

I. Economics

Hyperinflation and Depression: Cause and Cure

by Dennis Small

The remarks below were featured on The LaRouche Organization's live weekly Fireside Chat, on October 14, 2021. This article was prepared by Mr. Small from the transcript of his remarks.

The topic that I want to address, because I think it goes to the heart of the explanation of the cause behind the other things happening in different areas, is the hyperinflation and depression which is now exploding around the planet. We will look at its cause, and of course, its cure.

I'm sure you've all heard the reports in the press that what really causes inflation are "supply and demand" effects. If the supply drops, or the demand increases, that supposedly will cause prices to increase, and so on and so forth. You can also read about this in all the textbooks on economics. You can go to Harvard-trained authors, and others, and they'll basically tell you that there are two kinds of inflation: there's "cost-push inflation," and there's "demand-pull inflation." But all of this is a bunch of poppycock—it's simply not true.

The situation we're facing is a lot starker than that. If you were to wake up tomorrow morning and find that you could not get any money out of the ATM machine. And that, when you thought that it was just a broken

ATM machine on the corner, and you went to the bank, the doors of the bank were closed. And you went to another bank, and there were policemen in front of it, and crowds were gathering. When you went to the drugstore to buy your medicine that you need for your urgent cardiac condition, or high blood pressure medicine or what have you, the pharmacy is not open, or it has sup-



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Commodity price hyperinflation and depression conditions are escalating worldwide, neither having anything to do with supply and demand. Shown: an electricity transmission tower in Bulgaria, gasoline prices in Los Angeles, computer memory chips, and a coal barge on the Rhine River.

plies which are being rationed out in tiny doses. Would that sort of a situation concern you?

You may think that I'm exaggerating and that this is just hyperbole as to what's going on. But it is not—because this is exactly the barrel of the gun that we're staring down at this very moment. I think that after I finish reviewing a half-dozen situations internationally, I think you will realize that this evaluation—which is Lyndon LaRouche's long-standing evaluation as to the systemic nature of this crisis—is actually far more accurate than anything anyone else is saying. Once you recognize that, then it points you in the direction of a solution.

Nothing To Do with Supply and Demand

Let's look at a handful of situations, and what's been happening with prices over the course of 2021. These are always explained away in the media as the result of “supply and demand,” and as a transitory phenomenon, like the Fed likes to say. But consider:

- The price of cotton has risen 47% over the course of this year. Is that because there has been a 50% increase in the demand for cotton? That many more people want shirts? Or, you have to get a lot more cotton for other purposes?

- The index price of fertilizers has risen to the point that it is double what it was one year ago—a 100% increase. Is that because all of a sudden nobody is producing any fertilizer, and therefore the supply dropped, and the price doubled in a year?

- Or let's look at the energy situation in the United States and in Europe. The cost of crude oil in the United States is 65% higher than it was at the beginning of 2021. The price for Brent crude is about \$83 now, the highest in years.

- The cost of natural gas in the United States has risen even faster than oil, going up 112% this year. So, we're talking about an increase of these basic energy inputs—oil and natural gas—of 1.5 to 2 times over the course of less than a year. Is that because OPEC stopped producing oil all of a sudden? That the 1% drop in oil production by OPEC—I'm just making that number up, but it doesn't make much difference what it actually is—that the 1% drop in the supply of oil has led to a doubling of its price, a 100% increase of its price?

We are told by media and politicians that the economy is rebounding so rapidly from the COVID pandemic that production is just whizzing along in many parts of the world. And that supposedly explains why

the cost of electricity has *doubled* in a year? Do they really think we're that foolish? Maybe they do. In Europe, the cost of a megawatt-hour of electricity—I'm switching units here, because the sample cases I'm reviewing were reported that way, but I think you'll get the idea—the cost of a megawatt-hour of electricity on average in Europe in December of last year was 43 euros. In March of this year, it had more than doubled to 100 euros.

As of today, October 2021, the average cost of a megawatt-hour of electricity in Europe is 389 euros. It has risen from 43 to 389 euros in less than a year: that's a ten-fold increase! Has there been a ten-fold increase in the demand for electricity? Has there been a ten-fold collapse of the supply line of electricity?

