

Understanding Inflation

Wikipedia: "In economics inflation is a general increase in the prices of goods and services in an economy."

This increase is usually measured with the Consumer Price Index (CPI).

Inflation effects all of us. It lowers the standard of living for the vast majority of people in a society. It raises the prices of things we need, like food, clothing, transportation and lodging, at a much faster rate than it raises the money we earn, such as wages, pensions or returns from investments.

It forces many people to work two or three jobs, in order to maintain their standard of living.

It forces some people out of the homes they can no longer afford, and into cars or RVs. Some who are even less fortunate, end up on the street.

Governments report the current rate of inflation via the C.P.I. **This is unfortunately not an honest measurement**, since major components are often left out or 'seasonally adjusted.'

To find a more honest inflation number, the reader is invited to visit www.shadowstats.com. When this article went to press Shadowstats.com reported the US C.P.I. to be 7.75% above year ago numbers.

Another reliable source of information is www.chapwoodindex.com . This index lists the cost of living in 10 major US cities.

While it is obviously cheaper to live in a small community than in a big city, it is nevertheless helpful to know the cost of city living, if for no other reason than for comparison.

The latest Chapwood index was taken during H1/2023 and it lists Phoenix AZ as the cheapest of 10 major cities at a 7.4% increase over last year, and New York as the most expensive at a 12.2% hike above a year ago. .1

Canadians only have the 'official CPI' as a guide. It is compiled by Statscan on behalf of the Federal Government. For March 2024 the CPI is listed at +2.84% over a year ago. -1-

It is a safe and very important assumption, to add at least 3% to the Canadian CPI number, thus bringing it up to a more realistic +5.84%. (A meal at McDonalds costs double what it cost 10 years ago! Inflation there is 10%.)

Anyone shopping for food, improving a home, buying a car, or paying car insurance knows instinctively that 2.84% is a sick joke! We're asked to believe that Canada's rate is 4.9% below the US rate as reported at shadowstats.com!

Inflation is caused by government officials aided by central banks. To state it simply: a finance minister wants money for a project and the central bank prints the money, or creates a credit on a computer and 'money' has been created to meet the demand.

Regrettably, every time a dollar, euro or yen is created, it lowers the value of all of the money that is currently in circulation. It has the same effect as adding water to a glass that is partly filled with milk. The result is a watered down substance. Sadly it works the same way with the money in your pocket, purse or bank account.

Inflation has been with us for a long time. When Joseph was sold by his brothers to slave traders, around 1935 BC. the price of a slave was 20 pieces of silver. About 1968 years later, when Judas betrayed Jesus, he received 30 pieces of silver.

Inflation also effects popular athletic events like the Boston Marathon. When I ran the 'Boston' in 1967, the entry fee was around \$20. When my brothers Frank and Dick ran the Boston in 1988, they paid \$100.00. The fee to run in the 2024 Boston Marathon was \$325.00.

Everyone reading this article is likely aware of the fact that federal government debt in every western country is currently at record high levels. This debt carries interest, and the interest component is growing fast and will become a major problem when interest rates start to rise.

