Here, Mr. Chancellor, Is How You Can Lead the Economy Out of the Crisis

by Helga Zepp-LaRouche

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The war cries issuing from U.S. President George Bush, Vice-President Cheney, and Defense Secretary Rumsfeld, have made it plain that the U.S. government is committed to a war of aggression against Iraq, notwithstanding the fact that experienced and respected UN weapons inspectors have expressed doubt as to whether the country has any weapons of mass destruction at all. Nor do Iraq's neighbors feel threatened in any way. This U.S. government is nevertheless about to pitch the entire corpus of international law out the window. As for its new-fangled doctrine of preventive war, this is simply taking the Big Stick to be the highest principle of international strategy. The motto being, "Might makes right."

There is scarcely a nation to be found that would favor such a war, and even in Great Britain itself, most of the establishment opposes it. Manipulate reality as the American media may, 70% of the U.S. population opposes it, and rather perceives the country's appalling economic situation as a far more pressing issue. Paradoxically, while the military establishment remains to be convinced that it can meet the logistical requirements for such a war, the so-called Chickenhawks—Cheney, Rumsfeld, Wolfowitz, et al.—imagine they can head off growing domestic and foreign opposition, by getting the war off the ground as swiftly as possible.

Although it is true that war-fighting began four weeks ago, as air raids were stepped up on Iraq's anti-aircraft defenses, everything must nevertheless be done to put off the actual outbreak of war, and, at the end of the day, prevent that war altogether. It can still be done. Nothing could be more dangerous at this point, than to allow oneself to sink into a downcast state of lethargy.

Should that war actually erupt, the sluice-gates to Hell will open, as the world's economy slides further into chaos. There will be a "Clash of Civilizations," in the form of war waged by the West, against 1 billion Muslims. The entire region from the Maghreb to Indonesia, could well burst into flame, with untold consequences. Truly the dawn of a New Dark Age.

It is thus all the more urgent, Mr. Chancellor, that you take bold and urgent measures to confront the onrushing collapse of the world financial system, and prevent the German economy from going headlong into the abyss, under conditions of a worldwide depression. It is of the essence to bring on line, straightaway, a program for full employment in productive sectors, as per the old Lautenbach Plan.

Some Good News

To learn that the Maastricht Stability Pact is officially dead and gone, is good news indeed, as this will mean that the iron corset of austerity measures can finally be sprung open. As French Sen. Philippe Marini aptly put it: "I am delighted that within the [European Union] Commission, reality has finally won out. The Stability Pact must be re-interpreted . . . in actual fact, it has ceased to exist."

Germany need not go under, simply because the banks and financial markets are bankrupt. It is, still, amongst the nations with great industrial capacity; it boasts millions of very able workers, and that includes the unemployed, who could help pull us out of this crisis, provided, of course, you trim your sails aright.

Around the world, those who see a "New Bretton Woods System" and the Eurasian Land-Bridge as a hopeful alternative to depression and war, gather strength and influence. Very recently, a majority of the Italian Parliament voted up a resolution calling for a new financial architecture, which resolution was inspired by the proposals of my husband, Lyndon LaRouche. It calls for a return to a growth economy, and for measures to choke off speculation, in whatever form. For its part, the German Parliament should call for convening an international, New Bretton Woods Conference, and work to that end alongside Italian and other members of parliament, who have been calling for just such measures for many years.

Helga Zepp-LaRouche leading the BüSo during the national Parliamentary campaign. Her early demands for Germany to reject an Iraq war, and for government-directed credits for economic recovery, had a strong impact on policy debates around Chancellor Gerhard Schröder (right). "In the midst of world financial crisis and depression," says Zepp-LaRouche, "of all measures, the most ill-advised is to slash the budget."

