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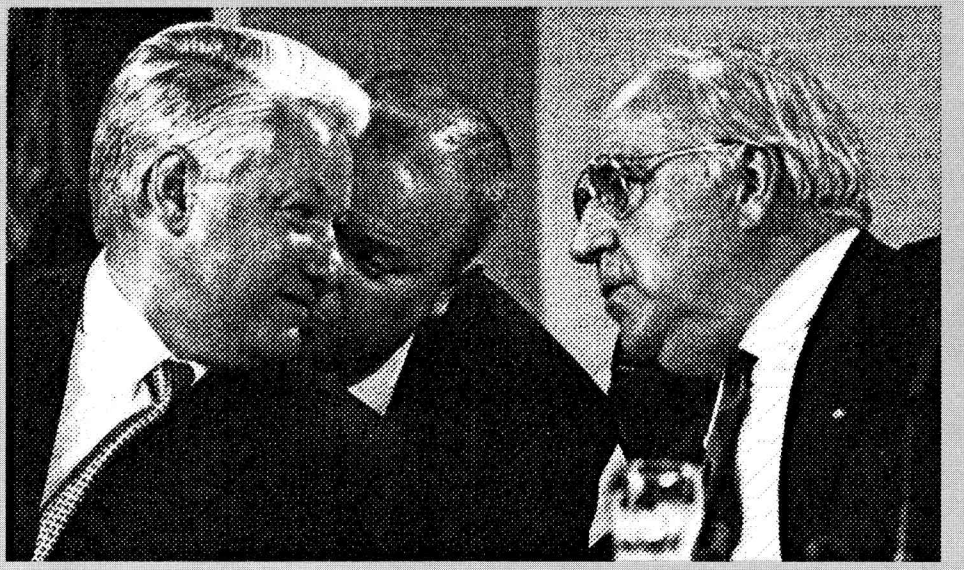
Labour Focus on Eastern Europe

GERMANY'S ROLE IN EUROPE



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Peter Gowan

Germany in Europe

Orthodox views of international relations of the so-called realist variety would suggest that the collapse of the USSR has transformed the power context of the newly unified German state and has undermined much of the political basis for American dominance in Europe. As a result, we are led to expect that Germany will dominate European affairs and will mould relationships within Europe to consolidate its new dominance.

This orthodoxy ties in with folk memories of Hitler's drive for power amongst some of Germany's neighbours, not least on the part of the Tory nationalist right in this country. Despite the obvious element of truth that it contains about the greatly enhanced opportunities for the German state, this realism nevertheless fails to explain the new dynamics of European politics and the possible roles of the new Germany.

In the first place, Germany's dominant political position amongst West European states was already assured before the collapse of the Soviet Bloc; and in the second place, its power in the alliance remains that of a subaltern power, even five years after the collapse in the East, because American dominance within the Western alliance remains formidable.

Europe's economic leader

The Federal Republic gained the largest voice in the politics of Western Europe on the material basis of its successful drive for economic ascendancy, achieved by the 1970s and demonstrated in the

most graphic way by the French Socialist government's U-turn in the early 1980s. Germany built up a commanding position in key sectors of the European engineering industry and on that basis was able to shape the international division of labour in Western Europe. France's industrial base depends for its competitiveness upon German machine tools. An investment drive to modernise French industry and boost its strength in Europe produces a fresh boom in the key sectors of German industry, weaken's France's balance of trade and simply further strengthens Germany's central position.

On the basis of Germany's export success in Europe, it build a commanding position for the Deutschmark, acquired great capital and credit resources and could shape the economic policy-making of the entire European Community. This in turn consolidated its central role in the shaping of the European economy, a role it was bound to use in the interests of its own economy. These trends continue today, date back through the 1980s and remain the precondition for Germany's political leadership in Western Europe. What is at issue today is not that basis of Germany's power, but the directions in which that power will be used and the political forms in which it will be exercised.

Throughout the 1980s German power was exercised above all under the banner of West European integration. German governments legitimated their policies through their presentation as "European" (or French) rather than German in inspiration and goal. Since the collapse of the Soviet Bloc there has been a noticeable shift in the articulation of German identity in official discourse. Whereas before the collapse, the discourse of Bonn subsumed German identity within a wider and more fundamental European identity and mission, today one could better say that European integration is no longer a question of the identity and core mission of the German state. Rather it has become a key interest of a state with a more pronounced assertion of its purely German identity.

In the meantime, a battle has been joined by the other major powers in the Western Alliance to offer Germany new directions and roles. Britain, the USA and France are all seeking to pull Germany down paths that suit their own national interests. And as in the past, the Federal government seeks to refuse a choice between these roles.

But unlike the past, the next two years are likely to involve painful decisions by the Kohl government as to which of these roles is to be the dominant one.

I want to suggest three possible general roles for the new Germany. Two of these roles are currently on offer to Germany as well as being put forward within Germany. The third role is not on offer although I believe that elements of it would be supported within Germany itself. This third role may look at first sight like an amendment to the second role, but, although it overlaps in its earliest institutional expression, it points in a very different direction.

The three roles can be briefly labelled and each can be given a positive or a negative connotation:

1. What President Bush called, in the spring of 1989, that of "partner in leadership": Germany in partnership with the US - Germany as the regional leader of Western Europe as partner to the USA as world leader. This formula has essentially been reaffirmed by President Clinton during his post-Naples tour of Germany.
2. Germany as leader and motor of a new, post-Maastricht West European political entity, moving down the road laid out in the Maastricht Treaty in partnership with France as well as the lesser EU states: this EU would collectively manage relations with the USA in the context of a so-called "two pillar Atlantic alliance" and would collectively manage its developing hegemony over and/or containment of ECE and EE. This has been the insistent theme of French efforts over the last five years.
3. Germany as leader and motor of an EU qualitatively more integrated on a new basis, diverging from the spirit of Maastricht, while simultaneously championing a new collective security and collective economic framework for the whole of Europe.

Some may say I have left out the key role option: Germany as leader of Mitteleuropa. But for me this is a subset of role 1. Others would argue that there is also the possibility of rolelessness: no stable orientation at all, either because of the breakdown of foreign policy consensus amongst Germany's political elites, or because of explosive developments in Germany's immediate surroundings. I will look at each of these roles in turn, but would like first to tackle two other preliminary analytical issues in order to set the discussion of these

roles into context. The first of these issues is the character of the power shift produced by the collapse of the Soviet Bloc and of the Soviet Union; the second is the international political conjuncture and trend of events since 1989 in the West.

The shift in power

The collapse in the East seems to have failed to shake the structure of relations and institutions in the West. Indeed, at an institutional level, the Western alliance seems stronger than ever: France is edging more fully into NATO's military structures and there is a clamour from ECE states to join etc. The EC has become the EU and long queues seem to have formed outside it as well. But beneath the smooth surfaces of the Western Alliance's institutions there has been a profound shift in the structure of political capabilities. American capabilities have been greatly weakened, while German capabilities have been greatly strengthened. In short, America discovered that it had lost the Cold War or that it had been waging the cold war, so to speak, for the king of Prussia.

As a result, the USA remains by far the most important power in the world, but it is no longer dominant in European politics. As Stephen Krasner says, the world is now unipolar but less hierarchical. The cold war bipolarisation placed military security at the top of the European agenda and gave the USA political dominance in Western Europe. NATO and the EC bound West Germany under US dominance within the West enabling the USA to shape Western Europe's relations with the rest of the world. That has now ended. WE is no longer threatened with invasion from the East. It is threatened only by a nuclear attack. While Bush's Gulf war showed how brilliantly the USA could demonstrate its global military dominance (provided other states were prepared to foot the bill), the absence of a similarly clear-cut threat in Europe threatens NATO with lassitude and the USA with marginalisation, except insofar as it can justify itself as a broker between competitive states in a fragmented Europe.

This risk of American marginalisation has been postponed through Germany's and Gorbachev's agreement that the new Germany would remain in NATO and thus NATO has been preserved. And the Bush administration managed to generate a new European agenda:

market economy across the continent plus democracy. And the Yugoslav crisis along with the insecurities of the East Central European states have given NATO the semblance of a new lease of life. The problems resulting from the mode of German unification have also temporarily weakened Germany's capacity to act vigorously on European issues and have also helped to plunge the West European economies into a recession which has exacerbated internal tensions and paralysis within the European Union. All this has helped to revive America's role as a central actor in European politics. It has played the leading role in relation to Russia and Ukraine, and it has led the institution-building in the security field through the NACC and the Partnership for Peace, brushing aside the CSCE. Meanwhile, the Franco-German relationship has been placed under severe strains and uncertainties, especially over Yugoslavia in late 1991, over the ERM and the defence of the Franc in the summer of 1993, and not least over the Uruguay round and the Common Agricultural Policy. Against this background, we may look at the ways in which various Western powers are seeking to direct the Federal Republic down paths that suit their interests.

Anglo-Saxons bearing gifts (role 1)

In his speech in Mainz in May 1989 after a Brussels NATO meeting, George Bush called for the United States and West Germany to become "Partners in Leadership". This could be taken as a neat summary of a role for Germany and it simultaneously points towards the tactics of both US administrations and of the British government in the early 1990s in relation to the reshaping of the European political and politico-economic order.

The concept is best understood as counter-posed to an EU-US "two pillar Western Alliance" and leads instead towards a "two-power-led NATO". Germany should abandon its EC-construction project and strike out on its own, putting short-term national priorities before EU construction and using the EU at best as a vehicle for such short-term priorities. The concept implies the political disintegration of the EU through widening against deepening and it thus means that Germany is anchored into the West through NATO which would remain the sole unified military and security force in the West as it

was in the Cold War.

This vision has a number of attractions for Germany:

1. *In the military field,* Germany could hope for a strong partnership with US military forces and a strong input into American strategic policy-making, not least vis a vis Russia and Ukraine. Germany in any case remains vulnerable strategically still in lacking the right to have nuclear weapons and since the option of a link up in this field with Russia is excluded for political reasons (the crisis this would cause in its relations with the US and with other West European states, the unreliability of Russia as a strategic partner), the most obvious partner would be the US in any case. At the same time, an FRG-US military bilateralism in the context of the reduction of US forces in Europe from 350,000 to 100,000 makes the Bundeswehr the major conventional military force in Central and Western Europe and would worry the other West European powers. Voices are therefore being raised in the US for Germany to be allowed at least some access to its own nuclear weapons. Germany's arms industries are already tied in heavily with US arms manufacturers and constructive co-operation might be a credible prospect.
2. *In the political field* the strategic partnership can ensure that the German government has a very strong voice over US tactics towards Russia.
3. *In the economic field,* the partnership offers Germany the prospect of coordinating US and German economic interests, not least in Germany's efforts to expand into the Far East.

These substantial advantages, however, could be more than counter-balanced by serious risks and costs. While the US demonstrably talks up Germany as the dominant power in Europe, it simultaneously breeds suspicions amongst the other West European powers, especially France, of a US-German condominium. And while American blandishments may encourage a new German assertiveness, it will simultaneously provoke a backlash amongst Germany's neighbours, a backlash already seen in the French European elections. This could eventually put at risk the integrity of the whole European integration project, an objective at the very centre of the desires of the current British government. And against such a background of fragmentation within the EU, America's role as broker and arbiter

would be greatly enhanced. Simultaneously, German governments would find their capacity to steer European affairs in favourable directions would be gravely weakened.

The British tactics of trying to produce a revolt amongst member states against Franco-German proposals (on voting arrangements in the Council of Ministers after enlargement, or over the replacement for Jacques Delors) are precisely complementary to the American efforts to talk up Germany as the dominant power in Europe. When American leaders talk of their privileged links with chancellor Kohl and of the two countries leading the West forward together, they sound like the polar opposite of Nicholas Ridley with his talk of a "German racket designed to take over the whole of Europe". (Ridley interview in the *Spectator,* 12 July, 1990.) Yet they both push in the same direction of seeking the break-up of the Franco-German axis, the loosening up of the political ties within the European Union and the abandonment of any plans for EMU, European defence autonomy, the deepening of the European Union.

Franco-German led European world power (role 2)

At least since 1983, President Mitterand has championed an alternative role for Germany: that of steadily preparing the ground for a Franco-German led European Union to be increasingly asserting itself as an increasingly coherent political force in world politics. At the core of this perspective is the securing of Germany's European economic base and allowing it to dominate economic policy-making within the EU. Through this orientation also German foreign policy objectives could be provided with a European legitimation and Germany would be assured of close, stable relations with its European neighbours. The precondition for this orientation would be German acceptance of monetary union and a strong common foreign and security policy with a realistic perspective for the development of an autonomous West European military capacity.

From the point of view of French elites, this role for Germany as the "joint" leader of Western Europe would ensure that the French state could strengthen, or at least seem to strengthen its influence over European economic policy-making and could use a deepened EU to protect French economic interests, while at the same time France

could present itself as the core of West European military forces and thus seek to maintain and even enhance its political influence within the EU. The great problem, however, for German governments with that orientation would be that it would greatly restrict the room for manoeuvre of the German state itself, especially in the area of Ostpolitik. While the US government could be expected to support measures to integrate the East Central European states more closely into the structures of Western Europe and NATO, French governments will resist strongly the measures necessary for such integration, not least the profound changes in the CAP which would be felt necessary if Poland or Hungary were to join the EU. As for a strong European military capacity, that would lack credibility as a global power unless some sort of arrangement over nuclear weapons could be found, an unlikely prospect at present. And monetary union is increasingly unpopular in Germany.

Germany as builder of progressive model (role 3)

The offer of the Anglo-Saxon powers to Germany would push Europe back towards the nationalist rivalries of the past, bringing many unpleasant consequences for Europe, even if there might be greater possibilities for the countries on the periphery of Western Europe to gain benefits from the competitive rivalries of the West European states. Yet despite the progressive promise of the Mitterand vision of a united Europe, the form in which that vision has been pursued and consolidated in Mitterand's and Kohl's Maastricht Treaty seems increasingly to lack any substantial benefits for the great majority of Europe's people. The Maastricht programme seems rather to exacerbate the economic and social problems of the continent, binding together a dwindling band of followers behind the large multi-national companies and financial operators. As for the foreign policy and military dimensions of the Treaty, they seem inspired by the narrowest of power-political considerations for extending Western Europe's dominance over its neighbours.

The challenge for those committed to avoiding a return to the past by building a united Europe has already been perceived in the debates in a number of countries to go well beyond the crabbed perspectives of Maastricht. It involves, in the first place, radical

measures to restructure the social organisation of work, rebuild effective demand and tackle the crises in most of Europe's big cities. Ambiguous phrases about social cohesion are hardly adequate concepts for tackling these problems. At the same time, serious efforts to overcome the social crisis can only realistically begin in the strongest economy, namely Germany.

Rather than seeking excuses in ethnic tensions or conflicts in Eastern Europe for equipping the EU with the military capacity of a great power, the Federal Republic could turn its international political and military limitations (its lack of a seat at the UN security Council, its lack of nuclear weapons, its restrictions on external use of force) into a programme for collective security that breaks with the great power nationalism which, in an American dominated international order, has remained the guiding principle of international politics.

The necessity to embrace the peoples of East Central and Eastern Europe and to offer them a prosperous future also requires a dramatic change of direction, combining a major change in West European agricultural policy and trade policy with radical solutions to the debt and payments problems of the East Central and East European states.

A victory for the German left in the federal elections in October could start the process by which Germany defines its new role in Europe, above all as the bearer of a new, more progressive social model than either the tested and failed American social model or the narrowly technocratic vision of the French socialists. Such a genuinely new departure along the road to deepening European integration could be combined with a fresh approach to international security after the recent debacles in Bosnia, Somalia, Rwanda, and elsewhere. Such a programme of change radiating from the new Germany could make the Federal Republic a genuinely hegemonic force across Europe for it would be an evident source of advancement for citizens across the continent, transforming the folk memories of the past and making a German-led Europe a genuinely positive force in international affairs.

This paper was presented at a conference on "Germany's Role in Europe" in May 1994, sponsored by ***Labour Focus on Eastern Europe*** *and the* ***London European Research Centre.***

Gus Fagan

German Foreign Policy

The Conflict over Recognition of Croatia and Slovenia 1991

In 1991, when the Western alliance (the EC, the United States, the Security Council of the United Nations), with the support of the Soviet Union, supported the integrity of the Yugoslav federation, the Federal Republic of Germany openly supported its break-up, defended the separation of Croatia and Slovenia, and by the end of that year coerced its Western allies into adopting a similar position. In Europe's first serious security crisis since the end of the Cold War, unified Germany asserted its own interests against its allies and provided the strongest example to date of its assumption of leadership in the formation of European foreign policy.

The reaction in other Western capitals was uniformly hostile. France's *Le Figaro* saw it as a manifestation of "nostalgia for times not so long past" (23.9.91) and *Le Monde* claimed that the implosion of Yugoslavia corresponded to "Germany's deepest wishes" (4.7.91). Lord Carrington, the EC-appointed mediator in the dispute, said that "Recognition altered the whole basis. I had no leverage at all."[1] In Germany itself, political groups and intellectuals on the left were quick to point out similarities to Nazi Germany's *Lebensraum* policies, while the images of German Second-World-War atrocities in the Balkans were

an integral part of every discourse. As for the effects in Yugoslavia itself, Germany was accused of blocking a "Yugoslav solution", i.e. the maintenance of some federal arrangement, and of making the escalation of the conflict in Bosnia inevitable.

The present paper asks why Germany took the position it did in 1991; what was its wider significance for German foreign policy-making in general and, finally, what effect did it have, if any, on the further development of the conflict in the Balkans?

Western conflict over recognition in 1991

In January 1990, at its Fourteenth Congress, the League of Communists of Yugoslavia, the main integrating mechanism of the Yugoslav federation, effectively broke up. In April and May of that year, elections in both Croatia and Slovenia returned pro-separatist parties. In the December 1990 referendum in Slovenia, 88 per cent voted for independence for the republic. A similar referendum in Croatia in May 1991 (boycotted by Croatian Serbs) produced a 93 per cent pro-independence majority. In June 1991 both Croatia and Slovenia officially proclaimed their independence.

Throughout this whole period the West, including Germany, was united in its insistence on the maintenance of Yugoslavia as a federal state. In early 1991 US Secretary of State, James Baker said unequivocally that "under no circumstances" would the US recognise Croatia or Slovenia. As late as July 1991, after the two republics had declared their independence, the US Department of State restated the US position that Croatia and Slovenia's "unilateral steps ... will not alter the way the United States deals with the two republics as constituent parts of Yugoslavia".[2] In March 1991 the EC stated its position in favour of maintaining the unity of Yugoslavia, a position it reiterated on 29 June 1991 when it asked Slovenia and Croatia to suspend their declarations of independence for three months. CSCE foreign ministers, meeting in Berlin on 19/20 June 1991, also proclaimed their support for the maintenance of the Yugoslav federation. In that same month, at a meeting of Delors (President of the EC Commission) and Santer (Chairman of the EC Council of Ministers) with Yugoslav leaders in Belgrade, further EC assistance

was made dependent on the maintenance of Yugoslavia. On 23 June the President of the Council of EC Foreign Ministers, Jaques Poos, declared that EC foreign ministers had decided not to recognise any unilateral declaration of independence by either Slovenia or Croatia. In September 1991 Lord Carrington was appointed mediator and the clear assumption in his brief was that no republic would be recognised before there was an overall settlement. In short, the position of the Western allies was clear on separation.

It was also becoming clear, however, in early 1991, that Germany was unhappy with this position. In October 1990, the GDR ceased to exist and Germany became a united country. A concerted media campaign, as well as resolutions to party conferences, insisted that the "independence" and "right of self-determination" which Germany had won for itself in 1990, should not be denied to Croatia and Slovenia. In June 1991, shortly before Croatia and Slovenia's declarations, the deputy-chair of the SPD, Norbert Gansel, in a report following a visit to Yugoslavia, called for recognition of the two northern republics. At the EC summit in Luxemburg on 29 June 1991, Chancellor Kohl argued for recognition of Croatia and Slovenia. A few days later, on 1 July, Kohl declared, at a press conference, his support for Croatian and Slovenian independence: "The unity of Yugoslavia can not be maintained by use of force. Only negotiations for a new ordering of state structures in this country can create a lasting solution." (*Bulletin der Bundesregierung*, 2.7.91, p. 601) The meeting of EC foreign ministers in the Hague a few days later was held, it seems, to warn Germany against any breach of community discipline on this question. (*Frankfurter Rundschau*, 6.7.91)

The arguments within the European Community and with the United States continued. Within days of the appointment of Lord Carrington, and his mandate to bring all the Yugoslav parties together, German foreign minister, Genscher, called once again for the recognition of Croatia and Slovenia and for the creation of a peace-keeping force under the authority of the CSCE. In October the German government officially recognised Slovenian passports. It was now clear that, in the absence of agreement among the Western allies, Germany was prepared to act unilaterally. Both Kohl and Genscher declared their willingness to act alone on 27 November, and when the

foreign ministers of Croatia and Slovenia visited Bonn in the first week of December 1991, Kohl promised them official recognition before Christmas. It was in order to prevent such an open split in the alliance that a special meeting of foreign ministers on 16 December 1991 agreed, not only to go along with Germany, but

> "to recognise the independence of all those Yugoslav republics that fulfil the conditions listed below. This decision will be put into effect on 15 January. The EC calls on all Yugoslav states to declare, by 23 December, whether they want to be recognised as independent states...."[3]

The conditions mentioned concerned human rights, respect for the rights of ethnic minorities, and a democratic constitution. Germany didn't wait for the January 15 deadline and the cabinet announced its decision to recognise the two republics on 19 December 1991. For the first time in its history, the Federal Republic had publicly supported and forced on its European allies a policy openly at odds with that of the United States.

The European Community went along with Germany on the question of recognition mainly to maintain a semblance of unity in the community. Yugoslavia was, after all, a European problem. The EC foreign ministers meeting in Luxemburg in June 1991 decided to send off a high level delegation to Belgrade, among them Jaques Poos, who declared, before boarding his plane to Belgrade on 28 June 1991: "This is the hour of Europe. It is not the hour of the Americans."[4] By the end of the year it was clear that there was very little that united the Europeans on this question. Without a coherent alternative policy, and faced with the threat of German unilateralism, the rest of the EC gave in. As Douglas Hurd said in the House of Commons in December 1991: "there is no prospect of British influence for good in Yugoslavia if it is in rivalry with other EC powers". *(Independent,* 20 December 1991)

1991: Hegemonial intentions or German "mistake"?