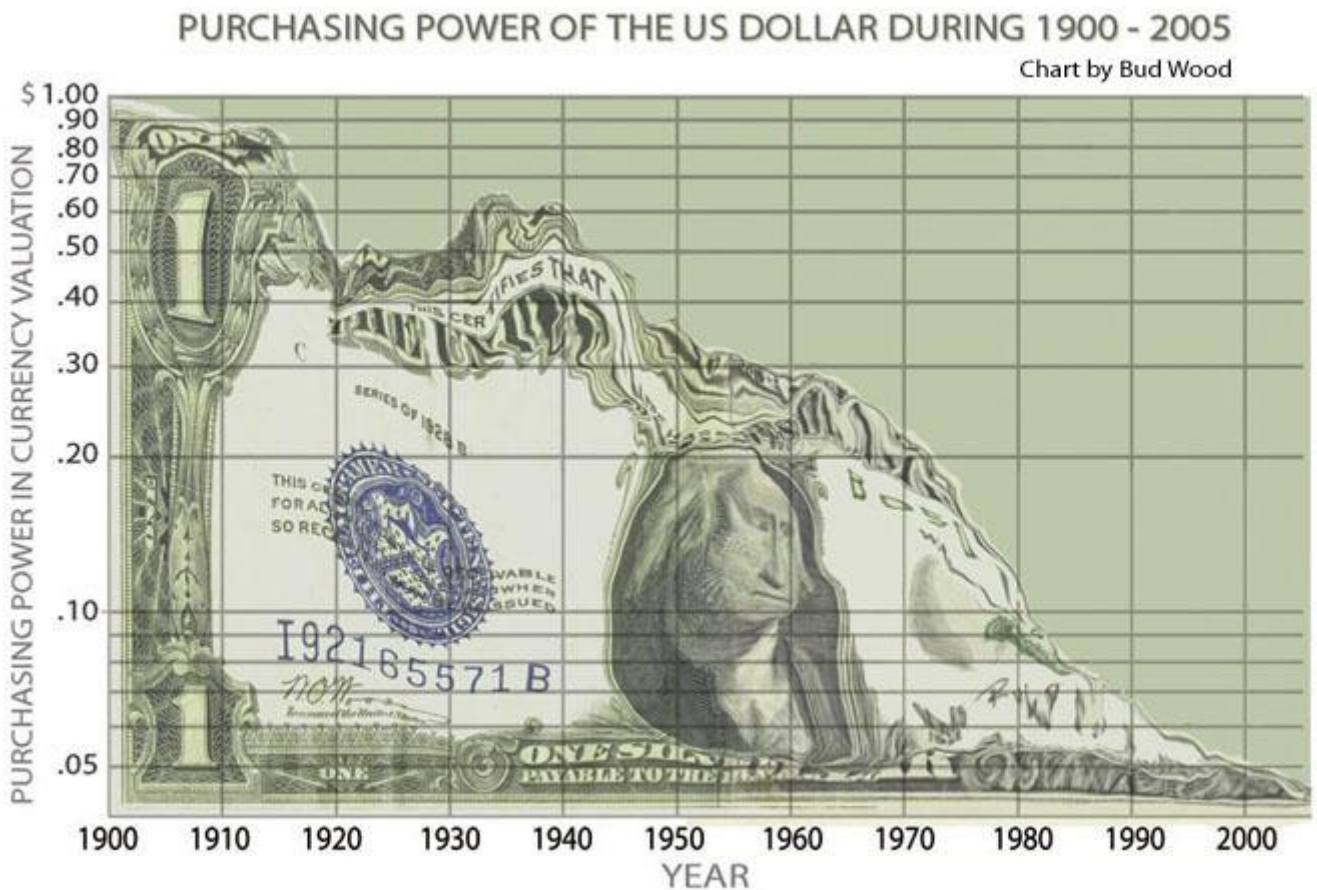
Government for years have preferred inflating the money supply over raising taxes. .2



This is a copy of a Just-A-Buck that I created in 1972 to poke fun at Prime Minister Pierre Trudeau. Inflation was a problem back then as well. A copy of this satirical note sold recently on E-bay for \$100. Now that's inflation! I had printed 1,000 and gave them all away! I know Mr. Trudeau was aware of them, because every major newspaper in Canada showed this Just-A-Buck in their newspapers at the time. I apologize for the way my printer copied it here. To see what the bill looks like try E-bay, or send me an email at itiswell@cogeco.net.

Now let us assume that you and your friends are at an auction in an auction barn. Just before the auction is to start a man with a briefcase enters the barn. He hands out \$100 bills to you and your friends. What do you suppose is going to happen to the price of most of the items up for auction? Suddenly each item will fetch more than if the mysterious character had not made an appearance! This is a microcosm of inflation! .3

Next is a copy of a satirical US banknote created by my friend Bud Wood. This note shows you how long the destruction of 'money' has been going on.



Author and financial expert John Maynard Keynes in 1936 quoted Vladimir Lenin as having stated that "the best way to destroy capitalism is to debauch the currency." Keynes agreed with Lenin as he wrote: "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."

(As an aside, capitalism is often presented as an economic system that takes advantage of people. However, in its purest and most efficient form, capitalism is simply 'making capital work for you).'

Quoting John Maynard Keynes again from his popular "The General Theory of Employment, Interest and Money (1936) "Lenin certainly was 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 does it in a manner which not one man in a million is able to diagnose.**" (p 149)

He then proceeds to specify at least four ways that rapid inflation works to weaken the social fabric and to undermine the foundations of the capitalist free market system.

