Mac buy them; Freddie and Fannie have been instructed to begin buying so-called jumbo loans—those over $417,000—despite the fact that both institutions are already hemorrhaging money. Freddie Mac reported a loss of $2.5 billion for the fourth quarter, while Fannie Mae lost $3.6 billion.

All of the plans, while claiming to protect the public, are actually intended to protect the valuations of mortgage-related securities, as a way of protecting the banking system. Rather than admit that housing prices are too high, that debt levels are unsustainable, and must be adjusted through bankruptcy proceedings, the plans would convert the debt to government obligations, in effect shifting the huge asset losses to the taxpayers.

Treasury Secretary Henry Paulson has attacked some of these proposals as bailouts of speculators, even while advancing his own bailout plans. While some bankers are clamoring to be saved, Paulson is smart enough to realize that the bankers—or at least some of them—will have to take their lumps. He has been adamant that banks must write down their losses and recapitalize, even while he has attempted to organize private-sector bailouts like his ill-fated M-LEC Super-SIV plan, and his Hope Now Alliance.

Paulson, as a former Goldman Sachs banker, knows quite well that the financial system is finished, and is determined to save the core institutions of that old system—a handful of big banks, investment banks, and other institutions—to survive as part of the new system the bankers are attempting to put into place. Much of the old system will have to be let go, with the new system to be raised, Phoenix-like, out of its ashes. The politicians are to be kept out of this as much as possible, in Paulson's view, because the new system will rely much more on technocrats than politicians, much more on the private sector than the government.

While the technocrats attempt to decide our fate, the news media is doing its best to distract us with minor dramas like the fate of the monoline bond insurers, and all the losses that will follow should the monolines fail to retain their crucial AAA credit ratings. If they fail, we are repeatedly and breathlessly told, all hell will break loose. But, all hell has already broken loose. The monolines wouldn't even be an issue were the bond market not collapsing, a point which ought to be obvious, but which the media continually misses.

California Gov. Arnold Schwarzenegger and New York Mayor Michael Bloomberg, acting on behalf of fascist bankers like Felix Rohatyn, are touring the country pushing privatization of public infrastructure. They claim the private sector, with all its cash, can afford to build projects the governments cannot, but it is the old bait and switch scam. These private sector funds are rapidly evaporating. The bankers don't intend to spend billions, they intend to make billions by charging ordinary citizens for using infrastructure the citizens have already paid for. It is a very old-fashioned rip-off, and you can expect to pay through the teeth. Assuming, of course, that you survive.

Ethanol Won't Solve Food Price Inflation

by Marcia Merry Baker

The World Food Progam—the UN food relief agency—said in its February "emergencies" report, that it is has begun plans for rationing scarce aid among 73 million people in 2008, because food prices are out of control, and supplies are so scarce. This is just one of many responses to the fast-worsening inflation of food prices; others include street riots in Southweast Asia and unilateral, defensive actions by China, the Philippines, and other governments to secure food.

Three major factors are at play. First, grains and other staples are in short supply after decades of underproduction; globalization of farming and food trade has downgraded agriculture output potential, as ratios fell per unit area of availability of water, power, high-tech inputs, and transport. Worldwide, grain production has been less than consumption in seven of the last ten years. Stocks of rice, wheat, and corn are at severe danger levels.

