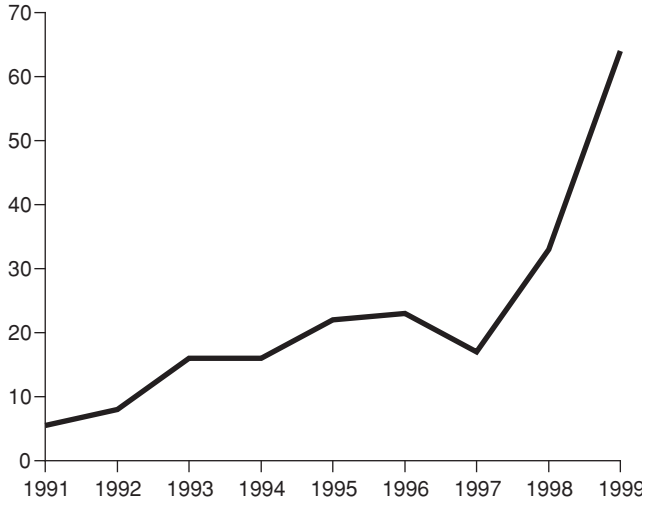
FIGURE 4
Japanese government bond issues
(trillion yen)



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 stresssed 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.

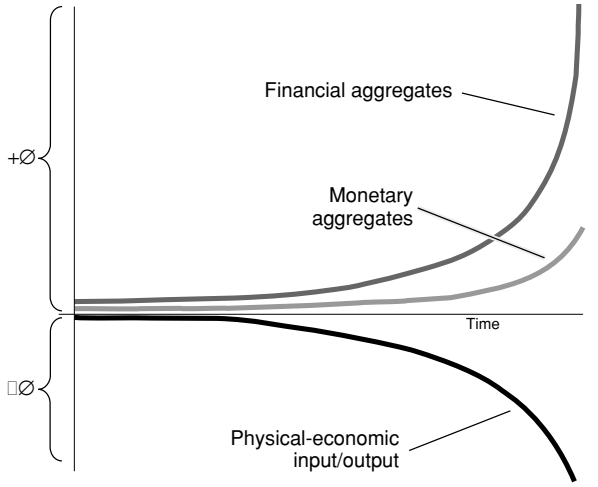
Overall, internationally, both annual consumption and annual production of crude oil are in the range of 74 million barrels a day. With an international oil and energy system characterized by next to no redundancy in pumping, refining, storage, and handling capacity, this is made to order for shortages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