

# Two Germanys agree on monetary union, the key to freedom in the East

by Rainer Apel

In a series of lengthy sessions at the chancery in Bonn, West Germany on May 1, chief negotiators for the East and West German governments agreed on the basic details of the planned German Monetary Union (GMU). The package, which was ready for signature as a formal government-to-government treaty by May 4, is to be implemented by July 2, according to West German Chancellor Helmut Kohl. The agreement will introduce the West German deutschemark as the new currency of the East Germans, and their old eastern mark will be exchanged at a favorable rate of 1:1 for all incomes and pensions (which will thereby raise their income level to 70% of the average in West Germany). An exchange rate of 2:1 for the accumulated debt of the corporate and public sector will write off half of this debt, which is estimated at about 140 billion eastern marks. A generous handling of the remaining debt (principal and interest) and granting of new, low-interest credits to industry is included as part of the package.

The talks were a victory against international financial circles, led by the British, who have been trying to prevent any repetition of the West German "economic miracle" of the early 1950s in a reunited Germany. And yet, there is a bitter aftertaste, since over the past weeks the great debate in East and West Germany has increasingly focused on purely internal German matters. It is all too understandable that German diplomacy has been oriented toward securing German unity before turning to other things. The problem is, the world is not standing still waiting for that to happen. West German Chancellor Helmut Kohl and French President François Mitterrand ill served their own interests when they asked the Lithuanians to put a hold on their Declaration of Independence. After all, the Lithuanians could just as well have demanded that the Germans postpone their own economic unity until Gorbachov has lifted the economic blockade of Lithuania. The least West Germany could do, would be to send food and medicine to Lithuania, as a number of Christian Social Union parliamentarians are demanding, in order to send a message to Gorbachov that the West does not accept his embargo policy. Would Gorbachov have dared to shoot at German ships carrying such aid? Perhaps—but perhaps not.

## Immediate Soviet economic interests

Moscow has an urgent self-interest in rapid German economic unity, since it would bring great advantages for its own sinking economy. Receiving East German Prime Minister Lothar de Maiziere and his delegation on his first visit to Moscow April 27-28, the Soviets emphasized their interest in preferential economic relations.

The Soviets expect that with the GMU, all their exchange of raw materials and commodities with the East Germans will be billed in hard western deutschemarks as well. This can be negotiated, since the West Germans are not totally opposed to it, on the condition that certain aspects of preferential trade agreements between East Germany and the Soviet Union be kept for a transitional period.

The Soviet trade interest is to secure from the West Germans a package of up to 40 billion deutschemarks—the equivalent of 37-38 billion marks the previous East German government contracted with the Soviets for deliveries of raw materials, prefabricated products, and heavy machinery during 1990. The East Germans have delivered about the same volume, consisting of finished products, high-tech commodities, machine tools and electronics, light agricultural machines, and spare parts, to the Soviets. East German trade with the Soviets is not fully balanced, however. The Soviets have a trade deficit with East Germany of about 3-4 billion rubles, which is due to the Soviet failure to deliver the contracted volume of hard coal, iron ore, natural gas, and crude oil.

Furthermore, Gorbachov is in desperate search of Western food surpluses to ease the worsening food supply in the Soviet Union. Soviet state emissaries, like Deputy Premier Stepan Sitaryan, have turned to both German governments and presented a list of priority requests:

- 1) Substantial West German assistance to ensure emergency sales at preferential prices of East German beef and pork meat and other food products to the Soviet Union in the coming weeks. The East German population is increasingly to be supplied with food products from West Germany and the European Community;

- 2) Another credit line of several billion deutschemarks of the type signed at the end of 1988 between Deutsche Bank

and the Soviet Foreign Trade Bank, mainly for emergency food purchases in the West. The total volume of required Soviet emergency food purchases in the coming weeks, to fill the empty shelves in Soviet department stores, is at least \$10 billion, according to industry and government sources in West Germany.

### **Medium-term Soviet economic interests**

Furthermore, the Soviets want Western credits and technical assistance in restoring at least parts of the now-desertified, former breadbasket of Ukraine. The entire package of basic agricultural investment—restoring the quality of the soil, irrigation, fertilizers, and farm machinery, is said to be at about \$30-40 billion. Moscow thinks that the West Germans can and should contribute a major share of this basic investment. A delegation of senior representatives of West German industry toured Ukraine upon an official invitation of the region's government at the end of April, arriving at the preliminary conclusion that the problems to be solved are immense, but manageable.