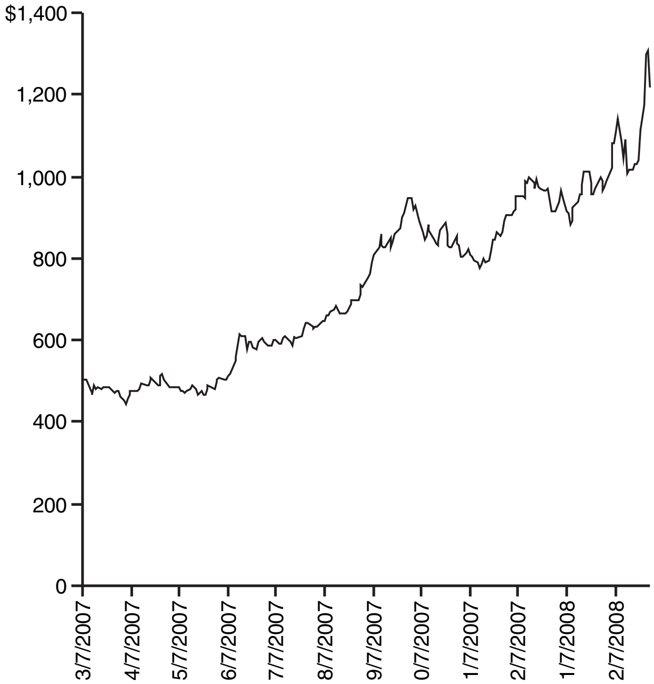
Second, the switch of farm land to producing biofuels instead of food crops, has turned a crisis into a catastrophe, especially since the 2005 ethanol-use mandates were set in the United States, France, and elsewhere. In 2008, fully 12% of the world's corn output will go to ethanol, up from barely 1% a few years ago.

Finally, the impact of wild speculation on the Chicago Board of Trade and other grain exchanges in Kansas, Minneapolis, London, and elsewhere, is driving up prices by the hour. In February alone on the CBOT, the daily allowable limit for the price of a bushel of wheat was raised multiple times, to accommodate the fact that it kept being hit, and trading had to be suspended. Before Feb. 11, the limit was 30¢; then upped to 60¢; then 90¢. On Feb. 26, it was at $1.35 a bushel limit, but still it was hit. The futures price for a bushel of wheat (May delivery) in Minneapolis has doubled since September. **Figure 1** shows the past year's rise in wheat futures prices on the Kansas City Board of Trade, reaching the vertical stage by the end of February.

No wonder that the food chain is breaking down all along the line. For example, vast liquidations of livestock are threatened, because feed prices have shot up. **Figure 2** shows monthly cattle futures prices during 2007, indicating that cattle producers are taking a hit by having to pay soaring feed prices, while what they receive for their beef stays relatively the same. Hog producers are hit very hard.

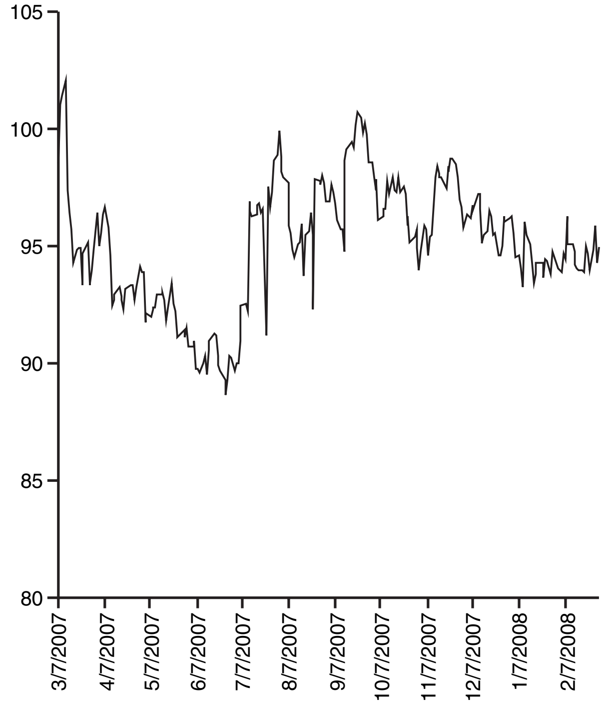
In Britain on March 4, pig farmers plan to stage a demonstration against the fact they are losing 4 to 7 pounds a head on every animal marketed. Feed-grade wheat is one of their prin-

FIGURE 1
Price of Wheat Futures on the Kansas City Board of Trade, March 2007 to February 2008
($ per Bushel)



Source: *EIR*, KCTB.

