Report from Bonn by Rainer Apel

It's either depression, or recovery

Germans are faced with the same basic choice as Americans: to build their way out of this depression or suffer austerity.

Most German media and observers of the U.S. elections noted that the defeat of George Bush was due to the worsening economic situation. But the saying among political insiders here goes that if Chancellor Helmut Kohl were up for reelection now, he would suffer the same fate as Bush.

Ironically, a victory for the opposition Social Democrats would occur for the same reasons that Bill Clinton won: He was *not* Bush. A challenger to Kohl would be elected mainly because he would *not* be Kohl. As a party, the Social Democrats offer no alternative to the austerity policy of the governing conservative-liberal cabinet in Bonn.

This puts Germany in a dangerous box at a time when there is talk of the public debt getting out of hand, a potential bankruptcy of the state, and of a currency reform. The Federal Accounting Office opened the round of revelations about the real state of the economy in early November with a forecast that the public debt, which is now at DM 1.6 trillion, will be at DM 2.0 trillion by the end of 1993.

In a Nov. 6 interview with the daily *Bildzeitung*, Heinz Guenther Zavelberg, the head of the accounting office, warned that the state would have to declare formal bankruptcy in the late 1990s, if the present rate of debt growth could not be reduced. While the state had to pay DM 80 billion in 1990 for the servicing of debt, it will pay DM 170 billion in 1995, said Zavelberg, adding that he didn't want to "speak about today, tomorrow, or the day after tomorrow—but sometime in the future, this will be the situation."

Ingrid Matthaeus-Maier, spokesman for the Social Democrats on fiscal policy, has warned against a "state of economic emergency," pointing at the mountain of debt that has been piled up already. If the state were forced by the banks to pay off its debt (the way Third World nations are forced to do by the International Monetary Fund), it would have to pay DM 700 million daily, and since the German taxpayer can't afford that, the government would have to declare bankruptcy like any other bad debtor, she said.

The debate on the economic situation was further dramatized when Finance Minister Theodor Waigel announced on Nov. 6 that his trip to Moscow the following week had been canceled. Officially, the political chaos in Russia was cited, but many in Bonn emphasized that revised data on the fiscal situation made it impossible for Waigel to travel to Moscow, where he would have had to present more than his empty coffers to make his trip a political success.

The new data on expected state tax revenue for this fiscal year, revised by the ministerial advisory board in October, showed that the May estimate of a DM 5 billion surplus was wrong. The new estimate came on the eve of the decisive round of debates in the parliament on the state budget for fiscal year 1993.

As it looks now, tax revenues will be DM 600 million less this fiscal year than originally forecast, and another DM 7.5 billion less in the next fiscal year. The publicly admitted difference of DM 5.6 billion for FY 1992 may not even be the full story. In an "unauthorized statement," Economics Minister Jürgen Moellemann mooted the discovery of a DM 20 billion shortfall in tax revenues.

Bonn's "remedy" is a brutal one: Cut wages. Horst Koehler, the outgoing deputy finance minister, told the Christian Democrats' economic council on Nov. 11 that Germans should get used to the idea that "for some years, their real incomes will drop significantly." Waigel gave the same message, telling the council of a phony bookkeeping trick, that "1% of lowered interest rates will spare the economy DM 6 billion—1% less increase in wages will spare DM 11 billion."

Former Social Democratic Labor Minister Herbert Ehrenberg recently pointed out that 100,000 more jobs would mean additional tax revenue of DM 3 billion; but 100,000 fewer jobs mean additional expenses of DM 3 billion for social welfare, jobless benefits, etc.

More reasonable people here may differ, but they all agree on one point, that only state intervention for the launching of great projects of infrastructure improvement can create a sufficient number of jobs to visibly improve the tax base. The construction of the nation's first 240-kilometer maglev line between Hamburg and Berlin, projected for the late 1990s, will create about 100,000 industrial jobs and increase the tax base by DM 3 billion yearly.

The parallel construction of 280 kilometers of maglev line between Berlin and Dresden (not yet in the national transportation plan) would create 150,000 jobs and improve the tax base by another DM 4.5 billion.

Building a maglev line of 560 kilometers between Berlin and Frankfurt-Main, as proposed in 1991 but rejected by Bonn, would create 250,000 jobs and generate DM 7.5 billion in tax revenues, which would cover the shortfall expected in FY 1993.