

ensure that a productive industrial landscape emerged in the new federal German states, and also in the resulting failure to combat mass unemployment in both parts of the country. While a mere 3% of German exports are produced by firms located in the eastern states, the approximate equalization of standards of living in the east and west can only be maintained by sustaining a net transfer of funds from the west to the east to the tune of DM 200 billion annually. Out of this sum, DM 150 billion involves transfers to the public budgets in the east.

On the other hand, official unemployment in both parts of the country, according to the unemployment office (IAB), led to an increase of expenditures and a shortfall in income in 1997 of DM 166 billion. The western German states accounted for DM 120 billion of that sum. Even if the remaining DM 46 billion is accounted for by the transfers to the east, the total national cost of unemployment and eastern deindustrialization, run at about DM 270 billion annually. And, these costs will increase with each new slice taken from the investment budgets.

It is instructive to consider the effects of reversing this policy. Every billion deutschemarks invested in physical infrastructure creates 12,000 jobs, half of them in the construction sector. Every new job relieves the state of a burden of DM 40,000, so that half of the expenditures immediately flow back to the treasuries of the federal, state, and municipal governments. In addition, there are the effects of every investment on private households and firms. The current underemployment in Germany, according to IAB calculations, costs the economy about DM 530 billion annually. Conversely, investments made in infrastructure lead to lasting increases in the productivity of the entire economy. To put it straightforwardly:

- There should be no cuts in the “German Unity Transportation Projects” and the other projects in the federal transportation network.
- To the contrary, drastic expansion of public infrastructure investments should be undertaken immediately as part of a program for overcoming mass unemployment and as a contribution to the reindustrialization of eastern Germany. If the share of capital investments in the federal budget in total investments is steered back to the proportion of 1970, that alone would create more than a million jobs.
- The construction of the Trans-European Network needs to be quickly expanded with large infrastructure projects in eastern Europe, including in Ukraine and Russia. The reconstruction of eastern Europe, in the context of a new, Marshall Plan-style investment program, with a focal point centered in southeastern Europe, is indispensable for peace in Europe, and would at the same time be a motor for industrial reconstruction in the new German states. The European East is also the bridge for German firms to the largest export market worldwide in the 21st century: China, India, and the other nations of Southeast Asia.

Sober realities aired at Alpbach economic debate

by Mark Burdman

From Aug. 21 to Sept. 4, the annual Alpbach European Forum was held in the Austrian village of Alpbach. The yearly gatherings are patronized by leading Austrian officials and private military-strategic, political, and financial institutions. One of the central events was an Economic Symposium, on Sept. 2-4. Despite the efforts of some prominent individuals there to obfuscate or distort what is going on in the global financial and economic realm, a number of important voices were raised, to bring a strong dose of reality into the proceedings.

Clinical insanity

The economic debate did not begin on a very promising note. During a Sept. 2 panel on whether the world financial system was or was not just a “global casino,” Klaus Liebscher, Governor of Austria’s central bank, the Österreichische Nationalbank, spoke on “Macroeconomic causes and effects of international financial crises.”

In a presentation filled with central banker double-talk, Liebscher noted that, in the recent period, in response to a number of “crises” and “turbulences,” there have “emerged calls for sweeping changes to the global financial framework.” He advised: “I do, however, believe that it would not do any good to push too far in one direction or other. . . . There is no reason, in my opinion, to fret about the escalating global crisis, . . . in view of the stability of the financial markets and banking systems of the European Union.”

So, in the same breath, Liebscher admitted that the global crisis was “escalating,” and insisted that there was no reason to “fret”!

Liebscher further noted that there are dangers “which can plunge big parts of the financial system into turbulences and lead to a massive loss of confidence,” and then advised that the key measure required is to “improve the manageability of systemic risks,” especially through “an effective supervisory system.” He stated: “When crisis strikes in a developed financial market, . . . assistance should be sought from a credible international institution, such as the International Monetary Fund.” He failed to note that this supposedly “credible” institution has done more than any other to wreck nations—from Mexico to Russia to Indonesia.

The threat to the real economy

On the next day, sobering voices were heard. During a panel on the effects of financial crises on “the real economy,” the first speaker was Dr. Christian Helmenstein, of the Austrian Institute for Higher Studies. Basing his analysis on formalistic calculations of price/earning ratios, he warned that the U.S. stock market was vastly overvalued, and that, even in the best-case scenario, Wall Street stocks will contract by 20%, whereas in the worst case, Wall Street will crash by 62%. This could pose a threat to the real economy, should the crash be followed by a “systemic banking crisis.” The global banking system, Helmenstein stressed, was made more vulnerable by such factors as the very small number of banks involved heavily in such markets as the one for currency derivatives.

