III. Economics – Energy

Schiller Institute International Conference
June 26-27, 2021

For the Common Good of All People, Not Rules Benefiting the Few!

We present below key excerpts from Panel 3, "Weimar Germany 1923 Comes Again: Global Glass-Steagall To End Hyperinflation."

Paul Gallagher

The Central Bankers' 'Regime Change' of 2019 and the 'Great Reset'

Paul Gallagher is on the Editorial Board of EIR. *This is an edited transcript of remarks he delivered to the third panel, "Weimar Germany 1923 Comes Again: Global Glass-Steagall to End Hyperinflation," of the June 26-27, 2021 Schiller Institute conference, "For the Common Good of All People, Not Rules Benefiting the Few!" Subheads have been added.*

Schiller Institute
Paul Gallagher

The American and British Imperial Systems Compared

I'll begin with a basic principle. Lyndon LaRouche taught and he also greatly advanced the American System of economy, which began with Alexander Hamilton's bold statement that the source of economic value is not landed property, not "free trade," but *human invention,* the unique creativity of the individual human mind.

The British Imperial, or "Free Trade" system is based on the idea that value, or wealth, come from *trading,* and national wealth comes from international trade. Ability to sell with greater advantage than you buy, is only part of this wealth. Inseparable from this is wealth from *speculation on trade*—on currencies, on borrowing rates, on future prices, on success or failure in trading.

Human creativity enters the economy most often through engineering new infrastructure platforms. That is where most true technological advances are first applied and show up as new kinds of capital goods. LaRouche frequently explained this; Franklin Roosevelt's presidency and the following period through John F. Kennedy's presidency demonstrated it in action. A prime example is the rapid advances of science and technology within missions for space exploration—which is, after all, the development of new infrastructure: transportation infrastructure for space travel, communications infrastructure in space, navigation infrastructure in and from space, power infrastructure for space exploration and colonization, etc.

A Fundamental Change in the World's Economy

Therefore, it is important to understand that there was a fundamental change in the worldwide economy, for the worse, in 1971. Until 1971, Roosevelt's Bretton Woods monetary system created constant demand in the United States and European economies for more *investment* in capital goods and new infrastructure, skilled labor, and family farm production; it blocked international capital from speculating across borders. After the 1971 fatal decision by President Richard Nixon to break

© 2021 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

the U.S. dollar from gold and the gold reserve, the floating currencies system that replaced Bretton Woods incentivized and drove *speculation,* and investment in speculation, above all.

In the half-century since then, demand for new infrastructure and new capital goods has gradually disappeared, giving way to demand for cheaper, larger-scale production of existing products. Cheap production exported into developing countries, completely pushed aside Roosevelt's intention, of capital goods exported into developing countries for great projects of infrastructure.

The period of hyperinflationary pressure we are now experiencing has been created, not by pandemic and so-called "recovery," but by decisions and actions of the major central banks under what they started calling their "regime change" in the Fall of 2019.

FIGURE 1
Hyperinflation in Weimar Germany

Marks to the U.S. Dollar, 1920-23	
1st Quarter 1920	22
2nd Quarter 1920	12
3rd Quarter 1920	12
4th Quarter 1920	17
1st Quarter 1921	15
2nd Quarter 1921	15
3rd Quarter 1921	21
4th Quarter 1921	48
1st Quarter 1922	54
2nd Quarter 1922	71
3rd Quarter 1922	246
4th Quarter 1922	1426
January 1923	4281
February 1923	6650
March 1923	5048
April 1923	5826
May 1923	11,355
June 1923	26,202
July 1923	84,186
August 1923	1,100,632
September 1923	23,500,000
October 1923	6,000,000,000
November 1923	52,200,000,000
December 1923	100,000,000,000
January 1924	4.2

Hyperinflation in Germany in the 1920s

Figure 1 shows the infamous inflation in Germany in 1922-23, known as the "Weimar hyperinflation." In the righthand column, the value of the Reichsmark is compared to the U.S. dollar, rising from a couple of hundred to one, to five or six *billion* to one, in that 18-month period. Households' wealth, workers' earnings: wiped out. The German central bank did this unintentionally, but deliberately, by printing, to try to hyperinflate away defeated Germany's war debts and reparations payments.

