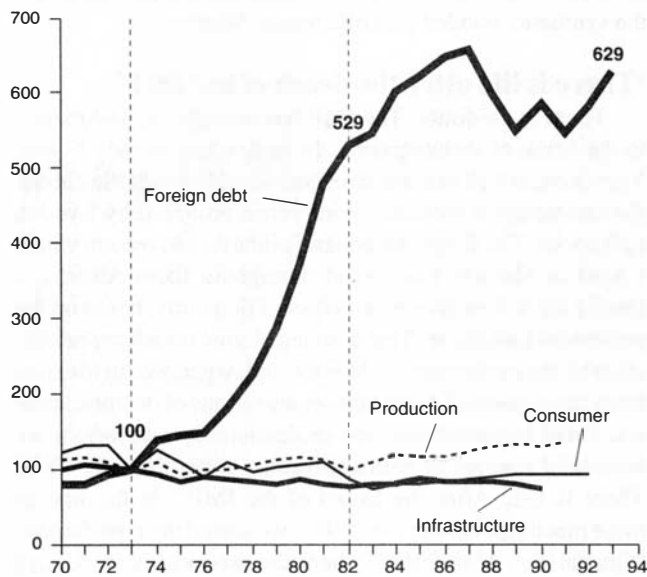


MAP 1
Hunger spreads as Mexico is hit by 100-year drought

FIGURE 8
Chile: debt versus physical economy

(indices 1973=100)



Sources: World Bank, ECLA, Central Bank of Chile.

The reason I was very happy to be with you today, and to be part of the delegation together with Lyndon LaRouche, is that I'm totally convinced that either the policies he has been proposing for the last 25 years are implemented, or nations like Mexico, Brazil, Argentina, many others in Africa, will not have any chance, any future. I will tell you that the political situation in these countries is bordering on disintegration.

I thank you very much.

Abalkin: Thank you. I give the floor to Mr. Lothar Komp, while Mr. Senchagov prepares to go next.

Lothar Komp

Mr. Komp is a member of the EIR European Economics staff. His remarks were a condensation of a longer, published report, "Germany's Physical Economy in Worst Crisis since World War II," part of which appeared in EIR's Sept. 29, 1995 issue.

Ladies and Gentlemen, I have prepared for you a very condensed review on the post-1982 decay of the German economy, once the leading exporter of high-technology capital goods in the world. So, for time reasons, I will now give you an even more condensed summary of it.

All the German economic successes, since early in the nineteenth century, were built upon the shoulders of the Classical period of Schiller, Beethoven, Wilhelm von Humboldt, and the scientific circles around Alexander von Humboldt and Carl Friedrich Gauss. In this cultural climate, Friederich List pushed forward the development of a nationwide railway system, and in the 1880s and 1890s, there were huge state investments into housing construction, sanitation, and all forms of social health infrastructure, including the introduction of the world's first nationwide, mandatory social security system.



Under the rule of globalization and the disintegrating financial system, Germany's economic

successes are being overthrown. Public infrastructure investments are being drastically cut, while the social and health systems are under massive attack.—Lothar Komp.

Today, under the rule of globalization and the disintegrating financial system, all these roots are neglected and overthrown. Public infrastructure investments are being drastically cut. The German social and health systems, still among the best in the world, are under massive attack. The German banking sector has undergone a transformation towards short-term, speculative profit, which can be seen, in particular, in the case of Deutsche Bank after the murder of Alfred Herrhausen. The new Deutsche Bank chairman, Hilmar Kopper, describes this as a cultural revolution and the establishment of an Anglo-Saxon banking and management culture. The Humboldt education system was finally removed during the 1970s, and the more radical streamlining of education is in preparation. This has already turned large parts of the younger generation into irrational people, who perceive any type of technological progress as their enemy number one.

Now, what are the consequences? I will show you some slides.

In only four years, about 3 million industrial jobs were cancelled in the German economy (**Figure 1**). After the rejection of the LaRouche program of the Productive Triangle, eastern Germany was transformed from an industrialized

country into a developing country, which is no longer able to produce what it consumes. Eastern German consumption of goods and services is about DM 470 billion per year, and DM 210 out of this have to be imported, mainly from western Germany. If you take the eastern German economy as one economy, it has one of the biggest trade deficits in the world, comparable to that of the United States, which has, of course, a population 15 times higher. If you compare what is left over from industrial production with the requirements of the Morgenthau Plan, you see a lot of similarities. What has happened here is one of the fastest deindustrialization processes in peacetime, ever. Eastern Germany has about 20% of the German population, and its share in the German export is 1.7%; 98.3% of German exports come out of western Germany.

