U.S. Economy Borrows $4.45 To Buy a Dollar

by John Hoefle

Imagine a business which buys dollar bills; it's quite successful, buying lots of dollars, more every year. The management is so proud of its success that it issues press releases touting its record revenues. The only problem, is that the business is paying more than a dollar for every dollar it buys. At last count, it was paying $4.45 for each one. The old joke aside—about losing money on every transaction and making it up in volume—this business is going bankrupt, fast.

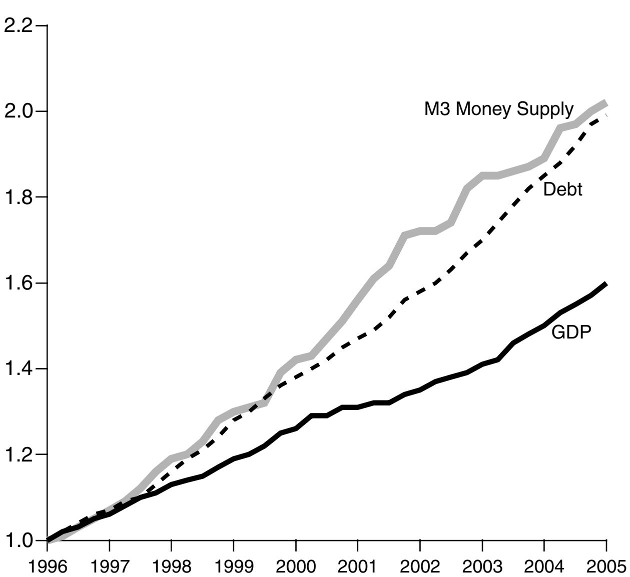
In this era of three-monkey accounting (hear no loss, see no loss, speak no loss), we could mean any number of corporations and banks, but we don't. We're talking about the U.S. economy as a whole. **Figure 1** shows how, despite all the hype about economic recovery, the economy has been operating further and further below breakeven. During the 1960s, the U.S. economy grew by $491 billion, as measured by GDP. However, credit market debt, the broadest measurement of debt published by the Federal Reserve, grew by $755 billion, yielding an increase in debt of $1.54 for every $1.00 increase in GDP. The economy deteriorated during the 1970s, taking on $1.69 in debt for every dollar of so-called economic growth, and that decline accelerated during the 1980s and 1990s. During the first five years of this decade, credit market debt grew by $11 trillion, while GDP grew by $2.5 trillion. That's an increase of $4.45 in debt for every new dollar in GDP.

Figure 2 shows the relative growth of GDP and debt since 1996, with the addition of an even more disturbing factor, the growth of the money supply (M3). Lyndon LaRouche has identified the process in which money supply grows faster than debt, as a marker for hyperinflation. So, not only are we below breakeven, but we are hyperinflating our money supply to fund this disastrous process. The only thing keeping the dollar from a free-fall is the instability in the rest of the world.

The numbers we present here represent just the tip of the iceberg. The Fed's credit market debt figure understates the Federal government's debt, and completely ignores the off-balance-sheet debt created in the derivatives market. Likewise, the method by which GDP is calculated is full of fluff; we estimate that only about one-third of GDP represents productive economic activity. The U.S. economy is choking on its own debt. Federal debt is at record levels; state and local governments are issuing bonds at record levels; the current account deficit is falling through the floor; and we're creating dollars like crazy to roll it all over. Meanwhile we're gutting infrastructure, and manufacturing jobs are harder to find than truthful statements from the Bush White House. And we haven't even gotten to household and mortgage debt.

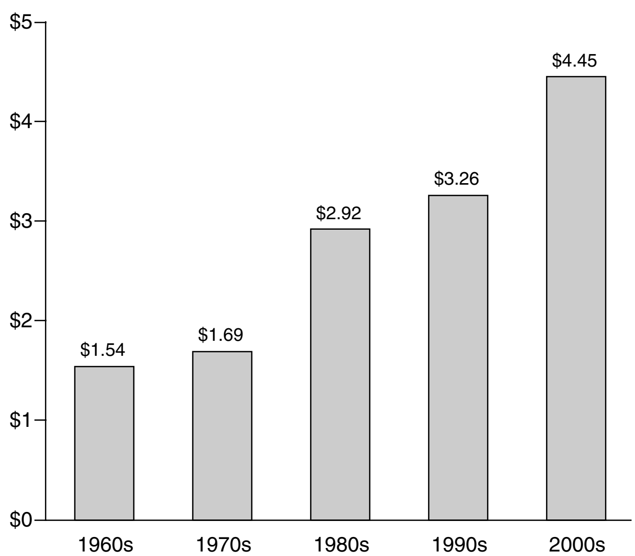
This system is finished.

FIGURE 1
Speculation and Debt Destroy U.S. Economy
(1st Quarter 1996 = 1)



Sources: Federal Reserve, Bureau of Economic Analysis.

FIGURE 2
U.S. Economy Operating Below Breakeven: Dollars of Debt for Each Dollar of GDP



Sources: Federal Reserve, *EIR.*