EIR Political Economy

What went wrong with East Germany's economy?

by William Engdahl

A bitter national policy debate has broken out in the Federal Republic of Germany over the developments in the former communist, eastern part of Germany, and the related issue of soaring federal and municipal budget deficits. Since the dramatic opening of the Berlin Wall in November 1989, and the reunification of the nation on Oct. 3, 1990, economic policy blunders have turned a joyful opportunity sour, as factories in the east have been shut down and workers thrown onto the unemployment lines.

Germany's problems since unification are not, of course, entirely of its own making. Leading spokesmen of British policy, including cabinet ministers, openly opposed German unity with a ferocity not seen from those quarters in decades. Similar hostility has come from the French government of François Mitterrand, and, if only somewhat less openly, from the Bush administration.

The geopolitical context at the time of the opening of the Berlin Wall included not merely one superpower, Russia, in collapse. The economy of the second military superpower, the United States, beginning approximately the same time as the Berlin Wall fell, in the fourth quarter of 1989, entered initial phases of an unprecedented debt deflation and industrial depression. America's partner in the postwar Anglo-American "special relationship," Great Britain, began to enter into its deepest depression since the 1930s, also approximately the end of 1989.

But, despite all external political and other forms of pressure against German initiatives in eastern Germany in the recent three years, including assassination of two of the government's most crucial economic policy strategists—Alfred Herrhausen and Detlev Rohwedder—as well as the nearly successful attempt on the life of Wolfgang Schaüble, the coalition government of Chancellor Kohl has to bear the prime responsibility for allowing a dramatic policy reversal following the murders of Herrhausen and Rohwedder, a reversal which guaranteed that Europe's most promising opportunity for development in decades can, if not reversed, soon be turned into a genuine catastrophe.

A German-Polish initiative

In the weeks before the Nov. 9, 1989 opening of the Berlin Wall, the Kohl government was preparing an economic cooperation program for Poland, which at the time was the East bloc country most advanced in a process of weaning away from Moscow.

The Kohl government and a small circle of trusted advisers from business and banking had been working intensely for more than two years prior, on a comprehensive development strategy for not only Poland, but for the entirety of the Comecon region, including the Soviet Union. Germany had extended a number of large credits to the Gorbachov government in the period especially 1988-89. It had encouraged a large private loan from Germany's largest bank, Deutsche Bank, intended to build up agriculture infrastructure in the U.S.S.R.

Moscow was no longer able to maintain its hold on eastern Europe and had signaled that it might be open to some kind of relaxation of its grip over East Germany. Bonn was disposed to extend credits to Moscow to encourage eventual unification of the divided Germany.

In a calculated gamble, Gorbachov decided to order East Germany's regime to open the Berlin Wall on Nov. 9, 1989, the day Chancellor Kohl was in Warsaw meeting with the new Polish government. The Berlin opening dramatically forced a shift in German government plans, with Kohl leaving Warsaw in the midst of the delicate Polish talks to fly into Berlin.

The Polish program of the Kohl government and the initial strategy of Bonn for the economic transformation of East Germany, were part of a unified conceptual whole. Kohl indicated that in a televised address to the Bundestag (parliament) in late November 1989, where he outlined his government's vision for the transformation of East Germany. He amended his printed text to include a proposal for a modern rail infrastructure link connecting Paris, Hanover, Berlin, and Warsaw—and eventually, hopefully, on to Moscow. This is crucial to understand what followed.

The key role of Alfred Herrhausen

The architect of much of Helmut Kohl's East strategy at that point in 1989 was Kohl's personal friend, and perhaps most trusted adviser on economic policy issues, Frankfurt banker Alfred Herrhausen, head of Deutsche Bank.

Beginning with a speech in June 1989 on the subject of the international debt crisis, Herrhausen had been making well-conceived challenges to the prevailing London-New York debt and financial order. While diplomatically framing his proposals in terms of respect for the institutions of Bretton Woods—the International Monetary Fund (IMF) and World Bank—Herrhausen was delivering an ever more powerful critique aimed at the very heart of the U.S. and British governments' mismanagement of the debt crisis of the 1980s.

In the June 1989 speech, Herrhausen proposed a new international initiative which would allow debtor countries to reduce their onerous debt service costs to foreign bank creditors by 50% over five years, restructuring the principal value of the old debt to repayment in 25-30 years, with a 5-7 year grace period to allow the debtor country time to rebuild its industries in order to service such debt. Herrhausen also correctly pinpointed the vulnerability of the large American and Japanese banks on their Third World debt exposure.

