stabilization of the internal Soviet situation, however, that the institutions of the individual republics be brought in on the food aid program in a way that improves their status vis-à-vis the center in Moscow.

The ports that can be used in addition to Leningrad and Vyborg, are Klaipeda in Lithuania, the two Latvian ports of Libau and Riga, and the four Estonian ports of Parnu, Baltysk, Tallinn, and Narva. Another option is to use the big port of Kaliningrad, and eventually Pillau—both in the Russian enclave and military off-limits zone of Kaliningrad. The demilitarization at least of sections of the Kaliningrad enclave would be vital, because a Russian gage rail connection exists from northeastern Poland into the military zone which, if fully used, would spare gage-shifting procedures that are required at the other border transit stations.

2) **The northern Polish rail route** can be used to take off pressure created by the chronic rail jam at Brest-Litosvk. The northern route runs from Poznan to Torun, Olzstyn, Bialystock, from there to Grodno (in Belorussia) and further on to Vilnius (in Lithuania) and other main cities in the three Baltic republics.

The capacity of the northern route is not as big as that of the central Polish route Poznan-Warsaw-Brest—which is the main transit route from the West into the Soviet Union—but can, because it runs through a less-populated region of Poland, be used exclusively for the food aid operation for a period of transition, until the bottleneck at Brest is finally overcome.

3) **The Black Sea ports** of the Soviet Union, also equipped with relatively well-functioning railway links to the rest of the country, can be used to land Western food in large quantities. These are the ports of Odessa, Sebastopol, Taganrog, and Novorossisk.

4) **The railway pivot of Kharkov,** the largset in the southern Soviet Union, should be used as well. It can be reached from the Black Sea ports and over an existing Russian gage rail route that connects the two important heavy industrial regions of eastern Slovakia (Kosice) and southern Ukraine (Krivoi Rog).

The 'rolling highway' concept

The standard procedure for bringing food, and, later, also agricultural technology and industrial equipment to the Soviet Union, should be the application of the "rolling highway" concept of combined rail-truck transport. This would bring an entire truck convoy over the distance of 1,000-3,000 kilometers within several days, without the usual excessive logistical requirements of supplying gasoline (nine tank trucks for every convoy of 14 trucks), and land them at well-selected railway pivots deep in the Russian interior, whence they can travel on to the end distribution points at a 50-kilometer diameter. The usual gage-shifting procedures at the central transit points at the Soviet borders can be eliminated by special equipment, eventually built by Soviet Army engineers, which would allow the roll-off/roll-on of trucks from the European to the Soviet trains.

All of this should be done in a serious approach comparable to the job done by the Army engineering corps of the Soviet Union and East European countries under conditions of wartime logistics operations. The use of whatever available capacities of military, railway, and other logistics units of the countries involved in the aid operation, seems necessary, with the proviso that this proceed in the framework of civilian planning and administration, because a further extension of the degree of militarization of the Eastern societies is not desirable.

The structures built up during the winter aid operation can be used as a point of departure for the creation of a sound, long-term transport and production infrastructure between West and East on the Eurasian continent.

'Free market' method won't do the job

by Jonathan Tennenbaum

The following is abridged from a memorandum on German economic policy from the perspective of a Paris-Berlin-Vienna "Productive Triangle" as the fulcrum of a European economic boom.

The immense, immediate pressure created by the scope of the food supply crisis in the East will create conditions of emergency management between the governments involved in the aid program.

In order to facilitate the best-possible transition from the present winter aid program to the full-fledged Triangle concept, food aid transports to the East should be run by ship and rail, to create an incentive for large-scale investments in the partially ailing port and railroad infrastructure in Europe and the Soviet Union. This will create an investment input into those sectors of industry that produce rolling stock and other rail equipment, as well as capital goods and other machinery that are required to put the European economies back in shape.

There is no precedent for the situation Germany finds itself in today. On the one hand, in many respects the starting-point is extraordinarily favorable, at least compared with the rest of the world. On the other hand, without a radical reversal of the economic policy trends of the past 10 years, it will scarcely be possible to carry out the tasks ahead. Those include not only the reconstruction of the former East Germany, but thence the vastly greater problem of improving the economic situation in Eastern Europe and the disintegrating Soviet Union.

First, it must be recognized, that a real reconstruction of the former German Democratic Republic is unthinkable without a drastic lowering of the interest rates and tax level for the productive sector of the economy. The expectation, widespread in the West, that the extension of the market economy into the East will automatically lead to a new "economic miracle" there, is dangerous nonsense. It seems to have been forgotten that *it was not the "social market economy" in and of itself* which enabled West Germany's spectacular rise out of the rubble of the World War II.

