Inflation for the Deflated Citizen

By:

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Preface

The inspiration for this writing happened on an April day in 2015. Although I didn't know it at the time I was about to fall down the deepest rabbit hole I could have ever imagined, and one that I am still finding my way through. On that day it was the book *Rich Dad Poor Dad* by Robert Kiyosaki which thrust me into a 4^{th} dimension I never knew existed. At that point in time I had already been exposed to trading and financial markets but had no concept of the world that underpinned them. After reading Kiyosaki's book I began a journey over the next few years to be a veracious consumer of content. Whether the information was Bullshit or pure gold, I was determined that I would be able to digest it and determine the truth. I read over 100 books, watched dozens of documentaries, followed countless experts and absorbed every headline and data point I could. This was certainly not easy as regrettably I graduated with a liberal arts degree and had to overcome the financial language barrier. All this went on as I watched (and still do) the biggest bubbles in financial history get inflated. This writing is the introduction to my attempt to educate others on the subterranean financial issues of our time. It is also the start of EconomicPizza.com a website, blog, and hopefully a bastion of free thought and contrarian views regardless of convenience. Everything I have written to this point I have tried to make as layman's as possible while tackling topics that you won't find on *Bloomberg* or *CNBC*. In addition to this I have written about everything from minimum wage laws and tax policy to market structures and macro economic issues, and hopefully everything in between in the future. No matter the subject my readers have my promise that I will always deliver timely, relevant and most importantly true content.

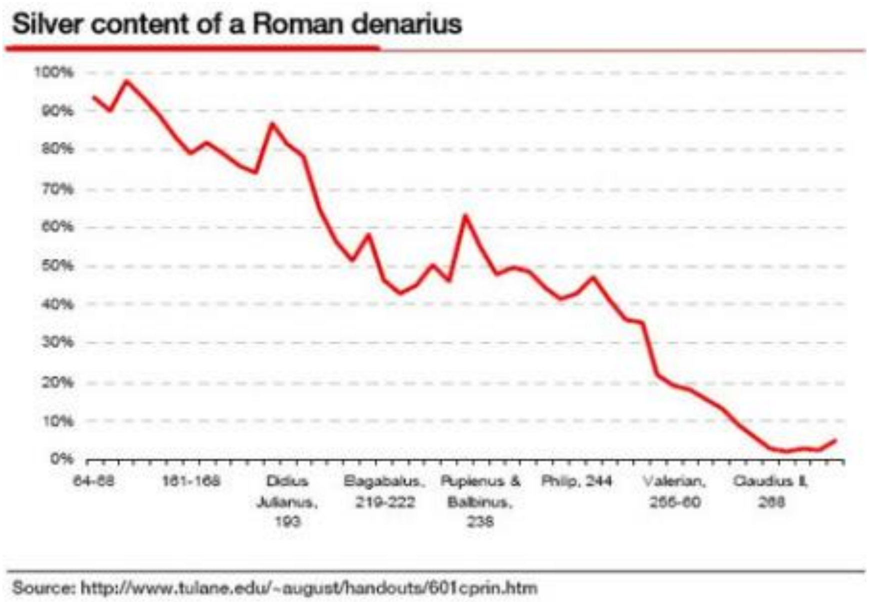
Introduction

Have you ever wondered why prices always seem to rise? Why every couple of years you notice that same gadget or vacation was little more expensive then you remembered? All of us have had these moments whether we are at the grocery store or pumping gas into our vehicles. Most of the time when these thoughts cross our minds, we dismiss them as a “fact of life” and keep pumping. Cognitively we categorize them much in the same way we categorize death and taxes: inevitable. Other times, we may attribute extrinsic factors for pricing such as demand for the product or lack of abundance. Surely these forces are in play and affect consumer prices but it is not the only force contributing to the gradual increase in prices. The stealth and subtleness of this force creates an environment in which we rarely openly debate or question the increase of prices. Moreover, what if this increase is not so much the increase in the value of the product but a decrease in value of the money with which we pay for the product? Said differently, what if this force is inflation? It is this question that will be my focus. Inflation is an often misused and conflated topic which for the integrity of this writing deserves to be operational defined. Inflation can be defined as the increase in the money supply relative to the goods and services available (ie. More money chasing the same amounts of goods and services) where the chief result is an increase in prices. It’s corrosive, malignant and to Joe six-pack is an almost undetectable tax on your standard of living. Even worse, it is openly and actively targeted by governments and central planners. The very system on which the economy is built caters to the cancer of inflation and loss of purchasing power of currencies. This is made possible by several factors including Fiat currencies, fractional reserve banking, and central bankers who control interest rates and therefore the derived price of every other thing in an economy. All these factors, which we will touch on in later chapters, have led to the insane increase in both public and private debts. As of the time of this writing U.S government debt (on balance sheet) is 20 Trillion dollars. Yes, that’s Trillion with a T. If one were to dare include off balance sheet liabilities (ie.Social Security, Medicare etc.), this figure by some estimates would be upwards of 100 Trillion! The economic situation the U.S (and the entire developed planet) finds itself in can only be resolved 3 ways. Grow your way out, inflate your way out, or admit defeat and blow up the whole system with a debt jubilee or debt forgiveness. Given the utter disarray of D.C, the controversial Trump administration, and panic stricken political elite, it is unlikely any productive and corrective measures will be taken. With that in mind in terms of the political and macro environment, inflation is the most likely of these outcomes.

