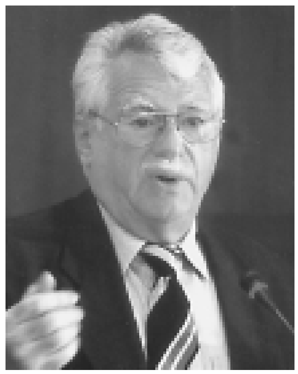
Nation-States Must Survive, Not Supranational Currency Unions

Prof. Wilhelm Hankel, economist and former senior government official, is a leading opponent in Germany of the European Monetary Union and its unitary euro currency. He spoke with Lothar Komp and Michael Liebig on March 16 at his home near Bonn. The interview has been translated from German.



EIR: Germany is a world champion in exporting, but the domestic economy is on its knees, and public investments (see **Figure 1**) are approaching zero. Since the introduction of the euro, this trend has become more aggravated every year. How do you see the connection between the European Monetary Union (EMU) and the increasing loss in substance for the German national economy, on whose condition our neighbors in turn depend?

Hankel: Through its membership in the European Union (EU), and above all, through its membership in the European Monetary Union, Germany has been damned to be a *double* paymaster. The public only knows that Germany is the biggest net payer into the EU budget. Maastricht and the EMU have not changed that at all. Less well known, but more decisive is the fact that Germany is also the biggest "capital supplier" to the rest of the EMU states and Europe. It is being bled white.

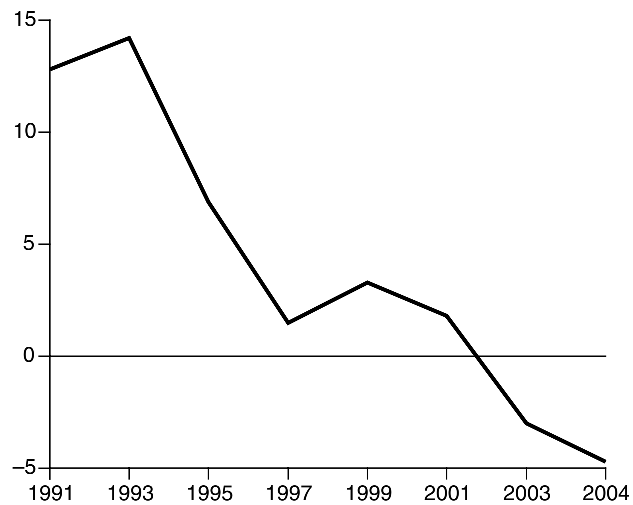
The enormous German trade and current account surplus does not lead, as it did earlier—when we still had the deutschemark—to a situation where Germany expands its national wealth according to its surplus, claims to foreign assets, or currency reserves; in any case, financially tangible wealth. This wealth produced in Germany is burned up through the deficits of the other EMU national economies. Germany earns foreign exchange and claims on foreign assets for the whole eurozone, but this foreign wealth is not to the benefit of Germany any longer, but to the EMU deficit countries.

Countries like France, Spain, Italy, or Greece, have huge current account deficits, which are not paid off by these countries through "belt tightening," and giving up consumption and imports. No, on the contrary, they receive *financial transfers* from Germany. With the EMU, we are—in terms of macro-economics—the paymaster of Europe, and to a greater extent than is the case with our net payments into the EU budget.

FIGURE 1

Net German Public Investments

(Billions of Euros)

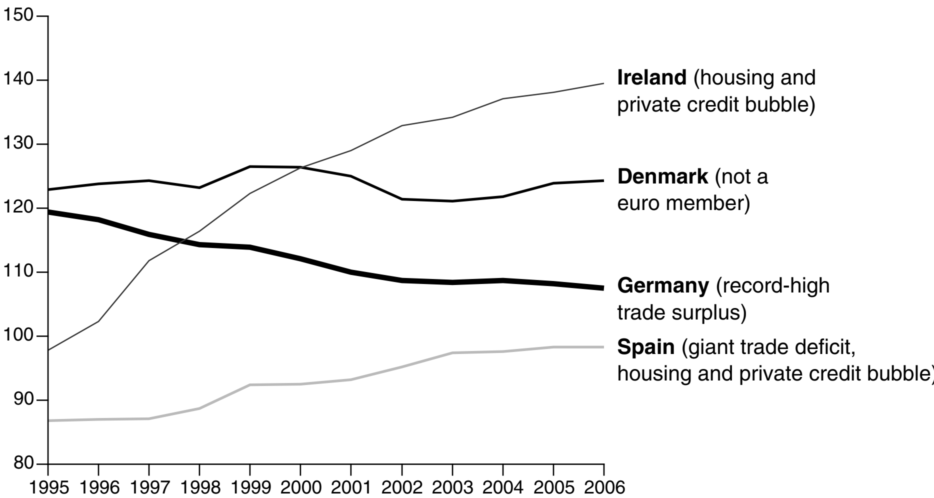


Source: Bundesbank.