FIGURE 2
Live Cattle Futures Prices, U.S.A., March to December 2007
(Cents per Pound)



Source: *EIR*.

cipal animal rations. On Feb. 21, an announcement was made by Smithfield Foods, Inc., the cartel meat company, that it will reduce its U.S. sow herd by 5%, which will result in a cut of 800,000 to 1 million hogs a year in output. Corn is one of the principal U.S. hog rations. Corn futures prices, as well as soy meal hog feed, are setting records. Smithfield alone accounts for 18 million hogs a year—which is 20% of total U.S. hog production—so any downsizing of their operations has an automatic big effect on the food supply.

Despite this breakdown process, an emergency-measures approach could begin to turn the situation around. National "food mobilization boards" could work to restore production, and collaborate internationally to build up agriculture capacity. There are many historic precedents—for example, the way U.S. farm output surged during World War II, despite young men being away in the military.

But re-establishing food security depends on sovereign governments re-asserting their nation-serving responsibilities, most immediately to deal with the financial system blowout. Lyndon LaRouche addresses this task directly with his call for a "New Bretton Woods" financial system, initiated by the four major powers—the United States, Russia, China, and India.

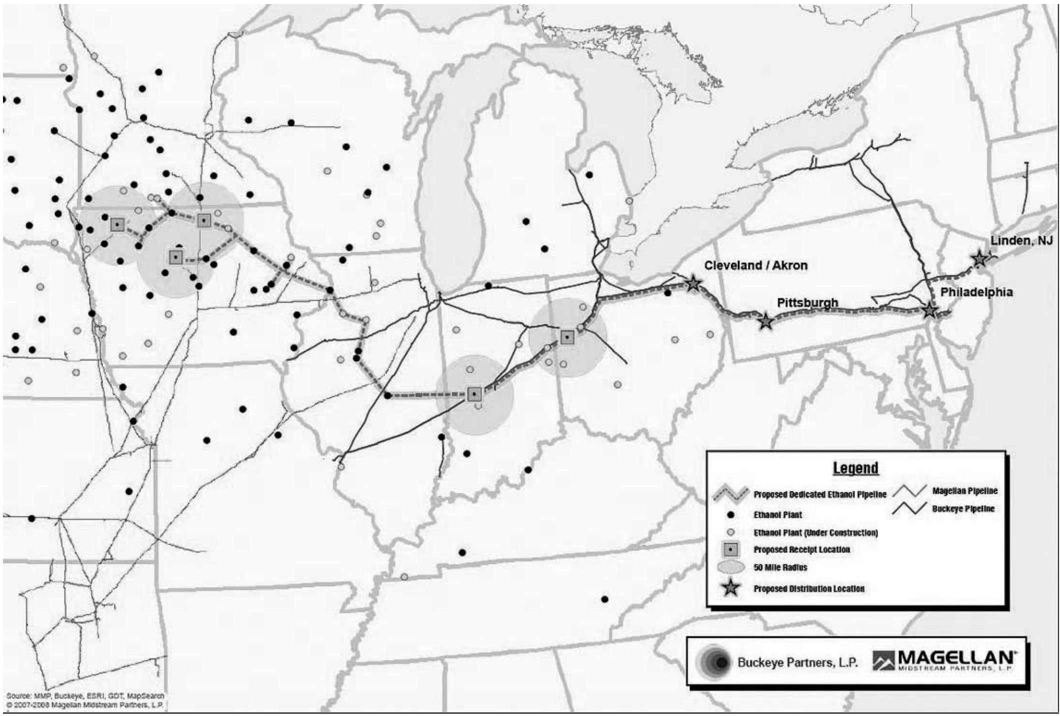
The enemies of this approach, when it comes to the clear and present danger of food scarcity, are doing everything to make it worse. The intent is seen in their positioning for post-crash domination of what's left. In general, there is a tightening of control in the already highly consolidated globalized food system, as exemplified by billionaire Warren Buffett's February purchase of a huge stake in Kraft Foods, the dairy giant. But for institutionalizing food scarcity, the most dramatic recent developments are the proposals for ethanol pipelines in North and South America, to run from the grainbelts to the ports. Though biofuel projects may be pipedreams, as one Texas energy expert proclaimed, "This is where the money is going right now—green, clean, and mean."

