

## Greenspan's hyperinflationary policy hits the gas pump

by Marcia Merry Baker and William Engdahl

On March 16, independent truckers drove about 1,000 big rigs, bumper to bumper, along the boulevards of Washington, D.C., to protest high diesel prices and low freight rates. This was the second national trucker demonstration in less than a month. On March 21, a national farm state rally was set for the steps of Capitol Hill to protest the crisis of independent farmers. **Figure 1** graphs how the price of a barrel of crude oil has gone up by more than 300% from spring 1999 to the present, showing up in high prices for gasoline, diesel, fuel oil, chemicals, plastics, and other commodities.

For truckers, farmers, and throughout all essential economic activity, soaring fuel costs are coming on top of already intolerable financial conditions.

However, the average person usually takes a more limited view: Will I have to carry a bucket of money to pay for a gallon of gas? Maybe soon. But the urgent question for all citizens to understand, confronted by "gas pump shock," is that this is a manifestation of hyperinflationary processes *throughout* the economy, not some limited, "supply and demand" gone awry in crude oil, which "market forces" can be trusted to fix.

During the 1990s, Lyndon LaRouche specifically warned of the inevitability of a hyperinflationary explosion in prices of commodities and essentials of all kinds, if certain policies were pursued to pump liquidity into the financial system to keep speculative bubbles going at all costs—the very policy pursued to-date by Federal Reserve System Chairman Alan Greenspan, and now by Treasury Secretary Lawrence Summers. LaRouche has repeatedly stressed, since especially 1998, that the relevant point of reference is the 1923 Weimar Germany hyperinflation. That is how to understand what's happening now.

For the record, quotations of LaRouche's advance warnings are given in a box accompanying this article, along with

a short report on the background of hyperinflation in Weimar Germany.

### Not 'market forces'

LaRouche commented on March 8, following the Super Tuesday 16-state primaries: "There is a *global* hyperinflationary spiral in the process of taking off. And whatever else is also true about it, the essential bottom line is, that there is

FIGURE 1  
West Texas Intermediate Crude oil price,  
1995-2000

(\$ per barrel)

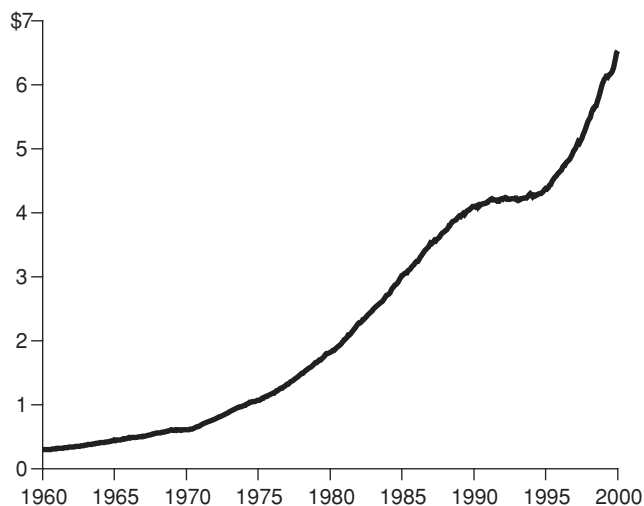


Source: Dow Jones.

FIGURE 2

### U.S. money supply (M3)

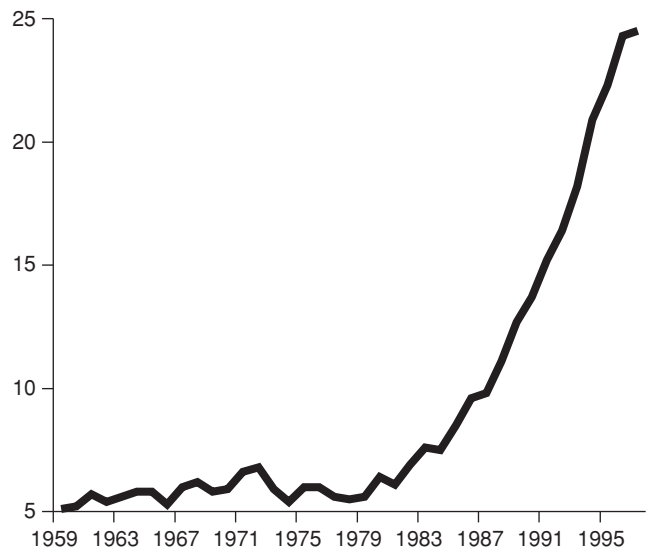
(trillions \$)



Source: Federal Reserve.