Herrhausen followed his June proposal with a public speech at the September 1989 IMF-World Bank annual meeting in Washington. "You know," he told his audience, "that for some years now I have pressed for a reorientation of the debt strategy, for a new initiative including a compromise to lighten the debt burden. You also know what massive criticism has been leveled against me—the first occasion when two years ago here in Washington at the World Bank conference in 1987, I called for all possible solutions to the debt problem to be examined afresh. Then, last year at the IMF meeting in Berlin. . . . I state again, that we need an uncomplicated and urgent workable initiative."

In his IMF speech, Herrhausen for the first time called for a significant reduction of the hard-currency debt burden on certain reform-minded East European countries, notably Poland. He called on the governments of the western "Paris Club" creditors, who held fully two-thirds of Poland's staggering $40 billion foreign debt claims, to make a dramatic reduction in "debt or in the debt service burden" in order that Poland's fragile efforts at economic reform could get immediate encouragement from the West.

Then, in an interview in the Nov. 20, 1989 issue of the *Wall Street Journal,* Herrhausen introduced his concept for the economic development of East Germany, some two weeks after the fall of the Berlin Wall: "We can use the eastern part of Germany . . . as a springboard to the Eastern Bloc countries. . . . I think the Eastern countries, Poland, Hungary, Czechoslovakia, even Bulgaria, will play a major role in European development. And that is why we draw our attention to this part of the world. . . . I think we are almost destined to play the role of bridge between Western Europe and Eastern Europe, but within the context of European unification." Herrhausen indicated that he had well-developed ideas for transforming the economy of East Germany to the point that "within 10 years Eastern Germany would form the technologically most advanced industrial part of Western Europe." He concluded, "Germany, a reunified Germany, will be an enormous, strong economic force."

Finally, in a speech which was written in the last week of November 1989, which Herrhausen was to have presented on Dec. 4 in New York to the meeting of the American Council on Germany, Herrhausen focused on the reconstruction of the East once more. Repeating his call for the western governments of the so-called Paris Club to reduce Poland's debt service burden, Herrhausen introduced his proposal for founding a new development bank, to be located in Warsaw, modeled on the postwar West German Kreditanstalt für Wiederaufbau, which he provisionally called a Polish "Institute for Economic Renewal." The supervision of the new development bank should, he insisted, be jointly managed by a board of western experts together with Polish government, trade, and industry experts, "a temporary scheme whereby external donors would have a say in the application of funds provided. The task here is to ensure that new loans are channeled into promising projects . . . to make sure that the costly mistakes of the '70s are avoided."

Herrhausen, according to informed German banking sources, also favored a canceling of the old communist central planning device known as inter-company "debt," or *Altlasten,* correctly regarding this "debt" as a meaningless residue of communist central planning, which could only burden successful modernization.

Herrhausen saw East Germany as the transmission belt for the rebuilding by continental European industry of the entire East. He knew that the average technical education and skill level of an East German worker were higher than those of his West European counterpart. He also realized that infrastructure projects must be the way to re-employ the unemployed in East Germany. Skilled East German engineers and technicians often had invaluable direct experience working in other East European countries and in Russia. Herrhausen realized the enormous asset this would be, in a skilled East German population with widespread knowledge of the Russian and other East European languages.

The assassination of Herrhausen at the end of November 1989 was a great blow to Kohl. As well as a trusted friend, perhaps his most competent and influential policy adviser was gone. This cannot be underestimated in evaluating ensuing policy mistakes and lost initiatives in eastern Germany and eastern Europe. Helmut Kohl is a skillful consensus-manager, but not a strategic economic thinker. Herrhausen was, and had the trust of the chancellor. Kohl said later of Herrhausen, "There is not one economist or financier or industrialist in Germany today, with Herrhausen's understanding of socio-political-economic links."

Herrhausen's loss has been devastating to Germany and to European development since 1989.

Rohwedder's policy at the Treuhand

The second person Kohl personally recruited, this to the critical task of heading the newly created government holding company, Treuhandanstalt, was Detlev Rohwedder. In June 1990, just before the conclusion of the German-German Currency and Social Union agreement on the path to formal unification that October, Kohl named Rohwedder as chairman of Treuhand.

