

EIRFeature

Reconstruct the Balkans— and the world!

by Lothar Komp

Ten weeks of uninterrupted bombing have turned Yugoslavia into an industrial wasteland. The living standard of the population has fallen to the level that prevailed at the turn of the century. The complete collapse of Danube traffic for Hungary, Bulgaria, and Romania is gripping the entire region. The situation of some million Kosovo refugees in Albania and Macedonia is even more dramatic. The temporary refugee camps are completely inadequate for the winter season.

In view of the catastrophic economic conditions in the two countries, steps must be taken to assure that it is possible for the Kosovars to return home before winter sets in. The first snowfalls begin in October, at the latest. On the other hand, almost all of the homes in Kosovo have been destroyed, and these must be rebuilt in a crash program. The race against time has already begun. The NATO countries must prove now, how important they think the fate of the refugees really is.

The various proposals from different circles for a “Balkan Marshall Plan” with sums of \$30, \$60, or even \$89 billions, are laudable, but they all miss one decisive point. They are all based on the illusion that what is at stake is to overcome a local, or at most regional emergency, while the rest of the world is assumed to be basking in economic stability, with the storms on the international financial markets supposedly brought under control. The reality is starkly different. There is an advancing process of collapse of the world financial system and the devastation of entire national economies in Asia, Ibero-America, and eastern Europe, which resulted from that collapse. Additional catastrophes on the financial markets are imminent, because the growing number of danger-spots—ranging from the speculative bubble on Wall Street to the bad debts in Japan, and up to \$150 trillions of financial gambling on the part of international banks and speculation funds—threatens to spin out of control, while central banks and other financial crisis managers have already shot off most of their ammunition. U.S. Treasury Secretary Robert Rubin has already announced his intention to leave the sinking ship.

At the same time, speculative financial flows and the dogmas of liberalization

FIGURE 1

Balkan countries: existing and proposed waterways



and deregulation are causing ever more severe damage to the real economies of nations. In Indonesia, whose population is fourth-largest in the world, 30 years of development work have been wiped out over the past year, by attacks on the currency. In Russia, investment activity in infrastructure and industry was wound down to nearly zero as a consequence of the International Monetary Fund-dictated shock therapy. And since there are no domestic customers for exportable products—energy, raw materials, steel, and aluminum—thanks to incessant currency devaluations and collapsing real incomes, these products are being thrown onto the world markets at prices below the actual cost of production. Per-capita consumption of steel, for example, collapsed in the Common-

wealth of Independent States (CIS) of the former Soviet Union between 1991-97, from 347 kilograms to only 103 kg, and Russia temporarily became the largest steel exporter in the world. But hardly a single dollar of these export earnings was reinvested in the Russian economy. On the other side, the cheap exports are threatening to wipe out jobs in steel production in Europe and the United States.

In Europe's industrial heartland of Germany, unemployment, against which nothing has been done, and the failure to implement a program of reindustrialization in the reunified country's new eastern states, has created a fiscal time bomb: The annual costs of unemployment run at some 170 billions deutschmarks, and the transfer payments which will have to

be paid well into the next century, are DM 100 billions annually. In addition, more than DM 130 billions in debt service has to be paid out of the tax revenues of the Federal, state, and local governments. Thanks to the globalized structure of industries, some of the largest German firms no longer pay any taxes at all. One consequence of this skewed situation, is the shrinkage of public infrastructure expenditures, observed since 1992, which will soon have a severe impact on the productivity of the German economy.

It's the same picture everywhere. A grand design is indispensable: a radical reform of the bankrupt, unsalvageable world financial system, by writing off the speculative financial titles, and returning to a system of fixed exchange rates; then, the creation of new, national credit mechanisms, with which immense investments in infrastructure, industrial plant, and technology projects can be financed in order to reconstruct the world economy. Under such conditions—and *only* under such conditions—a “Marshall Plan” for the Balkans and southeastern Europe will cost nothing, from the standpoint of physical economy, and it will instead become an important element of a highly profitable undertaking.

