Federal Reserve Sparks Hyperinflation: Implement Glass-Steagall in September!

by Helga Zepp-LaRouche

This article is translated from German.

Aug. 13—When the "H" word turns up, even in the mass media, it must be clear to all but the most stubborn deniers of reality, that a storm is coming. The Aug. 10 decision of the Federal Open Market Committee (FOMC) to buy trillions more in toxic securities from the banks, means simply that the Fed has lost all control and is taking its last resort: unlimited printing of money. The result will very soon be a hyperinflationary explosion like that in 1923 in Germany, only this time worldwide.

The influential Washington newspaper *Politico* commented that the Fed's desperation move, euphemistically called "quantitative easing 2," or QE2 (the banks are sitting on at least $3 trillion in toxic waste), raises dangers beyond mere inflation: ". . . printing money in the quantities needed risks causing not inflation, but hyperinflation of the Weimar Republic kind." Even the arch-conservative *Neue Zürcher Zeitung* warned of hyperinflation caused by the Fed.

The economic data on the real U.S. economy has also put Washington and Wall Street into a state of panic. Rising unemployment, falling incomes, insolvent municipalities, a new round of the real estate crisis with devastating consequences for the construction sector, the expectation of tax increases due to reduced tax revenues—all these factors illustrate the collapse of the United States. Lyndon LaRouche and his political action committee, LaRouche PAC, have launched a super-mobilization for the immediate reinstatement of the Glass-Steagall standards, given the real possibility that the financial system will not survive the third quarter.

Inflated Food Prices

The enormous amounts of liquidity that were pumped into the markets by the Fed and other central banks to rescue the speculators, created enormous surplus liquidity, which is, of course, not being hidden under the gamblers' beds, but rather, is being thrust into the raw materials markets. Raw materials prices are exploding as a result, even though the economy in the U.S.A., the Eurozone—with the very short-term exception of Germany—and much of the world, is depressed.

Oil, metals, and especially agricultural commodities, are once again targets of speculation for investment banks, hedge funds, and cartels. Of course, the usual opinion-shapers blame increased consumption in Asia, and Russia's ban on farm exports for the increased prices for agricultural goods, but if, for example, the price of wheat soars up by 50% in a single week, then clearly, something else is going on. Cocoa, coffee, sugar, maize, barley, etc., are increasing by 20-30%, which will affect consumer food prices in the Fall.

Considering that a handful of food cartels such as Cargill, Archer Daniels Midland, and Monsanto control more than 80% of food production and marketing—from sowing and harvesting, to processing and the retail trade—and that these conglomerates are massively involved in futures trading, one can easily figure out who will benefit from the price increases. Also the investment banks, such as Goldman Sachs and Merrill Lynch, have developed complex financial instruments for agricultural commodities. A study by the UN Food and Agriculture Organization (FAO) in June said that only 2% of futures contracts on the raw materials markets result in the actual exchange of goods.

Investment banks are grabbing up arable land in the industrial nations, but also, in the developing countries; they operate warehouses and buy ships and port terminals. The gamblers are primarily on the London futures exchange or the Chicago Mercantile Exchange. Here, the investment banks, hedge funds, pension funds, etc., act as real locusts, with the result that food is so scarce, that the poor of this world can no longer afford their daily bread. After all, for people who have to spend more than 50% of their monthly income on food, a 50% price increase for wheat is truly catastrophic.

The food riots in 40 nations in 2008 were only the harbinger of what threatens now. The price explosion could lead very soon to a worst-case scenario for world food, which could only be prevented by implementing the policies this author has already called for: doubling of food production, the absolute elimination of speculation in food commodities by a Glass-Steagall Act, and the replacement of the current monetarist system by a credit system.

According to the independent Greek Statistical Office, the inflation rate in Greece, despite draconian austerity measures and the insolvency of one quarter of all businesses, has now reached 5.5%, which is the same as it was before Greece joined the Eurozone. The British media warn that the inflation rate could make savings accounts "obsolete."

But all this is just a foretaste of what is imminent: a hyperinflationary explosion like that of 1923. Then as now, inflation was invisible for years, although the Reichsbank started printing money like crazy in 1919, to pay the German war debt and the reparations imposed at Versailles. It was not until the Spring of 1923, that, because of the French occupation of the Rhineland, passive resistance and strikes occurred, halting production; hyperinflation exploded within six months, such that, by November 1923, prices were wildly out of control.

Hyperinflation in Weimar Germany, 1923: Money was good for building towers, but not much else.

Boom in Germany?

