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## **Inflation Is Legalized Robbery, Part 1** **by Gregory Bresiger**

*Inflation. It's the biggest problem in the world.*

— Paul Cabot, legendary money manager quoted  
in *The Money Masters*, by John Train.

A dangerous specter once again haunts our economy, our pocketbooks, and the value of almost every asset.

It is called inflation. And it is hurting us every day. It could also crush the hopes and dreams of millions of Americans engaged in any kind of spending, saving, or investment plans. That's because our government, charged with curing or at least controlling it, is the source of the problem.

Given a proper understanding of what inflation is — it is the debasement of a fiat currency through the overprinting of money without any stated limits — there is only one party responsible: the government's banking authority.

Yet few Americans seem to understand the origins of inflation. Others comprehend it but embrace limited or “comfortable inflation” as necessary for attaining a healthy economy. Over the course of centuries some have advocated the use of inflation as a way of redistributing income or as a way of paying for wars.

Inflation has always had an indisputable benefit for the governments playing this game, since few people understand what is happening until the policy has run amuck. Unfortunately, many of the most influential people in our society support a little inflation as a good thing. They argue that it keeps the nation out of depressions and sometimes provides a Robin Hood effect.

Like it or not, the cost of inflation is an economic disease that can mutate into a plague that destroys the economy. The plague has struck before, both here and in other countries around the globe over many centuries.

This disease hasn't seemed so bad. And until recently there was a tendency to ignore it or minimize it. Still, one must ask: is persistent inflation — inflation that could get out of control at

any time — a reasonable risk? Before one answers, let us examine the characteristics of our permanent inflation.

### **The sneakiest tax**

Inflation is a tax because only the government creates money. This is why, I suspect, the people who support an aggressive foreign policy backed by big military establishments or an even bigger welfare state are usually the same people who minimize the danger of inflation or even defend it.

For example, after World War I, Weimar Germany, which continued and expanded many of the welfare programs of the pre-war state, used inflation without apology. Indeed, in 1922 Germany's foreign minister, Walther Rathenau, argued that inflation "was no worse economically than controlling rents" and maintained it took only from those who had and gave to those who had not, which in a country as poor as Germany was "entirely proper." Rathenau and others argued that once the inflationary spiral began, it couldn't be stopped unless one was prepared for "revolution."

But Italian economist Costantino Bresciani Turrone warned that relentless inflation would be fatal for the economy. It would wipe out "moral and intellectual values," he wrote. Bresciani Turrone studied Weimar Germany's inflation. He said it "poisoned the German people by spreading among all classes the spirit of speculation and by diverting them from proper and regular work." We haven't reached that inflationary phase in America today, but we feel its pull.

You don't see the costs of inflation listed on a pay stub but its fearsome power eats away at your income. It is the sneakiest tax because most Americans don't understand who or what causes it and why. Therefore, I believe, inflation is the greatest, most effective, form of robbery in history.

Exaggeration?

Hardly. Inflation, unlike armed robbery or stings perpetrated by flim-flam artists, is perfectly legal and acceptable as a tool used by governments throughout history. It is the ultimate con. Most of its victims have no idea that they've been hoodwinked with funny money. They have no idea that the government's central bank uses inflation to steal from them even as they complain that retailers and others are charging what they believe are outrageous prices.

In the rare case when the average person understands what is happening, there are groups of politicians and endless eminent economists who rush to its defense. For instance, populist journalist William Greider, in his quasi history of the Fed, *Secrets of the Temple*, wrote of the benefits of the great inflation of the 1970s. That is when inflation rates were in the double digits.

"Inflation," Greider enthused, "particularly benefited the broad middle class of families that owned their own homes, depended on wages for their income, not on interest and dividends from financial assets." Of those economists whom Greider eulogizes, one thinks of John Maynard Keynes, who believed that inflation was needed to pull nations out of depressions. His followers

became so numerous over the last 60 years that even a Keynesian critic such as Milton Friedman would say, “We’re all Keynesians now.”

Still, rarely will even the believers in controlled inflation, once the disease is no longer under control, blame the cause of this disease — our unaccountable central bank.

### **The Fed and inflation**

In the popular press and in political speeches, high rates of inflation are usually not blamed on central bankers or the lawmakers who enable them. Private-sector concerns are usually blamed for high prices. The bogeymen must be found.

