

# The Rising Oil Price: Who is to Blame?

By Adrian Douglas

With crude oil prices breaking price records on an almost daily basis the press has been looking for someone to arrest, try and convict in their Kangaroo Court of Public Opinion for being responsible for the record high prices. High on their list of suspects are OPEC, Hedge Funds, Insurgents in Iraq, Rebels in Nigeria, Futures speculators, and the CEO's of the Big Oil Companies.

None of the named suspects is guilty. The name of the one person responsible has not yet appeared on the radar screen of the Press. The person responsible is Richard Milhous Nixon. President Nixon closed the gold window on August 15, 1971 making the US Dollar a purely fiat paper currency backed by nothing.

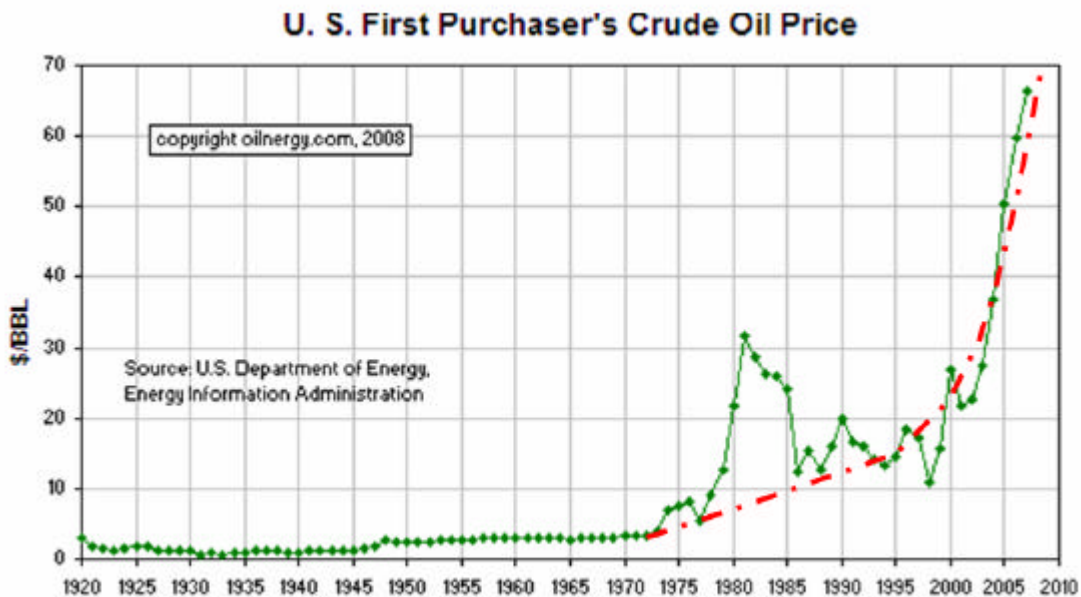
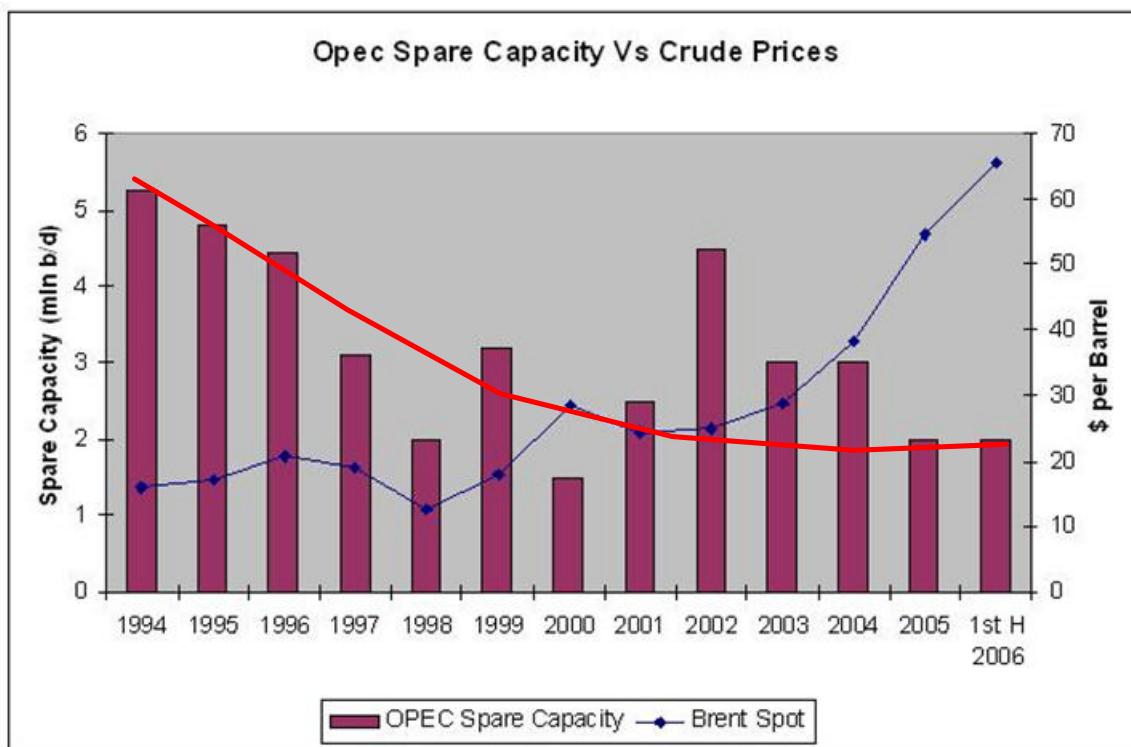