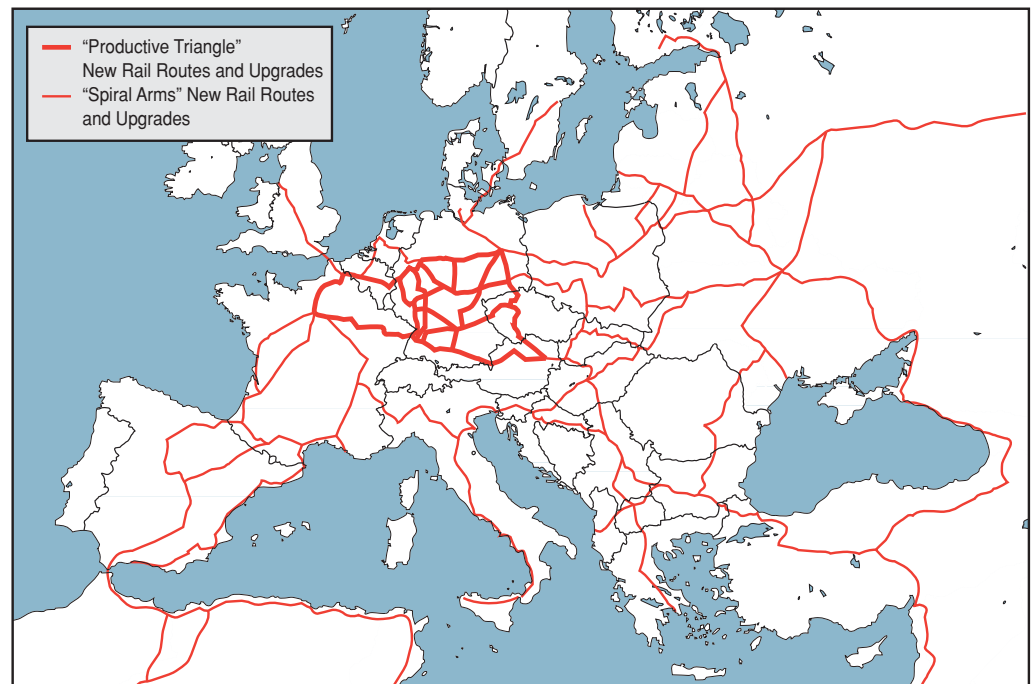
What is immediately required

Without delay, major efforts must be undertaken to make Kosovo livable once again. In the relatively short time remaining until winter sets in, this can only be done effectively, and without cutting corners on quality, if the best available technologies worldwide—quality construction firms, engineers, and military specialists—are mobilized. Infrastructure and industrial plants must be reconstructed all over Yugoslavia. The most urgent problem-areas are obvious:

The Danube must be made navigable again. Without this economic artery, which, since the completion of the Rhine-Main-Danube canal, has connected the North Sea with the Black Sea, any idea of a rapid reconstruction is illusory. Austrian, Hungarian, and Greek firms are standing ready to clear away the wreckage of destroyed bridges in Novi Sad, Bogojev, Smederevo, and elsewhere in Serbia. According to re-

FIGURE 2

Proposed European ‘Productive Triangle’ rail development



ports from German shipping experts, the clearing work could take three to four months. But the shipping channels must be cleared in a shorter time, by working on the different segments of the Danube all at once.

Other transport infrastructure: Roads, railways, and especially bridges over the Danube, must be given equal priority.

