

tural modernization, for national infrastructure construction, for power generation, metallurgical, and petrochemical projects, and numerically controlled machine tools vital for the entire manufacturing industry. During 2006-10, the machine-building sector is expected to become a pillar of the national economy. Wu said that machine-builders should focus on China's domestic needs. All Chinese urban track transportation projects, for example, must use at least 70% domestically made equipment.

Transfer of Military Technology

A vital contribution to building China's industry, has been the transformation of military technologies for civilian use, a highly successful process in China in the past years. China has made real achievements in transferring the technologies of the five main military industries—the nuclear industry, space flight, aviation, shipping, and weaponry—to the civilian economy, and this process will be stepped up in the coming years, as discussed at the just-concluded Second Conference on the Peaceful Use of Military Technology in Beijing.

China now has two functioning nuclear power plants, and is building more; its military-developed Long March rockets are used for international satellite launching; and military-initiated shipbuilding now contributes 70% of China's ship exports. China's aviation manufacturing, launched by the military, is also a producer of civilian airplanes for both domestic consumption and export.

Liu Jibin, minister of the Commission of Science, Technology, and Industry for National Defense, said at the conference on Dec. 18, that civilian products make up 80% of the national defense sector's total output.

Through this process, and the joint Chinese-German development of the maglev, China can gain the advanced technologies its huge population so urgently needs for real economic progress.

Collapse of U.S. Market

Beijing must face one brutal reality: Chinese policy does not—overtly, at least—take into account the ongoing crash of the insanely bloated U.S. markets, a catastrophe which will also engulf Europe, Ibero-America, and the rest of the world economy. This year, January-October, about 37% of Chinese exports (including re-exports from Hong Kong SAR) have been going to the United States, and this market will vanish as Wall Street goes under. Currently, China is striving to rebuild its regional trade, which, before it was devastated by the Asian collapse, had been its biggest market. However, other leading Asian economies, especially South Korea and Taiwan, are even more vulnerable to the U.S. crisis, as the markets for their high-tech exports evaporate. While focusing on developing its enormous internal market has real potential, China must develop *new* perspectives for international cooperation, as have been outlined by Lyndon LaRouche in his New Bretton Woods proposal.

German Economist Indicts U.S. 'Boom'

by Lothar Komp

With a very few exceptions, most of the well-known economists and bank analysts have now lost all their credibility—if it ever existed—because for much too long they clung to the illusion of the “longest economic boom in U.S. history.” As the crash of high-tech stocks is continuing and thousands of “dot.coms” worldwide are facing bankruptcy, the statements by these people from Spring and Summer this year now look rather ridiculous. Among the very few exceptions is the former chief economist of Dresdner Bank, Kurt Richebächer, who considers himself a traditionalist economist, not corrupted by today's insane paradigms.

In his monthly *Richebächer Letter*, published in the United States, he, for quite a while, has been pointing to the emergence of the worst-ever credit pyramid and financial bubble, centered on Wall Street. When Richebächer, in a letter to the editor published by London's *Financial Times* in October 2000, attacked the “creative bookkeeping” methods of U.S. government statistics, the German central bank, the Bundesbank, was provoked to feature the same issue in its October monthly report.

In the November edition of his newsletter, Richebächer presents an extended, devastating analysis of current economic trends in the United States, which can only be described by the motto, “After us the deluge.” As “gyrations of the stock market are getting wilder and wilder,” he notes, people will soon “be shocked at how quickly the U.S. economy's strength will simply disappear once the bull market ends.” However, in a real sense, the economic boom of the U.S. “New Economy” actually never existed. In this respect, Richebächer in great detail attacks key myths of the “New Economy,” such as the alleged extraordinary growth in profits and productivity. In spite of all the Wall Street efforts to spread such kinds of illusions, already a simple look at the official National Income and Product Accounts (NIPA) statistics proves, that corporate profit growth in the U.S. economy in the years 1996-2000 was very poor, and in the manufacturing sector, even fell to an unusually low average of 3.4% per year.