The purpose of this book is to illuminate the malice of inflation, describe its dynamics, and ultimately prescribe personal remedies and strategies every citizen and investor can use to defend against it. We don’t have to be victims that fall prey to inflation. The combination of a mature understanding of inflationary dynamics and today’s myriad of investment vehicles and strategies has made it so that anyone can protect themselves. To better defend ourselves from victimhood it is important to highlight the inflationary casualties of the past so we can learn from them and avoid their demise.

Chapter 1: Inflation's Past

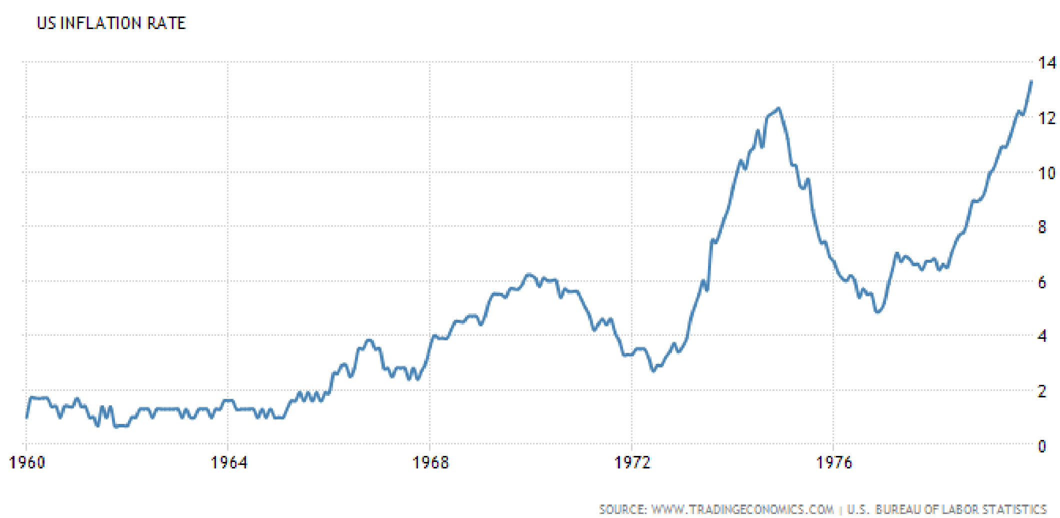
Quite possibly the best case study history can provide is that of the most famous civilization the world has ever known, the Romans. Famous for their conquering rise to power on the back of technological innovations and an unstoppable war machine, the Romans are arguably history's greatest civilization. Equally as impressive was their demise. The fall of the Roman Empire was marked by a number of factors, including the overexpansion and exertion of the military, an overweight and corrupt government bureaucracy, and mounting territorial pressure from Germanic barbarians. Less discussed but every bit as paramount to the crumbling of the Roman Empire were their economic problems. Center to these problems was…you guessed it…inflation. Unlike today's hollow fiat currencies, Roman money was underpinned by gold and silver coinage whose denominated value was based off the weight of the metal. For the Romans, Precious metals were (and still are) a perfect form of money. Precious metals uniquely held all of the properties that are required to serve as money. In coin form they were a medium of exchange, store of value, and a unit of accounting. Ironically, since the Federal Reserve's inception in 1913 the U.S dollar has lost more than 95% of its value and hence purchasing power. How's that for a store of value! For Roman citizen's gold and silver were the perfect store of value until the empire became the fading and bloated bureaucracy in the first few centuries AD. Roman politicians and elites would essentially use money to buy influence and pay for votes by handing out bread to Roman citizens. This coupled with a military force that had become totally overwhelmed with barbarian invaders on their borders, forced the Roman government to shave off and dilute the gold and silver content of their coins in order to finance their operations. They also issued copper and brass coins (a much more abundant resource) to act as money and fund its endeavors. This devaluing had the horrible effect on the money supply and therefore the inflation of prices. The Denarius (the Roman silver coin) had consisted of approximately 95% silver in the first century BC. Eventually by the 2nd century AD the coin was degraded all the way to a silver content of just .02% silver!



Since the dilution and inflation of the currency had been so steep this episode would be considered hyperinflation but the dynamics are still very similar to inflationary episodes today. Countless degradations of the Roman civilization led to its eventual demise none the least of which was the currency inflation and loss of confidence in "money".

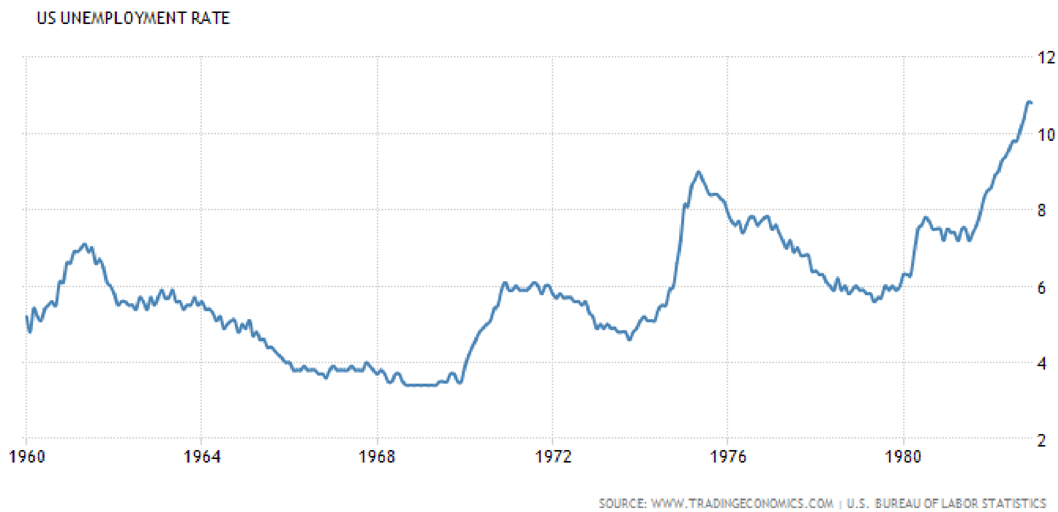
Inflation has also corroded more modern societies, most recently "The Great Inflation" American economy of the 1970's. The American economy was marred by many turbulent events that changed the economic landscape and as well spurred inflation.

