Click here for Full Issue of EIR Volume 32, Number 35, September 9, 2005

Federal Reserve Bank Chairman Alan Greenspan is beginning to lose his usual inscrutable composure.

used abroad. When that hyperinflationary debt-inflation halts, the present world monetary-financial system blows apart. The relationship between apparent financial returns and long-term unpayable financial obligations is now clearly hyperbolic. The really bad news is, that the longer the market does not collapse, the worse the financial collapse becomes; that, at an accelerating rate.

Wishful people who refuse to think clearly are deluding themselves, like people living on the proceeds of taking in one another's laundry, by asking one another, "Are we sure that the market will never really crash?" Asking "When" is their potentially fatal mistake; they should be asking, "How?" instead.

The best thing would be to have had the crash sooner, rather than later, but on the condition that the U.S. government were thinking clearly, and was prepared to act as Secretary Rubin and President Clinton had posed the need for international financial-system reform, back during September 1998.

The problem is that the crowd of virtual bankrupts represented at Jackson Hole are clinging so desperately to their delusion of riches, that they, like the dupes of 1923 Germany, would rather cling for another moment to their own doomed dreams, than face the reality of the urgently needed general reform.

Sometimes the worst kind of insanity is clinging to denials, as we see from the spectacle of the diabolical romp of the wild-eyed warlocks and witches assembled at Jackson Hole.

Even chief warlock of the Federal Reserve, Greenspan, can no longer charm them with his spells.

The question is: Are they willing to accept a merciful path to survival in bankruptcy proceedings, or the permanent torment their continued folly of today would assure them now? The question is: "Since most of that crowd at Jackson Hole are probably hopelessly insane, and probably soon bankrupt, for the moment, what are you, John Q. Citizen, willing to do, to save your country, and, also, your own butt?"

LaRouchePAC Testimony

Re-Regulate Energy, End 'Enronomics'

What follows is written testimony submitted by the LaRouche Political Action Committee, LaRouchePAC, to the U.S. Senate Committee on Energy and Natural Resources for a hearing Sept. 6 on "Global Oil Demand/Gasoline Prices." The testimony was prepared by Marcia Merry Baker and Richard Freeman, and titled "Establish Energy, Interim Energy Re-Reregulation; End the 'Enronomics'-Thinking Behind 'Unnatural' Disasters.

To: the Honorable Senators Pete V. Domenici [R-N.M.] and Jeff Bingaman [D-N.M.], and Members of the Committee:

The merits of swift action by the Senate, to initiate intervention to establish re-regulation of the U.S. national energy system, are obvious in the face of requirements for dealing with the vast impact of Hurricane Katrina; but also, were apparent even at the time of Aug. 19, when the Committee announced its Sept. 8 hearing and its purpose in the first place, to address out-of-control oil and gas prices.

Given that we now face a huge natural disaster made into a horrible catastrophe, by the negligence and inaction of the Executive Branch on infrastructure-maintenance generally, as well as in the case of the immediate epic storm, it is even more urgent for the Senate to rise to its unique advise-and-consent role, and initiate a long overdue shift to an economy-building policy. This is not a partisan question, but a matter of national public interest of the most profound and urgent kind.

In this testimony, we wish to provide back-up for an initiative of the Senate to institute energy re-regulation and related policies, in terms of three vital considerations. These have been reiterated in recent months by economist Lyndon LaRouche, in a series of policy briefs, webcasts, and international discussions, some of which directly addressed the Senate, from which we summarily quote. Internationally, Mr. LaRouche has been meeting with national leaders anxious to see and support such a shift in the United States.

We can provide full documentation to the Committee of the following summary points, including animated graphics of the economic processes involved, on request.

• First, the context for the dramatic run-up of energy prices, is that the financial/monetary system itself is in crisis. Hyper-inflation is under way across most all essential com-

© 2005 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

modities and services, as contrarily, "financials"—derivatives, debts, speculation of all kinds—soar, to the point of an imminent crash.

• Second, the specifics involved in energy hyper-inflation—speculation, gaming of supplies, creation of shortages, cartelization mergers, etc.—are all *characteristic,* not aberrations, of the practices of the past several decades of the shift to policies of de-regulation of utilities, imposition of outsourcing of manufacturing and agriculture, and globalization generally.