Most commentators would agree with Harald Müller that the German actions on Croatia/Slovenia were significant in that "it was the first time the Germans had shown some willingness to take the lead on an issue they felt strongly affected their interests".[5] Timothy Garton Ash sees the 1991 policy as "not the result of a sober calculation of

national interest" but a "hasty over-reaction, following public and, especially, published opinion". For him it was an example of "making foreign policy in a television democracy".[6] In Germany, most comment to the left of the SPD saw the conservative coalitions hard line on Yugoslavia in the context of previous German attempts to gain hegemony in the Balkans. According to one study:

> "Two attempts, two crushing defeats - this is the real basis for the hate that the monopolies and their political representatives have for the Yugoslav federal state. Since the turn of the century, the Danube-Balkan area, as a stepping stone into Turkey and Ukraine, has been the expansion area for German imperialism."[7]

The immediate motives/explanations for Germany's policy on Yugoslavia were well aired at the time:

(1) It was a popular policy domestically, it had the support of the media and of the more than one-half million Croats living in Germany. It was also encouraged by the SPD.

(2) It was also, of course, encouraged by the Croatian and Slovenian governments. There were frequent meetings throughout 1991 between the Bonn government and Croatian/Slovenian leaders. In July 1991 Both Kohl and Genscher received Tudjman in Bonn. This was followed in August by a meeting between Genscher and the foreign ministers of both countries. In October the Slovene president and the Croatian foreign minister visited Bonn. There were further meetings in November and early December. The close consultation between Germany and the Croatian and Slovenian governments indicates that this was a very important policy issue for the Germans and something more than "foreign policy in the television age". One American journalist quoted a US diplomat in 1992 who complained:

> "We were urging the Croats and Slovenes to stay together. We discovered later that Genscher had been in daily contact with the Croatian foreign minister. He was encouraging the Croats to leave the federation and declare independence..."[8]

Whatever the truth about Genscher encouraging the Croats to separate, it is clear that Germany's support for recognition created allies for the future in the independent states of Croatia and Slovenia.

(3) The events in the Soviet Union in 1991 also played an important

role in the determination of German policy. Germany, more than any other EC state, was seriously concerned about the stability of its eastern neighbours. This was an important motive in its support for Yugoslav unity previous to 1991: the disintegration of the federation or a victory for the hard-line nationalist, Milosevic, could have encouraged similar upheavals among the constituent republics of the Soviet Union. In early 1991, German foreign policy-makers were convinced that the Yugoslav federation would disintegrate; the attempted coup against Gorbachev in the summer of 1991 made it clear that a break-up of the Soviet Union was also inevitable. The maintenance of both federations was no longer seen as a realistic policy goal; its removal allowed other goals to move to the front of policy-making. German policy on the Baltic republics followed a similar pattern. (I will return to this later.)

(4) Although, in retrospect, we can see why the recognition of Croatia and Slovenia did not stop the conflict in the Balkans, German leaders argued plausibly in 1991 that recognition of the two northern republics would "internationalise" the conflict, make it a legitimate issue of international concern, and thus perhaps encourage Milosevic to moderate Serb aspirations.

The view that recognition of the northern republics could help prevent an escalation of the conflict was also argued at the time by some experts outside of Germany.

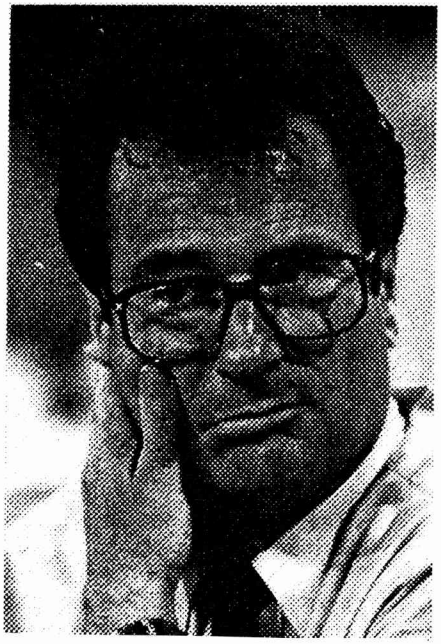
(5) Throughout 1991, the Germans also perceived correctly that the EC and the West were divided, undecided, and unlikely to reach a common agreement on what to do. As Knut Mellenthin has argued in a previous issue of *Labour Focus*: "the unrealistic insistence on this option (maintaining the federation) meant a significant loss of time for France and the other powers and it strengthened the position of Germany, which had accepted the dissolution of Yugoslavia earlier and made the necessary adaptations in policy". (No 45, May-Aug 1993, p. 18)

(6) The self-dissolution of the states of Central and South-Eastern Europe (Czechoslovakia, Yugoslavia) as well as the Soviet Union, means that there was now very little resistance to German economic and political dominance in this region. In fact, as Arthur Heinrich has pointed out, these "countries and successor states, because of their

economic and political weaknesses, will demand that Germany assume a leading role". Whatever the immediate reasons for Germany's unusually aggressive policy on recognition in 1991, one would also have to agree with Heinrich that: "The policy of the Federal Republic in the Yugoslav crisis, one may assume, was and is determined by self-interest, and the dissolution of the Yugoslav state corresponds entirely to these interests..."[9]

Foreign Policy after Unification

The coincidence of German unity and collapse in the East could not fail to radically alter Germany's approach to foreign policy. The USA's loss of role, the crisis over the future of NATO, the new questions posed about the form and future of the European Community, the importance of Russia and the CIS as economic partner for Germany, the attraction of rapid links with the countries of East Central and South-Eastern Europe - all of these factors mean that, while Germany's traditional West-integration remains a rational option, it no longer has the same necessity.



Foreign minister, Klaus Kinkel

Although foreign-policy statements, in Germany as elsewhere, tend to cloak rather than reveal intentions, official pronouncements have actually been quite forthright about Germany's new foreign-policy options after 1989. An official government declaration of January 1991 stated: "Germany has come to terms with history; in future it can be open about its role as a world power and should seek to extend that role."[10] With respect to Eastern and South-Eastern Europe, defence minister Volker Rühe uses the phrase "stability-transfer to the East" and, in a speech to a conference of

German army commanders in October 1993, said that Germany had " to extend the Western stability zone as far east as possible. Germany has no interest in being the eastern border-state of the Western prosperity zone".[11] This also involves a new role for the Bundeswehr, consistently argued for by foreign minister Klaus Kinkel: "... we no longer need the Bundeswehr just to protect our country from potential aggressors. It will have to fulfil three new tasks: preventing conflict, securing peace and creating peace." [12]

Although there have been differences with the SPD over the kinds of foreign military intervention the Bundeswehr should engage in, there is basic unity on the shift to an open "world power" role for Germany. As already indicated, the SPD deputy leader in the Bundestag, Norbert Gansel, supported CDU policy on recognition of Croatia and Slovenia in 1991, he supported also the CDU argument that Yugoslavia was a *Kunststaat* (an artificial state): according to Gansel, "there never has been a democratically united Yugoslavia". (*Frankfurter Allgemeine Zeitung*, 25.5.91) This support has extended into the debate over German intervention in Somalia. Henken (1993) reports a proposal from the SPD's foreign-policy spokesman, Karsten Voigt, that the CDU and SPD develop a joint policy on German military intervention in Somalia because "this would lend credibility to Germany's application for a permanent seat on the UN Security Council". (p.7) The leader of the SPD group in the Bundestag, Hans-Ulrich Klose, in a speech to parliament quoted in the *FAZ* in July 1993, recognised the Chancellor's interventionist policy in Somalia as part of a new security and foreign policy, one of the goals of which was a permanent seat at the Security Council, a precondition for which was the "military normalisation of Germany". Klose objected not to the policy but to fact that the government pursued this goal "secretly and under a humanitarian guise". (*FAZ* 3.7.93)

The recognition of Croatia/Slovenia actually conforms to a pattern in Germany's relations with its Western and potential Eastern partners. During the conflict between the Baltic states and Russia over independence, Germany supported the Baltic states but did not provoke the Gorbachev administration by any unilateral move. However, one week after the attempted coup in Russia, Germany established diplomatic relations with the Baltic states and, within

days, sent Bundestag speaker, Rita Süssmuth, foreign minister, Genscher, and ambassadors to Tallinn, Riga, and Vilnius.[13] Germany has been pushing its Western partners for an association agreement with the Baltic states, against the reluctance of France and Britain.

Another important element in Germany's recognition policy is the fact that Croatia and Slovenia, like the Baltic states and the ECE states of the Visegrad Group, are relatively developed, and both capable and willing to develop quite rapidly the economic and legal institutions of a modern state. The moral high-ground argument of self-determination had very little to do with actual policy formation. Both the Baltic states and Croatia/Slovenia saw themselves as developed societies burdened by their links with less developed regions. The argument of the Slovene finance minister ("We can no longer support this Yugoslavia.... In Slovenia, 9 per cent of the Yugoslav population produce 22 per cent of the social product and 35 per cent of exports."[14]) was a familiar one in the Baltic states and in the Czech Republic. In all such instances, Germany supported and encouraged the "self-determination" of these states (i.e. the break-up of the respective federations) and a special relation with Germany as a link/stepping stone into the prosperity of the European Community.

Economically, these states are important for Germany, both in themselves and as outposts for German penetration and influence in the regions beyond. In the case of Estonia, for instance, in 1990, 95 per cent of Estonian exports went to the former USSR; in the first half of 1993 only 16 per cent went to Russia, Germany now being one of its top four trading partners. In imports, Germany (10.9 per cent) just about equalled Russia (11.6 per cent). Obviously Finland and the Scandinavian countries account for the bulk of foreign investment, but Germany is among the top five foreign investors. The *Financial Times* Supplement on Estonia in April 1993 describes Dr Herbert Schmidt from the German *Treuhandanstalt*, now responsible for organising the privatisation of Estonian firms, as "one of the most influential figures in Estonian public life". *(FT,* 19.4.93) The Baltic states in general were described in a recent investment guide as having: "an excellent geographical position, 8m westernised citizens, democracy, and a large trading and manufacturing base which needs foreign investment". *(FT* 28.9.93)

Both Germany and Austria have important economic links in Croatia and Slovenia. Croatian imports from Germany in 1990 accounted for about 35 per cent of all imports from OECD countries. In the case of Slovenia, about 50 per cent of all EC trade is with Germany, Italy being the main competitor. Foreign investment regulations were liberalised in Slovenia in 1988. With less than 9 per cent of the population, Slovenia received more than 25 per cent of all foreign investment in Yugoslavia between 1988 and 1991. Germany has been the biggest investor, with DM721m invested by the end of September 1993 (comparable figure for France is DM115m). The new company law of June 1992 is based on German company law and a new law allows 100 per cent foreign ownership.

The European economic space (EC and EFTA) constitutes about 40 per cent of the world market. If we include the eastern countries that have or will in future sign association agreements with the EC, then we are looking at a potential market for German capital which is between 50 and 60 per cent of the world market. The *Financial Times* in November 1993 reported a survey of 10 000 large and medium-sized German companies carried out by the German Chamber of Trade and Industry (DIHT). The survey found that one in three companies plan to transfer part of its production outside the country in the next three years, with the sharpest rise in relocations being among manufacturers. Eastern Europe was named by nearly all companies as the favourite region to develop new manufacturing bases. Poland, Hungary and Czechoslovakia have an average hourly wage of DM5 to DM7, compared with DM42 in Germany. In Baden-Württenberg, the southern state with the largest number of medium-sized enterprises, 27 per cent of them have partially relocated in the past three years and 40 per cent are planning such a move in the next three years. *(FT* 9.11.93) The structuring of the new division of labour that will accompany this expansion of the European economic space provides the background to the foreign policy choices of the German political elite.

But this more open (or more aggressive) assertion of German interest does not point to a German intent to move outside the European framework. This was very clear in the Yugoslav case. While determined to have their way on the question of Croatia/Slovenia, they

were equally determined in their attempts to use every possible multilateral framework: requests to the EC; establishment and invocation of the CSCE "crisis mechanism"; putting the matter on the WEU agenda; and finally, pushing France and Britain to take the matter to the UN Security Council. When foreign minister Kinkel says that "Germany has to protect its interests worldwide, only in this way can it defend its role as leading economic and cultural nation"[15], he is within the discourse of the German right who see Germany's "historical destiny" re-emerging after 45 years of tutelage. But this doesn't necessarily lead to an isolationist project. Michael Stürmer, who attacks from the right the new Germany's "fear of power", nonetheless recognises that "Germany will never be able to throw more weight on the scales of the East than it already possesses on the scales of the West".[16] Arthur Heinrich, from the left, agrees that "the goal is not autonomy in foreign policy but only the structuring of the Community's foreign policy along German lines".[17]

The Aftermath of 1991

The subsequent debacle in Yugoslavia and the failure of Germany's recognition policy to have any effect on Serbian ambitions has led to a general public recognition, among politicians and commentators, that this policy was a "mistake". Harald Müller says it was "an unnecessary and counterproductive strategy" which demonstrated that the new Germany needed to learn "leadership skills". (Müller 1992, p. 154) Helmut Schmidt's assessment in a recent article in *Die Zeit* (20.4.94) is representative:

> "The original goal of the West, determined primarily by Washington, of maintaining the multi-national state was illusory from the beginning... But the diplomatic recognition of the republics that had declared their independence was probably just as much a mistake; at least it should have been made conditional on renunciation of force and rights for minorities. Bonn's seizure of the initiative with respect to Croatia was a mistake particularly for the Germans, for Germany knew that it was not in a position to send peacekeeping troops to the Croatian border."
>
> Schmidt points here to what was a major dilemma in German

policy; while pushing aggressively for the implementation of its policy, it lacked the ability to intervene if its bluff was called (due to the constitutional restrictions on the use of the Bundeswehr on non-German territory).

The principal criticism of German policy relates more to its timing than its substance, a criticism that was already contained in the UN General Secretary, Pérez de Cuéllar's, letter to Genscher in December 1991:

> "I hope that you will take into account the serious concerns of the presidents of Bosnia-Herzegovina and Macedonia, as well as many others, that a premature recognition could lead to an extension of the present conflict to these highly sensitive areas."[18]

The premature recognition did indeed undercut the chances for Bosnia-Herzegovina to negotiate its way to independence. But quite a few German diplomats and commentators see the US as the chief culprit here, refusing to consider a strategy for recognition long after it was clear that Yugoslavia as a state was finished. (Newhouse 1992, p. 64) Jonathan Eyal sees the mistake not in recognition, "which could not have been avoided", but in the decision of the EC in December 1991 to offer recognition to all the republics:

> "For the real tragedy was to be found not in the recognition of Croatia and Slovenia but, rather, in the Community's determination to take any risk in order to maintain the semblance of unity. Recognising the independence of Slovenia and Croatia was bowing to the inevitable; transforming it into a process applicable to all former Yugoslav republics was the true mistake committed in December 1991." (Eyal 1993, p.49)

It was the EC decision of December 1991, asking the republics to decide within less than two weeks if they wanted to be recognised as independent which set Bosnia on the road to its referendum and civil war.

In the inner-German debate since 1991, commentators to the left of the SPD continue to see Germany's role in Yugoslavia as a sinister one, in continuity with or reminiscent of the *Großraumpolitik* of German capital between 1938 and 1945. Social-Democratic and liberal opinion, while critical of the element of "overreaching" in Genscher's

tactics, are inclined to accept the recognition of Croatia and Slovenia as inevitable and in German interests. The incident appears to have had very little real effect on the debate around or formation of German foreign policy; in fact, it is an incident most politicians want to forget.

> "German triumphalism over this bold action didn't last long and people no longer sway to the rhythm of 'Thank you Deutschland' in Café Genscher; the events surrounding recognition have long since fallen victim to a catastrophically weak short-term political memory." (Heinrich 1992, p. 412)

In fact, the main lesson which the political leadership has drawn from this is the need to press ahead even more urgently with what it calls the "normalisation" of German foreign, security, and military policy (changing the constitutional restrictions on military intervention abroad, preparation of specialist military intervention units in the Bundeswehr, and so on).

Militarisation of Foreign Policy

It is the military aspect of Germany's intervention in Yugoslavia that has been for a long time the centre of debate in Germany. As is well known, Article 87a of the German constitution says that German "forces may not be used for any purpose except defence, unless the constitution explicitly allows it". The strategy of the German government in recent years has been to remove this restriction not by means of public debate but by a fait accompli. In 1987 German troops were used in the Mediterranean as relief units for US ships. In the summer of 1989 German military personnel were sent to Namibia as part of a UN team. German relief ships were also used in the eastern Mediterranean in August 1990. But the first "out of area" intervention was in March 1991, when German war ships and mine sweepers were sent to the Persian Gulf. Later there were German (UN) units in Kampuchea and Kurdistan. A 1700-man contingent was sent to Somalia. In NATO operations in Bosnia, German troops participate as members of the AWACS team and German marines are engaged in policing the blockade against Serbia. This salami-tactic has been very effective. The Constitutional Court decided in April 1993 that the intervention in Bosnia (involvement in shooting down Serbian planes) could go ahead because to withdraw German troops would weaken

the enforcement of the no-fly zone and damage Germany's reputation among its NATO allies (*Jahrbuch der Bundesrepublik Deutschland* 1993/94, p. 408). The Kohl government proposed a change in the constitution which would allow the Bundeswehr to intervene abroad "to assist other states in exercising their right of self-defence in keeping with Article 51 of the UN Charter". The SPD special congress in November 1992 approved a constitutional change which would allow the use of German troops in UN peacekeeping operations out of area. Although there is significant opposition among SPD members, the leadership in the Bundestag has effectively gone along with the "normalisation" policy.

This "normalisation" policy, from a purely military point of view, includes: (1) the removal of any constitutional restriction on the use of the Bundeswehr in military actions abroad, in defence of German or allied interests (finally approved by the Constitutional Court in Karlsruhe in July 1994); (2) participation in the preparation of special rapid deployment forces in Europe, the core of which will be the 50 000 strong Europcorps, made up mainly of French and German brigades, capable of intervening on behalf of NATO or the WEU. According to Wim van Eekelen, the General Secretary of the WEU, speaking at the WEU Assembly in June 1993:

> In the event of the UN decision-making process being blocked, the European Union should be in a position to intervene independently within its own area or wherever its vital interests or those of its members are threatened."[19]

What these interests could be were laid down by German defence minister, Volker Rühe, in his Defence Policy Guidelines (*Verteidigungspolitische Richtlinien*) of 26 November 1993. The starting point is Germany's own security interests:

> "In spite of agreement in principle, German interests will not always coincide with those of our allies and other partners. The national interest is therefore the starting point of the security policy of a sovereign state."

These security interests include:

> "The maintenance of free world trade and unhindered access to the markets and raw materials of the whole world, in the framework of a just economic order...

> The ability to defend Germany remains a fundamental function of our military forces. In the future, however, the management of political and military crises in a wider geographical sphere will have to be a prominent function."

The scope for German intervention is very wide. Of particular relevance to eastern Europe, in view of the large ethnic German minorities (all of whom are considered German citizens) in some of these countries, are the sections that deal with perceived threats to German security: "Another area of immediate risk concerns attacks on the freedom and well-being of German citizens or citizens of allied states."[20]

The development of German military and security policy after 1989 is a wide topic which I don't wish to develop here. What I wish to indicate is simply the wider context of debate within which one has to look at the decisions on Yugoslavia in 1991. Within that wider context, the recognition of Croatia/Slovenia does not appear either as an anomaly, as a temporary and ill-judged concession to popular opinion, or as a demonstration of amateur heavy-handedness in foreign policy-making, the product of forty-five years of subservience to Washington. It was, rather, symbolic of an important shift in the basic pattern of German foreign policy after 1989.

The New Model

Government statements are often at pains to point to the continuity in Germany policy. The main features of this continuity are meant to be:

* priority of economic interests;
* preference for political diplomacy in international relations;
* disinclination to countenance military instruments;
* an inclination to keep out of international conflicts;
* preference for a stable environment (peaceful and gradual constructing of the necessary political, economic, and security relations);
* primacy of cooperation and integration within the framework of inter- and supra-state institutions. (Heinrich 1992, p. 665)

German unification and the end of the Cold War, however, meant that the old model had become unstable. A brief look at the

main ideological categories in terms of which this debate is being carried out will give some insight into the new model that is emerging. All of these categories featured quite strongly in the Yugoslav debate:
(1) *normalisation*: This is a new *Stunde Null* in foreign policy, a return to normality, to "self-determination" after forty-five years of "guardianship" and "no alternative" (what Hanns Maull called "voluntary decision-making without an alternative"[21]), an end of the West German *Sonderweg* (democracy in internal affairs, West-orientation and relinquishing of sovereignty in foreign affairs). In terms often reminiscent of the Fischer controversy of the 1960s and 1970s,[22] politicians, historians and new-right intellectuals speak of Germany's "re-entry into history", of the "re-nationalisation of German identity". Nazism and GDR-Stalinism (often equated) are a thing of the past, and neither should be a cause for German self-limitation (inspired by guilt) in world politics.
(2) *realism* and *responsibility*: Germany is now a major world power; gone are the days of "economic giant but political/military dwarf". In this rendezvous with history, Germany is geopolitically in the heart of Europe, in a European Union which is uncertain and faltering, and "uncomfortable near the fault-line in the East where, for politics and society, the free fall is beginning" (Stürmer); under such circumstances Germany has to take responsibility, act decisively, not be "afraid of power". This increased responsibility shouldn't just be "reflected in financial contributions" but in "peacekeeping missions, disaster operations, and open conflicts outside Europe" (Stuth 1992, p. 31).
(3) *German interests*: German and allied interests are not always the same; policies should now be measured on a different scale, that of self-interest: "Our economic, technical, and financial capacities no longer permit a self-limitation of German foreign policy according to the old model" (CDU foreign minister, Volker Rühe[23]).

