

First Deflation, Then Hyperinflation: The Economy Needs a Global ‘New Deal’

by Helga Zepp-LaRouche

Mrs. LaRouche is the Chancellor candidate of the Civil Rights Solidarity Movement (BüSo) for Germany’s Sept. 27 elections. Her article has been translated from German and subheads added. Her next campaign webcast will be on Aug. 21 at 6:00 p.m. Central European Time, with simultaneous translation into English, at <http://bueso.de>.

Aug. 15—Various “economists” and commentators are declaring that the fabulous 0.3% growth in Germany’s gross domestic product just announced by the Federal Statistical Office, marks the “end of our free-fall.”

But their statements are just about as definitive as the moment before a mountain climber falls, as he momentarily hangs from a rock outcropping, before plunging 1,000 meters to his death. The assertion of a statistical 0.3% growth does not reflect reality, which is dynamic. The prognosis remains unchanged: Very soon, the present brief phase of deflation will be supplanted by a hyperinflationary price explosion. Moreover, by late September or early October at the latest, there will be a crash that will make all previous crashes look like a picnic.

Even though the connection between the breakdown crisis and the U.S. population’s ongoing nationwide revolt against the Obama Administration is plainly evident, the German media are behaving about as realistically as a child who shuts his eyes and says, “Now I am invisible!” But just because you’re blind, doesn’t mean that reality disappears. However the German media might try to imitate Karl-Eduard von Schnitzler’s Black Channel, ¹ the fact remains that we have entered into a



The Civil Rights Solidarity Movement (BüSo) website. Helga Zepp-LaRouche is the party’s candidate for Chancellor in the Sept. 27 elections.

new phase of world history.

The behaviorist economists of the Obama Administration have now failed in their attempt to finance part of the cost of their bailout package to the bankrupt banks, by implementing brutally drastic cuts in the health sector. The U.S. population is in a state of revolutionary revolt. What has thrown people into a rage, is the fact that many millions of them have lost their jobs and their homes, while trillions of dollars of taxpayers’ money has been given to the banks; and, against that backdrop, the proposed government-enforced end-of-life cost reduction—i.e., euthanasia—the kettle has boiled over. This transformation in the United States will also now become a determining factor in the rest of the world.

What ‘Upswing’?

In Germany, despite the tiny 0.3% increase in the Second Quarter—which the Federal Statistical Office

1. From 1960 until the Fall of the Berlin Wall in 1989, Karl-Eduard von Schnitzler faithfully served East Germany (the Communist G.D.R.) as

chief propaganda mouthpiece, via his Black Channel TV program—ed.



telefunke.worldpress.com

Germany's industrial collapse: This National Railways maintenance and repair facility in Potsdam was built in 1838, and functioned continuously until the last locomotive rolled out in December 1999.

qualifies by noting that, due to differing reporting periods in the various economic sectors, precise figures will only be available four years from now—the statistics from the individual sectors show an unparalleled collapse. The country's top steel producer, Thyssen-Krupp, for example, reported a catastrophic 34% collapse in sales, and a 48% drop in incoming orders. The firm is now going to sell its shipbuilding division, Bloom & Voss—which up to now has built ships for the German Navy—to a sheikh in Dubai. There have been massive layoffs in many other industrial sectors.

French Finance Minister Christine Lagarde correctly ascribed France's equally small 0.3% reported growth to short-term, and short-lived measures such as their "cash-for-clunkers" program, short-work, and tax relief for low-income wage-earners. An even bigger explosion is in store, once these programs end this Autumn and Winter.

All of Germany's traditional export markets are declining, and in the Eurozone, which absorbs over 50% of Germany's exports, economic activity declined by 4.5% in the second quarter. For the ninth month running, China's exports have declined in comparison to the previous year, with the July drop at -23%, while imports dropped -15%. The U.S. economy is in free fall. Thus, with only a few mini-exceptions, the prospects are dim for Germany's export economy.

In view of the obvious deflation underway in the Eurozone, many are pooh-poohing the threat of an on-

coming period of hyperinflation. Prices have, in fact, been declining: -1.4% in Spain, -0.6% in Germany, -0.7% in France, and even -5.4% Ireland. But when one considers the enormous dimensions of the collapse in production, especially the dramatic decline in shipbuilding, shipping container manufacture, and truck production, it becomes clear that it will not be very long before shortages of key commodities become perceptible.

