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OPINION

# The inflation ruination to come

All forecasts are useless amid a global financial structure of unstable criticality in which any snowflake can bring an avalanche

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The US dollar just isn't worth what it used to be. Image: X Screengrab

The coming years are going to be a bumpy ride for more reasons than appear in press chatter, talk shows and podcasts and bumpier than the chatterers and "experts" imagine.

Global finances are at an epochal turn. The world has been living on capital (energy, water, land) and credit for many, many decades and that has stopped.

Economists blithely call it "The Great Moderation" and congratulate themselves. Highly skilled in their discipline, they are innocent of history and other kinds of insight essential to comprehending today's situation.

With their narrow understanding, American economists just told their leaders to max the national credit card, possible once President Nixon had in 1971 cut the dollar's link to gold, theretofore the sole restraint keeping American politicians and public modestly responsible.

The United States has since gone from Earth's greatest creditor nation to its greatest debtor in two generations, an unprecedented flip enabled by the public's changed mentality regarding "living on credit." Before the late 1950s, if one wanted to buy something, one saved for it; there was no credit, only "layaway plans."

## Living on capital … done!

Bank of America's innovation of the universal credit card in 1958 normalized "living on credit" personally, and this mental revolution overturned the earlier norm in the United States that the state itself must balance its budget. This has fed through to the mentalities and financing policies of other nations.

In short, the world has been running down stores of capital/credit built up over two centuries (in America) and of energy/water/land built up everywhere over eons (fossil fuels, deep aquifers, great forests).

Not helped if (as in the US) public discourse is dominated by undisciplined people scornful of science and indifferent to education, focussed only on a life of endless sensory gratifications.

Living standards are going to decline worldwide as all are forced to live on what they can produce (or steal – think of Russia invading Ukraine), what some disparagingly call "austerity."

The bitter political struggle now coming and going to worsen greatly most everywhere is over who shall suffer most.

**Inflation** is one of several policies by which the influential transfer purchasing power from the poor and powerless upward to those higher in the scale of political influence, including themselves.

As US Federal Reserve Chairman Jerome Powell stated at the 2022 Jackson Hole Federal Reserve Economic Symposium: "The burdens of high inflation fall heaviest on those who are least able to bear them." He omitted to mention his intention that this happen.

By final exam time everyone paying attention in Economics 101 understood why inflation happens. Those choosing other careers forgot the details. Those who became professional economists didn't forget but are heavily motivated not to utter uncomfortable truths.

Hence the hand-wringing, the hysterics, the rampaging ignorance in the headlines and in talking head "expert" analyses.

## The inflationary truths

* Everyone knows that inflation sooner or later, greater or lesser, must result from a rising imbalance between financial claims and real deliverables of goods and services.

* Claims lacking economic substance will be brought into balance by nominal (inflation) or real (default) extinction. Slowly or suddenly, or one after another.

* Very many small people, and some big people, absolutely must be ruined almost everywhere. They won't be happy.

* No one volunteers for ruin and political arrangements forbid almost everywhere an organized rebalancing of claims and deliverables. So those intent on staying in office must, to calm the victims as ruin nears, organize the "it's terrible, who could have imagined" performance we now see.

* Man has free will so limitless technical "degrees of freedom" exist. No one can know how or how fast ruination will come. Central banks' constantly wrong projections (especially the **US Fed's**) are the stuff of jokes.

(The Bank for International Settlements is almost alone in maintaining the credibility of its analyses.) All forecasts are useless because the structure is one of unstable criticality in which any snowflake can bring an avalanche.

The inflation program "works" by intentionally grinding down those at the bottom (definitionally powerless to resist) to transfer purchasing power upward.

This intent is tautologically true if one accepts that enacting legislation to transfer inflation's burden to someone else demands political power — self-evident from experience and common sense.

Nevertheless, most economists deny the goal to grind down the poor, claiming "that's too cynical" or denying anyone is "seriously trying to use inflation in an organized way to extract income" (direct quote from the author's Harvard classmate – a professional economist).

They violate the irrefutable moral rule that to will the end is to will the means.