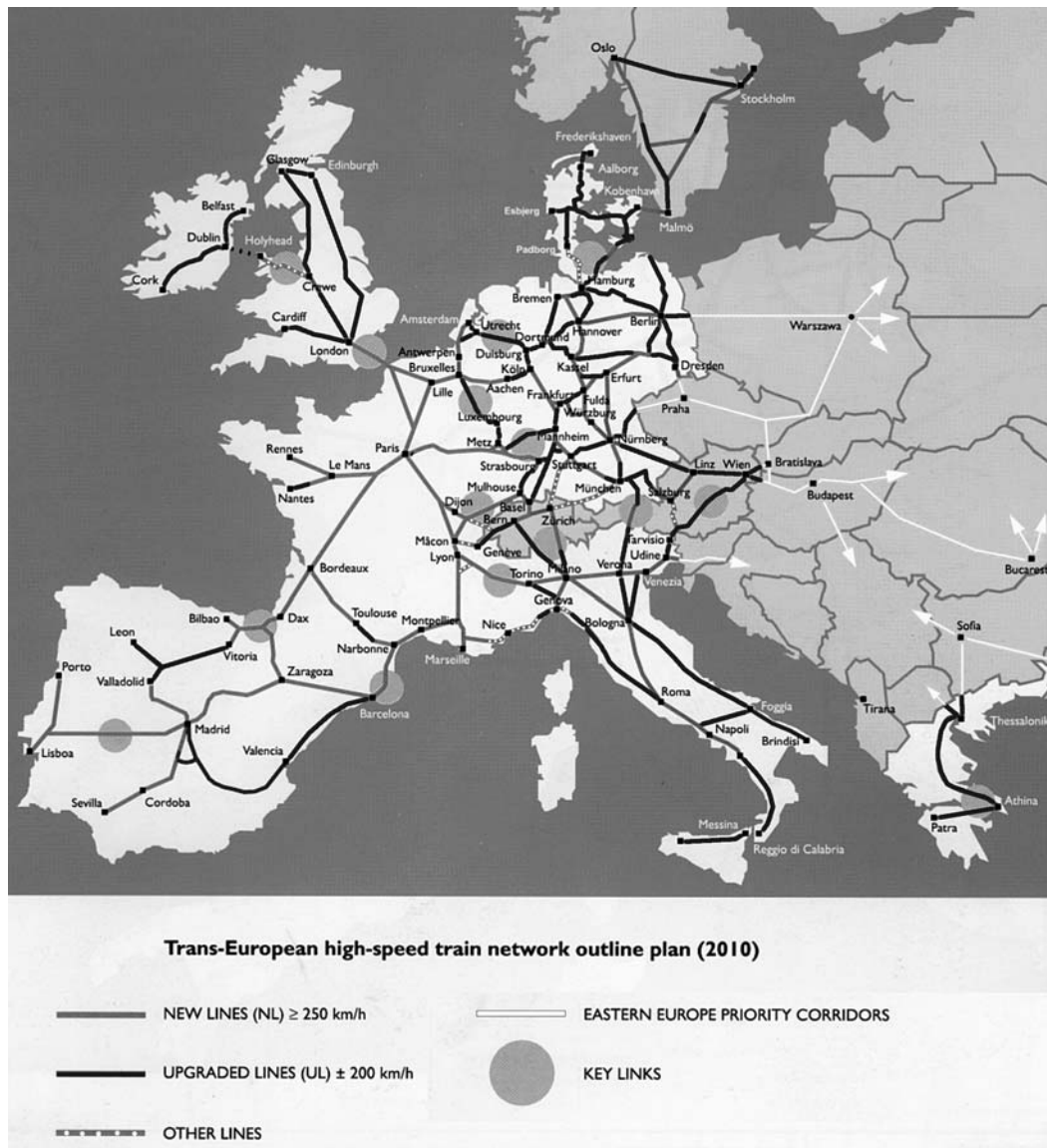
Housing construction, with the priority placed on Kosovo: Rapid reconstruction of homes must be promoted through making emergency loans availability to the returning population. That will create the foundation, at the same time, for the creation of small and medium-sized industries, especially in the construction and construction-materials industry. The majority of the new homes must be completed by September.

Removal of land-mines in Kosovo: Unless the approximately 1 million land-mines are cleared away, agriculture will be unthinkable. Only the immediate and massive deployment of the most modern technological equipment can ensure that this task is completed in the necessary time.