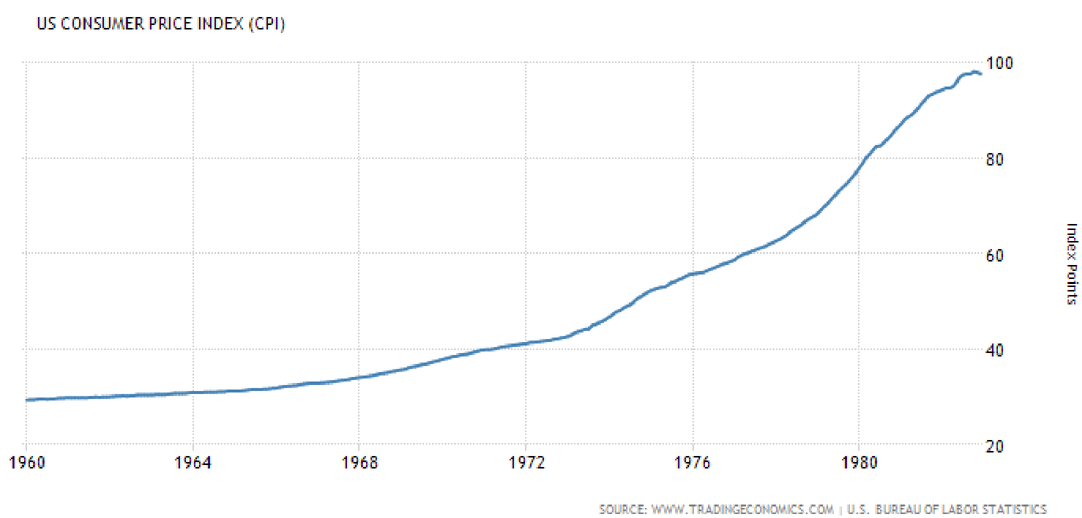
The U.S operations and overspending in Vietnam, oil shocks of the late 70's, and the Federal Reserve's low interest rate "easy money" policies all contributed to the inflationary and later deemed stagflation (both high inflation and unemployment rates) environment. Arguably the most significant (and some might say infamous) reasons was then president Nixon's decision to take the United States dollar off the gold standard on August 15th 1971. This event changed the whole concept of what money was. If the dollar could no longer be converted into gold, then it was essentially being backed by nothing. The only thing between the new fiat dollar standard and the dismantling of the social and economic fabric was one thing: Confidence. Confidence subsequently diminished during the 70's and led some of the highest levels of inflation since WW II. The below chart on the inflation rate demonstrates this.



In fact, inflation and mistrust in the U.S dollar got so bad that in 1978 the U.S Treasury had to issue bonds denominated in Swiss Francs rather than dollars which investors shunned. These bonds were charmingly called "Carter Bonds" after then

President Jimmy Carter. This multitude of events caused wide spread economic and social unrest including unemployment rates in excess of 10% as well as a significant increase in consumer prices (as measured by the consumer price index). The next two charts illustrate these points respectively.





These conditions continued until the Reagan administration appointed Paul Volcker as the Chairman of the Federal Reserve in 1979. Under pressure from all sides Volcker proceeded to raise interest's rates all the way to 20% in 1981 in order to snuff out inflation and increase confidence in the U.S dollar. This caused short term pain in the form of a deep recession but is now looked at as one of the better moves made in the Fed history.

In both case studies inflation was a hidden tax on the population in the form of weakening purchasing power. For every 1% gain in CPI (Consumer Price Index) and inflation rate, is 1% less that your dollar buys. In a vacuum 1% may not seem a lot but allowed to compound over years and this invisible weapon of wealth extraction threatens to undermine societies trust in money and the system for which money operates. You may now be asking yourself why any government would want to inflate its currency at the cost undermining trust and spurring social unrest? The answer is it is in their very interest and there for their nature to do so. This fact has never been so evident then in today's economic environment. It is my intention in chapter two and three to explain the "how" and "why" of government induced inflation.