On the German left, the Greens and the PDS have, of course, taken a very critical stand against Germany's role in Yugoslavia. The PDS opposes German military intervention in Yugoslavia and, in addition, calls for an end to German membership in NATO and the WEU, and for the dissolution of NATO and the WEU.[24]

On the right, what one has witnessed since 1989 is the growing strength of a new more "respectable" intellectual right wing which has

succeeded in establishing a major influence and largely determining the political discourse of large sections of the traditional conservative milieu. The *Frankfurter Allgemeine Zeitung* vies with the other conservative dailies such as *Die Welt* to be the mouthpiece of this new right, which situates itself between the radical extremists (the Republicans) and the right wing of the CDU. The right-wing weekly, *Junge Freiheit,* which began publication in 1986 with a circulation in hundreds now enjoys a five-figure circulation and has reached out to conservative Greens and ex-left wingers. Popular writers like Botho Strauss have given *Salonfähigkeit* (respectability) to the ideas of the "conservative revolution" among writers and artists. The ideas of the Nazi jurist, Carl Schmitt, are enjoying a renaissance in the 1990s while right-wing historians such as Karlheinz Weissmann and Rainer Zitelmann have succeeded in establishing an intellectual ambience in Germany comparable to that established some years ago by the Nouvelle Droite in France. In the words of the Social Democratic intellectual Peter Glotz: "Germany has once again its right-wing intellectuals." (*Die Zeit,* 17.4.91)

There are some, for instance the political scientist and director of a foreign policy institute in Bonn, Hanns Maull, who argue for a *Zivilmacht* (civil power) as an alternative to normalisation. This option would basically continue the Bundesrepublik special features of post-1945 (no nuclear weapons, no foreign intervention, etc) while allowing Germany to pursue its quite legitimate economic and political interests in an expanded European Community, reaching out in particular to its eastern neighbours. The consensus within the political elite, however, is overwhelmingly within the discourse of normalisation.

Conclusions

The German recognition of Croatia and Slovenia, against the opposition of all its allies, although it failed to achieve its declared goal of discouraging Serbian aggression in the Balkans, was a coherent part of an emerging new pattern in foreign policy pursued by the conservative coalition after 1989 and supported, in its main features, by the SPD leadership. Some of the main features of this new approach are:

- a greater willingness to assert German economic and political power in the European Community;
- a militarisation of foreign policy, and the legitimation of a more "national" discourse in German politics as ideological cover for a more aggressive pursuit of national and economic self-interest in the newly independent states of Eastern and South-Eastern Europe.

In Yugoslavia the effects of this policy in 1991 were (i) the international legitimation of "national" and "ethnic" criteria in state formation; (ii) the undermining of a more gradual, negotiated solution to the inter-ethnic conflict in Bosnia, which was pushed, by the EC decision of December 1991, into a premature referendum on independence.

Within the German political elite and among mainstream intellectuals, the discourse of "normalisation" represents a consensus in foreign and security policy of which the SPD leadership is part, while critical of some of the details. Whether there is widespread support in society for a fundamental shift in Germany's world role remains to be seen.

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Notes

1. Quoted in John Newhouse, "The Diplomatic Round", *The New Yorker* 24.8.92, p. 66.
2. The Baker quotation is from C. Cviic, "Das Ende Jugoslawiens", *Europa Archiv* 14/91, p. 409. See also Jonathan Eyal, *Europe and Yugoslavia: Lessons from a Failure,* London 1993, p. 24.
3. See Andreas Meurer, et al, (eds) *Die Intervention der BRD in den jugoslawischen Bürgerkrieg*, Cologne 1992, p. 55.
4. *New York Times*, 29.6.91.
5. Harald Müller, "German Foreign Policy after Unification", in P. Starkes (ed) *The New Germany and the New Europe*, Washington 1992, p. 154.
6. T. Garton-Ash, *In the Name of Europe*, London 1993, p. 396.
7. A. Meurer, "Kontinuität deutscher Südost-Expansion: Aggression

gegen Jugoslawien", in Meurer, *Die Intervention*, p. 5.
8. Newhouse, p. 64.
9. Arthur Heinrich, "Neue deutsche Außenpolitik", *Blätter für deutscher und internationale Politik* (hereafter *Blätter*), 12/91, p. 1450.
10. Quoted in Lühr Henken, "Die Militarisierung der deutschen Außenpolitik und das somalische Öl", *Sozialistisches Forum,* 34/93, p. 7.
11. Volker Rühe, "Deutsche Sicherheitspolitik vor neuen Aufgaben", *Bulletin, Presse und Informationsdienst der Bundesregierung* (hereafter *Bulletin*), 85/93, p. 952.
12. Quoted in Stefan Bollinger, "Deutschland nach dem Ende der bipolaren Welt", *Utopie Kreativ* 41/42 1994, p. 38.
13. See R. Stuth, "Germany's Role in a Changing Europe", *Außenpolitik* 1/92, p. 28. On German policy on recognition of the Baltic states, see Berndt von Staden, "Die Baltische Staaten und Europa", *Europa Archiv* 9/91, pp. 275ff.
14. Quoted in Hunno Hochberger, "Zum Intervention der BRD in den Jugoslawischen Bürgerkrieg", in Meurer, p. 31.
15. Klaus Kinkel, "Die Rolle Deutschlands in der Weltpolitik", *Bulletin* 18/93, p. 143.
16. Quoted in Bollinger, p. 38.
17. A. Heinrich, "Neue deutsche Außenpolitik", p. 1451.
18. Quoted in A. Heinrich, "Wunderbare Wandlung. Die Nachkriegsdeutschen und der Bosnien Einmarsch", *Blätter* 4/93, p. 406.
19. Quoted in Henken, p. 9.
20. From *Einmal Somalia reicht! Zivile Konfliktlösungen statt Bundeswehr in aller Welt,* a publication of the German Komitee für Grundrechte und Demokratie.
21. Hanns Maull is co-director of the Research Institute of the German Society for Foreign Policy (DGAP) in Bonn. See "Zivilmacht Bundesrepublik. Interview mit Hanns Maull", *Blätter* 8/93, p. 935.
22. Many German historians and politicians considered 1945 to be a "return to normality" after the unique historical experience, the Sonderweg, represented by German fascism. 1945 was *Stunde Null* (zero hour). Fritz Fischer's book, *Griff nach der Weltmacht*, published in 1959, pointed out that Germany's offensive role in 1914 and its annexation plans of the time were very similar to those of the Nazis.

Many historians, whose names appeared again in the Historikerstreit, denounced Fischer. Politicians also became involved in the controversy. For example, the CSU leader, Strauss, claimed that Fischer's work "was an attempt to project Germany's moral guilt for the Hitler dictatorship, for the Second World War, back to the First World War and to even earlier events, in order to give credibility, in the eyes of the whole world, to the image of Germany as a military, aggressive, war-mongering and revanchist country." Fischer published a second study in 1969 *(Krieg der Illusionen)* in which he backed up his earlier claims that the Second World War represented an attempt by the German elite to undo the outcome of the First World War and to establish Germany as a European hegemonial power. On the Fischer controversy, see Lothar Wieland, "Kontinuität in der deutschen Geschichte", *Blätter* 6/92, 742ff.

23. Quoted in Heinrich 1991, p. 1456.

24. See PDS statement in Bollinger, p. 43. See also the article by Sylvia-Yvonne Kaufmann, "Deutsche Außenpolitik am Scheideweg", *Utopie Kreativ* 19/20, 1992, pp. 132ff.

Eurocorps

Sylvia-Yvonne Kaufmann

German Foreign and Security Policy The PDS View

A common foreign and security policy is one of the three "pillars" of the European Union established in the Maastricht Treaty and replaces the European Political Cooperation policy agreed in 1986. Although this in itself didn't create a common foreign and security policy for the twelve, it did give greater coherence and unity to policy formation and enabled the twelve to establish areas of common interest where a common policy could be implemented. The category "common action" was meant to introduce a higher level of cooperation which would enable the EU to act in the international arena as a bloc.

This common foreign and security policy does not come under the supervision of the European Parliament. The latter only has to be "informed". The powerlessness of the parliament in this sensitive area is another indication of the democratic deficit in the Community.

At the EU summit in December 1993 in Brussels, five areas were agreed where the EU would attempt to establish a common foreign policy. These were cooperation with Central and Eastern Europe, the peace process in the Middle East, the democratisation of South Africa, the conflict in Yugoslavia, and the parliamentary elections in Russia. Foreign policy in Europe, however, remains a matter of inter-state cooperation. No EU state is really prepared to significantly limit its national prerogative, its sovereignty or its room for manoeuvre in the field of foreign policy.

Of much more serious concern are the Maastricht Treaty's provisions on security and defence policy. Alongside NATO, the EU is to build its own military organisation capable of global intervention. The development of the West European Union (WEU) into the "defence institution" of the EU will lead directly to the creation of a European military bloc. A special declaration of the WEU states agreed "to make available military units, involving the whole spectrum of conventional forces, for military tasks to be carried out under the command of the WEU"... The Franco-German Eurocorps constitutes the core structure of this future European army. Belgian and Spanish units have recently been incorporated. Germany and France were and continue to be the strongest proponents of this European intervention force because they have a common interest in securing their preeminent military position on the European continent. The WEU gives France the opportunity to extend its military influence in Europe without being a member of NATO. Germany wants to have a greater say in European political and military decisions. That's why Germany is giving such high priority to the creation, inside the Bundeswehr (the German army), of high-mobility flexible brigades for use in crisis-reaction situations.

What we are witnessing is a militarisation of the EU's common foreign and security policy. Austria, Norway, Sweden, and Finland, who want to join the EU in 1995, will thereby relinquish their neutrality. In spite of strong resistance among their populations, the governments of Sweden and Finland have announced their intention to integrate their defence policy into that of the EU and to cooperate with NATO.

Eastward expansion of EU and NATO

The integration of the Central and Eastern European states into Western Europe's and NATO's security policy will obviously precede their economic integration into the EU. These countries hope that their security links to Western Europe and to NATO will give impetus to their economic integration. This was an important factor in their expressed desire to join NATO.

Most NATO states, however, particularly the USA, rejected the idea of immediate entry, mainly because they are not prepared to accept Russia. Hence the "partnership for peace" offer. The states that

are preparing to enter NATO will have to modernise their military capacity and make it compatible with NATO. This will unleash a massive rearmament in these states which will generate profits for the Western armaments industry. This eastwards extension of NATO and the EU will probably have long-term destabilising effects on Europe, particularly in its relations with Russia.

The European security and foreign policy parameters laid down in Maastricht are based on the same kind of thinking as existed throughout the Cold War period, in other words, that security is purely a military matter. But the enormous crises and conflicts that exist both in and outside of Europe are, apart from the problems of ecology, determined by factors that are primarily economic, social, ethnic, religious or cultural.

Those who today are demanding military intervention in Yugoslavia need reminding that the threat of civil conflict has existed in that country since the death of Tito. But no practical measures were undertaken in time to prevent this foreseeable conflict. Quite the opposite. Germany's premature recognition of Croatia and Slovenia actually exacerbated the crisis. A responsible foreign and security policy for the European Union would have to abolish the existing military structures (NATO and the WEU) and prevent the formation of new military alliances. At the same time, the CSCE would have to be made viable as a pan-European system of collective security.

The PDS is not against a common foreign and security policy for the states of the European Union. What we oppose is the militarisation of the European unification process. A left socialist policy on Europe should have as its goal a fundamental reform, democratisation, and demilitarisation of European foreign and security policy. The old demand for "peace without arms" remains a valid one for today. Therefore we reject the rearmament of the Bundeswehr, WEU, and NATO as well as the crisis-reaction forces and their "out of area" intervention. We call for a prohibition of all arms exports and the destruction of nuclear weapons. The PDS wants to work both nationally and internationally with parliamentary and extra-parliamentary forces for a Europe based on solidarity, peace, and demilitarisation.

Document

The PDS on the Conflict in Yugoslavia

Statement from PDS Committee on Peace and International Policy (March 1994)

1. The causes of the national conflicts in ex-Yugoslavia have their origins in the internal development and history of that country. This applies also to the other developing conflicts in the Balkans (Kosovo, Vojvodina, Bulgaria, Turkey, etc.). The escalation of the conflict, the war between Serbia and Croatia, as well as the war in Bosnia are linked to the rise of various nationalisms, not limited to Serbs and Croats. War crimes and other brutal crimes against humanity have been committed by all sides. And all sides in the conflict have sought external assistance.
2. The conflicts and contradictions that have led to the loss of blood can not be resolved from outside or by military means. Outside influence or direct intervention in support of one or more of the conflicting sides, with the aim of creating majorities or artificial structures, are doomed to fail in the long run. The peoples of this region, sooner or later, will have to live peacefully together or as neighbours. This decision can be supported or encouraged from outside, but the decision itself will have to come from the people themselves.
3. The inability of the USA and Western Europe to deal with the consequences of the upheavals in Eastern Europe was reflected in the way they exacerbated the conflict in ex-Yugoslavia. The lack of solid analysis, failure to recognise the clear signals pointing to secession, the arrogance with which they imposed themselves as arbiters - all of these factors led to an extremely dangerous policy of Western intervention. Some of the milestones along this road of intervention were:
- In the summer of 1991, EC exports to Yugoslavia were made

conditional on the maintenance of the Yugoslav federation.
- The fatal mistakes made in the premature recognition of Croatia, under pressure from Germany, were repeated in the case of Bosnia-Herzegovina.
- The one-sidedness, supported by the media, which presented Serbia as the aggressor and only guilty party may have simplified the conflict for people, but it didn't help the negotiations or promote a political settlement.
- The one-sided attribution of guilt was followed by a one-sided embargo that affected neighbouring states as well (Romania, Bulgaria, Macedonia). The resulting economic losses made more difficult the already complex transition to a market economy.
- A weapons embargo against all the states of ex-Yugoslavia has been in force since September 1991. But the preconditions necessary to enforce it have not yet been put into place.

4. Violence in the pursuit of separatist goals or international recognition can not be a legitimate instrument of international relations, nor can military strength be used as a negotiation factor. We favour independence and self-determination, but the consequences of the break-up of Eastern Europe can not be supported when they overturn the principles of international law. International agencies, primarily the United Nations, need to develop internationally binding mechanisms which can be used also to deal with the actions of "interested" states and powers that exacerbate such conflicts.
5. The US-promoted confederation between Bosnian Croats and Muslims in Bosnia can lead to a temporary de-escalation of the conflict. But the dangers of an internationalisation of the Yugoslav war and the escalation of other conflicts in the Balkan area continue to exist. The neighbouring states, in particular Greece, should desist from all measures which serve only to intensify the conflict.
6. Great caution is needed in cases of peaceful and humanitarian actions. Assistance can very quickly develop into defence or, even worse, military involvement.
7. A solution and an end to the national conflict in ex-Yugoslavia can not be reached against the interests of one of the conflicting parties, particularly not against the Serbs. No powers or states pursuing their own interests in the Balkans should seek to intervene as mediators

or "peace-makers".

The PDS supports all actions that

1. promote dialogue among the parties involved;
2. remove the basis for national conflicts through the creation of regional security structures. Two possibilities suggest themselves:
(a) the creation of a Yugoslavia or Balkan Commission within the CSCE, the exclusive task of which would be to help resolve the conflict. Equal treatment of all conflicting parties and monitoring the respect for minority rights would be preconditions for the gradual formation of a regional security structure.
(b) a permanent "Balkan Conference" on the model of the CSCE which would build on the experience of the meeting of the foreign ministers of the Balkan states in Belgrade in 1988 and in Tirana in 1991. This could work towards the long-term goal of a Confederation (Commonwealth) of Balkan States...
3. promote a regional economic policy for the whole Balkan region which would provide the basis and the guarantee for new security structures. A regional economic policy would have to be based on the principle of equal treatment for all the Balkan states with respect to material, financial, technical and technological assistance.
4. make it possible to have more independent reporting on the Yugoslav conflict....

The PDS/Linke Liste parliamentary group could bring a proposal to the German parliament that the Federal Republic should set aside 5m DM annually from the savings in the defence budget to help with humanitarian aid and the reconstruction of the Yugoslav successor states.
The PDS sees the conflict in ex-Yugoslavia in the context of European and international politics. The party can not accept that the German government uses the conflict in ex-Yugoslavia as a cover for the pursuit of its big-power ambitions...

(This is a position paper produced by the *AG Friedens- und Internationale Politik* for the PDS, dated 20 March 1994.)

Andrew Kilmister

East Germany
Lessons from Restructuring

Developments in the Eastern part of Germany since unification can easily evoke one of two reactions among those trying to analyse likely developments elsewhere in Eastern Europe. One viewpoint would be that East Germany represents the economic future for other countries attempting to establish a market economy. According to this argument, whereas elsewhere economic restructuring and the attendant unemployment and recession have been delayed by the remaining structures of the previous regimes and by working class resistance, in Germany the speed of annexation and its thoroughgoing character have overcome these obstacles. Consequently East Germany exhibits in a "pure" form what is implicit in economic strategies throughout the region. The second viewpoint sees East Germany very much as a special case. The particular political and economic circumstances of unification; currency union, open borders with the West for goods and labour, political incorporation, will not be repeated in other countries. Because of this, the argument runs, the East German experience gives few lessons for Eastern Europe in general.

Special features

Both of these opposing reactions over simplify the East German record. In this article I argue that what has happened in East Germany does have implications for other East European countries. However, East Germany is also special in important ways, and in fact it is precisely this that allows us to learn from what has happened there. In particular, the process of privatisation and restructuring that has taken place in East Germany is rather different from that occurring elsewhere. A critical examination of that process thus highlights some key issues which might otherwise remain inaccessible.

A starting point in carrying out such an examination is the recently translated book, *Jumpstart*, by Gerlinde Sinn and Hans-Werner Sinn, originally published in German in 1991, and now available in paperback in an edition garlanded with praise from many leading economists who have written on the Eastern European transition. The praise the book has received is one reason for looking seriously at its arguments; more importantly it puts forward very clearly a particular view of economic policy towards German unification, a view which is sharply critical of much that the German government has done.

The Sinns build up their argument around five main claims. Firstly, they argue that contrary to what is frequently argued, and what was claimed at the time by the Bundesbank, the terms of the currency union between East and West Germany were roughly right. This claim is based on estimates of the purchasing power of the Deutschmark and Ostmark at the time of unification, which show them to have had approximately the same ability to purchase goods. However, this does not mean, in their view, that this exchange rate left East German industry internationally competitive. They argue that because labour productivity in the traded goods sector (i.e. for goods previously exported from the East) was much lower than in the non-traded goods sector (i.e. for goods previously produced in the East for home consumption), a currency union which maintained East Germans' purchasing power still left East German exports to the West priced very high. In such circumstances, they argue, wages in the East should be kept low in order to allow the East German economy to start exporting the previously non-traded goods on the basis of cheap

labour. This argument is not really backed up by direct comparisons of productivity in different sectors of the East German economy, since the relevant data is not easily available. Consequently, it seems possible to argue that the relatively high purchasing power of the Ostmark did not come from high productivity in East German consumer goods industries, but from indirect subsidies to those industries, for instance low energy and construction costs. This is important because, as is shown later, the policy prescriptions of the Sinns depend on showing that the low productivity of East German industry has been overstated.

The second point that the Sinns make is that the currency union did impose a real cost on the East German people. This is because of the rules about the conversion of savings into Deutschmarks. The number of Ostmarks that could be converted at a 1:1 rate was limited, and the remainder was exchanged at 2:1: "Because the purchasing powers of the two currencies were approximately equal, this means that East German households suffered a conversion loss of DM 62 billion (DM 3800 per person). This was almost one-third of their total financial wealth" (pp. 69-70). The reason for this rule was a fear, particularly on the part of the Bundesbank, of inflationary consequences if savings were exchanged more generously, because of the high level of money holdings in East Germany. However, the Sinns argue that this ignores the fact that East Germans, unlike West Germans, held almost all their savings in the form of money. By limiting the amount of money in the economy, then, the government wiped out much of their savings. The alternative would have been to convert the savings at a more generous rate, but not into monetary assets.

The third and fourth claims made by the Sinns concern the privatisation process. The third point is a relatively uncontroversial one. It is that the principle of "natural restitution" adopted by the German government, according to which enterprises and property expropriated between 1933 and 1945 and after 1949 should be handed back if claimed to their previous owners, is misconceived. The reasons for this are fairly obvious. The backlog of complicated restitution claims going through the courts is taking an immense amount of effort to shift, and while cases are caught up in this process, privatisation

cannot easily take place. The Sinns argue that restitution should be replaced by a principle of monetary compensation. This argument has won wide acceptance, and is now enshrined in German government policy and in property law.

Treuhandanstalt

The fourth claim, however, is rather more controversial, and is central to their argument. It is that the policy followed by the Treuhandanstalt (the government-established privatisation agency) of selling East German enterprises for cash is mistaken. The Sinns put forward a number of reasons for believing that trying to sell as many properties for cash as the Treuhand tried to do, was inevitably either going to push the price received for the properties down well below their true value, or delay the process of privatisation for an unacceptably long time. The reasons they cite are the necessity of avoiding sales which create monopoly power; the employment guarantees given in firms sold by the Treuhand; the high interest rates caused by the government budget deficit associated with unification; the risks associated with buying Treuhand firms; credit constraints faced by potential purchasers; and, most significantly, what they refer to as the "stock-flow" problem. This is the problem created by the fact that the Treuhand is trying to sell a stock of assets, but purchasers pay for these assets out of a flow of income; and "Sound as this plan may seem at first sight, it cannot work, because savings are flows and flows cannot match stocks. If capital stocks are to be purchased from savings flows, enough time must be allowed for savings to accumulate. Unless sales are spread over a sufficiently long period of time, not enough revenue can be generated" (p.120). This argument presents some problems, since of course there is no logical reason why the stock of privatised assets has to be paid for out of a flow of new income. They could be purchased from the existing stock of savings, either by using money balances or selling other assets. This would mean that buyers would have to adjust their holdings of assets, but this is not unrealistic since the economic situation has changed with unification, and potential purchasers may well want to rearrange their portfolios accordingly. The real problem, which the Sinns don't fully acknowledge, is not simply that a large stock of assets is being sold,

but that purchasers do not want to reorganise their holdings of assets to incorporate the East German firms, because these firms are not seen as sufficiently attractive purchases.

