Report from Bonn by Rainer Apel

Can Germany escape a deep recession?

The decline of exports, trade war, and home-made problems are alarming signs.

On July 27, a passenger train loaded with weekend travelers and a freight train carrying gasoline tanks collided head-on near Oebisfelde, near the east German city of Magdeburg. The ensuing explosion killed three train engineers and injured more than 20 passengers—great luck prevented a giant catastrophe with many more deaths. Rescue and removal work blocked the station for more than a day. But how could two trains with opposite assignments—one for passengers, the other for highly explosive cargo—collide anyway?

The key transport routes of the Germany railway grid are "dual-used," for goods as well as passengers. This is due to lack of infrastructure investments in both Germanys before unification. Bottlenecks are worst on the east-west routes between the two formerly divided parts.

The Oebisfelde station is one of the bottlenecks faced with massively increased traffic since unification last October. But construction on the rail routes is slow, due to the German government's fiscal austerity policy. Construction is going slowly as well in western Germany, because the government shifted funds for transport infrastructure projects in the west, to eastern German projects.

This inner-budgetary robbery has led to such absurd decisions as not funding, next fiscal year, the Theodor Heuss Bridge in Mainz—one of two bridges for traffic crossing the Rhine river in the entire Frankfurt-Mainz-Wiesbaden region, with a population of more than 3 million. The bridge may have to be closed entirely this fall—leaving only one bridge open for all car traffic across the Rhine there.

These problems in the road-rail sector originate in the austerity-minded Bonn government. It's an investment problem in the first place: a giant sum—DM 140 billion this fiscal year—is spent by the state for programs to meet the economic crisis in eastern Germany. But 70% of that money is spent on administrative measures and on unemployment support for the 2 million jobless and another 1.8 million on short-work in eastern Germany; 30% is available for investments in infrastructure and industry, but only a minor portion has been mobilized so far, because of bureaucratic obstacles and the lack of a "grand design," of one or two giant investment projects.

Slowed-down industrial activity in the East is also cutting the tax flow to about 20% of the revenue needs of the five eastern states and the municipalities. So, public budgets in the East are heavily subsidized by the West.

For most west German taxpayers, the financial burden and slow recovery in the East have become a source of outrage against Chancellor Helmut Kohl, who pledged in the last elections that there would be "no major problem with the unification." Industry management is angry at Kohl too, because the export controls the government applied during the Anglo-American propaganda campaign around "German poison gas for Saddam" are adding to the problems the export sector faces abroad. Of Third World client nations, 54 are on a black list for exports requiring special permits, which may take months to get. Most clients won't wait if they can sign contracts faster with firms from other countries.

Yet the main drop in foreign orders occurred among Germany's main trade partners in the industrialized nations. Economic recession and the ensuing "contraction" on key export markets for German machines like the U.S., Britain, France, Italy, and Sweden, but also Gulf crisis effects on OPEC clients of German industry, have caused a 30% drop of foreign orders in the first six months of 1991.

Domestic orders are up, because of "German unification effects," but as industrial recovery in east Germany moves at a snail's pace, domestic orders cannot possibly balance losses in foreign orders. Potential export markets are developing, such as Iran, a leading client of German industry in the 1960s and 1970s which declined during the 11 Khomeini years, and only developed more exchange with Germany in the past two years. But German exports to the Soviet Union and eastern Europe have plummeted.

Germany needs to strike out on a path of concerted investments, domestically and on the export markets. It would have to be a low-interest credit policy, to create new credit on a large scale, breaking with fiscal austerity; it would have to be carried out in a dirigistic way, focusing on vital industrial interests of the German economy where they fit with vital development interests of trade partners abroad, especially in the East.

Germany should do what the Bush team fears most—as U.S. trade envoy Carla Hills put it: "Extended trade links between the European Community and the Soviet Union must be prevented as they pose the danger of creating a zone from which the U.S. is locked out."

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