Hyperinflation: A Graphic Presentation

By Dennis Small, Editor Executive Inteligence Review

On February 15th, Lyndon LaRouche in his Friday webcast stated emphatically that the options facing the United States and the world were "Glass-Steagall, or Die!"—Glass-Steagall, or genocide. And he went on to explain more specifically, that a process of hyperinflationary explosion has been unleashed, of such proportions, that not only was there no way to maintain that fictitious bubble, but furthermore, that growing layers in the British imperial faction running today's system had become aware of the fact that this was not the case, and that therefore, what was in the works, what was coming on-line—regardless of whether those responsible were actually aware of it—was a situation, where they would be replacing the existing financial system, the existing money in circulation, collapsing it down to zero, writing it off, and simply, from one day to the next, issuing new currency—which they also control—for the purpose of using that money and that credit, only for their chosen few, their select few. And the rest of the world, and the rest of the financial system be damned.

Dennis Small

The consequences of this would be—as has occurred previously in history—a massive deflationary collapse: a free fall, like in an elevator (I hope it's never happened to you), and the thing simply collapses down to the ground. Under those conditions of a massive deflationary collapse, what would happen as a consequence, would be that, the physical economy would plunge down at a rate even exceeding current rates, to a situation where the population of the world—as per the actual intention of the British Empire—[will collapse] from some seven billion today, down to the range of one billion.

One of the indications of a certain awareness of the problem, came interestingly at right about the same time, from one of the world's leading sponsors of the cancer that has actually taken over the financial system. I'm referring to Bill Gross—aptly named—head of a company called PIMCO—also quite aptly named—which is the world's largest bond-trading company. What happened is that Bill Gross wrote an article named "Credit Supernova", which became somewhat of a scandal in informed media and circles in Washington and elsewhere, because what he stated, is that the entire world financial system had become a self-consuming firestorm, where you had to feed in more and more financial instruments, simply to maintain $1 in output of GDP. The way he formulated it was a little bit strange, which is that it took, for example back in the 1970s/1980s $4 of debt to "produce a dollar of GDP", and of course I beg to differ with that verb, because the debt does not produce the GDP. But nonetheless, what he was looking at, was the relationship of growing indebtedness—of US debt—and a flat GDP. [Chart 1]

Mr Gross' graphic, is one that we have available here, which he called, that of the "exploding supernova". What he shows here, simply, is the rapid growth of total US credit, which includes household, corporate and government debt, rising from some $4 trillion dollars back in the 1975 period, up to about $55-$60 trillion today. His explanation is—as you can see from this—whereas it would take $4 of the debt in 1975 per unit of GDP, it's now in the range of $20. And he described this as a credit supernova. Now, the fact of the matter is that, although Gross' argument is interesting, and points in the direction of a problem, it actually vastly understates the nature of the hyperinflationary bubble which has been built and is in the process of exploding, today. It is a hyperinflation which has in fact run amok. [Chart 2]

We have developed the following graphic, just to give an idea to you, of just how much worse it is, than even Gross' estimation. [And this] is also clear from Gross' own discussion of the matter, because in a footnote to his article he states, that he was excluding from consideration in the figures, what he calls "shadow debt". Now, "shadow debt" is in fact a reference to the existence of an enormous bubble of financial aggregates—of derivatives in particular—which have grown more rapidly than the debt has grown, which has grown more rapidly than the GDP. In other words, the rate of increase of the financial aggregates has been greater by an order of magnitude, even than the figures Mr Gross chose to present. And what we have here, as you can see in the this graphic representation, the blue line, which is down near the x-axis—which I showed you earlier, which is Gross' relationship of debt-to-GDP—but like they say, "that ain't nothing". You need to look at the totality of world financial aggregates, which is principally derivatives, i.e. bets, on bets, on bets. [These have] grown in the ratio of those aggregates to the GDP not five-fold, as the Gross number on the debt indicates, but has actually grown fifty-fold, over this period. [This means], that today you have $500 of debt per unit of GDP!