All these reasons, then, mean that in the view of the Sinns, cash sales of state assets will fail for lack of demand. The solution they offer, under the heading of the "participation model" is to distribute shares in enterprises to the East German population, while selling part-ownership for cash to investors who will restructure and manage the firms.

The fifth, and final claim made by the Sinns relates to wages policy. They argue that the strategy followed in East Germany has approximated to a "high-wage, high-tech" strategy, in which wages have been allowed to rise in order to force business to increase productivity. In their view such a policy has simply led to increased unemployment and wage growth in the East has to be slowed down. One solution to this problem which has been widely discussed is that of wage subsidies. The Sinns are sceptical about these; they are paid for all jobs, not just those which would not have been preserved without the subsidies; they could encourage wage negotiators to increase wages unduly in the expectation that employment would be preserved by subsidies and high unemployment benefits in the East would unduly discourage migration to the West. Consequently, the Sinns propose a "social compact" in which there would be a four year moratorium on wage rises in the East "in return" for the distribution of shares in East German enterprises to the population. This would, in their view, both solve the problem of high wage rises and also allow, as described above, for a superior privatisation process to that actually adopted. The Sinns do not actually provide any calculations to show what this trade off would mean in terms of income or welfare for East German workers, and whether the likely returns from the distributed shares would actually be comparable to the income lost by foregoing wage rises. They are also rather silent about what would happen after the four year moratorium comes to an end, and about the likely length of time they envisage before East German wages could match those in the West.

The various steps in the Sinns' argument have considerable logical coherence. The fundamental problem of the German currency

union for them is the loss of wealth incurred by East German citizens as their savings were converted. The participation model of privatisation will make good this loss by giving them alternative, non-monetary assets. It will also allow for rapid privatisation in a way that cash sales will not, and can form one half of a social compact which brings necessary wage restraint in return. However, despite this logical rigour the three years since the original publication of the Sinns work has not really seen a widespread adoption of their ideas in German policy. The Treuhand has continued to privatise on the basis of cash sales and has stoically borne the resultant falls in the price of enterprises, and such wage restraint as has taken place in the East has been the result of the defeat of industrial action due to fear of unemployment, rather than a social compact.

Alternative model

Does this then relegate the argument of the Sinns to the realm of theoretical and historical curiosity, as a possible path not, in fact, followed? Viewing Germany in isolation this might be the case. However, looking at the experience of unification in a wider context it appears rather more important to assess the account they provide. Most significantly, the model of transition that they put forward as an alternative to the East German model is, in fact, remarkably similar to that which has been adopted elsewhere in Eastern Europe, particularly in the Czech Republic, and to a lesser extent in Poland, and which is under discussion in Hungary. The main contours of this model are a fall in real wages and a privatisation process which involves more or less substantial distribution of shares to the population, and comparatively little state restructuring prior to privatisation. Of course Eastern Europe has not seen explicit social compacts of the kind advocated by the Sinns. However, it does not seem too far fetched to argue that in the Czech Republic at least, and until recently elsewhere, there was an implicit and informal understanding whereby workers accepted lower real wages in the hope of future prosperity, and in return for the promise of making money through investment in the newly privatised enterprises. In Germany, by contrast, wages have risen considerably more than elsewhere in Eastern Europe, because of unified wage bargaining with

the West, there has been no voucher privatisation, and as has been shown in some detail by Wendy Carlin and Colin Mayer, there has been a substantial amount of restructuring undertaken by the Treuhand prior to privatisation. This restructuring has involved both the reorganisation of firms prior to purchase and the formulation of conditions for potential purchasers with regard to job guarantees and investment plans. Carlin has argued that such restructuring has actually been a precondition for finding purchasers for East German enterprises, normally West German firms, in a situation where the attractiveness of such enterprises has been greatly reduced because of the collapse of markets further east. Given this it seems possible to argue that restructuring prior to privatisation and distribution of shares represent alternative strategies of privatisation for Eastern Europe. One or the other needs to be undertaken in order to find purchasers for firms. If the former is chosen there is obviously less scope for tacitly or explicitly encouraging wage restraint in return for the promise of shares.

In this way we can see two rather distinct approaches to the transition to a market economy emerging from the debate around German unification. The approach adopted by the Treuhand is distinct from that followed elsewhere in Eastern Europe, while that advocated by the Sinns is much more closely related to the experience of other countries. Given this, it seems worth inquiring into the advantages and disadvantages of these differing approaches, from the points of view of the interests of the populations of Eastern Europe, and of the likelihood of restructuring of East European industry at the level of the enterprise and the creation of a viable industrial base. To carry out such an inquiry does not imply endorsement of either approach, or indeed of widespread privatisation as the way forward for Eastern Europe. However, since the two strategies outlined above appear to be those currently most likely to be adopted in the region, it is important to look at their probable effects.

One central problem of the second approach is surely that workers are being asked to forego wages in the present for extremely uncertain returns in the future from privatised enterprises; the initial quality of which is highly dubious and the management of which is likely to be entirely outside their control. In this way the social

compact proposed by the Sinns, like other social compacts we have seen in Western Europe in recent years, demands sacrifices now in return essentially for promises; it is little different from conventional calls for wage restraint in order to achieve competitiveness. For East German workers that may be a rather unalluring bargain insofar as, having adopted wage restraint, they will still find themselves in competition with Czechs, Poles, Hungarians and so on; while for Eastern Europe as a whole the same argument applies but with regard to competition from Latin America or East Asia. Further, as Andrew Glyn has outlined in a previous issue of *Labour Focus on Eastern Europe*, the macroeconomic consequences of wage restraint, in the absence of sufficient investment demand within the economy, can simply be a deepening of recessionary tendencies.

Restructuring

However, in addition to the difficulties attending on either implicit or explicit social compacts, there is also the question of restructuring. The approach to transition typified by the Sinns is rooted in a scepticism about state involvement in the restructuring of East European industry. The aim is to privatise as quickly as possible in order to allow restructuring to take place, not, as in the Treuhand policy to restructure as quickly as possible in order to allow privatisation to take place. The unstated assumption is that the state is either incapable of or unwilling to undertake the necessary industrial changes. Conversely, private ownership and the market are assumed to lead naturally to industrial restructuring and increased efficiency. Outside Germany this view has been reinforced by the political circumstances in Eastern Europe with the advent of new governments deeply hostile to the old state machinery, but doubtful of their ability to dislodge existing structures fully. In Germany, though, the complete removal of those structures with unification, allowed for much greater involvement in restructuring by what was effectively a "new" state. Recent political changes in Poland and Hungary may well lead to a reopening of the question of what role the state might play in industrial restructuring.

The conventional approach of privatisation first, then restructuring, can by no means be guaranteed to succeed in effecting

structural change. Problems of spontaneous nomenklatura-based buy-outs, lack of effective structures of corporate governance and sheer lack of ability to manage change in a very difficult environment appear all too likely to lead to sluggish growth at best, or collapse at worst, without laying the foundation for future development. In addition the structures of power created by this kind of privatisation appear opaque and impenetrable. In the Czech case it could be argued that voucher privatisation through investment funds has created a labyrinthine structure in which passive individual shareholders nominally own the enterprises, while control rests with an interlocking network of funds closely linked with existing enterprise managers, and protected from competition by monopoly power. It is clear how such a situation might well fail to encourage structural change, and in fact would bear some similarities to the situation previously prevailing under central planning. Given the weakness of state structures in Eastern Europe generally at present, the withdrawal of the state from restructuring simply leaves the field open for the extremely rapid development of undemocratic concentrations of economic power.

In such circumstances the approach of restructuring prior to privatisation deserves closer examination. To say this, however, is not to endorse the particular set of policies adopted by the Treuhand. In retrospect, as Carlin has recently argued elsewhere, the Treuhand was over-optimistic about the attractiveness of East German firms to West German buyers, and consequently privatised too fast. In fact, what was needed was a movement in the opposite direction to that advocated by the Sinns, towards a slower pace of privatisation with even more careful restructuring and deeper exploration of possible structures of future ownership. Further, the whole question of wage subsidies needs to be reconsidered in the light of East German unemployment. Other criticisms of the policy followed by the Treuhand could be made and, even in cases where the policy appeared correct, criticisms can be made of its execution, but the essential point still stands; that a central issue in Eastern Europe in the next period will be the possibility of a state role in industrial restructuring, and the experience of the Treuhand, for all its faults, gives us the only clear evidence we have to go on at present in discussing this question.

Workers

From the perspective of workers in Eastern Europe in general, and East Germany in particular, neither alternative is very attractive. However, there does seem to be a case for saying that state restructuring prior to privatisation has three advantages for workers. Firstly, insofar as state sponsored restructuring does succeed in creating more viable enterprises than those which private ownership will create, then that provides a better basis for working class organisation in the future. Secondly, such restructuring acts to break the bond between workers and enterprise managers, by lessening the role of the latter. While this bond may have provided some temporary respite from structural change in Eastern Europe, and de facto coalitions may have arisen encompassing workers and managers against market pressures, in the long run it seems unlikely that enterprise managers will be reliable guardians of workers interests, especially since they are transforming themselves into enterprise owners. Restructuring encourages clear patterns of ownership in which workers can more readily discern their true position. Thirdly, restructuring prior to privatisation, does not follow the road of binding workers to enterprises in general, or to particular enterprises, as shareholders. While widespread share distribution might seem attractive at first sight as a form of self-management, as argued above when linked to calls for wage restraint it can present problems for workers, not least because it is not at all clear how much the shares are actually worth. In other words, workers may be encouraged to set aside their interests as employees in favour of their interests as shareholders, when their shares are in fact of little value.

It is also important to consider the impact of the arguments put forward by the Sinns on debates within West Germany. Their book, with its suspicion of state involvement in the economy and concentration on private ownership and market forces, is also relevant to the debate over the future of the West German economic model. In this context it fits quite well with the worries about the "fading miracle" put forward by writers like Herbert Giersch, and with the general view that West Germany should shift from a "corporatist" framework where market forces have been modified and controlled to some extent, towards a much freer market environment. Related to

this is the whole question of the comparatively low individual share ownership in West Germany, and the argument increasingly made that Germany should develop an "equity culture". Such a culture would seem to be a prerequisite for the social compact based on share ownership which the Sinns advocate. On the other hand, the restructuring carried out by the Treuhand could be said to represent an alternative rooted in the traditions of state involvement and market modification of West Germany, now increasingly under threat.

To conclude then, the East German record is useful in assessing possibilities elsewhere in Eastern Europe precisely because of its peculiarity; it presents an alternative way of doing things to the way that has been adopted in other countries. The analysis of East Germany by the Sinns is important because it brings out the differences between the East German approach and that followed by others so clearly, and because it presents clear arguments for following the second path. However, those arguments are not wholly convincing, and thus the record of the Treuhand deserves closer examination, particularly because it highlights an increasingly important question, that of the role of the state in industrial change. To say this, though, is not to endorse the particular approach to transition adopted by the Treuhand. It also leaves untouched the larger questions of what would be a desirable industrial structure for Eastern Europe and what would be a desirable pattern of ownership for industry there. I would claim, however, that whatever, final goals are adopted, state involvement is likely to play an important role in achieving them, and that restructuring in Eastern Europe is unlikely to be achieved solely by market mechanisms.

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Winfried Wolf

Problems in the Bonn-Paris Axis

The project of a federal European state seemed to run into a profound crisis in 1993. Following the currency turbulence of autumn 1992 and spring 1993, the European Monetary System, meant to be the precursor of a single European currency, was de facto abandoned. Maastricht, said a leading official in the French foreign ministry in the summer of 1993, "is dead as a doornail. This is the most serious crisis in Europe since the collapse of the West European Defence Union in 1954. Without the German-French axis there is no Europe." (*Die Woche*, 26.8.93)

However, the governments of the European Union still insist that the movement towards European political and economic union is irreversible. At the beginning of 1994 the Kohl government proclaimed that "1994 would see decisive steps being taken along the road to Europe", steps which would be approved at the European summit in Essen at the end of the year.

Contradictory dynamic

This Western European unification process, however, has a dynamic which is very contradictory. One such contradiction is that between, on the one hand, the process of capitalist concentration and centralisation and, on the other hand, the national constitution of different capitals. The "European fortress" project is directed not just

against the Third World and not just against the other big imperialist powers, the USA and Japan; it's not only an element in the increasing exploitation of the Third World by the First, not just the expression of growing inter-imperialist competition. It is also, at the same time, a project for the creation of a European federal state which will be dominated by Europe's strongest economic power, the Federal Republic of Germany. The struggle for hegemony in the world market is parallelled by a struggle for dominance within Europe itself.

On 23 September 1971, French president George Pompidou declared:

> In the construction of Europe, Germany enjoys a superior economic power. This is particularly true because its industry is around 50 per cent bigger than our own. Therefore one of our primary goals in the next decade will be the doubling of our industrial capacity." (Quoted in *Frankfurter Allgemeine Zeitung*, 14.2.92)

Almost a quarter of a century later the balance sheet is not a happy one for France, especially if we look at the development of industry in both countries. It was this development at the industrial base that decisively contributed to the crisis in the currency superstructure in the summer of 1993. Just three simple comparisons will make this clear:

(1) In the mid-1980s the turnover of the top dozen German businesses was 30 per cent higher than that of the comparable French frontrunners. In 1992 the figure was 40 per cent.

(2) In 1962 the turnover of Germany's biggest corporation, Volkswagen, was 3.5 billion DM larger than that of France's number one, Schell Française. In 1991, Daimler Benz, which had become, in the meantime, Germany's biggest corporation, was ahead of France's top company, Elf Aquitaine, by 35 billion DM.

(3) The top dozen French businesses employed in 1992 1.3 million workers. The comparable German group employed over 2 million.

There are certain areas in which French competitors have the edge. For instance, in the technology of high-speed trains, France's Alsthom-GEC is clearly ahead of its German competitor, the ICE consortium (Siemens, Daimler-AEG). Such examples are the exception, however. In most of the decisive sectors, for instance in the car

industry, machines, chemicals, electricals, electronics, and especially in the finance sector, the Germans are ahead of their French rivals.

French investment in Germany

French direct investment in Germany is often used as an example of French strength. And indeed, in the last decade (1981-1991), this (at 37.7 billion FF) was at a similar level to German direct investment in France (at 39.4 billion FF). But this was largely due to the fact that between 1989 and 1991, following German unification, French companies undertook a successful capital-export offensive. It's an open question, to what extent Bonn and the Treuhandanstalt pursued a deliberate policy of encouraging French investment in Germany's newly acquired eastern states. Observers were quite surprised when, in mid-1990, the French president and his government dropped their opposition to German unification, in spite of the fact that this could only have the effect of strengthening German's competitive position, as happened also in 1871 after German's first unification under Bismarck. What is true is that, whereas the Treuhandanstalt generally prevented a take-over of East German businesses by foreign corporations and banks, French businesses were allowed to establish a foothold. For instance, Elf Aquitaine was able to move into Minol with an investment of 720 million DM. When the French foreign minister, Alain Juppé, in September 1993, asked for German assistance in France's negotiations within the GATT round, he reminded Bonn that "we demonstrated our solidarity when Germany was on the way to reunification". (*Frankfurter Rundschau* 13.9.93)

We must not lose sight of the proportions, however. France is number one among foreign investors in eastern Germany. But the 68 east German firms under French control employed, at the end of 1993, only 30,000 employees. Switzerland is in second place (17,500), followed by Britain (16,600) and the USA (11,900). What these figures demonstrate is the excellent work that the Treuhand did on behalf of German capital. Although practically the entire economy was up for sale and although there were hundreds of corporations very interested in gaining a foothold there (not just in industry but in very lucrative real estate), foreign capital was successfully kept at bay and French cooperation was bought very cheaply.

Capital concentration

French capital investment in Germany and German capital investment in France in themselves don't tell us much about an objective linking together of both capitalist economies or the extent to which the "national form" of the economy has been overcome. There is only one form of capitalist integration that objectively begins to undermine the "nation-state" form of capital and removes the basis of national competition and its qualitative transformation into hostility and war, namely, the supranational merger of corporations that are equally based in at least two nation states. But this kind of capitalist integration plays practically no role internationally; it hardly exists. In both Germany and France, the kind of capital concentration that dominates is one in which

a) a larger corporation takes over a smaller one, with

b) the parent corporation remaining in and operating from its nation state, while

c) enjoying the support of "its" national government.

Some examples of this from the past decade are: Thompson S.A. took over Nordmende, Saba, Dual, and Telefunken. Saint Gobain, having taken over a number of eastern and western German firms, became the dominant glass producer in Germany. Alcatel-Alsthom swallowed SEL and AEG Kabel. The insurance company Victoire took over Colonia. Crédit Lyonnais acquired the Bank für Gemeinwirtschaft (BfG).

Germany's chemical giant, Hoechst acquired a majority holding in Roussel-Uclaf. The pharmaceutical, Merck, expanded its marker share through the takeover of Lipha in Lyon and Biotrol in Paris. Daimler-Benz acquired a major share in the software corporation, Cap Gemini Sogeti (paying 1 bn DM). The only German-French capital merger that had an equal foot in both nations was that between Crédit Lyonnais and Commerzbank. This "partnership" lasted for a decade before it collapsed in 1991.

In fact, mergers and takeovers by German and French firms outside the Franco-German area are often of greater importance. France's Péchiney became the world's top packaging concern through the takeover of American National Can. Michelin became a world leader through the takeover of Uniroyal-Goodrich. Honeywell became

a major player in electronics through the takeover of Zenith (USA). In 1993 Renault tried to catapult itself into number six in the world car industry with its attempted takeover of Volvo.

Renault's attempt failed and provides an interesting confirmation of the abiding dominance of nation-state interests. In its fundamentals, the merger of Renault and Volvo was designed in such a way that French interests would clearly dominate in the new company (Revolvo), although Volvo's ex-boss, Pehr Gyllenhammar, would play a leading role. This was why the Swedish government intervened at the last moment, in December 1993, and brought about the collapse of the project. The French government had wanted, after the privatisation of Renault, not only a golden share but decisive influence on the policy of the company.

German growth

The picture on the German side is very similar to what we have just described for France. Volkswagen advanced its capital concentration through the takeover of Seat (Spain) and Skoda (Czech Republic). Daimler-Benz continued its advance to the top of the European league with its takeover of the Dutch airliner, Fokker. BMW's buy-out of Rover in February 1994 has to be seen as an attempt by the European car industry to reduce Japanese influence in the European car industry, in this case to block Honda's bridgehead in the UK.

When we look at the recent process of capital concentration, we also see that German firms are involved in a more dynamic growth than their French counterparts. Let's look at the example of the car industry in both countries: The turnover of Renault and Peugeot (including Citroën) in 1991 was 93 billion DM. But the turnover of just the two leading German car makers, Volkswagen and Daimler, was 169 billion DM in that same year. If we include the third big German car maker, BMW, then the German turnover, at 194 billion DM, is twice that of the big French companies.

One also has to bear in mind that the German companies achieved their leading positions with only a relatively modest amount of support from the state for the process of concentration and centralisation. In France, on the other hand, it was the declared goal of government policy to promote the process of concentration

and the French government also pursued a very active industrial policy. In the case of the projected Renault-Volvo fusion, it was the French government that was the main mover: Renault was at that time a completely state-owned company. Although the following quote from the German weekly, the *Frankfurter Allgemeine Zeitung*, is a little exaggerated, it is basically true:

> While France promotes concentration, in Germany the Federal Monopolies Commission *(Bundeskartellamt)* since the time of Ludwig Erhard has put a brake on the concentration of economic power. In France the goal was powerful market oligopolies, as a way of preserving jobs, while in Germany the goal was to prevent such oligopolies and to promote competition in the interests of consumers... However, in spite of the monopoly restrictions, Germany's big firms have grown faster than those in France. (14.2.92)

Move to protectionism

The balance sheet: the relation of forces between Germany and France is developing in a way that is massively unfavourable to French businesses and banks. In the annual list of the world's 500 biggest firms, published by the US economics magazine, *Fortune*, there are three German firms among the top twenty (Daimler-Benz, Siemens, VW) but no French firms. Among the top fifty industrial firms in the world there are nine German (the previous three plus Veba, Hoechst, BASF, RWE, Bayer, and Thyssen) and five French (Elf Aquitaine, Renault, Alcatel Alsthom, Peugeot, and Total).

There are also no indications of a capitalist growing-together of the French and German economy. On the contrary: what we find is the traditional struggle for national dominance. The EMS crisis in the summer of 1993 was an expression of this power struggle: in its battle to defend the "strong franc", the French government indebted itself massively to the German Bundesbank. France lost that battle and had to devalue the franc.

In this kind of situation, the weaker state will demand protection, and it is precisely this protectionist tendency which has become very clear in France since 1992/93, defended across a wide spectrum, even by the French Communist Party which has for some

time protested against "the development of France into a vassal state ... whose future is that of a banana republic". *(L'Humanité*, 29.7.91)

Currency provides one form of protection: devaluation improves exports. But the use of the currency as a national weapon contradicts membership in the European currency system and the eventual introduction of a common European currency as foreseen in the Maastricht Treaty. French government ministers Séguin and Pasca were both very critical of Maastricht and the European Monetary System in 1993 and both used strong nationalist arguments. But the liberal wing of French politics around Balladur and Delors calls for EU rather than French protectionism.

After the EMS disaster of the summer of 1993, Bonn made some concessions to Paris and backed France in some of its arguments around the GATT treaty. But Bonn can only make such concessions to French protectionism for a short period. It provokes a strong reaction in the USA and in the other imperialist countries. Any threat to a GATT agreement would have been a threat to German exports.

In the meantime, a new trade agreement has been sealed. The many compromise formulae in the new GATT accord as well as the reality of world trade have helped to underline the fact that Western Europe is indeed becoming a "fortress". It is this in two senses: the EU is a fortress on whose external borders capital, commodities, and refugees from non-EU states can be kept out. At the same time, the EU is the battle ground for the nation states that make it up, for the conflicts between its different members, conflicts that could very well bring it down. The conflict between German and French national interests, the consequence of Germany's economic dominance in Europe, still unresolved 23 years after Pompidou's ambitious goals for French industry, is one such conflict.