One starts to wonder. Maybe this doesn't have anything to do with supply and demand and other fairy tales after all.

Citibank has issued a projection of where things in Europe are going to stand by the end of this year. They're saying that the cost of a million BTUs (British Thermal Units) of energy will rise to a level of anywhere from \$30 to \$100. Citibank itself then does a conversion: they say if we reach \$100 per million BTUs by the end of the year, that's the equivalent of oil costing \$580 per barrel. Today it's “only” at \$83.

Break it down into specific situations. Italy: the cost of people's electricity bills is going to be increasing by as much as 900% by Christmas time, according to Italian media accounts. Is that because people are going to be consuming 900% more electricity? Give me a break! In Spain, a megawatt-hour of electricity rose from 40 euros in 2020, to 200 euros today—a five-fold increase. India, which uses a large amount of coal, imports a large amount of it from Indonesia. The cost of a ton of coal imported from Indonesia has risen from \$86 per ton in April of 2021, to \$162 per ton: it has doubled in six months! Half of the coal plants in India have less than a two-day supply of coal on hand. They may run out and stop producing electricity.

In Lebanon, this is already happening: it's lights out in Lebanon. The two major government electricity companies, which produce the majority of the electricity in the country, have been forced to shut down. The drop in electricity supplies has been so drastic that they are estimating that there is an immediate danger to the actual engineering integrity of the grid itself. This has everything to do with the IMF policies and banking policies imposed upon them.

You might be beginning to get the idea that none of



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The cost of container shipping has increased ten-fold over the past year.

this is explained by all the reasons which are provided by the media and economics textbooks. It so happens that the cost of energy is *not* determined by supply and demand, not by cost-push inflation, and not by demand-pull inflation. The cost of energy is determined on the Amsterdam spot market, which is a speculative spot market. When speculators jumped into it, and started speculating on the future price at which they will be able to sell their barrel of oil, or their kilowatt of electricity, or what-have-you, then you know damn well that people are going to withhold the supply that they may have on hand, because they know that the price is going up, according to the speculative markets.

So, if you have a speculative market which is fed by countless trillions, or 1.7 quadrillion dollars, this is going to drive the price of everything up as the speculative feeding frenzy proceeds. Which is why you have a situation across all areas with massive increases in prices. It has nothing to do with supply and demand or rebounding from the pandemic—which isn't happening.

Ten-Fold Increase in Shipping Costs

That's energy—one major sector. Now let's look at another major sector which affects everything else in the economy (as happens with energy): Let's take the case of cargo, of shipping things around the world. The basic unit for shipping is a container, which is known as a TEU, a 20-foot equivalent unit. The cost per TEU of shipping from the United States to China was about \$2,000 one year ago. Today, if you can find one of these things, the cost is \$20,000. It's a ten-fold increase in one year! Is that because there's all of a sudden 90%

fewer TEUs? Or perhaps they too are being hoarded in the expectation that prices will keep rising?

The cost of shipping from Chile in South America to the United States, was \$1,500 per TEU one year ago; now it is \$18,000—a 12-fold increase.

Now consider chips: 90% of the world's supply of electronic chips—not potato chips, but electronic chips—are produced by one company in Taiwan. There are reports in the technical media dealing with the chip industry, that substantially more chips are being shipped to companies than those companies then release in the products of those companies. In other words, more in than out. What does that tell you? That people are hoarding. Why would hoarding be going on? Because there is speculation on the price of chips.

The same holds in many industrial areas. An engineer colleague of ours in Mexico, who is an expert in the field of plastics and petrochemicals, told us, aghast, the cost of PVC pipes has gone up from 28 pesos just a few months ago to 60 pesos; more than a doubling. He said the cost of aluminum is four times more than it was a year ago, but it can't be bought even at that price because there is no aluminum to be had. There is no steel to be had. The cost of shipping cargo from China to Mexico or back? Twice what it was a year ago; they can't even import stuff from China for that reason.