Net investments are the difference between actual investments and the estimated depreciation of existing physical capital. In the case of public investments, this physical capital is infrastructure. Negative public net investments mean that the actual investments have fallen below the level needed to merely compensate for the natural deterioration of previous investments. Thus, German infrastructure is rotting away.

One could also say: Without Germany's transfer payments, not only would Brussels be bankrupt, but the majority of EMU member countries would experience a crisis brought about by their current account deficits. What is grotesque in this EMU construct is that Germany, which provides these transfers to its neighbors, is—at the same time—condemned "to tighten its belt" more and more, in the context of the "Stability and Growth Package" (see **Figure 2**).

FIGURE 2
Euro Makes Germany Poor
(Per-Capita Income, 100=EU Average)



EIR: The question of Germany's indirect subsidies within the eurozone is not easy for laymen in economics to understand. Let us take two countries which have extremely high trade and current account deficits in comparison to the size of their national economies: the U.S.A. on the one hand, and the EMU member Spain, on the other. What is the difference here?
Hankel: The difference is the following: The U.S. does have a huge current account deficit, and the trend is for the deficit to rise even further, but the U.S. pays for it through the abandonment of national wealth. It is not the case that the U.S. pays for this deficit through dollars that it "prints itself," although technically speaking, that's the case. The mass of the U.S. current-account deficit is financed by giving up American national wealth: foreigners make dollar investments; they buy American stocks, bonds, and other securities. The U.S. thus goes into debt honestly with its creditors. One could also say that the U.S. is being bought out.

EIR: Could one say that these foreigners acquire a legal claim to national economic potential in the U.S.?
Hankel: Right. These foreigners have their claims in their hands; the claims belong to them. An increasing share of America's national wealth belongs to foreigners. At some point, this process naturally comes to an end, since one cannot assume that the U.S. will indebt itself 100%, or more, to foreigners.

But regarding the EMU member state, Spain, the situation looks completely different. Spain does not pay with its own national wealth. Inside the eurozone, Spain's current account deficit is "balanced" through Germany's surpluses. Spain goes into debt internally, but not vis à vis foreigners—as the U.S. does. Germany is a creditor in its own currency; therein lies the indirect subsidizing.

EIR: But German exporters still have their exports to Spain paid for?
Hankel: Here we see quite clearly the difference between the macroeconomic view and the microeconomic one—looking at the economy in the perspective of a corporation: The latter having become ever more dominant, while the macroeconomic point of view is in decline. Naturally, German firms make export earnings and profits. But the German national economy as a whole, which monetarily no longer exists, which has dissolved itself into the EMU—*is not getting richer.* You have already mentioned the symptoms of this: sinking average incomes and investments, as well as increasing unemployment.

Anyone who has learned to distinguish the viewpoint of the national economy from that of the company, sees this immediately. Since, in Germany, the firms set the economic policy tone, the government seems not to notice that. But the German Bundesbank, which formerly was the administrator of German export and currency surpluses, should have sounded the alarm. I accuse the Bundesbank and the financial supervisory agency, Bafin, of not exposing this sellout of the German national economy, and not attacking it. For, this is a sellout of the German national economy, because the national wealth produced by the national economy is being burned up by the deficit countries in the currency union for their national aims.

EIR: Could one say we are dealing here with a draining away of real economic power [Leistungskraft] that could have flowed into physical-economic investments and consumption? These resources are no longer available to the German national economy.
Hankel: Right. I would formulate it this way: German firms still do have their earnings from export deals, but the German national economy does not have the increase in national wealth delivered by them. We have in fact increased income, but through the currency union, this is used up by the deficit countries in the EMU.

EIR: And this drain of resources manifests itself in the real economy in sinking average incomes and the lack of means for necessary investments, especially in maintenance and expansion of hard and soft infrastructure.