László Andor

The Hungarian Socialist Party

"There is nobody left at Republic Square to do the cleaning, because everyone became an MP", the leading satirical fortnightly *Hócipö* commented after the landslide victory of the Hungarian Socialist Party (MSZP) in the recent election of June 1994. The headquarters of the party at Republic Square saw business leaders soliciting the friendship of socialist politicians for months prior to the elections, but the scale of the victory, i.e. the absolute majority in parliament, was expected by no one.

The immediate reaction of the western press was no less than some kind of red scare. Most of them described the Socialist Party as "former Communists", and placed the Hungarian election results in the context of a regional shift towards left-wing parties and towards people of the past; a trend that started in Lithuania in 1992, continued in Poland in 1993, and could lead to similar developments in the rest of the ex-Soviet sphere of influence, with the likely exception of the Czech Republic.

The problem of cleaning raised by *Hócipö* was resolved soon after the hangover following the election victory had passed. But is the red scare created by some western media justified? What can the political character of post-Communist parties be five years after the historic fall of East-European state socialism? We investigate the profile of the Hungarian Socialist Party, starting with a historical overview, then continue with an attempt to explain the remarkable come-back of the party, and end with an assessment of the policies

of the MSZP in government.

The origins of the MSZP

The MSZP considers itself a new party, younger then any of the other parties in parliament. This is a result of the fact that the opposition parties were set up in 1988-89, while the Socialist Party was only formed in October 1989, at the 14th Congress of the Hungarian Socialist Workers' Party (MSZMP). The congress was preceded by a one-year period during which reform circles organised within the party in order to promote the transition to democracy and the market. These circles failed to mobilise a majority of the party membership (close to 800 000 at that time), but received good publicity and, with external encouragement, put strong pressure on the party centre to change policy and to accept a general transformation.

The main leaders of the reform wing of the MSZMP were Imre Pozsgay, promoter of democratisation, and Rezsö Nyers, whose main concern was economic reform. They joined forces before the 1988 party conference that eventually removed János Kádár as well as a majority of the Politburo and the Central Committee. As more and more politicians realised that further changes were inevitable, as a result of the economic crisis of the country and following the foreign policy reforms introduced by Gorbachev, the reform circles began to enjoy increasing support and eventually challenged the party centre, led by secretary general Károly Grósz.

In March 1989 prime minister Miklós Németh broke away from Grósz and allied with the reformers. In June, Nyers was made a party president above Grósz. During the summer of 1989 a delegation of MSZMP, led by Pozsgay, negotiated a peaceful transition to democracy with representatives of opposition parties and civil society groups. The agreement was signed in September. Simultaneously, the drama of East German tourists as well as a heavy media manipulation by Pozsgay's people turned popular sentiment against socialism to the greatest possible extent.

At the party congress in October 1989 the reform wing was prepared to establish a new party devoted to the principles of a market economy and multiparty democracy. Those with reservations about that programme began to organise alternative platforms, the

strongest of which was the People's Democracy Platform. The Reform Alliance, led by political scientist, Attila Agh, was determined to form a new party and the People's Democracy Platform, led by historian Tamás Krausz, eventually decided to join it in order to save party unity. In effect, the right and the left opposition of the Kádárists formed a new party together. Nyers was elected party leader. At the time he defended the existence of party organisations in the workplace, a legal possibility which was later defeated in a referendum initiated by the Free Democrats. The same referendum in November 1989 destroyed Pozsgay's ambitions to become president of the new republic. The party congress decided that only newly registered persons could be members of the new Socialist Party, the MSZP. Members of the old MSZMP had to re-register, although the property of the MSZMP was taken over by the Socialists. In a televised interview on the night of the birth of the new party, Nyers said he expected party membership to rise to between three and four hundred thousand. In reality, party membership reached one tenth of that number in the following six months, and remained at a similar level in the following years.

The old party membership realised that the political system had fundamentally changed, and the new circumstances required much less partisanship than before. Many of them joined liberal and conservative parties, and after the election of April 1990, some 23 percent of liberal and conservative MPs were former MSZMP members. There was also uncertainty about which party to join for those who supported socialist values. Alongside the Socialist Party, the old MSZMP itself was revived by old Kádárists in December 1989. The Hungarian Social Democratic Party (MSZDP), set up mainly by old party members from the 1940s, had a strongly anti-Communist platform, and enjoyed the official support of the Socialist International. The Patriotic Election Coalition tried to preserve the traditions of the Popular Front (an institution that organised one-candidate elections under state socialism, with the exception of 1985 when at least two candidates had to be nominated). Finally, the Agrarian Union dedicated itself to defending the collective farms. This fragmentation of the left could not result in anything but a crash in March 1990, when the general elections came. The liberal vote was successfully collected

by the Alliance of Free Democrats (SZDSZ), leaving a little for the Alliance of Young Democrats (FIDESZ); while the conservative vote was collected by the Hungarian Democratic Forum (MDF), leaving some for the Independent Smallholders' Party (FKGP) and the Christian-Democratic People's Party (KDNP). The government was formed by the last three with József Antall as prime minister.

In the vale of tears

The Socialist Party, having received some 10.9 percent of the vote, won only 33 of the 386 seats in the new parliament of 1990. But this was not yet the end of deconstruction. Unhappy with a tiny parliamentary faction of a defeated and permanently bullied party, Pozsgay left the Socialist Party and later formed a new party called the National Democratic Alliance. Németh also left the Socialist faction in 1990 but he left parliament and the country as well to become vice-president of the European Bank for Reconstruction and Development in London. The oldest of the leading figures, Nyers, was knocked out at the May congress of the party by Gyula Horn, who became president and dedicated himself to leading the party back to grace. Horn had spent three decades in the foreign office under Kádár. He was a member of the Central Committee in the 1980s and became foreign minister when Miklós Németh reshuffled his government in May 1989. Horn was one of the last to join the pro-capitalist Reform Alliance in order to preserve political respectability in a post-communist era. When he was elected party president, he became a strong leader, centralising all important decision making in his own hands. As a tactician, he was prepared to say anything that increased the chances of survival of the left, this being a period in which history had come to an end for some leading intellectuals, and the political right was triumphant in the entire region.

Until 1993, it really seemed to be about survival. Even with the quick melt-down of the popularity of the ruling conservative coalition, the chances of the socialists seemed to be very poor. For most analysts, and particularly for liberal politicians, it was a liberal coalition that was to take over government from the conservatives in 1994. The Young Democrats (FIDESZ), which became by far the most popular party in 1992, formed an alliance and practically a

shadow-coalition with the Free Democrats (SZDSZ), the Entrepreneurs' Party, and the Agrarian Union. (This latter changed its policies and joined the liberal block after the poor results of 1990.)

Under the illusion of the liberal coalition, socialist strategists suggested that Socialist Party leaders should save their energies for 1998, for the next election. In 1993, western journalists were already writing about Viktor Orbán of FIDESZ as the next Prime Minister of the country.

However, both internal and external factors undermined the future envisaged by the analysts.

1. First of all, the failure to stabilise capitalist restoration in the CIS represented a major factor that shook the credibility of transition even in those countries where the transformation called for less sacrifice. It was not just Russia, but the entire former Soviet block that was seen to fall into a terrible turmoil and remain there even years after state socialism had been left behind. Without forgetting the dark sides of Communist Party rule, people started to appreciate what they were losing in the transition, especially where the state socialist system did deliver a lot, as it did in Hungary.
2. Secondly, the failure to handle the recession in the West also contributed to the change in the East. The West had fewer resources for supporting the East in these circumstances than they would have had otherwise. Furthermore, the outright Western orientation of the new period had to be questioned when both the capacities and the willingness of Western governments to help the transition countries appeared to be low, and the damage done by the loss of Eastern markets appeared to be immense.

These two external factors changed the domestic as well as international acceptability of those parties who did not represent the "end of history" approach. But there were obviously important domestic causes of the increasing popularity of the Socialist Party.

3. The unexpected hardships of the economic transition domestically intensified the anger of the population against those who were at the forefront in bringing the country into this dubious adventure. Wage earners with falling living standards and increasing job insecurity had had enough not simply of the arrogance of the coalition parties, but of all those claiming that with better expertise the same programme

could have been successful. Consequently, the "half turn" suggested by FIDESZ was almost unequivocally rejected by the electorate.
4. Finally, as far as the active side, the subjective factor, of political change is concerned, a realignment of the left took place around a strong relationship between the Socialist Party and the largest trade union federations. These unions had been far from militant in the transition period; strikes have been very uncommon during those four years. In 1990, there had been no official relationship between the unions and the party. The unions thought that a link to a post-Communist party would not favour them in the non-political world of interest representation, while the party thought that a modern social-democratic party would improve its image by detaching itself from the good old working class.

However, there was no other way left for them but to form an alliance after the summer of 1991, when the five-party liberal-conservative block passed two acts aimed at destroying the left-oriented unions, and primarily MSZOSZ, led by Sándor Nagy. However, they hesitated between legal and illegal means, which gave MSZOSZ and others time to reorganise and win the May 1993 elections for the social security boards, which put both the Health Fund and the Pension Fund under MSZOSZ control. Apart from the link with the trade unions, the Socialist Party was eager to develop its roots in all the different layers of society, from teachers to businessmen. When a socialist MP, Attila Nagy, died, the party promoted a Roma (gypsy) artist, Mr. Tamás Péli, to parliament.

It is the Socialist Party, of all national parties, which has the greatest network of local party organisations. The number of candidates nominated by the MSZP for the elections of May 1994 was higher than those nominated by any other single party. Consequently, MSZP could pursue a labour-intensive campaign and spent significantly less money on the campaign than either the Free Democrats, the Democratic Forum, or FIDESZ.

With increasing international awareness of the difficulties during the transition in the region, and with increasing popularity for the MSZP at home, international support started to increase. The Socialists were given observer status in the Socialist International in 1992. Pierre Mauroy, leader of the SI, visited Hungary three months

before the elections and publicly supported the idea of democratic socialism, giving this option all the credibility of Western civilisation. Franz Vranitzky, Chancellor of Austria, also made a public appearance with Gyula Horn in Győr (North-West Hungary) soon after Mauroy's visit.

Horn did not inhale

The Socialist Party needed its foreign and domestic support indeed, because the right-wing propaganda machine, using the entire national electronic media, did everything imaginable to destroy the socialists, the liberals, and Horn personally. They used, first of all Horn's past from 1956, when he was among the volunteers in "padded jackets" on Kádár's side. However, he made his confession on these issues early enough in 1990, in a book he wrote about his life story. His version was that, although he did indeed participate in the "padded jackets" brigades, he did not shoot anyone, and was only involved in guarding bridges and buildings. This sounded like Bill Clinton saying he used marihuana but did not inhale. And, just as in the case of marihuana, Clinton, and the American public, ordinary Hungarians were not interested any longer in who did what in 1956. They were interested in living standards in the 1990s. The exploitation of Horn's past was a failure, and it was also flawed because the 1956 veterans had made a very bad and unattractive political impression in recent years. They allied with the far right, and promoted increasingly blood-thirsty ideas when the people wanted reconciliation. In these circumstances, Horn, who came from an extremely poor proletarian family, who had fought against these people in 1956, who opened the border for East German tourists in 1989, and who stood up against the aristocratic style and mismanagement of the conservative coalition, appeared as a Robin Hood figure to the electorate. The final boost for the Socialist vote was provided by Horn's car crash just 58 hours before the polls opened. He was driving back to Budapest from Miskolc, the largest industrial city of the North, where he had held a rally in the city sports hall that was filled by enthusiastic supporters. The meeting ended in a standing ovation, and Horn rewarded his audience by saying that a government led by socialists would bring this "gentry spree" to an end (a reference to the early 20th century novel by the greatest

peasant writer of the nation, Zsigmond Móricz). An hour later his car ran into a lorry standing on the road with no lights on, and the circumstances of the case are still under investigation by the police.

The first round of the elections took place on the 8th of May, when the Socialist Party got 33 percent of the vote on the party list. The second round took place three weeks later, when they won all but two dozen constituencies. Altogether, they gained a 54 percent majority with 209 MPs out of 386. A regional inquiry showed that there were only two clear regions where non-socialist candidates triumphed. In the hills of Buda, high society re-confirmed its support for the conservative Democratic Forum and in the North-West, particularly along the Austrian border, there was more support for the liberal Free Democrats. The zone with the highest left vote is the one to the North-East of Budapest, where even some Workers' Party (the new name of the old MSZMP) candidates came close to winning seats.

It was clear that people were voting for the party and not the person. In the 9th district of Budapest, for example, a totally unknown socialist physician, Mihály Kökény, beat the former president of the Free Democrats, Péter Tölgyessy, and the Finance Minister, Iván Szabó. In another Budapest constituency, Iván Pető, leader of the Free Democrats was beaten by Ildikó Pécsi, a popular actress. The general outcome took both sympathisers and enemies by surprise, and the assessment of the election results as well as their causes will give political scientists work for a long time.

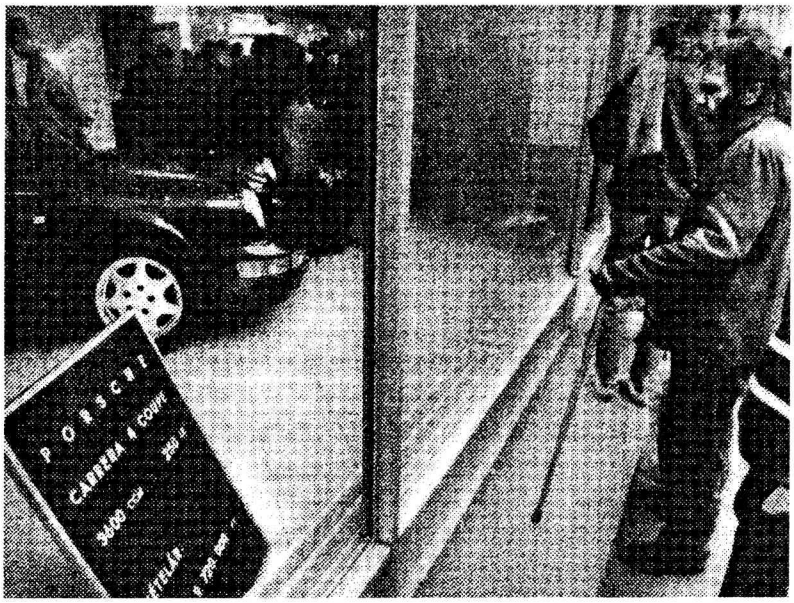
There is more and more evidence, however, that it was not simply change that people wanted after the experience of the hardships of economic transition. The general shape of the new system has become greatly unattractive for large sections of the population. A recent survey suggests that from early 1992 to early 1994 there was a substantial increase in the number of those judging the Kádár regime as better and fairer than present day social relations:

> "The number of those who think that a market economy must be established even if it requires great sacrifice from society decreased from 40 percent to 29 percent. This time only 17 percent of the people rejected the claim that the establishment of capitalism in Hungary does more harm than good. The majority, partly or entirely, agreed with the harmful character

of capitalism." (Vásárhelyi, 1994)

The summary of the opinion poll conducted by the Communication Research Group of the Hungarian Academy of Sciences and Eötvös Loránd University is worth some further quotes at this point.

> "The number of those approving that a lot should have been saved from socialism increased from 28 percent to 38 percent. The number of those rejecting this statement is only 13 percent in 1994, as opposed to 28 percent in 1992. There is an increase in the number of those who consider the Kádár system to have been more just, and believe that it dealt with the problems of ordinary people much better. Simultaneously, the desire for a caring and paternalistic state increased, and now practically everybody thinks that the role of the state in the regulation and redistribution of incomes should increase. The vast majority considers increased state control of economic processes absolutely necessary. The resistance to privatisation increased. This time half of the population entirely, and a further quarter partly approves that larger factories and companies should not be given into private hands. Furthermore, the majority of the



people do not see real performance behind the enrichment of the entrepreneurial layer. It is an almost generally accepted opinion that in present economic circumstances it is those who speculate or have good informal connections, who can get ahead." (Vásárhelyi, 1994)

Forming a government

Despite having an absolute majority, negotiations to form a coalition with the Free Democrats soon got under way. The reasons for this are several. Firstly, international credibility required the Socialists to ally with someone acceptable to Western capital and governments. Secondly, the responsibility for the proposed austerity programme had to be shared with another party, especially when the economic policy to be implemented belongs to that party rather than to the Socialists. Thirdly, the Free Democrats were ready to accept the coalition because they could show their voters that it was worth voting for them and that they did represent power. Fourthly, negotiations between the two parties about coalition had started months before, although with no clear figures about the majority they would get together.

The allocation of portfolios that resulted from the three-week negotiations mirrors the power relations between and within the two parties. For joining the coalition, the 69 MP-strong SZDSZ was invited to nominate three ministers: Gábor Kuncze (Interior Affairs), Károly Lotz (Transportation and Communication), and Gábor Fodor (Culture and Education). Kuncze and Lotz used to be company managers and were among the least known MPs until very recently, when SZDSZ moguls found Kuncze the only appropriate person for premiership. He failed to achieve that, in the end, but was made deputy to Prime Minister Gyula Horn. Fodor, one of the most popular politicians of the country, is not mainstream SZDSZ either, in as much as he joined the SZDSZ only just before the elections, following his enforced departure from FIDESZ in November 1993. The rest of the ministers are socialists, representing different wings of the party.

The most right wing of all, and undoubtedly to the right of many Free Democrats as well, is László Békesi, Minister of Finance. He held the same post in the government of Miklós Németh. Békesi

represents the commitment of the MSZP to austerity, and that is why his ministership, and the unchallenged acceptance of the so-called Békesi programme, was an elementary precondition for the SZDSZ to join a coalition with the MSZP.

The emergence of the Békesi programme dates back to August 1993, when the Socialist Party came out with a political advertisement describing the bright future to be had when people vote socialist. As it turned out later, the advert was a creation of the party apparatus, and lacked any kind of analysis of the economic conditions of the country. Following a period of open dispute, Békesi, the strongest critic of the party advert came out with his proposals based on what he thought feasible. This looked rather grim. He acknowledged GDP growth and low unemployment as ultimate objectives of a social-democratic party, but he made it clear that because of the high deficit, the new government would have to start with a period of austerity, when both inflation and unemployment would increase.

Békesi also approves of neo-liberal economics as the economic philosophy of the Socialist Party. Budgets must be balanced, public expenditures must be cut, trade must be completely liberalised, taxes on capital should be decreased, and the sale of state firms, especially of commercial banks, has to be stepped up. On privatisation, for instance, the Békesi programme includes the following:

> "We consider the introduction of fresh capital, technological modernisation, and the protection and creation of jobs as the principal aims of privatisation. Consequently, we wish to create equal conditions for foreign and domestic professional investors through clear rules of competition. We would decrease the red-tape surrounding privatisation by organising state property holding and privatisation would proceed on a commercial basis. We would give more significant roles to company management and independent consulting firms in the preparation of privatisation. While we would carry through the restitution process through effective laws, we are not planning to satisfy newer demands. We do not support free property distribution of any kind during the privatisation process." (Békesi, 1994)

Békesi seems to be completely unaware of the social context of his economics. His view on the trade unions is very similar to

Stalin's. He believes and has said on many occasions to journalists that the advantage of the MSZP, and the reason for his being a socialist politician, is that the Socialist Party has good connections with the trade unions, and can persuade society to accept the right economic policy more easily than other parties could. In this "transmission belt" approach, trade unions have a role in social dialogue up to the point where they refuse to just listen to the experts but begin suggesting alternative policies.

The person with the closest trade union links in the cabinet is Magda Kósa Kovács, Minister for Labour, and noticeably the only woman in the government. She used to be a secretary of the national trade union council in the late 1980s, and became an MP in 1990. Apart from her, there are two ministers who belong to the left of the party, Pál Vastagh, ex-professor of law and Politburo member in 1989, who now has became Minister for Justice, and László Pál, Minister for Industry and Trade, who was deputy minister under Németh, and opposes Békesi's neoliberal line on various issues. Both Vastagh and Pál have been affiliated with the Left Alliance, which is one of the organized platforms within the MSZP. There are some right of party-centre pragmatists (experts) in the cabinet, for instance László Kovács (Foreign Affairs), László Lakos (Agriculture), and Pál Kovács, (Welfare). Ministers with populist attitudes are Ferenc Baja (Environment and Regional Development), Béla Katona (without portfolio supervising the secret services), and György Keleti (Defence), who used to be a spokesman for the same ministry until he was forced to resign and won a by-election in Kisbér in 1992.

Five questions

It would be too early to write about the future of this government, or about the future of the Hungarian Socialist Party. Let us just pose those questions that are considered most important in existing political analysis of the new situation. First of all, there is the question of how constant support for the MSZP will remain. In 1990, the relative majority voted conservative in the spring, but by the autumn of the same year, at the time of the municipal elections there was a significant swing towards the liberals. (This was partly due to higher abstention, which appeared as relatively stronger liberal support.) If

the MSZP gains an absolute majority in local government elections in the autumn, especially in Budapest, it may result in a change in the overall pattern of the party system, with unforeseeable consequences.

Secondly, change will take place in the leading bodies and positions of the party, and this will be decided by the party congress in October 1994, although it will also depend on the results of the municipal elections. The question is how extensive these changes will be. Since a large part of the party apparatus moved into parliament, there is a space for new people to fill Republic Square (party headquarters) and other offices. Who will take over the organisation of the party, how big a share of leading positions will be retained by those now elevated to government, and how will power be shared between the parliamentary faction, the government, and party headquarters?

Thirdly, one must wonder how long the neoliberal economics of the MSZP can be maintained. It is not by chance that both Socialists and Free Democrats are working hard to link the austerity policy to Békesi's name. The previous government consumed three finance ministers within the space of four years, so the question is asked, who comes after Békesi when he falls from grace on the waves of discontent. What will be most compromised by the policy of stabilisation, the Socialist Party or neo-liberalism itself? In the first case, the Free Democrats may launch an offensive for the ministry of finance, with the possible promotion of Károly Attila Soós, now Secretary of State for Industry and Trade. If neo-liberalism falls, another economic policy-maker of the Socialist Party, perhaps Pál, can come forward with a deliberately interventionist policy.

