Chapter 28
The Case of Public Capital Budgeting and Management Process in Germany

Natalia B. Ermasova
https://orcid.org/0000-0001-9813-483X
Governors State University, USA

ABSTRACT

This chapter presents an analysis of four main components of the German capital budgeting system including (1) long-term public capital planning, (2) annual public budgeting and financing, (3) project execution, and (4) public infrastructure evaluation. Germany provides good conditions for capital investments. This chapter explains main reasons for it: institutional framework, healthy public finance, structural reform, and special investment and redemption fund that gave a boost to investments in infrastructure. This case describes the capital budgeting process in Germany and explains the recent trends of public capital investments.

INTRODUCTION

According to the World Economic Forum (WEF) Global Competitiveness Report (2017), Germany's infrastructure ranked tenth in the world. Germany provides good conditions for capital investments. The main reasons for it are healthy public finances, robust institutional framework, structural reforms, and public investments to boost competitiveness. The public investment in Germany has increased significantly in the last thirty years. The government gross fixed capital formation increased by 37 percent in 2018 in comparison to 1990 (German Finance Ministry, 2018). The government gross fixed capital formation in relation to nominal GDP (the investment-to-GDP ratio) was 2.6 percent in 2018, compared with 1.7 percent in 2001. The proportion of spending on public investments increased from 8.5 percent of the federal budget in 2014 to 9.5 percent in 2015 (Federal Ministry for Economic Affairs and Energy, 2016, p.11) Germany's gross fixed capital formations increased from €137 billion in 2015 to €149 billion in 2018 (Trading Economics, 2018).

DOI: 10.4018/978-1-6684-7460-0.ch028

The capital budgeting is integrated into the ordinary budget process in Germany. Capital investments are identifiable in the budget but are treated as any other expenditure in the process. Capital budgeting does not have a separate framework. Federal Ministry of Defense, Federal Ministry of Transport and Digital Infrastructure, Federal Ministry of Food and Agriculture, Federal Ministry of the Interior, Building and Community, Federal Ministry for Economic Affairs and Energy, Federal Ministry of Labor and Social Affairs, Federal Ministry of Health, Federal Ministry for the Environment, Nature Conservation, and Nuclear Safety requests for funding are resolved in negotiation between the respective ministry and the Federal Ministry of Finance prior to the budget being submitted to Parliament. It is a key role for the Federal Ministry of Finance to ensure that the capital project portfolio fits into the long-term capital budget (CIP). The Federal Ministry of Finance must give its approval for the project to move forward at the end of the preparation stage and the procurement stage. Investment spending at the federal level mainly happens in the sectors of transport and defense, and it was around 2 percent of the federal budget expenditures in 2017. The majority of capital investment activity takes place at the regional (the Länder) and municipal level.

The political level plays a key role in deciding which projects will be part of the portfolio appropriation. The political support for a project can be more important than cost-benefit estimates. During budget execution, the appropriation framework allows some possibility for the government to change and reallocate the funding within the investment portfolio.

This chapter examines the effects of budget reforms on changes in capital budgeting practices with main focus on federal level. The specific practices discussed in the chapter are the following: (1) long-term public capital planning, (2) annual public budgeting and financing, (3) project execution, and (4) public infrastructure evaluation. This analysis provides links to best practices by exploring innovative solutions in capital budgeting and financing in Germany. This study provides a valuable starting point for future research on comparative studies of capital budgeting in different countries.

BACKGROUND

Germany has Europe's largest economy and second most populous nation (80,594,017 people). Germany is a key member of the continent's economic, political, and defense organizations (CIA, 2018). Germany was in two devastating World Wars in the first half of the 20th century. After World War II, two German states were formed in 1949, the western Federal Republic of Germany (FRG) and the eastern German Democratic Republic (GDR). The democratic FRG embedded itself in key western economic and security organizations, the European Community (EC), which became the European Union (EU), and NATO, while the communist GDR was on the front line of the Soviet-led Warsaw Pact (CIA, 2018). Germany had the reunification in 1990. Based on the Consolidation Assistance Act (Gesetz zur Gewährung von Konsolidierungshilfen), the federal government provides a fixed amount of financial assistance to five regions (Länder) that were parts of the eastern German Democratic Republic with the goal to eliminate the structural deficit in those five Länder by 2020. Since 1990, Germany has expended considerable funds to bring eastern productivity and wages up to western standards.

The German economy is the fifth largest economy in the world (CIA, 2018). GDP per capita was $45,551 in 2017 compared to $45,253 in 2016 (Table 1). Table 1 presents main GDP indicators including GDP, Gross Fixed Capital Formation, GDP from different sectors of German economy, and Gross National Product from 2016 to 2017.

Related Content