Figure 1

Take a look at this long term graph of oil prices going back to 1920 (Figure 1). OPEC was formed in 1960. No major oil price spike occurred by the formation of the organization. The current rising price trend can be traced back to 1971 when inflationary limits of the US dollar supply became unfettered. In the early years, the inflationary trend was difficult to discern because it was masked by high volatility. There were spikes above the trend caused by the Arab Oil Embargo of 1973, the Iranian Revolution of 1979 and the Iran-Iraq War of 1980. There was a spike to the downside in 1998 due to the Asian Financial crisis. These spikes were so large that analysts thought THEY WERE the trend as opposed to

anomalous excursions from the inflationary trend. An approximate trend is shown in red. In 1971 there were no Iraqi insurgents, there were no Nigerian rebels, and there were no hedge funds. They simply must be innocent of all charges against them for having caused the rise in oil prices. They are no doubt accessories after the fact, in that they are presently adding fuel to the fire of demand.

Some analysts have said that inflation is partly to blame for the rise in oil prices while the rest is purely supply and demand fundamentals, fueled by the growth of China and India. I consider this is all one and the same thing. The massive unfettered US dollar creation of the 1990's led to massive consumer spending, which led to massive manufacturing, which was outsourced to Asia, which led to massive demand growth for raw materials, and in particular, crude oil. The "easy money" built the demand side very rapidly while little money went into building the supply side. The industry was content to use up excess production capacity built up in the 1980's and not add new production capacity. This is demonstrated in figure 2 where OPEC excess production capacity is seen to be declining (Non-OPEC has no spare capacity at all).



**Figure 2**

The obscene fiat money orgy triggered by Nixon has been sustained only by the grotesque market manipulation of the Gold Cartel, Presidents Working Group on Financial markets (PPT) and the Counter-party Risk Management Group (CPRMG). Without this manipulation the buying power of the dollar would have

diminished much quicker and its impact on the demand side would therefore have also diminished. The interference with the classic inflation barometer, gold, has led to the illusion of the US Economic Miracle which was achieved with an illegal performance enhancing drug called “unbacked fiat currency”. Thirty seven years of turbo-charged growth has surpassed the world’s ability to provide commodities of all description and sucked dry most of the world’s stockpiles. The rising dollar price of real things is the manifestation of the laws of economics rebalancing the purchasing power of an over produced piece of paper against an under-produced real “good”. Throughout history when it takes more and more fiat paper to pay for real things, when economics screams there is an oversupply of fiat paper currency, the perverse reaction of all governments has been to interpret this as a shortage of fiat currency and so they produce more to be able to pay the higher prices! It is now called “injecting liquidity”. It doesn’t matter what euphemism is used, thanks to Richard M. Nixon, we are irretrievably on the road to hyperinflation.

Precious metals, natural resources and the companies that find and produce them is where wealth preservation and growth truly lies.

Watergate pales into insignificance compared with the monetary destruction Richard Nixon set in motion. It is quite ironic that “water” is a commodity and “gate” is an access route. And so is “gold” a commodity and so is “window” an access route. Just like bungling comedic inspector Clouseau, Congress came damn close to uncovering the real crime!

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