In the meantime, Socialist leaders are also occupied by the fourth question, i.e. whether the MSZP-faction can stay in one piece for four years. Analysts have called attention to the fact that the gigantic MSZP parliamentary group contains some "sub-groups", such as the youth, trade union, or agricultural factions, which are larger than some opposition parties in parliament. As austerity hits, these factions may attempt to come forward with their own demands, and stretch the unity of the group to the limits. The job of Imre Szekeres, leader of the parliamentary group (whip), will be extremely difficult.

For social philosophers, however, the real question is the fifth one, namely, what is the real meaning of the new coalition, and thus the role of the Socialists in the 1990s. With the disintegration of Christian-Nationalist politics in Hungary in this election, the final historical attempt to create a national capitalist class has failed. Some say the Antall-Boross MDF government was the last government of Admiral Horthy, the interwar Regent of the country. The new coalition represents an integration into the transnational capitalist system, while at the same time attempting to build up and maintain a strong bargaining position for domestic Hungarian labour. In the new government, the SZDSZ represents the first, and the MSZP the second strand of this strategy. It remains to be seen, whether such a model will appear in other countries of the former Soviet block as well, and whether this arrangement can deliver a decent livelihood for a substantial part of society. If it does, then a new political order might have been born in 1994, which might last for another generation.

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Labour Focus *discussed some of the issues raised by the Socialist victory in Hungary with the author of the previous article,* ***László Andor.***

Interview with László Andor

László, you are a member of Left Alternative. Are you also a member of the Hungarian Socialist Party?

No, I am not a member of the party. My parents were members of the HSWP (the Communist Party), but by the time I finished university the HSWP was already in a process of dissolution so they weren't really looking for people like me to join. Left Alternative has members both inside and outside the Socialist Party.

Were you surprised by the Socialist Party victory?

For many the Socialist Party victory came as a surprise. The election system in Hungary is a mixture of party list and constituency system, with a 5 per cent hurdle that parties on the lists have to achieve to get into parliament. Opinion polls in the months preceding the elections showed that the Socialists would win on the party list voting in the first round, but it was assumed that there would be a strong anti-left vote in the second round. But this didn't happen. What happened was that the left electorate turned out for the second round in a very united and disciplined manner. For instance, the supporters of the Workers Party (the more orthodox successor party to the old HSWP) all gave their second votes to the Socialists. But on the right, this kind of unity and discipline didn't exist. For instance, a Christian Democrat didn't automatically go out in the second round and vote for the Liberal Democrats just because their leaders said they should. In other words, anti-Communism was not enough to unite the right-wing and liberal voters. In 1990 it was the left that was disunited,

today it is the right.

In the West, this election result has the character of what you might call an ideological shock, because people in the West generally have interpreted the events in Eastern Europe in 1989/90 as a revolution for freedom by the people against totalitarianism, a revolution either for the authentic national tradition or for Western liberalism. Was it the case in Hungary that the non-left parties presented the events of 1989/90 in the same way? Did they, in this election of 1994, present the choice in these elections as between the old totalitarian system and the new post-totalitarian order?

The nationalist and liberal intelligentsia did present the choice in this way, especially the liberals. In 1989/90 it was the liberal intelligentsia that played a major role in trying to popularise this model, people like János Kis, Miklós Tamás Gáspár and even the emigrants, people like Agnes Heller and Ferenc Fehér who returned to Hungary from the West at that time. Heller and Fehér in particular, in 1989, took this "end of history" approach: one shouldn't try anything new; the marker economy already exists as an established solution and if you don't understand this then you are either a Trotskyist or a fascist, which would be practically the same from their point of view. Iván Szelényi was an exception here. He always gave a more balanced picture. As for my own view, firstly I must say that I never accepted this interpretation of events in Eastern Europe in 1989/90, especially not in Hungary. I never accepted this totalitarian analysis of the Eastern European regimes.

The election result is not just relevant to the theoretical discussion of totalitarianism but it is important in that it really does demonstrate that the Hungarian population did not live through the 1980s as some kind of 1984 Orwellian experience. But this was how it was portrayed in the West. In the 1980s people knew that there were restrictions on whom could be elected as leaders, and they also knew they had to come to terms with the presence of Soviet troops in the country. But, on the other hand, they also experienced an increasing role for private enterprise, a greater space for local initiatives, and a growth in democracy, represented by, among other measures, the

election reform of 1985. At the level of culture and intellectual life, I think it is clearly the case that the early 1990s brought more restrictions and controls than had been the case in the 1980s. The HSWP had pursued a much more liberal cultural policy in the 1980s than was pursued by the MDF government in the early 1990s.

But why did the Socialists lose legitimacy in the 1980s? Was it because of growing inequalities, insecurity, and so on?

Yes that is true. But you must remember that in the 1980s people already accepted values such as stability and prosperity, not from socialist solutions but from market solutions and Western-style institutions. Even people like Szelényi were arguing that in the socialist system you have a different regulation mode: in the West, he argued, it is the market which created differentiation and it is the state which balances this out, whereas in the socialist system it is the state which causes differentiation and it is the market which plays the balancing role. So people perceived market forces and the introduction of more and more market as something which would give greater possibilities to ordinary people.

There was some evidence from sociological surveys that the HSWP lost legitimacy in the 1980s among the bulk of the population in terms of its own values. In other words, it had moved too far in its espousal of market values. Some have argued that the Western market values in the Hungarian population were purely instrumental, i.e. they were values only in so far as they generated prosperity. The appeal of the MDF, for instance, was not that it espoused Western market values, but that it offered some kind of security. One of the curiosities of Hungary is that what you got in 1990 was a conservative Christian-Nationalist party in government, the Democratic Forum (MDF). And one of the reasons for this was that it was seen as a government that offered some kind of security. In Poland, it was liberalism that really did dominate, but not in Hungary, where there had been far longer experience of the market, an experience brought about by the HSWP itself.

It's true that in the 1990 election when, in the second round, the

contest was between the Free Democrats and the Forum (MDF), the people voted for the Forum because they saw the Free Democrats as too much in favour of the free market and liberalism. They saw the Forum as a moderate force that would not disrupt things too much.

This election result suggests that Hungarian nationalism, on the right, has very little purchase. Would you agree with that?

Yes, nationalism has lost much of its appeal for the people. Irredentism was not an issue in the election, not at all. The Czurka people tried to make it an issue in the past couple of years. You remember they issued this manifesto which worried many people outside of Hungary. They clearly hoped for some echo, some positive response from the population. But it didn't happen. Czurka played the irredentist card but he lost, and that is quite an interesting and important fact.

What does the HSP victory mean for the question of Hungary's entry into the European Union? The whole marketisation process of the previous government was always linked to a project of Hungary's entry into Europe. Has there been a disillusionment with this project in Hungary? Whatever one may think of the Socialist Party, it is not identified with the West.

For the people in the HSP who think in strategic geo-political terms, the orientation is clearly one of Western integration. Among all the parties there is, in that sense, a foreign policy consensus. There was no real debate on this in the elections. Among the ordinary people this is perhaps not such a big issue. The Young Democrats (FIDESZ) made an issue of this in their campaign, saying that if the Socialists were elected Hungary wouldn't be able to join NATO. But FIDESZ didn't do very well. The Smallholders Party made one of the main slogans "The Fatherland is not For Sale". They won 10 per cent of the vote on the party list. This is an issue in Poland. There, for instance, the Christian Nationalists are an anti-European force, unlike the MDF in Hungary.

Turning now to the party itself and the policies it is likely to implement. What kind of party is this HSP.

I think you could compare the HSP to the British Labour Party. The HSP, in this election, made an alliance with the largest trade union federation. This was an electoral alliance but it included some guarantee for the trade unions that would give them some kind of respectability and an official role in collective bargaining at all levels. On the question of policy, so far the trade unions have completely accepted what the Socialist Party policy makers developed. They didn't raise their own agenda. The *Financial Times* actually described Békesi as a Thatcherite. A Western correspondent told him his programme would be considered conservative in the West and he took

Gyula Horn, Leader of Hungarian Socialist Party and Prime Minister in Socialist-Liberal coalition.

Age: 62. Came from working class family in Budapest. Graduated as an economist and was an official in the Hungarian Socialist Workers Party (Hungarian CP) from 1969 to 1989. In 1956 he took part in a militia which helped put down the uprising but he claims to have played only a minor role and the right failed to make it a significant issue in the 1994 election. It was Horn who, as foreign minister, symbolised the end of the Eastern Bloc when he opened up the Hungarian-Austrian border on 27 June 1989. On 10 September 1989, he allowed the East Germans in the West German embassy in Budapest to travel to the West. This was the beginning of the end of the GDR, and three weeks later the Berlin wall fell. In October 1989 he joined the Socialist Party, formed by the reformist wing of the old HSWP. In the spring of 1990 he was elected Chair of the party.

this as a compliment. Basically he sees himself as a professional who will deliver a balanced budget and on economic and financial matters his authority is accepted in the Socialist Party. So in the first period of Socialist government he will manage a massive austerity programme, starting probably with a devaluation of the currency. They have promised to accelerate privatisation, especially of the commercial banks, which still have the state as majority shareholder. It will be Békesi who sets the agenda. He is the one in charge of the economy and he has also the support of the Western media.

Are there different platforms or political currents inside the Socialist Party?

Yes, but they don't have any kind of official influence. There are six different platforms inside the party, one of which is the Left Alliance. One current is that led by Iván Vitányi, who is the chairman of the party. His constituency in the election was the centre of Budapest. His is a kind of right-wing social-democratic platform, very much for a market economy. Only a minority of party members participate in these platforms. They are more ideological workshops than any kind of decision-making bodies. But Vitányi's platform, in terms of policy, really represents the mainstream of the party. There is a Green platform, a Christian Socialist and a left radical platform. These are fringe or minority currents.

There is also what could be called a nationalist current in the party. Its leader is Mátyás Szürös, vice-speaker in the house of parliament. This is a kind of Pozsgay wing. When Pozsgay left the Socialist Party to form his own group these people were encouraged to follow but they didn't.

The left platform, the Left Alliance, came together from two separate groups inside the party. One was the People's Democracy Platform. The historical background to the concept of "people's democracy" here is the post-war period when there were a lot of popular democratic bodies, popular democratic committees, and so on. When the Red Army drove out the Germans, a lot of the old ruling bureaucracy also fled. This vacuum was filled by the various forums for popular democracy which began to organise public life once more.

The person who gave this name to the current when it was established in 1989 was an old history professor whose main area of research was this post-war period in Hungarian history. He was also a colleague of Tamás Krausz, leader of the Left Alternative. Tamás became a spokesperson for this Platform in 1989.

The other group that made up this Left Alliance was the Left-wing Socialist grouping, founded by an economist who died last year. This was more a kind of 1968 current, people who looked on 1968 as a renewal of socialism rather than as a move towards a Western type of system.

How would this People's Democracy current be perceived by people inside and outside the party? Would it be seen as linked somehow to the post-1945 period?

Not linked personally, but in terms of ideas, yes.

This is interesting. One would have thought that no political current on the left in Hungary could afford to show itself as being linked to the 1940s.

Throughout the 1980s one of the main elements of HSWP rhetoric was that Hungary couldn't have Western style democracy because Hungary didn't have any democratic traditions. These historians on the left then put forward the examples of Hungarian popular democracy in the post-45 period - the national committee, local committee experiences. In other words they asserted that Hungary did indeed have democratic traditions, in local government, in local self-management, and so on. This was not the 1940s as dictated from Moscow but the 1940s as experienced by local movements.

If we compare this with Poland, for instance, there would have been no possibility whatsoever for any political current to appeal to a tradition from the post-45 period. The view in Poland would have been, and this would have gone right into the Communist Party, that the 1940s were the period of Sovietisation. How important in the party is the Left Alliance?

In terms of numbers I wouldn't say it is important. But Horn needed

the support of the Left Alliance to balance the greater weight of the liberals in the party. I think Horn felt in 1993 that without engaging some support from the Left Alliance the right-wingers in the party might try to get rid of him. His role in 1956 could have been seen by the right as a liability. The two main leaders of this Left Alliance are Tamás Krausz and György Wiener. And Wiener is now in parliament; he was elected on the party list. He was placed quite far down on the party list and I'm sure the officials who drew up the national list didn't think he would be elected. But then the party did so much better than expected and the Left Alliance now has a representative in parliament.

What about the constitutional structure of the party; can these different platforms appeal to a democratic body, to party members? Can they strengthen their support with democratic party organisations, for instance, at party congresses?

The platforms as such have no constitutional right to be represented on leadership bodies. They are informal currents, informal discussion forums. The constitution, however, explicitly allows such platforms to exist. They can present their views to party congresses. The constitution says that congress has to take place every so often and actually there have been more congresses than are constitutionally required. Congress is made up of delegates from the local organisations, much as in the Labour Party here. But the situation inside the party in recent years has not been one of intense debates among different currents. Horn's leadership is accepted throughout the party.

There have been, however, two lines of tension inside the party. One has to do with the nationalists and the other with the Békesi line versus the trade union orientation. The nationalist issue came to the fore as a result of a meeting last summer, which lasted for two or three days, organised by right-wingers who wanted to create a cross-party nationalist alliance. The mainstream element of this alliance was the MDF. It also involved the people around Pozsgay, and from the HSP there was the group around Szürös that I have already mentioned. This was potentially a kind of National Salvation Front. It got a lot of publicity and was subject of public debate for weeks after.

The big question was why these Socialist Party people were coming together with people like Czurka and so on. Nothing came of this project because they failed to come up with a set of coherent policies. The currents involved were also involved for different reasons. The nationalists from the Socialist Party, for instance, were protesting against the liberal policies of the party's main policy-makers.

You describe this current in the HSP as nationalist. Is this divide also an urban-rural one? Could we describe this current as rural-populist?

No, I don't think this kind of divide is as important as some of the liberal intelligentsia have claimed in recent years. This theme of the urban versus rural populist divide was really overworked by forums such as *Népszabadság*. This urban-rural conflict is relevant to understanding the origins of the Free Democrat liberals and the MDF/Smallholder conservatives, but it is not relevant to the divide inside the Hungarian Socialist Party.

The second type of division inside the party was that between Bkesi and the trade unions. The liberals and the right in Hungary thought they could use the issue of the unions to split the Socialist Party. For almost a whole year they bombarded the Socialist Party with slogans and arguments; basically they said, how can you be in the same party with Sándor Nagy (leader of the trade unions). For instance, the trade unionist Nagy was second on the party list and the liberal economist Békesi was number three. This was a big issue for the liberal intelligentsia. It became an issue within the party for a very short while. But, in the end, it was settled quite amicably and they just ignored these attacks from the liberals and the right. Both the trade union and the liberal wing in the party backed the Horn leadership. This may become an issue in the future if the liberals under Békesi go too far on economic policies. The unions might then try to build up an alternative to Békesi inside the party. They wouldn't attack the party from the outside. The likely minister for industry is László Pál and on wages, industrial policy, he is a person the unions can get along with and they may try to build him up as a counterweight to Békesi.

What is very interesting, from a Western point of view, is the utter failure of the Social Democrats in Hungary and elsewhere to build any support. How do you explain this in the Hungarian context? Did the Kadarists already occupy that social-democratic space?

Yes, I think it did. Some left-leaning people did initially go for the Social Democratic Party because they thought that this would be the one that would succeed, lacking, as it did, the burden of the past. For instance, one of the leading economists in Left Alternative initially joined the Social Democrats because he didn't want to have anything else to do with the liberals in the Socialist Party. But the electorate didn't go for the Social Democrats.

This is interesting because immediately after the war the Social Democrats were much stronger than the Communists. In the 1930s the Hungarian Social Democrats were really the main left force in Hungary.

Yes but you shouldn't forget that the Communist Party of the period from the 1950s to 1990 was not simply a successor of the old Hungarian Communist Party but was the result of a controversial but real unification of the Hungarian Communists and Social Democrats. This happened, as you know, in 1948. From that time onwards, you always had some prominent Social Democratic people in the leadership of the party. For example, Rezsö Nyers, the prominent market-socialist reformer of 1968, later the president of the Socialist Party in 1989/90, had been a Social Democrat member of parliament in 1945.

But most people would say that it wasn't 1948 which was decisive but 1956. After all the Social Democrats re-established themselves in 1956. In Poland, the creation of the Polish United Workers' Party was, to some extent, a real event. But 1948 in Hungary has not generally been seen as a real event. What you seem to be saying is that 1948 was indeed a real event, that the Hungarians did absorb the social-democratic tradition.

In 1956 the Social Democratic Party was revived by Anna Kéthly and

others. But at the same time another Social Democrat, György Marosán, was one of the main leaders of the new HSWP who put down the uprising. Both parties went through internal divisions and turmoil during this period. Rajk, who was executed, was not a Social Democrat but a Communist. Some Communists were killed and even more Social Democrats but I think that the HSWP really was a new party which, for geopolitical reasons had to be dominated by the Communists but which did indeed absorb that Social Democrat tradition. The HSWP under Kadar exercised a very sophisticated kind of pseudo-pluralism. The Stalinist current in the Communist Party had lost in 1956 and there was a very bitter struggle in the early 1960s between the Stalinists and the rest of the party. For instance, the simple fact that Rákosi (the leader at the time of the uprising in 1956) was not allowed to return to Hungary is an interesting fact. So when, in 1989, the Social Democrats returned there wasn't really the space for them. This was compounded by quite a few mistakes in party management and a lack of talented political leaders. They had the support of the German SPD but this wasn't enough. Had they managed the party better they would probably have got the 5 per cent necessary to enter parliament but, in the event, they didn't even achieve that.

So will there be much of a change?

On the big issues of economy, foreign policy, and ideology there is not that much room for manoeuvre. It's in the detail that we will have to look for the differences. For the trade unions, things won't be so difficult now. The MDF government was quite hostile to the unions, but that period has now ended. It's at this kind of level that we will see important changes.

***Labour Focus** interviewed **László Andor** in London on 4 July, 1994.*

Renfrey Clarke

The AFL-CIO in Russia

Few in the international labour movement would deny that trade unions in rich countries have an obligation to help their counterparts in poorer nations, or in countries where labour organisations are having to be rebuilt after periods of dictatorship. On this score, the major US trade union body, the American Federation of Labor-Congress of Industrial Organizations (AFL-CIO) might seem to be playing an exemplary role in Russia today.

For several years now the AFL-CIO has maintained an office and a team of organisers in Moscow. Funding has been provided for a research and education foundation in which US union activists and academic specialists in the field of labour relations collaborate with Russian colleagues in providing services to local unions. Money has even been found to pay the salaries of labour organisers working to set up new unions in provincial areas.

It may therefore seem strange that among the organisations that make up the great bulk of the Russian labour movement, the AFL-CIO's operations have aroused undisguised anger. Even among the Russian unions that have worked most closely with the AFL-CIO, the American labour missionaries are viewed as a very mixed blessing. Letters have been sent by these unions to AFL-CIO headquarters in Washington, complaining bitterly about the way programs have been implemented.

This dissatisfaction, however, should not really be a source of surprise. While the AFL-CIO has an obligation to give practical help, it is sadly unqualified to issue recommendations on how to build labour unions. Accepting the AFL-CIO's advice on strategy and tactics is like taking boxing lessons from a fighter who has suffered 50 knock-outs in 50 bouts. After dropping steadily over many years, the AFL-CIO's membership is now down to 14 million – only around 10 per cent of the US workforce.

Source of funding

Despite its failures at home, the AFL-CIO has an astonishing ability to fund assistance to foreign unions. This assistance is currently running at levels of $30 million a year - almost half the AFL-CIO's total budget, and in strong contrast to the meagre $1.5 million a year the union federation reportedly spends on organising in the United States.

The paradox is explained by the fact that virtually all of the funds the AFL-CIO spends on international union assistance do not come from American unionists at all, but from the US government. Much of this money is channelled through the privately-run, extreme right-wing National Endowment for Democracy, while other sums are direct grants from the US federal budget via the US Agency for International Development (AID). Needless to say, the money has a political price. In order to keep the funds flowing, the AFL-CIO operatives in foreign countries have to strive to build the kind of national labour movements the US government would want.

The AFL-CIO's operation in Russia is clearly among the most extensive and best-funded of its foreign ventures. For several years now, official AFL-CIO representative in Russia, Tom Bradley, has been working in a well-equipped office in central Moscow. A recent leaflet issued by Bradley detailing the activities of his organisation (known formally as the Free Trade Union Institute, Moscow) lists a total of five non-Russian staff. The total number of Russian citizens employed by the institute and its programs is probably at least 40. According to Bradley's leaflet, the American trade unions have been among the financial supporters of the newspaper *Delo*, which began appearing early in 1993. Paying unusually well for stories despite having only a small print run, *Delo* concentrates on issues of interest

to labour activists.

The AFL-CIO-funded program, "Organisers", now well established, has several dozen paid staff in major industrial regions and in Moscow. In collaboration with Bradley's institute, the American Federation of Teachers conducts seminars for Russian school teachers on the teaching of democracy and the role of teachers' unions. The AFL-CIO is also a partner with US mine operators and the US Mine Safety and Health Administration in a program to make Russian coal mines safer and more productive. Finally, last June saw the setting up of the AFL-CIO's most ambitious project in Russia: the Russian-American Foundation for Trade Union Research and Education.

From the start, the AFL-CIO's operations in Russia have been highly "ideological". *Delo* has a well-deserved reputation for being incapable of criticising any word or deed of Russian President Boris Yeltsin. The fact that Yeltsin's reforms have had a terrible cost for workers - the wiping out of savings by inflation, drastic cuts in real incomes, and now steeply rising unemployment - has not caused this support to waver.

