is limping so badly that, despite massive freeing-up of manpower, the wage bill in the east is climbing much faster than in the west.

Dr. Dieter Vesper from the same Berlin institute referred to the classic dilemma of liberal monetarist policy. National revenues drop in the crisis, and spending needs grow, and the financial gap widens. Programs for cranking up the real economy with government investments, which then raise the public deficit, fall victim to the credo of limiting the deficit. Vesper pointed out that cuts in social spending and public investment are most counterproductive in economic hard times, when a policy of support for labor must be deployed against the conjuncture. Public infrastructure, he added, not only stimulates private sector growth, but brings its own benefits in production and employment.

For eastern German transport routes alone some DM 185 billion needs to be spent. An energetic buildup of private economic and public capital stock in the east, estimates one economist, means an order of scale of over DM 2 trillion, DM 500 billion of it just for state-financed infrastructure (transport, energy, communications, housing, etc.).

Deficit spending or state credit creation?

Within prevailing market-economy logic a paradox enters when it comes to financing all these desirable programs. Expansive financial policies, hence state investments, which build up a conjuncture-conditioned deficit, cannot be enacted because of the dictates of the tight-money austerity policy. This contradiction lies behind the ultimate senselessness of "conjunctural programs" and "stimulus packets," which are supposed to be offset by the harshest austerity policies.

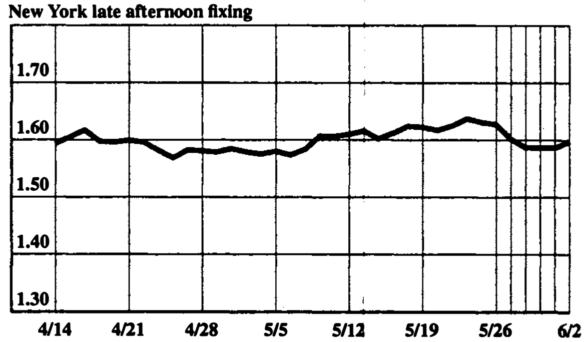
Now the trend is toward financing minimal necessary investment needs in the new states through tax and rate hikes. Cologne financial scholar Professor Dr. Marckscheidt emphasizes rightly that "state debt is something thoroughly positive, namely the evidence that the state has carried out public investments and hence has produced public wealth, of which the future can make use." But since 1990, the state has produced only "wealth for the present," i.e., consumption-oriented payment transfers to the east, defrayed by tax increases. So now, the deficit financing has to be stopped and compensated for by fiscal financing—which boils down to figuring out which new taxes and spending cuts can be sold to the voters.

All these considerations, whether from the regime or the opposition, block out the main point: that the massive infrastructure investments, which are surely needed, must be launched by state creation of productive credits via the regulated issuance of notes by a national banking system. As long as these credits are directed exclusively into real physical wealth production, they are not inflationary, because the resultant growth will generate rising tax revenues. A third way between "deficit spending" and state credit creation does not exist.

Currency Rates

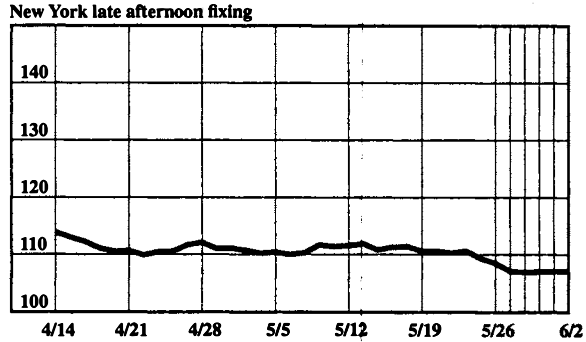
The dollar in deutschemarks

New York late afternoon fixing



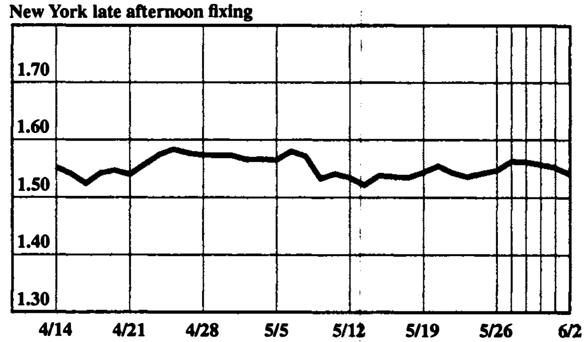
The dollar in yen

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