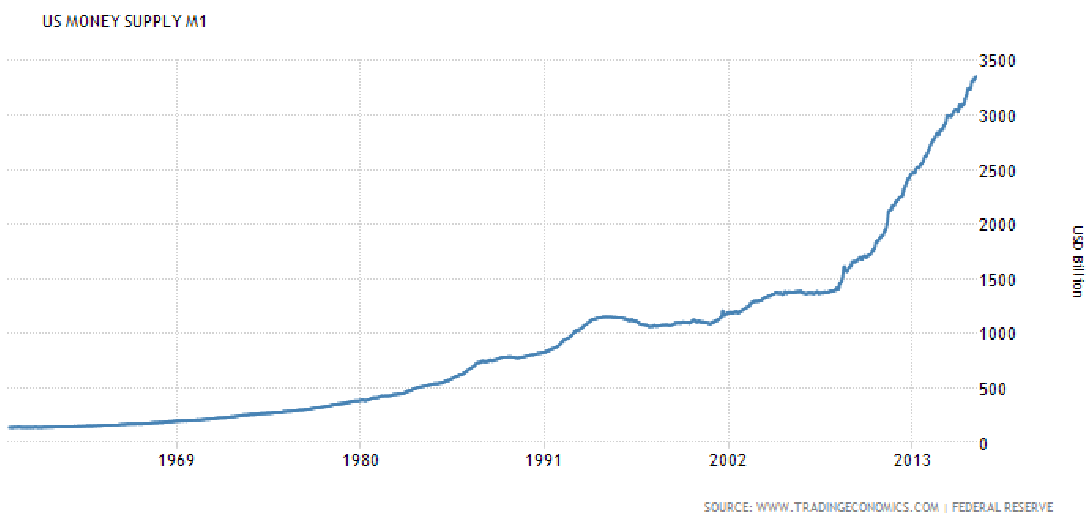
CHAPTER 2: GOVERNMENT'S THE WHY

Remember when I said the current U.S debt was at a whopping 20 trillion dollars? I think putting that into perspective will be a helpful exercise for this chapter. With that I would like you to do some quick back of the napkin math and see if you can guess the age someone if they were to live to be 1 trillion seconds old. 100 years? 500 years? 1000

Years? The answer is 32,000 years old! Multiple that by 20X to represent the U.S debt and suddenly 20 trillion seconds becomes a 640,000 year lifetime. Yes, that's the kind of nose bleed debt we all face. The problem is bipartisan and only getting worse. President George W. Bush took the national debt from 5 trillion to 10 trillion and President Obama, determined not to be outdone, again doubled the debt from 10 to 20 trillion dollars. That's as much debt in two terms as president as all the presidents before him combined. By 2025 all current government spending is projected to be spent just on entitlements (ie.Social Security/Medicare) This is clearly unsustainable and will have to be resolved one way or another. The chart below shows debt to GDP for the U.S as of 2015.

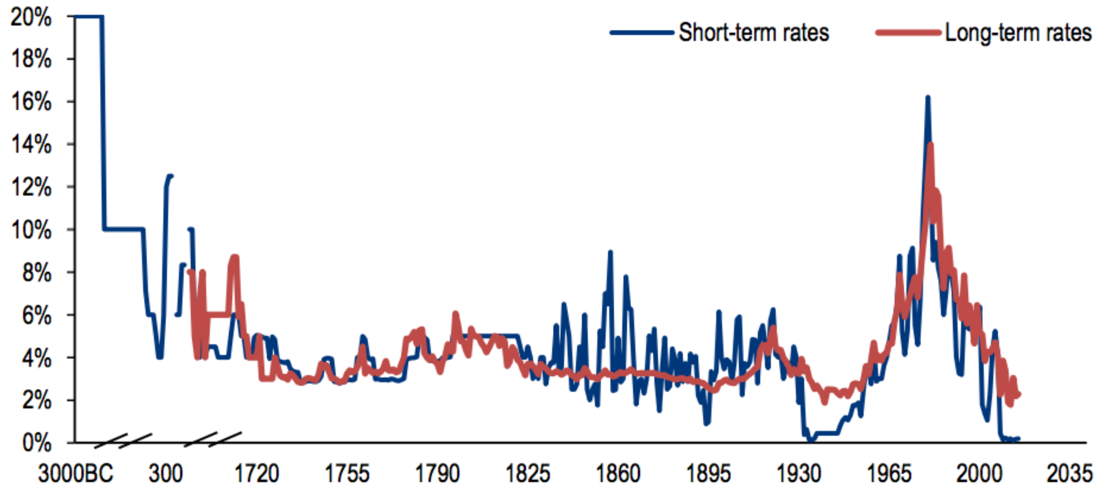
At this point you may be asking yourself how this particularly pertains to inflation rates and the government's incessant need for inflation. The answer lies in inflations affects on debt. Since inflation reduces the real value of money it in turn reduces the real burden of debt. If the inflation rate is at 5% than those dollars purchase 5% less and therefore the debt is paid back in dollars that are 5% cheaper. This is a very important point to understand and is why the "hidden tax" metaphor is unfortunately true. While the government burns through cash and pays it back in inflated dollars the public works and saves for those same inflated dollars. If the government benefits from inflation, then it is important to note that a lack of inflation or deflation has a negative impact. Deflation is the decrease in the money supply relative to the goods and services available (ie. less money chasing the same amount of goods and services) where the chief result is a decrease in prices. Inflation alleviates the real burden of debt while deflation increases the burden. In a deflationary period, every dollar paid back is worth more in real terms than the last dollar. Governments cannot allow this to happen considering the sheer amount of debt that is outstanding. With this said, the average Joe Six-pack experiences conditions where prices are lower and his dollar buys more goods and services. This is problematic for government's since they cannot tax and profit from this increase in living standards. In an inflationary period when incomes generally rise (albeit usually less than inflation) governments can tax those additional earnings which they can use to pay debt. In a deflationary period, there is no increase in earnings to tax, there is just the increase in purchasing power for the consumer. For example, if someone earns $50,000 per year and inflation is 5% then generally this individual can expect to see a wage increase of 5% or $2500. This can in turn be taxed by the government. Conversely if there is 5% deflation then someone earning $50,000 per year is able to purchase $2500 more in goods and services with no wage increase. This offers no increase in tax revenue to the government. This is partly responsible for the dramatic government response after the 2008 financial crisis. These points are vital in understanding that not only does the U.S government want inflation but it requires an inflated monetary system in order to function. Now that we have thorough understanding as to why inflation is placed on the society we will now explore The Federal Reserve to understand how inflation is implemented.