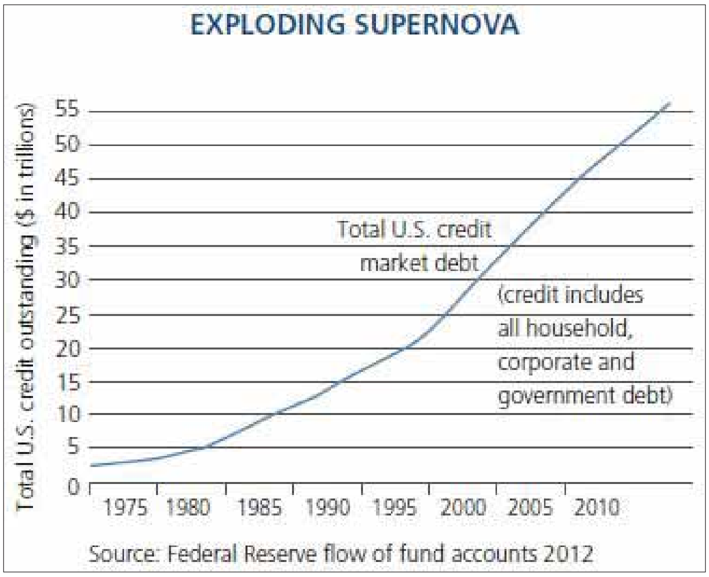

Chart 1

Now, what you've got is a situation which has in fact spun completely out of control. First of all, let me point your attention to what the composition is of those world financial aggregates.

You'll notice, that these numbers only go through 2005, which is the last time we did a detailed calculation of this, but the total world financial aggregates at that time, were close to one quadrillion dollars, which is 1,000 trillion dollars—which is as meaningless, actually, as the total aggregates themselves. But the point that I want to get to here, is that the actual picture of world financial aggregates, is not made up, principally, by the stock market—as overvalued as that is—it's not made up, principally, by the debt (which is what Gross was looking at) of the United States, or of all the countries of the Third World, or all of the other direct debt. The lion's share of the whole thing, are financial derivatives. [Chart 3]

Now, what's a derivative? Good question! Derivatives have been described, I believe accurately, as, essentially, a way to lie and cover up about a loss, which you have suffered, financially. So, rather than saying, "Oh my gosh, I'm bankrupt, I can't pay that debt", what you say instead is, "no, I'll make another debt, to cover that loss, in the hopes that eventually I won't have to pay that increased loss coming from the derivatives bet." So, another way of describing derivatives, is, the perennial gambler, who's always losing at the roulette table, and rather than pay up and call it a day, he says, "No, let's play double-or-nothing!" And he loses again, and rather than pay he says, "No, double-or-nothing!" Derivatives are a double-or-nothing approach to the massive losses which are being suffered throughout the economy. And that is the nature of the financial aggregates which have grown, and which constitute the explosive charge of this hyperinflationary situation run amok, which Mr. LaRouche has been talking about.

Now, let me just say, that the usual definitions of inflation are complete poppycock—it's nonsense. Especially if you've studied economics, because what they tell you there, is that there's different kinds of inflation. Inflation, they say, is more money chasing fewer goods—which is ridiculous; that's not where it comes from. Or they say, there's "cost-push inflation". What they mean by cost-push inflation is that they blame the rise on prices, on the wages being paid to workers, and that that cost is supposedly pushing the inflation. So that's just a transparent excuse for trying to cut wages further. Then there's "demand-pull inflation". If you can understand that you'll earn at least one or two degrees in economics, and understand absolutely nothing. "Demand-pull", as far as I'm concerned, is basically the economists who are pulling your leg, to try to make you understand that something is going on here. That's not what is actually going on.

Nor should people try to locate the process of hyperinflation today in a simple expression, such as, rising prices on the consumer market. It does show there too. You do see, that on Obama's watch, that the price of gasoline at the pump has doubled. You do see it in food prices at the supermarket, also soaring. Because this financial bubble gets translated into the consumer economy, through speculation in derivates in the future market, in commodities, and so on and so forth.

