

No 'free market' road to east German recovery

by Rainer Apel

The people who made the peaceful revolution of late 1989 are back in the streets of east German cities, gathering for protest marches. Up to several hundred thousand protesters in Leipzig, Dresden, and Berlin had once called for the end of the socialist regime; today, tens of thousands are calling for the end of another regime—the “free market” economic management that has proven incapable of bringing jobs and social security after the collapse of the communist regime.

The new wave of mass protests began in late January, with harsh criticism of the German government's decision to fork over close to \$12 billion in tribute for the Gulf war, at a time it was dickering over nearly every additional single deutschemark of support for the ailing economy in east Germany. An explosive ferment was building behind the scenes, especially at the end of February, when the new jobless figures were published: 780,000 unemployed, and another 1.9 million on short-work in east Germany. This was close to 30% of the entire work force in the five eastern states of Germany, which meant that at least one member of every family was without work.

The official line of the German government, shaped by the ideology of fiscal conservatism, was that the people had to pass through this “low point of the conjunctural valley.” But the demonstrations showed that people are simply not interested in listening to such homilies any more.

The only thing that can reverse this crisis in Germany, and give hope to the nations of Eastern Europe as well, is an economic development program based on Lyndon LaRouche's Paris-Berlin-Vienna “Productive Triangle” of infrastructural and high-technology investment. This was the theme of a conference held by the Schiller Institute in Berlin March 1-3 (see *EIR*, March 15, page 4). The conference was attended by more than 100 economists and political activists,

many of them from the former East bloc. They made it clear that social ferment for a profound political change in east Germany existed, and would soon make itself heard.

According to a declaration voted up at that conference, “The ruin of developing countries and the deepening economic depression in the English-speaking world make clear that the system of Adam Smith is no more capable than that of Karl Marx to provide a solution to the economic misery of eastern Europe. . . . We call on the governments of Eastern and Western Europe, to make the ‘Productive Triangle’ program the centerpiece of their government policy.”

Labor protests are growing

The first days of March saw the revival of the east German protest movement, under a prominently displayed labor banner.

On March 6, several thousand metal workers took to the streets of Magdeburg, protesting plans for the foreclosure of most of the factories there. On March 8, several hundred women—most of them working wives who had already lost their jobs—staged a protest march through downtown Leipzig. On March 11, following the traditional Monday evening peace prayer at St. Nikolai Church, 25,000 workers, predominantly from the metal-processing sector, joined for a march of protest, attacking the government's labor market and non-investment policy.

“We took to the streets before [in 1989] to bring the communist regime down,” a factory councilman said in his short speech, “and we are taking to the streets now again, to fight for jobs and social security.” He and others attacked the indecision in Bonn on programs for job creation and consolidation of the production in east German cities.

On March 18, there were 70,000 people in the streets of

Leipzig, another 40,000 in Chemnitz, and several thousand each in Berlin, Rostock, Goerlitz, and Magdeburg. At the end of the day, the Lutheran Bishop of Brandenburg state, Klaus Forck, said: "I am afraid that it won't be long before we have a million people in the streets, as we had in 1989."

The big protest wave in 1989 started the same way: first 3,000 and 5,000, then 20,000 and 70,000, finally 350,000 people joining for a march of protest that extended through the entire inner city of Leipzig—a city of 500,000 inhabitants. Of that city's working population of 380,000, some 40,000 are now jobless, and another 100,000 on short-work.

The March 18 Monday protest march in Leipzig pointed harsh criticism at the fact that Bonn's Chancellor Helmut Kohl hadn't been seen in east Germany since the December 1990 elections. "It seems the chancellor is more interested in votes than finding out what is going on in the minds of the people here," said one of the trade unionists that addressed the crowd of 70,000. Another speaker, Werner Schulz of the Green Party caucus in the German Parliament, called on Kohl to come to Leipzig to talk to people: "If he won't come to us, we should go to him." Schulz warned that the people would march right up to the chancellor's doorstep.

Another labor unionist said in his speech: "Unemployment here could rise to 50%. That's an entire people without work. We didn't go on the streets in the autumn of 1989 or vote for German unity for this. We will not allow ourselves to become second-class Germans."

Pastor Christian Führer of the St. Nikolai Church, which had played a role in the mass protest ferment of 1989, demanded: "There must be an end to those ideologues of the market economy who say the market solves everything." His statement was met with rousing applause.

'Shock therapy' won't work

For all of East Germany, the plans of the "free market" faction that moved into policymaking posts after the fall of the communist regime in November 1989, envisaged laying off 4 million out of a total of 10 million jobs within the next two or three years. These people said, and probably even believed, that with the security provided by the West German social welfare system, the shock of transition from the "outmoded socialist state-sector economy to a modern Western-style market economy" could be managed without major social perturbations. Their concept was to close down one-third of East Germany's industries right away, sell another third to private investors from the West, and phase out the remaining third over a longer period of time.

