Central bank under attack in Germany

by Rainer Apel

A big taboo of German economic policy debates that has been observed for more than 12 years, is about to fall. After its decision the week after the Group of Seven summit in Munich to increase the discount rate to 8.75%—the highest since late 1931!—the Bundesbank, Germany's central bank, has come under heavy public attack by industry associations, labor unions, the opposition Social Democrats, and econometric institutes.

A critique published at the end of July by the well-reputed DIW, the German Institute of Economic Research based in Berlin, minced no words, charging the Bundesbank with being a "state within the state" that had maneuvered itself into the "trap of its own monetarism," the consequences of which policy was that the entire economy of the state was kept hostage to the central bank.

There would have been no postwar "economic miracle" in the 1950s, the DIW declared, had the same high interest rate policy being carried out today been practiced by the Bundesbank at that time. The Bundesbank policy is aggravating the recession and slowing down industrial and infrastructural investments to such an extent that the five eastern states of Germany could never hope to experience a 1950s-style economic recovery which the government of Chancellor Helmut Kohl has promised them for the late 1990s.

Apart from ruining the prospects of eastern Germany, the Bundesbank's high interest rate policy has a devastating effect also on the still relatively robust economy of the 11 western states of Germany. The cutbacks in investments are enormous, which is reflected in the fact that of the 177,000 new jobless reported in the month of July, no less than 70% were recorded in the western states.

Domestic orders in the machine tool sector collapsed by 22% in June. National unemployment broke the "magic" 3 million threshold in late July, with about half a million more jobs already preprogrammed now for "phase-out" in the next two or three years. The biggest single component of these future losses is 200,000 workers in the auto industry who will have to be laid off because of the "dramatic worsening of conjunctural outlook"—as if it were a natural law. Managers in the machine tool industry announced plans for 75,000 job cuts.

The effects of the central bank's monetarism policy are also increasingly felt in eastern Europe and among the Community of Independent States (CIS), where more and more potential importers of industrial goods produced in the five east German states prefer to invest their hard currency reserves in the German high interest rate market instead of signing contracts with east German producers. That is one of the reasons why even the much-reduced Bonn government credit guarantees of 5 billion deutschemarks ($3.3 billion) this year for exports into Russia, Ukraine, Belarus, and Kazakhstan are not utilized: CIS customers of east German industrial exporters have so far only finalized contracts totaling DM 700 million.

Quick-buck economics ruins economy

There is a tendency toward what Dieter Rudorf, deputy speaker of the state parliament of Saxony—one of the five east German states—called an "Americanization" of economic policy: Even east German firms would invest in monetary ventures in the seemingly profitable short-term money markets, rather than investing in productive capacities. What has characterized the collapse of United States domestic industrial production, Rudorf charged in a discussion with *EIR*, has been repeated primarily in east Germany, which has seen a collapse of industrial output by 40-50%, as compared to the level held in 1990 shortly before German reunification; but it is also being repeated in west Germany.

The Bundesbank, which should safeguard industrial employment as the prime power base of the German economy, is doing quite the contrary, Rudorf said on Aug. 12. The same point was made by Franz Steinkühler, the boss of the metal workers union, Germany's largest labor organization with close to 4 million members. In an essay published by the *Handelsblatt* business daily Aug. 10, Steinkühler said that the Bundesbank's exclusive emphasis on price stability and tight money policy was creating an imbalance endangering overall economic stability, by curbing investment and exports, growth rates, and employment.

Steinkühler urged a change in the structure of the central bank which has a status of independence from political control that has no precedent anywhere else in the western world. The bank should be put under mandatory controls by the parliament, with the duty to report on its activities to a special committee there, he proposed, and its advisory board should be broadened to allow "vital societal interests" to exert certain influence on and control of the Bundesbank's actions.

The Steinkühler initiative is fairly limited, because it only aims for certain modifications of the central bank's structure but does not call into question the status of independence as such, as would be the case with a call for transforming the bank into a real national bank. The initiative is highly important, though, because it finally re-opened the door to a fundamental debate on the Bundesbank status and policy orientation which had been muzzled for the past 10 years.