Helmenstein wrung his hands, and hoped that effective “supervision and regulation” could contain a massive collapse in the “real economy.”

Stampede from the dollar?

He was followed by Dr. Konrad Seitz, former head of the Planning Staff of the German Foreign Ministry and former German ambassador to China, until February 1999. Seitz agreed with Helmenstein, that the U.S. market was greatly overvalued, but said that focussing on this, ignored a very serious and more dangerous problem, namely, the vast indebtedness of the United States. The United States has built up a large capital accounts deficit since the 1980s, reaching \$200 billion in 1997-98 and \$300 billion in 1999-2000. The net indebtedness of the United States has reached \$3 trillion in 1999, and “it is evident that not even the U.S., year by year, can increase its foreign debt” in this way. What Seitz sees coming, is a “crisis of confidence,” leading to a “stampede from the dollar,” which will create a currency crisis like that previously seen in Korea and Indonesia.

The Indonesian currency, the rupiah, has collapsed 80% over the past two-plus years (this all before the current dramatic crisis now erupting in and around East Timor). Imagine the effects of a collapse of such magnitude hitting the dollar, the currency in which most international trade and finance is conducted.

In Seitz’s view, the U.S.-centered debt-currency crisis, combined with various problems in Asia, signifies, that all the conditions are ripe for a generalized, international economic-financial upheaval.

Seitz also differentiated between the various forms of “the Asian crisis.” In his view, much more important than the most-often-discussed “Southeast Asian crisis,” is the “Japanese internal crisis,” and the question whether a “developing crisis in China” of a “recession-deflation” form, can be stopped. According to him, of all these, the Japanese crisis is the most serious. It has the superficial appearance of a boom and bust cycle, with “enormous speculation” followed by collapse, and significant effects on the real

economy. He warned that “the Japanese government is indebted in an unbelievable way. . . . The degree of indebtedness of the Japanese government is 450% of Gross Domestic Product,” and the government is in no position to fuel further growth by deficit spending.

Seitz was followed by a babbler from the senior echelons of Germany’s Deutsche Bank, Thomas Fischer, who rambled on and on, trying to defuse the sense of impending or actual crisis.

Despite Fischer’s tactics, *EIR* was assured by one senior Austrian military figure that, in private, the Economic Symposium debate had stirred up profound concerns among Austrian elites in attendance, that the global economic situation was “moving out of control.”

The long shadow of Mahathir

On Sept. 4, the debate centered on the measures that must be taken to deal with the financial-economic crises. The most provocative presentation was made by Heiner Flassbeck, Deputy Finance Minister under former German Finance Minister Oskar Lafontaine, who resigned on March 12 of this year, at which time Flassbeck was removed from his post. Flassbeck had flown into Alpbach from Kuala Lumpur, Malaysia, where he had attended a Sept. 1 symposium, sponsored by Malaysia’s Institute for Strategic and International Studies, Mainichi newspapers of Japan, and the Japanese External Trade Organization. Participants there included Malaysian Prime Minister Dr. Mahathir bin Mohamad, Japanese former Deputy Finance Minister responsible for international affairs Eisuke “Mr. Yen” Sakakibara, and leading people from Thailand and China. That Kuala Lumpur event celebrated the first anniversary of Malaysia’s Sept. 1, 1998 imposition of capital controls. In Kuala Lumpur, according to reports received by *EIR*, Flassbeck had insisted that the world’s financial system needed a paradigm shift, based on a return to fixed exchange rates, especially because the recent global crises had demonstrated that the current monetary system is not working.

Speaking in Alpbach, Flassbeck praised not only Malaysia, but also China and India, for their successful imposition of capital control measures. He told the Alpbach audience, that capital controls in Malaysia have worked quite well. In contrast to other Asian countries, which had been subject to International Monetary Fund medicine, Malaysia did not plunge into a deep recession. Flassbeck added, that by the use of capital controls, Malaysia could shield itself against massive capital outflows, as China and India had done before, with their far-reaching capital controls.

Flassbeck’s comments astonished certain attendees at Alpbach. Writing in the German economic daily *Handelsblatt* on Sept. 6, international correspondent Klaus C. Engelen expressed his profound surprise and dismay that “the long shadow of Mahathir” was cast over the deliberations in Alpbach, far away from Kuala Lumpur.