First, unforeseen inflation, he says, results in a capricious and totally "arbitrary rearrangement of riches" that violates the principles of distributive justice. Besides its inequities, inflation also renders business undertakings riskier and thereby turns "the process of wealth-getting...into a gamble and a lottery." In generating risk and injustice, inflation "strikes not only at security, but at confidence in the equity of the existing distribution of wealth" (p 149).

Second, inflation violates long-term arrangements based on the assumed stability of the value of money. In so doing, inflation disturbs contracts and upsets "all permanent relations between debtors and creditors, which form the ultimate foundation of capitalism" (p 149).

Third, inflation generates social discontent and directs it against businessmen whose windfall profits are wrongly perceived to be the cause rather than the consequence of inflation. This discontent is exploited by governments which "being many of them...reckless...as well as weak," seek to direct on to a class known as 'profiteers' the popular indignation against the more obvious consequences of their vicious methods (p 149). In other words, governments actually responsible for causing inflation seek to shift the blame onto businessmen who consequently lose "confidence in their place in society" and become "the easy victims of intimidation" by "governments of their own making, and a Press of which they are the .5

proprietors" (p 150).

By making business a scapegoat and target of vilification and control, inflation reinforces anti-business attitudes and weakens support for what Keynes called "the active and constructive element in the whole capitalist society." (p 149).

Finally, inflation tends to breed such misguided remedies as "price regulation" and "profiteer hunting" that may do more damage than the inflation itself. **Keynes was especially critical of the tendency of governments to resort to price controls, which in his view lead to resource misallocation and a reduced supply of goods, thereby compounding inflationary pressures.** Regarding the disincentives to real output occasioned by controls, he said that "the preservation of a spurious value of the currency, by the force of law expressed in the regulation of prices, contains in itself, however, the seeds of final economic decay, and soon dries up the source of ultimate supply." For, by freezing prices at what are likely to be disequilibrium levels, controls constitute "a system of compelling the exchange of commodities at what is not their relative value," and this "not only relaxes production but leads finally to the waste and inefficiency of barter" (p149-150).

Summarizing the foregoing harmful consequences of inflation, he concludes that "governments that allow inflation to get out of control do irreparable damage to the established social and economic order. In so doing they are carrying a step further the fatal process which the subtle mind of Lenin had consciously conceived. For, by combining a popular hatred of the class of entrepreneurs with the blow already given to social security by the violent and arbitrary disturbance of contract and of the established equilibrium of wealth which is the inevitable result of inflation. These governments are fast rendering impossible a continuance of the social and economic order....But they have no plans for replacing it." (p 150)

Now that we have identified (with the help of John Maynard Keynes) the cause of inflation, we will examine the possibilities of protecting ourselves from this hideous practice.

We should note in passing that a survey in Germany, taken shortly after the German inflation of 1920 – 1923 the question was asked: "What hurt you more, the war of 1914 – 1918 (WW1), or the inflation of 1920 – 1923." The answer that came back most often was: "The inflation."

It is important that readers of this article educate themselves regarding basic economics – for self preservation.

Christians will be aware of the fact that Jesus, out of 38 parables He told, 16 deal with how we handle money or possessions. Jesus mentioned money more often than either Heaven or Hell.

It will soon become apparent to everyone that today in economics **“everything has changed since covid-19!”** It was during 2019 – 2021 that governments everywhere began to overspend and miss-spend, in record amounts. The current assumption (based on wishful thinking), is that: “things will go back to normal” – **they will not!**

The after-affect of this miss-spending left governments with record deficits that will not be paid off, - only massive debt that will most likely be inflated away.

There are 2 ways to end inflation:

#1 Replace the current monetary system with a gold backed system, or

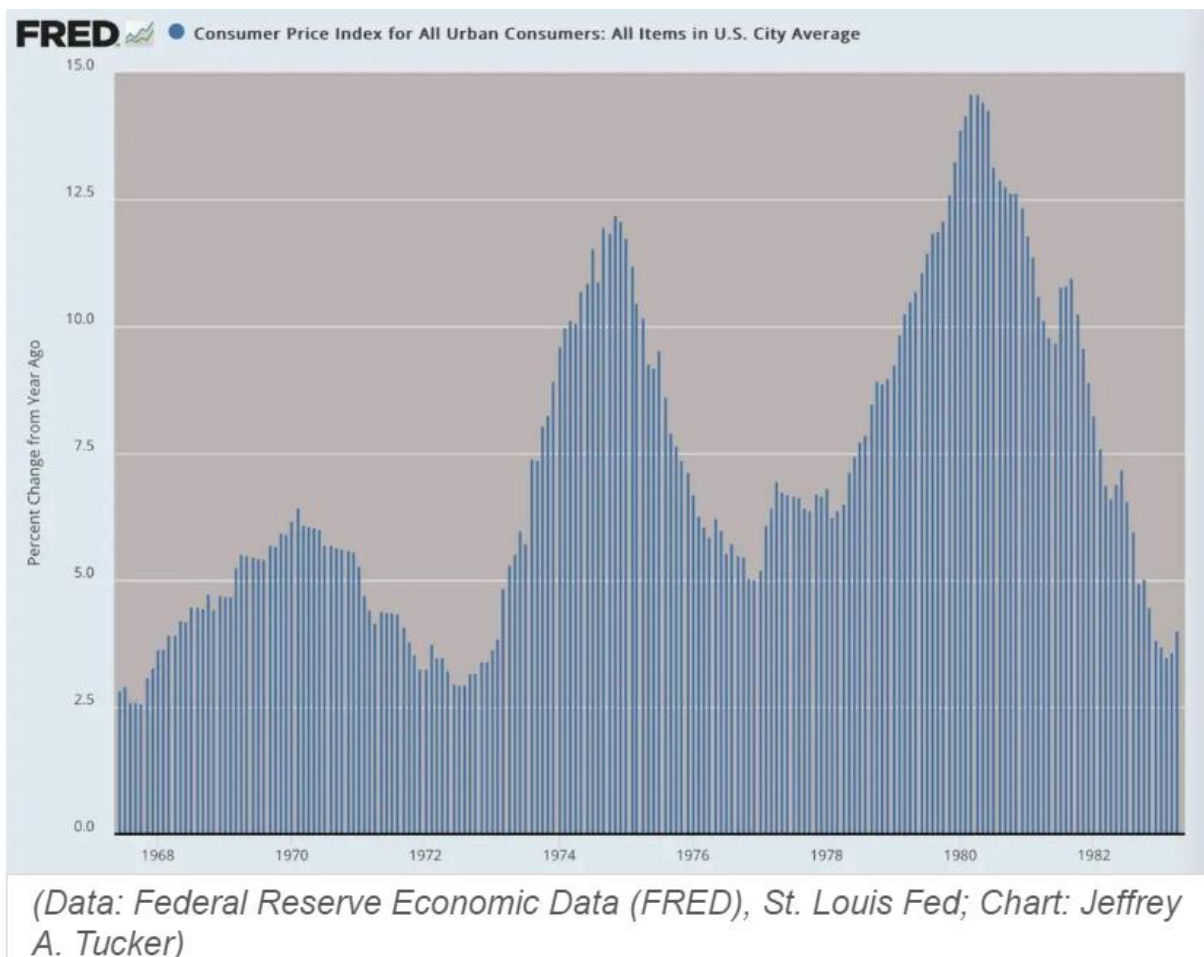
#2 Reduce government spending and pay off Federal Debt with taxation money and stop printing. Neither option is expected, especially not in Canada where the current government sold off all its gold shortly after taking office.

“Inflation is the only form of taxation that can be levied without any legislation.”Milton Friedman.

“All of the following factors appear to be inflationary: ongoing fiscal spending; remilitarizing of the world; restructuring of global trade; capital needs of the green economic and possibly higher energy costs – due to a lack of needed investment” (source: Annual Letter to Shareholders by CEO Jamie Dimon).

Coincidence? The western world went through a financial crisis during the 1720s, 1820s, 1920s and currently the 2020s

You might consider an excellent book on inflation titled: Fiat Money – Inflation in France. This book by Andrew Dickson White covers the French Inflation that began in the 1790s. This book is available online at no charge! gutenberg.org/files/6949/6949-h/6949-h.htm



Here is a chart that shows the US C.P.I. during the inflations of 1970, 1974 and 1980. The expectation is for something much worse this time because of all the money printing that has gone on. The US M2 Money Supply has doubled between 2000 and 2010 and it doubled -8-

again between 2010 and 2020. That's 10% per year! (source: St. Louis FED). It is on track to rise even faster during this current decade. We are right now at the right hand edge of the above chart.

As a result of wasteful government spending, the investment strategies of a few years ago are no longer successful.

Nothing is currently the same as it was during the past 50+ years!