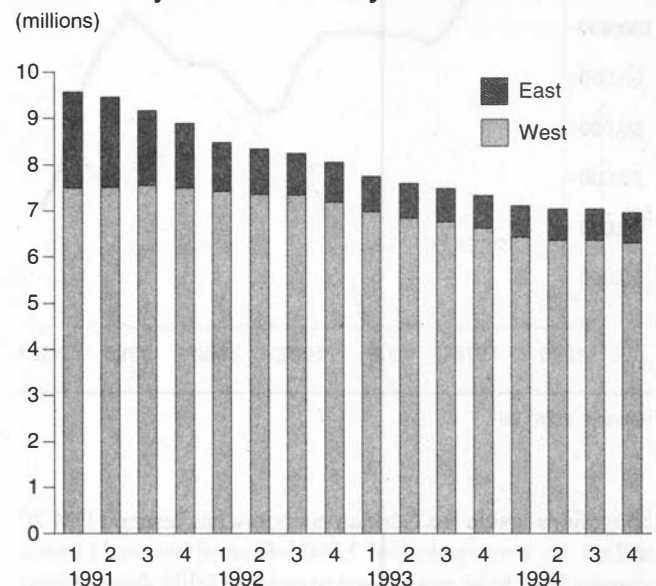
All the western German high-tech sectors are in an existential crisis, where, here in the case of the aerospace industry, you can see that, in the 1990s, about 40% of all jobs were cancelled (**Figure 2**).

Here, the same in machine tools: 40% of the jobs wiped out, in only five years (**Figure 3**).

It is similar in the chemicals industry (**Figure 4**). This obviously resulted in a huge wave of bankruptcies, which is only the beginning; everybody expects this to be much higher in the years 1996 and 1997. And, the unemployment in Germany has already reached new, record highs for the postwar period.

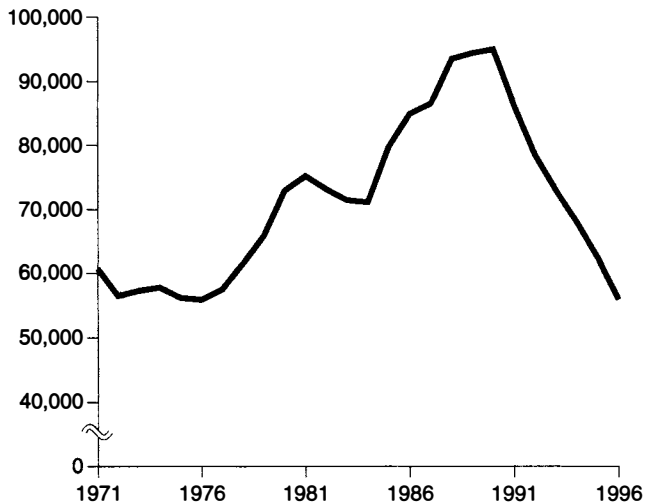
So now, very briefly, some financial aspects. The interest rate payments are now becoming one of the primary activities of the German economy. The total volume of mutual financial

FIGURE 1
Industrial jobs in Germany



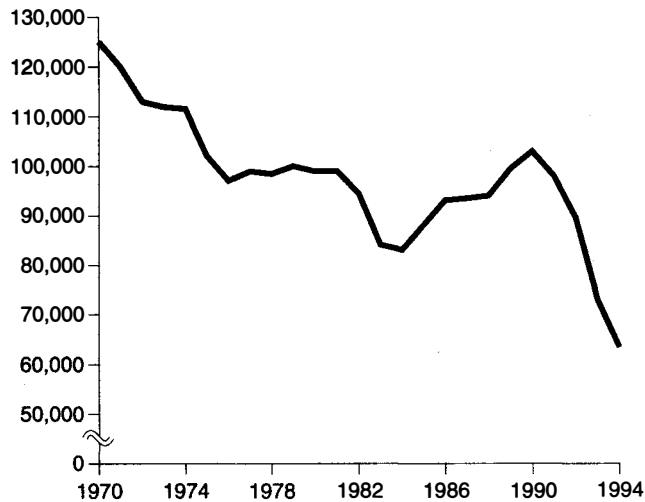
Sources: German Federal Statistical Office; EIR.