At the very end of 1923 a man named Hjalmar Schacht took over the central bank, the Reichsbank. Schacht used a large international loan organized by the House of Morgan to remove the foreign payments pressure. He used the introduction of a new currency, which Schacht made extremely scarce, to suddenly kill the inflation. As you see at the bottom of **Figure 1**, at the end of 1923: just about 4 new marks, called Rentenmarks, to the dollar—for the next ten years. Schacht and the government used the extreme shortage of currency to impose brutal economic austerity, defeating all proposals to add any productive credit to the economy.

Suffice to say that Germany's unemployment rate was 12% *before* the 1929 collapse.

So, hyperinflation is, indeed, "transitory," as our current central bankers insist—they may wind up ending it abruptly with its opposite, deflation, with potentially murderous results.

Germany was a special case. The general case, then, in the '20s in the United States and over most of Europe, was that the pre-World War I regulation of commercial banks was dropped. Big commercial banks were allowed to take over investment banks and form stock-speculation trusts, and bank holding companies were allowed to own investment banks as well as what we call today "shadow banks" of all kinds. They became what are called "universal banks," offering "one-stop banking." That term was used by Wall Street in the 1920s as well as now.

Especially in the United States, big Wall Street and Chicago banks formed speculative partnerships with smaller banks all over the country, selling them securities which these small and middle-sized banks sold in turn to their customers. In the United States, Germany, Italy, France, and Austria, the big universal banks became loaded with deposits, but cut back drastically on lending—which also is the case now.

'Quantitative Easing' vs. Glass-Steagall

The Federal Reserve even made liquidity loans to the big banks, and even bought securities from them—Quantitative Easing—in 1923, 1924, and 1927.

These banks brought on the stock crashes and bank bankruptcies of 1929-33.

The process is well and thoroughly described in a book published last year by Prof. Arthur E. Wilmarth of George Washington University, titled *Taming the Megabanks: Why We Need a New Glass-Steagall Act.*

That was the solution. In the United States, the commercial banks were reorganized with their speculative securities washed out and written off, in Roosevelt's Bank Holiday in March 1933. That reorganization was made "permanent" by the Glass-Steagall Act three months later.

That write-off was deflationary. It meant that new credit was necessary on a large scale. Roosevelt said at a press conference on April 19, 1933,

> You see, upon the closing of the banks we put away somewhere around four billion dollars. It was probably locked up [i.e., worthless —ed.] before, but people did not know it. Now it is locked up, and people do know it. That is deflationary.

So, he knew immediately upon reaming out these "universal banks," that the Tennessee Valley Authority and Four Corners infrastructure projects were immediately needed, as also the Reconstruction Finance Corporation as a kind of national bank for production credit, immediately—an *essential part of* Glass-Steagall. That was the actual solution then.

The LaRouche Solution

Here is Lyndon LaRouche, now—actually in 2010, after the crash which he had tried to prevent by promoting the restored Glass-Steagall Act in Congress.

> And if we do that in the United States, if we put through a Glass-Steagall reform, this will wipe out trillions of dollars of worthless paper. But wiping out trillions of dollars of worthless paper and discontinuing the authority of certain kinds of banks, the speculative banks, would mean that we will be able to save the U.S. economy, at least within the United States….
>
> Then, we have to create a new system of credit, and in creating a new system of credit, we have to go to a fixed-exchange-rate system among the nations which participate in the reform. By going to a fixed-exchange-rate system, we can maintain basic borrowing costs in regular loans, of 1.5% or something like that as a base rate.
>
> We can then, and must, adopt a perspective of about two generations, about 50 years, of rebuilding the world economy. The emphasis in the beginning, because we've destroyed so many industries and so much agriculture—the tendency will be to go to infrastructure programs. Like mass transportation, for example rail, maglev systems; improvements of water systems, as well as mass transportation; to a much-expanded emphasis on nuclear power as a source of power; to improvements in municipal systems and so forth. The improvement in the area of basic economic infrastructure, will create a demand for production from industry.

That's the start of the solution *now.*

The Crash of 2007-08

The "universal banks" which had caused the 1929-33 crash, banned by Glass-Steagall for half a century in the United States and much of Europe, came back with a vengeance from the late 1980s. After London's "Big Bang bank deregulation" of 1986, the regulators allowed universal banking everywhere. Today it is banned only in China.

The 2007-08 financial crash, as everyone knows, was based on a bubble of mortgage debt created by Wall Street and London universal banks and their pet mortgage companies. (See **Figure 2**.) Households could not afford the soaring home expenses, so they borrowed against their homes, thinking, at the same time, to make money through the unending inflation of home prices.