Relations with FNPR

Though supposedly aimed at developing the labour movement in Russia, the instruments set up with AFL-CIO support have adopted a hostile and sectarian attitude toward the organisations that make up the great bulk of that movement. Of Russia's 72 million-strong workforce, somewhere between 50 and 60 million people are members of the Federation of Independent Trade Unions of Russia (FNPR). However, the AFL-CIO rejects collaboration with FNPR member unions. The reasoning behind this position is that the FNPR unions, as legal successors to the old Soviet-era bodies, are not genuine trade unions. But this is simply untrue. Since 1990 an important process of renovation and democratisation has taken place in the FNPR. In one of the most important reforms, the old, highly centralised lines of authority within the federation have been broken; member unions now decide their own policies, with the FNPR's leading bodies playing only a consultative and coordinating role.

Under pressure from increasingly demanding memberships, officials of the FNPR unions have had to learn the skills of labour

organisation and struggle. Many officials who have failed these tests have been replaced in elections. The degree of renewal varies widely from union to union, and in few cases can the reform process be regarded as complete. But it should be stressed that few of the AFL-CIO unions are models of democracy either. The leading bodies of the AFL-CIO, in particular, are much less democratic and responsive to rank and file sentiment than their extensively reformed FNPR counterparts. The last time an election was contested at an AFL-CIO convention was in 1965. The real reasons for the AFL-CIO's hostility toward the FNPR include knee-jerk cold war prejudice, and in recent times, the FNPR's sharply critical attitude to Yeltsin. In September 1993 the leadership of the FNPR condemned the Russian president's actions in disbanding the parliament and overthrowing the constitution. In its essentials, the FNPR's response to Yeltsin's coup was shared by most of Russia's political parties.

The "free" unions

Rejecting collaboration with the mass trade union movement in Russia, the AFL-CIO has instead sought to work with the "free" trade unions that operate outside the FNPR structures. Emerging since the late 1980s, the "free" unions have a combined membership of only a few hundred thousand people. A number of these unions, set up years ago by labour activists who split from the traditional union movement because of its lack of militancy in defending workers' rights, are among Russia's best-organised and most combative labour movement bodies; these include unions of coal miners and air traffic controllers. Among the other "free" unions, however, are some very strange organisations whose claim to be part of the labour movement is slender. Overall, the ""free" union movement is not especially vigorous, and does not appear to be growing. Several attempts to organise a federation of "free" unions have had little success.

With their origins among opponents of Communist Party rule, the "free" unions have mostly given support to Yeltsin, though some have broken with him and embraced extreme nationalist positions. In recent times, this support for the Russian president has created major strains within the "free" union movement. For unions that arose as organisations of militants, there are obvious contradictions in backing

a presidential administration that attacks jobs and seeks to justify long delays in the payment of wages. As small and relatively poor organisations, the "free" unions badly need the research, training, and legal assistance the AFL-CIO can provide. Furnishing this help is the task of the Russian-American Foundation for Trade Union Research and Education, the only one of the AFL-CIO's initiatives in Russia that can be said, even in a highly qualified sense, to have played a useful and positive role. During the second half of last year, the Foundation published four books and began preparing manuals on practical questions of union organisation. It conducted training seminars and lobbied the Russian press with articles and information, putting the case of "free" unions involved in disputes.

Access to this assistance, however, has been limited to non-FNPR unions. The rigidity of this political apartheid is striking. A document explaining the activities of the Foundation, for example, explains that its experts "write in local newspapers about violations of the rights of free trade unions." Presumably, the Foundation's officials are unperturbed by attacks on the rights of unions which they do not consider "free".

Organised poaching

Far more controversial has been the AFL-CIO funded Organisers program. This was set up not in order to help existing unions, but with the aim of founding new ones. Meanwhile, the prospective members of the new unions are almost all members of existing union bodies. As a concerted membership poaching operation, the program has drawn protests both from the FNPR and from "free" unions. In Yekaterinburg in the Urals, a report by the head of the Organisers program states that "dozens" of new unions have been established. In the Komi Republic in the north of European Russia. The program has helped set up five new unions, as well as a regional "free" union association. The five organisers employed in the Komi Republic are paid salaries of as much as $400 a month. This is not a particularly large sum in the West, but very handsome earnings in Russia, where the top government salary - that of President Yeltsin - is currently worth $290. Needless to say, going to work for the Organisers program is a tempting prospect for union activists on tiny wages.

Whether the AFL-CIO also helps with the salary bills of the "free" unions has not so far been independently confirmed, despite a wealth of rumours. Still, it is known that Moscow staffers of the "free" Independent Union of Miners (NPG) have continued receiving generous salaries during recent months when large numbers of rank and file union members have been close to starvation, their wages unpaid.

Are the AFL-CIO's operations in Russia proving successful, even in terms of their own - distinctly peculiar - set of goals and priorities? In at least two cases, these programs have fuelled extremely sharp disputes within "free" trade union circles, to the point where any gains for the AFL-CIO and its strategies have probably been negated. The major bone of discord has been the Organisers program, where hopes that the training and support of selected activists would help create a large and diverse social base for the "free" union movement have so far been illusory. To justify their salaries, the local organisers have to found unions, but it does not necessarily follow that these unions amount to more than small groups of friends and political associates of the organisers themselves. Meanwhile the Organisers program, as a favoured recipient of US funding and a rising centre of bureaucratic influence, has caused leaders of the "free" trade unions acute anxiety. This has been the case especially since staff members of the program, at a seminar late last year, decided to set up an Association of Free Trade Unions of Russia, which quickly attracted further funding from the AFL-CIO.

For Sotsprof, one of the more substantial and independently-based of the "free" trade unions, these developments were intolerable. Sotsprof leader, Sergei Khramov, wrote to AFL-CIO headquarters in Washington demanding the sacking of Organisers head, Viktor Utkin. "Without any consultations with the leaders of the free Russian trade unions," Khramov's letter complains, Utkin "declared the founding of a new trade union federation involving no-one except a few staff members of his Organisers program." According to Khramov, Utkin's actions and his possession of "a substantial grant" threatened the unity of "the real trade union movement" in Russia. Khramov's letter also pointed to major problems within the Russian-American Foundation for Trade Union Research and Education. The Sotsprof

leader called for the Foundation to be reorganised under a new leadership based on the heads of the "free" trade unions. The Foundation, he charged, was "preoccupied with internal squabbles and with distributing among [its] leaders funds assigned by the Americans as aid to the trade unions". The problems besetting the AFL-CIO's programs, of course, have roots far deeper than the opportunism and venality of staffers and the rivalry of dependent unions fighting for the aid dollar. The basic obstacle faced by the AFL-CIO operatives in Russia is the fact that their whole approach to trade unionism - that of subordinating labour struggles to "social partnership", and of constructing bureaucratically-run pro-business unions in which real rank-and-file democracy is stifled - is useless for defending workers. It has been useless in the United States, and it is proving doubly useless in the far harsher conditions of Russia.

To rank and file unionists demanding serious action to win the payment of wages and protection against inflation, the US labour emissaries habitually reply with warnings that (to quote Bradley's leaflet) "the old Communist unions still exist and are still powerful, controlling vast assets and resources, and are seeking a return to power." When pinned down on economic questions, the AFL-CIO representatives can do little more than mumble assurances that privatisation and the market, as preached by Gaidar and the International Monetary Fund, will soon begin working their magic.

Not even Russia's capitalists, by and large, believe this line any more. Among workers, the response is overwhelmingly scornful. Nevertheless, the leaders of "free" trade unions are very reluctant to break with the AFL-CIO's strategies. Such a shift would raise serious questions of why these unions remain in isolation from the broad trade union movement. Also, one cannot help suspecting that at least some of these union leaders have personal material interests at stake.

It should come as no surprise that the "free" trade union movement is now suffering from extreme internal tensions. These were clearly visible during the weeks leading up to the massive coal industry strike on 1 March. Rank and file pressure forced an obviously reluctant NPG leadership in Moscow to support this action, which was initiated by the FNPR coal industry union. But the NPG leaders drew the line at endorsing the demand, raised widely by miners' strike

committees, that the government resign and that Yeltsin call early presidential elections. The local NPG organisation in the Vorkuta coal basin in the far north of European Russia then adopted a motion of no confidence in the all-Russian leadership, and for some time the "free" coal union was reputedly on the verge of splitting.

The fact of outside support for a rival union movement, however small and ineffectual that movement might be, has arguably forced the FNPR apparatus to accept reforms and lead struggles it would otherwise have shunned. Ironically, the net impact of the AFL-CIO's blunderings has probably been to present Yeltsin with a more active and resolute labour opposition than he would otherwise have faced.

Helps the nationalists

It would be wrong, however, to regard the AFL-CIO intervention in Russia as perversely beneficial despite the intentions of those who mounted it. To the extent that Russian workers have reacted against the AFL-CIO's presence and activities, the currents in the labour movement that have mainly benefited have not been those of the "civilised left" - which remains small and weak - but of the anti-Yeltsin ultra-nationalist right.

During January, for example, the Confederation of Free Trade Unions of Russia, a small formation headed by nationalist ideologue Alexander Alekseev, won publicity with a declaration calling for a boycott of "the AFL-CIO teachers from across the ocean, whose actions are intended to harm the national interests of Russia." The declaration denounced "trade union activity in which the workers, instead of fighting for their rights, adhere blindly to the course of American policies in our country, that is, close their eyes to Gaidar-style 'liberalisation', to mass sackings and factory closures." Neither Alekseev's union organisation nor his "National-Social Party of Workers of Russia" are significant players on the Russian political stage. But it is disturbing to note that the AFL-CIO programs in Russia provide a good deal of unintended ammunition that could readily be used by larger and more dangerous ultra-nationalist currents.

So far, however, few Russians are aware that the US government via the AFL-CIO is mounting a political intervention in their country's

labour movement. The impact of the AFL-CIO's activities in Russia remains almost negligible, largely because the cold war manias of the AFL-CIO leadership have prevented its operatives in Russia from moving in on the country's mass labour organisation, the FNPR, where they might have done real damage. Nevertheless, the interests of labour activists in the US have definitely been harmed by what the AFL-CIO leadership is doing in Russia. Among large numbers of Russian worker activists, the American unions now have a foul reputation for attempting to suborn union leaders, to split and demobilise the Russian labour movement, and to subordinate it to government policies that have already brought large numbers of workers to hunger and destitution.

Ideally, the AFL-CIO would reject its US government funding - which comes at unacceptable political cost - and restructure its operations in Russia on a more modest basis, offering practical help with research, training, organisation and legal matters to any labour movement organisation that approached it. But with the AFL-CIO leadership as it is, and changes in the near future unlikely, labour activists in the US might well decide that the best way they can help their Russian counterparts is to demand that the AFL-CIO shut down its operations in Russia entirely.

Reviews

Andrei S. Markovits & Philip S. Gorski, *The German Left: Red, Green and Beyond*, Polity Press, Cambridge 1993, 393 pp, £13.95.

The concept of *Sonderweg* - German "peculiarity", a historical aberration, a divergence from the history of the other (Western) countries - has been an important one in German historiography. Although the idea already existed in the early nineteenth century, it was after 1945 that it acquired a particular importance as German historians looked at their national past and tried to account for the catastrophe of German fascism. The explanations of German peculiarity have varied. Some emphasise a particular feature of German intellectual culture - irrationalism, *Innerlichkeit* (inwardness), hostility to Western enlightenment values, glorification of strong authority and abject obedience. Some point to the important role of Prussian militarism in Germany's history while others locate this peculiarity in its special geographical position between East and West.

The most common form of the *Sonderweg* thesis today, in accounting for the horrific aberration of Nazism, is what the historian Hans-Ulrich Wehler and others describe as the "feudalisation of the German bourgeoisie". Briefly, the pre-industrial elite (Junkers, officer corps, and Prussian bureaucracy) maintained a high level of power in the Empire and in the Weimar Republic; the bourgeoisie were weak, failed to bring off their own revolution, and aped the aristocracy. Hence German modernisation was not accompanied by modern democratic political institutions and modern social Western values. This "marriage of iron and rye", portrayed so masterfully in the novels of Theodor Fontane, was a significant factor in making it possible for Hitler to come to power and lead Germany into total defeat in 1945. But 1945 was also the final defeat of that anachronistic pre-industrial remnant and was a therefore *Stunde Null* (zero hour) for modern Germany, having finally overcome the debilitating discrepancy

between modernisation (industrial, economic power) and socio-political values and institutions. Fascism was not an inherent potential within the capitalist system itself; the end of Germany's *Sonderweg* therefore also closed the door to any return of Nazism.

In an interesting twist on this argument, post-unification historians and politicians on the German right see the Bundesrepublik of 1945-1990 as a *Sonderweg* - a divided and occupied nation, with no independence in foreign or security policy, a discrepancy between economic weight and military capability - which has now ended, allowing Germany to return to "normality" as a world power.

The present book by Andrei Markovits and Philip Gorski is an account of the German left and the Greens and an attempt to explain their spectacular rise to prominence in German politics. Not surprisingly, the authors are also attracted down the *Sonderweg* road. The German left and the Greens, we are told, are a uniquely German phenomenon, the product of "the peculiarities of German political development since the Second World War" but especially of "the fearful historical legacy left by the war itself". There are, the authors argue, "direct links ... between Auschwitz and the Greens" (p.2). The strength and influence of the German left is a product of a uniquely German phenomenon, what the authors term the "Holocaust effect".

> Central to our argument is the fact that among all comparable industrial societies, this weight of the past, its ubiquity and gravity, has remained unique to Germany. (p. 18)

The guilt about the fascist past, the "murkiness of German identity since 1945", the anger of the '68 generation against its parents who had participated in the German war effort, the post-war deficit in sovereignty vis-à-vis the USA and the mixture of submission and hostility that this generated - all of these were part of that German "peculiarity" that gave rise to a uniquely powerful political movement to the left of the Social Democracy (SPD), the latest manifestation of which is the Greens.

The book then proceeds to a historical account of the development of the left in Germany since 1945. Roughly half of the book is historical, the other half being devoted to questions of ideology and policy. Covering such a vast area, the historical account is necessarily sketchy, but for the Anglo-American reader wanting a

lucid introduction to this area, it's a good read. The historical section of the book has two particular strengths. Firstly, its situates the Greens firmly within the development of *the left* after 1945, rejecting any attempt to understand it as a single-issue movement or party (a mistake made by some in Britain, who tried to import the German model). Secondly, the authors consistently situate the left and the Greens in their relationship to the SPD and to the way in which the Social Democrats have responded to the different crises within German society since 1945. Thus they correctly see the Greens as *a left challenge* to Social Democracy.

The major battles of the 1950s (over co-determination in industry, rearmament, and the drive to station American nuclear weapons on German soil) sometimes pitted the SPD and trade union (DGB) leaders against the goals of the German conservatives under Adenauer and the US-led Western alliance. The battle against rearmament in particular led to a powerful extraparliamentary protest movement which appeared to have the support of the DGB and the SPD leaders around Kurt Schumacher. But "Schumacher's anti-communism and commitment to the West outweighed his anti-militarism" (p. 40) and the distrust and hostility felt by the SPD and DGB leaderships for any form of grassroots or extraparliamentary movements meant that, in all cases, these movements never realised their full organisational potential and left many intellectuals and workers disillusioned with the Social Democratic leadership. Although the churches, the liberal intellectuals, and even some conservatives organised around Gustav Heinemann, opposed rearmament, with large public support and even involving isolated examples of labour movement protest, the SPD joined the CDU in opposing Heinemann's plebiscite plan, and opted instead for a legal challenge in the Federal Constitutional Court, a move reminiscent of similar legal challenges in the recent period to the use of German troops in "out of area" conflicts, both of which failed.

In these battles of the 50s, as well as in the conflicts in the 60s over the Emergency Laws and university reform, the authors demonstrate the extreme seriousness of the issues (rearmament so soon after the war, atom bombs stationed in the country but under foreign control, emergency laws that represented a threat to

democratic rights and freedoms, etc) and how, for reasons that are easily understood, numerous workers, middle class intellectuals, and students vigorously opposed and protested. In the late 1970s and 1980s these ant-militarist, anti-nuclear and anti-authoritarian traditions fused with the emerging new social movements (peace, feminism, ecology) in a process that led to today's Green Party.

Ironically, what this historical account also demonstrates is the superfluousness of the authors' initial explanatory framework, namely, the "Holocaust effect". The importance of the war and its effects both on the parameters of German politics since 1945 and on German self-awareness are clear. But what the authors do not demonstrate is the link between the scope and form of German radicalism throughout the whole post-war period in the Bundesrepublik and any alleged sense of guilt for the holocaust. German guilt (like the "German Mind", German irrationalism, submissiveness to authority, nature-loving anti-modernism) is frequently invoked in essays on Germany but tends to dissolve under close study, especially if the study is a comparative one. But since the authors wisely don't really attempt to push their history of the German left through this particular sieve, it remains an eminently readable and enlightening account.

Not so that section of the book (roughly half) that deals with the ideological and internal development of the left/Greens. Here the authors are fighting a very definite corner. In a nutshell, the main blockage to the necessary fusion of ecology and socialism that the Greens aspire to are Marxism and naturalism. Marxism (here always identified with dogmatism) brought into the Green strategy debate of the 1980s two figures of thought ("social totality" and "crisis") that underlay the seemingly unresolvable conflict between the integrationists and oppositionists. These "Marxist dogmas, axioms, and categories ... paralysed their efforts to create a viable politics of ecological reform" (p. 125).

Naturalism (or dogmatic naturalism) refers to that German "established pattern of thought" ("unknown or even perplexing ... for an Anglo-American audience") whose previous flowerings were German romanticism (Novalis, Schlegel, etc, ca. 1790-1810) and the conservative *Kulturkritik* from the latter part of the nineteenth century to 1940. Proponents of this particularly Germanic turn of mind were

allegedly such eminent Marxist figures as Ernst Bloch (utopianism), Walter Benjamin, and Theodor Adorno (critique of enlightenment modernism) and it attained its full coherence in the theories of the ex-Marxist Rudolf Bahro. This dogmatic naturalism, represented in the Greens mainly by the fundamentalists, also "undermined the construction of a successful and viable reformist eco-socialism" (p. 125).

By 1991, however, with the departure of the fundamentalists (around Jutta Ditfurth) and most of the Marxist left (leading figures such as Thomas Ebermann and Rainer Trampert), the party was set on course to become a "leftist, ecological reform party" (p. 142). The future, for the authors, lies in an alliance of the realists (rejecting any concept of "social totality", oriented to fragmented social conflicts, influenced by the ideas of "systems theory"), the eco-libertarians ("who combine elements of both libertarianism and liberalism") and the eco-socialists (who have rejected Marxism and who will "move closer to the realists' camp of democratic humanism"). The ideological basis for such an alliance should be "reformist humanism" (p. 150).

The problem with the Markovits and Gorski's ideological tour de force is quite simply that it is too heavily biased. It is very much a *parti pris,* a contribution to a debate within the left-ecological movement, and not what it sets itself up as, a "definitive study of the German Greens" (back cover). The strong bias against Marxism in particular leads them to an openly expressed hostility towards the leading eco-socialists, Ebermann and Trampert. Anyone familiar with the strategy debate of the 1980s and with the work of these two and others like them in seriously rethinking Marxism (for instance, the traditional Marxist approach to nature) in response to the ecological and other demands of late twentieth century capitalism, would have difficulty with the authors' unargued assertion that

> "in the final analysis, the Ebermann/Trampert camp proved more interested in incorporating ecology into Marxist dogma than adapting socialism to the task of ecological reform"

and that their contribution to the Green left led "only to the preservation of fundamentalist dogma" (p. 149).

The eco-socialists posed a real problem: the ecological crisis is rooted in the dynamics of a capitalist economy and cannot be resolved without overcoming capitalist competition. A dash of liberalism,

a post-modernist rejection of "totalising concepts", an interest in systems theory and a pragmatic willingness to co-operate with the SPD won't make this problem go away. To brand any alternative approach as "dogma" is not made more convincing by increased repetition.

In a well-researched book such as this one (over 60 pages of notes) one expects accuracy. The chapter on the various Communist or new-left formations in West Germany (Communists, Maoists, Trotskyists, and others), which not accidentally groups them together with the terrorists of the Red Army Fraction, appears to have been written in the mid-1980s. For instance, the GIM (*Gruppe Internationale Marxisten*), according to the book, "never disappeared completely from the West German political scene", demonstrating "Trotskyism's impressive staying power" (p. 64). In fact, the GIM disappeared in 1986, as did another of the listed groups, the KPD. Both fused to form the VSP (*Vereinigte Sozialistische Partei*), which the book doesn't mention.

But where the book really lets its Anglo-American left readership down (and it is the left who will read this book) is in its treatment of the PDS (Party of Democratic Socialism): it is cursorily dismissed as "nothing but a rechristened and repackaged version of the old SED" (p. 254). There isn't a uniform attitude on the Western left to the successor-formations of the old Communist parties: the Italian PDS, the Hungarian and Polish Socialists, the reformed Russian Communists, and so on. But they exist, are seen by millions of workers and intellectuals in Germany and Europe as part of the left, and can not be ignored by any study that claims to be scientific.

In the 1990 elections the German PDS won 17 seats in the German parliament and, if current local and state election results and opinion polls are any guide, there is some reason to believe that they will succeed again in 1994. In the local elections in Brandenburg in December 1993 they pushed the CDU into third place. But these are perhaps just "pragmatic" considerations. At the all-important political level, the PDS was the only parliamentary group that defended the right to abortion, opposed sending German troops abroad, opposed the restrictions on the right of asylum, and has actively supported workers in some key battles in the east (Bischofferrode). On all key foreign policy decisions from the Gulf War to the intervention in

Yugoslavia and Somalia, the PDS has adopted anti-militarist positions. Internally, the party has engaged in a critical debate about its own history, it is democratically organised, and is open to cooperation with other progressive groups (for instance, its electoral "lists" are open to non-PDS members). It sees itself as a socialist party to the left of the SPD. All of these are very good reasons for treating the PDS seriously. There are some real problems: its membership structure (predominantly elderly and with a lot of "GDR nostalgia) and its inability to establish a foothold in western Germany being perhaps the main ones. But if both the Greens and the PDS are returned to the Bundestag in October, the interests of the left in Germany and elsewhere would be better served, I believe, if both groups learn to cooperate, especially if, as seems not at all unlikely (writing just two months before the election), there is another conservative coalition (or, worst scenario, a grand coalition). The Markovits-Gorski line, with its own version of "liberal fundamentalism", would outlaw such a development.

