Interview: Dr. Wilhelm Hankel

Why the 'Euro' System Is Unsustainable

Dr. Hankel, Professor of Economics at Frankfurt University, is one of four German professors who had tried to stop the replacement of the German mark by the euro, by means of a legal procedure against it at the German Federal Constitutional Court. He was a board member and chief economist at the German Kreditanstalt für Wiederaufbau (Reconstruction Finance Agency) in the 1960s, and later was president of the public bank Hessische Landesbank.

This interview was conducted on July 16 by Lothar Komp and Michael Liebig, and translated by EIR.

EIR: Professor Hankel, for the past ten years you have been a most outspoken critic of the Maastricht Treaty, and the European Monetary Union (EMU). Besides your very public comments, you have intervened on both the political and legal fronts against the euro. Why?

Hankel: Let's start by looking at the current situation: Why are people so extremely skeptical about the euro? It's so thick in the air you could cut it with a knife. Then we'll get back to the other issues.

EIR: Helga Zepp-LaRouche, who has attacked the euro for years, in point of fact, issued a statement yesterday, calling upon Germany to withdraw from the Maastricht Treaty and return to the deutschemark.

A few days back, Christian Noyer, Governor of the Bank of France, said that, "of course," European Monetary Union member states may, if they so please, leave the euro system. In Italy, debate has boiled up over the euro, while a number of banks, such as HSBC [formerly Hong Kong and Shanghai Banking Corporation], have just published studies that conclude that the euro system is about to break up.

Hankel: For early critics of the euro such as myself, to find that others have woken up to the euro's drawbacks, gives one grounds both for satisfaction, and bewilderment. The drawbacks were plain enough from the starting-block: How could anyone have anticipated that a single currency might work, for a conglomerate of such diverse states and national economies?

In the euro zone, the competitive setting has been totally distorted: Relatively poor, backward economies can now compete—thanks to their very backwardness—with advanced economies. Backwardness, has become the competitive edge! With the euro, countries whose currency is weak and capital formation scant, enjoy a currency risk close to zero. The poorer national economies, which have low wages, low living standards, and where costly infrastructure is less developed, and which therefore have low taxes, are drawing away investments from more developed nations—thanks to their "cutting edge" in terms of tax levels, social costs, and wages.

What we find here in Germany, namely investors fleeing into the Europe's "rim states," is a manifestation of an utterly distorted competition, which violates the law of productivity. The more productive nations, those that have worked damn hard to build up costly infrastructure, high social standards, and high wages, are now being punished for their prosperity. They are losing out on jobs, capital, investment, and growth potential. In the first 40, glorious years of the Common Market, Europe could protect itself against this, to a significant degree, through currency-competition. In countries like Ireland, Portugal, Spain, Italy, and until recently, even France itself, the currency was devalued every two to three years, for reasons that are easy to grasp. A foreign investor, therefore, had to consider the eventuality that overnight, part of his capital might go up in smoke.

Germany, for its part, enjoyed a substantial advantage with its hard and stable currency; foreign investors could even cash in on currency revaluations. We had the lowest nominal and real interest rates in Europe. On losing the D-mark, Germany no longer had the magnetic drawing power of its highly productive economy.

There are those "selfless good guys," (*Gutmenschen*), here in Germany, who will say: "But isn't that just what's wanted. Burden sharing throughout Europe." In my book, this is a dangerous illusion. For countries, in the EMU, with feeble capital formation, the prospects may look bright in the short term, but it will *not* hold. Besides a boom there, you have inflation. At the moment, there are huge capital flows into national economies where the domestic rate of capital formation is weak and the savings rate is low. Or else, they are afforded cheap credits by the European Central Bank (ECB), because they are entitled to the same rates as countries with a high rate of capital formation. The outcome spells inflation.

EIR: Is the property boom in Ireland or Spain one expression of the inflationary dynamic?