Of course, this $10 trillion in debt, grown up by 2008, double what it was five years earlier, was only one small part of the worldwide debt bubble that crashed; on top of it was $10 trillion in mortgage-backed securities and perhaps $100 trillion in other derivatives bets.

After this crash, the solution was rejected: LaRouche's Glass-Steagall solution—breaking up the universal bank holding companies and writing off their worthless securities, as well as banning home foreclosures while this was done—was rejected. Instead the central banks began coordinated massive money-printing to keep these universal banks liquid as their bets went bad, and supposedly give them enough reserves to survive their *next* crash.

The mortgage debt bubble was then replaced by an even larger global bubble of corporate debt (See **Figure**

FIGURE 2

U.S. Mortgage Debt

Trillions of Dollars

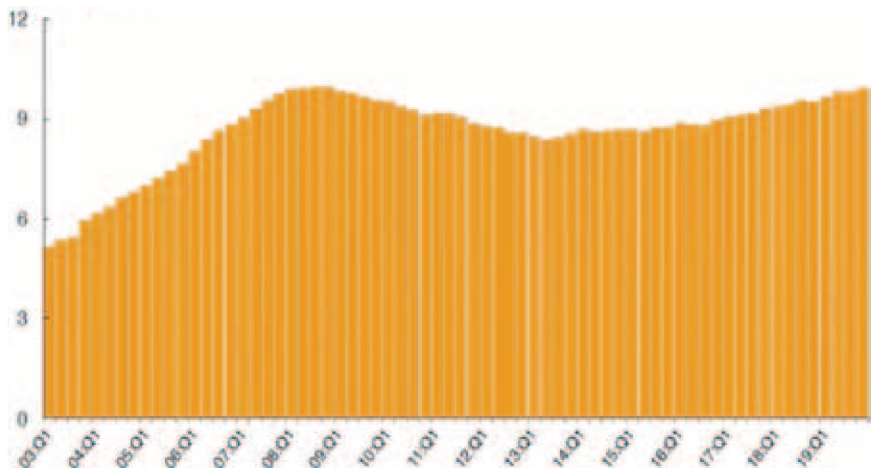
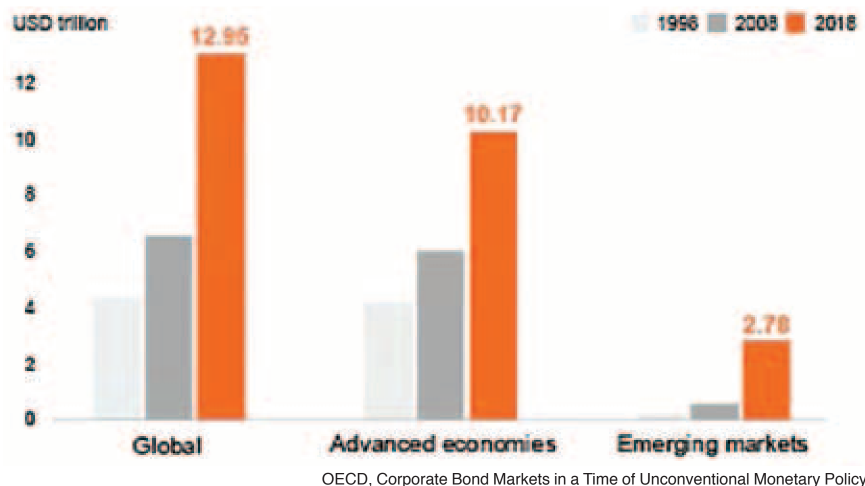


FIGURE 3

Risks Are Rising in the Corporate Debt Market

Total outstanding amount of corporate bonds issued by non-financial companies



OECD, Corporate Bond Markets in a Time of Unconventional Monetary Policy

3.) Some $13 trillion of corporate *bond* debt was issued from 2008-18—the tall red bar—more than in the previous two decades combined (the two gray bars).

This is just one category. The total corporate debt bubble is now more than $80 trillion; in the United States, $12 trillion, double since 2010. And on top of that are debt securities, and hundreds of trillions in interest-rate swaps and other derivatives.