Markovits and Gorski welcome the rightward shift in the Greens, a shift reinforced by the alliance with Bündnis 90, and hope that now the way is cleared for a moderate ecological reformism, prepared to work in the institutions and to accept the responsibilities of ministerial posts. In Saxony there is even talk of a CDU-Green coalition. Their growing acceptance of the market paradigm in economic and social questions, combined with a continuing left-orientation on foreign, Third World, and military questions opens the way to a strategic cooperation/division of labour with the SPD in which the Social Democrats control the levers of working class, trade union, and social policy while the Greens are free to address the themes closer to the middle classes who are their electoral base, all the while joining the political establishment in its determination to ostracise the PDS. If the PDS (currently the third strongest party in the east) succeeds in entering the Bundestag in October, the question of cooperation with them could open up a whole new debate inside the Greens, assuming the left in the party still has enough clout.

Before leaving this particular contribution to what is a very important debate, it is necessary to deal briefly with one assertion that is repeated a number of times throughout the book, namely, that

the German left is, in some fundamental way, anti-Semitic. There are undoubtedly anti-Semites on the German left, as there are on the French or American left. But Gorski and Markovits are saying more than this. Why? Widespread support for the Palestinians on the German left is one reason. Speaking of the left in general, the authors describe the

> "socialisation process which made the hatred of Israel and the extolling of the Palestinians arguably one of the most accepted - and exacted - social norms of this milieu" (p. 137).

There is also the accusation (false) that the PDS supported Saddam Hussein as "a colourful Third World leader who dared the Americans" (p. 259). But, at a more fundamental level, the authors claim that the Marxist theory of "crisis", Thompson's theory of "exterminism", as well as the generally "apocalyptic" approach of the radical ecologists led to a relativising of Auschwitz, with the result that for a significant part of the German left "the Jews - as representatives of modern rationality - have always been suspect, if not indeed evil" (p. 133). Hans-Christian Stroebele, a leading figure in the Greens, wrote at the time of the Gulf War that "Iraqi missile attacks are the logical, almost compelling consequence of Israeli policies", in other words, its past policies towards the Palestinians and other Arab states. The sensitivity of the Greens on this issue was such that Stroebele had to resign. But, according to our authors, for Germany's "leftist milieu ... his real crime was to have expressed such views in public" (p. 137). The accusation of deep-seated and widespread anti-Semitism on the German left is nowhere substantiated in the book (if we put to one side support for the Palestinians and opposition to the Gulf War) and relies instead on innuendo or a kind of spurious logic: if you hold such-and-such a world view (romantic naturalism, exterminism, crisis theory, etc) then you must relativise Auschwitz, regard the Jews as evil modernists, etc.

The so-called "strategy debate" that took place on the German Green/Left in the 1980s was, in spite of its seemingly endless and sometimes apocalyptic character, actually a fantastic example of a radical ecological left confronting and debating the key issues of the age. The present book should be seen as part of that debate, rather than as some final summary of it and, for an Anglo-American audience

with a somewhat different background and with its own set of prejudices about the "German mind", it is actually an exciting and essential read.

Gus Fagan

J Edwards and K Fischer, *Banks, Finance and Investment in Germany*, Cambridge University Press 1994, pp. xiv + 252; £30.00

The view that German industry has a particularly close relationship with the German banking system has long been something of a commonplace for both left and right analysts of the German economy. Among Marxist writers this approach goes back to Hilferding's analysis of finance capital in 1910, while a long succession of more orthodox accounts of business enterprise in Germany has also stressed the role of banking and finance. Among this latter group of analysts, there has often been an explicit or implicit argument that German economic success has been largely due to the structure and practices of the financial sector and that weaker economies such as the British would benefit from adopting an approach to the financing of business which more closer mirrored that of Germany. This kind of thinking was present in inter-war debates such as that around the Macmillan Committee in 1931, reappeared in the 1950s with Andrew Shonfield's influential work, and has been a constant in recent discussions of British economic decline such as Carrington and Edwards' work on financing industrial investment, and the continuing debate on "corporate control and corporate governance".

In this context, Jeremy Edwards and Klaus Fischer's new book has an importance which goes well beyond what may at first appear to be a rather technical and abstract subject matter. Their work is the first in-depth account in English which is specifically devoted to the

relationship between banks and industry in Germany. It uses a wide range of empirical evidence and is backed by a coherent theoretical framework. Its conclusions are striking and surprising. In the opinion of Edwards and Fischer, the close relationship between banks and industry in Germany is largely mythical. German economic success, insofar as it exists, cannot plausibly be attributed to the workings of the financial system, which are for the most part not significantly different from those prevailing in Britain. They conclude that

> "The commonly-held view of the merits of the German system of finance for investment, in terms of the supply of external finance to firms and corporate control, receives no support from the analysis of available evidence" (page 240).

Clearly this conclusion, if true, is of interest to analysts of the German economy and of financial systems in general. However, I believe that it can also be argued that Edwards and Fischer's work has a more general significance for the left as it tries to understand the new economic structures evolving in Europe. In this review I shall first outline the reasoning behind Edwards and Fischer's argument and then try to evaluate its broader implications.

Edwards and Fischer build up their account in stages, trying to establish a number of interlinked propositions. Their first point is that there are plausible theoretical reasons for believing that close bank involvement with industry might favour economic development. These reasons hinge first on the economies of scale which banks have in collecting information about potential borrowers, and thereby removing the informational difficulties which face individual savers in lending their savings to industry. Secondly the information which banks have about their customers can enable them to play an active role in monitoring managers and ensuring that they act in the interest of shareholders, often in the German case through the role that banks play on the supervisory boards of companies. In theory then there is no obstacle to the conventional view of the positive role played by the German financial system.

The empirical evidence tells a different story. First, Edwards and Fischer show that, contrary to received wisdom, German industrial investment is not significantly more heavily financed externally, either by debt or equity, than British industrial investment.

In both countries most finance for investment comes from the retained profits of companies. They disaggregate the figures to look at different kinds of companies. Smaller companies have a larger proportion of investment funded by bank loans than larger firms, but even here retained profits are more important. Edwards and Fischer point out that only certain firms, mainly AGs (*Aktiengesellschaften* or stock corporations) and the larger private companies are required to have supervisory boards. Given the large weight of small and medium private business in the German economy, the proportion of the economy covered by supervisory boards is much less than often acknowledged. Edwards and Fischer next look at the structure of the German banking system, arguing that it is significantly less concentrated than in Britain and that the big three commercial banks, Deutsche Bank, Dresdner Bank and Commerzbank, have a relatively small share of bank lending to industry and face considerable competition in this activity (though less in underwriting new share issues). The terms on which loans are offered is not significantly different from Britain, with a similar use of collateral, and the significance of the "Hausbank" relationship between firms and banks is much less than often argued. While industrial enterprises have particular house banks which provide them with significant amounts of outside finance, they rarely rely on just one bank, and the banks themselves are reluctant to take on a role as an exclusive supplier of funds. Next, Edwards and Fischer examine bank behaviour when borrowers encounter financial distress. They argue that banks do not behave significantly differently in this kind of situation in Germany as compared to Britain. German banks are reluctant to intervene directly in the running of companies and support rescue plans in general only when a plausible alternative management is on offer.

The final two chapters of Edwards and Fischer's work deal with the ability of banks to influence the management of firms. They argue that in general there is less need for banks to perform this function on behalf of shareholders than is often thought. This is because the majority of German firms have a single large, often majority shareholder who has strong incentives to monitor and control enterprise management. However, most of these large shareholders are themselves industrial firms and a problem may arise if they

themselves are not subject to adequate shareholder control. Edwards and Fischer thus examine the ability of banks to control, through the supervisory board, the management of the largest AGs, those which hold shares in other companies. They find that the banks have limited ability to exert control. Supervisory boards meet rarely and do not necessarily have access to very full information. There is no clear correlation between the shares controlled by banks through proxy voting and their position on supervisory boards, and thus the notion of banks acting as delegates for shareholders appears implausible. Finally, it is not clear just what the incentive is for banks to act as the delegates of shareholders in this way since

> "it certainly cannot be argued that the managements of the big banks are subject to any shareholder control at their own shareholder meetings, because the proxy vote system gives them effective control of themselves" (page 217).

For all these reasons then, Edwards and Fischer believe that the importance of the banking system in German economic success is likely to have been significantly overstated. The account they give is well argued and, within its own terms, convincing. There are a few points where it seems possible to raise questions. Firstly, as Edwards and Fischer themselves note, their figures simply show that bank loans do not provide a higher proportion of new investment in Germany than in Britain. However, given that the overall level of investment in Germany has generally been higher as a percentage of GDP, the absolute level of bank-financed investment is also higher in Germany. It could be then that high initial bank loans have led to high investment and high profits and a virtuous circle in which, while the proportion of investment financed by banks is not especially high, the role of banks in initiating the process is crucial. Secondly, while bank loans overall may not be that significant, they may be important for certain kinds of firms, for instance small firms. Edwards and Fischer do investigate this issue in chapter four. However, while they show that retained profits are more important in financing the investment of small firms than bank loans, bank loans are still significant. It could be argued that the banks are playing an important role in filling a financing gap, and that this could be part of the explanation for the large role of small and medium private firms in Germany compared

with Britain. Edwards and Fischer do not provide comparative figures at this point. Thirdly, the analysis of the control of managers is rather heavily centred on the question of supervisory boards. If, as Edwards and Fischer themselves argue, such boards have a limited control over management, then it is not surprising that banks participation in them is not clearly linked to the shares they control. One would also need to look at alternative ways in which banks might exercise control rights on behalf of shareholders. Fourthly, the analysis is rather static, although some comparisons over time are made. It could be argued that, as the German economy develops, and particularly as the profitability of firms increases there is bound to be less reliance on external finance for investment. However, this does not mean that banks did not play an important role at the beginning of the process. One important factor which is not really analysed by Edwards and Fischer is the behaviour of profits in Germany industry over time.

Despite these questions though, it is clear that the conventional view of the integration of banks and industry in Germany has, at the very least, to be drastically modified in the light of Edwards and Fischer's work. Their book provides a necessary starting point for any future discussion of this issue. It also has more general importance in a number of areas. I want to look at three such issues for the left; the issue of the analysis of differing national economic institutions, the analysis of the German economy, and the implications of this account for Eastern Europe.

Edwards and Fischer's book is important as an example of a new kind of institutional economics which is becoming increasingly fashionable. The main characteristics of this approach are firstly that it takes the institutional differences between different national economic systems very seriously, in contrast to much neo-classical economics; secondly that it tries to explain these differences through rigorous analysis of microeconomic phenomena such as the internal organisation of firms and the workings of the labour and capital markets; and thirdly that it analyses these phenomena with special reference to differences in the information available to different economic agents. The growth of this kind of analysis has, on the whole, not been noticed very much by the left. However, it does pose quite a significant challenge to established left analyses at the level

of the national economy or of trans-national institutional structures. Whereas conventional neo-classical analyses can be criticised for trying to mechanically apply a single model regardless of institutional or historical context, and for ignoring the issue of power or control within the economy, such criticisms are much harder to make with regard to this newer kind of account. Accounts like that of Edwards and Fischer do focus on institutional particularities and on the possibilities for one group of agents (banks) to exert power or control over another (managers). However, they address these issues in a very different way from the way they have been addressed in the past by the left, particularly the Marxist left.

The first difference is the way in which writers like Edwards and Fischer base their account firmly on the individual contractual relationships between banks and firms. The aim is to show how institutional structures arise out of the individual choices made at the microeconomic level. To that extent their approach remains within traditional neo-classical theorising and is sharply different from the conventional left approach which tends to begin from the analysis of institutions at the macroeconomic scale and work down to the effect of these on individual choices. Such an approach might ask very different questions to those asked by Edwards and Fischer. Beginning with the role played by banks in early German industrialisation and the inter-war period, and relating this to the position of Germany within the world economy at the time, it might then go on to ask what were the conditions within German capitalism that allowed for the dissolution of the previously existing ties between banks and industry and the establishment of the institutional structure described by Edwards and Fischer. Such an account would accord more emphasis in explaining the emergence of this structure to macroeconomic trends in both the financial sector and non-financial sector, especially trends in profitability, and less to individual incentives at the microeconomic level.

The second central difference between the institutional analysis of Edwards and Fischer and that of the left concerns their treatment of the motivation of economic agents. For Edwards and Fischer motivations are attributable only to individuals; the managers of firms and banks and shareholders. The institutional structure of German

finance is to be explained by the motives of managers to behave in a way that shareholders do not like, and the consequent desire of shareholders to employ banks to monitor the behaviour of managers (a big gap here, as Edwards and Fischer acknowledge, is an account of the motivation of the managers of banks). Consequently, the role of the financial system is seen primarily as the enforcement of shareholders interests. It is not in conflict with industry as such, merely with errant managers. This is clearly very different from an account which grants a measure of independent motivation to bank capital and industrial capital and which consequently can allow for potential conflict between the two and for control exerted on industrial capital by banks in their own interest irrespective of shareholders. Following from this such an analysis could examine the motives for industrial capital to free itself from the possibility of such control, and could discuss the issue of the division of profits between the financial and industrial sectors.

These remarks are not meant to imply that the analysis of Edwards and Fischer is not valid because it differs from a Marxist account of institutional structures; merely to point out the substantial differences between the kind of account the left has traditionally given of such matters and the account Edwards and Fischer give. This only increases the importance for the left of considering the work currently being done by such writers on economic institutions and assessing its significance. This is particularly so because this kind of analysis is rapidly becoming dominant in Western economic analyses of Eastern Europe and the former Soviet Union, following from the discrediting of the simple early models of "shock therapy". The problems of transition to a market economy are increasingly being seen as problems of creating institutional structures and new developments in institutional economics are playing a correspondingly larger role.

Amongst these institutional issues the question of the financial system and the role of the financial sector in the governance of enterprises has been central. Jenny Corbett and Colin Mayer, for example, have argued that a "bank-based" system of finance, as seen in Japan and, they claim, Germany, represents a preferable option for Eastern Europe as compared to the "market-based" systems of the USA and UK. Taken literally, the analysis of Edwards and Fischer would

seem to invalidate this view, at least partially, by implying that the difference between Germany and the UK is more apparent than real. However, an alternative analysis, starting instead from the macroeconomic situation of Eastern Europe within the world economy might well conclude that a bank-based system, with potentially a superior ability to mobilise scarce capital for economic development, remains the best option. The reasons for believing this, however, would be essentially macroeconomic in character, rather than based on the microeconomic analysis of individual incentives and access to information.

The final broad issue highlighted by Edwards and Fischer's work is the question of the nature of the German economy. A considerable debate continues over the question of the sources of post-war German economic growth and over the current state of the German economy. A central issue is the question of the "social market" in Germany and the extent to which restrictions on the free operation of the market and non-market based institutional arrangements have helped or hindered German economic growth. The work of Edwards and Fischer is somewhat double-edged in this regard. On the one hand, by downplaying the role of the financial system in German economic success it potentially highlights other factors such as the position of labour and the role of the state where market imperatives may have been weaker than in the financial sector. To that extent their work could favour the view that German growth was aided by the curbing of market mechanisms. However, since Edwards and Fischer show that, in the financial sector at any rate, German institutions were not as particular as often argued, their work could be interpreted as strengthening the view that German success was not aided by institutional factors but predominantly depended on the clear application of the market mechanism. Finally the account of Edwards and Fischer goes a long way towards explaining the relative lack of dynamism of the German banking system in developing East Germany since unification.

In these ways then, the work of Edwards and Fischer, while focused on the detailed examination of a specific issue, has much broader implications for a range of questions. It raises concerns about the correct way to analyse institutional differences between national

economic systems, about the applicability of the German model of finance to Eastern Europe and about the sources of German economic growth. For the left it offers the challenge of a distinctive alternative method to explaining institutional structures to that traditionally used in Marxist analyses. It is to be hoped that a paperback edition of this book becomes available soon to aid the wider discussion of its contents.

Andy Kilmister

Book Notices

Catherine Samary, *La Déchirure Yougoslave, Questions pour l'Europe*, Paris 1994, 175 pp., 105 FF.

Catherine Samary is no stranger to readers of *Labour Focus on Eastern Europe*. Her 1992 book, *La Fragmentation Yougoslave,* has been translated into a number of languages and her regular contributions to *Le Monde Diplomatique* have been a model of informed and sensitive reporting on a very difficult and complex conflict. Her work has been characterised by a serious study and multi-causal analysis of the economic, social, and political factors (both inside ex-Yugoslavia and internationally) that have led to this conflict, a rejection of any facile solutions based on military intervention from outside, and an interest in the initiatives of and alternatives proposed by progressive currents inside Bosnia and the other states of ex-Yugoslavia.

The present book deals with the national and ethnic structure of Yugoslavia, makes a balance sheet of Titoism, and describes the origins of the 1980s crisis that led to the disintegration of the Federation and war. It provides a detailed analysis of the various peace plans and solutions and is very critical of the aims of all camps in the present Bosnian conflict. It contains a most valuable theoretical and historical analysis of the problem of self-determination, ethnic/national boundaries, and minority rights, as well as a critical look at the policies of the European Community and the future role of the

United Nations.

The construction of states on an ethnic and exclusive basis is a source of future war. But no form of union is viable without an equal treatment for all the national communities in the Balkans. How does one apply the right of self-determination in a mixed ethnic territory? Are there solutions other than national separation? Is there a conflict between the rights of the citizen and national rights? These are questions that pose themselves not just in the Balkans. They are questions about the nature of democracy and human/civil rights thrown up by the Yugoslav conflict.

Samary's book is an important contribution to the debate on the left about the Yugoslav conflict.
(The book can be ordered from L'Harmattan, 5-7 rue de l'Ecole Polytechnique, 75005 Paris, or from your local bookshop.)

H Dietzel, H Schwenk, & J Weichold, *Die Europäische Linke*, Podium Progressive, Mainz 1992, 200 pp, DM 16.80

This book is a comparative study of left parties and movements in several European countries. The authors begin with a discussion of the new situation of the European left following the collapse of "really existing socialism" in the East. They see this collapse as having a "liberating effect" on socialist theory and politics in Europe.

After a brief discussion of the major questions confronting the left today, the authors provide a detailed study of the left in four countries: Germany, Italy, France, and Sweden. They then look at the European left's response to a number of problem areas: the future of capitalism, the relation between economics and politics, the link between the social and ecological question, the relation between goals and means in the socialist conception of the future, the "subject" of progress in modern capitalism, feminism and patriarchy, and the relations between party and movement. They end with an attempt to outline a perspective for the European left of the future to which they give the title "unity in diversity".

The degree of acceptance on the left of the slogan for "a united socialist states of Europe" has not been matched by any significant degree of unity on the European left itself. As Europe draws closer

together the need for a minimum of cooperation (and information) will become more pressing. The present book is a useful contribution to that process. Sadly, there are very few others.

Caroline Thomas & Klaus-Peter Weiner, (eds.), *Auf dem Weg zur Hegemonialmacht?, Die deutsche Außenpolitik nach der Vereinigung*, published by PapyRossa Verlag, Cologne 1993, 165pp, DM 38.

The end of the East-West conflict and the German-German unification fundamentally changed the national and international parameters of German foreign policy. Germany is once again firmly in the centre of Europe. The old restrictions on foreign policy have been abolished by the "Two Plus Four" Agreement and Germany is now free to develop its own foreign and security policy. Its demand for a seat in the Security Council, its military presence in so many conflict sites around the world from Somalia to Bosnia, as well as its aggressive policy over Slovenian/Croatian recognition in 1991 are all signs that a new period is beginning. There is a large amount of consensus in the political elite about the contours of that new policy but there has been as yet no serious public discussion of the issues raised.

The authors deal with all the fundamental aspects of German foreign policy: the relation between the nation state and transnationalisation, the position of Germany in the world economy, the relationship between domestic and foreign policy, Germany's role in the newly emerging Europe, the growth of nationalism, and the question of immigration. Other contributors include Frank Deppe, Lutz Hoffmann, Dieter Klein, Wolf Dieter Narr, and Albert Statz.

***Prokla*, No. 94, *Politik in Deutschland*, March 1994.**

Prokla, now in its twenty-fourth year, is a key journal on the German left. The current issue contains a number of interesting articles on contemporary German politics. Kurt Hubner argues that the specific strategy of economic unification has manoeuvred itself into a dead end

and has produced a vicious circle (in the sense of Myrdal). The economic measures for building up a high-wage high-tech economy in Eastern Germany have produced a severe process of de-industrialisation. The strategy for restructuring requires rethinking.

Andrea Fischer, in an article on migration and the welfare state, argues that the danger of a mass influx of people is exaggerated and that there is no evidence for a negative impact of migration on the welfare state in general. In discussing different concepts of inclusion she raises questions of defining and going beyond the welfare state.

Much has been written recently on the problems of women in the new Eastern Europe. Brigitte Young suggests that the "disempowerment" of women during and after unification is the result of two non-synchronisation processes. Firstly, the development of separate East and West German feminist identities has made it difficult for feminists to agree on common goals and strategies. Secondly, the state centred strategies of feminists fail to take into account the structural transformation of the German state.

The peaceful revolution in the GDR raised the question of what kind of constitution would be appropriate for the new Germany. This question was not to be resolved by a constitutional assembly but by a commission with an equal number of members from both houses of the German parliament. In February 1994 the German parliament began to consider the proposals of this commission. Uwe Berlit describes the foundation, procedures, and themes of the commission's debate and suggests that the chances for creating a future-oriented modern constitution have been wasted.

In other articles, Wolf-Dieter Narr looks at the theories of *Recht* in the works of Jürgen Habermas and Niklas Luhmann, Frank Hahn discusses the relevance of General Equilibrium Theory for the transformation of centrally planned economies, and David Stark describes what he considers to be a new form of property ("recombinant property") in eastern Europe. Private and public are dissolved, interwoven, and recombined and the economies are evolving in forms that are neither state capitalist nor market socialist.

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