April 2012

Bernanke Oppressor of the Poor

It didn't take me long to learn the extremely valuable lesson to not listen to a word coming out of Washington bureaucrats' mouths. In 2000, George W. Bush and Al Gore were both trying to distinguish themselves as the candidate who would pay off the national debt the quickest. It was about $5 trillion in 2000 and now runs over $15.5 trillion! It came as no surprise to me that we didn't get W.'s "humble foreign policy" or Obama's "transparency" and whistle blower protection.

Listening to the central planners at the Federal Reserve is just as bad. In February of 2004, "Easy Al" Greenspan told homebuyers to consider getting adjustable rate mortgages just months before he raised the Federal Funds Rate from 1% to 5%.[1] As these adjustable rate mortgages reset over the following three years, hundreds of people lost their homes because they couldn't afford the increase to their mortgage. As damaging as Greenspan's advice was to your wealth, Bernanke "one-upped" him by repeatedly telling the world that there was no housing bubble and the subprime crisis was contained. If you haven't seen the famous YouTube clip that chronicles several of his predictions, please take five minutes to enjoy Ben Bernanke was Wrong.

My analysis of Bernanke's actions forces me to the conclusion that he does not care about a strong dollar or the plight of the poor and middle class. If you think the title to this month's letter is unnecessarily harsh, please keep reading and I will explain how I came to this conclusion.

Earlier this year I decided that I needed to get new eye glasses. The eye doctor cost me $160 and I was promptly given a $194 bill for my new glasses. At about this time, I also needed to purchase heart worm medicine for my two dogs and because I missed a few months, I was thrilled to learn that the vet was required to charge me for two heart worm tests before selling me the drugs. The result of said test proved what I already knew; my two indoor dogs had not magically contracted heart worms while sleeping on my couch this winter. The vet bill ended up costing me $293. After a speeding ticket two blocks from my office and a broken refrigerator, I was out another $1,000 when it *really* clicked for me how difficult of a time the poor in this country must be having it.

I fortunately have a cash reserve and good household income to absorb these expenses. For many, my month would have been really painful. These experiences really got me thinking about how prices for almost everything have skyrocketed in the last ten years and this is ruining the lives of many of the poor and middle class. According to the latest census, the median household income in 2010 was $49,445, roughly the 1996 level when adjusted for inflation.[2] One half of the households (not individuals) in the U.S. are making less than $50,000. What has happened to this country?

It would take a book to answer that question, so I will stick with answering the question of what Bernanke and the Fed have done to the poor and our money. In *The Economic Consequences of the Peace*, John Maynard Keynes said:

[1] http://www.slate.com/articles/business/moneybox/2004/02/alan_greenspan_armed_and_dangerous.html
[2] http://online.wsj.com/article/SB10001424053111904265504576568543968213896.html

> [Vladimir]Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate *arbitrarily*; and while the process impoverishes many, it actually enriches some. The sight of this arbitrary rearrangement of riches strikes not only at security, but at confidence in the existing distribution of wealth. Those to whom the system brings windfalls, beyond their deserts and even beyond their expectations or desires, become 'profiteers', who are the object of the hatred of the bourgeoisie, whom the inflationism has impoverished, not less than of the proletariat. As the inflation proceeds and the value of the currency fluctuates wildly from month to month, all permanent relations between debtors and creditors, which form the ultimate foundation of capitalism, become so utterly disordered as to be almost meaningless; and the process of wealth-getting degenerates into a gamble and a lottery. Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and it does it in a manner which not one man in a million is able to diagnose.[3]

'Ol Vladimir was right and that quote is so packed with wisdom that I had to break it into small bits of truth:

-inflating the money supply destroys capitalism
-it steals from people and gives to the government
-money printing destroys most people, but makes some very rich (top 1%)
-it turns people from producing real goods into to a nation of gamblers (Tech bubble, Housing bubble)
-very few people understand what is really causing the destruction.

