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This perspective gained prominent support from Georgia's President Eduard Shevardnadze, who said in Almaty the following day, that work on rail corridors should be expanded into a north-south transportation link through the Caucasus—which would be the shortest distance from Iran to Russia, via Azerbaijan, Armenia, and Georgia. Numerous reports on, and references to these remarks, have appeared in Caucasian and Central Asian media since the end of April.

Initiatives in Central Asia

The Central Asian aspect dominated the agenda, then, at the **New Silk Road** conference in Tashkent, Uzbekistan, on May 29. It focussed on the European Union's road-rail Transport Corridor Europe-Caucasus-Central Asia (TRACECA) project, which covers the entire region from Turkey to the Chinese-Kazak border. What made this event worth special note, was the attendance of a large delegation of senior representatives of Chinese construction and other industrial companies. A recurring theme in conference presentations was that "the economic prosperity of Uzbekistan and other Central Asian countries depends on convenient international transport communication." Envisioning a strategic improvement in trans-Eurasian highway transportation, the Uzbek government announced a project for a new 2,000 kilometer highway, running across Uzbekistan, from its western border with Turkmenistan to its eastern border with Kyrgyzstan.

Only a week after that Tashkent event, a four-day conference on rail development was scheduled to begin in Baku, Azerbaijan, on June 5, with the participation of senior rail officials from the 15 former Soviet republics, in addition to those from ten other states in Eastern Europe and Asia which are members in the Railway Operators Cooperation Organization. In between these events in Tashkent and Baku, rail and related transport issues were also expected to come up in talks at the Commonwealth of Independent States (CIS) summit in Minsk, Belarus, on May 31. Two other big international conferences in mid-June, one of the CIS, on economic policies, in Moscow, and another in Beijing of the Shanghai Five (Russia, China, Kazakstan, Tajikistan, Kyrgyzstan), are scheduled to discuss the same issues, among others, as well.

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Berlin Bank Going, City Faces Collapse

by Lothar Komp

When speculative bubbles burst, the taxpayer has to bleed. True to this principle, the Japanese government over the last ten years, presented one bailout plan after another for the failing private banks of the country, and thereby built up a gigantic mountain of state debt, such that now, along with the banks, the Japanese state as well is on the brink of bankruptcy. The taxpayer finds himself dealt a bad hand of cards, when his government itself has speculated and lost. In 1994, Orange County, California had to declare bankruptcy, after it had lost $2 billion in derivatives speculation, which had come from a fund for schools, water supply, and public transportation.

Now the German capital, Berlin, has been hit. The Berliner Bankgesellschaft, the tenth-largest German bank with 400 billion deutschemarks in assets, faces bankruptcy, as a result of bad real estate loans. On May 31, the biggest bank collapse in post-war Germany was avoided by a hair: After the BBG had written off DM 7 billion in bad loans, from 1994-1999, it had to list another DM 5 billion in loans as "to be surveilled." As a consequence, the German banking supervision agency threatened the bank with closure, because its core capital due to the write-offs had shrunk below the required minimum of 8% of its total credit volume. This would have meant not only 16,000 jobs lost, but also the end of the Berlin economy's biggest creditor.

Only through a formal guarantee by the Berlin Senate on May 22, that the large financial hole would be filled within weeks by the public, was the collapse of the BBG stopped. Just how much taxpayers' money Berlin will have to pump into the bank, in which it has a 56% share, is not yet clear. In mid-April, BBG board chairman Wolfgang Rupf estimated the deficit of the bank's core capital to be about DM 2 billion. The Financial Senator Peter Kurth, on May 22, spoke of "at least DM 4 billion," while other members of the Berlin state government reckoned with DM 5 billion. And, by the time the banking supervision has completed its special auditing in the beginning of June, the amount is bound to go higher. In the German Savings and Loans Association, the figure of DM 8 billion is circulating.

The Berlin real estate bubble, which was built up right after unification, started to burst in 1994. While Berlin's in-

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dustry was massively downsized, a huge stream of credit had been poured into the construction of innumerable office buildings, which no one wanted to rent. Instead of constantly rising, real estate prices collapsed, and today, 1.3 million square meters of office space are empty.

