

## Berlin Seminar: What To Do In A Financial Meltdown

Lyndon H. LaRouche, Jr. joined a panel of distinguished European economists in Berlin on Nov. 5, for an *EIR* seminar on the question, "What Can Be Done In The Face Of A Financial Meltdown?" Over 125 guests attended, representing economic, diplomatic, political, and press circles from Germany and other countries.

Our first report on the seminar appeared in our Nov. 16 issue, with the speeches from the morning panel by LaRouche, *EIR*'s Lothar Komp; Prof. Dr. Wilhelm Hankel, former board member of the German Reconstruction Bank (Kreditanstalt für Wiederaufbau); Russian economist Dr. Tatyana Koryagina; and a written message from Dr. Nino Galoni of the Italian Labor Ministry.

This week, we publish the presentations from the concluding panel, by former Dresdner Bank economist Dr. Kurt Richebächer; Schiller Institute President Helga Zepp-LaRouche; Prof. Yuri Gromyko of the Moscow Academy of Culture and Education; and French Presidential candidate for 2002 Jacques Cheminade.

In his keynote address, LaRouche underlined that the cause of the crisis today, lay in the "pathology" of the last 35 years, of relying on the mentality of accountants, or of "general public opinion and government opinion, which obviously does not function." The key to the relative success of the 1945-60 period, LaRouche said, was the Bretton Woods system, a gold-reserve-based, protectionist system, which allowed those nations that participated in it to improve their standard of living, productivity, and, generally, the perception of prosperity in the future. The switch to a floating exchange-rate system in 1971, he said, "has bankrupted the world."

LaRouche emphasized that "governments must declare the financial system *bankrupt*, and use the sovereign authority of governments, individually, and as combinations of sover-

eign entities, to reorganize the system in bankruptcy," as was done after World War II. He added a second aspect: the need to revive and protect the *sovereign nation-state*, without which no economy can function.

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Dr. Kurt Richebächer

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## U.S. Economic Growth: Only In The Statistics

*Dr. Kurt Richebächer, former Dresdner Bank General Representative and now publisher of the Richebächer Letter, addressed the afternoon session of EIR's Nov. 5 seminar. He drew on his long history in banking and economic policy-making, to ridicule the fraudulent methods introduced in recent years in the United States, to "doctor" statistics, and make a catastrophic economic picture look like a "miracle of productivity and profits." He also highlighted the change in mentality that has occurred over the last generation. In his day, people were proud to have paid off their home mortgage; but today, in America, people are proud to be able to go to the bank and get a bigger mortgage, based on inflation in real estate! When asked, during the discussion period, about the thinking of the German industrial bankers of his generation, he answered, "We saved, we invested, and we worked hard. That was the secret to the German economic miracle."*

The following is the prepared text of his speech. It has been translated from German by EIR.

According to the dominant opinion, the American economy has, in recent years, experienced a great renaissance, which accomplished miracles of productivity and profitability. For some years I have been concerned to make clear to my readers and others, that these wonders have taken place in statistics alone, and not in the economy.

At first, I was struck by a rapidly growing discrepancy between the euphoric earnings announcements of the firms, and the unrelentingly gloomy picture of earnings, which the official income statistics showed. It was a difference of day and night. As a macroeconomically oriented political economist, I concern myself fundamentally with the accounts of official statistics. What they show, clearly and openly over years, is no earnings miracle, but rather, the most unfavorable development of earnings in the entire postwar period.

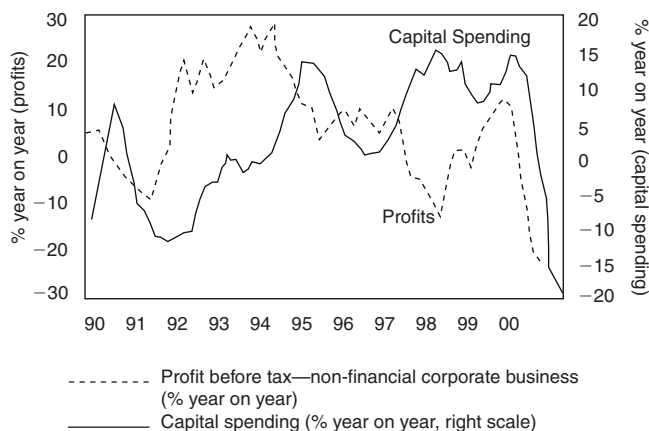
Now, to two reports on this point: In the five years up to 1995, corporate earnings in the U.S.A. rose by about 66%. It was a time of slow economic growth following the recession of 1990-91. The primary causes of this outstanding development were drastically falling interest costs and shrinking amounts of depreciation, brought on by the very weak investment activity of corporations during the 1980s.

In the following five years, up to the end of 2000, America's alleged economic-wonder years, the growth of earnings amounted to 22%, or 4% per year. If one considers, that these were the years of strongest economic growth, in which the stock indexes rose as never before, because supposed productivity and profits miracles were taking place, then this actual picture of earnings was catastrophically bad. In any case, it was so bad, that some time ago, I found myself compelled to investigate the basic reasons for it.

At first, what struck me was an immediately exploding difference between the actual expenditures of corporations for computers, and the effect of this on the real social product [GNP]. During the three years from the end of 1997, to the end of 2000, the expenditures in question rose by about \$34 billion, which contributed all of 2% to the economic growth of this period in nominal amounts; [but,] in the totals of real social product, there was a growth nearly seven times as large, \$214 billion, which amounts to almost 20% of real growth. And that was the total upon which Wall Street fixed its gaze.

The reason for this phenomenal difference was no secret. It is called the "hedonic price index," and it follows from the fact, that computer production as well as computer investments of corporations, were being measured into the reckoning of real social product, not according to the number of units or the total expended, but rather, according to the performance of the installed computers. But this has, in the last five or six years, really exploded. In my eyes, this way of accounting was a case of plain economic nonsense, because the hedonic

FIGURE 1  
U.S. Profits: No Money For Capital Spending



dollars were being paid out by no one and earned by no one.

Significantly, a second statistical change then had a statistical effect. It consisted in the ruling by official American statistical bureaus, two or three years ago, to treat the software expenditures of corporations no longer as costs [of production], but rather as investment expenditures which became capitalized. This had three immediate effects. At the same time, and to the same degree, this method of accounting inflated not only the real social product and productivity, but also corporate earnings. For the years 1998-2000, this added some \$70 billion. But this also was, in the final analysis, nothing but an illusion, since it added no additional dollars to the corporations' bank accounts.

Not measurable by the outsider, but equally significant, were the effects of a third statistical change. It was adopted in 1995 on the recommendation of the Boskin Commission, which had the mission of creating an improved measure of the rate of inflation. The members of this commission were known for the fact, that they stood for the most distinct possible improvements *downwards* [in the inflation rate]. Above all, this had to do with the stronger consideration of quality improvements. It has become generally known, that the going consumer-price inflation rate has been shrunk by 0.8 percentage points.

All these statistical changes have been publicly announced. But the general interest in optimism is overwhelmingly strong. The results, not surprising, are the devastating numbers that now come into view. They have effected a certain sobering-up, but they remain far behind reality. It speaks volumes, that the earnings have fallen far more sharply than the stock indices. The paradoxical result lies in the fact that American stock prices, in relation to earnings, are far higher than even at the peak of the boom.