

DEFLATING THE LIES ABOUT INFLATION

Officially, the inflation rate was 2.5 percent in 2006, and about the same in 2005. Anybody who lives in the United States of America, however, knows this official story is untrue. Let's look at the lies about inflation, and see if we can't deflate them.

1. Garbage In, Garbage Out

Officially, what ordinary mortals call the inflation rate is called the "core inflation" rate by the Department of Commerce economists who calculate it. If you read the small print, there are certain things excluded from the core rate of inflation, on the theory they are too "volatile" to be counted. These include, crucially, food and energy costs.

We kid you not. With those out, perhaps the economists can get a better handle on the broader trend of inflation – though with ignoring energy and food costs, we doubt it – but in any event, with those out, the final number reached is meaningless to 300 million Americans.

Why would the Federal Reserve and the Treasury Department want to hide the true inflation rate? The answer is simple: to make it look like they are doing a better job of handling inflation, that's why. The Banking act of 1913.

But there is a good side to this. It could be worse, because the Fed and other official Washington DC centers of economic decision-making are more than willing to have a recession every few years to squeeze inflation down. So maybe if they don't admit to how bad inflation is, they are less likely to give us a recession.

Most Americans don't like either, and would probably want a national policy that sought to avoid either. Most people would accept a recession as a matter of deliberate policy only if that was the price of avoiding hyper-inflation. Fed policy, however, is to combat inflation first, recession second.

Why? Again the answer is easy. With the top ten percent of Americans owning most of the wealth, as it becomes ever more concentrated in fewer hands, inflation most hurts those who have the most wealth the very wealthy. Everybody gets hurt by inflation, but those with the most money get hurt the most. But recessions only destroy jobs for middle-class and working Americans. The Federal Reserve like the Bank of American that President Andrew Jackson fought and the national bank that Alexander Hamilton supported and Thomas Jefferson opposed acts in the interest of the financial elite, often at the price of harming the rest of us.

2. The Lie About the Causes of Inflation

The "official story" about inflation is that high levels of employment are its cause. Too many people working means labor is scarce and so employers have to pay more

to hire and keep their workers. On this theory, the Federal Reserve, and much of federal economic policy, concludes that the only way to stop inflation is to slow the economy down, lose some jobs here and there, and when enough people are out of work, stop the increase in wages and thus reduce the need for businesses to raise prices to cover growing labor costs.

Doubtless, this is one cause of inflation. The lie is that it is THE cause of inflation. On the basis of this lie, the Federal Reserve (and to a lesser extent, Congress and the White house) periodically strangle the economy into a recession to slow inflation). It seems everyone in power, Democrats and Republicans, believes this is the only solution to inflation. At the very same time, we all know better.

a. For instance, nobody in their right mind (not even economists) disagrees that the chief cause of inflation in the past few years has been the rising price of petroleum. When the price of gas goes up, everything else goes up, too, due to oil's role in transportation. When Iran stopped sending oil to the U.S. in 1979 the resulting inflation helped destroy Jimmy Carter's presidency. Now, the underlying cause of oil-induced inflation is oligopoly - too much economic power in too few hands. The oil companies, fragments of the Standard Oil Company broken up by President Franklin Roosevelt, have coalesced back into a handful of giant corporations; and they have, at least in part, repealed the law of supply and demand. In 2006, when Exxon-Mobil made the biggest profit ever (\$35.9 billion), classical economics says some competitor should have grabbed market share by offering a better price. It didn't happen. Gas prices at the pump were all within pennies of each other. Monopoly and its cousin, oligopoly, also cause inflation.

b. Then there is the Federal Reserve Bank itself. It lends money to banks, creating it with the touch to a keyboard, sending digital dollars to member banks that lend it out as if it were real printed greenbacks. It sounds like magic, but there's a catch. Money is a commodity, and like any other commodity, when the supply goes up, its value goes down. It takes more dollars to buy those dozen eggs. Inflation.

c. In 1968, President Richard Nixon decoupled the dollar from gold. Before that, you could turn in a dollar and demand its equivalent in gold. The dollar, to be precise, is a "Federal Reserve Note" (read one closely) and a note is a debt, its value repayable on demand to its holder. Or was. The original idea of the gold standard was to create an incentive for the government to avoid inflation. With the dollar pegged to gold, as the price of gold rises with inflation (which it always does because people run to gold when the dollar's value declines), the Federal Reserve would have to shell out ever greater quantities of gold as people redeem those Treasury Notes. Nixon, recognizing the inflation the Vietnam War would bring, cut the link between gold and the dollar. The leash on inflation was loosed. Inflation again.

d. And that brings us to another cause of inflation: War. In order to pay for it (and other programs, too, of course, notably Social Security, Medicare and Medicaid, but it is war that most often spirals out of fiscal control) a government can do two things: Raise taxes or borrow money. Bush won't raise taxes, so he has been issuing debt. Some day, we will have to pay that debt, or our kids will. When that happens, DC will almost surely print dollars to have more on hand to pay that debt. More inflation.

e. So far, the Chinese, Japanese, Saudis, Kuwaitis and others have recycled the money they get from U.S. consumers at Wal-Marts and elsewhere by buying U.S. debt. With so many wealthy foreign buyers, the price they can demand for lending us their money - the interest DC pays its creditors - has not gone up. But this happy dollar recycling may not go on forever. The Chinese may someday pull the plug on us. Or the Saudis. Or do we really think they are our friends?

With Uncle Sam selling debt like there was no tomorrow to finance "the long war" against Islamic fascism, it's anybody's guess when the chickens will come home to roost. How will we ever pay this debt? A growing economy will help, it is true, but it won't be enough, and that growth will be strangled as oil prices rise and rise and rise, due to "peak oil." But the politicians won't raise taxes. So the federal government will pay the national debt, eventually, by running the Treasury printing presses (actually, the computers that pump our digital dollars, these days) overtime. Supply (of dollars) up; value (of dollars) down. Inflation.

When major-league inflation hits due to peak oil, or to the Saudis and Chinese calling in their dollar denominated debt the difference between "core inflation" and real-world inflation won't matter much.

In the meanwhile, the lies obscure the need to deal with inflation, without causing recessions.

Whatever the solution might be, we can't even begin to honestly discuss it so long as we believe that the sole cause of inflation is an "overheated economy" where labor is scarce and rising wages convince retailers they can safely raise prices. That is only one cause among many. As long as we believe it is the only cause, we're stuck with a policy of creating recessions to slow the economy and suppress wages as the counter to inflation. There must be a better way, and a true roster of inflation's causes suggests there may be several.

Things we could do:

- a. Get off petroleum and move to the solar, wind, cellulose based biofuels, hybrid car, green buildings, and economy.
- b. Restrict the power of the Federal Reserve Bank to issue digital dollars.
- c. Go back to the gold standard.
- d. Be less easily convinced by various liars-in-chief to go to war.
- e. Repudiate the national debt and leave the Chinese and Saudis holding the bag.
- f.
<http://video.google.com/videoplay?docid=-1656880303867390173&q=America+Russo+google>

All these would have many complex effects, some good some bad. But as long as we follow the official lie, we can't begin to work any of them out. Time for truth.

Default Template for Easy Text To HTML Converter