In Brazil, Dr. Enéas Carneiro, who put forward the motion to have Lyndon LaRouche made an Honorary Citizen of the City of São Paulo, has just taken his Congressional seat with the largest number of votes ever seen in Brazil, and is now mobilizing a Congressional faction for a New Bretton Woods. Expect similar events elsewhere.

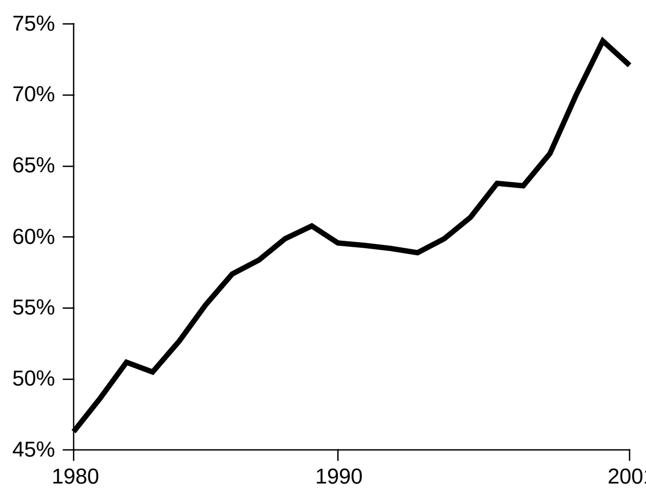
Undeniable Facts

If Germany is to have a competent economic policy, the bald fact that the world financial system is hopelessly bankrupt, and that the world economy has slid into a bottomless depression, must be faced. Argentina cannot pay, and is about to disintegrate. The Brazilian case shows clearly why the International Monetary Fund cannot be salvaged: Were Brazil to decline to bow to the IMF's latest round of austerity measures, her inability to pay would bankrupt the U.S. banks directly, and thus pull down the entire system. Were the newly elected Brazilian government to go along with IMF conditionalities, the Brazilian economy would grind to a halt—but Brazil would still be unable to pay, and the impact would be the same: The U.S. banks go bankrupt, the system blows out. Damned if you do, damned if you don't, unless one throw the game over, and start from scratch.

The international financial system is riddled with fundamental weaknesses, as Japan slides into depression. But the epicenter of the whole systemic crisis is the United States, which has become the most indebted state in financial history, with its $32 trillion worth of debts (government, business, and household debt taken together). The U.S.A pays out $7 trillion in debt service yearly, representing 70% (!) of GDP: Dare one say it, the U.S.A is bankrupt! Argentina, Brazil, Poland, or Turkey may be unable to pay, but they are not alone; the total mass of international debts, amounting to $400 trillion (credits, mortgages, futures) simply cannot be met.

FIGURE 1

U.S. Debt Service as a Percent of U.S. GDP



Sources: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts"; Office of Management and Budget, "Budget of the United States"; Mortgage Bankers Association; Thomson Financial Services; *EIR.*

U.S. debt to GDP is so huge, that debt service alone appears to consume 70% of the GDP; i.e., debt is being paid with new debt. In Germany, per-capita debt has reached 21,000 euros, an amount almost equal to the country's total savings.

In Germany, per-capita indebtedness now stands at 21,000 euros, despite the fact that total savings has reached 1.9 trillion euros. What that means is, that an ever-larger proportion of families is far deeper into debt than the average would indicate. Indebtedness per capita, including infants and little children, in Bremen, stands at roughly 18,000 euros, in Berlin 16,000 euros, and in most other municipalities, it lies somewhere between 12-14,000 euros. In North Rhine-Westphalia, the state government is supervising the finances of 20 of the state's 23 largest cities, while ever-more state legislatures and municipalities announce a payments freeze.

The Berlin coalition negotiations had rested on the assumption that the budget deficit would not exceed 14 billion euros. That was already far beyond the 3% ceiling stipulated under the Maastricht Treaty. By the time the next tax assessment comes round in November, the deficit will yawn wider still. The coalition intends to make up 11.6 billion euros by cutting the budget and raising taxes, the brunt of which will naturally be borne by the population, which will have to struggle with a higher cost of living, and, for many, a sharp fall in living standards.

