East German system, state-owned manufacturing company "debts" were carried as loans on the balance sheet of the state-owned Deutsche Kreditbank, which in turn was wholly owned by the East Berlin Staatsbank. After July 1, 1990, Treuhandanstalt in Berlin became the legal successor to the Staatsbank.

There was no credit system in the communist regime. Rather, the bookkeeping entries termed "debts" were a political planning and control mechanism of a communist state over state-owned industry. Because the SED Central Committee arbitrarily determined the prices the farm collectives could ask, firms were deliberately loaded down with "debts" from the Credit Bank, the difference between artifically low state prices for products and state plan demands for company "tax" revenue to the state. As the Warsaw Pact economies fell deeper into economic chaos in the late 1980s, these fictive accounting devices termed company "debts" mounted rapidly. But they were not "credit" in the West German legal sense of loans to buy real equipment or improve facilities. There was virtually no net new investment as we today know. Nor were they credits in the sense that the "loans" were drawn from national savings. They were merely arbitrary sums used to cover the collapse of the central planning process, or to allocate resources inside the planned economy. There existed no legal form of debt. It was "debt" of the people—to communist Honecker.

Since July 1990, however, the Federal Republic of Germany has implicitly recognized this fiction as legitimate and given the "full faith and credit" of Germany as guarantee for its repayment. This error, while understandable under the extraordinary political pressures of 1989-90, will bring Germany and its entire economy to ruin as sure as night follows day, if it is not judiciously corrected—whether by determination of the proper legal courts as to the juridical legality of the inherited debts, particularly that of Treuhand.

Solutions are certainly possible if the problem is squarely faced. Replacement of the present debt entry in the books of creditor banks with new state bonds, call them, say, "reconstruction bonds," in some agreed ratio, but earmarked for direct investment in east German states for infrastructure rebuilding and industry reinvestment, would turn every billion deutschemarks now being lost in a bottomless barrel of debt payment and unemployment costs, into a genuine "eastern economic miracle." To regain the trust of the disillusioned citizens of the east, a truly impartial German national commission, named by all parliamentary parties, must conduct a full audit of the Treuhand under Birgit Breuel's tenure as well.

E. German housing firms need a debt moratorium

The much-propagandized "Bonn Solidarity Pact" is worthless, as it leaves the old debt untouched. The swindle behind the German government's alleged success story of having found "a sound way of keeping financial flows under control" is most obvious in the case of the heavily indebted east German housing sector.

The eastern municipalities are expected to shoulder an old debt ratio of DM 150 per each square meter of inhabitable space—which means that the total old debt of DM 36 billion (in late 1990) is not reduced much, as this square meter trick adds up to a sum of DM 31 billion. The accumulated interest on the old debt, another DM 18 billion by the end of 1993, remains unchanged as well.

The only "concession" of the government now is to grant a two-year grace period to the east German municipalities, and to pay their due interests during this period. They are obliged to begin paying their share from July 1995 on, however.

The slightly reduced principal of DM 31 billion is meanwhile "parked" in the special government fund of "debt inherited" (from former East Germany), but it is to be paid back in installments by the eastern municipalities through, among other measures, the sale of at least 15% of their property (land, buildings, etc.) to private owners starting in 1995.

The municipal housing agencies will have to invest in the restoration of an estimated 2.3 million apartments, however, which, as an average ratio of DM 60,000 is needed per apartment according to Bonn government calculations, will require a total of DM 138 billion over the next ten years. Hence, the eastern housing sector will not be in a much-improved position to pay the old debt which it cannot pay now, in 1995 either.

Rostock, the eastern German port which was targeted for neo-Nazi riots a few months ago, announced in February that it could not pay its 6,100 employees their monthly wages, due to a budget shortfall of DM 78 million. Only a special mobilization of funds allowed the city to scrape together enough money to cover February and March expenses. The official jobless rate in Rostock is 11.8%, but the real figure is more like 25-30%. Due to tax breaks granted to new businesses under the federal "Upswing East" program, there is no relief in sight for municipal revenues. The debt-burdened municipalities in the five eastern states have no options except to raise parking fees or to drastically cut the city payroll, as in Rostock, where 1,700 employees will be laid off, but even that measure won't close the budget gap.—*Rainer Apel*