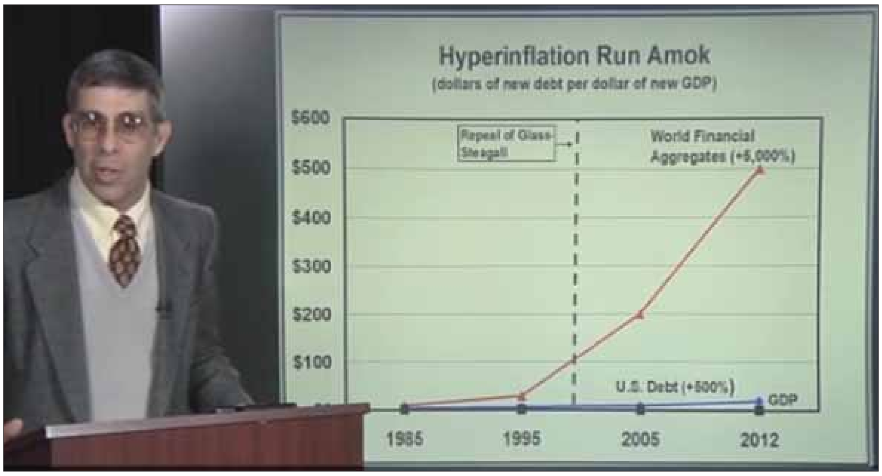

Chart 2

But, what is actually going on with the hyperinflation, people should think of it rather as a huge pressure-cooker. And what's going on, is that the hyperinflation is occurring within the financial aggregates themselves. You can see that, for example, in this growth here. But it's a pressure-cooker which is building up and it's going to blow to smithereens, at which point you'll see the transfer of this thing out into all different areas of the economy. Right now, what you have is the rapidly escalating—hyperbolically escalating—financial aggregates, circulating on the basis of absolutely nothing, increasing on the basis of the double-or-nothing principle, of covering up losses.

But the real problem of hyperinflation, occurs when you actually go and look at what Lyndon LaRouche developed as a pedagogical way of understanding the process in the economy, his famous typical collapse function, or "triple curve". [You see it] on the screen now. Now, really the only surprise in what Bill Gross said, was that people were surprised about it, because Lyndon LaRouche developed this representation back in 1995-96. So this is almost two decades old: LaRouche talking about this explosive charge within the global financial system, that at some point was going to blow sky-high, and this was a heuristic model which he developed, for presentation at a conference which he addressed in the Vatican, back in that period, in the mid-1990s. [Chart 4]

Now, on the Triple Curve function. The thing that's most relevant here—and where I think the part where people have the most difficulty in understanding what LaRouche is getting at—is you're looking at a single unified process, not three separate distinct curves. A single unified process, where you have the growth of the financial aggregates, the growth of monetary aggregates—which, at a certain point, the rate

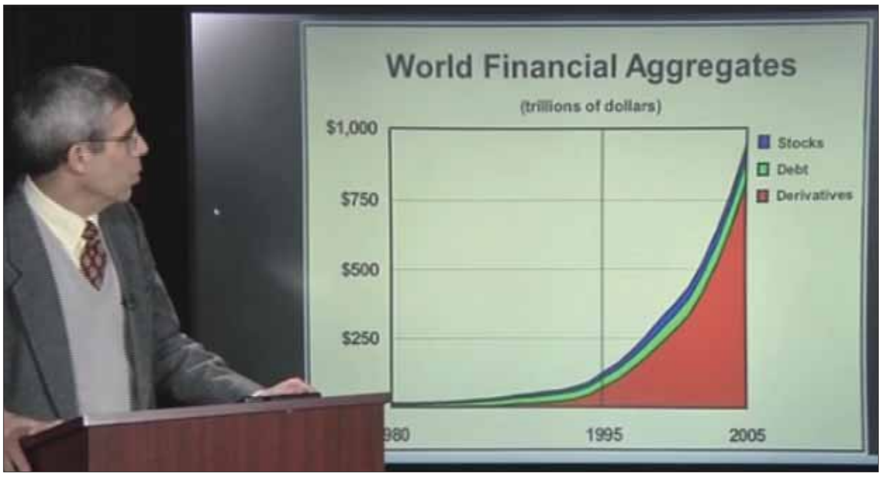

Chart 3

of growth exceeds the growth of the financial aggregates, if you've got a cancerous bubble developing, as we have today—and, mind you, let me just clarify: what we're showing you is not an increase in absolute amounts, this is the rate of change: the rate of growth of the monetary aggregates exceeds the rate of growth of the financial aggregates, because it's simply required to keep this double-or-nothing bubble growing. But the crucial figure—and this is where LaRouche's economics is absolutely singular—is understanding the relationship of this to the third, lower curve of physical economic input/output.