Pipedreams: Ethanol Pipelines

Major announcements were made this month to build two ethanol pipelines: one in the U.S.A., going 1,700 miles from Iowa to New York Harbor, with inland regional distribution points at Cleveland/Akron, Pittsburgh and Philadelphia (see **Figure 3**). The pipeline proposed for Brazil is going 800 miles from the inland state of Goias, through Minas Gerais, to the port at Paulinia/São Paulo. Ethanol is corrosive to the surfaces of existing pipelines; but if specialty carbon steel is used, the

FIGURE 3

The 1,700-Mile Ethanol Pipeline from Iowa to New York Harbor, Proposed by a Private Partnership



Source: Feb. 19, 2008 press release, Buckeye Partners, L.P.

Two major petro-product companies, Tulsa-based Magellan Midstream Partners, L.P. and Pennsylvania-based Buckeye Partners, L.P. propose to build an ethanol pipeline from the cornbelt through to Pennsylvania and New York/New Jersey, to distribute ethanol throughout the Northeast, as shown on their map released in February.

new dedicated lines can resist damage. Their impact? The new projects would institutionalize food shortages and guarantee famine.

Both pipeline proposals are associated with major financial players—hidden and public—behind globalization and the biofuels push. Big beneficiaries of the Brazil pipeline include Cargill, George Soros, and Bill Gates—all part of the cane ethanol expansion in Brazil. In February, a partnership was announced to construct the pipeline, composed of Brazil's Petrobras; Mitsui & Co., the Japanese commodity cartel; and Camargo Correa S.A. of São Paulo. The $1.6 billion project is expected to take over two years to complete.

In the United States on Feb. 19, two of the world's biggest petro products companies (terminals, blending stations, pipelines) issued a statement and map of their plans for the U.S. pipeline: Tulsa, Oklahoma-based Magellan Midstream Partners, and Pennsylvania-based Buckeye Partners. Their pipeline would gather ethanol from Iowa, Illinois, Minnesota, and South Dakota, to ship to the Northeast states, and abroad. The pipe would run up to 24 inches in diameter, and carry 300,000 barrels of ethanol a day. Their feasibility study is expected to be completed later this year. Estimated to cost in the range of $3 billion, the system would take several years to build, and follow rights-of-way that are in large part, already owned by Buckeye Partners.

Buckeye now blends ethanol into gasoline at 24 terminals, with more under construction. Magellan operates an 8,500-mile petroleum products pipeline system in the Midwest, with 42 terminals that blend ethanol. The company was in on the ground floor in the 1980s, when the Federal subsidy of 51¢ a gallon was initiated to the firms that blend ethanol into gasoline. Both companies are also structured as "master limited partnerships," thus evading corporate income taxes.

Now Magellan and Buckeye expect more Federal support. "Buckeye and Magellan are leaders in the pipeline industry and can play an important role in developing the infrastructure needed to efficiently meet the renewable fuels requirements of the recently enacted Energy Bill [2007]," states Eric Gustafson, Buckeye's Chief Operating Office, in the company's Feb. 19 pipeline announcement press release. It states, "Congressional support and assistance is necessary for a project of this nature. . . ." Sen. Tom Harkin (D-Iowa), chairman of the Senate Committee on Agriculture, Nutrition and Forestry, has already pledged his support. "I applaud these two companies' efforts," he said.

