

Crisis Escalates: Deflation Today, Hyperinflation Tomorrow

by Helga Zepp-LaRouche

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“Helicopter” Ben Bernanke’s ludicrous decision to lower the U.S. Federal Reserve’s interest rates to practically zero percent, thereby, in effect, setting no limits on cranking up the money pumps, supposedly in order to counteract spreading worldwide *deflation*, has struck terror even in dyed-in-the-wool free traders and neoliberal commentators. Suddenly, the *Frankfurter Allgemeine Zeitung*, *Die Welt*, the *London Daily Telegraph*, and others are warning of the peril of exploding *inflation*. How can it be that on the one hand, we have the collapse of prices of raw materials, energy, and consumer goods, shrinking corporate profits, and growing unemployment; and on the other, we have the threat of inflation?

This apparent paradox is what happens when you intermingle real economic processes with virtual monetary ones. The current collapse in prices is the result of the dramatic slump in the real economy, which is collapsing at unheard-of rates, in no small part, because of the 16-month-long bank credit crunch. The worldwide crisis in the auto sector, which, at least in the United States, comes on top of

serious structural problems, is symptomatic of the population’s purchasing behavior during a depression: People are simply afraid—not of the future, but of the present.

Bernanke, as a good student of Milton Friedman, now claims that he doesn’t want to repeat the same errors which the Fed made during the 1930s Depression, and that he therefore wants to use a wide-open money spigot to provide the necessary liquidity so that companies can invest and buyers can consume more. But this is simply a fairy-tale invented for credulous grown-ups.

In fact, the enormous amount of liquidity, to the tune of billions, which the Fed and other central banks have been pumping into the markets since the mortgage crisis erupted in the United States in July 2007, has gone primarily into acquiring “toxic” securities.

The Fed’s current zero-interest-rate policy, which is also being pursued by the Bank of Japan, primarily signals the following: The huge mountain of bad debt, which amounts to a couple quadrillion dollars (!), must be honored “with all means at our disposal,” as the *Frankfurter Allgemeine Zeitung* put it on Dec. 18. And that, according to the *FAZ*, can quickly lead to “galloping inflation.” *Die Welt*, meanwhile, worries that “the bubble which could form, will be bigger than

the entire U.S. subprime market. And anyone can see what the terrible consequences of that would be.”

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These quotes have been highlighted here, not because of any originality on the part of their authors, all of whom are foot-soldiers in the army of free-market advocates, and all of whom, until recently, had “completely underestimated the extent of the problem.” Rather, it’s because they demonstrate how the analysis which Lyndon LaRouche and the BüSo have been setting forth ever since the early 1990s, since their 1997 call for a New Bretton Woods, and emphatically since LaRouche’s July 25, 2007 webcast, has now been adopted even by the totally controlled media, namely: Continued attempts to honor the trillions of dollars of financial toxic waste, threaten to ignite a hyperinflationary explosion similar to what occurred in Germany in 1923, only this time it will be worldwide.

Keynesian economic stimulus programs will not change anything. According to reports, as soon as he takes office, President Barack Obama will implement an \$850 billion investment program—though it remains to be seen whether most of this will be put into productive investment, or into “green” projects. The key question in this regard, will be whether his Administration will be inclined to get rid of the financial toxic waste, i.e., to put the system through a regular bankruptcy procedure. Once that were done, such an investment program, in the tradition of Franklin Roosevelt’s New Deal, could in fact set the U.S. economy back into motion, by creating new productive capacities.

Despite these imponderables, it is a small, but good sign of the times, that Chancellor Angela Merkel—more or less in tandem with the new U.S. Administration—intends to launch a new Eur40 billion economic stimulus program. Even though current investment needs for infrastructure in Germany run into the trillions, and therefore any investment is useful, her planned program appears to be a real patchwork. A sweeping initiative, on the other hand, would be to relieve the highway system by investing into a Transrapid maglev rail, not only for passengers but also for freight, along with modern switching systems such as CargoCap, in the context of a New Bretton Woods system, and the extension of the Eurasian Land-Bridge.

