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Inflation and the New World Order

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DANBY , VERMONT , August 2, 2008. *The sunlight on the lake sparkles at dawn. As they have done for millions of years, the rounded tree-shrouded shoulders of the Green Mountains loom above the still waters. A loon calls from the next lake over. Who would guess that that not far from such serenity the world's most powerful nation was teetering on the brink of disaster? Though here in the bosom of nature one wonders why we should be surprised. Nations and empires come and then they go.*

ARE THINGS REALLY THIS BAD?

Just before we left Washington, D.C., the Bush administration announced that it was expecting the largest federal budget deficit in history to be racked up in fiscal year 2009 starting September 1—$490 billion likely to be added to the national debt. This doesn't even count the "supplemental appropriations" during the coming year which are the preferred method for off-budget financing of the Iraq War.

Exiting the Washington-Baltimore metropolitan area we passed the gigantic rows of glass and steel office towers along the interstate highway corridors. Further in the distance were rows of McMansions thrown up in what once were corn fields. Built for an automobile culture, the viability of both towers and houses has been stretched to the limit by $4 a gallon gas.

We drive through rural Pennsylvania and southern New York state. Homes and businesses look seedy, run down. What was once a vibrant and prosperous small-town culture in this part of the country seems exhausted. When we stop in Oneonta , New York , the prices at a local restaurant are out-of-sight, and only the Walmart seems bustling.

We eat sandwiches at a Subway where at the table next to us a young man with his elderly parents is holding a book on black magic. The headline on a copy of the New York Post says, "N.Y. for Sale ." The lead paragraph reads: "Warning of a looming economic calamity, Gov. Paterson yesterday called an emergency session of the state legislature—and raised the specter that New York may have to sell off roads, bridges, and tunnels to close a massive and still-growing budget deficit."

Are things really this bad? Our cottage on the lake has internet service, and the next day I read the Washington Post's lead headline: "U.S. Economy Grows at Solid Pace in 2nd Quarter." The Post, despite its occasional liberal posturing on social issues, is the American Pravda, the closest thing we have to an official newsletter of the establishment elite.

But even the Post has to come clean a little, stating in its lead: "Much of the improvement came from the one-time bump from economic stimulus payments, raising prospects of weaker performance in months ahead.” Matters would have been worse, the Post notes, except that the weaker U.S. dollar has caused a rise in exports and foreign tourism, though the trade deficit remains horrendous, having hit $711.6 billion in 2007.

Of course the weakening dollar also makes it easier for foreigners to buy American businesses at fire-sale prices. This happened with the recent purchase of Anheuser-Busch by the Belgian company InBev, adding to the $2 trillion spent by foreigners to acquire American companies since 1978. (EconomyInCrisis.org)

“SLOWDOWN” OR RECESSION?

The Post’s ambiguity over the condition of the economy reflects the chasm between the official government gloss on events and the actual daily experience of people who work for a living. According to the Bush administration, we are in a “slowdown,” not a recession. The GDP is still growing, they say, though at less than two percent annually.

Of course much of this “growth” reflects paper financial transactions, not the creation of wealth through production of new goods and services. But if someone makes money and the government can tax it, it’s part of the GDP.

A better measure is the actual amount of money available to working men and women for everyday expenditures. The Federal Reserve calls it M1, cash-on-hand or money held in checking or NOW accounts. In fact, M1 has not increased appreciably since late 2003, hovering at any given time between $1.3 and $1.4 trillion.

This means that for the producing economy, we have been in a recession now for almost four years, because the real value of M1 has eroded due to inflation. And it’s in the inflation statistics that the rift between the party line and daily experience is most striking.

According to the government, inflation is relatively low and has been for some time. The 2007 rate was calculated at about four percent, up from two percent in 2004. Yet we all know that the actual cost-of-living is skyrocketing. Gas costs twice as much as it did a year ago. The increase in food prices has been devastating to the family budget. Even with the bursting of the housing bubble, mortgages and rents are much higher than a decade ago, and the costs of medical care and higher education have continued to climb steadily. So what is going on?

It’s been well-documented that the government’s Consumer Price Index is not a true measure of what it takes to sustain life. For one thing, the methodology for measuring the CPI was changed in the 1990s to eliminate certain major items, such as the cost of home ownership. Other items, such as federal, state, and local taxes were never included. Finally, some items such as computer equipment have declined in price. So even though not everyone purchases such equipment in substantial amounts, the CPI is thereby moderated.