• Third, action by the Senate is, in particular, urgent, because in addition to the vital matter of energy, there is the responsibility of the Senate to take action in the broadest way to restore nation-saving policies in the face of the negligence of the Executive Branch regarding lack of Federal government functions before, during, and after Hurricane Katrina. We have devolved to a situation where states, localities, charities, and others are casting about on their own to try to fill the breach in Federal functions of all kinds.

Context: Financial, Monetary Crisis

The runaway energy prices are best understood in terms of the overall end-phase crisis we have entered, of the disintegration of the international financial system itself.

Increasingly over the past three decades, the divergence of volumes of debts, deficits, and financial valuations of all kinds (stocks, derivatives, mortgages, etc.) as against the decline in condition and activity of physical-economic input and output (manufacturing, agriculture, infrastructure) has widened to the point of financial blow-out and economic breakdown. The other way to say it, as many commentators finally admit, is that financial bubbles of home mortgage securities, hedge fund bets of all kinds, etc., are now beginning to burst.

Looking to what must be done, LaRouche summarized it this way at a June 16 international webcast this year: "Now, the situation is, such that people now generally realize that the United States is in deep trouble. The U.S. economy's in trouble. It's about to go under in a chain-reaction collapse. When, nobody knows exactly. But we know it's oncoming. That's why I say, as Roosevelt said, 'We have nothing to fear, as much as fear itself.' " *Because there are things we could do about this.*

"There are things the American people could force the United States government to do about this.

"But the average person doesn't understand this problem. Therefore, they're not sure of what to do, and they're not sure about what kind of proposal they should support. But they know they've got to get some action, from government, to protect them from the danger of a collapse, which, in point of fact, is much bigger than the 1929-1933 collapse; 1929-1933, which was given to you by Presidents Coolidge and Hoover, was relatively mild in its effect compared with the threat to the world, as well as the United States, from the presently onrushing crash.

"The situation is this: The entire world system is coming down. Not just the United States' system, but the entire world system. Now, there are many people who are whistling in the dark, and saying, 'It's not going to happen. It couldn't happen'—well, it **is** going to happen! It's inevitable!

"What do we do about it?"

(From "Dialogue with the Senate on Economic Policy; LaRouche's Historic Webcast of June 16, 2005," www.larouchepac.com.)

'Roosevelt Model': Re-Regulate, Build Infrastructure

In brief, LaRouche is calling for a series of steps, in the spirit of the "Roosevelt Model." Using the "experience of 1933 through 1945, we have to guarantee the stability of U.S. Treasuries, which is the basis for the security of the U.S. dollar. We have to enter into agreements with Europe and with other parts of the world, on a fixed-exchange-rate system, which can be fairly described as a New Bretton Woods system. The kind of system which Roosevelt created at the closing period of the war, the fixed-exchange-rate system. It worked. It worked fine until the middle of the 1960s. It was the system under which we in the United States helped Europe rebuild itself from war. . . .

"We have to go back to that kind of system, which was destroyed by Nixon, where our troubles really began. And by getting long-term credit, instead of having short-term credit, we have to have agreements on long-term credit: credit in terms of investment in infrastructure. . . . We have to rebuild the world economy. We have to build new infrastructure for places that don't have it. We have to rebuild the infrastructure of the United States and Europe. This is going to require long-term investment."

(Also from "Dialogue with the Senate on Economic Policy," *op. cit.*)

The character of what kind of infrastructure is needed is underscored by the catastrophe at hand: transportation, water systems, medical systems and public health, power generation and transmission, land improvements, housing, education, and R&D facilities, and so on.

Most important for the energy base of the United States, is to resume a full-scale nuclear power plant program. By the year 2000, had we continued our original pathway, we would by now have been 50% nuclear-generated instead of 20%. We have at present 28 sites for new nuclear electricity units, on the pre-existing nuclear plant sites.

'Paper Oil,' Contrived Shortages

In direct contrast to this approach, are the wild gyrations in prices of gasoline, petroleum, and all other energy prices—fuel oil, natural gas, LP, jet fuel, even coal, etc.

