

municipalities, cannot be justified on environmental grounds. The regulations will ultimately surpass the financial capabilities of municipalities to meet them, and will lead to dramatic price increases for water usage—an expected several deutschemark increase per cubic meter for both households and industry.

The financial disaster will have catastrophic consequences for municipalities' budgets for construction investments. In total, municipal construction investments will fall by 5.6%. In western Germany, there will be a reduction of 7.1%. According to construction industry association estimates, many western cities plan even greater reductions: Frankfurt, -19.8%; Braunschweig, -17.0%; Cologne, -15.3%; Karlsruhe, -15.3%; Stuttgart, -14.8%; Hanover, -12%.

In February 1995, Friedrich Hassbach, the director of the German construction industry association, warned at a meeting in Bonn that "never before in the history of the Federal Republic has the public financial maneuvering room been so tiny." He noted that since 1992, public infrastructure investments are shrinking; public construction investments, if price inflation is taken into account, have fallen below the level of the mid-1960s; and this will soon lead to shortages in infrastructure equipment.

Cuts will not improve finances

Apart from construction, many municipalities are planning drastic cuts in services this year. According to a poll by the German municipal association, 56% will reduce outlays for road maintenance, 38% will restrict street lighting, 59% will reduce energy consumption in public buildings, 46% will cut expenditures for school learning aids, 25% will cut school transport, 24% will reduce theater and opera events, 41% will cut expenditures for libraries, 20% will close libraries, and 33% will at least temporarily close public baths. But all that cost-cutting and fee collection will not improve municipal finances. In 1995, most of the big western German cities will still have huge budget deficits, such as Essen (DM 478 million), Düsseldorf (DM 282 million), Bochum (DM 177 million), Mainz (DM 148 million), and Hanover (DM 141 million).

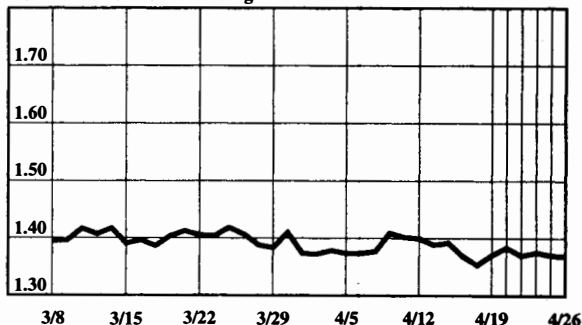
The financial crisis of the Federal Republic, states, and municipalities has reached dangerous dimensions. It is already threatening the German Unity Transport Projects, including investments of DM 230 billion into railways and DM 210 billion into highway modernization. In addition, there is a huge backlog in waste water infrastructure investments—up to DM 300 billion, about 50% of this alone in the east. Another DM 200 billion will be required in the years ahead for waste-processing plants, in order to keep up with new environmental laws.

Unless there is a fundamental break with liberal dogmas of infrastructure financing and "third wave" service sector utopias, formerly rich German municipalities will be turned into wastelands.

Currency Rates

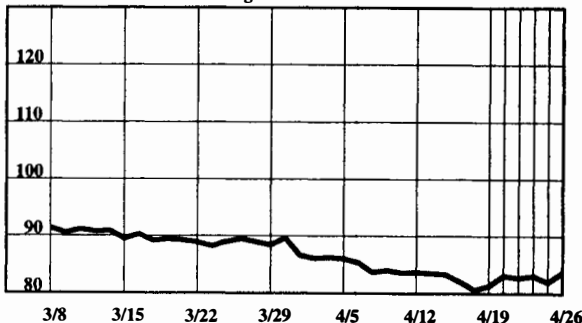
The dollar in deutschemarks

New York late afternoon fixing



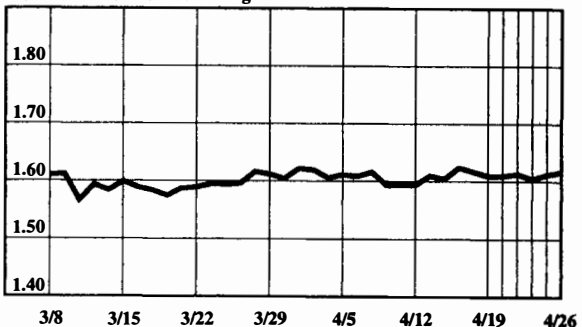
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

