

The Congress Must Tackle Hyperinflationary Blowout

by Jeffrey Steinberg

Whether they like it or not, whether they are ready to face the music or not, sometime very soon, the 535 men and women who make up the United States Senate and House of Representatives are going to be called upon to deal with the worst global financial and monetary shock collapse in modern times. Under the best of circumstances, such Senate-led action will occur under vastly improved conditions at the White House—the removal from office, by some combination of impeachment, resignation due to medical problems, or Republican Party patriotic intervention—of Vice President Dick Cheney and President George W. Bush. If the total financial and monetary meltdown occurs prior to that, as is far more likely, the burden on the Members of the Senate and House will be all that much greater.

Lyndon LaRouche noted frankly, in a Sept. 23 interview, that “this kind of emergency action, we must admit, is contrary to the inclinations of the Congress and most key Congressional advisors. But the survival of this nation and the majority of human beings on this planet depends on the willingness of at least some leaders of the Senate and the House to face this tough nut. Survival sometimes depends on the courageous action of a relatively small handful of individuals in leading positions.”

LaRouche added, “The Greeks could not prevent the Peloponnesian War from erupting for the same reason that Members of Congress, at this time, refuse to consider the alternatives to disaster, even though the alternatives have been clearly spelled out. Throughout history, we have seen nations self-destruct because their leaders accepted prevailing moods, and refused to take the kinds of necessary steps to lead their people to safety.”

Some among leading circles in the U.S. Senate—both Democrats and Republicans—have some inkling of this

looming financial and monetary shock-front crisis and the grave challenge to their leadership that this poses. The former U.S. Secretary of the Treasury, Robert Rubin, has addressed a series of closed-door sessions of House and Senate Democrats this year, and has spoken bluntly about the dangers to the financial superstructure posed by the Bush Administration’s reckless policies. During his tenure as Secretary of the Treasury, both Rubin and then-President Bill Clinton had spoken about the need for a “new global financial architecture,” an effort that was killed by the “Clintongate” counterattack by the Wall Street right wing, typified by the *Wall Street Journal* and Richard Mellon Scaife.

‘Nothing To Fear. . .’

What’s more, since the beginning of 2005, leading Democratic Party political economist LaRouche has circulated a series of policy memos, addressed directly to the U.S. Senate, identifying the unfolding crisis and spelling out concrete bankruptcy reorganization and economic recovery measures that can and must be taken to lead the world, safely, back to the principles of American System statecraft, last seen during the Presidency of Franklin Delano Roosevelt.

In an Aug. 27, 2005 statement, “Freak-Out at Jackson Hole,” LaRouche had warned, explicitly, about the hyperinflationary shock-front, detailed in this week’s *EIR* cover-story. He wrote: “The world markets as a whole are gripped now by what has been an accelerating global hyperinflation with certain mathematical-functional similarities to what happened in Germany during the Summer and Autumn of 1923. This threat is immediate, and worsening at an accelerating rate; but, fortunately, the challenge is manageable, on condition that certain essential emergency reforms are made quickly. As Franklin Roosevelt once said, famously, ‘We

have nothing as much to fear as fear itself’—or, if not fear, the kind of mass-delusions exhibited by the maenads of Jackson Hole.”

The Unfolding Crisis

The sequence of LaRouche memos to the U.S. Senate tracked the accelerating crisis from approximately February 2005. At that time, a relatively insignificant news story in a European financial daily led LaRouche to conclude that General Motors, the U.S. auto giant, was headed for bankruptcy, as the result of \$60 billion in near-term corporate bond obligations that could not be met. LaRouche understood that GM would be forced to roll over those bonds as steep risk premiums, placing the company at the door of bankruptcy court. A GM bankruptcy, LaRouche understood, would wreak havoc on what remains of the productive sector of the U.S. economy, and trigger certain far-more-devastating shocks to the global financial system.

On April 15, LaRouche wrote the first of a series of policy papers, “Emergency Action by the Senate,” spelling out the urgent stop-gap measures that Congress could enact, to prevent the take-down of GM and the vital machine-tool capacities within the U.S. auto manufacturing sector.

That April 15 memo, however, began with a clear statement on the actual global scope of the crisis: “An increasing number and variety of relevant specialists have been joining an international chorus which is warning, in effect, that an ongoing, systemic economic collapse of the world’s presently reigning, monetary-financial order, has now entered its terminal phase. As some leading voices in government, and relevant others, have indicated, since September 1998, the world has entered a period of historic crisis, when the time has come that nations must act in support of a common interest, to create a new financial architecture for the world at large.”

One month later, on May 14, 2005, as the GM crisis was unraveling—just as he had warned—LaRouche wrote another memo to Congress: “On the Subject of Strategic Bankruptcy,” in which he was even more explicit about the unprecedented character of the unfolding crisis. “A rising series of political earthquakes is now shaking the world,” he wrote. “Now what will happen, very soon, will stagger your imagination. The world as you thought you knew it, the day before yesterday, is no longer the same world today. Things you had thought would work, no longer work.”

LaRouche offered a frank snapshot of the crisis, and a definition of what he called “strategic bankruptcy.”

“Now, already,” he wrote, “you witness the converging impact of, on the one side, pensions hit by spreading bankruptcies of major airlines, with, on the other side, the onrushing threats from the financial collapse in the auto industry. These, and related developments,” he continued, “create a specter of already global, epidemic bankruptcy with which existing U.S. government practices are essentially incompetent to deal. This situation requires the immediate institution of new gov-



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Senate Minority Leader Harry Reid (D-Nev.) is going to have to join other Senators and Congressmen in taking the emergency action that is required in this time of crisis, in a case where the Executive branch is dysfunctional—indeed, insane.

ernmental mechanisms for managing what must be fairly described as a condition of *strategic bankruptcies*, bankruptcies with which presently existing mechanisms of government are essentially incompetent to deal.”