In the midst of world financial crisis and depression, of all measures, the most ill-advised is to slash the budget. Each fresh round of cuts destroys manufacturing capacity still further, tax revenue falls, and the budget deficit gapes ever wider—leading to further budget cuts, and so on, winding on downwards unstoppably. Consumer confidence shreds, anxiety about what the future may bring spreads, as unemployment increases and buying power declines.

We Must Launch a Grand Design

Mr. Chancellor, one must of course acknowledge that, in setting up a new Super-Ministry led by Wolfgang Clement, assigned to implement the Hartz Commission proposals, you are trying to change tracks. It is a good intiative indeed, to use the Kreditanstalt für Wiederaufbau [KfW, Reconstruction Credit Bank] to back, essentially, the *Mittelstand* small and medium-sized industrial firms, and reconstruction of the flood-damaged East. Ten billion euros for the Hartz Commission program, which must be increased should the program succeed, is perfectly justified, and worthwhile, just as the regular extension of credits to the *Mittelstand* and municipalities through the KfW. Overall, a step in the right direction, but the horizon is too narrow by far. When an entire regiment is about to throw themselves from the upper floors of a burning building, would it help for the firemen to pull out a pocket handkerchief and shout "Jump!"?

As this goes to print, over 42,000 *Mittelstand* firms will likely have declared insolvency by year's end. And that is not the whole, grim picture. The crash is nearly upon us. Since March 2000, share values have dropped by $17 trillion on the stock markets. Commerzbank shares have lost 70%, while the other big banks have lost over half. Insurance firms have hit rock bottom; Allianz Versicherung has fallen back to one-quarter of its initial share value.

Each attempt by the Bundesbank and merchant banks to head off a domino effect, by pumping in enormous amounts of liquidity into the system, holds for a moment more fleeting than the one before. Such intervention, being purely monetarist, serves to only exacerbate matters, as productivity collapses still further worldwide. The entire system has gone into meltdown, and nothing can save it.

A patchwork rug, with the good pasted up amongst the bad, is not the sort of economic policy that Germany needs: We must launch a grand design. We have got to come up with an economic policy that, after the crash, after the end of the IMF system, will allow us to rebuild, because that crash is very nearly upon us, far more so, than many would care to imagine.

Although there is nothing wrong, as such, in short-term, interim programs aimed at holding off futher degeneration, one should face the fact nonetheless, that such programs cannot, in the long term, suffice. The crux of the matter is that the system has reached the end of its tether, and within the system, no options remain open.

The Italian, French, and German governments have now expressly stated that the Maastricht Treaty criteria must be redefined in a "growth-oriented" manner. Fine, but what does that mean? Let us peel the gloves off and acknowledge that the Maastricht Treaty was entered into on the basis of assumptions that everyone now recognizes were wrong, that is, neo-liberal monetarist policy. Incidentally, the more apparent the bankruptcy of that neo-liberal policy becomes, the more neo-liberal economic publications moan and shriek about the end of the Stability Pact.

List and Lautenbach

If there is one "magic word" for Germany, that is Friedrich List. It was he who laid down the theoretical basis for our country's industrial revolution, and who pointed out the precise distinction between a dirigist, "American System" notion of economy, directed at the common good, and the "British System"—the latter, being a system based on the free-trade, oligarchic motto, "Buy cheap, sell dear."

When, in September 1931, Dr. Wilhelm Lautenbach, a civil servant with the German Economics Ministry, presented to a Friedrich List Society gathering a plan, which became known as the Lautenbach Plan, he relied on List's theories. Dr. Lautenbach argued that normal market mechanisms cease to be operational under conditions of simultaneous world financial crisis and depression, because deflation means a fall in purchasing power. If the crisis is to be overcome, the state must intervene.