Why is this done? According to commodities analyst Danny Bannister:

“Looking at it from the government point of view, there’s a strong political motivation to understate the CPI. By understating, it keeps COLA adjustments down on entitlements, which are at this point the largest part of the government’s budget. And by understating CPI, the government can minimize the inflationary impact on things such as rents, which are indexed to CPI, or wages, pensions and a whole list of ancillary costs to artificially keep inflation rates down. Bottom-line: the published CPI understates the real inflation rate." (Michael Hodges, "Grandfather Economic Report," July 2008)

In fact the Federal Reserve has gone to exhaustive lengths to avoid even using the word "inflation," which in Fed-speak often refers to upward pressure on wages and salaries rather than prices of products or commodities. Wages and salaries have been stagnant, with purchasing power steadily declining since the recession of 2000-2001. Instead, the primary source of new money within the consumer economy has been derived from capital gains due to the rise in housing prices that have now reversed.

The fact that consumers are going broke is recognized in a back-handed way by Fed officials such as Sandra Pianalto, president of the Federal Reserve Bank of Cleveland and a voting member of the Federal Open Market Committee. Pianalto said in a recent speech in Paris , "While sometimes devastating, these global relative-price pressures are not the same thing as inflation."

As writer Colin Barr explains in a recent article in Fortune, the Fed is reluctant to identify "relative price pressures" as inflation because it does not want to make the current recession worse by raising interest rates. What is the Fed's rationale? "It's because," Barr writes, "the Fed remains skeptical that high commodity prices will ripple through the economy, leading to broad price hikes and big wage increases." (Fortune, June 26, 2008)

Or, as Sandra Pianalto puts it, "As consumers spend more money for higher-priced petroleum and agricultural goods, they eventually have less money to spend on other goods and services. Other relative prices must then fall."

In other words, "Fed to consumers: 'drop dead.'" If you can't afford gas and food, stop buying other items, because while the income of whoever is benefiting goes up, yours will not.

So what should you stop paying for? Maybe your mortgage payment, credit card debt, or student loans? If you can't afford your real estate taxes, shouldn't you sell your house—if you can find a buyer in a depressed market? If you are elderly and have to choose between food and medicine, maybe eat dog food?

Also quoted in Barr's Fortune article is WarrenBuffett, the billionaire investor, who is at least honest about it. According to Barr, Buffet has "fingered 'exploding' inflation…as the biggest risk to the economy. 'I think inflation is really picking up,' Buffett said on CNBC. 'It's huge right now, whether it's steel or oil…We see it everywhere.'"

INFLATION AS CLASS WARFARE?

Then what is the cause of the inflation? On this subject, commentators are all over the map, often without citing any truly definitive data. Neither the government nor politicians offer any help at all, even as companies like Exxon-Mobil, BP, and Shell report quarter-after-quarter of record profits. What have we heard from John McCain or Barak Obama, for instance, on the subject? Answer: nothing.

So is it true, as Professor James Petras said in a recent article, that the causes are not accidental, but are "products of public policies which deeply affect markets, supply and demand, consumers, producers and speculators"? According to Petras, these policies result in "declining capitalist investment in the productive economy, the vast increase of capital flowing in the paper economy, the huge increases in profits and the grotesque salaries, bonuses and payoffs to senior executives, totally unrelated to 'performance.'" (James Petras, "Inflation and the Specter of World Inflation," Information Clearing House, July 20, 2008)

In this respect, inflation is a wealth-transfer mechanism that benefits the already-rich. Petras continues:

"In other words, in the contemporary economy, inflation benefits the wealthy because they pay their workers in deflated currency, while they can take advantage of inflation to further jack up prices and then income. [Thus] the upper classes have fortified their economic positions to take account of inflation through their power over prices, income and other compensations in a way that wage workers and people on fixed income and other vulnerable sectors cannot. Bankers protect their loans via adjustable interest rates. Monopoly resource owners jack up prices to retain profits. Wholesalers mark up prices to compensate for higher commodity prices. Large-scale retailers squeeze final consumers – the great majority at the bottom of the production and distribution chain."

