an implosion of the housing price and mortgage bubble, with devastating consequences for the real economies, is overdue.

The world financial system, as we know it, is doomed to go under. This fact has been stressed by Lyndon LaRouche, who in the 1980s forecast the early collapse of the Soviet economic system. Part of LaRouche's concept for a radical economic/monetary/financial reform—a new "Bretton

Woods”—is the replacement of allegedly “independent” central banks by national banks. This means banking institutions that, as in the case of Alexander Hamilton’s National Bank in the early years of the United States, are committed to the general welfare, rather than to serve private financial interests. Such institutions, joined by existing development banks like the KfW in Germany, have to make sure that the urgently needed reconstruction of the world economy doesn’t fail due to a lack of low-interest credits. Every sovereign government should be able to establish such institutions on its own. The more the degeneration of the financial system accelerates, and the more the irresponsible monetary policies of our “independent” central banks become obvious, the easier it will be to overcome the existing dogmatic barriers to change.

The other dominating process in the worldwide economic sphere is the industrial build-up in China and other parts of Asia. According to the “Eurasian Land-Bridge” program, hundreds of great projects in industry and infrastructure are in planning, or already under way. For two-thirds of the world population, this raises the hope for a dramatic increase in average living conditions. This process has begun; it will not always go smoothly, and there will be set-backs, but, it’s the only chance for peace and progress in the long run.

In the case of Germany, and not the least Saxony, this means hundreds of billions of euros per year in export orders for capital goods. Are we thereby creating our future competitors? Only, if we allow our technology to stagnate. As long as our products maintain leadership, in terms of technology and quality, this rule of thumb applies: For every euro of capital goods exports, the importer gains the capacity to produce EU 10 of goods by himself; but in order to maintain this capacity, he will need to import EU 3 of additional capital goods in the future.

This relationship can be illustrated by looking at the characteristics of those countries, which are the largest per-capita importers from Germany. It turns out that they are exactly those countries that have already built up the largest stock of physical capital, and which are in this way the most developed. A rough measure for this level of industrial development can be the per-capita consumption of power, for which the United Nations publishes country-by-country figures every year.

Imagine how the economies of China and India could be transformed to the typical western European industrial level, by the already active Eurasian Land-Bridge efforts. In principle, this would multiply the demand for machines and other capital goods from Germany by a factor of 100.

Full Employment by Boosting Capital Investment

The question then arises, whether the German economy is prepared to meet such an explosion in demand for capital goods. In order to take advantage of the economic build-up in Asia, certain domestic preconditions will have to be fulfilled.

For the Saxon economy in particular, this means overcoming as soon as possible the huge backlog in infrastructure and productivity. In view of the bankrupt global financial system, the required measures are now strictly limited by considerations of existing budgets. Instead, the requirements in terms of the physical economy must be defined first. And then it’s a question of competent economic policy to establish the credit mechanisms that can provide the necessary funds. The most urgent requirements are: full employment, re-industrialization, and overcoming the backlog in infrastructure investments.

There are no new jobs without capital investment. Since the investment in infrastructure and industry has been much too low for decades, the capital investment backlog in Europe today amounts to several trillion euros. LaRouche has proposed that in Europe, as in the United States, there is a need to mobilize about EU 1 trillion in additional capital investments per year. The German share, with Germany accounting for one-fifth of the European Union economy, makes up EU 200 billion per year. In the case of construction projects, such as infrastructure, every billion euro per year in investments generates 25,000 jobs. This means, we are speaking here of creating about 5 million new jobs in Germany—enough to reach full employment, at least according to official unemployment statistics (there exists in addition a hidden unemployment of several million people). Saxony accounts for 5% of the German population, and for 10% of German unemployment. Therefore, the aim should be to mobilize in Saxony at least EU 10 billion, but better EU 20 billion, in additional capital investments per year.