First and foremost among the government's tasks, wrote Lautenbach, is to deal with unemployment. To that end, the state must provide start-up financing for projects in which one would invest, even when the economy were doing well. The projects must be objectively useful from the standpoint of the common good, and lead to true capital creation. The impact, direct and indirect, of extending those credits, would so revive the entire economy, that the cost factor represented by unemployment would be covered, and tax revenue would, at the end of the day, be much larger than the credits originally extended.

As is well known, the Lautenbach program never became reality in Germany. It was taken up, as a principle, by Franklin D. Roosevelt, who adopted precisely that concept of state credit to bring America out of the deep depression of the 1930s. Had the Lautenbach Plan been implemented in Germany at that very time, the environment in which Hitler seized power, would never have developed, and the Second World War would never have taken place.

The way out of the economic crisis means dealing with the real physical economy. That is the only solution feasible, but it calls for real spiritual effort. It will mean turning over the leaf of that noxious mind-set that has gripped Germany since the mid-sixties. The shift from a producer society to a consumer society, all of them convinced that profits arise, not through productive labor and investment in scientific and technological progress, but rather through stock market transactions and speculation, convinced that money breeds money—this must be turned right round.

Unfortunately, no more than a tiny fraction of the population has the faintest notion of what principles prevailed in those days when there was a viable economy. Who, amongst the captains of industry today, recalls the economic theories on which Schumacher, Adenauer, Monnet, or Erhard relied? There is no alternative to the study of the principles of physical economy, as elaborated since the time of Colbert and Leibniz, through List and the Careys, Mendeleyev and Witte, and now LaRouche. There are no shortcuts, no express elevators to the penthouse, no mouse-click to take you from Herbertstrasse to Mont Blanc—you have got to get out there and climb that mountain yourself.

No Alternative to a New Bretton Woods

There will be no way out for Germany, unless the hopelessly bankrupt international financial system be reorganized in the form of a New Bretton Woods, for the simple reason that Germany is not some islet out on another planet in the Solar System. If Germany really wishes to promote its own best interests, it must put the absolute urgency of holding such a conference on the international agenda. Why should the Bundestag not follow the example of the Italian Deputies, and, in a non-partisan way, call for the convening of such a conference? What, Mr. Chancellor, could prevent you from proposing that before the UN General Assembly? Is it not plain to the entire world, that the system is played out? Can it really be man's destiny, that an absurdly tiny fraction of the world's population swan about in a "Boutique Economy," draped in Armani and eating caviar, while continents starve?

The seriousness of the world financial crisis can no longer be swept under the carpet. Now that even [EU Commission President] Romano Prodi publicly acknowledges that the Maastricht Stability Pact was "stupid," the opportunity is there, for some European states to revert to a national banking system, based on the KfW in the post-1945 reconstruction phase, where long-term credit for development will be extended at 1-2% interest. Such credits must be tied to a European-wide infrastructure program, as part of a continental transport scheme. Jacques Delors' 1993 White Paper, which, as is well known, plucked its main ideas from our "Paris-Berlin-Vienna Productive Triangle" program published in 1990, could serve as a guideline, that one could put into effect without delay.

As for repairing the damage created by the recent floods, which adds up to over 20 billion euros, that will have to be integrated into the program: The point is not merely to put things back as they were, but rather to adopt, now, improvements that will allow us to rebuild the Eastern area's industrial capacity. That capacity was sacrificed, when the Treuhand [agency for dealing with former East Germany's state-sector industry] was brutally privatized under Brigit Breuel. One could start by building the Transrapid magnetic levitation train routes currently being debated, namely the Amsterdam-Hamburg-Berlin, Berlin-Warsaw, and Berlin-Dresden-Prague lines. The rule of thumb being that 250 kilometers of Transrapid route will call for roughly 5 billion euros in investment, and create up to 100,000 construction jobs.