Reconstruction of industrial plants: German large-scale construction firms are specialized in construction of turn-key steel plants, chemical plants, fertilizer plants, cement plants, and power plants, and they are currently suffering under a dramatic shrinkage of orders as a consequence of the crisis in Asia. Unless new factories, and thus new jobs, emerge quickly in Yugoslavia, there will be a new wave of refugees—hun-

FIGURE 3

Approved European Union projects



dreds of thousands of Serbs, who cannot earn a living in Yugoslavia.

Southeastern Europe: bridge to Asia

With the fall of the Iron Curtain in 1989, a great opportunity existed to bring about a Eurasian “economic miracle,” recalling the economic cooperation of France, Germany, and Russia toward the end of the nineteenth century. Shortly after the fall of the Berlin Wall, Lyndon LaRouche published a proposal in a memorandum to European governments “toward the development and modernization of infrastructure in Europe—energy supplies, transportation routes, communications, waterways,” titled “The Paris-Berlin-Vienna

Productive Triangle.” The geographical triangle formed by those three cities circumscribes an economic region which has the most unique density of skilled manpower, infrastructure, and technological capacities in the world, and could therefore be used as the motor for an economic development program along “development corridors” for the entire Eurasian continent.

The backbone of the corridors consists of an integrated system of high-speed conventional and magnetically levitated trains for both passenger and freight traffic, extended into an additional network of roads and waterways. Sufficient amounts of low-cost energy are necessary for industrial growth in the regions through which the corridors run, and that makes it necessary to increasingly employ nuclear energy. The inherently safe high-temperature reactor (HTR) developed in

Jülich, Germany can play a decisive role in this effort. Additional elements of the Productive Triangle are the use of European ports and shipyards for assembly-line construction of “floating factories,” i.e., mass production of HTR modules, desalination plants, fertilizer plants, etc., which are transported on floating platforms to the recipient country, and which can be put into operation on-site along the coast. On the whole, investments in infrastructure would generate an economic profit on account of the increases in productivity, which would far overshadow the costs of the initial investments.

Today, a decade afterwards, this potential for continent-wide cooperation, which would generate an unparalleled eco-

conomic boom, is still being blocked, for geopolitical reasons. Essential features of the sabotage of this potential, were the British-instigated wars in the Middle East and Balkans, the strangulation of the western European economies by the Maastricht Treaty, and the enforcement of brutal shock therapy in Russia. The evident failure of these schemes, now offers a chance to finally realize the 1989 LaRouche Plan.

Linking in the 'New Silk Road'

At the same time, a number of Asian countries, in particular the government of China, have announced their determination to realize a comparably ambitious infrastructure and industrial program: the construction of the "Eurasian Land-Bridge," which is to connect the eastern coast of China with the North Sea coast of western Europe, along the two main routes of the old Silk Road.

For obvious geographical reasons, the economic development of southeastern Europe, but also of eastern Europe as a whole, is crucial to any Eurasian economic cooperation. The so-called "priority corridors," stipulated by transportation ministers at the March 1994 Second Pan-European Transportation Conference on the island of Crete, broadly coincide with the "spiral arms" of the "Productive Triangle." The main nodal points of these 10 European corridors are:

Corridor 1: Helsinki-Reval-Riga-Kaunas-Warsaw, with the branch Riga-Kaliningrad-Gdansk.

Corridor 2: Berlin-Warsaw-Minsk-Moscow-Nizhny Novgorod.

Corridor 3: Berlin/Dresden-Wroclaw-Lviv-Kiev.

Corridor 4: Berlin/Nuremberg-Prague-Bratislava-Gyor-Budapest-Arad-Craiova-Sofia-Istanbul, with the branches Arad-Constanza and Sofia-Thessaloniki.

Corridor 5: Venice-Trieste/Koper-Ljubljana-Budapest-Uzhgorod-Lviv, extended through Bratislava-Zilina-Kosice-Uzhgorod, Rijeka-Zagreb-Budapest and Ploce-Sarajevo-Osijek-Budapest.