And, you may be interested to know, there is a spot market on cargo, just as there is on energy. People don't go to the corner or to the convenience store and say: I need 6,000 TEUs. No, it's bid on, on a speculative market. And there are three major shipping companies around the world that have the corner on this market. And it works exactly the way all raw materials markets work, which is not supply and demand: it's a speculative spot market, a forward market.

So, let's say you have in your possession, or you have bid to have delivery in your possession, 10,000 TEUs. There's no way in the world you're going to rent those out at a mere \$20,000 each today, when you have every reason to believe that three months down the line you can make a killing at \$30,000. So, you're going to withhold that from the market. So, you have an in-built speculative process of hoarding and soaring prices going on here.

Systemic Crisis and Dollar Collapse

And yet, everything we've just described isn't the cause of the crisis, because what's happening is not really price inflation. What I just described to you isn't what's actually going on. What's happening is that

there is a massive shock devaluation of the value and the worth of the U.S. dollar. That's what is actually going on. The dollar is the unit of measure internationally—other than the places that have been driven out of it like China, or increasingly Russia or other countries such as Iran, and so forth.

But with the dollar being the international reserve currency, when the dollar no longer can buy what it did before, this takes the form of drastic increases in prices—a two-fold increase, a four-fold increase, a ten-fold increase. What's happening is, the dollar is being turned into the used toilet paper it has, in fact, increasingly become for the past 30-40 years; exactly as Lyndon LaRouche warned would happen.

That's why it's very possible we will all wake up one morning, very possibly during the fourth quarter of this year, and find that you can't buy anything for love or money—especially not money. Love might work, but the dollar is not going to be worth anything. You will not find anything to buy. You will get runs on banks; you will get runs on ATMs. Paper money will disappear. It will go up in smoke.

The \$1.7 quadrillion in speculative financial assets will go up in smoke in the equivalent of a financial nuclear chain reaction. A nuclear chain reaction does not proceed like dominoes falling down: one knocking down the next, which knocks down the next, and so on. That's not how it works. In a financial blowout, one blows out two; two blow out four; four blow out sixteen; etc., etc. It's a chain reaction. And that's what we are seeing signs of in the world today.

The cause of this is not speculation per se; the cause of this is systemic. The cause of this is explained by Lyndon LaRouche's Triple Curve function, which many of you are familiar with (see **LaRouche's Triple Curve**, next page). This describes the process of what happens in an economy as an inter-linked single function which includes, on the one hand, monetary and financial aggregates, and their rate of growth, which are increasing hyperbolically as we've seen. This is set against a physical economic process, the actual requirements of a society—and this is plunging.

LaRouche repeatedly explained that the Triple Curve—he didn't call it the Three Curves—it is a *single function*. It is a single, inter-related function which is not arithmetic, it's not geometric, it's not hyperbolic. In fact, you can't explain it with any simple mathematical function, because the physical economic process is a non-linear process either of growth—where you have



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Lyndon LaRouche discusses the systemic cause of the blowout, using his Triple Curve typical collapse function, at a Schiller Institute conference.

technological leaps, and you have discontinuities because of advances in technology—or, in the alternative, a collapse which is also non-linear.

That's why, when you see a collapse beginning, like we're seeing today, this is not a gradual slide. It happens by a ratchet-type plunge. And people look around and say, "Where the Hell did this come from?" The answer is, "If you'd been listening to Lyndon LaRouche, you wouldn't be asking that question, because he warned of exactly this process that we're now seeing and is underway. It is the systemic collapse that's going on."

A Word from LaRouche

On top of that, you have two other processes that are directly related to the systemic collapse and are pushing it in the direction of a complete collapse. But it's because we have this systemic breakdown going on that these other elements have the effect they do. One is the Green Reset policy, which is inducing a situation of forced cutbacks in energy and industry, and everything that's required to keep a society going. This is exacerbating the physical economic collapse at an accelerating rate.

The other related process is the one of speculation which we were just describing, where you've got \$1.7

or so quadrillion chasing around the world speculating. Therefore, it's having the kind of effect that we're seeing here today. Mark Carney, the former head of the Bank of England who is a leading promoter of the Green Reset, stated clearly yet again earlier this week that the policy is straightforward: We have to change what he calls "the plumbing" of the international finance system to make sure that "the plumbing" channels all available funds and resources into a Green speculative bubble of \$150 trillion—those are his numbers. And that "plumbing" has to make sure as well, Carney insists, that nothing goes to actual productive activity.