FIGURE 2
Employment in the German aerospace sector
 (number of jobs)



Sources: BDLI; EIR.

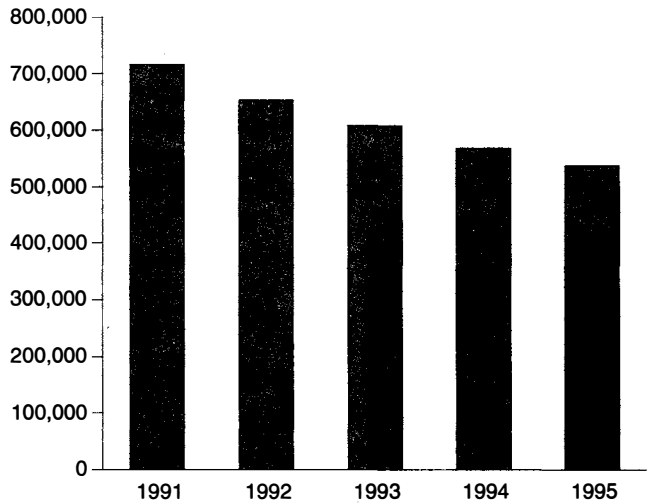
FIGURE 3
Employment in western German machine tool sector
 (number of jobs)



Sources: VDW; EIR.

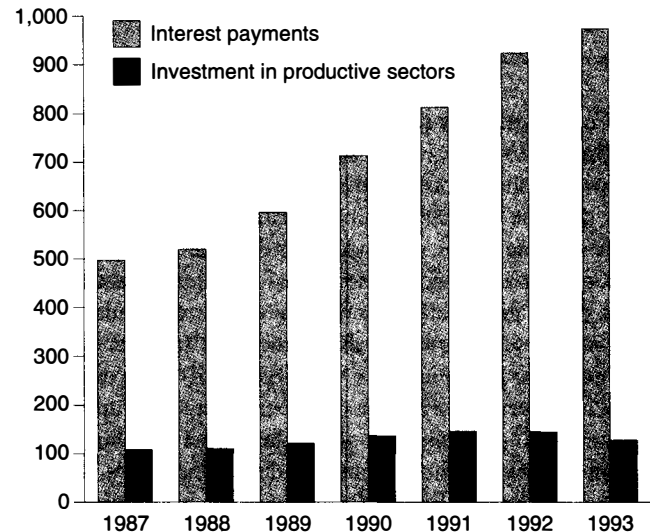
obligations inside the German economy has reached DM 20 trillion. So, every year, DM 1,000 billion of financial income streams have to be maintained in order to fulfill these obligations. This volume has doubled in only six years (**Figure 5**). Productive investments are declining.

FIGURE 4
Employment in German chemical industry
 (average number of jobs)



Sources: VCI; EIR.

FIGURE 5
Interest payments versus productive investment
 (billions of deutschemarks)

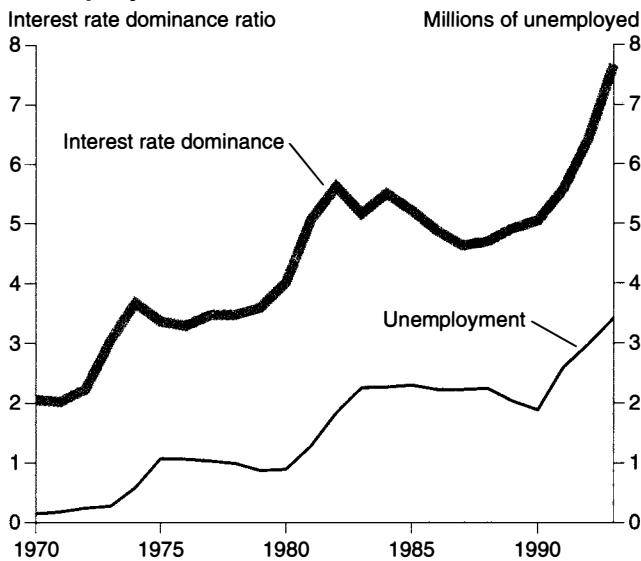


Sources: German Federal Statistical Office; EIR.