Corridor 6: Gdansk-Warsaw-Katowice-Zilina.

Corridor 7: Danube, including all ports in eastern Europe.

Corridor 8: Durres-Tirana-Skopje-Sofia-Plovdiv-Burgas-Varna.

Corridor 9: Alexandroupolis-Dimitrovgrad-Bucharest-Chisnau-Lyubaskeva-Kiev-Moscow/Pskov-St. Petersburg-Helsinki, as well as Odessa-Lyubaskeva and Kiev-Minsk-Vilnius-Kaunas-Klaipeda/Kaliningrad.

Corridor 10: Salzburg-Ljubljana-Zagreb-Belgrade-Nis-Skopje-Veles-Thessaloniki, extended through Graz-Maribor-Zagreb, Sopron-Budapest-Novi Sad-Belgrade, Nis-Sofia, and Veles-Bitola-Florina-Via Egnatia.

Corridors 5, 7, and 10 are obviously of crucial importance for the reconstruction of the region destroyed and affected by the war. At the speed envisaged by the participating transportation ministers up to this time, not very much will have happened in 10 years, for lack of financial resources. There are plenty of studies on these corridors already. Now the earth-

moving must begin for these projects.

Additional investments in transportation infrastructure are necessary for the Balkans. These were described in a call entitled "For Peace and Development in the Balkans," issued on April 28 by Bosnian political leader Faris Nanic and Schiller Institute founder Helga Zepp LaRouche. These include:

The Drau River, which flows through Austria, Slovenia, Croatia, and Yugoslavia, and then into the Danube, as well as the Sava, which flows from Slovenia via Zagreb to Belgrade, have to be made navigable in accordance with European standards. A connected waterway from the Danube over the Morava in Yugoslavia and the Vardar in Macedonia, into the Aegean Sea at Thessaloniki, can be achieved by means of canal systems.

Additional railways and highway connections must be run from Zagreb through Croatia up to Split, and then along the Adriatic Coast over Bosnia, the Yugoslav republic of Montenegro, Albania, and Greece, and finally to Athens.

Financing without foreign capital

The question of how an economy equipped with a minimum of skilled manpower can achieve reconstruction of infrastructure and production on its own power, without going into debt on international capital markets or selling off its own productive capacities and raw materials to foreign investors, was answered long ago in economic history. The histories of the United States, Japan, France, and Germany offer plenty of successful examples.

Take Germany, for example. In September 1931, German Economics Ministry official Wilhelm Lautenbach summarized the basic principles of such a credit policy, in an urgent appeal which, had it been carried out, would have led Germany out of economic depression, and thereby prevented Hitler's rise to power (see *EIR Political Economy*, "How Great Minds Thought about the Great Depression," March 20, 1998). Lautenbach pointed to a "natural way to overcome an economic and financial emergency," such as after a war, great natural catastrophes, or in a depression or financial collapse. In such a situation, he wrote, one cannot rely on market forces alone. The immediate mobilization of all idle manpower and productive capacities is the "real and most urgent task of economic policy, and it is relatively easy to solve in principle": The state must generate "new economic demand," and do that under the condition that it "represents a capital investment for the economy. Conceivable projects would be . . . public or publicly supported work which signifies an increase of wealth for the economy, and which would have to be carried out anyway under normal conditions," i.e., investments in the renewal of transportation infrastructure.

The question, naturally, is: How can such projects be financed, since long-term capital is not available, neither on the foreign nor the domestic capital markets? Lautenbach emphasized that the provision of the necessary liquidity for such financing is merely a "technical organizational" prob-

lem. It can be solved, for example, by having a national bank provide a rediscount guarantee for such credits which are linked to “economically reasonable and necessary projects.” In this way, the recourse to the national bank is but a fraction of the expansion of credit needed for the infrastructure investments. The “stimulating effect of the primary credit expansion” has the effect of “rekindling the whole of production”; idle capacities are employed once more, production increases, and state tax revenue increases. Since the “extent and velocity of the expansion of production” will increase faster than the “extent and velocity of credit expansion,” the national bank financing has no inflationary effect.

