

While the U.S. economy collapses, the bubble grows

by John Hoefle

While the physical economy of the United States has declined dramatically over the past three decades, dropping some 50% since 1967, the financial world has been seemingly booming, through the growth of a financial bubble the likes of which the world has never seen.

The process which is under way is shown by LaRouche's disintegration collapse function (p. 13), in which the financial and monetary aggregates grow hyperbolically, as the physical economy contracts. The faster the bubble grows, the more the physical economy must be looted to feed it, which in turn lessens the ability of the physical economy to service the financial demands placed upon it by the bubble. Ultimately, such a process must collapse.

This collapse will not take the forms of which most people think, when talk turns to economic collapse: sharp drops in stock markets, runs on banks, devaluations of currencies, hyperinflation, and similar shocks, in which sections of the financial system collapse, but the system itself remains standing. These are mere symptoms—symptoms increasingly evident in the financial world today—of a completely different type of collapse: the disintegration of the global economic and financial system itself.

Out of control

The level of financial turnover—the total value of all buying and selling of financial assets—has skyrocketed in the United States over recent decades, from \$534 billion in 1956, or \$1.22 in turnover for every dollar of Gross Domestic Product, to \$500 trillion in 1995, or \$70 for every dollar of GDP. When financial turnover increases at such a rate relative to GDP, which itself significantly overstates real economic activity, it is clear that the financial world has become detached from reality.

Relative to *EIR's* physical economic index, U.S. financial turnover has grown some 400-fold since 1967, a dramatic and unsustainable increase in the level of financial claims against the economy.

To service these financial claims, the federal government has rapidly increased the money supply, as represented by the second

curve of LaRouche's triple-curve function.

It is this necessity to feed dollars into the bubble, to prevent the bubble from collapsing due to lack of liquidity, which is the driving force behind the federal budget deficit. The determination of the Federal Reserve to feed the bubble, combined with the loss of hundreds of billions of dollars of tax revenue due to the collapse of the physical economy, is the culprit—not welfare mothers, the elderly, or hungry children. The borrowing of the federal government, to generate a money supply which is then leveraged to create money to support the turnover, causes both the budget deficit and inflation.

This money-creation process must escalate as the bubble grows. Despite rapid increases in the M1 money supply (cash, travellers' checks, and checking accounts), there is some \$440 in financial turnover for every dollar of M1, twice the level of 1990, and some 13 times the level of 1980.

It is in this context that the demands by Newt Gingrich and his "Contract on America" crowd to balance the budget must be measured. Gingrich's goals of tax breaks for speculators and deep cuts in the social safety net, are of the same cloth; both policies serve the same end, by increasing the flow of funds available to the financial bubble. Such policies are killers, as demonstrated in Pennsylvania, where Gingrichite Gov. Tom Ridge's cuts in medical assistance, have already caused several known deaths.

'Controlled disintegration'

The prospect of throwing citizens to the wolves in order to feed a financial bubble which cannot survive, would seem to be insane, and it is. But the madmen behind this plan—the international financial oligarchs who pull the strings of Gingrich and his fellow puppets—know exactly what they are doing. Their purpose, as then-Federal Reserve Chairman Paul Volcker admitted at the beginning of the 1980s Reagan-Bush economic bubble frenzy, is the "controlled disintegration" of the U.S. economy.

The Reagan-Bush "economic boom" of the 1980s, to which Republican Presidential candidate Bob Dole would have us return, was a gigantic swindle, in which the nation

went deeply into debt. The total debt in the U.S. economy increased from \$4.8 trillion in 1980 to \$14.5 trillion in 1990, a threefold increase. By comparison, GDP less than doubled, from \$2.7 trillion in 1980 to \$5.5 trillion in 1990. To gain a \$2.8 billion increase in GDP, we went \$9.7 trillion in debt, meaning that we took on \$3.46 in debt for every \$1 gain in GDP.

Were the nation incurring such debt in order to expand the productive sector of the economy—manufacturing, agriculture, science, infrastructure, education and the like—such debt would be beneficial, and would be more than paid off by the economic capacity it allowed. But just the opposite has happened; we have incurred huge debts while stripping the productive capacity of our society, and slashing the standard of living of most Americans, whose welfare and even lives are being sacrificed to the bubble.

Stop the insanity

To see this insanity at work, one need merely examine the economic news, as presented by the national media. The Dow Jones Industrial Average—which long ago ceased being industrial—goes up when the economic news is "bad," and down when the news is "good." A rise in wage levels, which by any competent standard is good for the country, drives the Dow Jones down, while a rise in unemployment causes the Dow to jump. The reaction of the stock market speculators is similar to that of a hungry vulture: Signs of life in the prey are considered bad news.

Another example of this insanity, is the so-called debate among economists and policymakers as to whether growth above 2.5% a year will cause the economy to "overheat" and thereby cause inflation. As *EIR's* market basket study shows, there is no economic growth—the economy has declined at a rate of some 2% a year since 1967—and inflation is caused by the Fed's feeding of the bubble.

The first step in reversing this disastrous course, is for people to admit the obvious: The economy is collapsing, heading for disintegration, and our economic policy is in the hands of an oligarchy which is orchestrating our destruction for their own benefit. Call it by its name: fascism. Then defeat it.