Figure 4 shows the claimed assets of the four biggest Wall Street universal banks combined—a big expansion *during and after the 2008 crash they had caused,* then slower but continuing growth, to monstrous size, while being fed by the Quantitative Easing money-printing of the Federal Reserve.

And then there is the immense Wall Street asset management firm, BlackRock, Inc., counted on by Prince Charles and the Great Reset oligarchs to force thousands of companies out of fossil fuels and out of carbonized industrial processes, and into wind parks and solar farms. BlackRock was called "a giant that emerged from the crash" under the Fed's Quantitative Easing; its assets under management were $1 trillion in 2008, $6 trillion in 2017, almost $9 trillion now.

Hjalmar Schacht's 'Regime Change' Fascism, Again

This is all only the *prelude* to what started in Autumn of 2019, when what the central bankers themselves called the "regime change," and which is about to blow out now.

Go back to Mr. Hjalmar Schacht, the German central banker in the 1920s. After 1929, Mr. Schacht took a few years off to raise funds for Hitler from banker and industrial friends in Germany and London, and to campaign for the Nazis in 1932 and early 1933 elections. He found time to be in on founding the Bank for International Settlements in Basel, Switzerland, the so-called "central bank for central banks." And he was quite a favorite with Bank of England Governor Montagu Norman, and became a favorite with British economist John Maynard Keynes.

In 1933, Schacht charged back in as Hitler's President of the Reichsbank, and in 1934, as Minister of Economics, with much more power than he'd had ten years earlier. Back then, the deflationary Mr. Schacht had made currency very scarce; now, he printed money as no central banker ever had before. The "Mefo bills" he printed were his idea, not Hitler's or Goering's. He had a circle of the biggest banks and industrial arms producers form a dummy company, massively issue their own IOUs, and his Reichsbank bought them with new currency. By this plan he took fiscal powers of the Nazi government, making the central bank dominant in

FIGURE 4

Wall Street Big Four Combined Assets, from Crash to 2018

Year	Assets
2007	$4.05 Trillion
2010	$7.45 Trillion
2015	$8.20 Trillion
2017	$8.40 Trillion

what was supposedly government spending.

That was a central bank "regime change." More important was its purpose—a huge shift in economic activity across the board. In just two years 1933-35, Schacht drove arms production from 2% of Germany's GDP, to 20% of it. Some other industries—for example, textile and clothing production, agricultural implements, housing construction—were throttled in the process. In the context of that shift began the labor camp system which gradually evolved into the horror of the 20th Century.

There was the model. Lyndon LaRouche made a huge issue of it in the early 1970s, when Roosevelt's Bretton Woods system was destroyed, warning that what resulted would be "Schachtian fascism."

In August of 2019 central bankers met at the Federal Reserve's annual Jackson Hole, Wyoming Economic Symposium, and discussed a proposal by former central bank leaders from four countries, now all executives at BlackRock, Inc., the world's biggest financial firm. They called it "regime change": It was time, they said, for central banks to take control of spending powers from governments. The Symposium also discussed a presentation by Bank of England Governor Mark Carney, "Mr. Zero Carbon" of central bankers, who said the central banks would have to create a synthetic world reserve currency they controlled to replace the U.S. dollar. The reason for both proposals: The central banks must finally succeed in their ten-year "mission impossible" after the 2008 crash, to set off inflation. They must create huge amounts of *consumer demand,* by printing money and directly helicoptering it out.

Financial Bubbles and Speculation

The truth, of course, was that *governments* needed to create demand for capital goods, new technologies, and productive employment, in the way that Lyndon LaRouche had laid out—by issuing credit for new, great projects of infrastructure. But such investments had been dropped 50 years earlier when FDR's Bretton Woods system went down. Instead, the central banks arrogated to themselves vast consumer demand for goods and services by their own money-printing.

Of course, it would be primarily wealthy consumers who would do this consumption, because their wealth would be *greatly* increased in the process through the stock market and similar means.

In fact, whatever volume of currency these central banks were going to be printing was doomed to be largely absorbed into new financial speculations of the biggest Wall Street and London firms. But the regime change went ahead, beginning with the Federal Reserve's resumption of Quantitative Easing in early October 2019, followed by the European Central Bank. The excuse was the U.S. interbank-lending crisis, the so-called "repo crisis," of September 2019—no pandemic was yet in sight to be blamed for this.

