Debt moratorium is becoming popular

A municipal debt repayment strike in eastern Germany is opening a debate on the unjust debt burden generally.

On May 2, the DST, the national association of municipalities, declared that its member institutions in the five eastern states will stop payments on a crucial share of their "old debt." The move may turn out to be the beginning of a political revolution in Germany.

The action concerns DM 6.3 billion ($3.9 billion) of pre-1990 investments of the East German government that were, after reunification, mysteriously transformed into "loans" allegedly granted by the state to the municipalities for social, health, and daycare projects.

The municipalities see their "debt strike" as a means of forcing a debate on the entire pre-1990 debt in the Constitutional Court, and are aiming for a ruling that declares at least substantial parts of the debt a bookkeeping hoax and, therefore, illegitimate.

The moratorium comes at a time when senior spokesmen of management, labor, and government in the five eastern states have a consensus (against Bonn) that a moratorium on the old debt is the only way out. The strike is also officially endorsed by the entirety of the similarly indebted western German municipalities. Informed sources say the DST sees the move as a trigger for a national debate on the entirety of the roughly DM 200 billion municipal debt.

The debt strike is the first of its kind in postwar Germany, and it comes when various institutions are publishing new figures on the debt on an almost daily basis. Recent hints, on which Bonn refused comment, that the total public debt (federal, state, and municipal) is now above DM 1.6 trillion, have been fully corroborated by a new report of the Bavarian state central bank. It estimates that the public sector debt reached DM 1.67 trillion this spring. About DM 350 billion of this sum is on the books of the public sector in the eastern states and municipalities.

There is no way that even part of this debt, which has been fueled by the high interest rates (in the West since 1979, in the East since 1990), can be paid, and more and more economic and political institutions are realizing that the country is caught in a "debt trap." Proposals for a moratorium and long-term debt rescheduling are gaining ground, as this author witnessed in talks with government and industry representatives in the eastern state of Thuringia during early May.

The debate has explosive political potential, because even beyond industrial circles and municipal policymakers, outrage at Bonn's stubborn monetarism and lack of economic expertise is growing. The decision of Finance Minister Theodor Waigel to leave the cabinet and take over the post of Bavarian state governor is symptomatic of this.

Desertions from the debt-collecting paradigm can also be seen in the bankers' community. On May 7, for example, the German Construction and Real Estate Bank took the unprecedented step of siding with its indebted clients. The bank pointed out that concessions which the government had made in recent talks with the indebted municipal housing associations in eastern Germany were phony. The government's promise to shoulder 30% of the east German housing debt of DM 43 billion, only holds if the housing associations manage to sell at least 15% of their property on the market from 1996 on, to resume their debt service payments.

Given the speculative conditions that are dominating the "market," the bank warned, the associations would be under immense pressure to "privatize" property and buildings at any price, to keep pace with their debt payment schedule. The logical consequence of this government policy, the bank said, would be certain bankruptcy.

The ferment around the debt issue also provoked Misereor, the international relief organization of the German Catholic Church, to launch a campaign for a moratorium on the staggering debt of the developing sector nations. In an ad in the daily *Frankfurter Allgemeine Zeitung* on May 11, a joint initiative of German Catholics and non-governmental organizations with the name of "Development through Debt Cancellation," recalled that the 1953 London Debt Conference canceled more than 50% of the German debt, thereby giving the postwar German economy a good start.

The same method should be repeated 40 years later, the ad read. Germany, a creditor today, should be generous to its own debtors. At least 50% of the debt in developing nations should be canceled, the ad demanded, proclaiming the principle that "development needs debt cancellation: As long as 35,000 children in the debtor countries keep dying from malnutrition and avoidable diseases every single day, countries in the South should spend their money for food and health care for their populations—rather than paying their interest to German creditors!"