Hankel: Yes, in the decline of economic potential. In Germany, the potential for growth of the national economy—measured against the 1960s and 1970s—has fallen back catastrophically. Firms, of course, make good earnings in exports, but the national economy as a whole is losing capital wealth. The national economic capital stock, which includes foreign assets, is frittered away by others, within the EMU.

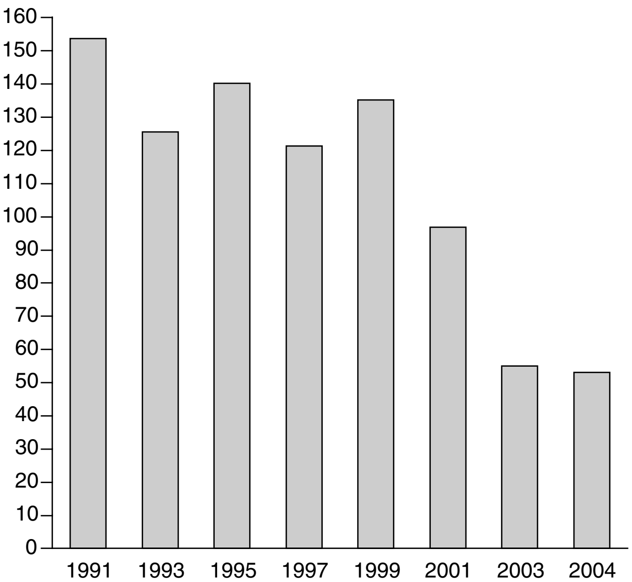
EIR: This is so different from China, for example, where through huge trade surpluses, huge currency reserves pile up. While in the case of EMU member Germany, with its huge surpluses, the case is completely different.

Hankel: We have, so to speak, export surpluses "without consequence." For the firms, it makes no difference whether they do business at home or abroad; they draw no distinction between domestic and foreign turnover. The main thing is, they make earnings—and that's all right. But the national economy is dependant on having its capital wealth maintained and growing, since future investments and infrastructure projects have to be financed. Its potential has to be maintained and expanded. In Germany, economic potential is sacrificed on the altar of Europe.

FIGURE 3

Net German Investment

(Billions of Euros)



Source: Bundesbank.

EIR: Net investments are almost negative in Germany.

Hankel: Public investments, for some time. We experience it every day. The social-state and public spending are in a ruinous condition. We drive on roads full of potholes, sometimes even on the *autobahn.* Such things I have seen only in the Third World. And this, in the biggest and strongest economic power of the EU.

EIR: Which is also seen in the construction sector, which is in the worst crisis of the post-war period.

Hankel: In the construction sector the damage is among the worst. But, in essence, the whole German national economy is damaged. It is above all the good German citizen, who pays his taxes, and now has to witness that not even national infrastructure is financed, but that of our European neighbors (see **Figure 3**).

EIR: The reality of the outflow of resources from Germany—through the EMU—is described as the big "open secret" of Europe, in private discussions with leading bankers and politicians outside Germany. What is your explanation for the fact that the Bundesbank, which, unlike others, at least has the technical competence to see through this, does not say a word?

Hankel: It is a strange mixture, partly out of political cowardice and partly out of a lack of macroeconomic competence. This is seen very clearly in the comment of the Bundesbank on its own "National Economic Account." The Bundesbank has noted for at least five years, that savings exceed investments in Germany. The formation of monetary wealth is much greater than real capital investments. This is a scandal—from the standpoint of economic policy. In Germany, supposedly investments do not occur because of a "lack of money," but in reality, this lack of money doesn't exist. From the figures of the Bundesbank, it is very clear that the surplus of savings over investments *is transferred abroad.*

That is so because the savers have to invest their money somewhere to earn interests and income. This leads on the one hand to the purchase of foreign securities, and on the other hand, to speculative nonsense. Increasing portions of the formation of monetary wealth are no longer invested in the real economy, but in the money sphere. As Lyndon LaRouche would rightly say, to the detriment of the physical economy. This is one side of the very clearly recognizable fact of capital being wasted. The other side of capital waste is the German transfers in the context of the euro system.

The Bundesbank registers this fact, but does not put it on the agenda for discussion. And the explanation for this is quite obvious; the Bundesbank no longer perceives that its central task is to administer the national financial potential so as to insure that the national economic capital wealth is maintained and grows. Instead, we have the European Central Bank (ECB), and the Bundesbank is *one member* of the European central bank system. The Bundesbank quite evidently does not want to discredit its membership in the European central banking system, by pointing to this outrage of capital waste.