There is no need for us to document the current price spikes here, which data your Committee will have before you on Sept. 6.

Instead, we make the point that the very pattern of such economy-bashing prices, results from the continuation of radical practices, euphemistically called "free-market," that caused the undermining of the U.S. and worldwide economy to begin with, over the past 30 years.

Look at "paper oil." This is the well-known term to describe the fact that for every barrel of petroleum pumped somewhere, shipped and refined, there are hundreds of "paper barrels' " worth of trades on the speculative commodity markets. German Economics Minister Wolfgang Clement recently estimated that, at present, $18 per barrel of oil is attributable to speculation. On Sept. 2, when German Chancellor Gerhard Schröder announced his commitment for Germany to come to U.S. aid by oil and gas shipments, his spokesman, Thomas Steg, stressed that there must be collaboration between countries now, to crack down on energy companies in order to keep prices stable.

Especially during the episode of the so-called "California Energy Crisis" of 2000-01, and since, the Senate Energy Committee, and individual Senators have assembled all the evidence needed to document the whole range of fundamental malpractices that are systematically involved—namely, mergers and consolidation of control, speculation, gaming, shorting supplies, etc. These practices are done either outright illegally, or "legally"—technically defined as such, under the insane energy deregulation laws perpetrated over the last 15 years. Until these practices are rolled back, "Enron" lives.

The Senate has what it needs to act to restore regulation of energy supplies—in the American tradition of public utility supervision of private corporations, which worked to the public good for decades. Therefore, we here identify only a few selected aspects of the present crisis, for the purpose of underscoring the general point.

• **U.S. Refinery Capacity Lacking**

Over the past three decades, the United States could have and should have expanded significantly its refining capacity, but under decision-making by the increasingly deregulated energy/financial conglomerates, the U.S. capacity was shrunken, and geographically concentrated in ever more vulnerable locations, such as the Gulf Coast.

In 1981, according to the Department of Energy, the United States had 324 refineries, with a refining capacity of 17.99 million barrels per day (bpd). In January 2005, after a period of sweeping shutdown, it had only 148 refineries with a capacity of 17.12 million bpd. To meet the deficit, refined product now is imported from a number of sources, including Canada, the U.K., and the Netherlands. From 1995 to 2005, imports of refined product have nearly doubled, rising from 1.6 million bpd, to more than 3.1 million for the first half of 2005.

The last time a new major refinery was built in the lower 48 states was in 1976, in Louisiana.

As of Jan. 1, 2005, fully 52% of all U.S. refining capacity was owned and controlled by only six companies: ConocoPhillips, 12.8%; ExxonMobil, 10.9%; BP 8.8%; and Chevron Texaco, 5.9%; Royal Dutch Shell, 5.7%; and Marathon Oil, 5.5%.

Therefore, under these circumstances, when a "market-excuse" is given to justify gas and oil price run-ups—namely such citations as, 'the effect of the Iraq War,' or 'hostile OPEC action,' or now, 'Katrina Storm damage'—no matter how partially true, the larger truth, from the vantage point of the responsibility of government to provide for energy security, is that the entire system of energy provision is in the hands of predator cartels, which must be brought under control.

Look at simply the dramatic rise in per barrel crude oil futures prices on the New York Mercantile Exchange, for late August, yearly from 2002 to 2005, and you see that the *price more than doubled, well before Hurricane Katrina!*: Aug. 28, 2002—$28.34; Aug. 28, 2003—$31.50; Aug. 28, 2004—$43.18; and Aug. 26, 2005—$66.13. (On Aug. 30, 2005, the price hit "only" $69.81.

• **2001 Senator Wyden Report on Contrived Shortages**

A study commissioned by Sen. Ron Wyden (D-Ore.) during the California crisis, focusses on the essential, and defining, threat involved. On June 14, 2001, soon after the release of the Cheney Taskforce Energy Report, Senator Wyden released an investigative report which concluded, "The oil industry and its allies would have the public believe that insufficient refining capacity, restrictive environmental standards, growing gasoline demand, and OPEC production cutbacks are the primary reason for the current oil and gas supply problem. However, the record shows . . . that major oil companies pursued efforts to curtail refinery capacity as a strategy for improving profit margins."

