Next Comes Hyperinflation

by John Hoefle

Jan. 8—It is often striking to watch, during the holiday season, the way in which crises seem to fade into the background, only to emerge with new fury after the season ends. But this time, the crises never quite faded, despite all the soothing propaganda.

There was no big financial news during the season—no public disasters like the closing of a major bank—but nevertheless, there was the steady drip of bad news, of surging bankruptcies, home foreclosures, unemployment, and more, as the economy continued its relentless collapse. On the international front, the threat of nations defaulting on their sovereign debt took center stage, as it became clear that the collapse is global.

This unending stream of bad news is sufficiently chilling to reveal the fraud of the mantra of "recovery" emanating from the propaganda machine in Washington, on Wall Street, and other points British. If things are so good, why are they so bad?

The truth is that none of the problems facing either the U.S. economy, or the world economy, has been solved. Instead, the various scams which have been run under the guise of the "bailout" have only made matters worse. And the bill is coming due.

Saving the Bathwater

What caused the global economy to collapse? The myth, created by the international financier mafia, is that we had a "credit crunch" caused by the collapse of the U.S. subprime housing market. That, in turn, caused investors to panic and stop buying, freezing up the entire system. To restart the system, the central banks and governments flooded the banks with liquidity, becoming the buyers of last resort for mountains of toxic waste whose values, they assured us, would return once the panic subsided.

To listen to them blather, that is exactly what happened. Their quick and decisive action—heroic, really—saved the day, returned the banking system to health, and even turned a profit. They became legends in their own minds.

Problem is, none of it is true, except for the delusions. Economies do not run on money, they run on physical production and consumption—the production and consumption of food, the transformation of raw materials into useful products, and other useful activity. The strength of an economy lies not in its banks, but in its physical plant: its infrastructure, its agro-industrial base, and ultimately, in the creativity of its people.

The economy of the United States is based upon these strengths, or upon what used to be strengths. In recent decades, we have abandoned the American System of Political Economy in favor of that foreign trap known variously as the post-industrial society, the information age, and globalization. We have shuttered the greatest industrial economy the world had ever seen, in favor of becoming a nation obsessed with making money. In a true tragedy, we traded our factories for a casino; we quit producing wealth, so that we could get rich.

To compensate for the wealth we no longer produced, we began to accumulate debt in ever increasing amounts. As the balance sheets of our banks began to overflow with the new debt, new schemes were developed to repackage this debt into assets which could then be sold to other players in this expanding casino. The derivatives markets were born, piling layer upon layer of fictitious "assets" atop the growing debt.

While the debt grew exponentially, the ability of the economy to pay that debt shrank, as the shift from industrial production to services, information, and finance continued. We were clearly headed for disaster, and that disaster struck, in the Summer of 2007.

The only way out of this mess was to write off the unpayable debt, and launch an emergency effort to rebuild out productive base. But our glorious leaders did just the opposite. They moved to save the debt, and they did it through a combination of printing money at an unbelievable rate, and by even further austerity upon the working class and the productive sector. They threw out the baby, and kept the bathwater.

Debtors' Prison

Trying to solve a debt crisis by taking on huge amounts of new debt at the same time that you gut your capability to pay any of your debts, is not only irrational, but bug-eyed crazy. Although the various protagonists, from the bankers to the so-called regulators, tried hard to pretend that they were acting according to cool reason, they were really in a frantic flight forward, caught in the grip of an impulse to save their way of life at any cost.

Far from being the dispassionate experts they try to appear to be, men whose studied actions pulled the world back from the brink, these crazy bastards have stampeded us right over the edge. These men are trapped in a mindset which rejects the solution they so desperately need, in favor of a path that leads inexorably to their doom. They are prisoners of their own delusions, and they're taking the rest of us with them.

Their strategies all revolve around protecting the values of their casino chips, and the main way they do it is to steal money from the rest of us—and from each other, when they can get away with it. It doesn't matter whether the debts are valid or fraudulent. All that matters is that they be paid, by someone.

The name of the game at this point is to shift the losses from private hands—banks, hedge funds, insurance companies, and other players—to the government. Let Uncle Sam, and the taxpayers, eat the losses. This is the dirty (not-so) secret of the bailout. It can be seen in the way that the Federal Reserve has created money out of thin air, to buy worthless financial paper from major Wall Street banks, insurers like AIG, and some of the largest corporations in the nation. It can be seen in the way in which the Obama "health care" bill is designed to bolster insurers and pharmaceutical companies. But most of all, it can be seen in the way in which Fannie Mae, Freddie Mac, Ginnie Mae, and the Federal Housing Administration are being used to turn failing mortgages and mortgage-backed securities into government-guaranteed paper, which can then be used to bolster the capital of our bankrupt banks. While the Federal government touts the alleged "profits" it has made on the *billions* it advanced the banks under the TARP program, it is incurring *trillions* of dollars of losses through its mortgage-debt scam.

Far from pulling us out of the crisis as claimed, these criminal "bailout" schemes represent the greatest theft of public money in history, and are destroying our nation.

Hyperinflation

The consequence of this combination of pumping liquidity into the monetary system while collapsing the productive base, will be a dramatic debasing of the value of the dollar. Most people are familiar with inflation—where the currency gradually loses its purchasing power; and inflation is often used by bankers and governments to deal with burdensome debts, since it allows the repayment of the debts with cheaper currency.

This process sometimes gets out of control, as it did in Weimar Germany in 1923, and more recently in Zimbabwe. When it does, ordinary inflation becomes hyperinflation.

The faster the monetary authority pumps money into an economy under such circumstances, the faster the money loses its value. In situations where huge amounts of money are created, such as with the bailout process, the currency can actually begin to lose its value faster than it can be pumped in. This sets up a vicious cycle in which money must be pumped in at an accelerating rate to plug the hole, causing the money to lose its value even faster.

This can happen with astonishing speed. In Germany, there were 5.5 trillion marks of paper currency in March 1923. By August, it was 668 trillion marks, and by December 1923, 497,000,000 trillion marks of paper currency outstanding. During the same period, the wholesale price index rose from 4,872 to 1,422,900,000. People were using wheelbarrows to carry cash, or burning it for heat. Merchants were marking up prices constantly, as the value of the mark plunged.

Don't be misled by the currency rates quoted in the daily newspapers. These rates are merely ratios among the market values of various currencies, in a period of global economic collapse, where the values of all currencies are actually plunging. In such a case, the rise of one currency against another could reflect nothing more than one of the currencies falling faster than the other. It is reality, not the statistics, that is crucial.

This hyperinflationary process has already started in the financial sector, and is poised to take off in the consumer-price sector. When it does, our nation, and the rest of the world, will disintegrate.

A variation on the old joke goes: The good news is that we're all going to be trillionaires. The bad news is that that is what a loaf of bread will cost—if anyone can find one. It's only funny until it happens.

That is the scenario we face, without the LaRouche Plan.

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