

Report from Bonn by Rainer Apel

Foul compromises on the 'old debt'

The government is stonewalling on a serious solution now, and ruining the future of Germany's municipalities.

The government of Chancellor Helmut Kohl, whose free-market and monetarist policies after German reunification caused the almost complete deindustrialization of the State sector economy of eastern Germany, is about to risk the ruin of 1,400 municipalities in the East, for the same ideological reasons.

The government has been stonewalling on any reasonable solution to the so-called "old debt" of some DM 5 billion, which the pre-1990 socialist regime of East Germany loaded on the municipalities by decree. Carried over into the unified Germany, this "old debt" has grown, through the addition of western interest charges, and is now almost DM 8 billion (\$5.5 billion), and will be DM 8.7 billion by the end of 1996.

This "debt," a dubious bookkeeping trick in East Germany's Five Year Plan, should have been written off in the process of German reunification. But, under the influence of the banks that bought up the East German banking sector and wanted to preserve their "claims," and under blackmail from the International Monetary Fund (IMF) and the international creditor banks to avoid a chain reaction from an internal German debt moratorium, the entire, absurd "old debt" of East Germany was treated as legitimate by Bonn. The debt was parked at the Berlin Treuhand agency, as a trick to relieve the heavily indebted federal state budget between late 1990 and the end of 1994.

In late 1992, banking experts recognized that the "old debt" would nev-

er be paid, because no one in the East could afford it, and that the federal budget would be thrown off its nervously guarded balance, were the "old debt" added to the existing government debt as scheduled by January 1995. In the spring of 1993, Kohl ruled that decision on the irksome issue be postponed into 1995.

This was intended to gain time and to escape a court battle with the municipal "debtors," since Bonn feared the court might rule in favor of the "debtors," because of the dubious nature of the debt. The entire problem only returned to the political agenda in the summer of 1995. Bonn chose a carrot and stick approach to breaking the resistance of the eastern municipalities. Instead, the municipalities have flatly rejected the various foul compromises offered by the government, and stated their firm intent to take the issue before the Supreme Court.

This was the situation in early November, and the conflict continues to escalate, because the DM 3.7 billion interest would become voided by Dec. 31, according to banking regulations, if the "old debt" were not recognized by that date.

Kohl felt compelled to step in personally, offering a "decisive" meeting in Bonn on Nov. 27. But, continuing its blackmail tactic, on Nov. 14, Friedrich Bohl, head of the Bonn chancery, threatened legal action by Nov. 24 to enforce debt payments. Bohl said the government would mail out final notices to pay, should the municipalities continue refusing to rec-

ognize the "legitimacy" of the claims. The ultimatum backfired, when the 1,400 municipalities responded that they would not pay, but would consider taking Bonn to the Supreme Court, should payment be enforced.

Now, the "old debt" issue is being featured at rallies in many eastern cities, resumed by concerned citizens to commemorate the 1989 protests that helped bring down the East German regime and to protest five years of government economic shock therapy.

All of this should have been a last warning to Bonn to solve the conflict by declaring a debt moratorium, before the courts got involved. Kohl withdrew the ultimatum, but then attempted a previously successful ploy, when he appointed Thuringia Gov. Bernhard Vogel to "mediate." Vogel had helped bolster Kohl in the summer of 1993, when he assisted in breaking the Bischofferode potash miners strike, which was gaining broad national, and international support. Vogel made promises to create new jobs for the miners, if they agreed to the closing of their mine. They accepted his proffer, but the jobs were never created.

The leopard doesn't change his spots: Vogel is now offering to relieve the municipalities of 50% of their "debt"—which would be picked up by the five eastern state governments and the federal government—if the "debtors" first recognize the legitimacy of the claims. Remaining payments would be stretched out over 25 years, at DM 800 million a year.

This foul compromise means that the 50% that the municipal "debtors" would have to pay, adds up to DM 10 billion. We would hope that, unlike the Bischofferode miners in 1993, the "debtors" of 1995 stay firm and turn thumbs down to these debt-collecting schemes that mean certain ruin to the municipalities.