

recent years in the United States, to “doctor” statistics, and make a catastrophic economic picture look like a “miracle of productivity and profits.” When asked in the discussion, what the thinking was of persons of his generation, like the late Jürgen Ponto or Hermann Abs, two old-school industrial bankers, Richebächer answered: “We saved, we invested, and we worked hard. That was the secret to the German economic miracle.”

### Perspective From Russia

Prof. Tatyana Koryagina, economist at the Institute of Macro-Economic Research of the Russian Ministry of Economics and Trade, explored the relationship between the economic crisis and the Sept. 11 events. She posited the existence of a powerful group of interests, of Malthusian character, which had introduced an “artificial component” into the inevitable economic crisis, exploiting it with the aim of economic and political destabilization, including “changes in governments and military conflicts.”

Prof. Yuri Gromyko, from the Moscow Academy of Culture and Education, also addressed the issue of new destructive forces, for example, the so-called religious fundamentalists, characterized by the use of force, and the trend toward de-modernization. Both Russian experts identified the alter-

native strategy to defeat these forces, in the implementation of a new world economic order, based on a Eurasian infrastructure program for world recovery, in which Russia will play a leading role.

Helga Zepp-LaRouche complemented the Russian viewpoint by raising the role of Germany: “Should Germany Be Allowed To Seize The Initiative For A New Global Policy?” Combatting the notion that Germany, having been defeated in two world wars, does not have the right to do so, Zepp-LaRouche elaborated two historical cases, in which proposals for preventing and overcoming war had been developed. One was the Lautenbach plan of 1931, launched by the economist and Economics Ministry official of that name, in 1931. The project involved massive infrastructure and other projects which would have rehabilitated, reactivated, and expanded idle industrial capacities, and sparked economic recovery. Had it been implemented, Hitler never could have seized power, and the Second World War would not have occurred. Her second example, was the Peace of Westphalia, which put an end to the 1618-1648 religious wars, like those threatening to break out today. Zepp-LaRouche detailed the extraordinary conceptual breakthrough involved in the peace, based not on the idea of hatred and revenge, but on that of friendship and *agapē*. Such a conceptual revolution, she said, is required today, to reverse the drive toward war in the Middle East and other regions. On the basis of these two historical precedents, she urged Germany to exert its “right and duty” to place these items on the international agenda.

We publish here the speeches from the first conference panel. The remaining presentations will appear in a forthcoming issue.

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Lothar Komp

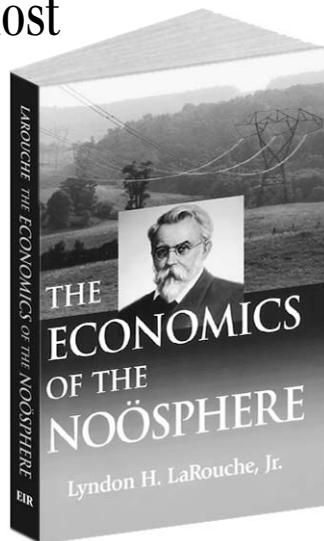
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## The World Is Sinking In Economic Depression

*Lothar Komp is an analyst of the international economy for EIR in its Wiesbaden bureau; he has given the opening presentations on the worldwide physical-economic decline at the past two Berlin seminars.*

At the moment of our last *EIR* seminar in Berlin, the U.S. Federal Reserve had cut interest rates three times. Illusions were widespread, that in the second quarter, or at latest in the third quarter, the U.S. economy would have overcome the worst and a great recovery would start.

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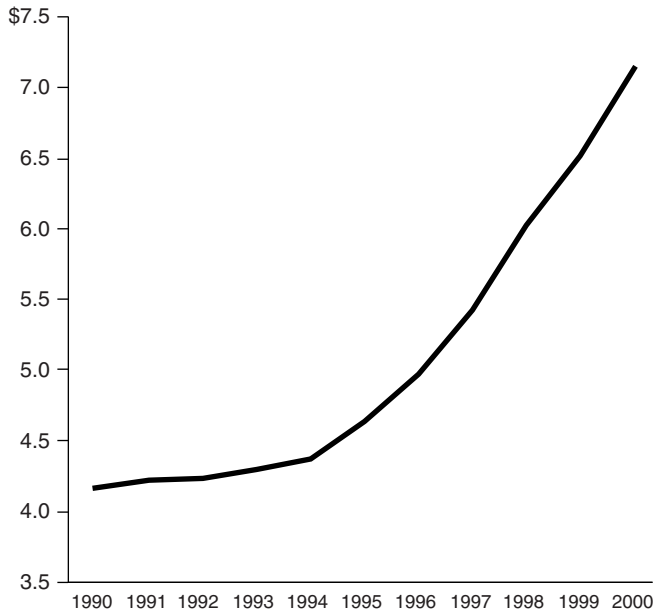
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FIGURE 1

## U.S. Money Supply, M3

(Trillions \$)



Source: Federal Reserve.