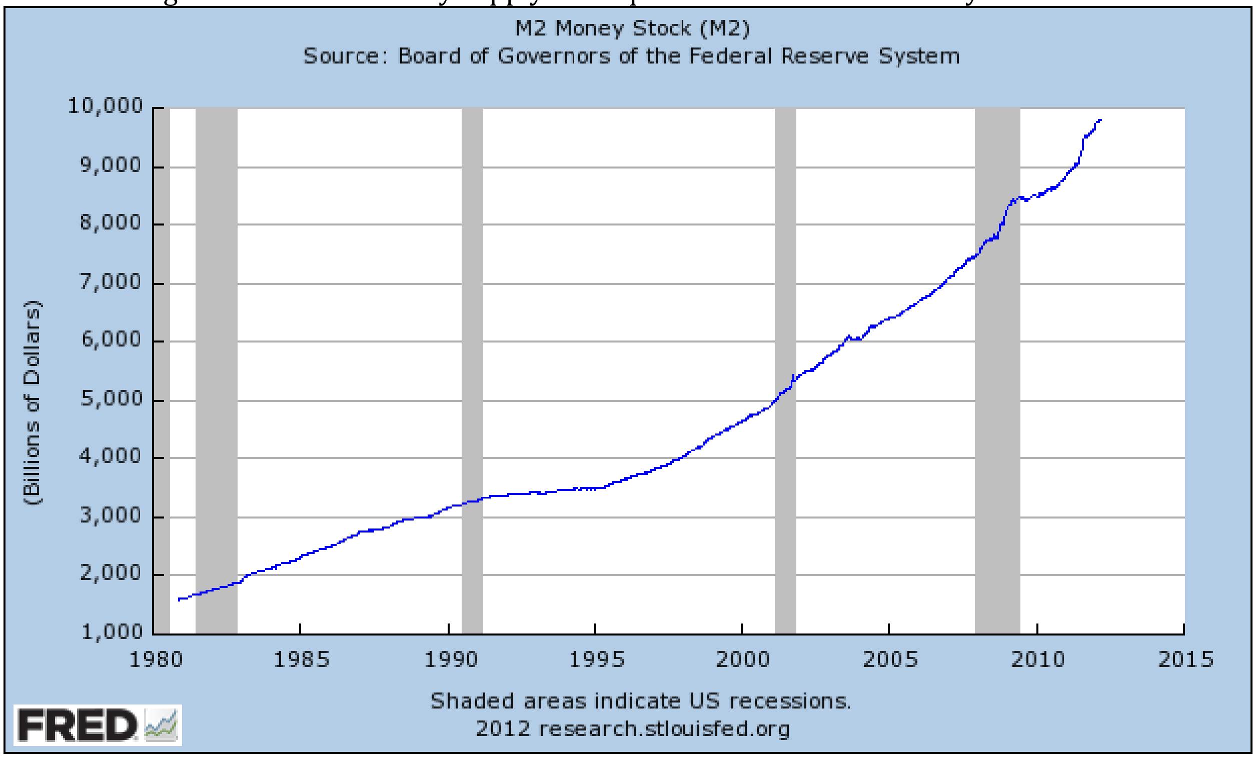
The propaganda from Fed apologists was in full force last month. Ben Bernanke gave four speeches at George Washington University and was even on the cover of *The Atlantic* Magazine with the caption "The Hero." Reading these lies compelled me to counter them with the truth about the damage Bernanke has done to the poor and the elderly.

April 2012 *The Atlantic*

In "Cooked Books" I explained how the Bureau of ~~Lies~~ Labor Statics' has gamed the Consumer Price Index (CPI) by using substitution, hedonic adjustments, and geometric weightings. To game the number further, the BLS assumes that no one owns their own home and 20% of the CPI-U is a BLS created "owner-equivalent rent."[4] The official CPI-U is currently 2.9%[5] and very few see a problem with it. Even if 2.9% is accurate, that means that in just short of 25 years your purchasing power is going to be cut in half according to the rule of 72. Why don't the main stream economists speak out about this horror?