Chapter 3: THE FED's THE HOW



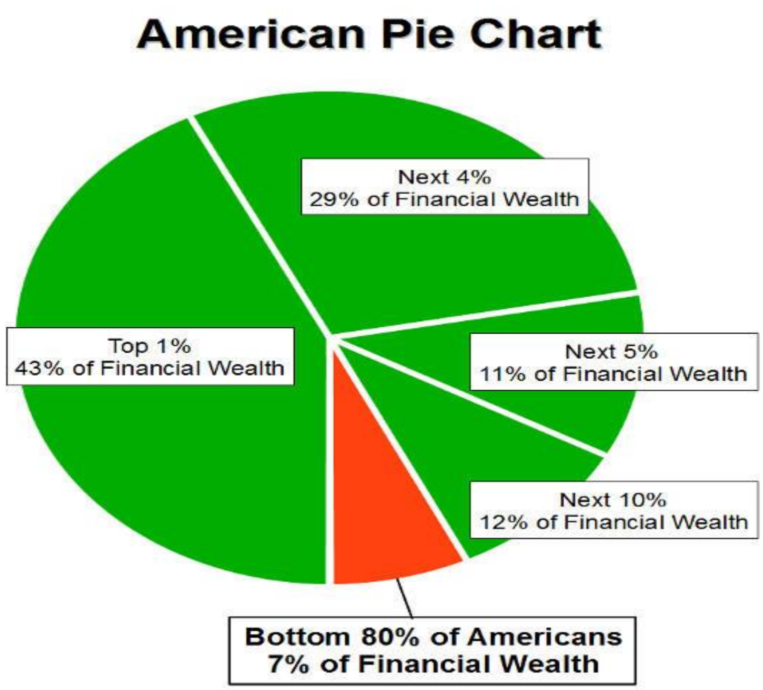
The chart above displays the dramatic increase in the M1 money supply. This includes all existing cash notes and deposits at banks. The explosive move up in the money supply at the tail end of the chart was the response of the Federal Reserve after the credit crunch of 2008. At that time banks and other institutions would not lend to each other which threatened to bring the economy to its knees. This powerful liquidity injection was more or less what saved the financial system from falling into the abyss. The Fed's ability to create money out of thin air and in return prop up the economy makes it the most powerful institution in the world. Created in 1913 with the dual mandate of maximum employment and currency stability, the Federal Reserve is at the heart of both the financial crisis and inflationary episodes. Said differently, the Fed is the "how" of our story. By controlling the level of short term interest rates the Fed influences the price of every other asset, good, or service. When they want to spur credit growth and consumption they lower interest rates. When they want to spur savings and cool inflation they increase interest rates. Unfortunately for all of us they typically institute these policies at the wrong time utilizing flawed economic models. This is partly to blame for boom and bust periods the U.S has experienced over the last 45 years. For example, during the "Great Inflation" of the 1970's the Federal reserve was both resistant and late in raising interest rates in order to cool the inflationary pressure in fears that it may cause a recession. This short sightedness is a great argument for markets to wholly determine the rate of interest rather than 12 academic economists making decisions based on poor models and flimsy theory. This is the heart of the rut for which the economy finds itself in today. Since the 2008 Federal Reserve has kept interest rates artificially low and effectively at zero. Though they have raised rates by .25% several times since the hiking path began in 2015, the increases were largely symbolic of an "improving" economy as much as it was a change in policy. Regardless, it's fair to say that interest rates are the lowest they have been in nearly 5000 years! Please see the chart below to fully appreciate the gravity of that statement.

Chart 1: Still the lowest interest rates in 5000 years!



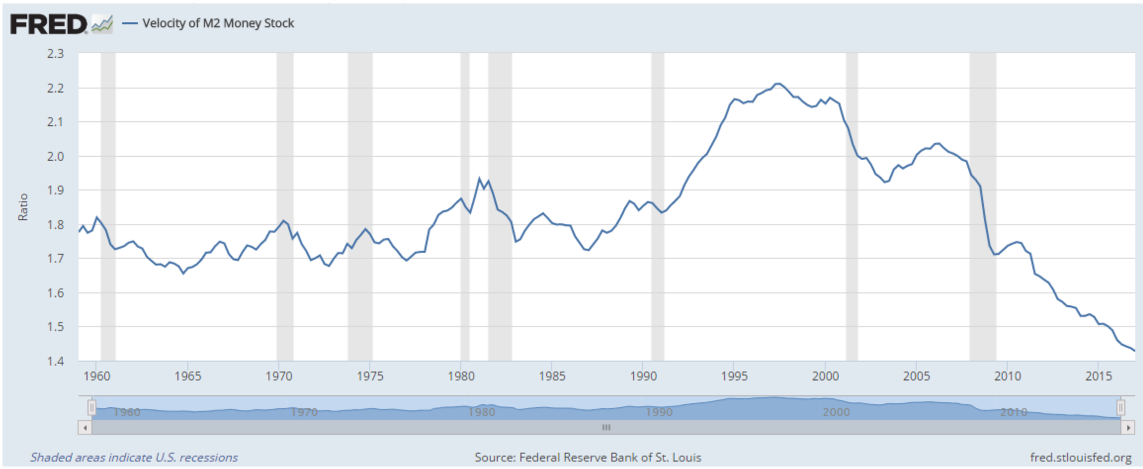
Sources: Bank of England, Global Financial Data, Homer and Sylla "A History of Interest Rates"
Note: the intervals on the x-axis change through time up to 1700. From 1700 onwards they are annual intervals. Full methodology available upon request