Rohwedder was from an older generation of Germans which had direct experience with the postwar reconstruction in the West in the 1950s. He had long Bonn government experience, and intimate knowledge of heavy industry, having been chosen some 11 years earlier to reorganize the Ruhr steel company Hoesch AG. A more suitable choice to head the difficult task of industrial restructuring in eastern Germany in 1990 would have been difficult to imagine.

Rohwedder had the pivotal job, just as the rapid process of German monetary and economic unity was finalized in July 1990. He oversaw the disposition of, in effect, the entire East German economy, as head of Treuhand in Berlin. In an interview to the daily *Die Welt* on Jan. 2, 1991, after five months as head of Treuhand, Rohwedder gave a glimpse of his conception of the role of the central Treuhand agency. "I come from the side of the industry, and I want to see the population of the former G.D.R. [East Germany] as rapidly as possible overcome their material inferiority. The need just now is—in this respect the creation of this Treuhand is not so foolish—for a central agency, which, with a sufficiently powerful capacity, exclusively occupied with taking care that the living conditions, the working conditions, the economic existence of the population of the former G.D.R. is brought up to our average level as rapidly as possible. The Treuhand is the central institution which is bringing our recipe for economic policy success and our grand social convictions into the former G.D.R."

In the interview, Rohwedder made clear that he conceived the development of a massive infrastructure investment into eastern Germany as the precondition for his work at Treuhand. "Until now there has been almost nothing accomplished in the area of infrastructure—road construction, bridges, harbors, waste dumps, railways. But all this will come. . . . The motor of construction development will have a tremendous catalytic effect on the overall economy."

By November 1990, Rohwedder had launched an open policy fight with Finance Minister Theo Waigel and with the rest of the government in Bonn over the future policy of Treuhand. From the start, Treuhand was placed under the Finance Ministry—the ministry with closest ties to the Group of Seven and the IMF, and most preoccupied with issues of "cost control"—and not under the Economics Ministry, or, as would have been far more sensible, a new Special Ministry for German-German Industrial Development, as some had urged.

Rohwedder demanded powers to change the mandate of Treuhand, and to invest in modernizing East German state companies and industry to make them economically viable, holding them in trust for a matter of years if required, were there to be no buyer of a given company, rather than simply dumping them onto existing markets. If Bonn would not agree to this change, Rohwedder announced that he would leave the post before the end of the year. The day Rohwedder declared his ultimatum, certain media began promoting Birgit Breuel to be his successor.

This was at the end of October 1990, in the run-up to the important first German-wide national elections that December. Few people in Bonn at that time wanted a serious debate over changing policy in eastern Germany. Nonetheless, with the potentially embarrassing public announcement by Rohwedder that he would return to Hoesch at the end of that year, Kohl personally intervened to persuade him to stay as Treuhand chief, and Kohl agreed to support at least certain of Rohwedder's demands for policy change.

By January 1991, Rohwedder had completed an extensive internal organizational change inside Treuhand, altering the original structure which had been established under the final days of the East German communist regime. Rohwedder had secured, following bitter fights with the Finance Ministry and others in Bonn, the flexibility to make decisions regarding the future of eastern German companies without having everything first be approved by the Finance Ministry.

In his final interview, on March 30, 1991 with the *Frankfurter Allgemeine Zeitung*, Rohwedder said that in light of the alarming rise in unemployment in eastern Germany, Bonn had agreed to allow him to shift the priority of the Treuhand from one of immediate privatization at all costs, to a greater emphasis on regenerating existing industrial companies to make them competitive. At the time of the interview, some 300 firms with 80,000 workers employed, had been closed.

Rohwedder told the Frankfurt paper, "I have never thought that a 100% privatization policy was possible." Under Rohwedder's plan, with the clear exception of the obsolete and dangerous Soviet-made nuclear plants and the inefficient coal-run power stations, many large industries of the former-G.D.R.—heavy machinery, shipbuilding, and steel—would remain for some years as concerns largely owned by the Bonn government. The workplaces and industrial capacities would be modernized and upgraded. After all, why should east German steel workers not produce the steel for the reconstruction of their own region?

Rohwedder told his interviewer, "I have come to Berlin not as a businessman, but out of a patriotic love for my country."

Only weeks following his victory on the vital Treuhand policy change, on April 2, 1991, Rohwedder was assassinated by so-called "RAF third generation" terrorists, who left no forensic trace.