Hankel: Indeed. There is a quite extraordinary inflationary trend through the euro zone's money markets. It becomes all the more evident, when one considers asset prices: real estate, stocks, and so forth.

At a glance, there you have it: A European Central Bank the subjunctive mood—quit the currency union.

In drafting our own constitutional complaint in 1997-98, we referred to that judgment. Plainly, the not-yet-existent euro would never fulfill that requirement. And the so-called Stability Pact could not work: Should an economic crisis erupt—as we expressed it at the time—tax revenues would collapse, and the deficit surge. That is precisely what has occurred.

EIR: What you identified as the European Monetary Union's main flaw, is the deflation/inflation tandem. Why then was the euro system rammed through with such brute force?

Hankel: A theory has been making the rounds, known as the "Factual Constraint Theory": "As we seem to be getting nowhere with the United States of Europe, then let's do it via the currency. Once we've got a common currency, the factual constraints of coordination and adjustment will be such, that political unity will emerge, as though automatically, from the monetary union." In our complaint to the Federal Constitutional Court, we asserted that this Factual Constraint Theory is unproven. It contradicts all historical experience. Never, in the history of the world, or the history of money, have such currency unions ever worked for long.

The European currency union cannot hold longer than five to seven years, because those who have incurred prejudice, the losers if you will, want out. . . .

A European single currency could not work, unless, beforehand, there were a political agreement to level out divergences, through gigantic structural and financial compensation. And for this, there never has been, nor does there now exist a single clue—the currency union was worked out without the faintest notion of structural and financial compensation. The little that has been done in that respect, is a drop in the bucket, quite insignificant.

EIR: What role did Robert Mundell's "optimal currency space" play, for the EMU? Mundell has just been granted a prize by Kiel World Economics Institute, and dubbed the "intellectual father of the euro."

Hankel: I know Mundell rather well. I can understand it, but I do find it dreadful to see him betray his achievements as an economist for a mess of potage. In Mundell's theory of the "optimal currency area," he lays down the criteria that the European currency union *does not* fulfill: 1) structural and financial compensation; 2) labor-force mobility, which means that migration across borders would flatten out all wage differentials; 3) minimizing external economic influences.

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"Those pushing globalization and the euro are dismantling the state—and with it its social systems," charges Dr. Hankel (left), shown here with Lyndon LaRouche at an EIR *seminar in Berlin on Nov. 5, 2001. Pointing out that "the euro system will become totally unmanageable," he asserts that a "Bretton Woods II" would be the only solution to a world economy based on a dollar and euro in crisis.*

will necessarily be snowed under. What will the ECB do, when, in the "rim states," the priority is fighting inflation, while in the productive, core states, it is deflation and unemployment? To fight inflation, one would need higher interest rates in the "rim states," but that will only worsen the deflationary crisis in the core states, while feeding political unrest. Should the European Central Bank cave in to pressure from the productive states and cut the rates, it will be pitching oil onto the fires of inflation in the rim states.

What does [ECB chief] Mr. Trichet do then? Nothing at all! Just go with the flow. The lesser evil, eh? The problem is that the lesser evil means, that the process—inflation here, deflation and crisis there—by which the nations grow apart, will but intensify. In a nutshell, the euro's days are numbered.

Even Mr. Greenspan has understood this. Sometime in the 1990s, he went on the record saying that "the euro may come, but it will not be sustainable." He said this around the time that we four professors [Schachtschneider, Nölling, Starbatty, and Hankel] filed a complaint in the Federal Constitutional Court of Germany against the euro. . . .In 1992, Professor. Schachtschneider filed a complaint in Federal Constitutional Court against the Maastricht Treaty, that led, in 1993, to the Court's Maastricht Judgment. Essentially, that judgment states that the euro could be introduced, as it was compatible with the German Constitution. But the European Central Bank must continue the tradition of the Bundesbank [German Central Bank], and guarantee the same stability for the euro as there had been for the deutschemark. In its ruling, the Court states that, should that basis for stability no longer exist, then any German government could—the Court used

As it happens, there is no structural and financial compensation in the euro system. Nor can we have migration, as it leads to xenophobia. As for the third criterion, it also cannot be fulfilled—although Germany has a large domestic market, it is just as dependent on economic influences outside the EMU as it was before reunification, perhaps even more so. Why Mundell allows himself to be fêted like that, I would not venture to say. A game is being acted out, and he's played as a frontman.

