

Dump Bernanke Before He Destroys the Dollar!

by John Hoefle

Oct. 17—We have long warned that the bailout policy of Federal Reserve chairman Ben Bernanke would sink the dollar, and with it, the global financial system. Some of our international creditors have expressed the same concerns.

Notable among them, are the Chinese, who have been quite vocal in expressing their anxiety. China and Japan are the top foreign holders of U.S. Treasuries, with \$797 billion, and \$731 billion, respectively, as of August 2009, well ahead of the third-place United Kingdom, with \$226 billion. Were China and/or Japan to either stop buying our securities, or begin to liquidate their holdings, the U.S. would be in deep trouble.

China, especially, is worried that the actions of Bernanke will destroy the dollar and, thus, obliterate the value of its holdings. To mollify these concerns, a number of U.S. officials, including Treasury Secretary Tim Geithner, have repeatedly promised the Chinese that the U.S. would keep the dollar strong.

However, despite official promises from the U.S. government, the recent actions indicate that the Fed is taking steps to deliberately devalue the dollar. This devaluation policy has, according to an informed banking source, triggered an intense debate within the Fed. Officials of some of the regional Federal Reserve Banks, more grounded in reality than the bubbleheads at the Federal Reserve Board in Washington, seem to understand that lying to our creditors is not a smart



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“What Bernanke is doing is the worst possible thing you can do,” Lyndon LaRouche commentend about the Fed chairman’s insane policy of driving down the dollar. It’s time for him to go.

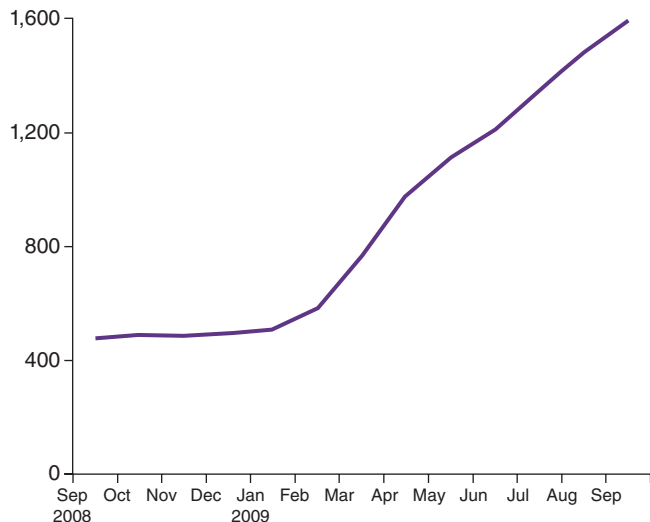
move, especially when we need their cash to avoid a complete shutdown of the Federal government.

“What Bernanke is doing is the worst possible thing you can do,” Lyndon LaRouche said in response to the source’s report. “Bernanke is making a liar out of the U.S. government. Government officials promised to defend the dollar, but Bernanke’s policy is to sink it. It’s time for Bernanke to go.”

FIGURE 1

Fed Holdings: All Securities

(\$ Billions)



Source: Federal Reserve.

“Bernanke must be dumped,” LaRouche continued. “The U.S. Presidency made a promise to China, but Ben Bernanke is now overthrowing that agreement. This is intolerable! If we have to choose between Bernanke, who is useless anyway, and one of our key partners, China, which is very important to us, we’ll choose China over Bernanke every time!”

“The U.S. can’t afford his [Bernanke’s] mistakes, which appear to be chronic rather than episodic,” LaRouche added. “Under the circumstances of a global financial meltdown, such actions threaten to plunge humanity into a New Dark Age.”

“There are some regional bankers and economists who know what I’m talking about, because they know how bad things are in their Federal Reserve districts,” LaRouche concluded. “They should join me in demanding that Bernanke leave at once.”

Dollars to Cents

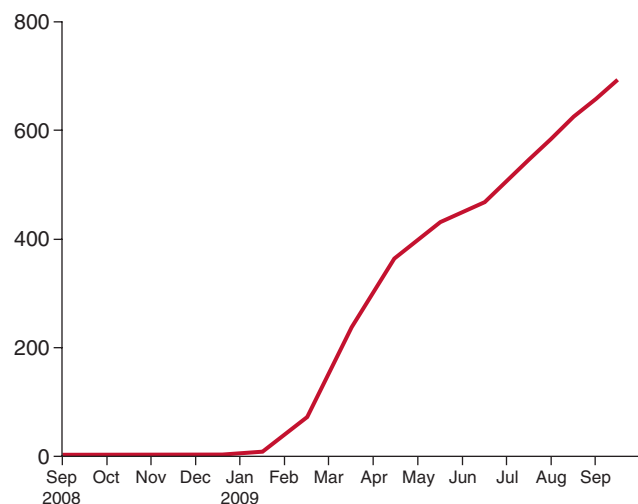
Despite all the talk about winding down the bailout, the Fed remains firmly committed to the policy. The Reserve Bank has more than tripled its holdings of securities this year, from some \$500 billion at the end of 2008, to \$1.6 trillion in September **Figure 1**. Nearly \$700 billion of that increase comes from purchases of mortgage-backed securities **Figure 2**.