Wyden included as documentation an internal document obtained from Chevron Oil, dated Nov. 30, 1995, which asserts, "A senior energy analyst at the recent API [American Petroleum Institute] convention warned that if the U.S. petroleum industry doesn't reduce its refining capacity it will never see any increase in refining [profit] margins."

• **Mega-Mergers**

This year, 2005, is the busiest for energy-industry deals since 2001, with about $100 billion of takeovers announced so far. The total, including pipelines, utilities, and coal producers, is more than the full-year total in 2002, 2003, or 2004, and if the pace continues, will be nearing 1999, when $200 billion of energy industry consolidations occurred. The period 1998 to 2000 was the biggest span in history for energy mega-mergers, including the mega-deal of Exxon Corp. acquiring Mobil Corp. for about $79 billion. Soon afterward—in the wake of the 1996 electricity deregulation

September 1, 2005

September 3, 2005

These two gas signs of stations a few blocks apart in Leesburg, VA, show the increase in price from Sept. 1 to Sept. 3.

laws, and the earlier gas and oil dereg, the stage was set for the California energy debacle, and the largest energy rip-off in history . . . until now.

In the recent buy-out frenzy of energy commodity companies, Chevron in August acquired Unocal for $17.8 billion, and other mergers are under way. The menace is clear.

Senate's Unique Role

We can't afford to stand back, in the lax spirit of waiting two years from now for a post mortem, Enron-style, on what went wrong in 2005. The Senate needs to act now.

Already at the state and local level, lawmakers are casting about for fall-back measures to defend their functioning under the gas price hikes.

Hawaii. This week, Hawaii imposed a wholesale gas price cap at $2.74 a gallon, including tax, which is indexed to average wholesale prices around the U.S.A. The cap level stands for a pump price in the range of $2.86 a gallon in Honolulu.

Massachusetts. Commonwealth leaders are considering a moratorium on natural gas price-hikes through the winter months, and state direct purchases of oil. Secretary of State William Galvin and others are raising this. Galvin said, "We're all suffering from the high price of gasoline, but you have no option about heating your home. We need a comprehensive effort within 90 days, because once heating season begins, you have to heat your house 24 hours a day." State Sen. Michael Morissey (D-Quincy), Chairman of the state Telecommunications, Utilities, and Energy Committee, intends to hold hearings.

Wisconsin, Michigan, and Missouri. These states are talking about declaring a moratorium on state sales taxes on gasoline.

In the face of this scrambling, on Sept. 1, President Bush told the American public, as if in a daze, "Don't buy any gas you don't need. . . ."

The U.S. Senate must act.

The Needed Emergency Measures

At the time of the energy price run-up in 2000, Lyndon LaRouche issued a memorandum on Sept. 19, stressing the principles involved in needed Federal government action. These guidelines are now even more urgently needed.

Here are excerpts:

1. The following statement constitutes a preliminary statement of policy "On the Subject of Emergency Action by Governments to Bring the Present Petroleum-Price Inflation Under Control."

2. Broadly, the current global inflation in petroleum prices threatens to be the detonator of a chaotic breakdown in many, if not all of the economies of the world. The actions proposed here to deal with that emergency situation will not solve the more general problem of the world's financial and monetary systems at large, but will contribute an important, and perhaps decisive step in that direction.

3. The underlying cause of the crisis, of which the petroleum-price crisis is but the presently leading political-economic consequence, is a general hyperinflation in financial asset-prices, which is now being expressed, at increasing rates, as a hyperinflation in commodity prices now following a trend similar to that suffered by Weimar Germany during the interval March-November 1923.

4. For sundry, converging, and relatively obvious reasons, the most brutal effect of that upward spiral of financial hyperinflation is being expressed in devastating rates and magnitudes of rises in the costs of petroleum. The increasingly desperate effort to secure inflows of financial assets into the U.S. dollar sector, has seized upon several combined factors, as the opportunity to increase asset-price accumulations from hyperinflationary trends in the delivery prices of petroleum products.

