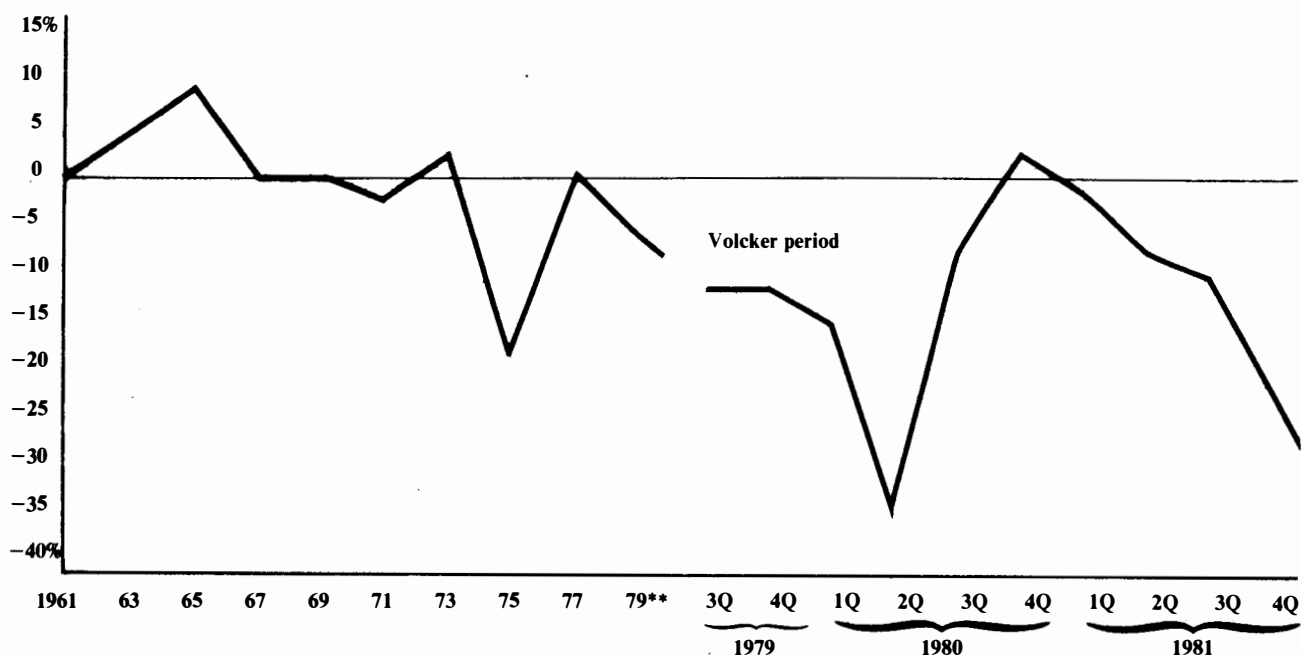


Debasement Index

Inflation* plus production



*Inflation is expressed as a negative. Thus, -40% equals 40% inflation, while +15% would be 15% deflation.

**Average of four quarters; Volcker period began in August 1979 and effects of his policies are shown by accelerated debasement of 3rd and 4th quarters of 1979.

Sources: U.S. Department of Labor's Bureau of Labor Statistics, *Consumer Price Index*, 1960 through 1981

Federal Reserve Board, *Industrial Production Index*, 1960 through 1981

Beginning with this issue, we start the publication of *EIR*'s "debasement index" in the pages of this magazine. The index, based on a quarterly moving average, will be updated monthly.

We present the index to disabuse Americans and others of the common notion that progress has occurred in "fighting inflation" if inflation is reduced at the expense of the productive base of the economy.

As Lyndon H. LaRouche, who developed the index, wrote in a Feb. 3 memorandum: "Debasement of the economy is the more general phenomenon subsuming, inclusively, monetary inflation. Its function is to include the amount of inflation turned inward against the economic basis. It combines the debasement of purchasing-power through monetary inflation as such with the amount of destruction of productive capacity and infrastructure.

"In brief, to compare properly the amount of deterioration of the economy caused by a certain policy, especially under conditions of increasing recession, we must add the total of recession plus inflation for each interval employed in the comparison."

"Turning inflation inward" is the policy applied by the Nazis, as analyzed at length by de Gaulle's economic adviser Jacques Rueff. To construct the index, we take the change in production and add to it the change in inflation—treating inflation as negative. Thus, for example, in 1960, industrial production grew by 2.3 percent, while inflation grew by 1.6 percent. The index for 1960 is thus 2.3 minus 1.6, or +0.7 percent. This is plotted on the graph.

In 1970, industrial production fell by 3.0 percent, while inflation fell by 5.9 percent. Thus, the index for 1970 is -3.0 minus -5.9, or -8.9.

For the years 1960 through 1966, the index is positive, reflecting the fact that production grew faster than inflation. In fact this period, spurred by the growth of NASA space-related investment and its technological spinoffs in the economy, is characterized by the fact that industrial production grew by 9.9 percent in 1965 and 8.9 percent in 1966.

Toward the end of the 1960s, the rate of industrial growth fell, while inflation growth rose. Inflation, which was in the 3 to 6 percent range for the period of the late 1960s through the early 1970s, exploded under the influence of Paul Volcker's usurious interest rates. For the 30 months that Volcker has been in office as Fed Chairman (he was installed in August 1979), inflation, as measured by the Consumer Price Index, has averaged over 11.5 percent.

The debasement index can be viewed as a rollercoaster which hits lower and lower troughs. The special evil effect of the Volcker policy can be seen in the section of the graph starting with the third quarter, which is contemporaneous with his reign in office. To the extent that inflation has "fallen," during the second half of 1981, each 1 percent drop in inflation has caused 2 or more percent drops in production. Thus, for the fourth quarter of 1981, the index crashed below the level of negative 20 percent.