To pay for these purchases, the Fed has been print-

FIGURE 2

Fed Holdings: Mortgage-Backed Securities

(\$ Billions)

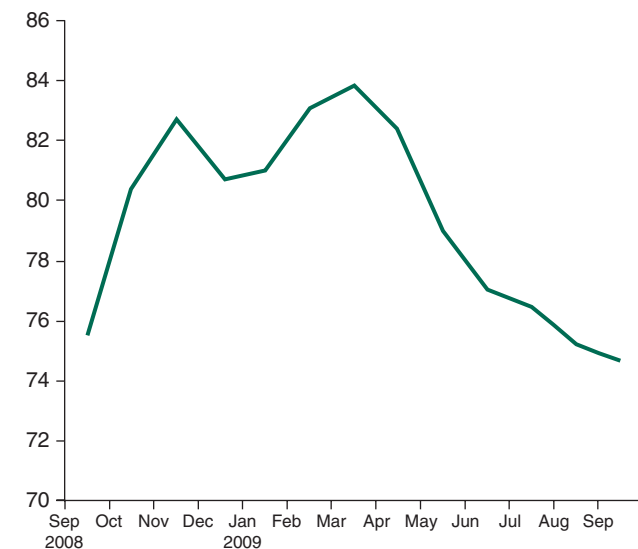


Source: Federal Reserve.

FIGURE 3

Dollar Plunges Against Major Currencies

(Indexed to a Basket of Currencies, March 1973=100)



Source: Federal Reserve.

ing money at a staggering clip. By its own admission, it has doubled its balance sheet to \$2 trillion since the financial system collapsed in July 2007, and we see no reason to believe that the Fed is telling the whole truth. Given the way Bernanke has repeatedly lied to Con-

gress and the public, and given the vehemence with which the Fed is fighting all efforts to submit to an audit, or reveal the details of its bailout expenditures, it is obvious that the bank has a lot to hide. We can't help but wonder whether that includes lying about its balance sheet.

One thing is clear, however: the Fed's money-pumping is making the world quite nervous. This can be seen in the rapid decline of the value of the dollar. **Figure 3** shows the value of the dollar against a basket of major currencies over the past year—the same period as Figures 1 and 3. Comparing the graphs, one can easily see that the more money the Fed pumps to buy securities, the faster the dollar falls. Bernanke is killing the value of the dollar, along with the rest of the economy, with his insane bailout scheme.

He may not have any sense, but he is certainly reducing the value of a dollar to cents. A bad pun, perhaps, but a horrible policy.

Deficits

The effect of this horrible policy can also be seen in the growing gap between the Federal government's revenues and expenses. For Fiscal Year 2009, which ended Sept. 30, the Federal government ran a budget deficit of \$1.4 trillion, a trillion dollars more than the deficit for FY2008. These are the official figures from Obama's Office of Management and Budget, which are full of accounting tricks—like most financial statistics these days, the deficit number represents a “what we're willing to admit” approach, with reality being far worse. But you don't have to have an exact number to know that the bottom has fallen out, and that the situation is unsustainable.

These deficits are, of course, funded with borrowed money, and, with the dollar falling, foreign investors have less reason to buy U.S. debt. Especially, as it becomes more obvious that the U.S. is planning to redeem that debt, as it comes due, with devalued dollars.

The only reason that China, Japan, and others might continue to lend money to the U.S., is the fear that, if they don't, the U.S. government will collapse, rendering their entire holdings worthless. That is a valid fear, and one the Obama Administration is obviously playing upon.

The Triple Curve

Ultimately, it doesn't matter whether people buy our securities or not, because the dynamic controlling ev-

erything in the economic/financial sphere is the process represented by LaRouche's “Triple Curve” (see p. 17). While most of the attention of the bailout crowd is focussed on the upper two curves—the monetary and financial aggregates—it is the lower curve, representing physical-economic activity, upon which our future depends.

Despite the claims of the idiots of Wall Street and the City of London, it's not money that makes the world go 'round, but physical-economic productivity. You can't eat money, though perhaps at some point in the near future, it might be feasible to build a rudimentary house out of bundles of worthless currency and securities. In Weimar Germany people took to burning their worthless currency in furnaces to keep warm, so keep that in mind if you have a fireplace. As the not-such-a-joke goes, the good news is that we'll all become trillionaires; the bad news is that that's what a loaf of bread will cost, if you can find one.

Physical production in the U.S. has gone flat, bolstered only a little by the way in which the falling dollar has made the remaining U.S. products cheaper to foreign buyers. Call it Bernanke's clearance sale, or maybe a going out of business sale. Either way, it's an ominous sign.

What is required, urgently, is a crash program to rebuild America's productive base, our infrastructure and our industry, so that we may begin to produce wealth again. For that, we don't need bankers, except in a narrow supporting role. What we need are old-fashioned blue-collar jobs, the kinds of jobs where people build things, where people spend their time doing things like transforming ores into metals, and metals into machines and structures that increase the power of human labor. We need scientists to push back the frontiers of human knowledge, and engineers to put those breakthroughs to work. We need a national mission, like a Moon-Mars program, to focus our attention on the possibilities of the future, to give us a sense of optimism, to allow us to regain that sense that we can control our own destiny.

We stand at the edge of the precipice, from which we can either plunge into oblivion, or soar into space. Let us choose the latter, beginning with the implementation of the “LaRouche Plan” (see *EIR*, Oct. 16) Far better that we travel to Mars, than to descend into the Hell of a New Dark Age, down the road paved with Bernanke dollars.

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