Covering Up Speculative Losses

When the real estate bubble burst, it left its mark on the banking sector, often being covered up as usual by mergers and takeovers. For example, in 1994, the Berliner Bank, already hard-hit, was merged with the Berliner Hyp and the Landesbank Berlin, to form the BBG. In order to compete with the big Frankfurt banks, the credit volume was further expanded. And because there were barely any industrial investments available in the Berlin region, most of the credit flowed again into the construction sector.

Alongside the real estate credit business, the investment fund business also flourished. The IBG, which belongs to the Landesbank Berlin, rose to become the biggest German issuer of real estate funds by promising generous guarantees to 70,000 high-paying investors.

Meanwhile, more and more loans went bad, which led the BBG board, heavily interconnected with the Berlin government, to attempt one bizarre cover-up after another. For example, the leadership of the BBG, at the end of 1999, wanted to hide the total loss of its DM 660 million loan to the Aubis construction company in such a wild manner, that the whole credit department of the Berlin Hyp refused to be any part of the deal.

The managers of BBG showed special creativity also in their attempt, at the beginning of this year, to "sell" the daughter bank IBG, in cahoots with J.P. Morgan. For the purpose, they found a "buyer" in the tax haven Cayman Islands, a financial group named Greico. Greico did not want to buy IBG with its own money (if it had any); instead, J.P. Morgan was supposed to lend Greico $300 million, and for the rest of the price, the "seller," the BBG, was to give Greico a loan. Due to the intervention of the German banking regulators, the deal did not go through.

In the meantime, the Berlin state prosecution has opened 23 investigations into BBG managers, regarding possible criminal activities.

'Close All the Schools'

It will take some time, before all the machinations have been clarified, which led to the losses of billions of deutschemarks at the partially state-owned BBG. But what is immediate, is the threat of financial collapse of the city of Berlin. On May 28, Mayor Eberhard Diepgen admitted that Berlin this year would have to go into new debt worth DM 9.6 billion, three times the scheduled DM 3.6 billion: The extra DM 6 billion will be needed in order to bail out the BBG, as promised on May 22, and also to cover the revenue gap, as a result of the impossibility at the moment of selling BBG shares.

Admittedly, that even without this bank crisis, Berlin would be in dire financial straits. Even if the BBG were to be sacrificed, according to the Berlin financial authorities, by Autumn, at the latest, Berlin would be insolvent, and would not be able to pay employees, construction firm bills, or suppliers. Despite massive budget cuts over the past years, Berlin's debts have grown to DM 65.4 billion and at the end of the year could already reach DM 75.0 billion. From the expected tax revenues next year, amounting to DM 17.1 billion, DM 4.6 billion will immediately go to the banks in interest payments.

Even the attempt to fund the additional interest payments of DM 300 million per year, (for the additional DM 6 billion of new debt), by further cutting expenditures in the Berlin districts, would have catastrophic consequences. The district mayor of Berlin-Mitte Zeller declared: "Then there would be no road repairs; on the unplanted garden areas, one could only rake dust; in the schools there would be nothing more—no chalk and no textbooks—and even the youth centers would get no funds." District mayor Klett from Marzahn-Hellersdorf stressed, if his district has to cut another DM 25 million in expenditures, after the dramatic cutbacks of the past years, "then we can close all the schools, because that is exactly the amount we have budgeted for equipping and maintaining schools."

Debt Moratorum Instead of More Budget Cuts

It need not come to this point. Berlin has to put on the financial brakes, and, until the situation is clarified, declare a debt moratorium. Berlin satisfies both criteria cited in the German Constitutional Court decision of May 1992, defining an "extreme fiscal emergency": First, the credit financing quota—that is, the share of expenditures which is financed through credit—is more than double the national average. In fact, Berlin exceeds by three times the national average of 3%, with its 9.3%. And second, the interest/tax quota, the ratio of interest payments to tax revenues, is far above the national average. In Berlin, 24.5% of tax revenues are allocated for interest payments, while the national average is 11%.

With a debt burden of DM 19,400 per resident, double the national average, and a per-capita tax income which is not even one-third what it is in Hamburg, it is obvious that the German capital is not currently capable of meeting its commitments without outside help. But even with a couple of billion more per year from the Federal Finance Ministry, nothing will be solved. The problem of the wrong economic policy of the last decade has to be faced. Instead of brutal austerity, which in the case of Berlin has produced only more debt, what is required is the reindustrialization of the entire Berlin area, which in turn, can only be realized in the context of a long-overdue trans-European reconstruction program.