Doubtless there is an impact from all these factors, though no one knows for sure how much. With regard to food prices, geopolitical factors deserve particularly deep scrutiny. Petras writes:

"In Asia, particularly Pakistan, India, Indonesia, South Korea, Philippines, Nepal, Mongolia, and China, hundreds of millions of workers, peasants, artisans, and low-paid self employed workers, as well as housewives and pensioners have engaged in sustained mass protests as they experience a decline in the quality and quantity of food purchases as prices skyrocket. In Africa, hunger stalks the land and major food riots have occurred from Egypt through Sub-Saharan Africa to South Africa . In the Caribbean, Central and South America, food riots have led to the overthrow of regimes, mass protests, road blockages from Argentina , Bolivia , through Colombia , Venezuela and Haiti ."

In Haiti , hungry people eat mud cakes laced with salt and a little margarine. As reported by Rory Carroll of The Guardian UK:

"The global food and fuel crisis has hit Haiti harder than perhaps any other country, pushing a population mired in extreme poverty towards starvation and revolt. Hunger burns are called 'swallowing Clorox,' a brand of bleach. The UN's Food and Agriculture Organization predicts Haiti 's food import bill will leap eighty percent this year, the fastest in the world. Food riots toppled the prime minister and left five dead in April. Emergency subsidies curbed prices and bought calm, but the cash-strapped government is gradually lifting them. Fresh unrest is expected."

According to relief workers in Haiti , mass starvation could begin in six to twelve months. Meanwhile, in our own country, traders have been making millions short-selling the declining U.S. stock market while some hedge fund managers made over a billion dollars last year. Their lobbyists have been battling in Congress to stop a move to raise the relatively low rate of taxation on their capital gains to the level of earned income. In other words, while ordinary people starve, Wall Street is doing just fine.

The situation in many developing nations is desperate in part because the International Monetary Fund, under the " Washington consensus," required them to give up their subsistence agriculture in favor of crops raised for export by agribusiness, while the people who once supported themselves on family farms have had to migrate to urban slums. The Western corporate-owned press calls it “free market reforms.”

The devastation wreaked upon the world has been eloquently described by Dennis Brutus, a former South African activist, now Professor Emeritus at the Department of African Studies, University of Pittsburgh . Brutus writes:

“When I was serving a sentence on Robben Island during the struggle to end apartheid in South Africa , I never suspected that the end of white minority rule in my home country would be the beginning of yet another struggle for justice – this time against the World Bank and the International Monetary Fund.

“As architects of the global economy, the World Bank and the IMF have enormous power and shape the conditions of peoples’ lives around the world. That power has been used to create a global economy friendly to the interests of the wealthy and multinational corporations, but devastating to the lives of hundreds of millions of impoverished people.

“I live now in the United States where people so far are relatively unscathed by the reordering of the global economy for the benefit of the very rich. I do not see the squatter settlements, the polluted rivers, the street children, and the elderly beggars that are all too visible in Africa, Asia, or Latin America . I am not saying, of course, that the poor in the U.S. don’t suffer from the ravages of the extremist global economic system – they do. Even the U.S. middle class is beginning to see their comfortable lives threatened by the concentration of wealth in fewer and fewer hands.

“The IMF and World Bank, with the ‘structural adjustment programs’ (SAPs) they impose on indebted countries and their pro-corporate development projects, are the leading edge of oppressive globalization. The policies they have imposed in Africa, Latin America, and Asia have condemned people to stagnation, poverty, and death for twenty years, and those policies are now being adopted in the countries of Europe and North America too.” (Human Quest May/June 2001).

IMF policies require governments to cut food price subsidies, restrict credit to farmers, and divert prime farmland to non-food export crops such as tobacco, coffee, and cotton in order to provide cheap bulk commodities to Western consumers. The victimized nations must then import wheat, rice, and other food products from outside. But prices for these food staples depend on world markets which they cannot influence, much less control.

Speaking of IMF’s directors and economists, Brutus writes:

“Although some of them may have tricked themselves into believing that the neo-liberal economic model they defend is immutable, like a law of nature, most of them probably know that they are perpetrating a fraud of global proportions. Michael Camdessus, who retired after thirteen years as Managing Director of the IMF, told a group of U.S. religious leaders that he was willing to ‘sacrifice a generation’ in order to realize the so-called benefits of the macroeconomic model.”

Camdessus, a Frenchman who headed the IMF for thirteen years, became a legend for the harshness with which he attacked the developing world's national economies. Obviously his willingness to "sacrifice a generation" reflected the official program of the Western financial oligarchy, but today their targets extend well beyond the hapless victims of the Washington Consensus.