A Saxon Transrapid Network

Should sufficient low-interest credits be made available, many of these investments will be generated in the private sector, as a by-product of large-scale public infrastructure and technology projects that change the entire economic climate. A perfect great project to trigger such a process, is the construction of a Transrapid network. Just as railway construction one and a half centuries ago boosted the industrialization of Germany, so the long overdue application of the revolutionary magnetically levitated (maglev) technology could transform the entire German economy today to a higher mode of operation. Just four years ago, the Association of Saxon Industry (VSW) called for building the Transrapid Berlin-Dresden route, in order to “upgrade our region to a European geographical and transport pivot.” In view of the European Union’s enlargement into the East, noted VSW head Dr. Andreas Winkler at that time, the expansion of that Transrapid toward Prague, Vienna, Bratislava, and Budapest is also “a realistic option.” In the meantime, both in Saxony and in Germany in general, the debate about Transrapid essentially died down. No commercial maglev trains have been built in Germany—the country in which the technology was developed—due to foolish opposition from environmentalists and

The BüSo's Program for Saxony Capital Investment

The Civil Rights Movement Solidarity party (BüSo), which is headed by Helga Zepp-LaRouche, issued this summary of the requirements for a Saxony industrialization program.

Infrastructure annual investments

(in billion euros)

Transrapid network	3.0
Other transport infrastructure	2.0
Municipal infrastructure	5.0
Total	10.0

Financing

Reduced unemploments costs	5.0
National bank credit	5.0
Total	10.0

Private capital investments

Additional EU 10 billion per year, mobilized through

- public infrastructure projects;
- massive expansion of mechanisms to promote Mittelstand investments;
- low-interest national bank credit.

Results

- EU 20 billion per year additional capital investments;
- 500,000 new jobs in Saxony = full employment;
- Overcoming the infrastructure backlog;
- Reindustrialization by focussing the *Mittelstand* promotion on firms in the industrial sector;
- Dramatic increase of the productivity of labor.

budget-cutters.

Quite the contrary in China, where the Shanghai Transrapid is up and running. After an intermediary phase of cooled-down ambitions (there have been the typical "children's diseases" that go along with the first commercial use of a new technology, as well as a government change in China), the Transrapid in China could soon achieve another breakthrough. In July, Chinese President Hu Jintao and his family for the first time tested the Shanghai Transrapid and afterwards expressed their enthusiasm. There are chances that the Transrapid could be chosen for the 200 kilometer high-speed route Shanghai-Hangzhou. On July 27, the heads of the planning agencies in the Shanghai/Hangzhou/Nanking area met and discussed the construction of a 2,000-km transport network connecting all major centers in the Yangtse region. The Transrapid is among the considered options.

Saxony could become the counterpart of Shanghai at the western end of the Eurasian Land-Bridge. A Saxon Transrapid would be a catalyst for a European-wide Transrapid net. The specific routes of the Saxon Transrapid, in view of geographical and economic conditions, can be easily defined. It would be centered around the Saxon Mainline, from Görlitz at the Polish border, past Dresden, Chemnitz, and Zwickau, toward Plauen. In the southwest, it could continue along the Franken Mainline, belonging to Bavaria. For the ICE train, such a route across the mountains of the Vogtland and Fichtelgebirge would be almost impossible; but the Transrapid can manage much tighter curves and much steeper inclinations. As the Transrapid can reach its maximum speed of more than 400 km/h after only a few kilometers, the network could be much denser than in the case of the traditional ICE

railways. In the western direction, the Saxon Transrapid would connect from Zwickau via Erfurt to the industrial regions of Rhine/Ruhr and Rhine/Main. In the east, an extension from Görlitz leads directly to the industrial centers of Lignice and Wroclaw in Poland. Of course, the additional links from Dresden to Halle/Leipzig in the northwest, to Berlin in the north, and to Prague in the south are also indispensable. Inside Saxony, all of this adds up to roughly 400 km of Transrapid routes. Taking into account construction costs of EU 30 million per kilometer, the investment total would amount to about EU 12 billion. In order to get the project done within four years, EU 3 billion in additional annual investments would be required.