The May 14 LaRouche memo was written at a moment when two bond rating agencies, Standard & Poors and Fitch, were downgrading General Motors’ corporate bonds to junk status, on May 5 and May 24, respectively. The second downgrading triggered a mandatory institutional sell-off of GM bonds, and unleashed a string of hedge-fund bankruptcies that would soon rock the unregulated derivatives markets. Several well-informed sources told *EIR* that an estimated 40% of hedge-fund assets were wiped out in the GM and related derivatives shakeout, which extended into June.

The period between mid-June and mid-July was identified, by LaRouche and others, as a next inflection point in the disintegration of the entire post-Bretton Woods floating-exchange-rate system. At that time, hedge-fund investors would have the opportunity to get out. Such a withdrawal of funds, on top of the May-June derivatives losses, driven by the GM crisis among other events, would have been the next shock to the system.

Why LaRouche Opposes The Roberts Nomination

On the eve of the Sept. 22 Senate Judiciary Committee vote on President Bush's nomination of John Roberts for Chief Justice of the U.S. Supreme Court, Lyndon LaRouche declared that Roberts was unqualified for the job, because he opposes the fundamental principle of the general welfare, which is enshrined in the Preamble of the U.S. Constitution. Speaking on a radio talk show Sept. 20, LaRouche laid out his argument as follows:

Roberts does not believe in the Constitution. The Constitution's intention is stated in the Preamble of the Constitution. The center of that, is the General Welfare policy—to promote the General Welfare.

Now, this crowd in the majority in the Supreme Court has not agreed with that. We've had the so-called "shareholder value" policy, which has dominated the Supreme Court. That is against our Constitution! This is as bad as

we had back before Lincoln.

So, Roberts represents a tendency—and he's made it very clear—which you might call the "Confederacy tendency," because that's where he stands in terms of law. He should not be in the Supreme Court. We can not have a majority of the Supreme Court, in a time of crisis, which is not prepared to defend the rights of the American people, as provided under our Constitution. And this is the problem. We came in with this mess that's going on, many fights, and the push was, to push Roberts in, to sneak him in, and hope that we do nothing about it.

[Senate Minority Leader Harry] Reid has recognized, and some others, that we have to fight this question. They're coming from behind. I'm supporting them fully on this thing—I agree with them totally. We have to raise this issue: Whether we win or lose, we must take a stand and say, "We're going to defend the Preamble of the Constitution on which this nation was founded." The Preamble of the Constitution is the *intention* of the Constitution! It is not an introduction to the Constitution. It is the *fundamental law* of the Constitution. And the right, to protect the General Welfare is the *essence* of the Constitution.

LaRouche, during this period, urged Congress to take a series of emergency measures, including oversight probes into the activities of pension funds, hedge funds, etc. He revived his proposal, from 1992, for regulation of the hedge-funds and derivatives markets.

The June-July explosion was averted by a major move by speculators into the energy market—just as Vice President Dick Cheney was launching his all-out drive for a confrontation with Iran, in which the United States would launch extensive bombing attacks against purported secret nuclear weapons sites in Iran. The Cheney plan also included the first-ever use of nuclear weapons in a preemptive attack. To date, that Cheney effort to launch permanent war in Southwest Asia has been averted, largely through LaRouche's widely circulated preemptive warning against "Cheney's Guns of August." The Cheney provocations provided a cover for a massive speculative assault on oil prices, which continues to this day, as a leading, visible expression of the derivatives-driven hyperinflationary explosion.

Congress Revisited

The hyperinflationary process was already advancing when Hurricane Katrina hit New Orleans at the end of August, crashing many delusions about America's "Potemkin Village" infrastructure. The impact of the crisis drove leaders in the U.S. Senate to forge bipartisan alliances to deal with the tragedy, and underscored the pathetic bungling of the Bush Administration. A Republican revolt against Bush and Cheney was accelerated by the Administration's callous failures

in dealing with Katrina.

In the early days of September, Vice President Cheney returned to Washington, to crush the Senate revolt, with even more venom than his earlier coup d'état attempt, via the so-called "nuclear option," to eliminate the Senate as a check and balance against unbridled Executive Branch dictatorship.

The Cheney post-Labor Day fit has finally put to rest any remaining Congressional delusions that problems can be solved through an end-run around the White House. The Anglo-American Synarchist financier circles who stand behind Dick Cheney are fully aware that their global financial system is finished. Their "solution" is to provoke permanent wars, impose Hitlerian dictatorships—starting in Washington, D.C.—and direct their own bankruptcy reorganization, in which they land on top, through some form of global central bank scheme, along the lines of proposals by George Soros, Robert Mundell, and George Shultz.

These bankers hate Lyndon LaRouche because he is the only leading figure alive today who has posed a concrete alternative to such a bankers' dictatorship, under permanent war conditions. LaRouche's detailed plans for a New Bretton Woods System, beginning with a bankruptcy reorganization, directed by sovereign governments, and his in-depth plans for global reconstruction, would work, and usher in a period of unprecedented global prosperity and peace.

Hyperinflation and war, or a prosperous planet: This is the issue that the U.S. Congress, particularly the U.S. Senate, must face—in the immediate days and weeks ahead. There is no longer time to dodge the issue.