States of Europe, i.e., a political union. But now, we can see that this constraint operates in the opposite direction: Since the European currency is not viable, the concepts of the Common Market and the European Union also have to be reexamined.

What we need is a return to the situation before the euro—and that was not bad at all. The first 40 years of the European Economic Community were quite a success story, and that is because each country, having its own currency, was forced to solve its crises (which also existed then), on its own, with its own national means. And that always worked. Back then we had crises in Greece, in Italy, in Spain; and these countries, through devaluation of their currencies, created the potential and the time to deal with their problems in the real economy; partly, they solved them, and partly, not (such as Italy, in the case of the Mezzogiorno).

Zepp-LaRouche: Then when, in your view, does the situation become so critical that things collapse?

The KfW and Germany's Postwar Reconstruction

Dr. Wilhelm Hankel, as noted in the accompanying article, worked for ten years as the chief economist of the Kreditanstalt für Wiederaufbau (KfW, or Reconstruction Finance Agency). The history of that organization provides an object lesson in how credit can be generated for priority national reconstruction projects, under emergency conditions. The following brief summary is drawn from "How Germany Financed Its Postwar Reconstruction," *EIR*, June 25, 1999.

After World War II, the German economy was in a catastrophic condition. Industrial production was one-third of 1936 levels. More than one-fourth of housing had been destroyed, as 9 million refugees streamed in from the East. During the bitterly cold Winter of 1946-47, food rations dropped at times below 1,000 calories per capita, per day.

Immense investments were necessary if Germany were ever to get back on its feet economically, and these investments would require amounts of financing far beyond the U.S. Marshall Plan. In November 1948, the KfW was formed, to provide medium- to long-term loans, "to enable the completion of reconstruction projects, insofar as other credit institutions are not able to provide the required financing."

The KfW loans were to run primarily on a separate track from the normal banking system. If other banks shied away from the risks of a project, the KfW was empowered to provide credit. The KfW was expressly excluded from other bank services, such as taking deposits and managing customers' bank accounts.

But where was the KfW's capital to come from? The U.S. Truman Administration, after relentless pressure from Germany, allowed the "Countervalue Funds" of the Marshall Plan to be used, and, from 1949 to 1953, the KfW obtained 3.7 billion deutschemarks from this source. Principal and interest payments on KfW credits were paid back promptly into a special fund, which was then available for the next project.

One of the KfW's two directors, Hermann Abs, underscored the "targeted planning" in the KfW's policy. "The activity of the KfW was not exactly oriented to the ideal model of a free market economy," he said. "Taken in the precise sense, what it did was to steer investment."

In 1949, the KfW set the highest priority on production of coal, iron, steel, gas, water, and electricity. Abs declared, with respect to the devastated coal-mining sector, that it was irrelevant to whom the mines belonged, and whether their production yielded a profit or a loss. The important thing was that production of coal be cranked up as quickly as possible; and it was. In 1949 and 1950, forty percent of all West German investment in energy, coal, and steel, was financed by the KfW.

And, by the end of the 1950s, Germany had become one of the world's leading economic and industrial nations.