GLASS-STEAGALL IS THE SOLUTION

$5 Trillion Wiped Out As Hyperinflation Looms

by Helga Zepp-LaRouche

This article was translated from German.

Aug. 5—The latest phase of the systemic collapse, which has wiped out at least $5 trillion on the international stock exchanges in recent weeks—that's the equivalent of the capital value of the yearly Japanese Gross National Product—is proceeding even further and more dramatically. Now America, with the downgrading of its credit rating by Standard and Poor's, is being subjected to the Greek treatment. If the Fed and the European Central Bank (ECB) open the money gates up even further, as is apparently their intention, the global financial system will quickly vanish into thin air, in a hyperinflationary glut of money. The only way to fight this threatened looting of the population, which would led to mass death throughout the world, is the immediate elimination of the casino economy by a two-tiered banking system (Glass-Steagall system).

Governments and representatives of financial institutions could have spared themselves the panic of the last few days if they had listened to Lyndon LaRouche, who had forecast the chain-reaction collapse, and a coup in the tradition of the Reichstag Fire, for the period after the end of the U.S. fiscal year (July 1), along with the threatened state bankruptcy. This coup has occurred through nothing other than the abrogation of the American Constitution by the so-called "Super Congress," consisting of 12 Representatives and Senators, who are supposed to push through a murderous austerity program of at least $1.5 trillion, in addition to the cuts of $1 trillion already announced by Obama. The chain-reaction collapse is in full swing; the financial system is finished, and every attempt to prolong it in its lingering illness through liquidity pumping, will only destroy more of the real economy and cost more human lives—and will at the very most only last an extremely short time.

Panic in Euroland

It was just as expected: Only two weeks after the EU heads of government at the July 21 summit submitted to the diktat of the international bankers, represented by the Institute of International Finance (IIF) and its director Josef Ackermann, and agreed to the extension of the European Financial Stability Facility (EFSF) as a rescue mechanism for the toxic government bonds held by the banks, at the taxpayers' expense, the whole package has already turned into wastepaper! From his vacation in Portugal, a panic-stricken EU Commission President José Manuel Barroso wrote an urgent letter to all 27 EU heads of state, with the insistent demand that the funds of the EFSF (which is a temporary institution) be immediately increased, without waiting until its successor, the European Stability Mechanism (ESM), takes effect in 2013. Unidentified sources in Brussels close to Barroso's environs, put out the word that the EFSF must be expanded from its current EU750 billion to EUR2 trillion, in order to prevent the infection of more states by the debt crisis.

The cause for this panicked reaction, naturally, is that the crisis is coming to a head in Spain and Italy, which now must offer investors risk premiums to buy Spanish and Italian government bonds, exceeding the pain threshold; for securities with a 10-year maturity, investors are meanwhile demanding more than 6% interest. Until recently, 5% was the outer limit that states would have to pay for rescue packages to avoid bankruptcy. Naturally, the deposits in the EFSF are not enough, if now the third- and fourth-largest economies of Europe also have to have an emergency parachute. Meanwhile, even French bonds are coming under attack!

And therefore, what was really already obvious before, becomes clear even to the last dreamer: Naturally, the states that themselves have to grab onto the rescue parachute (as it is called in the foolish jargon of the European politicians), will drop out as credit-providers for that parachute. Then, of course, only the states with a positive balance of trade are left as the paymasters for everyone else: Finland, The Netherlands, Austria, and obviously, Germany. The faulty design of the euro has failed, as it had to fail, and the German government must draw its own conclusion, and unilaterally leave the Eurozone.

The ideological blockheads of the EU bureaucracy and their lackeys in the governments and the parties will also struggle to understand this situation, but we have reached the end of the line! The only reaction which the members of the G20 nations were able to muster after the outbreak (provoked by the collapse of the secondary mortgage market in the U.S.) of the global financial crisis at the end of July 2007, and in the four years that followed, was the most gigantic redistribution of private gambling debts into public government debt. The result has been state bankruptcies galore, an enormous destruction of industrial capacity worldwide, a dramatic rise in mass poverty, and a significant increase in the number of millionaires and billionaires, even as the number of those who are already starving to death, or are threatened with starvation, reached a hundred million people. How those who caused this misery are able to sleep at night is a mystery.