In addition, there are clear signs of the economic incompetence of the civil servants at Bafin. They think in formal-juridical terms, not economically. One example: recently, a Spanish company floated a bond on the German capital market—with a clearly recognizable negative real interest rate, because of the Spanish inflation rate. The bond yield was considerably *below* the Spanish inflation rate. When a senior business figure asked Bafin about this, the responsible civil servant wrote back that this was completely in order. For the German subscriber of the bonds, it is the German inflation rate which applies—and not the Spanish rate. The man asked me what I thought. I answered him in writing, saying that this was not only incorrect behavior on the part of the supervisory authority, but scandalous. The Bafin should never allow junk bonds to be offered to German investors at negative real interest.

EIR: From the standpoint of the Spanish debtor, we allow him to acquire capital in Germany at negative real interest.

Hankel: The supervisory authority in Germany declares such junk bonds as gilt-edged. For Spain, this means a capital subsidy from Germany: one can acquire capital in Germany at negative interest rates, and invest it in Spain very lucratively, especially under bubble conditions. Where this leads to can be seen in part in the huge real estate bubbles, not only in Spain, but also in Ireland, Holland, or in France. This specific case, too, underlines that Germany, with its own savings rate, finances and subsidizes the investments and capital formation of its EMU partners.

EIR: One ought to think that for the government, the Bundesbank, or Bafin, the Constitution were applicable, in that it says the organs of the state have to avert damage to the German people.

Hankel: Exactly. If you recall, we used precisely this article—Constitution Article 65—as our motto for our case against the introduction of the euro, a case which was unfortunately rejected by the Constitutional Court. The issue is averting damage to the German people. This damage has been institutionalized through the construction of the EMU—in violation of our Constitution.

EIR: In Italy, there is a debate now on the euro. Should Italy leave or not? The pro-euro faction says that if Italy were to leave the eurozone, it would default the next day, and would go the way of Argentina. How do you see this?

Hankel: Through its EMU membership, every Italian government, whether right-wing or left-wing oriented, as is also the case for the German government, has lost every possibility to pursue its own economic and conjunctural policy: Neither interest rate nor exchange rate can be altered; these instruments are blocked. And thus the euro damages Italy.

On the other hand: Italy has still not really coped with its unification of North and South, which occurred 150 years ago. The Italian South is still subsidized by the North, which has a level of productivity comparable to that of Bavaria. With the entry into the EMU, a part of the subsidies for the South were transferred into the EMU. Italy, as a whole, is a leading beneficiary of the euro zone. The Italian interest rates were at double-digit levels before the EMU entry. When it became clear that the lira would vanish into the euro, the interest rate fell overnight from 14% to a German level. This alone relieved the Italian budget—Italy is the most heavily indebted country in the euro zone—of 75 billion euro per year. If, now, Italy were to leave the euro, certainly the lira would sharply devalue, but the Italian interest rate would more than double.

EIR: Don’t we have a similar problem in Germany?

Hankel: Meanwhile, that’s the case. One can say without exaggeration that what the Mezzogiorno is for Italy, the new German states [former East Germany] are for us. In 1990 we tackled the monetary side of reunification in a completely wrong fashion. Through a faulty exchange rate between the old German Democratic Republic [GDR, or East Germany] currency and the deutschemark (DM), we further exacerbated the productivity gap between East and West Germany. The dying out of the industrial base in the new German states was largely created through the wrong exchange rate.

TABLE 1

Trade Balance of Euro-zone Members with Extra Euro-Zone Countries, 2005

Country	Billions of Euros
Germany	+99.9
Austria	+13.1
France	+12.6
Ireland	+10.1
Finland	+7.3
Italy	+2.1
Luxembourg	–1.2
Belgium	–3.5
Portugal	–5.6
Greece	–14.1
Spain	–42.7
Netherlands	–54.8
Euro-zone total	**+23.3**

Source: Eurostat.

The trade balance figures for the Netherlands and Belgium are distorted due to a statistical effect caused by the location of major ports of entry in those countries. For example, imports of oil for several other European countries, via Rotterdam, the Netherlands, appear in the statistics as imports by the Netherlands.