EIR: Isn't disaffection with the European Constitutional Treaty in France and Holland related to the fact that the living standard has fallen, while economic and social insecurity are on the rise since the euro was brought in?

Hankel: That's the reality. The highly productive states are the losers, while the lesser-developed nations appear, for the time being, to be flourishing. The man in the street, who is, perforce, rather sharper than your average politician, is increasingly aware that the crisis in the core states—Germany, Benelux, France, and Italy—can manifestly be ascribed to the negative impact of the common currency. With the euro, the latter nations are barred from applying the tried-and-true instruments of an active conjuncture or employment policy: 1) interest rates are fixed across the euro-zone; 2)"smooth" exchange-rate realignments are no longer possible; and 3) thanks to the stability pact, in particular, state budgets are blocked.

Of the four instruments of an active economic policy, three—exchange rate, interest rates, and the budget—have been blocked by the euro. The only remaining instrument is wage-"levelling," which is deadly. [German Chancellor Gerhard] Schröder's Agenda 2010 is a mere euphemism for dragging German wage levels down to the average European level.

In our constitutional complaint concerning the euro, and in our book on the "Euro-Illusion" we state point blank, that a social-market economy—let alone the German social state—is incompatible with the euro.

EIR: The castration of state investment and employment policy, is already a key feature of the 1992 Maastricht Treaty. How ever did they ram that one through?

Hankel: Well, the negotiators were pursuing extremely diverse interests. In those countries where productivity is low—Ireland, Spain, Greece, Portugal, and, to a lesser degree, Italy—what was expected from the euro was both capital inflow and low interest rates. As for France, its concern was, first and foremost, to do away with the mark. From reliable sources close to Mitterrand, we learn that he saw the Maastricht Treaty as equivalent to having Germany sign on the dotted line of a second Versailles Treaty.

Through the Common Market, France always pursued the aim to dominate Europe via the EU institutions, and to that aim, the D-mark was a hindrance. Also, smaller nations like Austria or Holland were tied to the D-mark. Better, they thought, to be a euro-satellite than a deutschemark-satellite. At least, they would sit in the European Central Bank, whereas, insofar as Bundesbank decisions were concerned, the Dutch and Austrian central banks had no say.

The question remains, what made Germany consent to monetary self-castration, as you put it? The country was fully disarmed—in monetary terms. Could it be the German character, that every half-century, it goes into a Wagnerian Twilight of the Gods phase? . . .

EIR: Or could it have been part and parcel of the "deal" imposed upon Germany, in exchange for reunification? Kohl has said that the December 1989 ultimatum, that the D-mark be relinquished, was the "blackest moment" of his entire political career.

Hankel: But he went ahead and signed the Maastricht Treaty nonetheless, although a few short hours beforehand, he'd said that he wouldn't, unless there had first come into existence a political union. No currency union without political union! Word for word, that is what Kohl had said.

It was Joschka Fischer, later Foreign Minister, who—in person—gave me the clearest reply. This was in 1992 at a public meeting on Europe held at Frankfurt University. Prof. Lepenies, a sociologist, myself, and Mr. Fischer were invited to speak. Prof. Lepenies lectured on the grave economic problems following the introduction of a single currency, the lira, in Italy in the 19th Century. The historical precedent, I responded, was most instructive. Through the euro, the "wealthier" areas of Europe would become poorer, while there would be a "boom" in the economically feebler ones, that would soon peter out.