Revving Up the Printing Presses

The collapse of the world financial system is in process; it's occurring in these August days. If the Fed, the ECB, and the other central banks now activate the printing presses—Bernanke's so-called "quantitative easing 3" and the purchase of toxic state bonds by the ECB, which has already begun—then a hyperinflationary explosion will be the result, which will make the developments of Autumn 1923 look as if they occurred at a snail's pace.

There's only one solution left: The system of the casino economy, which is bankrupt through and through, must be replaced by a two-tiered banking system, through which fresh credit will be made available for massive growth of the real economy, and the gambling debts will be wiped out, without compensation. The argument that the interdependence of real assets—such as rents, wages, savings deposits, etc.—and virtual financial products is too close, and the situation much more complex than in the time of President Franklin D. Roosevelt when he implemented the Glass-Steagall standard, is indeed understandable, but it misses the essential point.

The attempt to maintain the present system, with its estimated $1.5-2 trillion (!) in outstanding derivative contracts (of which a considerable part is in the dark corners of shadow banking), through continuous refinancing at ever faster intervals, would generate hyperinflation that would not only turn legitimate claims and virtual titles into electronic trash, but would immediately lead to dangerous strategic turmoil.

China, which is sitting on more than $2 trillion in U.S. Treasuries and other securities—whose devaluation it fears just as it does the collapse of the American export market—responded with sharp criticism to the S&P downgrading of the credit of the United States. According to a commentary in the state news agency Xinhua on Aug. 6, the times are finally over, in which the U.S. could get rid of its problems simply by increasing its debt. As the largest creditor of the U.S., China now has "has every right now to demand that the United States address its structural debt problems" and "ensure the safety of China's dollar assets," Xinhua, which is considered the voice of the government, wrote, and demanded immediate action, otherwise the current downgrading will be only the "prelude" to even more "devastating" credit scores. Similar assessments were made earlier by the Russian government. It is clear, and not only to the governments of China and Russia, that a crash in the U.S. and the Eurozone threatens to drag the whole world into the abyss, with incalculable strategic consequences.

There Is a Solution

The solution lies in the concept that LaRouche proposed back in August 2007: the principle of the Homeowners and Bank Protection Act, which must now be extended internationally. Government institutions must be tasked to carry over legitimate claims from the current system into the new system. While these claims are sorted out by the state authorities, the claims are frozen, or limitations are placed on them. Although this method might be complicated, in the end everything will be saved that is the result of honest work—no matter whether it is the life's work of retirees, in the form of their pensions, or the export earnings of millions of Chinese workers.

There is not the slightest reason to accept the oracular pronouncements of the rating agencies, which in any case are just mouthpieces for the "markets." What are these ominous "markets," which can always make German Finance Minister Wolfgang Schäuble tremble and get him to, de facto, if not *expressis verbis*, repeatedly invoke Carl Schmitt and the "State of Emergency" to do what the financial institutions demand? Well, these ominous "markets" are such people as Josef Ackermann, Lloyd C. Blankfein, Jamie Dimon, Baudouin Prot, etc.

The rating agencies are nothing but reconnaissance patrols for the banks and hedge funds, who stalk their victims, and give the signal when it's time to start shooting. An Italian prosecutor has now drawn the conclusion from this situation, and is investigating the offices of Moody's and Standard & Poor's in Milan, having confiscated documents from them. After both rating agencies lowered their outlook for Italy in May, speculative attacks were launched against Italy. Now the prosecutor is looking into the complaints submitted by two consumer associations that are demanding an explanation for the sharp currency drops of July 8 and 11, asking whether criminal activity was involved.

The insolvency of the global financial system, for which the governments are to blame, now means shock and alarm for the entire world population.

There is a solution, but it must be taken swiftly and boldly. There must be an end to the principle of "too big to fail." If banks or other financial institutions cannot bring their balance sheets into order on their own, without taxpayer funds, then they will just have to file for bankruptcy.

The commercial banks must be placed under state protection; they have to be put in position from which to make targeted investments in the real economy. Legitimate claims should be honored according to the sorting-out process of the new system. Virtual gambling debts must be canceled without compensation.

Germany's sovereign control over its own economy and monetary policy must be recovered by terminating the EU treaties, from Maastricht to Lisbon, and introducing the new D-mark. Fixed exchange rates must be agreed upon. A New Bretton Woods System will create the new credit system, to be agreed upon by sovereign nations, with long-term cooperation treaties. This will mean that the world economy can be rebuilt, by projects like the expansion of the World Land-Bridge—particularly an infrastructure and industrialization program for Africa—and the development of manned space flight and other industries of the future.