How should the industrial firms in the ex-GDR have survived with their low productivity, if they had to pay wages based on a 1:1 exchange rate? How could these industrial firms keep their traditional export markets in eastern Europe, Russia, or the Third World, if their export prices were based on a 1:1 exchange rate? This was an upvaluation of 300 to 500%! First these firms laid off their employees, and then they were soon bankrupt. The Treuhand [the agency administering state-owned economic assets in the former GDR] did enormous damage with its policy of privatization and sellout at any price. But, the German-German currency union of 1990 had already delivered a deadly blow to the east German industry.

The deindustrialization of eastern Germany has resulted in permanent subsidizing, which however does not lead to any new formation of real capital, because it is primarily related to consumption. We subsidize private incomes—unemployed and retired people—and the state and municipal budgets that are in deficit. But with these transfer payments we do not contribute to capital formation and job creation in the productive sector.

In addition, there is something that is generally overlooked: parallel to the flow of *public* transfer payments from the west to the east, there is a flow of *private* transfers from east to west. The savings of the new states are not invested locally in industrial and Mittelstand firms, but rather are recycled back into western Germany through the money market. Ultimately, that comes down to a situation where eastern German savings flow into the American financial markets, for example, in order to shore up old-age provisions of eastern Germans. This is like a bathtub, in which you can no longer put the plug in, so there is a permanent outflow; no matter how much you fill it up, the level in the bathtub cannot rise.

EIR: At the end of the 19th Century, and the beginning of the 20th Century, there was a Scandinavian currency union, which fell apart. And there was also a "Latin currency union" which also fell apart. What lessons can one draw from this today?

Hankel: One can explain these failures rationally and in an economically plausible fashion: It was an inner bleeding white, so to speak. The "Nordic" and the "Latin" currency unions collapsed due to different inflation rhythms. In the 1920s, France had the problem, that the inflation rates in the other member states of the "Latin Currency Union" were much higher than in France. Consequently, the other member states would exchange their currencies in France, and receive gold-backed French francs in return. That had to lead, sooner or later, to France's abandoning the "Latin Currency Union," as it did in the middle of the 1920s, in order to prevent further outflows of gold.

In the Nordic states, things followed a similar course. There was formally a Kroner Union until 1930. The Danish, Norwegian, and Swedish kroner established a common currency space of the three Nordic states, with strictly regulated exchange rates. But already in the inflationary phase after World War I, the three currencies drifted apart. When, at the end of the 1920s, the unemployment problem was added to inflation, the Swedes terminated the currency union. They needed a free hand in monetary policy in order to fight unemployment in their own country.

The collapse of both currency unions proves: When conflict arises between historically developed and constitutionally anchored nation states, on the one hand, and supernational currency unions, on the other, the nation state survives. Nation states must survive, not currency unions. And this is good. We have seen this also, on a worldwide scale, with the collapse of the gold standard. The gold standard was given up in 1931 by the most important participants—Great Britain, the U.S.A., and pre-Hitler Germany. They did so, because they needed to have a free hand to fight the depression and unemployment. The belief that currency unions lead to integrated state unions is, and remains, a utopia. On the contrary, supernational currency unions exacerbate tensions and frictions between nation states—to the point that either one gives up the currency union or the state breaks down.

EIR: Is that the lesson of history?

Hankel: Yes. When it comes to a struggle for existence between the state and the currency union, the state, if it wants to survive, must give up the currency union. One could have spared oneself the suffering and bitter experience involved, if one had read the works of the German economist who had always forecast this: The man's name is Friedrich List. Already in the foreword to his *National System of Political Economy,* he wrote that the "cosmopolitan" world economy was a fiction, a utopia.

EIR: Adam Smith thought otherwise.

Hankel: List considered Adam Smith a charlatan, for whom, in reality, the only issue was the supremacy of England's economy over the rest of the world, which he sought to gloss over "scientifically." The kernel of List's thought is that the economy is always bound to a territory, and must always be seen from its specific characteristics and economic conditions. Economics is a political science, and has a clear mission: Securing the prosperity of the national economy. No one, by the way, saw this more clearly than Bismarck, who always had List's book on his bedside table.

EIR: What could we learn today from List, the customs unions and Bismarck?

Hankel: List has a "phased plan" for Germany, which Bismarck later followed. First, we need to bring the many German states closer together—economically and politically. That began with the Customs Union [in 1834]. An internal market had to be to be established, which involved the elimination of internal customs and the creation of railways and canals, lines of communication which in List's lifetime barely existed. It was only *after* the political unification of Germany as a state that the time would be ripe for a single currency.