Those railway lines that already exist, or are right now under construction, will not become obsolete as a consequence of the Transrapid network, but could be reconfigured for freight traffic.

Huge Infrastructure Deficit

Furthermore, there is the need for additional highway construction. As the German government is planning to cut down its infrastructure budget in the years ahead, the upgrading of the A-72 highway connecting Chemnitz and Leipzig has been called into question. But in the eastern German states in general, the average time it takes to reach highways from cities is double what it is in the western part of Germany. There is also an urgent need to maintain or rebuild bridges, as well as to upgrade waterways, including flood protection. On top of the Transrapid network, Saxony therefore needs another EU 2 billion in additional transport infrastructure investments per year.



The Transrapid maglev train, operational now in China but not in Germany, could transform the entire economic climate of Saxony and the rest of Europe.

But there is still another giant infrastructure backlog, on the municipal level. According to an estimate by the German Institute for Urban Sciences (DIFU)—part of the association of German municipalities—the backlog in municipal infrastructure in eastern Germany alone amounts to at least EU 200 billion. For Saxony this adds up to about EU 50 billion of investments into areas such as power and natural gas supply, water canalization, garbage disposal, local streets, public transport, schools, and hospitals. In order to overcome this backlog within a decade, another EU 5 billion in additional investments are required.

Promoting the Industrial ‘Mittelstand’

The above-mentioned EU 10 billion in additional annual infrastructure investments in Saxony should not be financed by the usual method of soliciting bank credits or issuing bonds. First, it has to be emphasized that half of the investments are immediately self-financing. These investments will create 250,000 new jobs, and this in turn means a reduction of public unemployment costs (social expenditures, as well as reduced tax and social security income) by EU 5 billion.

The remaining EU 5 billion should be provided by the new national bank, which can issue credit at very low interest rates for a rigorously defined set of infrastructure and technology projects. Our central banks are providing liquidity day by day; however, at the moment, such liquidity-pumping operations are restricted to the purpose of feeding financial asset bubbles.

The public infrastructure investments will boost the order volumes of private corporations and could in the longer run boost private annual capital investments by another EU 10 billion. This is not at all an illusionary level! In the mid-1990s, the volume of capital investments in the Saxon economy had temporarily reached the EU 32 billion mark, but since then has fallen to just EU 20 billion a year. The proposed policy would mean to immediately expand capital investment to EU 30 billion, and in the longer run to EU 40 billion per year, which would be sufficient to achieve full employment in Saxony.

To allow for such an expansion of private investments, certain frameworks will have to be established. Saxon *Mittelstand* corporations, in terms of employment, are, on the average, much smaller than in the west. Even worse is the situation in terms of core capital. This translates into big problems for Saxon *Mittelstand* firms to receive bank credits. These problems will rise further with the introduction of the new Basel-II banking standards. Without mechanisms to promote investments—such as credit guarantees, grants, low-interest credits—the Saxon corporations will not be able to meet the challenge of reconstruction. There exist, besides the *Mittelstand* programs of the federal KfW, a series of special institutions in Saxony to assist *Mittelstand* investments. But the total volume of these institutions is far too low, and has to be massively increased. A one-time capital expansion of these institutions could help a lot, as most of the funds provided by them will return within several years. But these measures need to have a clear focus on the industrial *Mittelstand*, the engine of the Saxon economy. In specific cases, depending on the anticipated effect on the productivity of the economy, the national bank could also grant low-interest credits for private capital investments.

Some of these measures sharply contradict the currently dominant dogmas of economic policy. This doesn't mean they are wrong or won't work. Such measures were historically crucial for the industrialization of the United States, Germany, and Japan, as well as for the reconstruction after World War II. In order to guarantee a future for Saxony, going back to such successfully tested policies today is indispensable.

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