Now we have already seen nine rate cuts this year by the Fed and most probably the tenth rate cut will follow on Tuesday [Nov. 6]. As a consequence of the unprecedented effort of liquidity pumping—further accelerated during September—money supply is rising very fast (**Figure 1**). According to latest figures by the Federal Reserve, the volume of the money aggregate, M1, in the United States increased by \$34 billion, or 3.0%, during September, the highest monthly growth rate in 30 years. The annualized September M1 growth rate shot up to 42.3%. The annualized September growth rates of the broader money supply aggregates M2 (25.2%) and M3 (21.0%) are also among the highest in 30 years. Money supply is also rising very fast in Japan and in the euro zone.

However, in spite of these desperate monetary efforts, there has been not the slightest indication of any improvement; neither in the United States nor in the world economy. Quite the contrary: we recently witnessed a further acceleration of the downward process.

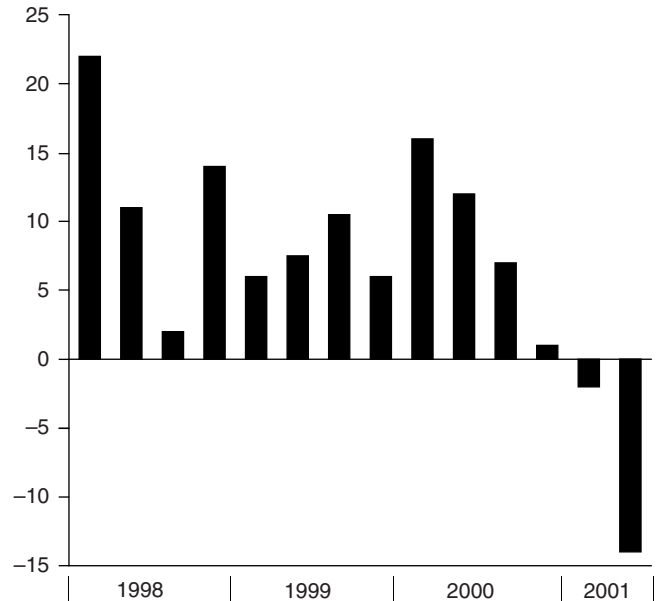
Recent economic data on the U.S. economy speak for themselves:

Despite all the well-known cosmetic efforts by U.S. statistics officials, the Commerce Department on Oct. 31 reported a 0.4% contraction of U.S. gross domestic product (GDP) during the third quarter. It was the worst quarterly GDP figure

FIGURE 2

## U.S. Capital Investments

(Percent Change Compared To Previous Quarter)



Source: BEA.

since the first quarter of 1991. The 0.4% GDP decline was just the “advance estimate” by the Commerce Department and the final figure will most likely show an even larger contraction.

Business investment in equipment and software dropped at a 11.8% annual rate (**Figure 2**).

Exports of goods and services declined 16.6% in the third quarter, while imports were down 15.2%.

## Industrial Collapse And Unemployment

As the Federal Reserve reported on Oct. 16, U.S. industrial production fell in September for the 12th consecutive month (**Figure 3**), marking the longest contraction of U.S. industry since World War II!

At the same time, capacity utilization at U.S. industries is falling dramatically (**Figure 4**).

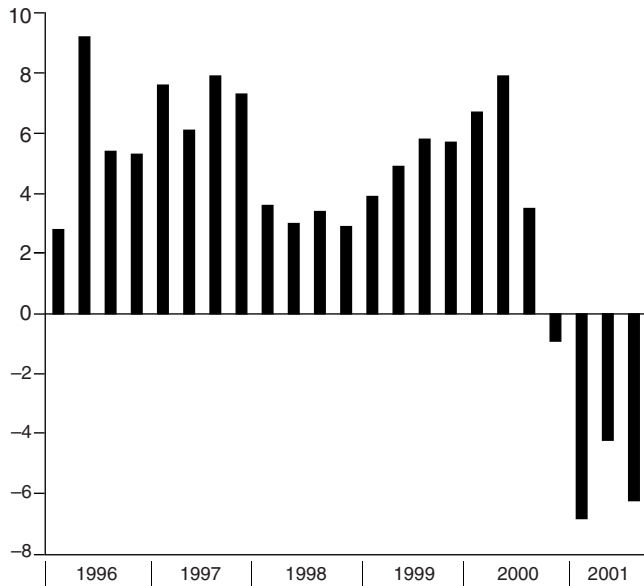
However, as new orders to companies continue to shrink, a further contraction of industrial output is already pre-programmed. According to the Commerce Department, new orders for manufactured durable goods in September decreased by 8.5% compared to August. For the first time in nine years, durable goods orders have fallen for four consecutive months. Compared to one year ago, durable goods orders are down 12.8%!