The tragedy of Friedrich List is that only very few people understood him, during his lifetime. That is why he tragically chose suicide. This really great economist, who was head and shoulders above his contemporaries, never achieved academic honors in Germany. It was in America that he was first acknowledged for his outstanding work. It was only with the next generation in Germany, especially the leading Prussian elites and the so-called *Kathedersozialisten* [a school of German academics promoting a strong role of the state in economic and social affairs] that List was understood.

List's best disciple was Bismarck; he had not only political instinct, but also basic convictions on the economy.

EIR: Is the route traced in Germany, from List's Customs Union to Bismarck, a successful "model"?

Hankel: Yes. Bismarck followed the route that List traced in his "phased plan." He strengthened the Customs Union. But he refused to expand it to the multi-national Austrian Empire, and put an end to an Austrian-Prussian monetary union in 1867. Bismarck created the unity of Germany as a state through the transitional step of the North German Union. It was only after the unification of Germany as a state, in 1870-71, that the unitary currency was instituted, in 1873. It was also clear to Bismarck that the currency question should not be mixed with the question of Prussia's political domination. This is why he did not choose the Prussian taler as the currency of the new German state, which would have seemed logical, but the mark currency of the city-state Hamburg.

By the way, a further "success model" for an *organic* growing together and integration—economically and then in monetary terms—in 19th-Century Europe, is Switzerland. This is not taken into consideration nowadays.

EIR: Can you say more about the influence of the "American System" economist Henry C. Carey on Bismarck's Germany?

Hankel: Now, Carey knew List, and vice versa. Both rejected considering the economy as a "trade and profit" economy of merchants. Both fought against the "free trade" ideology. And since Bismarck oriented to List, he was certainly also in favor of Carey's ideas. Bismarck was no friend of those German economics professors, who were blinded by the British free trade ideology. He knew what the importance was of a railway network and canal construction—just think of the canals linking the North and the Baltic Sea, or the Rhine river and the Elbe. And he wanted to protect domestic production, be it agricultural or industrial.

But here a lot of work still remains to be done in order to provide access to the mutual influences and cross-fertilization between economic theory and policy in America and Europe during the 19th Century.

EIR: From Bismarck we have the dictum: Europe's statesmen always speak "in the name of Europe," when they don't want to present their naked national interests as such.

Hankel: That certainly applies to all EU and EMU states—except Germany. Here we have the true causes for the "Maastrict System" and of the introduction of the euro, whereby—together with the DM—the monetary-financial sovereignty of Germany was eliminated. We come back to List again and again: The economy cannot be separated from the national territory. Whoever denies this, wants to conceal ulterior motives, commercial as well as political interests.

Politically, "Maastricht Europe" was launched by people who were afraid of Germany; one can understand that, immediately after the Second World War. And secondly, in Germany itself, "Maastricht Europe" was endorsed by the "eternally guilty" who believe in a German "original sin," and reduce German history to Hitler and Auschwitz. But Germany consists not only of Hitler and Auschwitz.

"Maastricht Europe" is a supranational, bureaucratic construction, which is dominated by particular interests of "Eureaucrats," business concerns and financiers. Neither the EU bureaucracy, nor the ECB could—even if they wanted to—provide or secure the essential *collective goods*—education, infrastructure, or a social security system. Such indispensable collective goods can be provided and financed only by the nation state. What the EU Commission pulled off during the last years in this respect, should remove the last doubts. Therefore, it is absolutely destructive to destroy the existing states of Europe for a chimera, which one does not want and will not have.

Here it is a question that I have often discussed with colleagues like Prof. Schachtschneider or [Professor Wilhelm] Nölling, [head of the Landeszentralbank Hamburg, one of the Bundesbank's regional institutes, and Bundesbank board member]. I think that the social state is a very great advance in statecraft—after absolutism and the aggressive teritorial state. It is a big step forward, that in today's Europe, the democratic states do not consider themselves aggression-addicted military states, or strive for territorial expansion at the expense of neighbors. The European states see their constitutionally anchored task in domestic, employment, and social policies. Their obligation is the social state, which is duty-bound to the common good of its citizens. And it is obvious that only the state can fulfill this task. For this, however, it needs its instruments.

EIR: Now we are approaching a branching point in Europe. The imbalances in the EMU are getting ever larger, and the political crisis of the EU is deepening. What could trigger the collapse of the entire "Euro/EMU Project"?