## Balking economists, blind commentators

To understand why balking economists and most financial commentators cannot act upon or often even cognize the obvious one must call upon the science of human behavior.

First, the level of conscious awareness: some cognize this truth but tell themselves (correctly), "Complicity in the program of promiscuous money creation to grind down the poor and uplift the rich is a regrettable necessity to keep my job" or "If I don't keep moving my employer's product I'll be fired."

This is common behavior at all levels of government, media and commerce right up to the highest.

Second, Sigmund Freud's epiphany teaches us that most human behavior results from hidden mental movements. Those denying or avoiding plain truth most commonly employ denial, devaluation and rationalization, among the wide array of primary and secondary defense mechanisms we humans use to avert mental discomfort; see any standard reference in psychiatric diagnosis.

But those in power still must sacrifice a few financial asset owners despite their being the most precious constituents of the powerful. Every player understands the lifeboat shortage, so it's *sauve qui peut*.

Rising inflation is not a surprise and not unwelcome. It is the well-understood, intentional and planned solution to the excess of financial claims empty of economic substance created to keep those in office in their seats. Public hand-wringing is only performative.

In November of 2021, the chairman of the educational foundation on whose executive committee the author then sat asked during a finance meeting with the foundation's Swiss bank advisor, "Is **Jerome Powell** telling us the truth [about inflation]?"

He replied, "I just talked to an old friend about this, who recently retired as a long-time board member of the Federal Reserve Bank of ________. He said 'No. If he told the truth, there'd be panic. He'd be fired immediately.'" And now we see it.

Key financial values, presently standard deviations off in most countries, must revert toward their means. When they do, enormous notional wealth based on promises empty of productive economic substance will be extinguished. Life as we've known it for decades will end. Some of the "smart money" knows this.

Think Warren Buffett's recent portfolio changes, the People's Bank of China's gradual shift from **US Treasuries to gold bullion** and JP Morgan's January 2021 **report** "Long Term Capital Markets Assumptions", which warned of a coming decade of "shocking . . . negative real return[s]" for both stocks and bonds.

Their now emerging positive correlation upends generations of basic investment doctrine. JP Morgan's "imperative" (their exact word, elaborated in 130 pages rather than in a single short sentence): as much as possible, flee financial assets while you can.

Ever since 1971, serious thinkers have planned for the inevitable, whether slow or chaotic. Special Drawing Rights may mitigate or postpone a cataclysm arising from the threat to international banks of the slow ruin scenario now hitting highly indebted countries.

For the quick and chaotic scenario, American planners in 1977 promulgated the International Emergency Economic Powers Act, allowing the United States to confiscate the assets of any foreign person, organization or state, so repudiating America's international financial obligations and forcing the burden of a cataclysm onto foreigners.

Using pre-IEEPA mechanisms the United States has twice done this, in 1934 and 1971, and this reset (note the periodicity) is actually overdue. Shifting the pain to foreigners is America's canonical solution; in former Treasury Secretary John Connally's succinct declaration of this durable American strategy: "It's our currency, but it's your problem."

## Surviving to the other side

America has carefully planned big things for lots of victims. Anyone in power in almost any country would have planned the same way. We just don't know the victims' names.

It's now time for everyone to ask whether he has acted to save himself, his family, his business, his institution. Otherwise, he is still on the victim list.

To get to the other side of what's coming in the short and medium terms (5-10 years from now, when there will be great investment opportunities), resources want to be in producing real property, productive assets like companies that add value to the economy (neither Facebook nor crypto, obviously), precious metals and possibly some commodities (but that requires a high level of knowledge as demand for raw materials will fall when the crash comes).

Most "investment" chatter focuses instead on epiphenomena like stock prices and trends, which are many steps removed from real value-added processes (if any connection at all – often none). The analyses that fill newspaper articles and "investment advice" from so-called experts characteristically refer to "asset values" as though representing real wealth.

The "value" will be known only in the future, as real income is transferred from value-added productive processes to the owners. All we "know" today are the prices, presently but loosely linked to value-added productive processes.

Listeners to such muddled thinking will face very bad outcomes. The March 2023 Silicon Valley Bank collapse sounded the celestial trumpet.

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