The Treuhand policy shift

Within weeks of his death, Rohwedder's Treuhand policy was quietly reversed under the new leadership of Christian Democratic Union political figure and Hamburg banker's daughter Birgit Breuel. There was a brief internal power struggle inside the Kohl cabinet after the death of Rohwedder to transfer the Treuhand from the Finance Ministry over to the Economics Ministry. There was even a brief discussion of creating a special ministerial-level department to oversee the reconstruction of eastern Germany, with Treuhand its central component.

Both proposals were defeated. The chairman of Kohl's Free Democratic Party coalition partners, Otto von Lambsdorff, has been all too accurately described by certain influential policy voices in London as "a London mole inside the Bonn government." His FDP has done much to obstruct and hamper an effective infrastructure-oriented policy for eastern Germany. It is little known in Germany that Count Lambsdorff today is also the European chairman of the Trilateral Commission, with which Henry Kissinger and Paul Volcker have been intimately associated.

Breuel is the daughter of an Anglophile German banking family (her father is Alwin Munchmeyer of Schroeder, Munchmeyer, Hengst). Upon being named to replace Rohwedder as Treuhand president, she immediately moved to rescind his policy shift, beginning spring 1991. Breuel's policy, backed by the Finance Ministry, was a raw monetarist approach of selling "uncompetitive" firms for hard cash as fast and cheaply as possible, with little dirigist notion of a guidance or industrial strategy.

Money was the prime determinant of Treuhand policy after Rohwedder's assassination. Ironically, Breuel's policy is orders of magnitude more costly to Germany than Rohwedder's would have been. And as Treuhand chief, she has imposed an economic regime on the east of a savagery never imaginable in western Europe, creating a social chemistry of a most dangerous sort.

The current problems in eastern German economic development have their seeds in this shift. Breuel, given her background and prior training, could not be expected to act any differently. She is the wrong person for the job. She opened the doors of Treuhand to a host of Anglo-American "management consultants" to pick over the 8,000 German companies under Treuhand ownership and prepare them for rapid selloff. Anglo-American "quick buck" accounting methods would determine the future of eastern Germany. McKinsey and Co., Arthur D. Little, Arthur Andersen, Peat Marwick, Goldman Sachs and Co., S. G. Warburg, and a host of British and American consultancies were given free rein at the Treuhand. Even Schroeder, Munchmeyer, Hengst was given a nice share of Treuhand business under Breuel.

As early as May 1973, when she was an unknown 36-year-old Christian Democratic member of the Hamburg City government, Breuel had already been picked out by elite Anglo-Saxon financial circles. She was invited to attend a top gathering at Saltsjoebaden, Sweden, of the Bilderberg group, at which the details of the coming "oil shock" were revealed. She continued to attend these secret Bilderberg meetings in her post as Treuhand head as recently as June 1991. Her participation in these secretive international financial talks of the Bilderberg group, seen in the context of the policy Breuel has pursued as head of Treuhand, form a coherence. The policy in both instances is the worst and most brutal form of Anglo-Saxon "free market" financial destruction, fully opposite to what her predecessor, Detlev Rohwedder, was building at Treuhand.

The coalition government of Chancellor Kohl has to bear the prime responsibility for allowing a dramatic policy reversal following the murders of Herrhausen and Rohwedder, a reversal which guaranteed that Europe's most promising opportunity for development in decades can, if not reversed, soon be turned into a genuine catastrophe.

As a result of this policy shift, eastern Germany's industrial economy has been condemned to its least viable path—immediate "competition" with the most modern multinational western companies for those same western markets. One year after Breuel took over, it was being openly discussed among private management consultants in Germany, that the long-term future of eastern Germany was seen by Treuhand to be, not one of Europe's most advanced industrial, technological regions as it had been conceived by Rohwedder and others a year before, but rather as a *service* economy, featuring tourism and such!

Western firms were offered large incentives to buy former

East German state firms from Treuhand, only to take them, shut them down, fire the work force, or use them in similar jobs at a fraction what western workers would get, and grab the real estate for a future holding. This past March, Breuel introduced a financial salary "bonus" program for top Treuhand personnel who speed up the tempo of their respective privatizations! The worst nightmare of American-style "asset stripping," tragically, has been permitted to flourish in the new "free market" climate under Breuel's tenure.