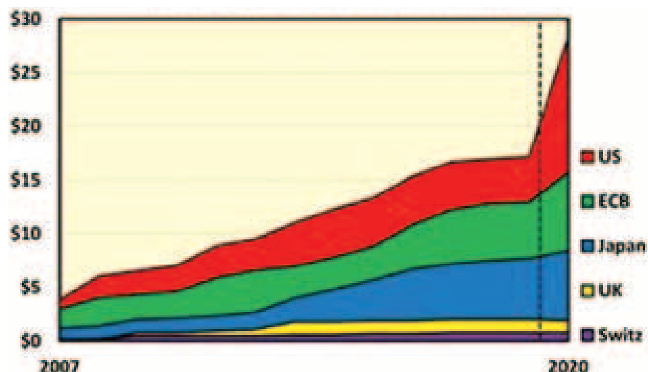
Figure 5 charts the scale of that late 2019 acceleration in trans-Atlantic central bank liquidity—and reserves-printing through the universal banks. Up until now, I've been showing you graphs, until now, which ended in 2018 or 2019. That was to make clear the dramatic shift that came under the central banks' "regime change" policy, which is clearly visible in Figure 5, starting in the Fourth Quarter.

Look now at **Figure 6** and you will see the effect of that "regime change" on the universal banks. Data here is from JPMorgan Chase, the biggest Wall Street bank.

FIGURE 5

Global Quantitative Easing

(trillions of dollars, cumulative amount)



Look at the increase in its size, just from the Fourth Quarter of 2019 to the first quarter of 2020: an approximate $250 billion increase in deposits, and an approximate $450 billion increase in assets—in one quarter. And this has continued: JPMorgan's assets have now exploded by a full 30% in one year.

But look at Loans (and Leases), as shown in the lower part of Figure 6. Effectively no change from the First Quarter of 2019 through the First Quarter of 2020. There is no change in the Loans and Leases in those banks, just as their assets are exploding. Just like the 1920s, the megabanks are getting monstrously bigger in deposits and assets, but they are not lending. The central banks have created huge "undead" universal banks, which essentially cannot fail—because the central banks will not allow them to fail no matter how much of their assets blow out—but they also *cannot lend.*

FIGURE 6

Assets and Deposits Skyrocket in 2020—Loans ?

Assets	$2.60 Trillion	$2.60 Trillion	$2.70 Trillion	$2.65 Trillion	$3.15 Trillion
Deposits	$1.50 Trillion	$1.50 Trillion	$1.50 Trillion	$1.55 Trillion	$1.80 Trillion
Loans	$0.90 Trillion	$0.95 Trillion	$0.90 Trillion	$0.95 Trillion	$0.96 Trillion
	1st quarter 2018	4th quarter 2018	1st quarter 2019	4th quarter 2019	1st quarter 2020

J.P. Morgan's Assets, Deposits, and Loans

This must be stopped! The Glass-Steagall reform, as FDR and LaRouche each understood it, is the weapon to stop it.

Figure 7 shows the assets of the Federal Reserve itself; it is, after all, a bank, which creates its own new assets, against a very thin slice of capital, by printing money. Figure 7, although recent, can't keep up; the Fed's asset book is over $8 trillion as of early this month. So, it is 10 times its size of 2008! Again, look at the sudden shift and acceleration in late 2019—the start of the central bankers' "regime change."

FIGURE 7

Total Assets, Federal Reserve: Wednesday Level

Board of Governors of the Federal Reserve System

The purpose of this "regime change" has become clearer since August 2019, especially with Mark Carney's new role as the UN Special Envoy on Climate Action and Finance, while he still issues more and more central bankers' orders in public speeches: Companies must go zero-carbon or die, he says; investments in fossil fuels must stop, he says; developing countries must accept "carbon credits" as payment to stop their own development, completely; banks and big fund managers must enforce the total investment shift out of fossil fuels and into "green" technologies.

Like Hjalmar Schacht before them, today's central bankers are using their money-printing and regulating power, together with the biggest trans-Atlantic universal banks, to drive a dramatic shift in economic activity. Their great shift is into what they intend to be a $30-40 trillion "green finance" bubble which will get them through a global debt collapse. The so-called Great Reset.

This must be stopped! Is it like the Weimar hyperinflation, or the verge of a deflationary collapse? Central bankers have created both. What is critical is that it must be stopped. Glass-Steagall break-up of these banks in every nation, and nationalization of central banks to create national credit institutions for productivity and productive employment, is the way to do that.