These factors include: recently increased concentration of ownership of major oil companies through mergers and acquisitions, the increased role of the spot market in petroleum deliveries, the significance of denomination of deliveries in U.S. dollars, and an intensity of speculative activity, especially in the form of financial derivatives, in this area which threatens to bring the per-barrel price of petroleum to between $40 and $50 per barrel, soon, and not much later, much higher.

5. No ordinary means could bring this problem under control during even the short term. Only drastic measures

taken in concert between and among sovereign national governments, could bring the petroleum-price crisis itself under control. Any other proposal would be a childish delusion. For the immediate future, either such governmental action will be taken, or the eruption of international chaos within the weeks ahead were the likely result.

6. The appropriate action, which must be led by the U.S. government, must aim at immediate emergency cooperation among the governments of principal petroleum-exporting and principal petroleum-consuming nations.

7. These governments must: a) Declare a general strategic emergency in the matter of stability of flows and prices of essential energy-supplies of national economies; b) Establish contracts, directly between and among governments, of not less than twelve months, government-scheduled deliveries of petroleum from exporting to consuming nations; c) Define reasonable prices for these contracts; d) On the grounds of a global strategy emergency in petroleum prices and supplies, these governments must set priority on processing of such contracted petroleum flows through relevant refiners to priority categories of consumers in each nation, causing other stocks to be shunted to one side in the degree that these priority deliveries must be processed first.

8. Such action will, obviously, collapse much of the current hyperinflationary trends in petroleum. That will have a significant political effect, in the form of reactions from the speculators currently gorging themselves on the suffering of national economies suffering zooming speculative prices of petroleum. We can not permit the cupidity of a powerful few speculators to destroy enterprises essential to the national interests of nations, and to the relations among those national economies. That opposition to urgently needed measures must be resisted on grounds of overriding national strategic interests.

9. This proposed action will not cure the more general hyperinflationary trend in progress. It will only bring a most critical segment of this speculative inflation under control; but it will set standards of cooperation now urgently needed, for dealing with the general international banking and related crises about to strike the world as a whole during the weeks and months immediately ahead.

10. There are many details of the current speculative marketing of petroleum contracts which require closer scrutiny and related assessment. That investigation should proceed; it is urgent. However, those representatives of governments who understand the politics of oil, must play a leading role in implementing the general measures I have indicated, now, without delay. After a thirty- to ninety-day initial period of operation of the proposed agreements, secondary and tertiary features of the problem will be clearer, and, most important, governments and others will have developed the mechanisms needed for further courses of action.

Economic Debate at Berlin EIR Seminar

On June 28-29, 2005, representatives of 15 nations gathered in Berlin, Germany to discuss, with Lyndon LaRouche, a strategy for revolutionary change in the strategic, economic, financial, and moral-cultural conditions on our planet. Here EIR *publishes two written contributions to the seminar, from Italy and South Korea. See* EIR *issues of July 8 and July 29 for previous coverage of the Berlin Seminar.*

Dr. Nino Galloni

Production Must Be Primary, Not Finance

Italian economist Dr. Galloni submitted this paper to the seminar. He has served in several government ministries, dealing with economics and labor issues, and is currently the auditor of INPDAP, the main institute coordinating pension funds for public-sector retirees in Italy. An interview with him was published in EIR*, Feb. 25, 2005.*

For more than 30 years, the world has been living through a situation of serious imbalances, due to the inability and lack of will of national governments and international authorities to limit the influence of financial interests, as opposed to productive interests.

With Nixon's suspension of the convertibility of the dollar, in the Summer of 1971, the world entered a period of great uncertainty, which has still not been resolved.

Initially, the problem was considered to be currency instability; and in fact, during the 1970s, the continuous variability of exchange rates and the inflation of national currencies allowed financial speculation to produce large profits, while nominal interest rates did not seem particularly high, and real interest rates were even negative.

Therefore, in those conditions of the 1970s, many countries took advantage of the situation to increase exports through currency devaluation, while still creating growth in domestic income for their own workers (this was possible because only a fraction of the cost of production—40-60% generally—was made up of labor, meaning that about half