Because of the capitulation of the Bonn government to the demands pressed by German banks to keep the DM 110 billion in old G.D.R. state "debt" on the books of the enterprises now owned by Treuhand, not only has the ability to attract western investors as buyers been severely restrained, but the cost to the German taxpayer of the Treuhand fiasco under Breuel is rising exponentially. Including its remaining DM 70 billion in G.D.R. "debts," Treuhand by mid-1992 had a total debt of DM 137 billion, equivalent to the combined foreign debt of Argentina and Venezuela. The taxpayer, absurdly enough, must pay interest on financing this debt through public capital markets.

By the end of 1994, it is calculated that this Treuhand debt will rise to some DM 200 billion. But this does not include the most part of the present DM 180 billion yearly funds transferred from western to eastern Germany, most of which goes to finance early retirement programs, unemployment compensation, and other social programs.

Many of the companies still under Treuhand ownership are simply being kept alive artificially, with no new internal investment, until a buyer comes up. The Berlin-based German Institute for the Economy (DIW) criticized the Treuhand earlier this year, charging that fully three-fourths of the credit needs sought by Treuhand are being used to keep companies going which are in no way viable, leaving only tiny sums for what Rohwedder had mandated as the first priority—internal company investment in state-of-the art production technology so that the firms could be economically viable in the market. A new September 1992 study by the economics institute of the German Trade Union Federation confirms this, adding that a closer look at the Treuhand balance sheet for 1991 reveals that of a total of DM 77.5 billion listed for "expenditures for reorganization and restructuring" only DM 5 billion actually went for reorganization—that is, Rohwedder's priority of investing to upgrade existing companies! The rest went for social costs of liquidating companies or keeping firms open without new production investment until buyers could be found.

For example, why has it not been Bonn policy that rail and bridge steel for eastern German infrastructure construction should first come from east German steel mills, mills which get the most modern technological production capacities, or from eastern German construction firms before a single kilogram of western European steel is imported? Why not insist on a sensible policy, like that in many Ibero-American countries which demand, say, 60% local content in key industrial products?

The physical economic consequences of this Treuhand policy under Breuel have been staggering. As noted, including "half-time" workers, the real level of unemployment in the eastern states of Germany as of summer 1992 is *approximately 40% of the active labor force*. Officially, the Federal Labor Office reckons total unemployment and short-time workers as 1,943,000, as of August. They admit the peak of eastern Germany's unemployment and underemployment will not be reached until the beginning of 1993 at the earliest. Valuable trained workers are being retired at age 55 in countless cases, to statistically push the problem away, under the present climate of "money panic."

As a result of Bonn's abandonment of the original concepts of Herrhausen and Rohwedder, in favor of the Waigel-Breuel "consumption boom" strategy, the gross public resources required to be transferred to eastern German states will reach an estimated DM 218 billion in 1992, up from DM 170 billion in 1991. Discounting east German tax payments and such, net public fund transfer this year will alone reach DM 180 billion, a level at which it is conservatively estimated to remain at least until 1996. East German consumption and investment are presently estimated to be approximately twice the level of east German industrial and agricultural output. The deficit in this production output capacity is simply being made up in the massive flow of funds from Bonn, and the ensuing soaring government deficits.

Spending on social unemployment and such is by definition inflationary spending. This cost is the real background to the current historically high German interest rate levels of the Bundesbank. In contrast, every deutschemark of government spending directed toward investment in modern, more efficient economic infrastructure, by making the nation's physical economy more "energy efficient," creates an automatic *anti-inflationary* effect. Further, the private economy's profitability benefits from the improved infrastructure investment such that within a few short years after completion, private prosperity and tax revenues to the state treasury more than make up for the outlays for public infrastructure in the budget. This is the economic secret of infrastructure investment, which has been obscured by the bankers and monetarist economists.

An estimated three-fourths of all funds from Bonn are today going for social transfer payments—early pensions, unemployment, health insurance, and the like. Almost nothing is left for the vital infrastructure reconstruction which would turn eastern Germany into the industrial pivot of Central Europe. The hope of some in Bonn has been to spur a consumer boom in the east, to replace foreign export markets of west German firms hit by a savage and spreading world economic depression.

But now, after two years of such policies, the consumption in eastern German states is markedly declining. After all how many cars can an unemployed steel worker or machinist in Leipzig or Dresden buy? Today, as a result of the policy incompetence tolerated by Bonn since especially the death of Rohwedder, the export-oriented economy of western Germany as well is at the brink of a decline unlike any it has experienced in the postwar period. The coming months will be decisive.