This shock therapy approach was the original mandate of the Treuhandanstalt, a state holding company that was established on June 17, 1990, to take control of the entire state sector economy of East Germany—a huge empire of 8,000 firms and farm cooperatives, with 6 million workers and employees. One has to add to that the 2 million workers and employees of the oversized public administration sector,



Helga Zepp-LaRouche addressing an organization of Hungarian former political prisoners in Budapest on the "Triangle" development program for Europe—the alternative to Marx and Adam Smith.

including the occupation of key administrative functions by mostly unqualified members of the Socialist Unity Party (SED) of the past regime, which at its height had 2.4 million members. The latter category of public sector jobs included the police and judicial apparatus, the army, the militia, and the party-controlled mass organizations. One-third of the administration—650,000 jobs—was to be phased out too, after a grace period of 12 months between July 1, 1990 and June 30, 1991.

This couldn't work, and it didn't. It couldn't work because of the reality of the "free market" system. What happened was not the smooth transition from one economic system to another, but the collapse of most of the industries and farm cooperatives in East Germany.

The shards of an economy

Those East German industries specializing in exports to the Comecon, the former, Moscow-run trade community of Eastern Europe and the Soviet Union, collapsed with the overall disintegration of the socialist bloc economy in 1989-90. An estimated 1.4 million members of the East German work force were dependent on trade with the Soviet Union, producing 40% of all export goods in 1989—mostly freighters, railway cars, agricultural machinery, water-borne construction cranes, machine tools, prefabricated components for home-building projects, and optical and electronic equipment.

A second category of industry specialized in state-subsidized production of textiles, accessories, and canned food

for the West, with the aim of earning hard currencies; they collapsed when they no longer received the support of the communist regime. This category also included many of the state farm cooperatives.

A third sector of the economy, the medium-sized industry and crafts sector which was supposed to blossom under the reign of the "free market," never made it into the new era. Of 300,000 new enterprises listed in East Germany, after the fall of the regime in November 1989, only 15% were in the traditional craft occupations like woodworker, roofer, car mechanic, household repairman, electrician, and the like. The vast majority were enterprises in the food and commodity distribution sector, based on quick amortization of investments through a drastic increase of sales. In most cases, these were just distribution centers for West German producers of food, textiles, shoes, and other consumer goods which flooded the east German market. In many cases, there was direct collaboration between former East German state cooperatives in the trade, food, and textile sector, and Western cartels. Under such conditions, there was never any real chance for new east German enterprises to establish themselves on the market.

The crafts and medium-sized industries in the construction branch could have had a chance, but it depended on municipal contracts which were never signed, or the private property of real estate which could be taken as collateral by the banks that would finance the new enterprise. As for the municipal aspect, since the first free elections for city councils on May 6, 1990, this level of administration has been only in the building phase. As for the property question, the law worked out in the German Unity treaty of October 1990 called for restitution to former owners who had been expropriated by the former communist regime. Compensation on the basis of the state of affairs as it was in late 1990 was to be the rare exception. This has led to a situation where most new investment projects cannot be realized, because the original owner of the land and factory inventory on which they are to be launched is yet to be determined.

A special problem, naturally, was that the state and the public administration have not mobilized a broad infrastructure investment program on the land that they owned, for reasons of "not interfering with the free market approach." This has been a big mistake, because an incentive that could have catalyzed industrial investments, namely a state program for infrastructure for the energy and housing sectors, was not forthcoming. Instead, for reasons of maintaining fiscal austerity over the state budget, plans for replacing the state by private investment options in transport infrastructure were discussed fruitlessly over several months. The precondition of private sector infrastructure projects would have been a change of certain articles in the German Constitution which specify that the public transport structure is the property of and in the exclusive care of the federal administration, the individual states of Germany, and the municipalities.

Adjustments in the government approach

In a series of meetings in mid-March, involving Chancellor Kohl, the cabinet ministers of finance and economics, and the prime ministers of the five east German states, some adjustments were worked out to halt the economic collapse and free the way for substantial investments in the eastern part of Germany.

The Treuhand mandate was changed, so that the firm would more closely consult with the five east German state governments from now on, and shift the general emphasis from a policy of foreclosure or reprivatization, to employment stability. Involving the continued operation by the Treuhand of some 4-5,000 companies and a longer-term state credit guarantee for exports to the former Comecon area, this is expected to stabilize and reconsolidate the employment situation for 3-4 million workers.

Furthermore, the property clause was modified, moving away from priority restitution to former private owners, to options for eventual expropriation with compensation to the former owner. This is expected to launch more public projects for infrastructure and industrial investment.

Another important step was taken on March 12, when the Bonn government gave an export credit guarantee for a long-delayed contract between the Soviet State Railways and the German Boxcar Manufacturers (east Germany) for the delivery of 1,022 passenger cars and 1,400 refrigerator cars. With a volume of DM 1.4 billion, the contract will secure 15,000 jobs in the manufacturing branch and an estimated 15,000 more in the rolling stock supplying sector of east Germany for the next 12 months. This means secured jobs for about half of the work force in the railway technology sector of east Germany.

