U.S. Inflation Galloping into Hyperinflation

by Marcia Merry Baker

If there is so little inflation—as we are being told by the Federal Reserve, government statisticians, and financial "experts"—then why are we paying so much more? In reality, prices in the United States are rising at a galloping rate, and the conditions are set for a hyperinflationary lift-off.

The quickest way to see this, is to review U.S. price rises across whole categories of economic sectors and goods. We present a summary picture below. This pattern is directly at odds with headlines in the *Washington Post* or the *New York Times,* about inflation being "mild" and "tame." These headlines were part of the atmospherics for the Federal Reserve meeting on Aug. 22, in which the line was, interest rates should be held as is. The "inflation is under control" line is a key part of the Big Lie for the elections. In upcoming issues, we will document the real inflation in depth.

Even in their own terms, the official statistics show rising prices. On Aug. 16, the Labor Department said that for July, the Consumer Price Index (CPI) was "only" 3.5% above the level of July 1999.

And what about the month-to-month rate of increase? Overall, the CPI is headed for a 10% annual rate of inflation in 2000. But, the Labor Department says: Don't worry, the "core" CPI (i.e., leave out food and energy expenses!) rose only 0.2% from June to July, and likewise rose only 0.2% for the prior four months running. So, as long as you don't need food, or energy (gasoline, electricity, fuel oil, propane, diesel, natural gas), or anything made with energy, you don't have to worry about rising prices.

One venal aspect of these statistical frauds, is that they deny whole sectors of the population their CPI-based cost-of-living increases (wages, Social Security, etc.).

The second reason for taking an across-the-board overview of U.S. price rises is to counter the disinformation that "happenstance" is driving up prices. The TV nightly news, and government spokesmen alike, have an "explanation *du jour*" for every price rise: e.g., U.S. and other nation's oil and gas prices are rising because Organization of Petroleum Exporting Countries member-nations aren't pumping enough oil; fresh produce prices are rising because of drought; U.S. health insurance premiums are rising because of policy cycles; U.S. housing costs are rising because of rising population; and so it goes.

While there are factors particular to each kind of product and service bearing on prices, the larger reality is that the financial system itself is rotten to the point of collapse; U.S. economic activity is declining relative to per-household production and consumption requirements, despite record rates of imports—which cannot be sustained in any event. Then there is the impact on prices from speculation in scarce commodities and services, by financial interests that have positioned themselves to take advantage of the collapse.

Add to this the policy of liquidity pumping maintained by Federal Reserve Chairman Alan Greenspan and Treasury Secretary Lawrence Summers, acting to keep their Great Bubble aloft a while longer, and the hyperinflationary dynamic is assured.

In recent months, Lyndon LaRouche has stressed that the relevant historical point of reference is the 1923 hyperinflation during Germany's Weimar Republic. LaRouche points out that today, while so-called "market forces" may be playing a role in, say, how the oil price rise is created, market factors and forces are not "causal."

Oil, Gasoline, and Transport

On Aug. 24, the price of Brent Crude in London hit a ten-year high of $34.03 per barrel. This is above the first spike of $34 per barrel on March 8, which itself was 300% above January 1999. Accordingly, the prices of all the petroleum-derived products—gasoline, fuel oil, jet fuel, diesel, and for chemicals as well—are jumping. The impact is rippling throughout the economy. The talk is now of $40-50 a barrel oil by year-end.

Nationally, the average gas pump-price went up from $1.15 a gallon in 1999, to over $1.50 in March. It then dipped, but now the price is climbing again. The airlines, trucking companies, and shipping services (UPS, FedEx, and the others) have all imposed rate surcharges to cover jet fuel, diesel, and related higher costs.

Fuel oil, propane, and natural gas prices are soaring for home heating. The average price of home heating oil today is 52.5% higher in August 1999. Residential heating costs could be as much as 50-200% higher this Winter, depending on location, and mode of heating, according to the Department of Energy's latest *Outlook Report*. These rises correlate with rising oil prices, and natural gas prices are also artificially pegged to oil prices, so they, too, are rising accordingly.

