Vulture Economics

In their crazed attempt to prop up the crumbling global financial system, the IMF and the Group of Seven industrialized nations are determined to squeeze more blood out of every economy on the planet, and thus tried to make of Argentina a bloody example. They stepped in as collection agents for the vulture funds, and threatened that unless Kirchner capitulated to their demands, they would not approve the IMF performance review or reimburse the $3.1 billion payment.

But Kirchner stood firm. Argentina's people and national interests must come before the banks, he said. To pay more than 25% would mean a "new genocide" against the country.

The bondholders were outraged that they didn't get their way. A Standard & Poor's director snarled, after the announcement of the 11th-hour deal, "The bondholders have every right to be disappointed." The *Financial Times* reported unhappily that Argentina remained "defiant towards private creditors." And Scott Grannis at Western Asset Management Co. bemoaned "the government's lack of respect for global capital markets."

Aware that even more brutal pressures will come in June, when the IMF accord comes up for review, Kirchner told his closest collaborators not to rest on their laurels, because "We're in a minute-by-minute, hand-to-hand combat."

He's right. Speaking at a March 10 U.S. Senate subcommittee hearing in Washington, U.S. Assistant Secretary of Treasury for International Affairs, Randal Quarles, stated unambiguously that Argentina must tighten its belt still further: "It is the responsibility of Argentina to work with its creditors to achieve a debt restructuring deal that will define the increase in primary surplus above [the current level of] 3%, that is needed to cover debt service on performing and restructured debt."

And speaking for the vultures themselves, Adam Lerrick, of the steering committee of the Global Committee of Argentina Bondholders, addressed the same Senate hearing, and bemoaned the fact that "we no longer live in an era where the governments of private sector lenders send the navy to collect on their bad loans." And he went on to express outrage at the very idea of putting the people and their survival ahead of speculative paper: "Argentina has made a pre-emptive decision. Payments to the country's lenders are now deemed discretionary expenditure, not fixed obligations. Government-sponsored posters of ragged children crystallize a new concept: The 'social debt' to provide a better quality of life for citizens takes priority over the financial debt to the nation's creditors. If Argentina even comes close to imposing the 90% debt reduction"—the vultures call it 90% by adding in unpaid interest charges—"how can Latin American leaders, or any developing-country politician, justify to their electorates stringent fiscal efforts to honor obligations to foreign lenders? Why not schools and hospitals instead of repaying rich foreigners? The resulting defaults will cascade through the international capital markets." This is the angry voice of fascism.

Hyperinflationary Rise Spreads Worldwide

by Richard Freeman

During the past 8 months, a wide array of goods, from raw materials, to intermediate goods, in addition to some final goods, have undergone price explosions not experienced, in some cases, in more than two decades. A leading example of this is the case of gasoline. By the end of the week of March 1-5, at self-service gasoline pumps throughout California, the average price of gasoline had risen to $2.11 per gallon, according to the Energy Information Agency (EIA) of the U.S. Department of Energy. The EIA reports that during the past 10 weeks, the price of gasoline in California has climbed 51.7 cents per gallon—or 32%. The price is within pennies of its all-time record of $2.145 reached during the Summer of last year, and some analysts predict that the price will shoot to $2.50 or higher by the Summer of this year.

On March 4, U.S. Energy Secretary Spencer Abraham said that the Bush Administration is "extremely concerned" about the impact of high gasoline prices. One of the reasons cited for the oil price rise is the sharp increase in the price of crude oil, the raw stock from which gasoline is made. On March 5, at the close of trading on the NYMEX (New York Mercantile Exchange), the price of crude oil jumped to above $37 per barrel. But ascribing the increase in the gasoline price to the rise in the price of crude explains nothing. Why has the crude oil price spiked upward? Heavy speculation and geopolitical factors can account for some of the price increase, but there is much that they do not account for.

The same is true for dozens of commodities. Each has a particular explanation for its price increase, but this does not explain why all of these prices are shooting up simultaneously. Did the particular alleged trigger for each commodity's price increase, get activated at the same time 8 months ago?