The most decisive factor in resurrecting Germany's shattered economy was the dirigist tax and financial policy associated with West Germany's first federal finance minister, Fritz Schaeffer. That policy was strongly discriminatory in favor of productive investment in industry, infrastructure, agriculture, and housing construction. Favorable depreciation possibilities, tax reductions, and liquidity-creating measures (e.g., a tax-free revaluation of stocks), gave preference to sectors of real physical productive activity, providing for an extraordinarily high rate of growth in creation of material wealth. The unleashing of real (as opposed to financial) economic growth achieved in this way was so enormous, that the West German government's tax revenue more than tripled between 1950 and 1965, despite considerable reductions in the effective tax rates over that period.

Characteristically, self-financing played a major role in that phase of the postwar upswing. Self-financing was made possible by the fact that on the whole, prices were not only cost-covering, but allowed a high rate of reinvestment into new factories, machinery, and equipment at a higher technological level, and so forth. The situation corresponded to the principle of "parity prices," which have a decisive role in the "American System" of national economy.

The overall economic-policy boundary conditions contributed to an extraordinarily low average effective interest rate which productive investments had to carry. In the United States as well, interest rates were extraordinarily low at that time compared with today: about 4% for commercial credits, and 2% in cases of easy government credits for strategic areas of industry.

Naturally, the beneficial effect of such a tax and financial policy could only come about after the command economy of the occupying powers had been extensively dismantled and the possibility was created of semi-normal market functions for the circulation of goods and services. Only in this sense was the introduction of a functioning market decisive and indispensable for reconstruction. The *competition* which was later virtually deified in the framework of the "social market economy," played only a subordinate role.

What makes for a productive labor force

A typical latter-day ideological delusion allows many people to forget that the proverbial efficiency of the postwar German labor force is *not* the result of merciless competition in the sense of the neo-liberal doctrine of the "free-market economy." On the contrary, efficiency, industriousness, and intelligence are culturally determined attributes; they are expressions of an extraordinarily highly developed culture, which, after centuries of development, found its high point in German classicism and the great scientific and technical accomplishments of the 19th century.

The greatest possible unfolding of human productive potential does not automatically coincide with the maximization of competition in the sense of the neo-liberal market economy. This is a fundamental recognition on the part of the "American System" as opposed to the "British System" of Adam Smith. Above all, exaggerated competition is often directly disadvantageous when it is a question of *fundamental* innovations in science and technology.

Catastrophic effects of high interest rates

Many politicians and others today are totally off the mark in their belief that under current tax conditions and effective interest rates of 9-12% or more, private investors should undertake the lion's share of infrastructural and industrial reconstruction in Germany's new eastern states. In reality, something quite different is happening. The urgently necessary renewal of productive substance remains down the road, while hotels, auto businesses, retail stores, casinos, game arcades, porno shops, and other "service industries" are springing up like mushrooms, earning a fast return, but constituting in themselves no basis for the reconstruction of industry. If such short-term investments predominate at the cost of the long-term buildup of productive agriculture, industry, and infrastructure, then within a few years Germany will experience a horrible social and economic reversal.

The ominous beginnings of this reversal are already visible in eastern Germany today. Several negative factors are coming together:

1) There is an absence of the expected large flood of investment, which, beyond the just-mentioned factors, also coheres with the fact that, at least in some circles of western German industry, there is a lack of interest in developing new, competitive entrepreneurs. A disproportionate share of investment is going into services and into trade in western German and foreign products.

2) Where productive investments do take place, it very often occurs in the framework of a takeover by a big western German firm. Although in several cases such developments can be justified, they do not generally contribute to reviving that great tradition of the industrial *Mittelstand* (small and medium-sized industry), especially in machine construction, which partially continued in eastern Germany up to the 1960s.

3) Rapid improvement in infrastructure is not forthcoming, even though this is unconditionally required for an approaching industrial upswing.

4) The termination of delivery agreements with the Soviet Union has resulted in the loss of a considerable portion of sales and also of raw materials supplies for eastern German factories.

Taken together, the effect of these conditions on eastern Germany's industry has been comparable to that of the infamous postwar U.S. Morgenthau Plan, which called for turning all of German territory into pastoral farmland. And tragically, this is happening at the very moment when the population is seeking to pull itself out of the hole after 40 years of brutal oppression and socialist economic mismanagement. Thus, to the long buildup of anger against the old communist regime is now added a growing disappointment with the "Westerners," which constitutes dangerous social dynamite.

The limits of automobile technology

Unfortunately, the western German economy is also imitating that fateful "auto-fetishism," which accompanied the United States into the "post-industrial age." On the one hand, it is remarkable how great the excess of promotion and export of automobiles has become vis-à-vis "genuine" capital goods, such as modern industrial plant and equipment. Such capital goods embody in a much more consummate way the once-unique qualitative advantages of German labor, technology, and research. We scarcely wish to doubt that German manufacturers produce the best automobiles in the world. Ultimately, however, a car is only a car. Technical improvements in autos play themselves out inside narrow confines; through the production of improved products they effect only relatively small increases in overall economic productivity.