In the Washington, D.C. area, natural gas home heating costs are expected to rise by 27% this Winter; in Minnesota, by 50%.

On Aug. 23, the *Des Moines Register* reported on a recent survey by the Iowa Department of Natural Resources, showing that the average price for propane in the state (used to heat 149,000 households) has gone up 44% from a year ago, and is now at 84¢ a gallon. Department spokesman David Downing said that the price may rise to $1 a gallon this Winter, or even double to $1.60.

The cartel of natural gas and oil companies is making mega-profits, most prominently Enron, the global conglomerate tied to George W. Bush's Presidential candidacy, and formed by the 1985 merger of two natural gas companies from Oklahoma and Texas.

Electricity and Housing

For New Yorkers, Consolidated Edison customers' June electric bills were 30% higher than a year ago. In San Diego, San Diego Power and Light customers' July electric bills were double those of a year ago. In August, McDonald's restaurants in San Diego added a surcharge of 10¢ per item, to cover the soaring electric bills. In Montana, the electric rates spiked so high that mining operations shut down and laid off all workers.

The United States now has a deficiency of electricity generating capacity, and deficiencies in transmission and distribution. To make matters worse, California, and other states, have implemented de-regulation of the power system and prices, so as to permit speculation in electricity futures during time of shortage, and to allow firms to "pass through" wholesale price spikes to consumers.

On May 23, the North American Electric Reliability Council (NERC) released a warning to expect trouble this Summer. On schedule, over a dozen outages hit California; New England and the Mid-Atlantic were spared only because of unusually cool, damp weather. A cartel of energy firms, including Enron, AES, Reliant, and Dynegy (with direct connections to both Bush and Al Gore), are raking in mega-profits.

Housing prices in certain parts of the country are soaring, even though elsewhere, in depressed parts of the farm belt and formerly industrial regions, they are sagging. Among the highest inflation rates in housing are in Metropolitan Washington, New York City, and parts of California. In Northern Virginia's "Silicon Valley East," Loudoun County, housing prices have risen by over 10% in a single year. The average price for a single-family detached home this February was $316,000, up 18% from the average of $269,000 during the first eight months of 1999. In New York City, where one in four households spends more than half its income on rent, the average cost of a Manhattan co-operative apartment has surpassed $700,000.

Nowhere in the country is affordable housing being built on any significant scale. Nationwide, building permits for constructing new apartment buildings (five or more units) are dropping drastically. Overall, only about 1.5 million housing units are being built in the country, when several times what are needed to meet bare minimum requirements. Single-family, "big-mortgage" homes are the base of the highly leveraged, home real estate bubble. In the last eight years in New York, the stock of rental housing for less than $500 a month has shrunk 55%. In Philadelphia, citizens are losing homes in mortgage foreclosures at the rate of 7.25 homes per day. Foreclosures for the year will approach 2,664, based on estimates by the Office of the Sheriff. This is almost twice as many as in 1997.

Agriculture and Food

U.S. farmers are being hit by a 40% rise in direct costs, because of fuel expenses this year, according to Keith Collins, Chief Economist of the Agriculture Department, based on calculations as of July. The costs come from the various power needs on a farm:

Diesel fuel powers trucks that transport crops (especially since the takedown of the rail system), and also planting, harvesting, and tilling machinery.

Electricity regulates the climate in confinement buildings for hogs and chickens, powers irrigation, milking equipment, and other needs.

Natural gas is used to dry crops. It also accounts for 85% of the cost of production of anhydrous ammonia, the basis for nitrogen fertilizer. From mid-May to June, ammonia went from $110 per ton to $190; some manufacturers have stopped production altogether. Since late May, the price to the farmer for these fertilizers has gone up an average of 25%. Autumn, the next cycle for fertilization, is shaping up to be a crisis. "My fear is we're on the brink of another financial disaster in agriculture," Don Hutchens, chairman of the Nebraska Corn Board, told a U.S. Senate panel in July.

Faced with these impossible costs of production, and the low prices farmers receive for their commodities from the "free-market" cartel companies, mass ruin lies ahead. The implications for the consumer, of sudden and sky-high food price rises, are obvious.