Further, these figures include massive “creative accounting,” as well as the impact of employee stock options and the big capital gains realized in the stock market that have slashed corporate contributions to pension funds to virtually

zero. One glaring example is the expenditures by U.S. firms on buybacks of their own stocks, reported at more than \$130 billion for 2000, when only a few years ago, the figure was less than \$10 billion. The same holds for productivity, where it has to be stated, that “if there is a productivity miracle, it has clearly bypassed the average American.”

A Real Shocker

Richebächer then comes out with the following “shocking statement”: “The U.S. economy’s weak profit performance during the 1990s is by no means just ephemeral and fortuitous; it is endemic and structural. And this miserable failure in profit creation has two chief causes that are easy to recognize. Ironically, it originates precisely in the two features of the U.S. new paradigm economy that are generally hailed as the key sources of its superior growth and productivity performance. The one is the shareholder value model, and the other one is the new information technology. The old economists would have said, both are anti-capitalistic.”

The “shareholder value model” is fixated on corporate restructuring, which in turn is just “a vague euphemism for all kinds of measures that tend to enhance shareholder value in the short run, virtually to the exclusion of any other goal,” including acquisitions, mergers, stock buybacks, and “an unprecedented thrust towards cost-cutting and downsizing,” which at the same time means a bias against any form of long-term investment.

Then there is the “New Economy” paradigm, which not only claims to create wealth without capital formation, but today actually “involves massive capital destruction.” Richebächer emphasizes that contrary to these misconceptions, every creation of prosperity absolutely requires long-term investments, or capital formation, including the building of factories and thereby, the creation of new industrial jobs.

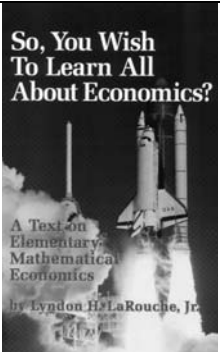
Richebächer raises the question: “What kind of capitalism is there really in the United States. Our answer: Far from being a new and more efficient capitalism, it is ‘late, degenerate’ capitalism. The essence of classic capitalism was long-term-oriented capital accumulation out of savings, and there was a strong sense of responsibility of heritage for future generations. What is the essence of this neo-American model of capitalism of the 1990s? A frantic chase of corporate management after quick and easy profits in the stock market, through deal making and stock buybacks, a non-saving public, and unfettered credit creation by the financial system for consumption and speculation. The responsibility of the corporate manager under this ‘new’ capitalism begins and ends with the near-term stock price.

‘Degenerate Capitalism’

“It’s late, degenerate capitalism in the sense that saving and capital accumulation, the key features of a capitalistic economy, have fallen into complete oblivion. Worse still, it

is a capitalism which any educated nation should be ashamed of, because the corporate strategies that result from the single-minded microeconomic logic of maximizing present shareholder value, inherently impart increasingly negative long-term macroeconomic consequences to economic growth, income, and profit creation. What really happens is rampant over-consumption at the expense of future generations who are to inherit depleted domestic capital formation, a mountain of foreign indebtedness and lots of worthless paper assets (stocks and bonds). It might be called ‘beggar-thy-children capitalism.’ The motto of this capitalism is ‘After us the deluge.’ ”

The consequence of such insane policies is the buildup of “economic imbalances and financial excesses of unprecedented size,” which have made the U.S. economy and its financial system “more vulnerable than ever before.” There are “serious problems everywhere: in the credit markets, in the banking system, in stock valuations, in the profit performance, in the debt burdens of corporations and consumers, in negative personal savings, and in the huge trade gap and the grossly overvalued dollar. Confidence in the dollar has been the one linchpin that has held this disintegrating system together.” Therefore, “hopes for a soft landing of the U.S. economy are completely misplaced. We have witnessed the worst financial bubble in history.”



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