The Lautenbach Plan was presented in September 1931 at a secret conference of the Friedrich List Society, in the presence of Reichsbank President Luther and 30 leading economics, politicians, and representatives of industry. (Former Reichsbank head Hjalmar Schacht, who later became Hitler’s Economics Minister, was not invited.) Had the plan been implemented, the resulting economic recovery would have deprived the National Socialists of any chance to rise to power.

What is a ‘Marshall Plan,’ actually?

Perhaps the best-known example of an “economic miracle” in recent history, is the reemergence of the German economy following World War II. The positive connotation of the words “Marshall Plan” for world public opinion comes from its connection with this “miracle.” This leads to the natural idea that we could rebuild the regions devastated by war today, by doing what was done at that time, investing a few billions of dollars in the context of a new “Marshall Plan.” The old “Marshall Plan” therefore deserves a closer look. It had three positive effects:

The importation of strategically important raw materials from the United States, which the Marshall Plan made possible, was an important bridge to survival for the German economy in the immediate postwar years. The inclusion of both winners and losers of the war in the same aid program had by no means a negligible psychological effect on the German population’s morale. Moreover, the dollar credits were tied to the development of a western European economic order which, among other things, envisaged fixed exchange rates and, up to 1958, a monetary protective wall, effected through capital controls and limited convertibility of currencies.

But that was not the crucial ingredient for the “economic miracle.” The total volume of dollar credits in the case of Germany covered only a fraction of the damage which had been caused immediately following the war’s end by the misguided Morgenthau Plan to entirely dismantle Germany’s industrial capacities. Moreover, Germany by no means received the lion’s share of the Marshall Plan money; instead, Great Britain (\$3.2 billion), France (\$2.8 billion), the Benelux countries (\$1.5 billion), and Italy (\$1.5 billion) took most of the funds. Germany followed with \$1.4 billion, which was

granted over 1948-52. (Have you ever heard of an “economic miracle” in England after the war?)

Far more important than the immediate Marshall Plan money, was the mechanism chosen, particularly in Germany, to transform the repayment of the credits for commodities into new investments. That was the motivation for creating the Kreditanstalt für Wiederaufbau (KfW, or Credit Institution for Reconstruction) in 1948. Under this arrangement, German firms which had received dollar credits from the U.S. government, were permitted to pay these credits back through the KfW in Frankfurt. On the basis of this income, the KfW then provided new credit or investment aid to selected sectors of the German economy. Over the decades following the war, the annual volume of additional credit provided by the KfW has increased steadily to where it now stands, at about DM 40 billions. The focus was, and still is, on those areas of the economy which are also most crucial in the Balkans: public infrastructure, support for small and medium-sized firms, and promotion of housing construction. It made possible the construction of millions of new homes at record speed—and that success was possible under conditions where Germany had just taken in 1.5 million refugees from the East and, up to 1955, another 1.6 million late returning prisoners of war, who all rushed into the largely destroyed western part of Germany.

To state the point succinctly: The KfW is indeed a child of the Marshall Plan, but not a single U.S. dollar was necessary for it to carry out its function of generating credit. A one-time deposit of capital by the government would have led to the same effect. Every sovereign country has the freedom to create such a state development bank, on the model of the KfW, even without previous provision of credit in the context of a foreign “Marshall Plan.”

Destruction in Balkans greater than admitted

by Elke Fimmen

At the current time, it is very difficult for the general public to obtain reliable information about the extent of destruction in Yugoslavia and in Kosovo. We have to rely on estimates, gathered together from reports from Belgrade, NATO reports on flights and bombing missions, and observations by experts on the region. But it is surely instructive for evaluating the dimension of the problem, when Austrian Finance Minister Edlinger, at the meeting of the European Union (EU) Finance Ministers on May 10, warned against allowing “an infrastructure wasteland in the Balkans.” It is to be expected that a more