Then Mr. Fischer spoke; he said that he must concur with the two experts, who had spoken before him. But, nevertheless, he had voted for the Maastricht Treaty, and had instructed his own [Green] party in the Bundestag—he did use the term "instructed"—to vote for the Treaty. Silence. Finally a student chirped up: "Very well, Mr. Fischer, but why did you do so?" To which Fischer replied: "After Auschwitz, no German politician can afford to vote against Europe."

EIR: Although it was France which rammed through the euro, it is now one of the two *big losers.* Last week, Bank of France head Christian Noyer stated that countries could quit the system if they wish to. What do you expect the French will do?

Hankel: Isn't Mister Noyer just stating the obvious, namely that there is always a way out of a Treaty? In international law, as Hugo Grotius has defined it, international treaties are to serve the state's best interests, and should that foundation fall away, then the state concerned is entitled in law, to withdraw from the treaty, no matter whether that treaty contains a withdrawal clause, or not.

This point is one that I have discussed at length with Helga

Zepp-LaRouche. To my mind, an included irony in the present situation, is that there happens to be a withdrawal clause in the European Constitutional Treaty, the very treaty that has just belly-flopped before our eyes. Should the European Constitutional Treaty have been adopted, or should it be adopted, we would not need to rely upon Hugo Grotius to exit the EMU.

So, I repeat, Noyer has done nothing more than state the obvious. That he did say so, does lead one to suspect that the idea has begun to sink in, that France has been playing the wrong card. In respect to the impact of the Maastricht Treaty, the view from Paris has been out-and-out wrong, and the French people have just slapped the bill down onto the table. Not the first time in history that a people have proven sharper than their political elites!

EIR: In Anglo-American circles, insofar as the euro is concerned, ambiguity rules. On the one hand, a palpable anxiety that the euro might threaten the dollar's position, and thus expressions of *Schadenfreude* [satisfaction at another's misfortune] over the current euro crisis. On the other hand, America's foreign trade and monetary condition are equally disastrous. So the question arises whether both the euro crisis and the dollar crisis might not be two sides of the same coin? Should we not turn the entire world monetary system right around, and head towards a New Bretton Woods?

Hankel: There are smart politicians, and dumb ones—everywhere. The smart ones, in America, anticipated that the euro would solve nothing. The smart fellows were not so much concerned that the euro might compete with the dollar. Their concern was that the inevitable euro-crisis would ripple outwards, first to a dollar-crisis and then to a worldwide economic and monetary crisis—as happened during the 1930s after "Black Friday." Smart politicians in the United States do see the linkage. But that certainly does not mean that the world monetary system's present condition is in order. Two central currencies plunged into crisis—the euro and the dollar—can hardly be a solid basis for the world economy.

EIR: Of that, more later. As for arrangements for withdrawing from the euro system, there are psychological factors as well. How would you see an orderly exit from the euro?

Hankel: The first step has been the growing awareness in Europe, that we've painted ourselves into a corner—just look at the referenda in France and Holland!

Next, this: The euro system will become totally unmanageable, at the latest, when the new EU member states in Eastern Europe arrive, in other words, another lot of low-productivity countries joining the EMU. The ten new EU member states are not going to be pushed away from the dining-room table! They want in, into the euro system, and they've had it all written down on the document in the fine print. What they expect from the euro are low interest rates and cheap capital. At a stroke, the living-standard gap would widen even further—from 3:1 to 6:1. Which all goes to show that expanding the EU to the Eastern European nations will, perforce, mean scrapping the currency union. . . .

EIR: Germany's determination to get out of the EMU must be made perfectly clear, but will there not have to be some sort of consultation and new forms of cooperation?

Hankel: The alternative to the euro must not be chaos, or a currency war with other nations, such as, in particular, the United States. I would venture to say that consultation within the G-7 or G-8 is critical, because, should one attempt to move unilaterally, without having first reached an agreement both within and without the EU, huge turbulences could break out. In a nutshell, the euro spells not *dynamics,* but *dynamite.* The entire world financial system could blow sky-high. One is entitled to hope that on both sides of the Atlantic, that point has been grasped.