The current deflationary trend stems from the fact that firms, chain stores, and retailers are at least partially selling off their goods at below cost, to hold out against their competitors, who are equally pressed in this shrinking market. The discount chains' price wars over milk products will mean that many dairy farmers won't be able to maintain their dairies; and once the cows are gone, the milk will be gone,

too. Other products are also going to become scarcer, or will disappear entirely from the shelves, as a result of the massive layoffs now being planned by industrial firms. And once the population begins to perceive these shortages, it won't only be the speculators who start speculating with these goods, but ordinary people will start hoarding them in their cellars; and then, deflation will very quickly turn into rampant inflation.

Debt and Unemployment

But the real elephant in the room which most commentators don't want to see, is the enormous burden of public indebtedness which governments have foisted upon taxpayers, with the bailout money they have handed over to bankrupt banks. The official debt in the U.S. Federal budget is \$13 trillion, which corresponds to 100% of the gross domestic product; but total government debt is an astounding \$56 trillion, 4.3 times larger than the GDP.

Faced with this situation, the United States is obliged to sell considerably more government debt, but on a shrinking market. Who is going to buy this paper? Japan? Saudi Arabia? China? Hardly, or at least not in the required amounts, since China is already concerned over whether the United States will be able to honor the approximately \$800 billion which China already holds in the form of various U.S. government securities. The United States will soon lose its ability to finance its enormous deficits, since 48 of its 50 states are now bankrupt.



The BüSo campaigns in Saxony, Aug. 8, 2009. The sign reads, "Saxony's Economy Has To Grow."

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"Armageddon" this Autumn. With a GDP in free-fall, with small and medium-sized firms in dire straits, and thousands of jobs in danger of being eliminated, there's a very real threat of massive social unrest, he said.

And not only in Italy: Regardless of the minuscule 0.3% upswing in Germany and France, there is no doubt that unemployment will grow considerably, the credit crunch will expand, industry will not invest, and export markets will collapse further. It is therefore foreseeable that the entire economic, political, and social situation could become completely unhinged within a few short weeks.

Only people with ideological blinders could harbor the illusion that the disintegration of the United States, and of the dollar, is an internal American domestic issue, and that, for example, the Eurozone could recover unscathed by such a collapse.

In reality, not only China, but also the entire world's economic and financial system would be plunged into chaos, with devastating political and social ramifications. The world would be plunged into a new Dark Age.

The figures for the European Union are also unprecedented, and are only smaller in comparison to those of the United States. In the period between October 2008 and mid-July 2009 alone, the EU approved EU2.9 trillion in guarantees for banks, which is 31.2% of all economic output. At the top are banks in Denmark, which received 259.4% of the country's GDP in state aid; and in Ireland, with 231.8% of GDP; while in Italy, it was only 1.3%. Experience shows that up to 90% of these guarantees are actually claimed. On top of this, the European Commission has approved EU313 billion of recapitalization measures for banks. National government debt has also increased enormously in Europe.

The Italian parliamentarian Antonio Di Pietro, who became infamous because of his participation in the 1992 meeting on the *Britannia*,² recently predicted an

A Brief Window of Opportunity

If you look back in history, you see that there were certain situations where there was only a brief window of time during which a catastrophe could have been averted. Once that opportunity was missed, the misfortunes took their course.

We are in such a situation today. A collapse can averted only if, within the coming weeks, the program proposed by Lyndon LaRouche and the BüSo is placed on the agenda: We need a bankruptcy reorganization for those banks which have become *de facto* insolvent, through their amassing of financial toxic waste, and we need state guarantees for all areas of public welfare that can be salvaged from the old system and brought into a New Bretton Woods system.

With his New Deal in the 1930s, Franklin D. Roosevelt led America out of the Great Depression. Today, we can simply copy many aspects of his program—such as protecting homeowners from foreclosure, bankruptcy protection for banks, and reconstruction of our infrastructure, after years of neglect—as a motor for full employment. And we should recall our own determination to rebuild Germany after World War II, which enabled us to transform our country from a rubble-field into the land of the Economic Miracle. We accomplished that, in part, with the aid of the Kreditanstalt für Wiederaufbau, an institution modelled on Roosevelt's Reconstruction Finance Corporation.

We urgently need a public discussion now on these questions. I'm available for that, anytime.

2. The secret meeting on June 2, 1992 aboard Queen Elizabeth's yacht, during which top Anglo-Dutch financial and banking executives met with their Italian counterparts to plot out the privatization of Italian state-owned companies and their sale at rock-bottom prices—ed.