Foolish Fed's Rate Cut Pumps Hyperinflation

by John Hoefle

Panic can be a dangerous thing, especially when it is the response by a central bank to global economic disintegration, and panic is just what the Federal Reserve did with its two interest-rate cuts in January. The combined 1.25 percentage-point cut was precisely the wrong move, amounting to more of the poison which has already killed the patient. The Fed is trying to save a system which cannot be saved, and in doing so, is leading the nation and the world into a Weimar Germany-style hyperinflationary blowout. We are headed, in the analysis of Lyndon LaRouche, into a "global breakdown crisis," a self-feeding downward spiral in which the financial system, the physical economy, and the political structures all collapse, leading to a chaos not seen since the Dark Age of 14th-Century Europe.

Open warfare has broken out among the power groups who see themselves running the world. This is an end-of-game fight for survival, to see who winds up on top of whatever pile of rubble remains, and this type of fight will destroy virtually everything in its path.

The alternative to this jackal-eat-jackal free-for-all, is for nations to act together in a harmony of interests, to protect their populations by putting the financial system through bankruptcy, and beginning to rebuild their tattered economies.

Have you ever wondered just why it is, that the financial markets are so obsessed with interest rates? Why a relatively trivial quarter of a point change can be treated as if the future of mankind were at stake? Have people lost their minds, or is something else going on, or maybe both?

The answer is, both. The fixation on interest rates is really a veiled reference to the giant gorilla in the room which no one wants to acknowledge: debt. From households to corporations to governments, debt has assumed a central role, and our economic policy has come to revolve around our ability to service existing debt and incur new debt. The fixation on interest rates is actually a fixation on debt.

After World War I, huge debts were imposed on Germany, at the same time that its economy was stripped of its ability to pay those debts; so the German government resorted to printing money to meet the reparations demands and protect its people. This process accelerated to the point where a non-linear transformation occurred, and the value of the currency imploded in a spectacular hyperinflationary collapse.

The Fed's actions, combined with the Bush/Paulson stimulus package, the injections of money by central banks into markets around the world, and related measures to try to salvage the global financial system, have reached the point where we are now on the verge of a Weimar-style collapse of the dollar, taking what remains of the global financial system with it.

The alternative to this, is to admit that the huge debts that have been incurred cannot be paid, and instead of destroying ourselves in a vain attempt to pay them, write them off. It will, in the long run, be far less painful than descending into a new Dark Age. We write them off, and start again, this time with sane economic policies.

Open Warfare

An historic battle between the British empire and the American nation-state is now playing out before our eyes, with the efforts of the British to lure the United States into a hyperinflationary suicide, in the guise of protecting the system. While much of this fight is being waged on unseen battlefields, reflections of it can be seen if one knows where to look. Barclays, the giant British bank, played a role in triggering the collapse of the subprime lenders in March 2007, when it demanded that New Century Financial buy back some $900 million of mortgage loans; shortly after, New Century, the second-largest subprime-mortgage lender, filed for bankruptcy. Barclays also played a role in the Bear Stearns hedge-fund crisis of last Summer, which fed the collapse of the global securitization system, the engine which converted unpayable debts into an even larger pool of speculative, and ultimately worthless, assets. The Canadian Imperial Bank of Commerce (CIBC), a British wolf in Canadian clothing, launched an attack on Citigroup; at the same time, CIBC was covering up significant problems of its own. The pressure at Citigroup grew when another British bank, HSBC, took its SIVs onto its balance sheet, making it more difficult for Citigroup not to do the same. The issue is not that Citigroup had problems, but that the British were exploiting those problems in open financial warfare against the United States.

Now we see the British press pushing the United States to attempt to "protect" itself through monetary stimulus. They are subtle about it, talking in the typical British way out of both sides of their mouths, some even warning that we have no choice but to continue down the bailout path even though it is the wrong thing to do. When it comes to deception, Perfidious Albion is a well-practiced master.

The British are targetting nationalistic tendencies among the political and financial institutions, trying to wipe out what are sometimes called "national champions." Citigroup is one such "national champion," in the sense that it represents an American power base which is an obstacle to a worldwide British Empire. Another of these "national champions" is Société Générale, the French bank which has just been hit with a huge scandal. (We are not defending the actions of these banks here, but describing them as obstacles to imperial goals, and thus coming under attack. It is an important distinction.)

The Société Générale Affair

The affair at Société Générale, as widely reported, involved the allegedly fraudulent activities of a single trader, one J@aaerôme Kerviel, who is blamed for Eu5 billion in losses. The blaming of huge losses on a single trader is a time-dishonored tradition among bankers, who would prefer to throw a single individual to the wolves rather than take responsibility themselves, but the issue of even a big loss such as this one is not particularly interesting when the system itself collapsing. What *is* interesting about the Société Générale affair is the way it appears to be a part of the larger fight for global domination.

EIR is still investigating this affair, but our preliminary findings raise some very interesting suspicions. The first is the timing. Société Générale officials say they discovered the fraud on Jan. 18, and completed their investigation Jan. 20. That is, they discovered it on a Friday, investigated it over the weekend, and on Monday, the 21st, began unwinding Kerviel's trades. That Monday, when the U.S. markets were closed for the Martin Luther King holiday, was the same day that world stock markets plunged in the general range of 5-8%. Knowing that the U.S. markets would drop sharply when they opened on Tuesday, the Fed initiated an emergency cut of three-quarters of a point before the markets opened, and then, presumably did its usual covert injections as the Dow plunged some 460 points; the Dow ended the day down just 128 points. The intervention was touted as a success, but in fact was a disaster, because the real issue is not the stock market but the dollar, and the Fed's action was dangerously hyperinflationary. To LaRouche and *EIR*'s investigators, the whole affair smelled like a trap to panic the Fed into lowering interest rates.

French President Nicholas Sarkozy was reportedly livid that he had not been informed of the matter beforehand, and has stated unequivocally that he has no intention of allowing Société Générale to be taken over by a foreign bank. Even more interesting were reports circulating in France that an American-French alliance against the British had formed around the NYSE Euronext stock market, the company formed by the merger of the New York Stock Exchange and the Paris-based Euronext. This alliance, it was suggested, was aimed at turning Paris into the center of European finance, displacing the City of London.

The role the British may have played in this operation is still under investigation, but it is worth noting that Société Générale, like many banks, conducts its derivatives trading through London, the center of the global derivatives trade.

As a response to the Fed's stupidity, LaRouche proposed that the U.S. immediately adopt a two-tiered system of interest rates, with low interest rates for specific productive projects, and higher rates for all other lending. The upper tier rate would be maintained at a level above that of the European Central Bank, which LaRouche identified as part of the British assault on the dollar. The move would seriously hurt, perhaps even bankrupt, the British interests who have been shorting the dollar to drive it down, and attract capital to the U.S. and the dollar. It would also serve to dry up some of the overall speculation in the markets, in preparation for the necessary implementation of the Homeowners and Bank Protection Act.

The need for such policies was made even more acute with the Fed's decision on Jan. 30 to cut the Fed Funds rate another half a point, to 3%, which LaRouche characterized with his customary bluntness as "clinically insane."

"Bush and Bernanke are out to sink the dollar," LaRouche said. "This has to be clearly said, and it has to be stopped. . . . This policy means Weimar Germany, 1923, hyperinflation revisited, and it is absolute lunacy for any government to take, or follow."