

not of currencies, and for a new unit based on that commodities basket. Its primary aim would be to keep factories producing and real commodity trade moving.

**Nambara:** I agree with LaRouche, under one condition: Before we materialize such a unit in carrying on trade, we need to set up a careful set of free and fair trade agreements so that it is done fairly. It would be very good if we had such a common unit of account, because that way there is no way for speculators to speculate in the currencies.

But we can't do it if the U.S., for example, has something like NAFTA [the North American Free Trade Agreement], from which Japan is excluded.

But, unfortunately, it is hard to get these kinds of trading agreements, because politically, people want to protect their agriculture, and so on, from other countries' imports.

**EIR:** Suppose we have such a general world crisis but the United States would not cooperate with such a global system. Would the Association of Southeast Asian Nations plus Japan, South Korea, and China ("ASEAN-Plus-3"), with its primary goal being to keep factories and shipping moving, have the courage to set up their own trading system using this LaRouche-proposed basket of commodities and new accounting unit?

**Nambara:** Look, the U.S. is the world's biggest debtor, so I agree with LaRouche that it is easy to imagine a situation in which global confidence in the U.S. dollar is eroded; once that starts, the dollar could collapse very quickly—and then there would be a chance that the U.S. would agree to my proposals for a common global currency and free-trading agreement.

But I'm very appreciative of the efforts of Mr. LaRouche and you to change how Americans think about all this.

**EIR:** If in the end the United States would not cooperate, would ASEAN-Plus-3 go ahead?

**Nambara:** Without the cooperation of the U.S. it might be too difficult. While the U.S. is the world's largest debtor, still the U.S. is the number-one country upon which East Asian countries depend to sell our exports. That's our big problem—all the Asian countries depend so much on exports to the U.S. We could not just quickly swallow that loss. The capacity of imports from Japan, for example, on the scale of the U.S., can't be so quickly replaced with new markets in China or Southeast Asia—although I was very happy to read this week that JETRO [the Japan External Trade Organization] has announced that trade between China and Japan is now at a record high, both exports and imports. We would like to go more in that direction as quickly as possible.

So, the best way is to elect Mr. LaRouche, or his co-thinker or next-in-command, as President of the United States, to change the philosophy of the U.S. This would improve the quality of leadership of the U.S., and that would greatly improve the world economy!

## The Hoax of U.S. 'Core Inflation'

by William Engdahl

On Aug. 15, the price of the benchmark North Sea Brent crude oil surged to \$32.80 per barrel, its highest level since November 1990. This represented a rise of 20% in two weeks. Oil analysts at leading Wall Street firms, including Merrill Lynch and Goldman Sachs, predict a \$40 per barrel price within weeks unless something dramatic happens. That would represent a 400% price rise since March 1999—on the same order as the 1973-74 oil price shock which plunged the world into depression.

Yet, U.S. financial markets are reacting to the latest oil shock as if it didn't exist.

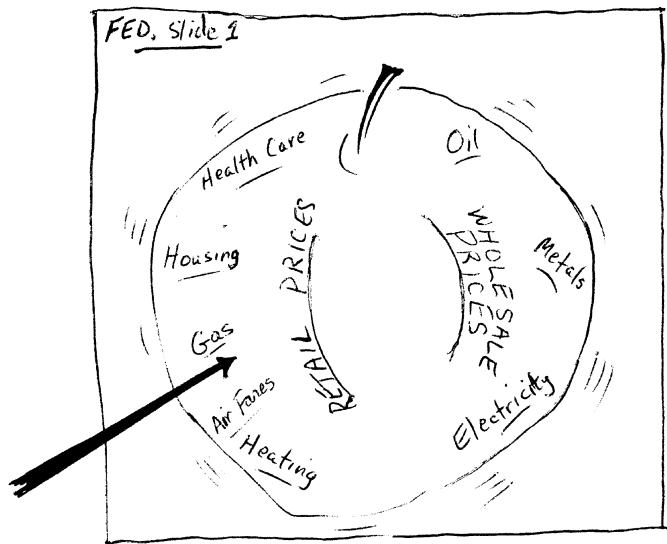
From the European standpoint, Americans must seem remarkable: They apparently don't use energy to fuel their cars or planes; nor, apparently, do they eat food. How else could the U.S. Federal Reserve claim, month after month, in the face of soaring commodity prices—including a 300% rise in crude oil, the energy feedstock of the entire U.S. economy—that something the Fed defines as "core inflation" remains "under control." And this while European governments are reporting rates of inflation heading toward 10% annualized.

The claim that, despite exploding costs of most major industrial commodities in recent months, inflation is no problem (hence the Federal Reserve need not raise interest rates further), is a distortion of economic reality, laughable in its dimension. However, it blinds much of the world, Wall Street stock speculators not least among them, to the precarious state of an economy in double-digit inflation, and soon to be in what Lyndon LaRouche characterizes as a 1922-23 Weimar-style hyperinflation.