In contrast, genuine industrial capital goods play the role of a "transmission belt" for new, productivity-increasing technologies. Here lie the special "talent" and responsibility of German industry on the international market. The fact that the automobile still shows this considerable disproportion among German exports, is not unrelated to the proven inability of the current world market order with its free-market cast, to significantly couple the acute development needs of most countries with the fallow labor potential of the capital-goods-producing countries.

The spectacular increase in auto traffic in Germany has had an array of disadvantageous side-effects. We need not repeat here the historical reasons why the special favors of the taxpayer fell upon the construction of cars, and how the car became an unparalleled source of tax revenue for the state. We also need not mention how disastrously great the Federal Republic's dependence has become upon a virtually irreplaceable imported raw material. The thirsty internal combustion engine has become, so to speak, the prime mover of the whole economy: Not only the overwhelming share of personal transit, but meanwhile, also most freight traffic was put onto the roads. Expressways were built everywhere in grand style; the railroads, on the contrary, with their track net essentially inherited from the 19th century, were maintained on a "diet" with only insignificant technological improvements. Warnings that this violated the most elementary economic priciples were already voiced by a few people in the 1960s, but were soon forgotten again in the general "auto-intoxication."

The error did not lie in the large-scale development of road infrastructure *as such;* that has certainly made a considerable contribution to overall economic productivity—up to a certain point. The error lay in the *one-sidedness* of development. For this reason, we do not even have the efficient combination of long-distance transit on the rails and short-distance transit on the roads, with container and combination transit at the center, as was already conceived in the 1960s, but instead we have the threatening "transit infarction."

Public or private financing?

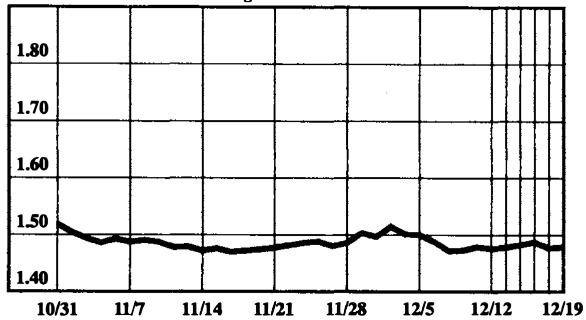
The question of the profitability of a given capital investment project looks quite different, according to whether one has in mind government financing or private financing. The state secures its investment by the fact that a given infrastructure project effects a significant increase of overall productivity, which in turn leads to expanded government revenue. The tax source includes all persons and businessmen who profit directly *or indirectly* from the availability of the infrastructure. In contrast, the private investor has to unconditionally cover the construction and operating costs, plus his profit, out of the *direct* proceeds of the infrastructure (freight charges, travel fees, tolls). In other words, the immediate user of the infrastructure alone must pay for the project.

Based on these and other considerations, Friedrich List came to the conclusion in the case of the German rail system, that the financing of basic infrastructure is a task for the state. Admittedly, the current discussion is running in the opposite direction: The German economy is apparently off on the "privatization trip" first launched in England and the United States. But this changes nothing with respect to the correctness of List's deliberations. The core problem, which almost everyone is running away from, lies in the *financing* of large infrastructural projects. In order to solve this problem, the creation and application of credit must be organized by quite different methods than have almost without exception become the rule since the spectacular rise of the international capital market.

Currency Rates

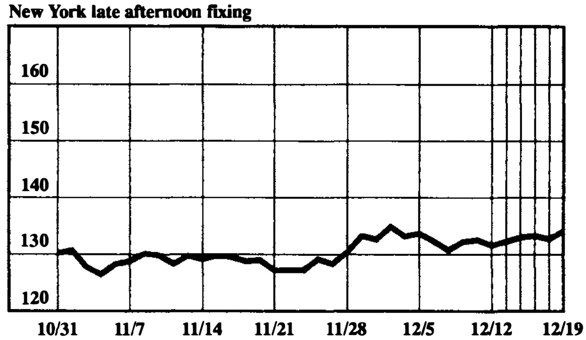
The dollar in deutschemarks

New York late afternoon fixing



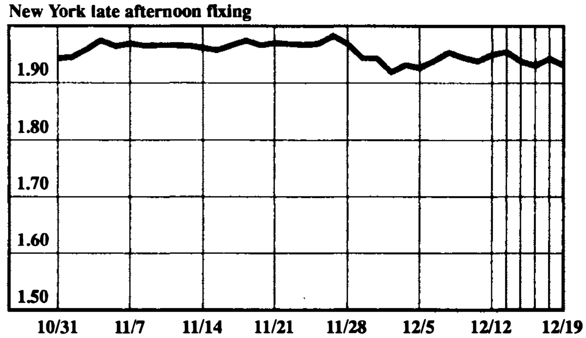
The dollar in yen

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