FIGURE 3

### America's financial aggregate as multiple of goods-production GDP



a global hyperinflation in real asset prices, prices you realize, is now ongoing globally. And the petroleum price is chiefly a reflection of that, apart from whatever temporary incidental features there are.

“This is simply, predominantly — it is not some ‘market this, market that’ — it’s a hyperinflationary process, which has taken off, where it does take off. Hyperinflation tends to hit — when it hits in a real form, as opposed to inflation — tends to hit in primary values, such as food, and primary materials, and that’s what’s happening.”

The graphs here provide quick references on the nature of the financial blow-out crisis in which prices of oil, metals, lumber, and other hard commodities, and food, housing, and other necessities, are rising or poised to rise toward the stratosphere.

**Figure 2** shows the hyper-rate of growth in the U.S. money supply (M3), which reached 6.53109 trillions of dollars as of January 2000. This soaring rate reflects the ongoing policy response of Greenspan et al., especially after 1997, when big cracks opened up in the global financial system, beginning with the mis-named “Asian flu,” which then proceeded to hit to other countries.

In September 1998, when the Long Term Capital Management (LTCM) hedge fund collapsed, nearly causing a financial meltdown, Greenspan’s money pumping went into even higher gear. At that time, the decision of the Greenspan Fed and the Group of Seven central banks to bail out LTCM and its creditors, resulted in an unprecedented flow of financial liquidity — courtesy of the central bank printing presses — into financial paper titles which would bring the fastest double-digit profits for troubled banks and hedge funds. The recent

rise of the Nasdaq stock index to the skies, as well as the only slightly less spectacular performance of the Dow Jones index, and the S&P 500, since late 1998, are a direct consequence of the money infusion process. Continuing through 1999, various rationalizations given were for the need for more money for “Y2K” contingencies, and similar cover stories.

**Figure 3** shows that while financial aggregates of all kinds (stocks, futures, debts, real estate, derivatives) have been growing in the U.S. economy, during the 1990s period of M3 money inflation, the real economy (of physical production, infrastructure and essentials — health services, schooling, etc.) went nowhere. The graph illustrates this by taking the “financial aggregate” as a multiple of the value of the goods-production part of Gross Domestic Product. So, as of the late 1980s, financials were “only” 10 times the GDP goods producing segment. By 1999, “financials” soared to 25 times goods producing levels.

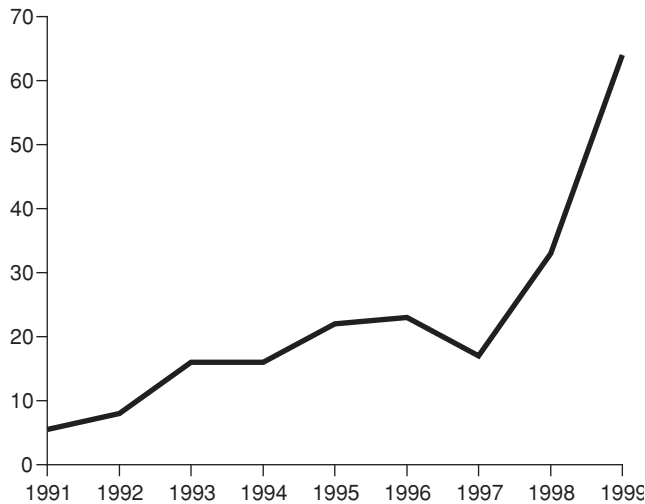
**Figure 4** makes clear that the hyper-liquidity policy has been a global one. Look at the ballooning of government bond debt in Japan from 1997 through 1999. At the same time, the practically nil interest rates in Japan have been a chief prop, through the borrow-and-speculate yen “carry trade,” to jack up the dollar. But not for long.

An historic blow-out — the “Big One” — can’t be far off. The daily commentary now in Europe and other centers *outside* the United States, focuses on how it can’t be long until the U.S. financial bubble pops. London *Guardian* editor Larry Elliot wrote on March 13, that “a spectacular crash” is ahead. “It will happen suddenly. And the impact will be savage.” (See more commentaries, p. 11.)

FIGURE 4

## Japanese government bond issues

(trillion yen)



Source: Japanese Ministry of Finance.