To understand the full picture, it is important to understand exactly how low interest rates affect an economy. First, low rates of interest push back business failure. At first thought this may seem like a good thing however it only exacerbates problems in markets. When rates are so low that businesses can borrow with such little burden the market becomes top heavy with bad unprofitable businesses. Normally these businesses would fail and make way for new profitable businesses which progress the economy but instead ultra low rates keep zombie companies afloat with little to no positive economic impact. Second, low interest rates pull forward consumption. As a consumer you are more willing to go buy a house or a car while borrowing rates are low as opposed to when rates are higher. Like someone who drinks 3 cups of coffee and then crashes, this has an initial boost but soon collapses on itself. All consumption that would normally have taken place over a period of time is compressed and front loaded leaving little future economic activity. Third, it leads to asset bubbles. This can be economically positive to begin with but as with all bubbles they are bound to pop. When these bubbles contract it is usually violent and leaves much of the public who participated at the end of the build up in ruin. This also does not directly affect main street as the boom is isolated to the wealthy who own financial assets. To this point, the bottom 80% of the population owns only 7% of the wealth as displayed below.



Wolff, E. N. (2010). **Recent trends in household wealth in the United States: Rising debt and the middle-class squeeze - an update to 2007**. *Working Paper No. 589*. Annandale-on-Hudson, NY: The Levy Economics Institute of Bard College.

Last, and most importantly, low rates usually lead to high levels of inflation. This also involves the banking system as well. This system is known as fractional reserve banking. When you or I deposit money at a bank the bank doesn’t just vault it up until the day we withdrawal it. The financial institutions that we trust invest it in the form of credit or loans to other individuals and businesses. This is typically good for a healthy functioning economy provided the loan is used for productive means. The insidious part of fractional reserve banking is the leverage or multiple to which our deposits are lent out. If you go to the bank and deposit $1000 that deposit is then loaned out on a 10 to 1 ratio. This means that a $10,000 loan is made off of the $1000 deposit and therefore 90% of the loan is backed by nothing. Although this may or may not be a good investment for the bank the important point to take home is that 90% or $9000 of that loan was created out of thin air. The bank only had $1000 for which to loan but gave out an additional $9000. This new money is essentially created from nothing and is now new money sloshing around in the system. Low and ultra low interest rates encourages more borrowing and lending and therefore more money into the system in which inflation is generally the result. This system slowly and gradually eats away at the purchasing power of money by diluting its value as well as leads to speculation and other unproductive activity. No person or institution has pushed this system more in the last 50 years then the Federal Reserve. Despite this, inflation in recent years has lagged mainly due to low velocity of money. This is the degree and speed to which money changes hands from transaction to transaction. For example, if I go out to a bar and tip my bartender $10 and the bartender then takes that $10 and buys groceries from a local merchant and then that merchant buys more groceries from a wholesale grocery, that $10 dollars had a velocity of 3X or $30 worth of goods and services. The dynamics of money velocity are not well known and are mostly a result of changes in consumer psychology and so called “Animal Spirits”. Nevertheless, this is perhaps the most important metric in all of economics today and exposes and major flaw in the monetary system. The current system depends on a higher velocity of money to not only pay back the enormous debts but also the interest on that debt as well. To explain this let’s imagine a town of only 3 people, or person 1, person 2, and person 3. Person 1 as $1000, person 2 has $1000, and person 3 has $1000 all on deposit at the town bank making the total money supply $3000. Person 3 then borrows from the bank an additional $3000 at a 10% interest rate to invest in plant and equipment for his business. This loan essentially then doubles the money supply from $3k to $6k of which there is only 50% of the deposits to back the loan. Person 3 then invests their full $4000($1000 of own capital and $3000 of borrowed) into their business. Going forward each year person 3 will owe the bank 10% of the $3000 loan, or $300, until it is paid back. In order for this to get paid back person 3 will need to engage in transactions with person 1 and 2 to acquire the dollars needed to pay back the interest. The more transactions or the higher the velocity of the money supply the easier the interest burden will be. The less transactions or lower the velocity of the money supply the harder the interest burden will be. If velocity is too low for person 3 to acquire the dollars needed from person 1 and 2 to pay back the interest, then the loan defaults. Person 3 is now experiencing financial ruin and has most likely spurred general price and asset deflation within the town. This is a rudimentary example but shows the effects of low velocity or money turnover in an indebted society. Simply put, the more debt in the system the more dollars that are needed to circulate in order to pay back the principle and interest of that debt. Furthermore, higher levels of debt create an environment of capital hoarding for purposes of servicing debt as opposed to putting that capital to productive means. With this being said the current low levels of money velocity pose a great threat to the most overly indebted society in human history. If the money doesn’t churn, then the system gets destroyed. Below is a chart that shows the lowest levels of money velocity in decades and surely since the break of the gold standard in 1971. This has helped in reducing inflation in recent years. “Animal spirits” and/ or further experimental monetary policy has the potential to send velocity soaring. This is something to certainly to keep an eye on both in terms of maintaining the current monetary system as well as future inflation expectations.