Here you can see this dominance of financial asset streams over productive investments, in the form of shocks, which are related to shocks in the international financial system, and are simultaneous with shocks in the rise of German unemployment (**Figure 6**).

FIGURE 6

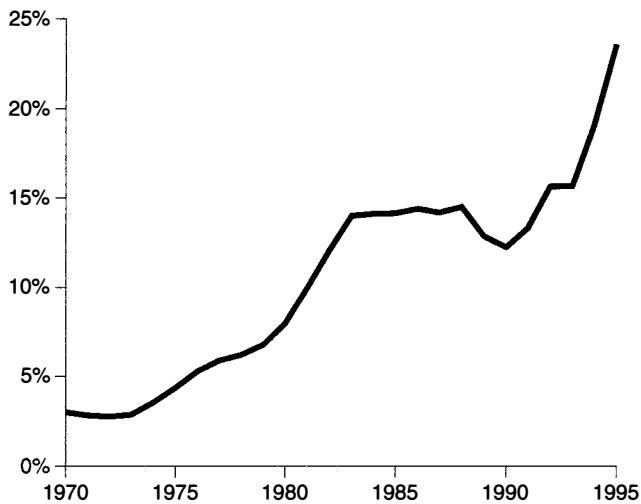
Interest rate dominance ratio* compared to unemployment



*Interest rate dominance ratio = $\frac{\text{interest payments}}{\text{capital investment in productive sector}}$
 Sources: German Federal Statistical Office; EIR.

FIGURE 7

Federal German interest payments, as a percentage of federal tax revenues



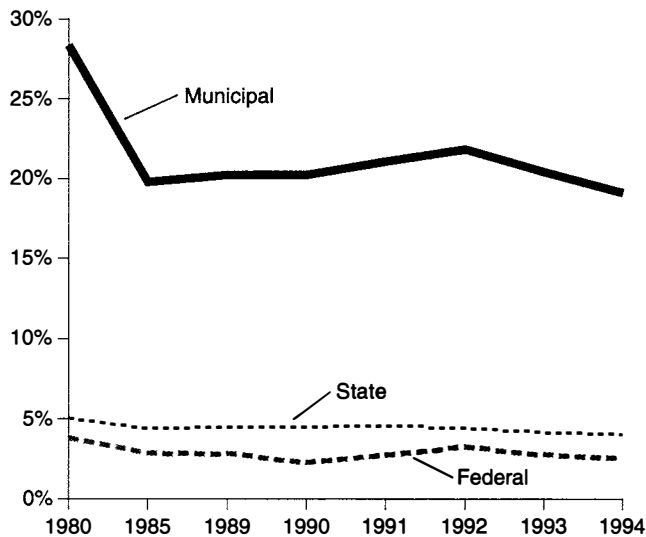
Sources: German Ministry of Finance; EIR.

A bigger and bigger share of the German tax revenues, therefore, goes for interest rate payments; it's now something like 24% of the whole income (Figure 7).

At the same time, due to the Maastricht budget-cutting

FIGURE 8

German public construction investment as a percentage of total public investment



Sources: German Federal Statistical Office; EIR.

mania, public infrastructure investments are decreasing very fast, especially in the case of the municipalities (Figure 8).

So, in conclusion, we can say that, without the reorganization of the global financial system and the establishment of a Eurasian infrastructure program of great construction programs on a Eurasian scale, there is no hope for the German economy.

Thank you.

Abalkin: Thank you. Vyacheslav Senchagov has the floor.

Vyacheslav Senchagov

Mr. Senchagov is the director of the Banking and Financial Policy Center at the Institute of Economics, Russian Academy of Sciences.

Esteemed colleagues! I think that discussion of Mr. LaRouche's report is of great theoretical, as well as practical interest. I would like to dwell upon the very complex, and still not fully clarified theoretical question of the relationship and interaction of the physical economy and finance. For a long time, it seemed to us that the West had actually achieved an optimal relationship between the physical and the financial aspects of the economy. Certainly, they saw the active role of finance and credit in economic development. But the data provided by Mr. LaRouche indicate that all is not well there.

I would name another indicator, which, it seems to me, in