The 46.6% collapse of new orders for non-defense aircraft

FIGURE 3

### U.S. Industrial Production

(Percent Annualized Change Compared To Previous Quarter)

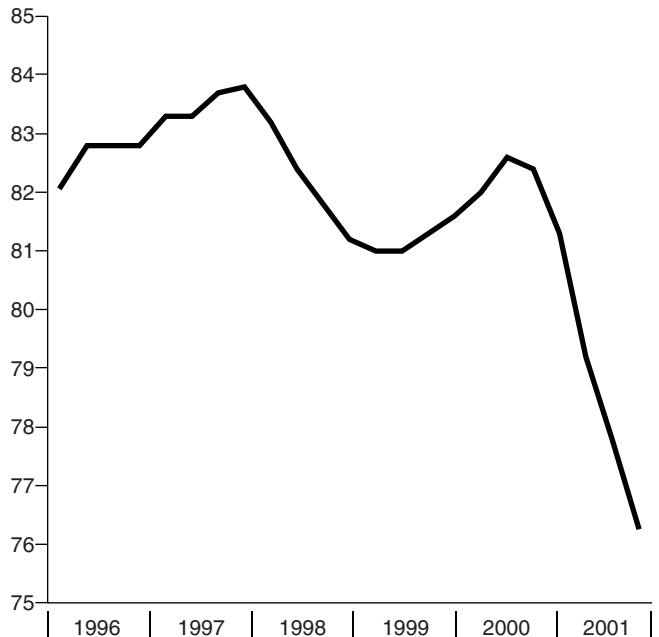


Source: Federal Reserve.

FIGURE 4

### Capacity Utilization, U.S. Industry

(Percent)



Source: Federal Reserve.

and parts was hardly a surprise after the Sept. 11 events. But the contraction of new orders for the automobile sector (-15.1%), machine building (-4.9%), and computers and electronics (-9.1%) cannot be attributed to the terror attacks. Meanwhile the implosion of the so-called “high-tech” sectors is continuing. On top of the dramatic declines within the last 12 months, new orders for telecom equipment in September fell by yet another 39.7% compared to the month before.

The National Association of Purchasing Managers (NAPM) on Nov. 1 released its October survey on manufacturing activity, showing the 15th consecutive month of declines. The index fell from 47.0 in September to 39.8 in October, where every figure below 50 corresponds to a contraction. The index has not been this low for a decade. *None of the 20 sectors surveyed by the NAPM reported any growth.* As Norbert Ore, the chairman of NAPM’s Manufacturing Business Survey Committee emphasized, *“The declines in production and new orders are among the largest in the history of our report, which began in 1931.”*

The more production has collapsed, the more unemployment has grown. During September, the official number of unemployed reached 7.01 million. In the week ending Oct. 20, first-time jobless claims in the United States rose to 504,000. The four-week average of first-time jobless claims—505,000—was the highest in more than ten years. “Continued claims” for state jobless benefits in the week ending Oct. 13 rose to 3.65 million, the highest level in 18 years.

According to the Conference Board, the number of new jobs offered across the United States has fallen to the lowest level since February 1982.

On Nov. 2, the Labor Department reported that the official U.S. unemployment rate in October reached 5.4%, the highest in five years, following the biggest round of layoffs in two decades. During the single month of October, 415,000 jobs had been eliminated, the highest monthly loss since May 1980.

The story is being told, that we can deal with a depression in the industrial sector, as long as consumption by private households—making up two-thirds of the GDP—can be maintained at present levels. However, the poor U.S. consumer, who according to this story has to rescue the U.S. economy, is now not only being affected by mass layoffs, but, at the same time, is now about to go under, due to his incredible indebtedness.