The problem of hyperinflation is not too much money chasing too few goods. This has nothing to do with GDP or gross domestic product, because GDP does not reflect the actual physical economy. GDP is a monetary calculation based on basically what the market will bear, in other words whatever sells. And therefore you have, for example, the International Monetary Fund stating explicitly, in published documents, that their argument is that drug production in countries such as Colombia must be included in the calculation of gross domestic product, because it sells! If it sells, somebody wants it, that's called effective demand, and therefore it's gotta be counted in GDP.

So, GDP is a completely phony measure; it's phony not only because its content includes actually unproductive and destructive things such as, for example, drug production or, for example, payments made to the economics profession for teaching at universities—that's almost as destructive as, maybe more so, than the drugs, because it justifies the drugs in point of fact—but it's also false in it's axiomatics. The premise of the whole thing it that there's a one-to-one monetary calculation that can be made, a monetary unit of account that can be used to describe an economy, a physical economy, where what actually is involved in a physical economy, what is really the metric that's needed, against which you have a hyper-inflationary blowout going, is the expansion of the productive powers of labor.

The crucial question in the success or failure of a physical economy is the degree to which your policies increase the productive powers of labor, that is to say, the efficiency of man's general activity based on creative advances, science and technology, to be able to mobilize an increasingly dense energy-flux, in other words growing energy flux density, through the means of production, to transform man's relationship to the universe which he is a part of.

And that is the actual only metric that applies to a physical economy. It's a changing metric. This is not a ruler where you can say one unit is one unit is one unit. It changes. And it has to change because you're talking about a dynamic process where the premise of creativity itself changes the entire parameters of the physical economy.

And that's what is in fact reflected in LaRouche's triple curve here, and, as Shakespeare said in a similar context actually, the time is out of joint. You have a situation where there is a complete disjointedness between this cancerous growth of the financial aggregates which we've seen as reflected in the derivatives, and the collapse of the actual physical-economic process as reflected in energy-flux density and the capability of the human species to reproduce itself at a higher level of the next period—to increase its potential relative population density.

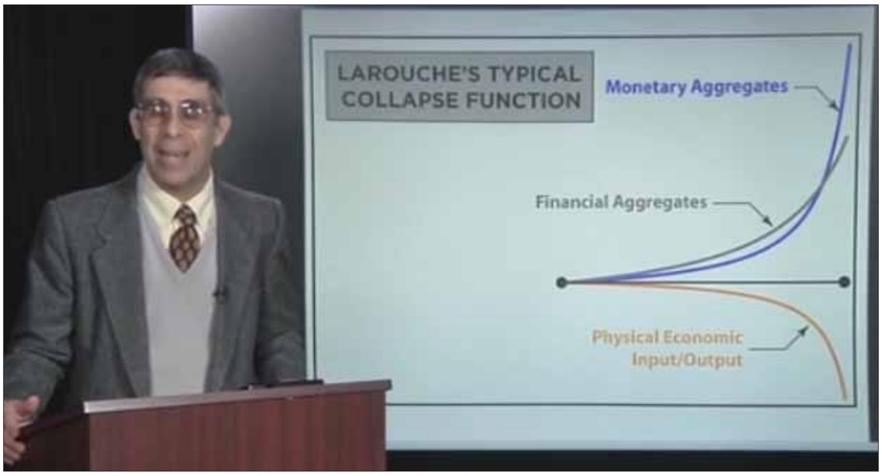

Chart 4

Now, with that stated, let's turn to the next graphic here, which tells you very clearly, it gives you a look into what the hell is going on with this policy of quantitative easing, which has been the policy not only under Obama but prior under the Bush administration; as with all of the Bush policies, Obama has made them much, much worse.

And in this case, quantitative easing which is also what's being done in Europe through the ECB, what the Japanese, the Bank of Japan, is now implementing, the Bank of England, and of course "Helicopter Ben" Bernanke's policies at the Federal Reserve. Over the four or five years from 2008, five years through the end of 2012, i.e. on Obama's watch, the amount of actual new funds issued by the Federal Reserve and pumped into the U.S. banking system is today over $2.5 trillion dollars.