Because even though any investment is welcome

in Germany’s domestic market—a sector which has been woefully neglected ever since the introduction of the euro—the economic stimulus plan as currently envisioned does absolutely nothing to prevent German export markets from breaking away from China and other countries. And considering that Germany’s annual production of goods and services totals Eur2.6 trillion, an initial Eur12 billion, and a subsequent Eur40 billion of investment into stimulus programs, is quite a small sum. So, even though the very idea of a national-level, state-sponsored investment program does represent a small step toward a better paradigm, it still falls far short of what is required.

A Worldwide Crisis of Confidence

Up to now, no government statement, and nothing in the public debate in the media, has indicated any serious intention to delve further into the true causes of the current crisis of our financial system and of our entire civilization, or to analyze precisely why all the so-called experts were caught so completely “by surprise.” And the immense crisis of confidence will only grow worse until this occurs, and until the population can see those responsible grappling honestly with their own axiomatic thinking which led them into being so far off the mark.

What is the average citizen to think, then, when it’s not only clear that the banks have gambled all their money away, as the regulatory authorities and ministries have looked on helplessly while the top bank managers have stuffed their pockets full of cash—but also when the list of cunning scoundrels who have used ever more deceptive methods, grows longer by the day—Enron, Worldcom, Parmalat; the former chairman of the NASDAQ, Bernie Madoff, who is accused of embezzling \$50 billion (!); crackdowns against the directors of Hypo Real Estate for covering up losses, just as that institution has skimmed off Eur30 billion of taxpayers’ money? And, on top of this, more news that stock traders and others have been involved in insider trading deals amounting to millions? The entire casino economy is evidently based on nothing but corruption, lies, and deception.

The propagandists of this game have apparently become insensible to the effect of their actions. What else can we think, when *FAZ* reports on one page how prosecutors in Germany, Switzerland, and the United States, in concerted action, have launched proceed-

ings against a gang of con-men who tricked investors out of several million euros with the help of market newsletters, press releases, “inside tips,” faked deals, etc. And then, on the very same page, the paper cites one Miguel Corte-Real, director of stock market products at Fidelity, saying that “the fear of a collapse of the financial system has subsided considerably.” And Gary Clarke, director of European stocks for Schroder, declares: “But we’ve arrived at the point where it appears reasonable to slowly go bargain-basement hunting, since so many companies are being traded at low values.” Are these already the “insider tips” for the next round?

‘The Brink of the Abyss’

In fact, nothing has subsided *less*, than fear of a total collapse of the financial system. Economic prospects are growing increasingly dim: The so-called IFO Economic Index, a business climate index, fell for the seventh time running, this time more sharply than expected. In this connection, the notorious Germanophobe Ambrose Evans-Pritchard, writing in the *Daily Telegraph*, cites the Düsseldorf IMK Institute saying that Germany’s economy is on “the brink of the abyss,” and for the coming year forecasts negative growth of 3.5% (!). And Carsten Brzeski, ING’s Europe economist, is quoted saying, “One thing is evident: The current downturn could behave like a boulder that is rolling down a hill. Once it gains momentum, it will simply mow down everything in its path. It has to be stopped in time.” Meanwhile, the collapse of the dollar and the British pound, and the renewed upward climb of the euro, portend additional problems for Germany’s already beleaguered export sector.

Governments must finally wake up. Unless something is seriously done to reverse the growing crisis in public confidence, especially among the youth, the kind of social unrest we recently saw in Greece is a mere foretaste of what will erupt in other countries. French President Nicolas Sarkozy appears to have understood as much, when he recently cancelled the hated school reform, in order to cool down the climate among the students and in the poor suburban districts. But there have already been similar disturbances in Spain and Sweden.

The crisis is bound to grow worse, until the program which LaRouche and the BüSo have long proposed, is implemented.