'Gorey' Grain Shortfalls

To emphasize the question of science involved: The energy required to grow, transport, and process corn or cane for biofuels, exceeds the energy output. Therefore, the net result is negative, even if there were not a grains scarcity. But under the circumstances of the absolute drawdown of food stocks and output capacity as of the turn of the 21st Century, the biofuels policy means famine.

For the current crop year, 2007-08, consumption of grains (all kinds), for all uses (food, animal feed, biofuels) is projected at 2,120.3 million metric tons, which is 17.7 mmt more than the projected production this year, according to the February estimates by the UN Food and Agriculture Organization. "World reserves are heading to yet another decline from their already low levels," stated the FAO. "World cereal stocks by the close of the [crop] seasons ending in 2008 are expected to fall to just 405 mmt, down 22 mmt, or 5%, from their already reduced level at the start of the [crop] season and the smallest since 1982."

All grains are in short supply. In the United States, wheat stocks are at their lowest level since 1948, in absolute tonnage. Among other reasons, this reflects the diversion of wheat acreage into producing corn for the biofuels craze. Significant amounts of arable land are being removed from food crop use in grainbelts around the world. In China and India, huge amounts of agricultural land have been taken away for creating special export promotion zones and residential needs of the *nouveaux riches*. In China, almost 7 million hectares of arable land has been "lost" to the new scourge of the globalization-led economy.

Therefore, capping all these trends, is the "Gorey" catastrophe of the biofuels mania that is increasingly diverting grains and oil crops away from the food chain. At present rates, in 2008, 95 mmt of corn will be consumed for ethanol, which is 12% of the expected total world corn harvest, according to the FAO. On top of that, 10 million tons of wheat

Uproar in France over Food Price Inflation

The French party associated with the LaRouche movement, Solidarité et Progrès, is fielding four candidates in the March 9 municipal and district elections, using the poster (shown here) with the slogan "We know how to fill your shopping cart." It also calls for a New Bretton Woods global financial system, against the speculators. The widespread concern in France over soaring food prices was illustrated by a cartoon in the daily *Le Monde*, showing President Nicolas Sarkozy shocked at the high price of the euro, while a little mouse who represents the "normal citizen" pushes an empty shopping cart.

Just as the election campaign got started, the French consumers' union magazine, *60 Millions de Consumers*, published a survey of food price hikes in France between November 2007 and January 2008. Over that two-month period alone, prices for dairy products increased 5-48%, pasta 31-45%, and ham 10-44%.

The huge increase of the cost of living is the main reason that Sarkozy's party, the Union for a Popular Movement (UMP), is expected to suffer a huge defeat in the local elections. While Sarkozy was elected by a solid majority of some 54% just nine months ago, his support has been in a free fall, and is now 36%, having lost 9 points in the past month. While the press has focussed much attention on his love affair and new wife, Carla Bruni—which indeed has turned away many of the older people who had been his main base of support—the middle class and the lower 80% in general are furious. He had campaigned on the slogan, "I will be the President who will restore buying power to the population." It is in those areas where he had raised expectations the most and gotten voting results of over 60%, that the reactions against him are now the most intense.

Solidarité et Progrès is running candidates in four districts for the post of general counselor, the person responsible for running the departments. The party has a potential for rapid growth in this time of crisis, as shown by an electoral meeting for candidate Christophe Paquien on Feb. 26 in a district of Lyon; 45 people attended. Solidarité et Progrès national leader Jacques Cheminade was also there, to show his support.—*Christine Bierre* and other grains are going into biofuels. This doesn't count the capacity going into cane ethanol in Brazil, or Asian and European oil seeds for bio-diesel.

Food Riots, Government Fallback Defenses

The FAO figures show that food prices globally soared nearly 40% in 2007, sparking riots and desperation on every continent. There have been food riots in Myanmar, Pakistan, Indonesia, and Malaysia. But since Jan. 1, 2008, the food inflation has leaped up still faster, with wheat prices, for example, having added another 22% in the past two months. In Morocco in February, 34 people were sentenced to prison for protesting over food prices.

