privatized. Since that cannot be accomplished quickly, a pinprick tactic has been adopted. The radical-liberal "competition law" of the European Union is the leverage used for that purpose, which exists in this form nowhere else in the world.

In July, the EU Commission decided that the special modalities of the transfer of the Institute for Promotion of Housing Construction of the state of North-Rhine Westphalia, to the Westdeutsche Landesbank (West LB), represented an illegal public subsidy, and so West LB would have to make a compensation payment of DM 1.6 billion to the state. The real issue here is that West LB can now count the capital of the Institute for Promotion of Housing Construction as its own, thereby enhancing its capital base, without West LB's having incurred any costs to achieve that effect. This is what the EU Commission is complaining about, because it claims that this procedure gives West LB a competitive edge over the private banks. This entire story, however, is already seven years old. The large private banks filed a complaint at the EU Commission in 1992, and demanded that the Commission forbid other forms of public subsidies to public banks. West LB, for its part, intends to contest this decision at the European Court, and terms the policy of the EU Commission an attack on the public banking system of Germany, as well as an attempt to force privatization.

The chief of Deutsche Bank, Rolf E. Breuer, has taken up a position against West LB, and hails the EU Commission's decision as a "spectacular step." The Commission has announced another foray against the "peculiar creature" of the public banking system for the month of November, which is when Competition Commissar Mario Monti will present his new guidelines on the subject of state guarantees for credits extended to industry, and also state guarantees for public banks. It is expected that state guarantees for public banks in Germany, the so-called "liability of the guarantor," will be ranked as an illegitimate subsidy.

Growing opposition

Representatives of the public banks have begun to speak out in an uncommonly aggressive tone. The president of the Association of German Savings and Loan Banks, Dietrich Hoppenstedt, warned in a speech at the World Savings Conference in Frankfurt on Oct. 29 against fixation on short-term profit maximization, which creates nothing of real value. He pointed to the "consequences of increasing exaggerations on the international financial markets," and critically noted that "in Europe, many are chasing after Anglo-American economic conditions" in the German banking market. He sees the public banking system in Germany as being subjected to an attack of large private banks from within Germany and abroad, which are clearly counting on powerful support, both from the European Commission in Brussels, as well as from U.S. Federal Reserve Board Chairman Alan Greenspan.

According to the evaluation of the new chairman of the Board of the Credit Bank for Reconstruction (Kreditanstalt für Wiederaufbau, KfW), Hans W. Reich, a financial emergency is coming for the German medium-sized firms, as a result of the flight of the large private banks out of financing for these companies. Reich reported at a press conference in Frankfurt on Oct. 28 that the KfW will extend DM 27 billion of promotional credits to the medium-sized industry sector, which are granted through the usual banking institutions to the firms.

Since the beginning of the 1990s, however, the large private banks' share in this business has dropped by *half* (from 32% to 15%), and even to one-third in business with smaller credit volumes. The savings and loan banks, and other smaller institutions, have increasingly had to take up the slack (their share increased from 30% to 61%), but they are coming under mounting competitive pressure. Reich warned: "This development can lead to a situation where medium-sized firms soon will have trouble finding any bank at all to finance their investment projects."

Up to now, these pronouncements have a largely defensive character. To save the medium-sized industry sector, which is so vital for the entire German economy, more aggressive steps will be necessary, to guarantee the financing of productive investments in small and medium-sized firms. Millions of jobs are at stake.

Open Letter to Chancellor Schröder

Zepp-LaRouche: Germany's existence is at stake

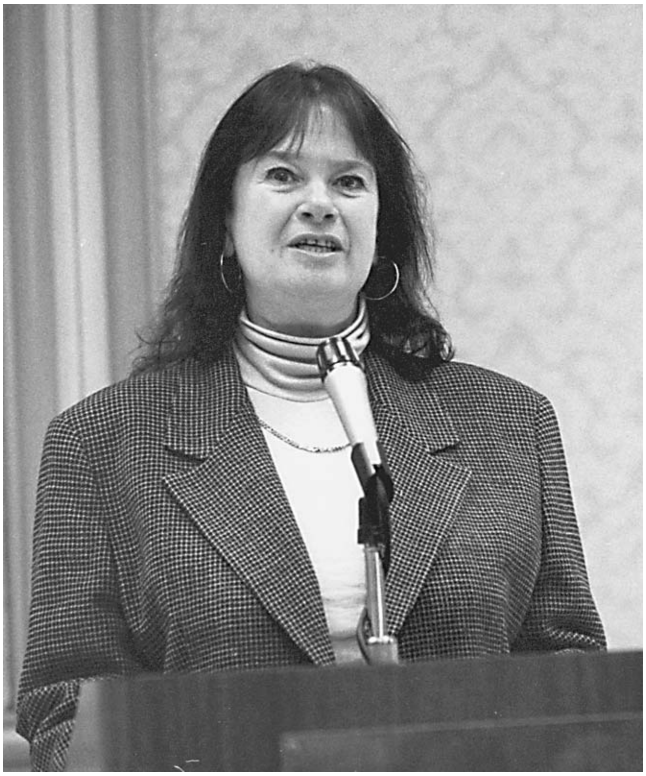
This letter was sent to Chancellor Gerhard Schröder by Helga Zepp-LaRouche, president of the Schiller Institute in Germany. It has been translated from German.