[3] http://www.marxmail.org/debauch.pdf
[4] http://www.bls.gov/cpi/cpifp001.htm
[5] http://www.bls.gov/cpi/

Over the years, words change their meaning. Liberal used to mean proponents of small government and free markets.[6] Inflation used to mean an expansion of the money supply. I believe the powers that be have contorted the definition of inflation to changes in price so that the average person would not connect the price changes to their cause--the expansion of the money supply. Below is a chart showing how much the money supply has expanded since 1980 courtesy of the St. Louis Fed.



Bernanke has exploded the money supply. This is inflation. Prices are symptoms of the expansion of the money supply.

Just as you expand the air in your tire when you inflate it, the Federal reserve causes inflation by expanding the money supply. Rising prices on goods you buy, stock prices, or real estate is only a symptom of actual inflation. Bernanke's Fed has already inflated the money supply by trillions of dollars. Time will tell which prices will be bid up the most from this printed money.

I have previously recommended that readers review the website ShadowStats.com to see the pre 1990 BLS formula to calculate today's inflation. If we just use the BLS's pre-gamed method, we see that CPI-U was not 2.9% last year, but was a little over 6%. I believe that number is a more accurate account of how much the goods and services I buy have gone up in the last year. At that pace, our purchasing power will be cut in half in only 12 years!

---

[6] http://en.wikipedia.org/wiki/Classical_liberalism

What is all this air in my packages?

I was pleased to find out recently that the American Institute of Economic Research (AIER) has jumped into this debate by creating the Everyday Price Index (EPI). According to them, the price increase for the average American was 7.1% in 2011.[7] I like their methodology of tracking the increase in the goods that we actually buy on a regular basis like energy, food, child care, phone services, and health care without the gimmicks of the BLS. I also look forward to comparing their EPI with the CPI-U in the future to get a better gage of the destruction that Bernanke is doing to our purchasing power.

Even when I discuss the real increases in prices, some people still disagree with me that our money is being devalued by 6-7% per year. I think that can partially be explained by many food companies' decision to decrease the volume of the product they sell while keeping the price the same. Above is a picture of a newly opened packet of tea and creamer that I just purchased. As you can see the containers are massively oversized for the amount of product that you actually get. I think the other reason people disagree with me is that we aren't very good at keeping track of prices from a year ago. Can you accurately tell me how much gasoline cost in April of 2011? I don't remember and would have to look it up.

The wealthy in society own all the assets and can at least see many of their assets appreciate with the Fed created inflation. The person making $10 per hour is likely to have very little assets and all they see is the price of the things they need to buy every month sky rocketing much faster than their incomes ever will. They have to work harder and harder just to survive Ben Bernanke's daily attack on their wellbeing. Times were tough during the great depression, but at least the Federal reserve didn't create so much money that prices rose like they are doing today. You may have had to take a big pay cut back then, but prices dropped on the stuff you needed to buy.

In addition to attacking the poor, Bernanke is forcing your Granny to gamble her money by forcing her out of CDs. The below chart comes from a recent search for CDs that I did on Bankrate.com.

Search Summary

Your Search	Results Range	Bankrate.com National Average	Bankrate.com Site Average
1 yr CD	0.15% APY - 1.15% APY	0.34% APY	0.69% APY
5 yr CD	1.00% APY - 1.81% APY	1.15% APY	1.42% APY
Add other products ▸			

As you can see the average five year CD is paying only 1.42% per year! Even if we accept the BLS's explanation that CPI is only 2.9%, your grandma is still losing 1.48% per year *before* she has to pay

[7] http://www.aier.org/article/7545-everyday-price-index

taxes on her "income." The Federal Reserve, is forcing people who have no business taking market risk with their money to invest in risky assets that they don't understand just to try and keep up with the cost of living at 7% per year. As investor, John Hussman, observed:

> By creating enormous amounts of paper, and hoarding higher duration securities like Treasury securities, the Fed is trying to force investors into risky assets until the prospective returns on all competing assets are driven *so low* that investors and banks holding cash are willing to just sit on it. In short, the Fed has focused its efforts on creating a bubble in risky assets, on the misguided, semi-psychotic, and empirically disprovable notion that this will make people feel wealthier and get them to spend and borrow - despite the fact that their incomes can't support it without massive government transfer payments.[8]

Financial oppression is not acceptable in a free and open society.