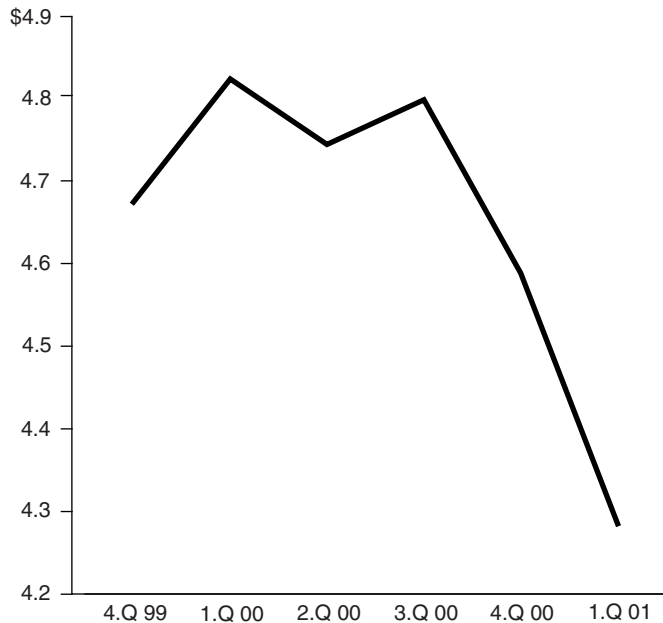
What makes matters worse, is the recent implosion of private households’ stock market property. More than one-third of the paper value of their stock market holdings was wiped out between March 2000 and March 2001. Just in the fourth quarter 2000 and the first quarter 2001, the total value of U.S. pension funds shrank by more than one-tenth (**Figure 5**).

As the Commerce Department stated on Nov. 1, consumer

FIGURE 5

### Property of U.S. Pension Funds

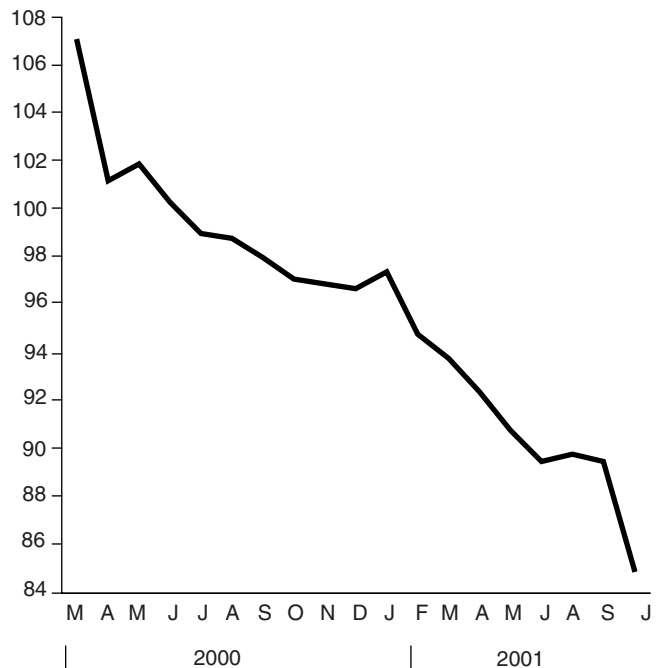
(Trillions \$)



Source: Federal Reserve.

FIGURE 6

### German Business Climate Index



Source: IFO Institute.

spending across the United States declined by 1.8% in September, much worse than Wall Street analysts had predicted. It was the steepest monthly fall in consumer spending since a similar decline 14 years ago. The last month showing a larger decline was May 1960; that is, four decades ago.

The consumer confidence index of the private economic research institute, the Conference Board, dropped from 97 in September to 85.5 in October.

### Same Picture In Western Europe And Asia

A similar downward trend has become visible all over Europe and is being reflected by sharply deteriorating business confidence:

On Oct. 19, the Munich-based economic research institute, IFO, published the latest figures for its widely read business climate index. It fell from 89.5 in August to 85.0 in September, the lowest level since November 1993. The September drop of the index was the biggest in 28 years (**Figure 6**). On Oct. 22, the French IDSI institute published its survey, showing that executives of small French companies are now more pessimistic than at any time since 1997. In Italy, according to the ISAE research institute, confidence among Italian manufacturers plunged to the lowest level since August 1996. According to the latest survey by the Confederation of British Industry (CBI), British manufacturers in the last 21 years

have never been as pessimistic about their export prospects as today.

Japan is already in depression. In its latest semi-annual report, the Bank of Japan forecast a shrinking economy not only during the present quarter, but for as long as the next two years. On Oct. 23, the Japanese Labor Department, after reporting record-high unemployment, spoke of an “emergency situation” in the Japanese labor market.

The collapse in demand for electronics goods by American companies is having repercussions all over East and Southeast Asia, in countries which had very much specialized in electronics exports to the United States, following the 1997-98 financial disruptions. In late October, South Korea, Malaysia, Singapore, and Taiwan all announced an outright collapse of their overall exports, in the range of 20% or more.

According to World Semiconductor Trade Statistics, global semiconductor sales this year will be down 32%, while, in the case of memory chips, sales will even drop by 61%.

The present global economic downturn is not a cyclical recession, that can be overcome by some rate cuts or stimulus packages. Due to decades of destruction of infrastructure and industry by “shareholder value” ideologies, and in particular due to the biggest financial imbalances in the history of mankind, the world will plunge into a deep depression, unless certain extraordinary measures are taken.