cludes, would "severely damage business prospects by undermining confidence particularly in western Europe." Consequences of that, Roche warns, would be a "flight of capital, higher interest rates (as political risk premiums are built into the cost of money) and deeper recessions. Western Europe would risk a swing to the xenophobic right as the small man feels the pinch of recession and immigrant labor. The consequences could be that Europe becomes less rationally governed, with serious implications for European integration and Europe's global stature and competitiveness."

Roche, noting the current economic problems besetting leading western economies, predicts the necessary western aid won't come in time to prevent anarchy and some return to a form of dictatorial regime. It should be noted that Morgan Stanley has been among the leading American investment houses consistently arguing since 1989 against German economic prospects and in favor of the dollar as "safe haven" against what it predicted would be chaos in eastern Europe. The firm is believed to have very close ties to Washington policy circles.

Kissinger 'explains'

All of this begins to make more sense, in its perverse way, when seen from the point of view expressed by influential Washington foreign policy "gray eminence" Henry Kissinger. In a commentary published in the March 1 German *Welt am Sonntag,* Kissinger warns, "So long as the two Germanys were divided, Germany's growing economic and military strength" did not upset the balance of power in Europe. "The so-called French leadership of the EC was the result of Bonn's abstinence from the challenges of power politics. A reunified Germany no longer needs French sanction to confirm she is a 'good European.' East Europe and the former Soviet Union depend on the German economy."

But, argues Kissinger, "Germany has now become so strong that the existing European institutions alone no longer are able to maintain the balance between Germany and her partners, and even less so between Germany and the former Soviet Union. . . . But if both powers were to make closer ties, there would be the danger of their hegemony. . . . Without America, Britain and France are not in a position to guarantee the political balance of power in Europe; Germany then would have no anchor to counter possible nationalistic ambitions or possible external pressures."

In this twisted revival of the failed 19th-century British balance of power politics that were responsible for World Wars I and II, Kissinger reveals the real reason for Washington's current policy of sending Harvard professors to unleash economic chaos in Russia and eastern Europe while blocking any significant western intervention to alter the chaos. Washington apparently calculates it can only gain from the chaos unleashed across Europe in coming months. The "economics" of George Bush and Henry Kissinger, sadly, are little different from those of Castlereagh and Lord Palmerston at the beginning of the 1800s.

East Germany faces massive unemployment

by Rainer Apel

"Wherever the Treuhand is active, it buries our labor power." These words, in somewhat crude German, appeared on one of the protest banners carried on March 4 by over 3,000 shipyard workers who came to demonstrate in front of the parliament building in Schwerin, the capital of Mecklenburg in northeast Germany.

The serious economic crisis which has befallen the shipyards in eastern Germany, and which has led to a deep crisis of confidence between workers and politicians of all parties, is only the most visible expression of a dramatic worsening of the situation in the formerly state-owned industrial concerns which were handed over to the Treuhandanstalt (THA) following German reunification in July 1990. Out of the formerly 7 million workers active in the *volkseigene Betrieben* ("people's factories") which were taken over by the THA that summer, only about one-half are still working there. And of those remaining, only about 500,000 of them could draw benefit from the emergency short-work regulations adopted in 1990 to help the new German states, but which ran out at the end of last year.

The expiration of these regulations had been set for Dec. 31, 1991, in expectation of a rapid economic upswing in eastern Germany; but even the upswing did not materialize, negotiations in mid-February between the federal and state governments did not result in any extension. And so now it is up to the THA itself to come up with the short-work payments which were previously being paid by the Federal Labor Office in Nuremberg. But since the THA does not have these funds, it is expected that the great majority of these 500,000 workers will be laid off during the weeks ahead. And it can also be expected that unemployment in eastern Germany will rise from its current 17%, to 25% or more.

Large-scale industry dismantled

The THA will therefore finally accomplish what it had been seeking even while the short-work relief was still in effect: an average reduction in employment by one-fifth to one-tenth. One example of this is the SEKT corporation in Magdeburg, which once had 11,000 employees but now barely employs 5,000, some 4,000 of whom are going on short-work this April. Eastern Germany's shipbuilding industry, which before the fall of the Berlin Wall employed

55,000 workers, today employs only 20,000, and if the THA has its way, one-half of those should get the boot. The microelectronics industry, which once employed 21,500, now employs 4,500, and only 1,500 of those are to ultimately remain. And the textile industry in eastern Saxony, which once occupied 140,000 workers, will be shrunk down to a little over 12,000 workers.