Accordingly, the “insider” talk on both sides of the Atlantic revolves around how the “smart money” is fleeing hyperinflated stock markets, quietly pulling out of pure paper speculation, and, using various derivatives contracts, moving into hard commodities, driving their prices still higher, in anticipation of the imminent collapse of paper assets.

Meanwhile, the type of “What, me worry?” insanity prevalent inside the United States is shown most recently in the many business-page news commentaries claiming that the “New Economy” doesn’t need energy, so the oil price rise won’t matter much! Specifically, this argument proceeds this way: Looking at Figure 3, one should deduce that since “goods producing” and hard commodity-related activity are relatively so small compared with pure “financials” (namely, the bubble!), especially cyber-tech stocks, there’s nothing to worry about.

For example, the March 9 *Investor’s Daily*, in an article on the economic impact of energy prices, said, “For one thing, oil has less of impact on the U.S. economy than it did 20 years ago. . . . And the most important sectors of the economy tend to be the least dependent on oil. ‘About one-fourth of economic growth is coming from the tech sector.’” According to Stephen Slifer, an economist at Lehman Brothers, “Rising oil prices just aren’t much of an issue for AOL [America Online] or Microsoft.”

### Unprecedented commodity cartels

The gargantuan financial bubbles raise an additional point of how the preconditions for hyperinflation in commodities’ prices were laid all along. Throughout the period of growing

speculative bubbles, certain “smart” money has moved out of financial assets and into supply lines of vital commodities (fuel, food, metals, minerals), for the income stream, and for control of hard assets when the bubble pops. That is a major part of the pattern of recent years of mergers and acquisitions, to the point of frenzied whopper-mergers over the last 24 months.

This process of takeovers and buy-outs itself has several special ways to feed into hyperinflation. The debt associated with acquisitions creates pressure for raising prices high enough to generate the income to pay the debts. Many mid-size operations merge to try to survive, then, when they go under, out of the shadows come the mega-companies and financial interests, mostly London-centered, or British-American-Commonwealth, waiting to pick over the remains. The consolidation has reached unprecedented degrees of cartelization.

Meanwhile, production levels and potentials per capita, are declining. Take oil, for example. U.S. output of crude oil has fallen since the 1970s, by on average 1.5% a year. The

## LaRouche forecasted hyperinflationary explosion

In fall 1995, Lyndon LaRouche introduced the “Triple Curve, a typical collapse function,” a heuristic device (**Figure 5**), at a seminar in Rome, Italy. It illustrates the inherent dangers of continuing policies in which financial and monetary values soar (the two upper curves), producing bubbles of financial assets, held aloft by the take-down of the physical economy, and the degrading of the standard of living and production potentials for masses of people (lowest curve).

Three years later, on Jan. 17, 1998, in a keynote address to an international conference in Alexandria, Virginia, LaRouche illustrated aspects of the collapse function, and stressed the catastrophic consequences of the U.S. and other governments continuing to back the processes represented in the “Triple Curve” diagram. LaRouche pointed to the role of the International Monetary Fund (IMF) in this, and he commissioned historical work on the Weimar Germany hyperinflation (see Richard Freeman, “Hyperinflation in Weimar Germany,” *EIR*, Jan. 30, 1998; and William Engdahl, “The Coming Hyperinflation Crisis,” *EIR*, May 28, 1999).

LaRouche said: “We’re on the edge of coups throughout Asia and Southeast Asia, as a result of IMF policy. *In the meantime, the policy which the United States government, including the Clinton administration presently, by*

United States used to produce in the range of 9 million barrels a day, and now it's down to 2 million barrels. During 1990-97, forty-one U.S. refineries were closed, amounting to 20% of the number of operable U.S. refineries in 1990. More than 50% of U.S. annual consumption of crude oil is now imported. In turn, over half of these imports come *not* from the Persian Gulf, but from Mexico, Venezuela, and Canada.

Overall, internationally, both annual consumption and annual production of crude oil are in the range of 74 million barrels a day. With an international oil and energy system characterized by next to no redundancy in pumping, refining, storage, and handling capacity, this is made to order for shortages and shocks, and for speculation and cartel control.