Hankel: I think first that the connection between the "European crisis" and the failed currency union must be forced into the broad political consciousness. We have not reached this point. We have seen the rejection of the EU Constitution in France and the Netherlands, but that happened more or less "from the gut." If it had come "out the head," one would have had to say: The crisis in Europe, especially in the big states, is a crisis which came with the euro, and which is not to be solved as long as we have the euro. It is a matter of making clear that we need to get back the ability to act economically as nation states. This ability must be reestablished.

Thereby we would *not* be destroying Europe. On the contrary, it is the precondition for Europe growing together. We need both: The national social state and its economic prosperity, and European cooperation. As far as this synthesis is concerned, we can learn a lot from Switzerland's historical evolution. The Swiss have cooperation in foreign, defense, and security policy, but otherwise keep internal autonomy.

EIR: What will happen to the single euro currency system?

Hankel: It must be reformed. I think in any case one has to have national central banks, which can set interest and exchange rates in conformity with the needs of the economy. And we have to have national governments capable of defining and making economic policy. There is no way around this.

EIR: What do you think of a "core Europe-EMU"?

Hankel: I don't think much of the idea that one would "save" the EMU system by excluding peripheral countries that are running deficits, and limiting the EMU to a "core Europe." That way, only more tensions, splits, and conflicts would be created. It is always wrong to turn history back. And, there is no alternative to the state. A nation state on a basis of solidarity is always more stable than even the most compact "core Europe" bloc. Supranationality—regardless in what form—is a fiction. And it is always exploited by those who benefit from it, or from people who fantasize far from reality. Just think of someone like the French Prime Minister de Villepin, who has never worked in all his life, who has never understood that one cannot govern without knowing what the people want.

In order not to lose European solidarity and cooperation in the inevitable currency reform—thus avoiding, in particular, exchange rate wars, which were the nightmare of the 1930s—one could use the euro as a monetary "link" for an effective coordination of national currencies.

EIR: Comparable to the ECU of the former European Monetary System?

Hankel: Yes. Unlike most central bankers, I think that a parallel currency standard in Europe is a viable option. The central bankers have rejected this, claiming it would not be practical. One could think for the distant future, but without deadlines—the "Werner Plan" in 1969 foresaw this—of making the unit of account—the euro—into a parallel currency. This would mean that the citizens in Europe would have the choice to keep their savings in the national currency or the euro or both. Very healthy stabilizing effects would ensue from this currency competition. No European state could afford to live at home beyond its means, and to inflate its own currency vis à vis this parallel euro.

My basic idea of the European currency reform, however, is the following: Europe does not gain anything, if it allows its economic "locomotives" to be wrecked, or if it butchers its economic "draft horses." Today the most endangered part of Europe is Germany; here the currency reforms have to be implemented first, so that through a growing German economy, Europe wins back its strength and competitive power. Every good economist knows: Real economic development begins at home—not through monetary integration, and certainly not through transfer payments from outside.

EIR: In conclusion. What is your prognosis for the next 12 months, regarding the euro and the dollar?

Hankel: We are dealing here with two sick world currencies, but the two do not infect each other, they support each other. That's because of the labile structure of the world financial markets. The dollar gets its strength from the Asian investment habits, the reserve formation in Asia. There, the dollar's prestige is not at all so undermined, as elsewhere in the world. At the same time, the Arab world is very obviously trying to shift from the dollar to the euro. Only, this is a doubly questionable endeavor, since it will not achieve an enduring stability of the euro—its internal tensions and problems are simply too big. And, Europe would thereby enter into a new dependency, this time with unpredictable partners.

So, I would say, the world financial system is, and remains, labile. For, no one can forecast where exactly the two sick world currencies will move. Moreover, the labile world monetary regime can be destroyed tomorrow. If the interest rates go up in the U.S.A., the Europeans have no choice but either to follow suit, or to risk an international currency crisis. If Europe, too, raises its interest rates, it may avoid an international crisis, but the internal domestic economic crisis will be further exacerbated. We already have enough problems with the differences in real interest rates *within* the EMU. If, in addition, there is a general, international increase in interest-rate levels, then the situation could go out of control. If, however, the ECB were to pull back, again pursuing a low interest policy, then the exchange value of the euro will collapse. This is the dilemma.

You know the only real solution of the global monetary situation. I have said it often enough. So has Mr. LaRouche: We need a new Bretton Woods.