Now, the total bailout was much bigger than that, by an order of magnitude. I'm talking about the new money pumped in by the Fed with the argument of "Hey, we gotta help out the banks, because then they'll be able to lend". Because look at what's actually happened. The quantitative easing was $2.5 trillion. Bank deposits did in fact go up over this five-year period to about $1.6-1.7 trillion, but was this money lent? Of course it wasn't lent! It went to play the double or nothing casino game. It was not lent out. And in fact, total bank lending, which is the red line below, dropped by $1 trillion during the same period that $2.5 trillion in new money was thrown into the banking system. [Chart 5]

So, the whole thing, the whole argument, the whole Obama argument is a complete farce. It's fraudulent, patently fraudulent on the face of it. Now, it's actually much worse than this, as is

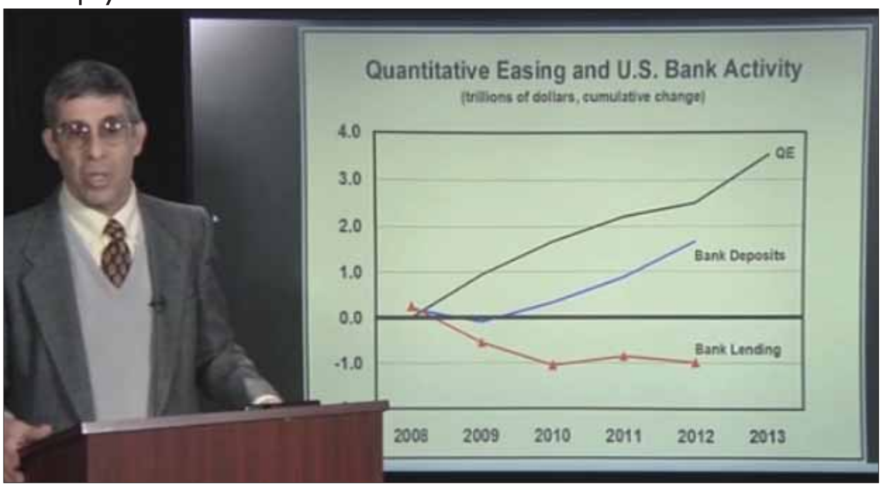

Chart 5

the problem of the credit supernova, much worse than Gross says by at least an order of magnitude: it's a credit supernova squared. But here too, because bank lending itself is not all productive lending.

In fact, sort of a quick rule of thumb estimate is that perhaps half of that lending in any given year is productive in the economy. And the other half is completely speculative by its own rights, going into inter-bank lending, going into mortgage speculation and so on and so forth. So, what you're actually looking at here is a problem which is even worse than reflected in these kinds of figures.

Now, I think the only way to really get a sense of how bad the situation actually is, is to look at the results of the policy. And I want to say one word about this, because people will often say: "Oh gee, the IMF policies have failed; they haven't produced what they promised they would produce" or "the Federal Reserve policies have failed, why, it's led to a bad situation".

I would argue the contrary. I think that the IMF policies have succeeded, because the intent of their policy was to kill people. The Fed policies have been completely successful, because the intent of the policy was never to bring about some sort of an economic recovery. The intent of the policy was to produce exactly the hyper-inflationary bailout and genocide which it is in fact producing.

So, Greece today is not an IMF failure. It's a success story! They're killing them off! It's what they intended to do. The British imperial policy is depopulation. And that's what they're achieving. And they are succeeding and they will succeed unless their entire system is replaced by Glass-Steagall.

Now, let's just look—and there are many ways that one could look at the question of the physical economy, but I think really what you need to look at is the labor force. The single best way of looking at that third curve of LaRouche's, the physical economy, is to take a look at what's happening with the productive labor force.

If it is the case, as it is, that the only actual source of wealth is an increase of the productive powers of labor, then clearly the most important thing you need to do in an economy is to generate not only new jobs for youth, but productive jobs for youth, and educate people and train them so that you're increasing the scientific level, the classical cultural level, the technological level, so that your energy-flux density rises and you have the basis then of actually a rise in the overall productive powers of labor.