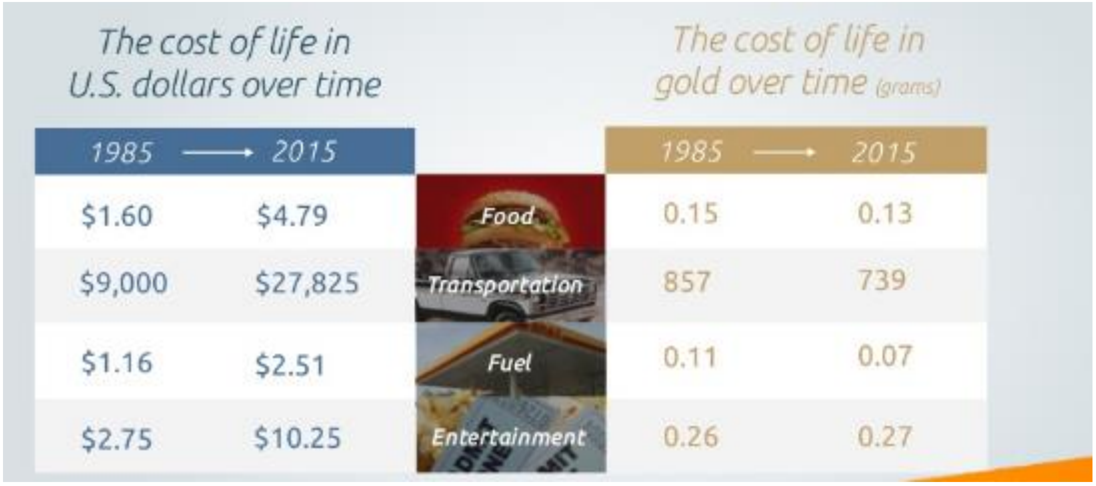


Demographics, globalization, technological advancements in production and debt deleveraging have also all played a role in capping inflation. Despite these factors, an activist Federal Reserve, future government fiscal spending, and recency bias all point to a likely future plagued by inflation. However, we don't have to be bystanders and victims to future inflationary episodes. There are measure and actions that can be taken by anyone to insure they prosper financially. In the next chapter we will discuss these strategies.

CHAPTER 4: FIGHTING INFLATION

Investor and CNBC contributor Dennis Gartman once said "We like to own things that if dropped on your foot shall hurt". This is a perfect example of what in most circumstances would be considered "Hard" or "Real" assets. Conversely, stocks and bonds would be considered “Paper” assets. This is an important distinction in understanding and defending against the perils of inflation. Generally speaking, “Real” assets outperform their “paper” counterparts during periods of inflation. These include Commodities (Both hard and soft), productive land and real estate, as well as fine art. TIPS or Treasury Inflation-Protected Securities would be considered a “paper” asset but can be an effective hedge against inflation. In an effort not to confuse you we will focus on strategies in terms of the non-investor followed by the investor.

If you are not an active investor or an investor at all (besides maybe 401k) than the prescription for you is quite simple. The best thing you could do is to put a portion (and I stress portion) in physical gold and/ or silver. I would recommend 5-10% of your liquid net worth. Your home is already a hedge against inflation so there is no need to include that into the mix. Unlike the U.S dollar, stocks, bonds or other “paper” assets, physical gold and silver cannot be printed or diluted by central banks and governments. Also, it is one of the only assets I can think of that will never go to zero unlike currencies or equity. These are some of precious metals best attributes. One would be amazed to look at how well gold has maintained its purchasing power in the last 5000 years. One particular anecdote stretches back more than 2500 years. In the Babylonian empire it was said that 1 ounce of gold could buy 350 loafs of bread. Incredibly, 1 ounce of gold today could buy you between 350 and 390 loafs of bread depending on the exact price. Below is an illustration of the purchasing power that gold holds over more recent times (figures provided by Goldmoney.com)



The cost of life in U.S. dollars over time 1985	2015		The cost of life in gold over time (grams) 1985	2015
$1.60	$4.79	Food	0.15	0.13
$9,000	$27,825	Transportation	857	739
$1.16	$2.51	Fuel	0.11	0.07
$2.75	$10.25	Entertainment	0.26	0.27

One would be hard pressed to find an asset that maintained it's self as well as precious metals. Additionally, silver contains all of the same qualities as well as industrial uses. Everything from medical devices to water purification and solar panels contain silver. This makes silver a double threat asset in both a growth and an inflationary backdrop. Moreover, small trace amounts of silver can be found in everyday electronics such as phones, computers, and keyboards and basically anything else containing microchips or requiring electricity (silver has great conductivity attributes). When these items are thrown away or discarded the silver is as well as it is too small an amount to be recycled. This means as demand for the metal increases the supply is constantly being destroyed. This coupled with inflation will be a tailwind for silver prices moving forward. The internet has opened the door for anyone to safely and reliably purchase physical gold and silver on today's market. One such method is through GoldMoney.com. GoldMoney allows you to buy and sell gold for just .5% over spot price as well as store it at a preset Brinks vault of your choice. There are several locations for which you can choose such as New York, Zurich, Singapore, Hong Kong, Canada, London, and Dubai. They also offer a gold backed debit cards for you to be able to easily purchase items with your gold as well as redeem the physical bullion for self storage. This company is truly revolutionary and makes owning precious metals easier then ever.