By buying a bank certificate that pays 5% (minus taxes), while inflation is running at between 5.84% (Canada), and 12.2% (New York), the investor is moving backwards!!! Unless an investment is yielding at least 7% after taxes, the result is an obvious loss!

As the rate of inflation increases (and based on the current level of Federal Debt compared to Gross Domestic Product – currently unsustainable at over 100% in the USA as well as in Canada – inflation will keep on rising).

We need to receive higher and higher interest on our income in order to survive financially.

What not to do!

- A. Do not lend money, not even to a bank!
- B. Stop spending money on items you can live without.
- C. If your financial 'net worth' is less than it was a year ago - it never ceases to amaze me how few people who deal with investment advisors know the answer! "I trust my advisor!" If your 'net worth' is less than it was a year ago, you need a change in direction, or you'll end up 'under water.'
- D. Don't go into debt (except for a home, - if you can manage the payments).
- E. Don't buy a new car, if your present car still performs well - rent a car for your holiday trip.
- F. Don't overpay for food. Look for specials!
- G. Reduce the number of times you eat in restaurants.

Finally: What you can do.

- A. Live within your means.
- B. Pay off your debts – make this a priority. (The only debt that makes sense, is debt on an appreciating asset, such as a primary home, or debt involving profitable business transactions).
- C. Stock up on non-perishable food. Mark the date of purchase, and rotate the food as you eat your way through it.
- D. Stock up on household items that you know you're going to need over time.
- E. In the event that you have some investable funds, buy silver, gold and commodities. These can be purchased on the various stock exchanges, by acquiring the shares of companies that produce commodities.
- F. NOTE: If you lack experience you will need an advisor.
Deal only with advisors who themselves use this method of capital preservation.
- G. Those of you who have an investment portfolio, you might consider investing in the section of the stock market that yours truly invests in: Gold and Silver trusts such as PHYS (PHYS.to); PSLV (PSLV.to); MNT.to, or blue chip mining companies such as Newmont Mining, NEM, (NGT.to); or Barrick Mining (ABX.to) GOLD.
NOTE: This is not to be taken as investment advice, if you are a novice at investing. Find someone to help you who themselves are protecting their net worth in this manner.

This next data block shows the returns provided by gold, but it must be noted that timing is very important, because you could be buying just before a 'pullback within the uptrend.'

Patience is an essential character trait!

Change	Amount	%
Today	+19.32	+0.81%
30 Days	+198.36	+9.09%
6 Months	+398.49	+20.11%
1 Year	+374.78	+18.69%
5 Years	+1106.55	+86.89%
20 Years	+1983.20	+499.73%
goldprice.org - 13:20 NY Time		

Visit goldprice.org for an update on these quotes. Whenever greedy, foolish finance ministers overspend, gold has always done it's job as a safe haven in the world of finance, for more than 5,000 years. This can be expected to continue.

Change	Amount	%
Today	+0.52	+1.84%
30 Days	+3.48	+14.06%
6 Months	+4.87	+20.85%
1 Year	+2.99	+11.82%
5 Years	+13.28	+88.80%
20 Years	+21.20	+301.41%
silverprice.org - 13:22 NY Time		

Visit goldprice.org for a current silver data block.

Defense departments in major countries have permitted bullion banks in the USA to depress the price of silver

on the futures market in order for defense to be able to buy cheap silver for their high-tech weapons, torpedoes and satellites. This price manipulation is coming to an end as more and more buyers in the futures market demand physical silver instead of certificates. This is expected to cause a rapid increase in the price of silver. As can be seen in the data block above, the 30 day rate of increase is already ahead by 14.06%.

The Chinese government in April 2024 recommended that it's citizens should buy silver. There are currently 1,4 billion people in China. A suspicious reader might come to the conclusion that China wants a future source of silver!

In closing I invite you to visit my website www.peterdegraaf.com

Here you will find financial reports that I currently present twice a week, Tuesday and Friday. By reading my reports you will be able to stay up-to-date on current financial trends. You will learn how to interpret stock charts. These are offered free of charge, as my way of trying to help others with what I have learned over the years, by the Grace of God.

Also on this website you can find my BIO and Testimonials. This website has thus far received over 500,000 visits!

Thanks for reading this article, which I hope will be of use to you. It is my intention to add much more material over the next few months and turn this into a book. Contact me at itiswell@cogeco.net if you would like to be informed when the book is available.

Last word: Please do your own due diligence. I am **NOT** responsible for your financial decisions.