Another future investment area, the energy sector, is on the agenda of the upcoming German-Soviet economic talks. According to a German industry source in Bonn, the entire Soviet oil-producing sector has entered a profound structural crisis. This is cynically documented by the fact that a sizable share of the crude oil and natural gas the Soviets are offering these days to West Germany and other Western clients, was originally assigned for delivery to Lithuania but has become "available" through Gorbachov's embargo against the Lithuanian economy. The source emphasized that "this kind of—let us call it—new sales policy to earn hard Western currencies, can't work for long, because the Soviet oil fields are in a dismal condition. Output is constantly falling, the Soviets are already falling behind in deliveries to their clients."

The situation with most Soviet oil fields is that massive investments for exploration and basic equipment were made in the 1960s and 1970s, but the structure has been run down in the 1980s. Some oilfields cannot be operated at all, while many can only operate at reduced capacity. There should have been massive investments in exploration of new oilfields to begin production at the end of the 1980s, but this has not happened. Without new investments, dependence on Soviet oil deliveries is a high risk for any client in the 1990s.

Another factor which has to be taken into account, the source said, is that Soviet oil workers are no longer satisfied with simple overtime pay for their jobs far out in Siberia, but want better and safer living and working conditions, to be able to buy consumer goods, and labor union rights. The command economy of the past doesn't work anymore, with workers growing more rebellious, which spells big trouble for the Soviet oil-producing sector in the 1990s.

The same is true for the iron and coal mines of the Soviet Union, which are in bitter need of massive investments in modern mining technology. There is currently an attractive

offer from the two co-producers of a new mining technology, AEG and Ruhrkohle: At the annual Hanover World Industrial Fair, which opened May 2, they presented a so-called Integrated Transport System (ITS). This is an industrial version of the German magnetically levitated experimental train, Transrapid, that can be used for more efficient, safer, and less noisy and polluting transport of coal, equipment, and workers to and from the coal mines. The ITS would be attractive also for the Polish iron and coal-mining sector, which is faced with the same, if not worse problems as the Soviet one.

Much of this can and will be discussed among the Soviets and Germans (East and West) in the upcoming economic talks. It is still unclear how the West Germans will play their cards in this game. The Soviet side has the ugly trump card of the military-strategic muscle; the Germans have the attractive, strong deutschemark and stable, highly productive industry.

To the mere trade aspect must be added 1-2 billion deutschemarks, the equivalent of the money East Germany has paid in each of the past years to support the 380,000 Soviet soldiers and equipment stationed on East German territory.

There is a prospect that these troops, or at least most of them, will be pulled out under an East-West agreement on troop reductions in Central Europe. But Moscow wants West German funding not only for the costs of the withdrawal from East Germany, but also for the creation of new jobs and homes in the Soviet Union for the soldiers who are to be demobilized. "In the ideal case," one German industry source told *EIR* May 2, "the Soviets want to balance the weight of each of their soldiers in East Germany in West German gold bars. This won't work, naturally, but we will have to pay a lot."

### **The price Moscow has to pay**

If these economic talks are well conducted by the Germans—and they should have the appropriate moral, political, and financial support from other Western countries—substantial political and strategic concessions can be extracted from the Soviet side. Why not take a bold step, offering the Soviets a huge Western credit package at favorable conditions over the period of the next 10-25 years? A spinoff of this giant project would be that in addition to tens of millions of Soviet workers, several million Third World workers could take part, developing into a stable, skilled labor force for the reconstruction of their own economies in Africa, Asia, and Ibero-America over the same period.

And, naturally, a considerable share of the Western net investments in the East will go into the countries of Eastern Europe, partly for the reconstruction of their economies, partly for the restoration of an efficient transportation infrastructure that can form the bridge for all economic exchange between the West and the East. Many billions of dollars and deutschemarks will have to be spent on the construction of efficient, modern rail routes and the necessary locomotives

and rolling stock for high-speed transport of commodities and persons in both directions between Berlin, Warsaw, and Moscow. The Soviets will receive a part of the multibillion-dollar level of investments from the West, not all of them.