If our government allowed real capitalism and free markets, there would not be a legalized cartel called the Federal Reserve that creates money out of thin air and controls interest rate. Savers would not be robbed of the fruits of their labor and the free market would determine interest rates. In that environment, I don't know what interest rates would be, but I do know they wouldn't be 1.42% for a five year CD.

It appears that one person at the Fed gets what they are doing to the dollar. According to a recent financial disclosure Dick Fisher (Dallas Branch) has at least $1 million in the Gold ETF, GLD and up to $250,000 in physical platinum.[9]

The largest price increase that I have noticed is the price of gasoline. In order to mislead the sheeple, Nancy Pelosi proclaimed that it was the Republicans and evil speculators fault for rising gasoline prices.[10] If you don't mind curse words, read the hilarious comments from the informed readers below the referenced article. One of the most important aspects of capitalism is the constant changes in prices set by a free market. The most important price, the price of money (interest rates), are set by the central planners at the Fed.

Speculators take enormous risks to help set prices and are essential to capitalism. I agree with Mrs. Pelosi that speculators have driven the world wide price of oil up, but I have to ask why they have done so. Speculators have rightly observed that warmongers like Nancy Pelosi are sending us ever closer to a war with Iran. The sanctions we have imposed on Iran have already destroyed the purchasing power of the Iranian Rial and there is a very real chance that they close the Strait of Hormuz.[11] Speculators are only reacting to the words and actions of our Congress and making educated bets of how much more money the world's central banks will be printing this year.

The government doesn't want you to blame the Fed for inflations. In our Orwellian world, the Fed is known as the great inflation *fighter.* The Fed has completely failed at preserving the purchasing power of our currency. Prior to 1964, dimes were 90% silver. As I am writing this, a pre-'64 dime sells for $2.37![12] At $3.80 today that is only 16 cents per gallon if we still used silver as money.

---

[8] http://www.hussmanfunds.com/wmc/wmc120326.htm
[9] http://www.zerohedge.com/news/goldbug-fed
[10] http://www.zerohedge.com/news/nancy-pelosi-issues-statement-soaring-gas-prices
[11] http://www.washingtonpost.com/world/middle_east/iranian-currency-drops-amid-jitters-over-regional-trade/2011/12/20/gIQAkcAN7O_story.html
[12] http://fidelitrade.com/products/product_list_top.asp

As Dr. Marc Faber said "Bernanke is a murderer of the middle-class." His easy money policies tried to soften the 2001 recession and ended up creating the housing bubble that brought extreme amounts of pain to families during 2007-2009. He now openly states that he will leave the Federal Funds rate at zero until the end of 2014. What new bubble will this blow? How are the poor to survive if Bernanke cuts their purchasing power in half over the next ten years?

I mean it when I say Bernanke oppresses poor people. People with low skill and no assets are having a very tough go here. As Japan has demonstrated, you can have a strong currency and still export your goods. The Fed is a private company run by unelected officials that are the most powerful people in the world. Even congress doesn't have a full accounting of what they are doing. The day when we recognize again that central planning does not work cannot come swift enough.

Markets

Below is a chart of West Texas Oil and the S&P 500 over the last 200 days. Without the labels, I doubt that Mrs. Pelosi can tell me which one is which. Why shouldn't we chastise the evil speculators for making the stock market go up? How much of the correlation between these two asset classes can be explained by global money printing?

Could $1.3 billion of Euros have anything to do with either of these charts? Courtsey of StockCharts.com

Domestique Capital LLC
4601 Old Shepard Place
Ste. 117
Plano, TX 75093
214.556.8904 phone
www.domestiquecap.com