One must work out what will replace the euro. It would be logical to bring back the national currencies, a move in the best interest of the more-developed nations within the euro system. The lesser-developed would, of course, be against it. Take the case of Italy: The first step towards a new lira would mean massive devaluation, and surging inflation.

Therefore, I think that the first step would be to keep the euro, but making it into what the ECU represented before the EMU, namely a unit of account. One could leave the euro that way, as a symbolic currency for Europe. It would be the basis for exchange-rate relationships among the national currencies. One could then transform the current European Central Bank into a common institution for coordinating currency policy throughout Europe, as was the case with the European Monetary System for exchange rate arrangements after 1979. The ECB would no longer be a central bank, but a kind of "European IMF."

EIR: Using the euro as the basis for exchange rates, would allow orderly realignments, if necessary, but this would clearly mean the return to national currencies?

Hankel: It would. There is no alternative to a competitive currency order in Europe; the failed experiment of the euro proves that. And, it can be easily established, as the national central banks still exist. Contrary to common belief, the European Central Bank is not the "mother" of each member nation's currency and central bank, but rather their "daughter." The capital of the ECB is held by the national central banks; accordingly, the latter can perfectly well give the former a new assignment!

Look at a euro banknote. It bears a number, and a letter. Via that letter, one knows which national bank of issue that note came from. Might it not be that from the very outset, the "fathers of the euro" had its end in mind?

EIR: So, one could take the euro banknotes, and simply recalculate them back into the national currencies? Another aspect is the trauma of inflation, from the 1920s, which has left many Germans queasy about anything to do with a currency change. What would be the wisest way to deal with that?

Hankel: One has got to tell the people, that it's no problem whatsoever. It is no problem to calculate all former euro accounts and obligations back into D-marks. One could either do that at the former exchange rates, the which, in the meantime, have changed not from a nominal standpoint, but rather in the real world, owing to the varying deflation and inflation rates. One has got to take the old conversion rate and update it with the inflation index, in other words, take into account real devaluation. And for the intra-European accounts and obligations, the *real* exchange rates need to be applied. Logistically, this currency conversion is no problem at all.

EIR: So, there is nothing especially complex about getting back to the D-mark?

Hankel: Definitely not. The currency re-conversion is no technical problem, nor are there problems from an economic standpoint. But it will be an expensive little holiday! It will cost as much as it did to move over to the euro—roughly 80 billion D-marks. At the time, the government did not foot the bill; the tab was picked up, in the main, by the private sector. New software will have to be designed, new accounting papers, and so forth. Again, simply exchanging the notes is really nothing to get into a lather about. After reunification, when the East German mark went out of circulation to be replaced by the D-mark, or the transition to the euro, technically, in both instances things went smoothly.

EIR: In France, de Gaulle's currency reform, in 1959, had a rather positive psychological impact on the population.

Hankel: I expect that a return to the D-mark would be welcomed by the general population. Care must nevertheless be paid to one factor: In going over to the euro, a number of countries fixed not only the exchange rate for calculating incomes, but the rate for prices as well. In Germany, however, only the exchange ratio for incomes was fixed. What happened to prices was left to private businesses. The outcome has been very perceptible inflation: A restaurant will charge for a bottle of wine the same price they'd been charging for that bottle in D-marks—but now in euros. The real price has doubled! Parking your car now costs in euros precisely what it used to cost in D-marks, and so forth. The Dutch and some other countries, were rather more clever, and laid down by law: The exchange ratio applies to all prices. So when we get back to the D-mark, by law the exchange rate applies to all prices—at least for the first year.

EIR: Besides quitting the Maastricht Treaty in accordance with international law, and the return to national currencies, Helga Zepp-LaRouche calls for a return to the 1967 Law on Economic Stability and Growth. What is your view?