The fundamental net concession Moscow has to make in addition to a basic commitment to economic cooperation, is to grant far-reaching political and economic autonomy to those regions that want to remain part of the Soviet Union, and full sovereignty to those parts of the present-day Soviet empire that want to become independent states, like the three Baltic republics, the states of Eastern Europe, and most likely also Ukraine.

Talks on the state or superpower summit level alone won't suffice to produce these concessions from the Kremlin, which is under heavy and ever-increasing pressure from the population of the ailing Soviet empire, as was amply documented with the alternative May Day rally of about 100,000 in Moscow. The West, including the Germans, must provide a public forum for all those oppositional groups that call for a peaceful, constitutional transformation of the Soviet empire from within. As much as the East Europeans have to cooperate with each other to consolidate their newly gained freedom, they have to establish official contact with the respective progressive groups in the Baltic republics and the Soviet Union.

This can, and should be done, in addition to all other contacts on the state and industrial level, such as between the military of the West and East. The West needs political insurance, a reliable ally for the giant investments undertaken in the Soviet Union, and these allies can only be people that have a genuine interest in the in-depth transformation of the Soviet system.

To a certain extent the East Germans, who are both liberating themselves from the Soviet system from within and also becoming part of the new, Western-minded society of a reunified Germany, can play a key role in this political transformation process. It is apparent that delegations from the three Baltic independence movements and of the Ukrainian resistance movement, Rukh, will find a big public audience in a city such as Leipzig, which played such an essential role in the peaceful East German revolution of 1989.

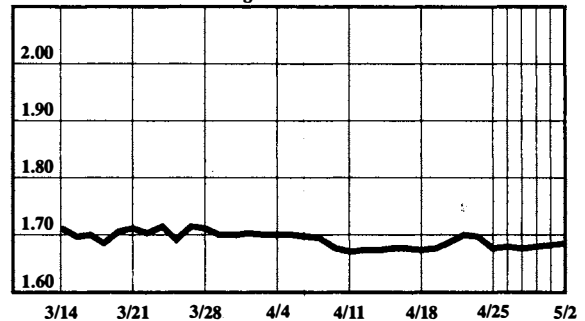
And, since the West Germans are paying most of the bill for German Monetary Union and all other big projects with the East and the Soviets, they should have few problems also funding these kinds of contacts between the people of Leipzig and the freedom movements of the East. The Germans have a clear historic mission to help set this into motion.

The first big political concession Moscow has to make, however, is to end the embargo against Lithuania and resume normal economic and civilized political relations with the government in Vilnius. This is an essential confidence-building measure to convince the West that it makes sense to invest tens of billions of dollars and deutschemarks in the Soviet Union.

## Currency Rates

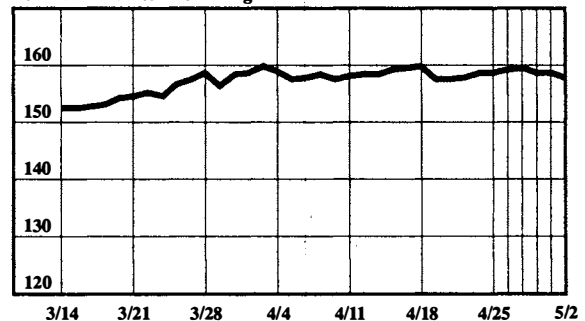
### The dollar in deutschemarks

New York late afternoon fixing



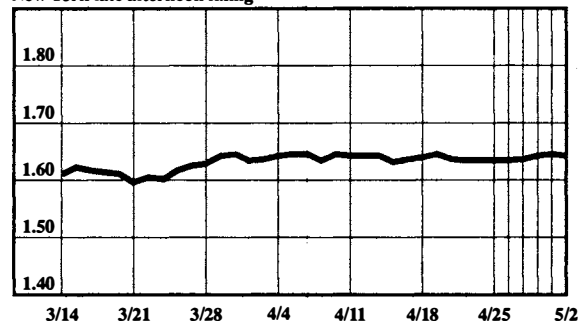
### The dollar in yen

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