Such priority projects are the investment framework which will allow schemes like the Hartz Commission "job-floater program" to work. The same rule of thumb would apply: "For each 5 billion euros invested, up to 100,000 jobs" will be created; that is the sole means to save the *Mittelstand.* Were those three Transrapid schemes to go through, in Germany alone, 300,000 jobs would be created, not to mention a similar number in Poland and the Czech Republic. One would have to proceed in that same way, in building up Europe's canal routes. For example, in the wake of the floods, the obvious work is on the Elba and Oder, and the Berlin-Oder connection. Up-to-date canal routes are still the cheapest way to move heavy or bulky freight.

Eurasian Land-Bridge: A Motor for Our Exports

Although with such an approach, a great deal can be done to create full productive employment, nonetheless one should bear in mind that Germany, as the world's second-largest export nation, is but a cog in the world economy. Like Japan, our country lacks raw materials, but, before the neo-liberal paradigm shift, the economy afforded our population an extremely high living standard, (along with exemplary education and health care).

Globalization has plunged entire continents into misery, and thereby ruined many of Germany's traditional export partners. Where, in the world today, are there to be found expanding export markets, or consumers whose purchasing power has risen?

It so happens that China, with its 1.3 billion people, and India, with a population of about 1 billion, are expanding export markets, and keenly need our advanced technology, the technology that turned the words "Made in Germany" into a synonym for high specifications. Building the Eurasian Land-Bridge as a projection of the Productive Triangle, is the obvious perspective. Now that the Berlin Wall is down, and the Iron Curtain is rent, what could be more critical than the building of a continental transport infrastructure, which will, in the medium term, bring the benefits of a level of infrastructure that at present, is to be found in parts of Western Europe alone? Through the development corridors, this will establish local conditions that will be ideal for industry and agriculture, and even for building entirely new cities.

To do this, Germany's interest lies in backing the efforts of the participating countries' national banks, thanks to suitable long-term export credits. We must break with the idea of a "quick fix" and speculative market earnings. In building the Eurasian Land-Bridge, we must hearken back to the philosophy of "targetted investment," as Hermann Abs had emphasized, in the KfW's approach to post-1945 reconstruction. Projects must accordingly be planned out on a 25-year basis, at the very least, the same timeframe required for an infant to become a productive member of the workforce. Once the productive power of labor in the participating nations begins to develop, purchasing power will rise, as we create a solvent, long-term demand for our exports.

FIGURE 2
Transrapid Maglev Projects for Central and Eastern Europe

Source: Transrapid.

The extensions into Central Europe of the three German magnetic-levitation rail lines Zepp-LaRouche calls for, as projected by Transrapid, maker of the world's only operating maglev. "For each 5 billion euros invested" in a program like this, "up to 100,000 jobs will be created."

Alternative to War

The Eurasian Land-Bridge represents more than the engine to pull the world economy up out of the depression: It is a means to safeguard peace. If all the nations of Eurasia pull together in their own higher interest, in view of economic development to mutual benefit, there is no leeway for a Clash of Civilizations. Tied into the project through the Bering Strait, America, whose infrastructure has collapsed, can only benefit from extending the Land-Bridge through to the southernmost tip of Ibero-America. Egypt, for its part, sees its role as a bridgehead toward Africa.

Mr. Chancellor, in the crash of the old financial system, a great opportunity presents itself. There is an alternative to globalization: a new and just economic order, toward which sovereign nation-states will work, in a community of principle. De Gaulle spoke of a worldwide community of nation-states. China, Korea, Russia, India, Iran, and other nations besides, are disposed to build the Eurasian Land-Bridge in that spirit.

I call upon you to lead our economy out of the crisis, and to put forward the aforesaid policy as an active war-avoidance policy. It is clear to us all that, should present trends continue, catastrophe is around the corner. We must change the agenda. You, sir, are Germany's Chancellor. And we are prepared to help you.