Hankel: Just as was the case in introducing the euro, a law on the return to the D-mark will have to be passed in the Bundestag [lower house of Parliament]; and the Bundesrat [upper house of Parliament] will have to approve it. That's the first step.

This must be done in such a way that conversion, both of incomes and of prices, be defined by law. The conversion and the exchange rates must be updated via an inflation index, but as we've seen, that poses no technical obstacle. Nor will there be any problem with returning the euro banknotes and issuing fresh D-mark notes.

But then comes something really decisive: Article 109 of the German Constitution, which describes the 1967 Stability and Growth law as a constitutional mission, can be put into effect, again. To put it bluntly, in the event of imbalances in the overall economy, the Federal and state Finance Ministers have the task, or better said, the duty, to implement an active, deficit-financed growth policy. We will then be able to combat unemployment and the economic crisis seriously, through low interest rates, public investment, and employment programs.

EIR: Over the past years we have accumulated a giant deficit in infrastructure investments. How would you finance the vast amount of overdue infrastructure investments? Have we understood you correctly: "to climb out of debt, pile on the debt?"

Hankel: Well, a little nuance here would do no harm! The critical flaw in the EMU, notably insofar as what has been referred to "Bundesbank philosophy" within the EMU, is that public debt is being denounced as though it were a heresy, without ever taking into account what one does with public debt.

And so, one sees people pointing to Article 115 of the German Constitution, where it is stated that the volume of public debt is conditional on how much of it is covered by investment. As it happens, an erroneous interpretation is being put upon that article. All it means, is that whenever the state decides to make real investments, the amount of debt it may incur is unlimited. So why does the state decline to invest?

The Maastricht and Amsterdam Treaties stipulate that state indebtedness may not exceed 60% of gross domestic product, nor may fresh debt exceed 3% per annum. All that would be a bag of wind, once we've withdrawn from those treaties.

There is one figure though, that does give pause for thought. The only issue that has been openly discussed is *visible* public debt. It so happens that there is "invisible" public debt, namely the already existing, captalized pension claims. Once a citizen is covered by the [obligatory] public-pension insurance, his entitlement is guaranteed by the state. And when he goes off to retire, he expects to draw, on a monthly basis, a guaranteed pension on account of X number of years' work.

Taken together, those claims represent 270% of current gross domestic product! And these claims will swell enormously, at the latest, when the Baby Boomer generation will retire, from the year 2010 onwards. That is the implicit state debt, that appears nowhere, because there is no duty to set it down as such, in the accounts of the Federal budget. These figures are real, and there is no dispute whatsoever over them. Our Finance Minister has acknowledged it and confirmed it.

In today's monetary system, this cannot be dealt with. If we carry on with the euro, no later than the year 2010, Germany will face state bankruptcy. While, if we return to the D-mark, we can make Germany's social-security system creditworthy—it could issue bonds. To my mind, that means one thing: If for no other reason, the the death of the current euro system is inevitable. Staying in that system, looming on the horizon no more than five to six years hence, is the bankruptcy of the German state. This, by the way, would mean that the biggest net-contributor to the EU's finances would be gone.

EIR: So, the euro system and the German social state are incompatible. Faced with these pension entitlements, must we not move over to a massive investment offensive?

Hankel: Precisely! I have just finished penning a lengthy article on this subject. Were the growth rate but 3%, GDP would double within 20 years, which would go some way to heading off the problem. Should GDP double, the implicit public debt could be dealt with, and smoothly so. To safeguard our social state, there must be the substitition of the dwindling number of contributors to the social-security system by rising productivity and expanded capital formation. Substitute the shrinkage of human capital with advanced capital-goods investment. And, you need sufficient monetary flexibility; that will also mean making the public pension system fit for the capital markets.

EIR: Surely you don't mean privatizing the social system?