So high inflation rates have been blamed on the usual suspects. The suspects always include the oil companies, which several U.S. senators wanted to nationalize back in the 1970s. Inflation also has been blamed on greedy Arabs (whose petrodollars were devalued by Richard Nixon) and on avaricious workers or capitalists who reap “obscene profits.” The latter is a political echo of the 1970s. It recently came back into fashion. A host of others, including members of various ethnic and religious groups, also are usually in the crosshairs of populist politicians whenever inflation rates rise.

Yet the responsibility for inflation lies squarely with the federal government, through its central bank, the Federal Reserve System. The Fed receives its delegated power from Congress. Its chairman is appointed by the president and confirmed by the Senate.

Some people believe that inflation can be managed for the benefit of the economy. Low rates of inflation, 2 percent or less a year, represent a kind of growth and price stability that prevents depressions, Keynesian economists have long held. They believe that a decline in prices and money wages (wages uncorrected for inflation) in bad times is politically impossible because of unions and the supposed failures of capitalism.

This 2-percent-or-less standard is the so-called comfort range that has been mentioned by various Fed officials. The Fed, unlike other central banks, sets no specific inflation targets. Nevertheless, this 1-to-2-percent inflation rate is the range in which central bankers believe they can manage the economy without excessive price increases but still achieve healthy economic growth, according to Janet Yellen, president of the San Francisco Fed.

To others, those I believe who have a greater skepticism of government management of the economy and a sense of history, this inflation-management idea is rot. Preventing disinflation and recession, while at the same time avoiding inflation rates that destroy buying power and harm long-term savers, is an impossible dream. Just look at where our economy is going today, these insightful critics warn.

In June, the Fed reported the highest price increases since 2002. In July, the annual increase in prices was recorded at 3.4 percent. In August, things got a little better when the

monthly increase was recorded at 0.2 percent, which means the annual rate of price increases was now going at 2.4 percent. By any measure, the Fed is losing a dangerous game of inflation.

### **Inflation deception**

But it is worse than that. The government's Consumer Price Index (CPI) excludes the most volatile prices — food and energy — from its measurement.

This is tantamount to announcing that the federal deficit is X amount of dollars, not counting “off-budget” items, e.g., looming obligations such as Social Security and Medicare. Indeed, this explains how the Clinton administration wiped out the deficit, despite the fact that the federal debt continued to grow during its eight years. Between 1997 and 2001, a period when the federal government was proudly announcing a \$557 billion surplus in the annual budgets, the federal debt increased by some \$438 billion.

What happened?

It's called off-budget accounting. This not-counting of unpleasant figures comes straight out of the Enron playbook.

So even when supposed low rates of price increases seem to be occurring, as in the 1990s, one should question government figures. After all, in effect, the government is providing us a report card on itself. And, whether it is Vietnam or Iraq or price-increase numbers, things always seem fine.

The government almost always gives a misleading picture of inflation. That is appropriate, since inflation always distorts the true value of goods and services. It confuses both sellers and consumers.

Although some defend a little inflation as a good thing, the exclusive government control of the money supply has had dire consequences for the saver, for the person on a fixed income, and for almost anyone planning to make a purchase in the distant future. It also creates a false wealth effect.

The classic inflation anomaly is the person who has more money than ever in his pocket or bank account but can't maintain a decent lifestyle. Yes, this person has more nominal dollars. But he can't buy as many goods or services as before because prices have gone up faster than ever before. This person feels richer — he has a greater number of dollars than ever before — but he is poorer, since his dollars command fewer goods and services.

For example, back in 1972, the average American had a weekly paycheck of \$334.60, according to the U.S. Labor Department. Today, the average American makes more than that in nominal dollars (dollars that don't reflect inflation rates). However, corrected for inflation, the average American today makes just \$277.96.

The average American becomes frustrated. So he blames the messengers — the oil companies, employers, the retailers, et cetera — instead of the people responsible for setting and monitoring monetary and fiscal policy.

So given the latest skewed price numbers provided by the government, a simple truth should now be clear even to our central bankers and our lawmakers. They are on the verge of repeating the mistakes of the 1970s, the notorious era of stagflation.

Still, our central bankers, hoping not to upset fragile financial markets, recently decided, for now, not to raise interest rates, a politically popular move. However, some of these bankers have had second thoughts in public. Nevertheless they're making a big bet with our property and the ability of tens of millions of Americans to achieve a happy lifestyle. Is it a good bet?

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**This article was originally published in the December 2006 edition of *Freedom Daily*.**