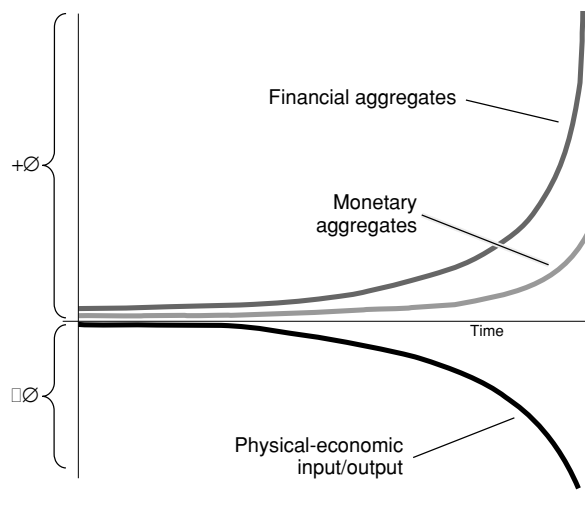
The world oil industry is now cartelized as it has never been before. Over the past two years, the major oil companies, popularly known as "The Seven Sisters" during the oil shocks of the 1970s, have gone through a process of mergers and cartelization unprecedented since the 1911 U.S. Supreme Court break-up of John D. Rockefeller's Standard Oil Trust.

In late 1998, during the worst days of the Asian economic

collapse, when world oil prices were falling toward new lows of \$10 per barrel, British Petroleum announced a bold takeover. It would buy the large, formerly Rockefeller-owned Amoco (Standard Oil of Indiana). BP had already taken control of Sohio (Standard of Ohio). The new giant, BP Amoco, was briefly, on paper, the world's largest oil multinational, surpassing Exxon and Royal Dutch Shell. Soon, however, citing cost risks and perils of record-low oil prices, the two largest U.S.-based members of the former Seven Sisters, Exxon and Mobil, announced plans for an \$80 billion merger, creating the world's greatest oil giant, which replaced General Motors as the largest in the Fortune 500 for 1998.

Again, even before it had regulatory approval from U.S. and European authorities, BP Amoco announced in April 1999 that it was buying the large U.S. oil company Atlantic Richfield (Arco), which had a major share of Alaskan oil production, as well as important leases in the Caspian Sea and North Sea. The final terms of the BP Amoco \$30-plus billion takeover of Arco are yet to clear legal challenges from Alaska and other states, but in some form the takeover is certain.

FIGURE 5  
A typical collapse function



default, is conducting, is a hyperinflationary policy, which will blow up the value of money into nothingness, quicker than John Glenn can get into space: through a hyperinflationary bubble, through an attempt to maintain financial aggregate by pumping in money fast enough to keep the aggregate going, under so-called bailout techniques, IMF bailout.

"What does the IMF say? The IMF says: *Cut* your production. *Accelerate* the cutting of per-capita output. *Increase greatly* the monetary output, in order to cover,

and prime up, and pump up the financial aggregates, which are already skyrocketing. That means that, whereas it took Germany 18 months for the German Reichsmark to disintegrate—that is, they couldn't print money fast enough to keep up with the rate of inflation, and they just took notes on paper, and the German Reichsmark was *dead*. And the only reason Germany came out of this, was because the United States stepped in with the so-called Dawes Plan, which took U.S. gold—the U.S. was the only creditor nation in the world at that time—and created a new mark in Germany, which allowed the German economy to stumble along through the 1920s. That took 18 months, for that process to unravel.

"Under present conditions, we're talking about a matter of weeks, or months at most, if this policy continues. So, the present policies of the U.S. government, and the majority of institutions, either by intent, or, in this case of the Clinton administration, by default—by its refusal to consider what it must do, it has bought into a hyperinflationary explosion of the U.S. dollar. If that continues, either they try to stop it, which causes a sudden default. Or, if they don't stop it, it causes a blowout within a period of weeks, or months at most, globally, like the hyperinflationary explosion which occurred in Germany over the period 1921 through 1923. So, that's what we're up against."

(LaRouche presented 15 charts to illustrate the hyperinflationary process and potential, one of which is reproduced in Figure 3. See Lyndon H. LaRouche, Jr., "How the Top One Percent of American Citizens Think," *EIR*, Jan. 30, 1998, for the full presentation.)

On March 15, BP Amoco announced that it had arranged a deal for Phillips Petroleum Co. to acquire Arco's Alaskan North Slope oil rights for \$7 billion, so that the new BP Amoco Arco would no longer have an Alaskan monopoly. The Federal Trade Commission (FTC), which had filed a lawsuit in February against the merger because of the challenge from Alaska, then signalled later the same day, that maybe the

Phillips acquisition would be grounds for the FTC to withdraw its lawsuit.