Hankel: Not privatization, but open up the system's finances for private investors. The obligatory, public insurance system is to be kept fully intact. Why shouldn't there be a "National Social Insurance Bond" in Germany, or a "Public Equity Fund," through which the system is financed. And, if there is a state guarantee and a moderate yield for these bonds, private investors will purchase them.

EIR: Back to the matter of the investment campaign: Nationwide, the municipalities estimate that there is an investment backlog of roughly 650 billion euros in Germany. Taken together with the investment backlog on a Federal level, this all adds up to roughly 1,000 billion euros. Then one examines the investment rate in this country, in other words the ratio of investment to GDP, and one concludes that what's required is an investment rate like that in the 1960s, something like 200 billion euros investment per annum.

Hankel: No problem to generate these funds. Glance at the latest Bundesbank report, and you'll see that it would be child's play. Every June for the past 15 years, the Bundesbank has published the overall accounts for the national economy. Since the euro was introduced in 1999, one notes an ever-widening gap between shrinking real investments, both private and public, and surging savings. In the last four years alone, savings have come to outstrip real investment by 450 billion euros!

This begs the question of whatever becomes of those 450 billion in available savings capital? Over the past four years, roughly 300 billion have gone into public budgets—Federal, state, and municipal. Unfortunately, not into real investment, but to fill holes in the budgets. That being said, 150 billion euros remain, but they go up in smoke, on financial adventures and speculation, which amounts to throwing out what could otherwise have gone into a job-creation program.

As I've been proposing, one could use some of those savings for financing the social-security system. That would give back to the public budgets the maneuvering room for financing large-scale investment programs in infrastructure.

From an economic standpoint, it's an outright lie, and madness too, to argue that we're all "living beyond our means." For Heaven's sake, we're living *under* our means, otherwise we would not have such a great mass of savings. A classic, Keynesian situation: When savings outstrip investment, crisis breaks out. That's exactly where we now stand.

Provided one has excess savings, it makes no economic sense whatsoever to compel the poorest of the poor to pay more into the social-security systems, force pensioners to pay income tax, slash unemployoment benefits, and jack up VAT [value-added tax].

The only question is how best to channel those savings. Pension reform, health-insurance reform, geriatric care, and so forth, it all depends on opening up the relevant public insurance agencies to the capital markets. I do not mean private pensions, but rather opening the *public* pension and health-care schemes to private financing.

EIR: How would one go about creating productive jobs through public financing of large infrastructure projects? We've proposed building a Transrapid network to cover Germany, indeed Europe, right to Moscow and Beijing. What role would the Reconstruction Finance Agency (KfW) play?

Hankel: I served ten years there as its Chief Economist. You may recall a certain Hermann-Josef Abs, who made sure that KfW remained free, creative, and took initiatives, but he also tied the KfW to the Deutsche Bank. Nowadays, the KfW has got itself bogged down in bureaucracy. Are they still ready for this sort of creative strategy? After all, today, the Reconstruction Finance Agency is nothing but a subordinate financial agency of the Federal government.

The Transrapid project is most worthwhile, and from an investment standpoint, highly profitable, too. The KfW could be brought in, but the European Investment Bank (EIB) is a likelier candidate, I think. The EIB's standing on the European capital markets is better, and English, perhaps even American funds could be activated.

EIR: You seem to favor the EIB, but what happened to the Delors Plan or the Tremonti Plan, for Europeanwide infrastructure projects? They got sabotaged.

Hankel: The Delors Plan was a kind of euphemism for giving the EU Commission greater prerogatives in investment and employment policy—a kind of "Euro-Keynesianism." After Delors left, the EU Commission, as we know, became full-fledged neo-liberal, leaving the Keynesians out in the cold. The neo-liberals then hit the "privatization" button. Under the Delors Plan, really big projects would have been launched, but that was scarcely to the liking of the private banks.