Economics Minister Jürgen Möllemann also wrote a letter endorsing the long-overdue DM 6-8 billion project for two 1,300-megawatt nuclear power reactors at the east German sites of Greifswald and Stendal. West Germany's Siemens-KWU Group wants to build the reactors at the price of DM 4 billion each, if it gets government clearance under the rather restrictive laws governing nuclear plants. Möllemann discussed the project when he met with the directors of the three west German power giants—Bayernwerke, Preussen-Elektra and RWE—in the first week of March, and also met in mid-March with the two prime ministers of the states which would provide the sites for the new reactors, Mecklenburg-Prepomerania (the Greifswald site) and Saxe-Anhalt (the Stendal site).

From pragmatism to a coherent policy?

These measures from the government, although they are only pragmatic adaptations to the emergency situation, do show that although it is still in need of a sound program for the industrial reconstruction of east Germany, the Bonn cabinet has at least grasped the importance of moving from free market inaction to state-sector action. Limited as it may

be, this new Bonn approach contains two elements that point in the direction of a sound investment policy. The two elements could capture the popular imagination through projects of a symbolic character with which the whole nation could identify.

The first element is the moved-up timetable for turning Berlin from the nominal into the living capital of the nation, in the next few years. Implying investments in the range of several billion deutschmarks, the decision in favor of moving substantial government and legislative functions from Bonn to Berlin is due before the July summer recess this year.

Further, a Bonn government decision in favor of the initiative launched in mid-February by Josef Duchac, the prime minister of the state of Thuringia, for the DM 8-10 billion project of a 600-kilometer-long Transrapid maglev rail track through east Germany, is expected soon, according to senior sources in the administration.

The Duchac project already received an important endorsement from Economics Minister Möllemann, who said in his keynote address to the Leipzig Industry Fair on March 17 that this city had "the great chance of becoming a trade pivot and servicing center for all of Europe, on the condition that it is supplied with a functioning system of transportation."

"The realization of a Transrapid line from Berlin via Leipzig and Erfurt to Frankfurt, could create between 25,000 and 40,000 new jobs," said Möllemann, who declared the commitment of his ministry to lend whatever financial resources were available to such a project.

On hand at the Leipzig Fair was Günter Gross, the chairman of German Boxcar Manufacturing, Inc., who said March 19 that such a modern railway technology project should be welcomed, because it would send a signal to the entire transportation sector in east Germany.

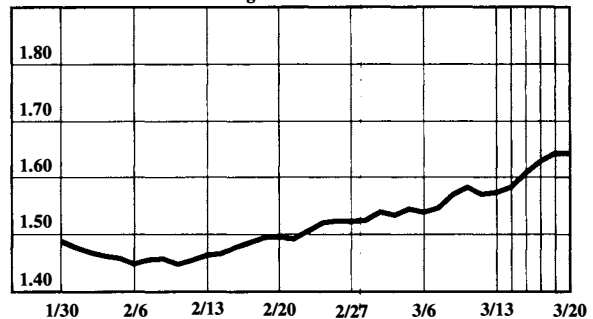
The signal goes beyond that. The "Berlin Capital" and the Berlin-Frankfurt Transrapid projects are leading the way from the pragmatist approach which is only capable of reacting to the disasters caused by an inappropriate economic policy, toward a systematic approach of developing the nation's infrastructure, industry, farming, research and development, as well as stable trade relations with Germany's eastern neighbors.

Helga Zepp-LaRouche, in her address to the Schiller Institute's Berlin conference, emphasized that the resurrection of the economies of the East from the "rubble-heap of socialism" will only be possible with such a coherent policy, an inspiring policy. "Over one year ago," she said, "I emphatically pointed out that, in my view, we would only succeed in seizing Europe's great historic opportunity if we tied the prospect of a comprehensive European development plan with a Christian-humanist renaissance. The events of the last year have shown us where the lack of these values has brought us. It is high time that we correct our errors."

Currency Rates

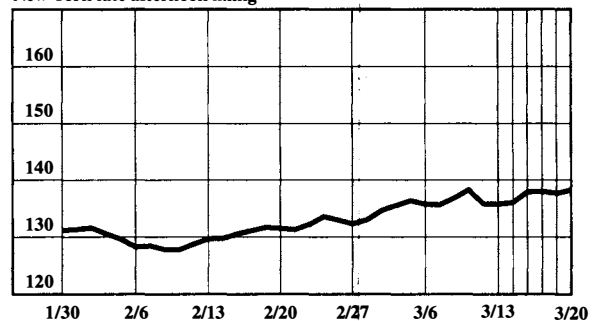
The dollar in deutschmarks

New York late afternoon fixing



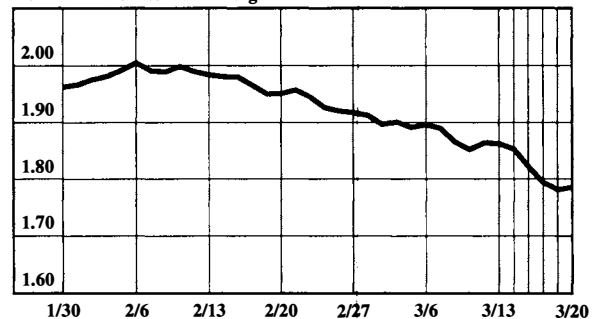
The dollar in yen

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