Mr. Federal Chancellor:

As you say yourself, you ask yourself nowadays whether it was really such a good idea to have rattled at the gates of the Federal Chancellery, with the idea of wanting to get inside. You surely did not expect that the first year of your term in office would unfold with so many problems.

But now you are Federal Chancellor, and indeed, at a moment at which existential decisions for our nation and our future are at issue. For that reason, I would like to make a proposal to you, on how you can swing the rudder around and prevent Germany from collapsing into a deep depression in the immediate future.

First of all, to outline the situation we are in: Anyone with the slightest notion of economics and of the condition of the international financial system, knows that we are on the verge of the largest crash in the history of the financial markets, and experts are increasingly corroborating what the American



Helga Zepp-LaRouche to Chancellor Schröder: "I would like to make a proposal to you, on how you can swing the rudder around and prevent Germany from collapsing into a deep depression in the immediate future."

economist Lyndon LaRouche alone warned of long ago, namely that we are facing a systemic crisis. The former chief economist of Dresdner Bank, Dr. Richebächer, emphasized recently in the *Börsenzeitung,* that the U.S.A. is in the "most exuberant credit inflation of all time." Former Kennedy adviser John Kenneth Galbraith, as well as the latter's son, speak of the immediate danger, that the imminent crash threatens to throw the world economy into a deep depression. Professor Hänkel, formerly chief economist of the Credit Bank for Reconstruction [Kreditanstalt für Wiederaufbau, or KfW], speaks of a new Black Friday. Edgar Meister, member of the Board of Directors of the Bundesbank, diagnoses a systemic crisis which can lead to the collapse of the international banking system. One might extend this list much further with similar analyses. It is no longer a question of *whether,* but only of *when*.

We do indeed find ourselves in a situation like that of summer 1923 in Weimar Germany, but this time the dimension is global. The decision of the G-8 and the international financial institutions, to pump immense volumes of liquidity into the international financial system since 1995, increasingly since October 1998, as a reaction to the threatened meltdown, has led to an unprecedented hyperinflation, which manifests itself now as a giant price-inflation on the stock markets, but which will explode into a hyperinflation of the prices for normal commodities at the moment that the 100% certain stock-market crash occurs.

At the same time, the international financial system, which now consists for the most part of a gigantic speculative bubble, has as many Achilles' heels as a centipede has legs. A crash of the New York stock market, the Japanese banking crisis, the sovereign bankruptcy of Russia, the bankruptcy of Ecuador with respect to its Brady bonds, new monetary crises in Latin America and Southeast Asia, the collapse of the industrial giant Daewoo in South Korea, speculation in the so-called "carry trade"—each of these could become the trigger for the systemic crisis, in which money, trade contracts, and international transactions would literally evaporate in the span of 48 hours.

The system is bankrupt at the core. Now the story comes out that the Board of Directors of Hypobank prettied-up the balance sheets prior to its merger with the Bayerische Vereinsbank by some 3.6 billion deutschemarks, but also that a total of DM 20 billion was speculated away in real estate deals—a sum which is approximately the GNP of Libya—and the investors were robbed of that amount of money, and so now, the dimension of the problem is clear. Hypobank's business practices are not the exception, unfortunately, but the rule.

Now, the new Speaker of the Board of the Credit Bank for Reconstruction, Hans W. Reich, in remarks to the International Club of Frankfurt Economic Journalists, pointed to an additional potential catastrophe for middle-sized German firms, upon which, after all, two-thirds of all jobs in Germany depend. With the large number of mergers of banks, and the ensuing closure of many bank branches, and "investors' higher profit expectations"—the slogan is "shareholder value" (or speculation instead of production)—there has been a drastic cut of the volume of credit to medium-sized and small firms. The share of the larger private banks in credits for medium-sized firms has dropped by one-half over the 1990s, and in credits of up to DM 100,000, to one-third. This means that medium-sized firms face severe financing problems.

Soon, the Competition Commissar of the EU, Monti, will present a paper which will contain guidelines forbidding member states from providing any subsidies or guarantees for industry and agriculture. The state government of North-Rhine Westphalia has now launched an appeal to the EU Commission to reconsider its threat to penalize the Westdeutsche Landesbank for such guarantees, and the state has received support for this appeal from the other state governments. This conflict emphasizes once again that Germany's survival as an industrial nation, and its subjugation to the dictates of the EU Commission, are incompatible.