Phillips officials, meanwhile, are meeting with FTC officials to indicate how the Bartelsville, Oklahoma company can cope with the huge debt for the Alaska oil operations purchase. Many industry analysts point out, that if the crude oil price returns to where it was in January 1999 (\$11 a barrel),

## Hyperinflation in Weimar Germany

In 1919, at the Versailles peace conference, draconian financial obligations were imposed upon Germany's Weimar Republic, while its physical economy was gouged by "conditionalities" in which its means of production (farms, factories, mines, and so on) were diminished, and its output and consumption potentials lowered. These factors were intensified during 1920-22, and laid the preconditions for the Weimar hyperinflation of 1921-23. The key point of relevance here is that *the size of the reparations imposed constituted a volume of financial obligations far beyond any conceivable means of meeting them.*

During 1920-22, taxes were imposed to the maximum, any and all government resources and reserves went to reparations, and other means were taken, but the strapped-down economy, as imports and exports dropped, was still unable to meet the financial demands. By 1921-22, the cost of reparations equalled 80% of all unborrowed reserves of the German government; by 1922-23, they exceeded 100% of unborrowed reserves.

In an attempt to pay the reparations and keep the economy supplied with liquidity, Germany resorted to printing money, cranking up the printing presses full throttle. Prices, and the amount of currency in circulation, spiralled upward in a self-feeding process. **Figure 6** shows the 10 months, from January to October 1923, when the number of Reichsmarks outstanding went from 1 trillion, to more than 1 million trillion!

By November 1923, a kilogram of bread cost 428 billion Reichsmarks, and a kilogram of butter cost more than 5 billion. A bank account of 60,000 marks, the interest from which would, in 1913, have enabled one to lead a comfortable retirement, would not even buy a daily newspaper. It came to cost more to print the mark notes, than the notes were worth.

A chain reaction of shut-downs ran throughout the economy. During January-October 1923, the unemployment rate for trade union members rose from 4.2% to 28.4%; unemployment among non-union members was higher.

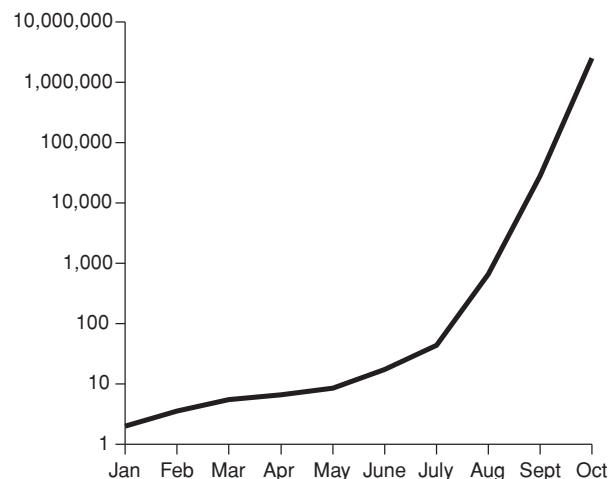
Living standards plunged. The daily intake of meat and milk fell by 60-80% for almost everyone. The death rate from tuberculosis rose from 14.3 per 10,000 people in 1913 to 20 per 10,000 in 1923.

The only reason why Germany came out of this crisis, was because the United States stepped in with a plan to create a new, stable mark, pegged to U.S. gold, and to take related measures. The United States, as the world's only creditor nation at the time, had the authority and power, and used it.

The intervention side-stepped the original, disastrously incompetent Versailles Reparations Commission policy, which had been run by the British financier oligarchy, in particular British Privy Council operatives Lord Lothian, Viscount Robert Cecil, and Lord Cunliffe of the Bank of England.

Today, there is no one country that has the political-financial power equivalent to that of the United States in the 1920s, which can intervene "from the outside." The emergency intervention must come from citizens acting to change government policy.

FIGURE 6  
**Hyperinflation in Weimar Germany, 1923**  
(trillions Reichsmarks outstanding)



Source: Zahlen zur Geldentwertung in Deutschland 1914 bis 1923.

Phillips will be sunk.

In July 1999, the French private oil company Total, which only weeks before had purchased control of the Belgian Fina Oil to create Totalfina, announced that it intended a takeover of the former French state oil giant, Elf Aquitaine, to create the world's fourth-largest private oil company.

As of today, these four—BP-Amoco, Exxon-Mobil, Royal Dutch Shell, Total-Elf—dominate the world energy market to an unprecedented degree. They overwhelmingly dominate the ten largest world oil refiners in terms of capacity, along with the two smaller refiners, Texaco and Chevron.

