Why Our Credit Crunch Mirrors the Weimar Hyperinflation from 1919-1923

I am an amateur economist. But, one doesn't need years of schooling to be a better "economist" than Ben Bernanke. One merely needs to take the blinders off and release common sense. A broad background in law, economics and history helps, but it is not absolutely necessary. Economics is the study of human nature as it applies to money. So, it is precisely those who are narrowly educated, like some professional economists who don't study enough history, take an intensely academic viewpoint on things, and who don't understand fundamental human nature, who get things wrong. A narrowness of outlook and training may be blinding people like Ben Bernanke from reality, but, if they are operating knowingly and intentionally, as some claim, the situation is even more frightening.

Unfortunately, Ben Bernanke has been wrong on almost all his predictions concerning the course of this crisis. That has been true since the beginning. Where, then, can we obtain the confidence that he knows what he is doing, or, frankly, that he knows more than we do, as he should? Many wrong-headed people seem to believe that we must throw away common sense and listen to him, and the others who think like him, even though we have been consistently correct, over the past 4 years, and he has been consistently wrong. The American people understandably have little confidence in the Washington crowd. Is this surprising in light of the events? What assurance is there that they know how to address this situation, when they first failed to regulate the financial madness, and, then, afterward, were completely wrong on almost all economic projections, one after another?

One must reach the inevitable conclusion that neither Bernanke, nor his comrades, such as Timothy Geithner, actually "know" what they are doing. Instead, that crowd in Washington DC, think that if they throw money around, it will land somewhere, and help things. They are wrong. But, to partly achieve this goal, they have forced changes in accounting standards, legalizing misrepresentation of bank bookkeeping, and removed "mark to market" standards, replacing those standards with a system of "mark to fantasy" that is remarkably similar to that which previously existed and caused this crisis. "Mark to fantasy" accounting, now the order of the day once again, will allow insolvent banks to present the false appearance of big profits this quarter, even as they are really on the brink of failing. The end result will be more economic imbalances, as investors unknowingly misallocate their investment dollars to buy into the fraud.

In truth, there is only one way to save the zombie banks, and it is not through faked-up accounting books. The only way is to inflate their obligations away, while increasing the value of their assets at the expense of the rest of us. That appears to be the plan, if there is any plan. But, if Ben Bernanke and that crowd do know what they are doing, the most nefarious heist against the American people, as well as other innocent folks all over the world, is being planned. The upcoming massive inflation is going to be a stealth tax upon millions of innocent people, all for the benefit of a few still wealthy bank executives, who made huge mistakes, and should be forced to pay for those mistakes themselves. I will give Ben Bernanke and Timothy Geithner the benefit of the doubt and conclude, until presented with more evidence, that they simply don't know what they are doing.

The mass "throwing of money" has already resulted in a stealthy transfer of wealth, from those who earned it, to those who have political clout. This process is inherently destructive to the long term health of the economy, and it will get worse. This is the same insidious series of events that occured in post World War I Germany. Hyperinflation is a greater evil than economic depression. It is evil in nature, insidiously immoral in that it rewards misbehavior and is fundamentally destructive of our economy and the fabric of our society. It will eventually wipe out the American middle class.

So far, due to various external events, the U.S. Treasury has been able to borrow the money used. The final bill has not arrived. But, when it does, it will be left at the doorstep of the American people, and every other person, around the world, who once believed in America and the American dollar. The deep and sudden devaluation of the U.S. dollar, which is coming, will steal money from innocent pensioners, savers, and good people of all types and kinds, both here and abroad. Unfortunately, after having spent and wasted trillions of dollars for the benefit of those closely connected to the U.S. Treasury and Federal Reserve, there will be a massive dollar devaluation. Indeed, were that not to happen, there would be an overt legal default.

The intent to transfer wealth is the key to understanding all economic catastrophes. It is also the key to understanding why this particular crisis more closely mirrors that of the German hyperinflation 1919-23, rather than the early years of the Great Depression in 1930s America. To fixate on the Great Depression, as Ben Bernanke is doing, ignores the true problem, and sets us off into wrong directions. Let me point out some comparisons:

1) Post WW I Germany was the biggest debtor nation in the world, at that time. Debtor nations are dependent upon foreign cash flows. In contrast, in the 1930s, like Japan in 1990, the U.S. was the biggest creditor nation in the world. That is why Germany had hyperinflation when it printed money, while 1990s Japan and 1930s America had deflation as they did the same thing. Because we are the biggest debtor nation in the world, the current money printing will result in hyperinflation, NOT deflation.

2) Post WW I Germany had just finished fighting a major war on borrowed money, without properly budgeting or taxing. The USA has just fought, and continues to fight, multiple wars on multiple fronts that, while not quite as "big" as WW I, have been extraordinarily costly. We use a professional army, and its pay and equipment add huge costs. We have failed to budget these wars, and have borrowed money instead in order to fight them. By contrast, from an economic point of view, late 1920s and early 1930s America was a net "beneficiary" of WW I, which resulted in huge debts being owed to the USA, and the first stage of the rise of the U.S. dollar to replace the British pound as an international medium of exchange.

3) Post WW I Germany was heavily dependent upon the import of foreign raw materials. Indeed, the USA was one of its biggest creditors. The USA is no longer a creditor. It is now very dependent upon the import of foreign raw materials and finished goods. The temporary improvement in trade figures will disappear as the fake recovery gets under way. By contrast, in the 1930s, the U.S.A. was one of the biggest exporters of raw materials.