The problem with economists' explanations is that they are desperately seeking to conceal what is going on. 2004 Presidential candidate Lyndon LaRouche has uniquely explained the deeper process that governs what is currently happening. Over the recent period, the disintegration of the hopelessly bankrupt world financial system has accelerated. In response, Federal Reserve Board chairman Alan Greenspan attempted to prolong the system: wildly increasing the emission of monetary stock to prevent the speculative financial aggregates—stocks, bonds, derivatives et. al—from collapsing. This process set off an hyperinflationary explosion in asset prices, led by real estate; and it has now spread to commodity and intermediate goods prices in general. It is proceeding along the same path as the Weimar hyperinflation which ravaged Germany from March through November, 1923. Now, this Weimar process is extended to the whole world.

The Case of Steel

What is unfolding with regard to steel is a marker for the system as a whole. U.S. steel prices have jumped at least 30% in two and one-half months; it has reached the point that suppliers can't predict from week to week what steel prices will be. This is affecting all those who buy and bend steel, from appliance makers, to tool-makers, to commercial construction companies.

Bob McDaniels, president of Oncore Construction LLC, reports that he is stockpiling, in anticipation of price increases, "I bought a tractor [trailer] full of nails, because I was afraid I would be paying more next month." During the past year, the cost of nails rose to $25 a box, from $12.

The Feb. 23 *Wall Street Journal* reported that toward the end of February, the spot-market price of hot rolled steel—an industry bench-mark—was running at about $500, with surcharges included, up 30-50% from a month earlier, according to various steel buyers. Peter Fish, of MEPS Ltd, a British steel-market consulting firm, predicts steel prices will reach an eight-year high during March.

Steel is an intermediate good crucial to every economy: it is used in the construction of everything from machine-tools to bridges, to automobiles. Its price increase is transmitted, through the bills of materials, to every part of production. Its price increase (and those of other commodities) could do further damage to the U.S. physical economy and destroy the last remnants of the Bush-Cheney Administration's economic recovery myth. Nels Leutwiler, president of the Chicago, Illinois-based Parkview Metal Products, reported that he has already laid off 80 out of his 500 workers—16%. He stated that, for those metalforming companies that have survived the depression, "this sudden run-up in steel prices will be the last straw for many of them."

Most economists, to the extent they have said anything to explain the steel price increase, have attributed it to China's heavy buying of steel. China has bought large amounts of steel for its considerable industrial and infrastructural development, and in addition to that, for construction of the stadia and venues for the 2008 Olympics in Beijing. Indeed, during 2003, China consumed one-third of the world's rolled steel, a sizeable amount. But does this explain the sudden increase in steel prices by 30-50% between January and the end of February of this year? Hardly.

Primary Commodities and Foodstuffs

One can only fully understand the jumps in the prices of steel and gasoline, from the standpoint of a worldwide process. **Table 1** shows that since the end of the second quarter of 2003, prices have exploded by 9-94% for a variety of goods needed for human existence—from metals, to energy supplies, to foodstuffs. The underlying reason for this, is a surge in Weimar-style hyperinflation. For example, for the metals group, the price of aluminum rose by 22%, that of nickel by 80%, and that of lead by 94%.

TABLE 1

Raw Materials Price Increases

($ Per Metric Ton)

Commodity	2nd Q 2003	February 2004	Percent Increase
Metals			
Copper	1,641	2,752	68%
Aluminum	1,382	1,685	22
Tin	4,658	6,663	43
Nickel	8,372	15,099	80
Lead	456	885	94
Hardwood Logs	182	199	9
Softwood Logs	148	178	20
Energy			
U.K. Brent Oil*	26.1	31.3	20
Australian coal	25.4	43.5	71
Uranium**	10.6	16.1	53
Foodstuffs			
Wheat	137	161	18
Soybeans	246	370	50
Soybean meal	197	279	42
Palm Oil	419	534	27
Fish Meal	603	685	14
Olive Oil	3,618	4,669	29

* Price of Brent oil is measured per barrel.

** Price of uranium is measured per pound.

There are particular reasons that can be cited to partially explain why a particular commodity's price rose, such as perhaps a poor crop in the case of a foodstuff. The decline in the value of the dollar is another contributing factor: some raw material producers have partially raised the price of their commodities, priced in dollars, to compensate for the dollar's fall. However, these are not predominant forces.

Think methodologically. The world financial system is disintegrating, an underlying reality which nearly all economists and leading politicians have been frantically attempting to deny. In response to that disintegration, Fed chairman Greenspan has followed a wildly destructive money-printing process. The lawful result is that a hyperinflationary process is breaking out, that could soon reach the gale-force proportions last seen in Weimar Germany, eight decades ago.