Take a look at the situation of Spain today—and I could do the same graphics for Greece, where the youth unemployment rate is 62%. In the case of Spain, you can see what has happened in little less than a decade, which is that total official unemployment—which is not the actual unemployment, it's much worse—but the official unemployment of the labor force is in the blue bar, and that has risen to about 26% total of the labor force. That is horrifying enough, but if you look at what has happened to youth unemployment, you have a situation in Spain, where at the end of 2012, over 50% of the total youth labor force aged 18 through 24 was unemployed. And the projection is that by the end of this year, that will hit 60%. In Greece, that has already hit 60%; in fact, the latest official figure from Greece is a 62% youth unemployment rate. [Chart 6]

Now, stop for a second and think about what that means. What does it mean for the actual survival of a county or an economy, when close to 2/3 of your youth have been thrown on the scrap-heap? They don't have a job! Let alone a productive job, or a high-tech job. They have no future! The country is being killed, it is being destroyed. And I ask you: What is the difference, between this destruction of a country, and the concentration camps of Adolph Hitler (also inspired by the British)? There's absolutely no systematic difference between the two. This is genocide which is going on, and it is intentional genocide which is going on. And it's that policy which has to be changed. That's why LaRouche says, that alternatives which we're actually facing today, are between a return to the Franklin Delano Roosevelt Glass-Steagall principle of 1933, or, genocide.

I'd like to conclude simply by reminding people, or advising people, of something which is actually not that well known, about the original *Glass-Steagall Act of 1933*. It is generally known that this was a very short, precise and to-the-point document, which stated very simply, that you have to separate productive commercial banking from speculative investment banking activities. And it created the FDIC [Federal Deposit Insurance Corporation], as a government-sponsored insurance agency, to protect and back up the productive side of the lending. Today, it's the opposite. What has happened with the elimination of Glass-Steagall—and not just the law itself, but the very principle involved in this—is that the flood-gates have been opened wide to this cancer. The cancer has taken over. But the original Glass-Steagall law, like our Constitution, has a preamble; in other words, a summary introductory statement, which states in a word—in one sentence—what the entire principle is. In the case of the *Glass-Steagall Act*, the very first sentence, which I want to read to you, reads as follows: "An act, to provide for the safer and more effective use of the assets of banks, to regulate inter-bank control, to prevent the undue diversion of funds into speculative operations, and for other purposes."

All we need to do, is return to that standard, and we can create a new financial system, get rid of the speculative bubble, stop the genocide cold, and create the basis on which we can then construct a Credit System, to provide credit for these activities and the great development projects, such as NAWAPA, to make sure, that not only is there youth employment—as opposed to unemployment—but actual youth employment in the things which define the human species as uniquely what it is, in science, in classical culture, and in creativity. That's why Lyndon LaRouche says, that is either "Glass-Steagall, or Die!"

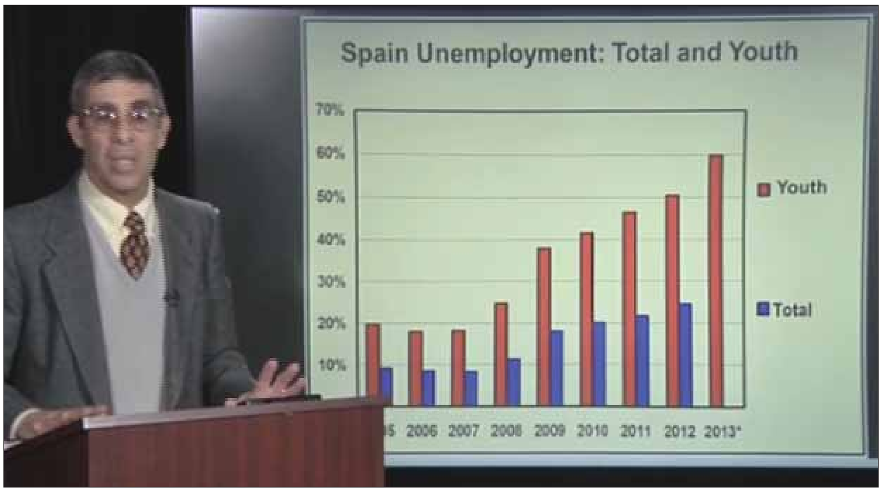

Chart 6