A flow of capital goods to the East

Restrictions on "free market" policies are paving the way for the recovery of East Germany.

The intercity train from Frankfurt on May 28 crossed the former border between the two Germanys and traveled on to Leipzig, opening a new rail link that will reduce the average seven-hour travel time along that route by 1½ hours. A small improvement, but East Germans saw it as a symbol of the positive future they expect in connection with the German Monetary Union (GMU), which goes into effect on July 1.

Arriving at Leipzig Central Station, the train was welcomed by a crowd of several thousand citizens with flags and cheers. It was ceremoniously "baptized" with the name of Johann Sebastian Bach. An improvised performance of the world-famous St. Thomas Cathedral Choir, which was originally founded by Bach, completed the festivities in Leipzig that day.

The event documented that, contrary to the image created by predominantly leftist-controlled media, East Germans are less preoccupied with fears about the GMU, than they are infused with hopes for its success. Most East Germans are confident that with the GMU, their country will rapidly be transformed into a Western-style modern society, like the West German one.

The grand project of such a transformation, over a period of only 5-10 years, will not be without problems, but there will also be big advances, a "second economic miracle in Germany."

The precondition for a repetition of the West German postwar economic miracle in the East is, however, that the policy proceed outside the control of the usual credit conditionalities imposed by the International Monetary Fund and the private creditor banks on investment projects. The phony "Polish recovery model" has been the latest in a long series of IMF-launched disasters.

The problem has been recognized by both German governments. Although the credit lines linked to the GMU treaty signed by the two governments are not entirely free of conditionalities, they do put a big emphasis on developing the capital goods sector and transport and energy infrastructure:

- Tax breaks of 12% this year and 8% next year for all new investments in capital goods;
- Tax breaks of 12% this year and 6% next year for all imports of capital goods from West Germany;
- A low-interest credit line of 7 billion deutschemarks this year and DM10 billion next year for capital goods investments in the industry;
- A credit line of DM3 billion this year and DM7 billion next year for infrastructure projects;
- A protective tariff, consisting of a special tax of 11% this year and 6% next year on all imports of consumer goods, to develop a viable consumer goods sector in East Germany;
- Fifty percent of all domestic debt in East Germany will be written off.

The entire package will cost the East German government DM110 billion in "lost" revenues (in terms of the previous socialist looting system), which will be covered by a West German state bond program of DM115 billion over the next four years.

The positive potentials of this package are also seen by those who will count in this process—senior spokesmen of West German industry who are looking eastward.

Edzard Reuter, for example, the chairman of Daimler-Benz Corp., visited the Ernst Thälmann Heavy Machines Combine in Magdeburg on May 29. In an address before managers and workers at the plant, he predicted big growth rates for the East German economy on the condition that a "mixed" approach is taken, "not setting all hopes exclusively on the free play of deregulation and re-privatization, which would indeed be dangerous."

Reuter declared that the best way toward higher productivity of the industry is to dismantle the state sector combines and thereby create room for "efficient, new enterprises in the mid-sized sector."

On May 30, Berthold Leibinger, vice-president of the West German machine-building association, pointed out that the GMU, with its many incentives to investments in the capital goods sector, will lead to a drastic increase of orders from the machine-builders not only in the western, but also the eastern part of Germany. Annual growth rates of 15% and more will allow the East German machine-builders to double their output and reach Western quality standards in a few years.

The joint German approach can be a model for other regions of the world. Lothar de Maiziere, East Germany's President, addressed the issue at a convention of German Catholics in Berlin May 24. "I'm thankful for all the solidarity and support our country has received from abroad," he said, "but I would wish that the same be granted also to other countries in need, in Eastern Europe and the rest of the world."