Report from Bonn by Rainer Apel

Opposition to IMF austerity grows

With eastern Germany approaching Third World levels of poverty, when will Bonn walk out of the IMF?

On Oct. 12, Minister of Housing Irmgard Schwätzer called for partial debt relief for the east German housing sector and a freeze on all payments of old debt until the end of 1996. This initiative, which put Mrs. Schwätzer into a fight with the monetarist-minded finance minister, Theodor Waigel, is important in two ways: first, she is a member of the liberal Free Democratic Party, which has so far been a bastion of support for the free market policies of the International Monetary Fund (IMF); second, her move came after growing pressure from the five east German states to take the debt burden off their shoulders.

The initiative by the five state housing ministers, in turn, came in response to increasing ferment against debt payments from the municipal housing associations.

Bonn ruled in October 1990, when the two Germanys were unified, that the old debt of the housing sector of East Germany, an estimated 36 billion deutschemarks, was to be carried over. Bonn's meager concession, then, was to declare a grace period on repayment until the end of 1993. East German housing associations were to start paying the debt as of January 1994.

This decision was justified by Waigel as being in compliance with the "world debt situation and discussion about it." Debt forgiveness would, Waigel argued, "send out just the wrong signals."

It was clear even in 1990 that east German housing associations would not be able to pay either the debt or the interest. Their income from rents is far too low to allow any repayment at all. Furthermore, essential investments in the rehabilitation of 7 million old homes, plus the construction of new homes, will cost around DM 200 billion ($140 billion) over the next 18 years. The high interest rates imposed by the German central bank will drive the housing debt from DM 36 billion to DM 51 billion by early 1994.

The only way out of this crisis is debt forgiveness, and access to new, low-interest credit.

This is increasingly becoming the view of many east Germans. The municipalities report average tax revenues at 20% or even less of what they actually need for day-to-day operations. The tax revenues are so alarmingly low, because fully 55% of the industrial output and employment of pre-unification east Germany has been "phased out."

The shocking 55% official figure is even contested by east German industries as "far too rosy." Labor leaders in the state of Saxony report the following figures:

While the official jobless rate in the state is 30.7%, one has to add those who travel to work in the western states and those who have taken early retirement. This adds up to a total of 40%, which the labor leaders consider positive, by comparison to the 50% or more jobless rate in the four other east German states.

Of the 397,000 jobs reported in Saxony in 1989 in the machine tool sector, there were only 69,100 (17%) left by May 1992. In the manufacturing sector as a whole, of 1.2 million workers, there were only 250,000 left by May 1992, and by January 1993, there will only be 200,000 (17.7% of the employed work force in 1989).

The situation is even more dramatic if monitored on the level of individual plants in crisis sectors, like firms that produce machines for the textile industries: The big textile-machine maker in Chemnitz, Textima, which formerly employed 21,000 people, now has only about 1,500. The firm "survives" by selling idle factory areas to department store chains and the like.

It has been from Saxony that the first direct attacks on the IMF and the Bonn cabinet's loyalty to the monetary fund have been launched. In a speech in Dresden on Oct. 5, Dieter Rudorf (Social Democrat), the second chief speaker of the Saxony state parliament, said that the effect of IMF conditionalities has been to freeze sales worth DM 2 billion in farming and other machines, which could have been sold to the industries of the former Soviet republics and other eastern clients, but are instead standing idle.

This has to do, Rudorf specified in a discussion with this author, with the practice of IMF experts, who blackmail the Russian government with the threat not to make loans for machinery imports, but only for imports of luxury consumer goods like brandy and cigarettes.

Rudorf called on the government in Bonn to pressure the IMF to modify its policy. The situation has deteriorated too far, however, to be improved by "modifications": Germany must walk out of the IMF entirely, launch a new system of industrial credit, and write off the old debt.