Two especially drastic examples show the actual result of the THA's much-trumpeted strategy of "maintaining current industrial areas" during the privatization process: The Wolfen film factory, where 17,000 people once worked, now has only 850 workers left; and the Riesa steel works, which had 12,000 workers in 1989, was bought up by a Swiss firm and now employs 144 workers—not in producing steel, but in manufacturing radiators. By 1995, the number of workers at the Riesa works is supposed to grow to 1,500—i.e., to about one-eighth of its former work force.

Reductions in the industrial labor force on this scale haven't been experienced in Germany since the world economic crisis of 1929-31, or since the Allied victors' policy of dismantling German industry immediately following World War II. But as far as the THA's boss Birgit Breuel is concerned, all is in order. Speaking in Hanover on the same day the shipyard workers in Rostock had decided to bring their protest to Schwerin, Breuel remarked that the former German Democratic Republic was "over-industrialized," anyway. But agriculture has been equally hard-hit since the THA took over ownership of the former communist collective farms: Of the 800,000 people working on the land, only about 230,000 are left.

A miniature IMF

The Treuhandanstalt naturally deserves all the attacks it gets because of its rabid policy of dismantling industry. But this should not divert attention from the main guilty party, federal Finance Minister Theodor Waigel. Back in early 1990, before its director Detlev Rohwedder was killed in April by a bloody terrorist attack, the THA could have charted a different course. Had the THA been relieved of the former East German communist regime's state debt back in July 1990, or at the latest following the reunification of the two German states in October 1990, the THA would have had considerably more maneuvering room, and would not have had to adopt as its chief goal, the task of privatizing as rapidly as possible in order to help fill the hole in Waigel's budget.

It wasn't simply its privatization policy, and its selling of assets at the best possible price with the smallest possible loss, but rather its so-called "debt management" operations which brought the THA to rub shoulders in Bahamas foreign exchange firms or other dubious high-interest markets. Unbeknownst to the general public, a special department of the THA is exclusively devoted to finding best way to invest its own sparse financial assets and its proceeds from sales of plants, equipment, and land into risky operations on the international money markets, in order to get enough money to cover these old debts. Thus, for instance, the $1.3 billion proceeds from the sales of 28 Interhotels to the Klingbeil Group could have gone for new capital investment, but instead was reportedly frittered away on reducing this old pile of debt.

What should the Treuhand do?

Rohwedder's unimplemented proposal for a thoroughgoing reworking of the Treuhand's mandate, putting the emphasis on rationalization instead of mere privatization, could perhaps have altered the THA's policies to such a degree that current disruptions in eastern Germany's labor market could have been minimized. But the most important part of any reform must come from Bonn. So long as the federal government's financial and credit policy is not guided by principles of national economy, and instead relies on a regimen of high interest rates, the money will never be brought together for reconstructing the five eastern German states. Even if the THA were entirely free of indebtedness, the federal budget would continue to impose heavy burdens on western German taxpayers for years to come, because of high interest rates and low tax revenues from the eastern states. One remedy would be to form a new national holding company, or to set up various types of employment corporations for the problem industries of former East Germany. One could also provide the THA with an additional $6.5-13 billion in credit per year in order to get rationalization measures going on a grand scale, as has just been proposed by Hermann Rappe, a representative of the IG Chemie trade union who sits on the THA's advisory council.

And yet, if the financial policies currently practiced by Waigel and Germany's central bank, the Bundesbank, remain unaltered, even such well-meaning proposals from the trade union side, aimed at easing the worst bottlenecks, will fail to bring about the desperately needed economic upswing in eastern Germany. It would be as if a huge vacuum cleaner were to go through the countryside, sucking up every newly planted seedling.

But let us assume that there is a successful, fundamental reform of the policies of the Bundesbank and the Finance Ministry. The next step would be to form a special Reconstruction Ministry, which would consolidate all the relevant activities currently going on in the other ministries, and which, via the THA, would become the executive impulse for carrying out the priority task of productive investment. The task of this new ministry would be to put into motion, and to provide long-term state guarantees for, sensible great projects in transportation infrastructure (the Transrapid magnetically levitated train, the ICE high-speed train, canals, highways, airports), new power plants, and the construction of both large-scale and medium-sized industry in eastern Germany.