

Report from Bonn by Rainer Apel

Debt time bomb is ready to explode

The illegitimate eastern "old debt" could collapse Germany's financial system, as even the media are recognizing.

Since the end of October, the German media have begun to warn that the unresolved issue of the "old debt" (*Altschulden*) of pre-1990 East Germany has the potential of bringing down the whole German financial system. The sum in question is DM 400 billion (about \$285 billion), which was transferred to the federal government's budget on Jan. 1, 1995. For the four years before, the "debt" had been parked in "off-budget" positions. Once transferred to the government budget, it added an additional burden of debt service in the range of DM 40 billion annually.

The media's warnings have been triggered by a report of the Federal Accounting Agency (BRH) that lists numerous irregularities in the accounting and takeover of DM 177.5 billion of phony "old debt" in the process of Germany's reunification in 1990.

The BRH report, prepared under an official mandate by the German parliamentary budgetary committee, warns that the government may be forced, under reunification clauses signed in 1990, to compensate the creditor banks in case of a default of the eastern German "debtors." Their default is viewed as certain by most experts. This would place the State, which is already struggling with fiscal insolvency due to increasing debt service (almost 20% of the budget in FY 1996), and to decreasing tax revenues, in danger of outright bankruptcy.

The BRH report furthermore addresses the likelihood that this "debt" will be declared illegitimate by the

Constitutional Court. Successor farms to the pre-1990 East German collective farm sector are suing the Deutsche Genossenschaftsbank (DG Bank) in court over the legitimacy of its claims. The BRH cautions against making any payments, as long as the status of the "old debt" is not clarified.

A spectacular Sept. 21 ruling at the district court of Magdeburg in favor of the "debtors" against DG Bank, on the basis of grave irregularities in the purchase of the "old debt" from the East in September 1990, has revealed the volatility of the entire situation.

The two court cases expose what the daily *Frankfurter Allgemeine Zeitung* portrayed as a "financial time bomb," in an article on Nov. 1 that said: "Even from a legal viewpoint, the regulation of the old debt is a stinking fish. . . . A master trial has been presented at the Federal Constitutional Court. The core argument of the complaint: With the end of the G.D.R. [the communist German Democratic Republic], the respective loans no longer had a legal basis, the transformation of the unreal debt into a real one was an arbitrary act with ruinous consequences for the debtor, so that claims against the present-day debtors are unfounded. The success of the complaint, which is considered well-founded and cogent, would mean a heavy financial burden on the federal government."

The explosive issue of whether the banks will get the government (i.e., the taxpayers) to pay, or whether the "debt" is declared illegitimate and written off, is thus on the table now.

These developments fully corrob-

orate the exclusive warnings that *EIR's Strategic Alert* newsletter published three years ago, when it wrote, on Nov. 5, 1992, that the *Altschulden* issue "is likely the most explosive scandal in postwar Germany," since to pay this "debt" would amount "to a huge government-subsidized windfall to select banks which hold this 'Hon-ecker debt.' "

The *Strategic Alert* on Nov. 12, 1992 exposed the government tactic of setting aside what was then estimated to be the DM 130 billion "debt" until Dec. 31, 1994, as a cheap trick, because after that date, unpaid debt would have to be paid by the State. "This means that, according to the statement of the Bonn Finance Ministry, 'seven big banks' together with numerous savings and loan banks will begin to rake in the DM 40 billion payments (the alleged 'additional annual tax burden' which Finance Minister Theo Waigel had 'forecast' to emerge from 1995 on) on this absurd old communist 'debt.' "

The *Strategic Alert* of May 13, 1993 reported on the plans of the Congress of German Municipalities (DST), announced a few days before, to "stop servicing DM 6.3 billion of pre-1990 'debt,' " on the grounds that they intended to force the issue before the Constitutional Court "in order to have it, at least substantial parts of it, declared illegitimate debt."

The DST has been pressured by the government into postponing, again and again, this confrontation in the courts, but since the Magdeburg court ruling of Sept. 21, the door has been opened for a juridical probe of the legitimacy of this "debt."

Sensing the explosiveness of the issue, Chancellor Helmut Kohl, who by his official oath is obliged to "avert damage to the German nation," recently resolved to take "personal charge" of the debt problem.