As Brutus indicates, the same policies are being applied to the inhabitants of the once-prosperous nations of Europe and North America as well. But doesn't it really point to a worldwide regression to a neo-feudalist system where the rich will eventually lord it over a vastly-reduced population of debt-serfs? Is this the essence of the "New World Order" that the international elite have seemingly been planning in earnest since the Club of Rome began talking about overpopulation in the late 1960s?

At least the developing nations are now fighting back, with IMF lending running at a fraction of what it once did and some nations such as Venezuela dropping out altogether. Resistance is also being exhibited to similar policies of the World Trade Organization which likewise seeks to destroy tariffs and other trade barriers that developing countries might wish to use to protect their farmers and workers.

Just last week the "Doha Round" of WTO trade talks collapsed at Geneva when India and China led the way in refusing to alter their tariff and subsidy policies. According to the Center for Economic and Policy Research, the collapse was not surprising, "given the reluctance of India and other developing nations to sacrifice food security measures in the wake of the recent global spike in food prices."

According to Deborah James, Director of International Programs for the Center for Economic and Policy Research, who had been observing the talks in Geneva , "The tariff cuts demanded of developing countries would have caused massive job loss, and countries would have lost the ability to protect farmers from dumping, further impoverishing millions on the verge of survival."

NEW WORLD ORDER COUP D'ETÁT?

In looking for the tracks of the New World Order, we should also scrutinize the continuing assertion by the Western media that supply-and-demand is the controlling factor.

For instance, while the price of petroleum has doubled in the past year, there is no solid evidence that increased demand has caused this huge jump nor has the U.S. dollar declined in value to that degree. Within the U.S. , gasoline utilization is stagnant. That of China has grown but not enough to cause such an increase, while worldwide more biofuel is coming on-line. And despite the "peak oil" scare, there are no obvious shortages in what is in the pipeline and ready to be refined and utilized today. This has led to surmisals that the price increases reflect activity in the commodities futures markets.

Despite the uncertainty, the Washington Post commenced a major week-long series on July 27 by declaring with absolute certainty that "cheap gas is gone forever." So what does the Post know that we don't? In fact none of the factors cited by the Post, including growth of the Chinese economy, can account for the aforesaid doubling of crude oil prices within a twelve-month window. By the Post's own figures, world petroleum utilization has increased by only twenty-five percent in the last fifteen years. (Washington Post, July 27, 2008)

Further, in spite of its certainty that it knew the causes of the problem and that higher prices are here to stay, only two months earlier, on May 27, the Post ran a lengthy article entitled, "Skyrocketing Oil Prices Stump Experts." Toward the end came this interesting statement: "'We see many of the essential ingredients for a classic asset bubble,' said Edward Morse, chief energy economist at Lehman Brothers. Morse estimated that $90 billion has flowed into the biggest commodity indices in just more than two years, and more money has flowed into other exchanges, pushing up prices."

So is oil is being used as a hedge by investors to protect their wealth at a time of uncertainty? Are the richest of the rich competing with each other to park their cash? It is known that among these investors are the oil companies themselves. Also, it is known that such commodity investments are often heavily leveraged by bank loans, often up to ninety-seven percent of investors' capital. So the banks are in on it too.

But this type of trading seems to be more than just a hedge. Its content is political. Ethically, it is deeply anti-human, even criminal, because higher fuel prices make everything else cost more in a world where fuel is needed for all that is produced or sold. In fact it seems more like an assault by the rich on every living human being in the world, an assault that governments, under the hypnotism of neo-liberal free market fundamentalism á la Margaret Thatcher and Ronald Reagan, are unable or unwilling to fight.

And who, other than the oil companies, are these big investors?

On June 19, 2008, David Bario of The American Law Daily reported on an interview with Philip McBride Johnson, a former CFTC chairman under President Reagan. Johnson now heads Skadden, Arps, Slate, Meagher & Flom's exchange-traded derivatives practice. He is not exactly a wild-eyed conspiracy theorist.

Regarding activity in the petroleum futures market, Johnson said:

"The CFTC's economists are saying that supply and demand seem to be driving this. But we have clients in the business that have experienced these markets for many, many years, and what I'm hearing from them is that they don't see any change in the fundamentals of supply and demand."