For the actively engaged investor the options open up a bit more. That said, physical gold and silver are still recommended as hedge as well as a truly non correlating asset that offers portfolio diversification. Another asset that is also offers abundant diversification is fine art. Along with gold and silver, art holds its value in the face of inflationary pressure. During the “Great Inflation” of the 1970’s art prices soared 130%. While the effectiveness of art as a hedge is not in doubt its accessibility is. The aforementioned Joe Six-pack currently has little to no ability to participate in a market where a single piece of art can sell for millions. Another issue is the opaqueness in which the market operates. Although nearly all markets are subjectively priced by participants the art market takes this notion to the extreme. What could be worth millions to one person could just be a series of worthless paint blotches on canvas to someone else. Both of these reasons make it very difficult for retail investors to get involved with fine art until a time in which there is an obtainable investment vehicle to do so.

Other assets that perform well in an inflationary environment are Timber and farmland. I find Timber particularly interesting. Timber is a hard asset that offers great inflation protection but also increases in value in times of demand as well as a lack of demand. For obvious reasons, when there is demand for housing and general building materials the demand for timber is great and therefore prices generally rise. Additionally, in times of economic slack where demand is soft, producers can respond by slowing the harvesting of trees until prices and demand are more favorable. Unlike soft commodities like corn and other vegetables trees are not perishable. The tree will continue to grow larger and therefore offer a higher selling price when demand does increase. This gives timber all the inflation protection qualities as other commodities but the flexibility in times of economic distress. There are several publicly listed timber companies that retail investors can invest in as well as ETF's (exchange traded funds) that track the general performance of timber prices.

I am certainly not a farmer nor do I have farm industry experience but I do know farmland acts an excellent defense against inflation. The coined phrase for farmland is that it is "Gold with a coupon". This is to say that in addition to the wealth preservation that the land offers, the harvesting of crops offers a steady stream of income. The obvious pathway to entry is to buy a farm. This is both and expensive and requires the knowledge, skills, and abilities that most people do not have. For that reason it is more reasonable to look into either farmland Reit's (Real Estate Investment Trust) or futures contracts on the commodities themselves.

In a departure from "hard" assets, TIPS are a great choice for inflation protection. These are essentially treasury bonds of differing maturity (5, 10, 30 Years) where both the principle (the full amount to be paid back) and coupon rate (interest rate) are adjusted higher when the CPI rises and lower when the CPI declines. When inflation is rising this adjustability allows for positive yields at a time when their Treasury bond counterparts often do not. Exposure to TIPS can be done by either a direct investment into a TIP or by proxy in a mutual fund or ETF that owns TIPS within the fund. However, one potential downside is that a TIPS investment does not offer the safety from both systematic risk and counterparty risk that precious metals or other "hard" assets do. In addition, the government can always change the way by which they measure the CPI so inflation levels appear to be lower than they really are. This in turn would obviously guarantee and negative real return when adjusted for the loss of purchasing power. Despite this the chart below shows a fairly clean correlation between the performances of gold and that of 5 year TIPS.

The investment strategies that work well in defending against inflation are certainly not limited to the ones listed above. Managed Futures, oil and gas master limited partnerships, investment real estate, and other alternative investments all play an important role in a portfolio. The ones listed as well as those I didn't list all deserve to be fully explored as hedges against inflation. As with anything in life and investing, continuing ones' knowledge is truly the only way to grow.

CHAPTER 5: THE CONSLUSION

Often times in today's political environment economic dislocations are blamed on such things as Laissez-faire governments and unfair minimum wage. This line of thinking is an easy and cognitively satisfying diagnosis for our economic struggles. In times of turmoil people tend to point to others as the cause of their trouble instead of trying to find intellectually honest solutions. This often plays out in society's echo chamber as "The reason I cannot keep up with my credit card bill or have enough saved for the latest iPhone is because my salary is too low" or "how could anyone live on a minimum wage of just X dollars". At surface level these statements are often true but take a deeper dive and we find a completely different truth. In 1964, when quarters were made of 90% silver, the minimum wage was $1.25. This meant that someone making minimum wage could have gotten paid 5 quarters per hour. Those 5 quarters would have a melt value today of about 15 dollars. This is the exact dollar amount which many higher minimum wage advocates are asking for. More than anything this revelation proves that society doesn't have a minimum wage problem it has an inflation problem. As actors in the economy we must stop focusing peripheral issues and start focusing on the underlying problems. Many of the problems discussed have solutions that will require both public awareness and a government that is ready to make some difficult decisions. These decisions will undoubtedly be painful in the short term but can offer a better America for our children. The most important decision is the role of the Federal Reserve. We have to ask ourselves whether we want to continue to allow this shadowy institution to control the price of money and inflate the system. Founding father Thomas Jefferson was publicly skeptical of central banks in American society. He famously stated "I believe that banking institutions are more dangerous to our liberties than standing armies." Fellow founder James Madison took it further by saying "History records that the money changers have used every form of abuse, intrigue, deceit, and violent means possible to maintain their control over governments by controlling money and its issuance." One has to struggle to comprehend how society can credit these men with such brilliance in creating America yet not heed their warnings in regards to central banking and sound money policies. Either these historical giants miscalculated the merits and intentions of Central banking or "We the people" have taken a dangerous path. This is the path of continued and prolonged inflation. The tax of inflation doesn't discriminate between the rich and poor, the employer and employee, the steel worker or the pen pusher. It affects everyone. Likewise, everyone has a role to play in instituting positive change. Whether the coming years offer reform or inflation it is my hope that this book has helped you take your first step to protecting your wealth and maintaining sovereignty.