4) Post WW I Germany was heavily dependent upon foreign cash flows to plug holes in its budget after the War. Sales of bundesbonds to foreign buyers, including the American financier, J.P. Morgan, were critical. The USA is now even more dependent than post-war Germany once was, upon foreign cash flows. Sales of huge numbers of Treasury bills, notes and bonds are critical, and a lot of those sales are to China, who, unlike America to Germany in 1918, is currently our strategic competitor, and that makes our situation somewhat worse.

5) It is important to point out that Germany was not the only nation affected by the post-War depression and the so-called 1918 "credit crunch." All of Europe experienced it. Not all countries, however, followed the same path to ruin. Similarly, the whole world is now experiencing the so-called "credit crunch". Hopefully, not all nations will follow the path to ruin being forced by the United States, although the tendency to do so is greater, given the leadership position of this nation in the world compared to Germany then.

6) So, Germany led Europe in the effort to spend its way out of the post-war depression, while the rest of Europe, with the exception of the former Hapsburg possessions (the former Austro-Hungarian Empire) did NOT follow Germany's lead. The former Hapsburg possession did follow the German lead, although with less gusto, and ended up with hyperinflation, at a somewhat lower level. Similarly, the USA leads the world in an effort to spend its way out of this depression, and the U.K. is basically following in our footsteps. In 1919, many admired the Reichsbank. Employment rose, unemployment fell...economic output exploded -- or seemed to, at first. No doubt, that will be the case, again, this time as America leads the way into a fake recovery. Most of Germany's recovery amounted to irrational production. The industrial bailouts were improperly allocated and colored by the illicit transfer of wealth that is inherent when a nation chooses to print up new money. The same will be the case with America.

7) Like America, now, the post WW I German money flows, into that nation, continued for quite a while, in spite of the flawed policies of the Reichsbank. American trade interests, for example, supported German spending on U.S. raw material products, because Germany was one of their biggest markets. The USA played a similar role with respect to the Weimar Republic as China plays now to the USA. It was Germany's biggest creditor. It is quite likely that money flows to America may continue for an even longer time. However, eventually, they will be cut off. It is important, once again, to point out that China is our strategic competitor, whereas a large part of the U.S. population has German ancestry that made us a natural friend to Germany.

8) Like the foolish foreigners who now buy U.S. bonds, even otherwise savvy American financiers, like J.P. Morgan, were convinced by officials of the Reichsbank, that the problems were temporary, and that the mark would regain value, just as buyers of Treasury debt are now convinced that the dollar will retain value. The U.S. has a distinct advantage, because it is able to pump the exchange value of its currency with credit default events that must be settled in dollars. This results in a direct benefit to the dollar in terms of exchange value, and allowed the Fed to obtain foreign currency swap lines. The swap lines were obtained because foreign central banks temporarily needed to supply dollars to financial firms who needed to settle CDS events. In addition, most of the U.S. debt is denominated in dollars. So, the temporary party will go on longer in America, until the world's patience is finally exhausted, and the devaluation of the dollar will not be in the trillions, but, rather likely, it will be in the high single digits, or low double digits. My personal estimate is from a 4 to 10 to 1 devaluation, although anything is possible.

9) The Reichsbank claimed that it could control the events it created, just as the Federal Reserve does now. Questionable statistics were regularly published, just as is now the case in the USA. German authorities believed, just as American authorities now believe, that the perception is more important than economic reality. Eventually, however, when the foreign cash flows dried up, reality did reassert itself, as it always does, and the German economy entered hyperinflation.

10) Finally, most tellingly, the German "professional" economists called the 1918 post war depression, prior to the hyperinflation, "the credit crisis", or "the credit crunch", and the prevailing complaint was that banks were hesitant to lend money. Unwittingly, American professional economists, including Mr. Bernanke, have dubbed the present crisis with the same names, and the complaint is exactly the same. Notoriously, the prescribed remedy is also exactly the same, even though, from all the speeches given by Federal Reserve officials, rather than overtly intending to copy the Reichsbank, they seem to be blissfully unaware of the entire German event. Frightening...

Speaking frankly, in all the years I have studied history, I have never seen two historical events that turn out to be exactly the same. Yet, the parallels between the German hyperinflation and the current Credit Crisis are astounding, and the likelihood that the eventual outcome will be similar, is very high. The parallels that link this crisis to the Great Depression are far weaker.

For more information about the German hyperinflation experience, read the following book. It was written long before the current crisis, and even before the full impact of the Great Depression hit the world, back in the 1930s. Thus, it has no bias. It will be an eye-opener for the "doubting Thomas". In the German hyperinflation, only gold and silver, agricultural lands and, to some extent, rationalized modern plant and equipment, held its value over time. The word rationalized is very important, because a lot of useless stuff was purchased by German manufacturers who thought that all "hard" goods would protect the value of their money.

Turroni-Bresciano, Constantino, *The Economics of Inflation – A Study of Currency Depreciation in Post-War Germany*(George Allen Unwin 1931)

http://seekingalpha.com/article/130528-why-our-credit-crunch-mirrors-the-weimar-hyperinflation-from-1919-1923?source=article_sb_popular