The financial press is crowing that in Germany, the economy is growing more strongly than at any time "since reunification." But this temporary high will very quickly be driven away by a low-pressure storm system, because it owes its existence solely to the temporary increase in exports, principally to Asia, and particularly to China. But those markets, in particular, are showing increasing signs of the coming turbulence. The collapse of the consumer market in the United States is already having a dramatic impact on China. As a result, two bubbles that have formed in China's internal market: a real estate bubble and a bad loan bubble are about to burst.

Social tensions are increasing, partly from conflicts between migrant workers and farmers, and also, because food-price inflation in July had already reached 6.8%. The government is currently trying to curb lending and real estate speculation. But the news about China's difficulties, alongside the data from the United States, has already led to a fall of stock prices on the international markets. Reinforcement of this development, which is, unfortunately, inevitable, will end the German "boom" faster than you can say the word "hyperinflation."

While this country is dreaming "mid-Summer fairy tales" about the economic recovery, the response to the obvious threat of inflation is completely wrong. The policy of the EU Commission and the German government, of applying the "debt brake" to all of Europe, will only accelerate the economic collapse. Finance Minister Wolfgang Schäuble's intent to save EU80 billion by eliminating infrastructure projects is the worst thing that could be done. Not only has Germany long had an infrastructure investment backlog of around EU1 trillion, which has resulted in bad stretches on the autobahns and roads, unsafe bridges, etc., but the cuts are also hitting what little of our productive sector remains.

The Auto Club Europa (ACE) says that at least EU2.5 billion is needed for the minimal repair of about 64,000 km out of a total of 400,000 km of local roads, but the funds are not available, due to the municipalities' current EU15 billion deficit. The ACE cautions that it is only a matter of time before serious accidents occur. This, of course, has negative effects on the construction sector, as a result of the planned cuts.

The calculation of Hartmut Mehdorn, of all people—who, as ex-chief of Deutsche Bahn [the German Railroad], is still remembered for his unsuccessful privatization policy—that the government should recall that the massive reductions in infrastructure undermine the future of Germany as an industrial nation, shows how far things have gone. What is needed instead are massive investments in the modernization of railway and other infrastructure, including connections for goods and containers to and from seaports.

By the end of September, the situation will deteriorate so dramatically, that the failure of the current policy will be placed emphatically on the agenda. The conjuncture of the economic collapse in the U.S.A., a serious crisis in China, massive turbulence in the Eurozone, and a hyperinflationary explosion, will make clear that a different financial and economic system is absolutely indispensable.

It is high time to put a stop to the "irrational exuberance" and irresponsible gambling for the benefit of the few, at the expense of the overwhelming majority of mankind. The toxic waste must be disposed of, and instead, productive loans must be made available for large infrastructure projects, such as the NAWAPA water-management project for the American continent, the development of the Eurasian Land-Bridge, and urgently needed projects, such as the Transaqua for Africa.

The collapse of the globalization system will present the world with very much greater challenges than the collapse of Communism did 20 years ago. Then as now, the development plans are ready. This time, we cannot allow ourselves to miss a historic opportunity once again. A plunge into a dark age would be the certain result.

Obama's Auto-Eroticism Disastrous for Economy

by Paul Gallagher

Aug. 13—Preening himself at several Detroit auto plants in succession on July 30, President Barack Obama proclaimed himself the savior of "an industry on the brink," through the forced bankruptcies of GM and Chrysler run by his "auto czars" Steven Rattner and Ron Bloom. Rattner (who has since withdrawn due to exposed involvement in a New York State pension scandal) and Bloom both have long associations with Lazard Frères, the synarchist bank of Felix "the Fixer" Rohatyn, planner of "tactical bankruptcies" to get rid of union workers, and reduce wages and benefits in the auto industry, since the 1970s.

In these Obama bankruptcies, which were rushed through the courts in April (Chrysler) and June (GM) 2009, the Obama Administration put some $76 billion in taxpayer bailout funds into GM, and into Fiat's effective takeover of Chrysler. The United Autoworkers effectively scrapped the wage and health benefit provisions of its contract, and took on some aspects of a company union. Mass layoffs occurred; GM and Chrysler dealerships were permanently closed in large numbers across the country; their auto production nearly ground to a standstill during Spring and Summer 2009.

Now, "This industry is growing stronger," Obama declared from the floor of Chrysler's Jefferson North plant, which recently added a second production shift. "You are proving the naysayers wrong. The three American automakers have created 55,000 new jobs," since his bankruptcies, he boasted. Visiting plants of all three automakers, Obama claimed his favorite car was, depending on the location, his Cadillac Presidential limosine, a Ford Escort he doesn't drive, and a Chrysler Jeep he once owned.

In fact, Obama's policy has not only been devastating to the current auto industry, but represents a mortal danger to the machine-tool capacity—manpower, and plant and equipment—it represents, a machine-tool capacity absolutely required to implement the NAWAPA