Bario asked, "Is it a matter of institutional investors seeking shelter from the subprime crisis and the credit crunch?" Johnson replied:

"I don't know. But I do know that speculators as a class do not agree on anything, and yet there is almost unanimity of opinion these days — and the money to make the opinions matter. The fact that prices have been relentlessly trending up suggests a new type of market participant [with] a mentality that is traditionally more in line with investing in securities than trading in commodities. If enough of these wealthy people, or funds, or other entities with a lot of capital decide to flip out of securities for a little while and go into commodities, and they're all looking for something that is going up, and you get enough billions of dollars thinking that way, then their wish comes true."

So again, who exactly are these “wealthy people, or funds, or other entities” that may be manipulating the market of the world’s most important substance? Surely government regulators must know. Aren’t they able to trace market activity to the players involved?

The answer, Johnson said, is no, they can’t:

“The situation now is that the CFTC is sitting there looking at one screen, one piece of the picture, which is whatever is happening on the exchanges. Meanwhile, an increasing volume in dollars is taking place in the form of over-the-counter activity where no one can see it… there is still a blind spot with respect to the true over-the-counter activity that is going on, which represents billions and billions of dollars.”

This trading in what the industry calls “dark pools” amounts to a third of all commodities activity, easily enough for the manipulators to remain hidden. It takes place outside the regular commodities exchanges, where trading activity is relatively transparent. And it applies not only to trading in petroleum futures but also food crops and other vital commodities.

And who is it that has allowed this secret trading to take place? Johnson:

“In 2000 Congress decided that there were certain kinds of high-end investors that were big enough and smart enough that they shouldn’t be constrained to do all their business on the exchanges.”

The United States Congress has constitutional responsibility to regulate interstate commerce in order to secure “the general welfare.” It is Congress that has enabled the richest of the rich to work behind the scenes in U.S. markets in exerting this stranglehold over whether much of the world’s population will live in relative prosperity or poverty, or, in countries like Haiti , even live or die.

Are we seeing the totalitarian dictatorship of the world’s financial elite being rolled out, with petroleum and food prices the primary weapon of a final coup d’etát against every national government on earth and their citizens? And if we knew who these “high-end investors” were, and who controlled them, wouldn’t we then understand who is in charge of the New World Order and for whom it really functions?

If we are wrong in deducing such a plot, there is an easy way for those under suspicion to disprove it. Those who are “big enough and smart enough” to be making so much money surely can live handsomely without these additional profits. Let them come forth, identify themselves, and donate their gains for worthwhile projects to benefit humanity.

Absent such a gesture, let them stand indicted.

UNSETTLING TIMES

Meanwhile, here in Vermont , home to a small but popular movement for the state to secede from the U.S. , the local news reflects the unsettling times.

The Rutland Herald reports that the Vermont Milk Company, founded in 2006 with the goal of paying local dairy farmers more for their milk than would big out-of-state food corporations, is facing “huge increases” in the costs of fuel and credit and is laying off employees. The article notes that it takes the company 100 gallons of heating oil to make a single batch of ice cream.

On the state level, the government in Montpelier must cut $32 million from the fiscal year budget that began July 1. The Herald notes that, “Public safety and preparedness agencies like the Vermont State Police, Corrections, the National Guard, and Veterans Affairs will not be cut. Neither will debt service, which the state must pay.” Layoffs of state employees in other program areas will be considered.

One relatively inexpensive activity that will continue will be the Vermont “Wood Warms” program, “aimed at getting split cord wood into the sheds of low- and moderate-income Vermonters.” Jonathan Wood, commissioner of the Vermont Department of Forests, Parks, and Recreation is quoted as saying: “We used to be more reliant on our backyards and forests for fuel. I think we have to head back there in the future. We’re kind of going forward into the past.”

The classified section contains “Help Wanted” listings for a local economy that is struggling but still has a few openings for nurses, truck drivers, cooks, carpenters, and an occasional job as a teacher or administrator. But there is only one listing for industrial work, placed by a filament extrusion company.

But it’s oil that rules the world. On the Herald’s business page is an Associated Press report that the “Exxon-Mobil Corp. reported second quarter earnings of $11.68 billion Thursday, the biggest profit from operations ever by any U.S, corporation.”

Unfortunately, “the results were well short of Wall Street expectations.” Even with record profits the devils of the financial world were not satisfied, as Exxon-Mobil’s stock “slumped three percent.”

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