That's the policy, and the Federal Reserve is in the process of making a significant policy shift as well, adapting to this hyperinflationary blow-out going on with a depression collapse.

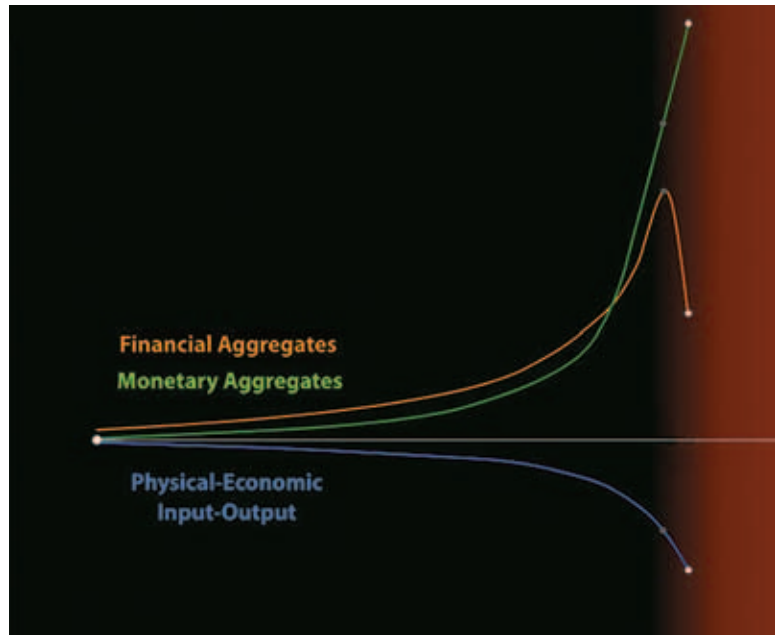
I want to conclude by reading two paragraphs from Lyndon LaRouche, from remarks he made on October 22, 2001—20 years ago. As I mentioned, people wouldn't be asking silly questions if they'd been listening to LaRouche for the last 20 years:

The reason that I've been so successful in forecasting, is because I think systemically. Therefore, I understand how a systemic collapse unfolds, as opposed to a stock market prediction, which is what every idiot likes to talk about. I make forecasts, not predictions. Forecasts which are based on the systemic characteristics and the boundary conditions within which the system operates. That's why I have always been right, and every one of my critics, whether inside the organization or outside—has always been wrong.

LaRouche then turned to explain succinctly, 20 years ago, what is going on:

So, you have a situation globally in the United States and outside, in which the total amount of debt service being extracted from the economies is increasing cancerously, and the debt service payment requirement accordingly. This is collapsing the actual productive power of nations and their populations precisely at the time that the amount of debt to be paid is increasing. So, there's no possible way that the present interna-

LaRouche's Triple Curve, or Typical Collapse Function



LaRouche's Triple Curve or typical collapse function: If physical production declines while financial aggregates (debt) rise, and monetary aggregates (money-printing) rise to support the difference, massive debt defaults eventually set in. Hyperinflation then hits currencies.

tional monetary financial system could be continued without collapsing civilization into a generalized and prolonged New Dark Age, out of which most nations will disappear, and the human population will drop rapidly during the course of this century to below 1 billion. And the first drop-down will tend to be a big one.

So therefore, we're in a situation in which anybody who doesn't support my proposals on bankruptcy reorganization of the international monetary and financial system, does not support the measures which I've proposed for this purpose, has to be an idiot.

The good news, of course, is that the solutions are at hand, once this causal systemic process is recognized. Lyndon LaRouche's solutions are readily available and can be quickly implemented. In fact, the Russians, the Chinese, and others are already on board. We are in a situation where—well, I was going to say, "We can turn on a dime." But we're not going to be able to turn on a dime; we'll have to turn on a dollar, because of the deflation of the dollar's value. But the change can be made, and it can be made quickly. And that's precisely what we're intent on bringing about.