The cartelization goes even further, behind the scenes. For example, in the United States, Shell Oil Co. and Texaco jointly own Equilon Enterprises LLC. Equilon, in turn, runs the refining and marketing, transportation, and lubricants business of both Texaco and Shell in the midwestern and western United States. This means that a driver who drives into his local Shell station to tank up, is actually buying oil and gasoline from a joint venture of Texaco and Shell. In Europe, BP-Amoco gas stations are jointly owned together with Mobil, now part of Exxon-Mobil. Chevron owns Gulf Oil, and Texaco now owns Getty Oil.

The same cross-control operates internationally. On March 14, it was announced that BP Amoco will acquire Burmah Castrol, the manufacturer world's best-selling motor oil. The \$4.7 billion deal, according to BP Amoco officials, will mean the elimination of 1,700 jobs.

### Prices of other commodities rise

Since spring 1999, there has been a pronounced increase in industrial metals' prices. These are the metals that are used in producing a large amount of the world's non-wood, non-carbon-based finished products. There is also a sharp increase in the price of certain precious metals, including gold, silver, and the platinum group.

For roughly the first quarter of 1999 compared to the first quarter of 2000, the prices of the following commodities have increased by the percentages noted: aluminum, 39.6%; copper, 28.0%; zinc, 10.3%; and nickel, 126.5%. Thus, prices for all four metals have undergone a double-digit growth rate, with nickel more than doubling in price, from \$4,635 per metric ton (first quarter 1999), up to \$10,500 (as of March 10, 2000).

Precious metals are also shooting up. Over the last ten weeks, prices for the platinum metals group (platinum, palladium, rhodium, and ruthenium), which have electronic and other uses but are also considered part of the precious metals group, rose between 10% and 120%!

- Palladium rose from \$441.90 per ounce on Jan. 4, 2000, to \$707.50 on March 13! This reflects the control by owners of the Siberian supplies. The demand for palladium comes from its current use in catalytic converters in cars.

- Platinum rose from \$429.70 per ounce on Jan. 4, to \$471 on March 13.

- Rhodium rose from \$910 per ounce on Jan. 4, to \$2,000

per ounce March 13.

- Ruthenium rose from around \$37.50 in early January, to \$80 on March 13.

According to a source at a New York metals trading house, the prices of these metals were rising so strongly that in late February, to stem the tide, officials at the New York Mercantile Exchange increased the margin required for a purchase of a contract for palladium from 16% of the total value of the contract, to 32%. At that time, palladium was trading at above \$800 per ounce. The price turned back to \$680 per ounce, but it is now \$707.50.

## Economic impact of the oil price shock

The impact of the months of rising prices of oil and gasoline, on top of already financially stressed conditions, is causing chain reactions of damage throughout national economies, from home heating, to transportation, manufacturing, and agriculture. The projections of sector-by-sector cost burdens are raising explicit calls in many capitals, for national security-based emergency measures.

In Canada, the proposal was put to Prime Minister Jean Chrétien, to convene a national "energy summit," in a request by New Democrat Member of Parliament John Solomon earlier this month. Solomon asked that provinces, major oil companies, and other "stakeholders" be involved in forming a national strategy to reduce energy costs, including having the government look at ways to regulate fuel prices, as well as to cut the Goods and Services Tax on fuel, and provide emergency home heating help to the needy.

In Argentina, estimates of across-the-board costs to the national economy of rising fuel costs were made by the M&S consulting firm, reported by the Buenos Aires daily *Ambito Financiero* on March 10. Overall, the oil price increase will mean that another \$1.8 billion will have to be spent, of which \$820 million will be paid by consumers, and \$950 million by companies. More specifically, the transportation sector will pay out \$633.4 million, agriculture \$285 million, and industries and energy plants \$31.7 million. There is panic in the country, combined with fury at the government's economics team, which was already imposing harsh austerity since Fernando de la Rúa took over as President last December.

In the United States, partial estimates of the impact of rising fuel prices are coming out. In agriculture, spring planting will be at least \$1 billion more costly. High-energy livestock operations are hard hit, for example, in dairying.

On March 2, the Pennsylvania Milk Marketing Board met in emergency session in Harrisburg, to consider a temporary hike in the milk price received by farmers, to help with their rising diesel fuel prices. Harold Curtis, chairman of the Penn-