These huge fund transfers support what is an actual unemployment level in the five eastern states of 35-40% of the active work force—those able and wanting to work, if we include those unnecessarily forced into early pension. Under the Rohwedder concept, factories would have continued to produce while being modernized with the latest equipment under Treuhand aegis, with the state or Treuhand retaining majority ownership of the enterprise—as with Volkswagen or Veba after the war—until the firms were fit to stand on their own. Rohwedder's plan would have left far more funds available for the essential development of major public infrastructure, the leading edge of any real industrial transformation of the east European economies.

A devastated economy

But quite another result has ensued in the past two years.

Before the opening of the Wall in 1989, East Germany had some 7 million employed in all state industry. Today that number has fallen to 3 million. In agriculture, only some 230,000 of a total of 800,000 remain. The East German steel industry has virtually vanished. Textile manufacturing, which had earlier employed 140,000, today has 12,000. Electronics has shrunk from 12,500 employed in 1989 to less than 4,500 today. Only through large mass protests in the north German port region of Rostock have the huge shipbuilding capacities of Mecklenburg-Prepomerania been in any way salvaged, but even here jobs have fallen from 55,000 to only 20,000, and the future under new owners is very bleak. Of the 4 million workers under the aegis of Treuhand two years ago, only 1.2 million remain.

While it is the case by western standards that most of these industries were "uncompetitive," Herrhausen's original calculation, endorsed also by Rohwedder, was that with well-planned investment, a vital core of industry in East Germany could have been renovated in fairly short order, and that the unemployed could be retrained for construction of badly needed infrastructure, while maintaining the essential productive base of the economy of eastern Germany. Shortly before his death, Herrhausen stated, "If we implement such measures promptly, unification will be a stimulus rather than a drag on the German economy, and economic growth will be strong throughout Europe in this decade."

One can identify other policy "mistakes" from Bonn since July 1990. But these assume a secondary importance. The argument that "too high" wage demands from the east Germans have impeded western investment is not valid. Because people in the east must pay west German prices, they naturally feel an income squeeze, all the more because the federal government continues to raise rents on antiquated housing.

The special obstructive role of the Social Democratic Party of Germany (SPD) in this context is also worth note, especially since the SPD obtained a majority in the upper house of parliament, the Bundesrat. However, this also is not primary, but rather an aggravating factor in the context of the wrong policy shift described above. It is a matter of record that prior to each major policy declaration by SPD chancellor candidate Oskar LaFontaine in the period from November 1989 to December 1990, LaFontaine first made a pilgrimage to Washington, where he held private talks, not with his Democratic Party counterparts, but rather with George Bush, Secretary of State James Baker, and other top Republican officials, regarding election strategy.

It is an unspoken reality of postwar German political life that American and British influence has been exercised over a number of German politicians. According to Washington reports, the role assigned to LaFontaine's campaign by the Bush administration was "to cut Helmut Kohl and his German ambitions down to size," as one former senior State Department official put it. LaFontaine was the sacrificial lamb of the game, his campaign effectively being used to pin the Kohl government into the corner over the single issue of "costs of unity."

Since the December 1990 German elections, this "cost of unity" theme has been placed more and more in the center, as the original infrastructure-centered strategy of Herrhausen, Rohwedder, and others was deliberately pushed to the side. Money, not industrial strategy, has become the issue of an increasingly absurd debate.

Had the Treuhand pursued Rohwedder's policy of preserving industry and modernizing production while Bonn concentrated resources on developing the rail and other communications infrastructure, including a modern high-speed rail enclosing the world's most concentrated industrial potential—Paris-Berlin-Vienna, with spiral arms reaching to Prague, the Balkans, Warsaw, Kiev, and Moscow, such as economist Lyndon LaRouche proposed back in November 1989, and which is known widely in Bonn—western Europe today would be enjoying a capital spending boom unlike any seen in the postwar period.

But only in July 1992, fully two years after German economic and monetary unification, did the Kohl cabinet approve a comprehensive rail, highway, and waterway infrastructure proposal for the combined Germany. Parliamentary debate on financing it has not even begun. There has been no attempt to educate the German taxpayer as to the unique role of public "core infrastructure" investment as a stimulus to private investment and to private economic growth, thus leaving the debate open to the self-defeating arguments of "cost." These were precisely the kinds of arguments Herrhausen and Rohwedder were clear about.

If these errors are not soon corrected, the costs and complications of rebuilding eastern Germany will mount to unsustainable levels. There is a growing realization of this in Bonn, but there is no time for delay in acting on that realization.