If one considers all of the cited factors together, then the point is obvious: Germany's continued existence is in acute danger! If the European Commission's plans are implemented, along with the Anglo-American shareholder-value mentality, Germany will be defenseless against the immediately imminent storms, and will collapse into depression and chaos.

For that reason, I call upon you, as Federal Chancellor, to intervene in this emergency situation, in order to avert the existential damage to Germany, and to initiate an immediate change of the laws. We need legislation which makes it possible to create productive jobs, and which changes the tax laws in the direction of promoting production and preventing speculation. And if such an approach, oriented toward Germany's vital interests, is contradicted by the Maastricht Treaty and the guidelines of the European Commission, then the European Commission should go to Hell!

The work of the Credit Bank for Reconstruction, especially in the years of reconstruction after World War II, is an obvious point of reference for the kind of financing oriented to production. Without the KfW's pivotal role, there would have never been a German economic miracle. It would be very easy to provide the Credit Bank with the comprehensive powers required, and to assign it a role similar to that which Alfred Herrhausen foresaw in December 1989 for a Polish National Bank, based on the KfW model, for the reconstruction of Poland.

But there is an even more dramatic point of reference in German history, the alternative which the economist Dr. Walter Lautenbach proposed in 1931, which represented the only way to prevent Hitler's rise to power. This proposal was first published in 1991, in the transcripts of a secret conference of the Friedrich List Society of September 16-17, 1931, in which the president of the Reichsbank at that time, Dr. Hans Luther, along with 30 leading economists, bankers, industrialists, and economic policymakers participated.

Dr. Lautenbach presented a memorandum titled "Possibilities for an Economic Revival Through Investments and Expansion of Credit," in which he presented the principles of a state-based productive credit-creation under conditions of economic depression and international financial crisis: "The natural way to overcome an economic and financial emergency . . . is not to limit, but to increase performance." Under depression conditions, there would normally be two economic-policy reactions: The budget deficit is reduced by curtailing expenditures by the state, and prices and wages are reduced. Lautenbach thought that tax cuts under such conditions were practically impossible, because the tax-base had already contracted and the public budgets were already stretched to the limit. All of these measures generate "large new losses of capital of individual firms in trade and industry," they make them "incapable of performing and unworthy of credit," and they enforce "limits on production and increased layoffs of the workforce to the greatest extent."

Lautenbach argued that the curtailment of public expenditures was doubly counterproductive, because state contracts and consumer purchasing power would then be reduced. The resulting increase of unemployment would from then on accelerate the downward spiral of the economy. For that reason, "a policy of deflation will inevitably lead to a complete economic catastrophe." I can only recommend that Finance Minister Eichel be encouraged to take the time to study this memorandum (and a number of other texts of Leibniz, List, Hamilton, et al.).

Under depression conditions, there is a "surplus of commodities, unused productive plant and unused labor power," and the most urgent task is to put these back to use. The best way to achieve that, is to realize public projects, which signify a growth of value of capital for the economy, and which would have to be realized upon return to normal conditions in any case. Lautenbach's idea was to realize large infrastructure projects in the interest of the general welfare. "The effect of the impulse given by primary credit expansion" would have a reviving effect upon the entire economy. The use of unused productive capacities and the improvement of infrastructure effect an increase of economic productivity. The improvement of tax income enables the state to manage the original provision of credit for pre-financing the projects over the long term. And so, he emphasized that this kind of financing is not inflationary, since "there is a formation of real economic capital in the material sense." "The extent and tempo of the expansion of production" would grow relatively faster than the "extent and tempo of the expansion of credit," on account of the multiplier effect. This is a philosophy which was self-evident for bankers such as Abs, Ponto, and Herrhausen.

If the SPD [Social Democratic Party] finally wants to learn the lessons from the mistakes which it made in 1932-33, then it must urgently acknowledge that with the realization of the Lautenbach Plan, economic and political conditions could have been created, which would have made the seizure of power by the National Socialists completely impossible.

Up to now, Mr. Federal Chancellor, you, together with the unfortunate Herr Eichel, have decided to walk in the footsteps of Brüning. The horrible Hombach-Mandelson paper is a macabre expression of that fact. Do you not see that your alliance with Blair and the so-called Third Way is the direct way to Hell—and not only for you, but for all of Germany?

You were just in China, and you could see for yourself the immense potential which Germany has, especially for its medium-sized industries, machine-tool firms, and high technology, in cooperation with the countries of Asia. The realization of the Eurasian Land-Bridge, on the basis of the economic theory expressed in the Lautenbach Memorandum, is the way out of the crisis!

I therefore call upon you most urgently to turn away from Blair and the Third Way, and to take the necessary steps to defend Germany's industry and working population to which those who are now unemployed should soon belong. That is the only way for you to assure that your Chancellorship will not end in utter disaster. It is your duty!

(Signed)
Helga Zepp-LaRouche