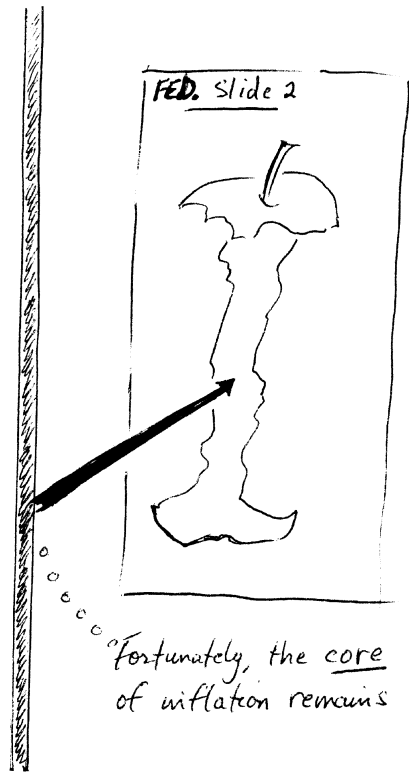
### 'Core Inflation' Is Born

The U.S. Federal Reserve, official calculator of the monthly Consumer Price Index (CPI), releases a measure that it calls "core inflation." This is defined as consumer price inflation, minus inflation in energy and food. The current core inflation level is 2.3%, hardly grounds for panic.

Core inflation for the past year and half, when oil prices were shooting through the roof, has remained mild, according to Federal Reserve statisticians. The source of this miraculous statistical event has its origins back in 1973-74, during the Nixon Presidency. Then, as now, it was a huge spike in oil prices (the "Great Oil Hoax" that Henry Kissinger blamed on the Organization of Petroleum Exporting Countries embargo) which was at the heart of dramatically rising prices paid by ordinary American consumers.



It may appear, to some, that inflation is starting to blow up... but...



Fortunately, the core rate of inflation remains low!

When oil prices rose 400% within months, Federal Reserve Chairman Arthur Burns, a close political friend of Nixon, called together the Fed's economics staff and told them, according to one who was present, to strip the impact of the 400% oil price inflation out of the CPI. Burns argued, "It is exogenous; it has nothing to do with the inherent tendencies of the U.S. business cycle."

Former Fed economist Stephen Roach, today chief economist at the Wall Street firm Morgan Stanley Dean Witter, recently said in a client research memo: "Little did we know at the time that we were creating the first gauge of core inflation. Burns was pleased. Statistics had triumphed again. We had surgically removed the diseased slice of the CPI."

But the elimination of energy inflation wasn't enough for Burns. A few months later, under severe U.S. drought conditions and record grain exports to the Soviet Union, food prices also exploded. "Burns called us back together again," Roach recalled. "The Fed can't react to weather, Burns argued. So he instructed us to take food out of CPI as well. And, of course, we did." Burns made similar arguments to strip out such items as used car, mobile home, and even gold jewelry prices, Roach said. "Based on today's weights, the excluded items would amount to more than 50% of the goods and services that comprise the so-called CPI basket."

### The Reality

When we strip away the politically motivated core inflation nonsense and look at real prices of a market basket of goods and services necessary for most American families to

exist, real CPI inflation levels are running well over 10%. According to data compiled by the American *Purchasing Magazine*, prices being paid by manufacturers for primary and semi-finished goods have risen by anywhere from 10% to 50% during May 1999-May 2000. Prices for hot-rolled steel rose 20%; stainless steel, 16%; aluminum ingots, 17%; copper wire, 27%; paper pulp, 67%; chlorine, 55%; and sulfuric acid, 37%. This does not include the impact of the 400% rise in crude oil feedstock to prices of petrochemicals across the spectrum.

Similarly, in western Europe, inflation is becoming serious. By contrast to the Federal Reserve, the German Federal Statistics Bureau at least minimally attempts to analyze real levels of inflation in the economy. On Aug. 15, they reported that the Wholesale Price Index in July rose 5.8% over July 1999, the greatest monthly rise since May 1989. In specific commodities, the rate was even more dramatic: heating oil rose 55.8%; aluminum, 24%; copper, 13%; pork, 12%; tomatoes, 11%; and fish, 22%.

Were the Federal Reserve to employ Lyndon LaRouche's proposed "market basket" consumption model to measure CPI, financial markets would long ago have pushed the panic alarm to sell, and the greatest financial meltdown in history, the collapse of the \$17 trillion U.S. stock market bubble, would be triggering a wholesale rush out of stock-inflated values and into hard commodities. At that point, LaRouche argues, we will witness a hyperinflation which will make that in 1923 Weimar Germany appear tame by comparison.