In Pakistan, where the internal security situation is worsening by the day, food prices in January soared by more than 18%, the highest-ever monthly increase, following more than a 14% jump in October. Higher food price inflation meant that the poor and vulnerable groups, who make up almost two-thirds of the population, had to either cut their non-food expense to make room for spiking food budgets, or consume fewer calories than required.

India, China, and Vietnam have cancelled most types of grain exports. Traditional wheat exporters Argentina, Russia, and Kazakstan have placed restrictions on foreign purchasers. Governments of import-dependent nations are scrambling for supplies, especially going to the United States, which is an open-access market. During the big wheat price run-up on the Chicago Board of Trade at the end of February, Iraq bid for 550,000 tons. The American Bakers Association wants the U.S. Agriculture Department to review its wheat export regulations, to better protect domestic users.

There is also a mad rush for rice. Half of the world's 6.6 billion people rely on rice as their daily staple. In the past three months, rice on international markets has risen 30-40% in price, while over the past five years, the volume of rice traded on the Chicago futures market has increased by *four* times.

Philippines President Gloria Macapagal Arroyo has contacted Vietnamese Prime Minister Nguyen Tan Dung to request that he pledge an undisclosed amount of rice for the Philippines, officials said on Feb. 21. The Philippines wants a political pledge from Vietnam that it will be able to purchase the amount of rice the country needs, even though Vietnam recently suspended rice exports.

The Philippines government is the first to take an overtly political route to protect the food supply. Rice is the staple food in the Philippines, but the country is not self-sufficient in the grain. "This is a wake-up call," Robert Zeigler, director general of the Philippines-based International Rice Research Institute (IRRI), told Reuters on Feb. 22. "We have a crisis brewing in terms of rice supply." Dr. Zeigler travelled to Washington, D.C. in December 2006 to warn of a disaster in Asia if the grain collapse were not reversed. In an interview with *EIR* published on March 2, 2007, he warned of food shocks ahead, unless preventive policies were resumed.

The "green, clean, and mean" biofuels mafia has announced plans to build 1,700 miles of ethanol pipelines in the United States. Here, one of many advertisements promoting this insane non-solution to the world's energy needs.

Other Asian governments are taking action in the face of soaring grain prices and fears over the security of food supplies. Indonesia has raised taxes on palm oil shipments and pushed to increase soybean imports. Malaysia is building up stocks.

In China, where food inflation leapt by 18% in the first month of this year, the government is imposing controls over retail prices. Producers of all kinds of products—grain, meat, dairy, oils—must get approval from national, and/or local authorities, to raise their prices. As of Jan. 26, 31 provinces, municipalities, and autonomous regions had introduced control procedures to review price-hike requests.

The situation in Afghanistan and Tajikistan is at the stage of dire emergency, under conditions of this year's harsh Winter east of the Hindu Kush mountain range. In Afghanistan, the frigid temperatures killed 300,000 livestock—sources of meat, and milk for children—since December, and led the FAO to issue a warning of worse to come. For Tajikistan, the FAO issued a flash appeal at the end of February, calling for an immediate international infusion of $25.1 million in assistance. At least 260,000 people require food and fuel.

In Southwest Asia, there is a special ironic twist on the combination of food hyperinflation with soaring fuel prices, since many of the Persian Gulf states are rich in oil, but are still slammed by "the markets." Even in Saudi Arabia, there have been public demonstrations and boycotts over rising prices. In Qatar, the government has resorted to price controls. In Jordan, rising fuel costs forced the government to remove all fuel subsidies recently, sending the price of fuels up 76%, and doubling the cost of basic foods like eggs, potatoes, and cucumbers. A Jordanian merchant told the *New York Times*, "We have to choose: We either eat or stay warm. We can't do both."

Ron Castonguay and Ramtanu Maitra contributed research to this article.