The most frenetic lobbyists for the euro continue to be the big private banks, the so-called "global players." They wanted to siphon off the European capital market, and were pushing for mega-mergers. A quiet cartelization has taken place between German, Spanish, Dutch, and Italian banks. The megabanks and mega-firms, have sucked up all the advantages of a common capital market and currency area, and have gone for tax-dumping. Here we have a Social Democratic Finance Minister, Mr. Eichel to be precise, asserting that big, stock-exchange-listed German firms pay too much corporate tax—that's ludicrous. In reality, they pay virtually nothing.

EIR: If we understand you rightly, Professor Hankel, you consider it critical to any effective investment and employment policy that, in terms of the real economy, we stop squandering, year in, year out, our enormous savings?

Hankel: Precisely. We engage in an egregious waste of capital which can even be quantified. All one needs to do is to pick up the annual Bundesbank report. Even a layman can understand that: By injecting such huge amounts of savings into financial markets, which serves only to crank up shares, whether they be American or otherwise, you create bubbles—paid for by productive jobs which could have been created instead. On top of this, the bubble-profits vanish into thin air every two to three years. Presently, we have a well-organized system of squandering capital!

By dismantling the state—via various code words like euro or globalization—we are losing the social component of the economy and of society. An overpowering market cuts down the state's ability to protect the individual citizen. Those pushing globalization and the euro are dismantling the state—and with it its social systems. That the Social Democratic Party would involve itself in that, is, to put it mildly, quite extraordinary.

EIR: In 1997, Oskar Lafontaine wrote a book entitled *Nothing to fear from Globalization* (*Keine Angst vor der Globalisierung*). Now he's attacking the Social Democratic Party. What do you think of this chap, who claims to be an economic and financial policy expert?

Hankel: All I can say is that I recall that Mr. Lafontaine was once a vigorous opponent of the euro. He argued that should the euro be introduced, Germany would cease being a social state. But, the instant he was elected SPD [Social Democratic Party] chairman, he wrenched the steering wheel in the other direction, and drove straight towards the euro—forcing the euro onto the SPD. The man has no principles, no grounding. In his case, political flexibility transcends into spinelessness. Above all, he's a man entirely lacking expertise. The Lafontaine crowd has been playing the populist game, acting as a mouthpiece for popular anger—but they have zero solutions for the crisis.

EIR: In the week of July 7, we had on world financial markets, the heaviest turbulences since the LTCM hedge fund collapsed in Autumn 1998, triggered, rather than "caused," through the bombings in the London public transport system. According to our London sources, the central banks intervened massively on that day into the financial markets.

Hankel: I can well believe it. No surprise at all, as for the last 20 or more years, it's been clear, at least to me, that this system has constantly stood at the cliff's edge of a crisis of confidence—constantly. That's been the case ever since the Bretton Woods system was scoffed off, a matter that I have had many occasions to discuss with Mr. LaRouche.

Since the Bretton Woods system was scrapped, there has been a gigantic and constantly growing overhang of credits, relative to real economic potential. At this point in time, turnover in financial values represents 90 times the turnover of real economic values. The daisy-chain of credits and the overhang quite stagger the imagination. So, both the creditors and the "credulous" are nervous that their credits might get frozen or might have to be written off altogether.

Once the warning lights flash on, how will the hordes of creditors react? They'll say: "Rather than losing everything, let's prop up the market—by issuing even more credit." Provided one can keep the overview, that will still be possible. However, I can readily imagine circumstances where this won't work any longer. Some players may lose their nerve, entirely, or the mass of credits may become so enormous that the thing can no longer be shored up.

For 30 years now, since the Bretton Woods system came to an end, we've lived through just what we saw in the 1930s: Under conditions of floating exchange rates and unregulated financial markets, all credit is insecure. And when credit is becoming insecure, there is, at any moment, the danger that the credit pyramid gets shaky and collapses. That's the system we have.

We can try to live with it, until it all blows sky-high, or we can decide to return to an orderly architecture in the world financial system: That would be Bretton Woods II.