First steps toward economic recovery

Medium-sized industry is at the center of ongoing initiatives between the two Germanys.

The generally accepted view in the West German government and in industry circles is that a recovery of the East German economy can't work within the context of state-to-state cooperation so far practiced between the two Germanys. It wouldn't work if the Western side went on to pump money into joint projects, leaving their realization to the unsatisfactory cooperation of more efficient Western companies with the mostly inefficient state-run industrial combines of East Germany.

This approach would leave the East German economic system untouched, block the creation of a strong medium-sized sector (*Mittelstand*) of craft and repair shops, construction and maintenance firms, and industrial supply companies. "We need several hundred thousand small and middle-sized enterprises," declared West German Economics Minister Helmut Haussmann in Bonn Dec. 27, "but they'll never come into being if we leave the basic economic structures untouched."

Two things are most urgent to promote such enterprises: 1) the state-run combines, which absorb many smaller companies with specialized qualifications, have to be taken apart, and 2) a legal basis for the creation of private enterprises in the industry has to be created. The collective state farms have to be dismantled as well, to make room for private farming.

To date, the new East German government of Hans Modrow has not yet changed anything; the system has only licensed state-controlled production. Private property in industry and agriculture is not desired; "socialist people's property" (controlled by the communists) has been endorsed. From 1945 on, hundreds of thousands of private and semi-private firms were expropriated in several waves, the last one carried out the early 1970s.

A change of property laws is most urgent, but nothing can be expected before the May 6 elections.

Still, "many small enterprises in the G.D.R. [East Germany] will begin to work soon, even without a fully licensed status," an official of the West German Kreditanstalt für Wiederaufbau (KFW) told *EIR*. A new KFW program allocates DM2 billion at no interest, which is mixed with other bank loans at less than the usual 14% interest. This program will add up to a DM6 billion credit line for the East.

The East German government already passed a "preliminary regulation for the establishment of private firms and small and middle-sized enterprises on a half-state and cooperative basis," just before Christmas. But all those who want to set up private or semi-private firms are still operating in a legal "gray zone," until a sound investment protection law has been passed.

Many West German companies will invest, however, even at this risk, in order "to be there when the new economic legislation is put into practice. . . . People here and there are, I can say, rather optimistic that it will work out," the KFW spokesman said. As he put it, the risk is not that high, because in many cases, investments in one or two machines will suffice to get a medium-sized venture in crafts or repairs going. An East German initiative to set up a roofing business may need no more than an initial credit of DM10-20,000 for a wood-cutting machine and tools.

Since most credit requirements are relatively low, the newly created credit pool of the West German government of up to DM6 billion for the East German middle-sized enterprises, at preferential interest rates of 7.25%, is expected to yield good results rather soon. Many direct contacts are being made between new entrepreneurs in East Germany and potential investors from West Germany, the regional chambers of commerce and trade are reporting.

In addition, a privatization of the state-run savings banks in East Germany is urgently recommended. An estimated 150 billion G.D.R marks is said to be held on private accounts at the regional savings banks, but they are administered by the State Bank of the G.D.R. If the savings banks were released from the State Bank, they could issue long-term credits to new small and middle-sized enterprises, through construction or railway bonds.

Assuming that a deutschemark mark exchange rate of 1:3 can be realized in inner-German trade, the mobilization of maybe half of these 150 billion G.D.R. marks could yield another DM75 billion for investment programs in 1990.

Put together with the DM6 billion already granted through the KFW program, and other private credits from West German investors, these 75 billion G.D.R. marks could yield an investment volume of DM40-50 billion in the East German economy. To assume that most of that would be realized during the coming year, with emphasis on the middle-sized sector, is not at all unrealistic.