

The Easiest Path To Wealth

What is the easiest path to wealth? Counterfeiting! That is what the Federal Reserve does.

Why are the banks not lending to consumers or small businesses? Because they already have the perfect deal:

1. The Federal Reserve creates money out of thin air via bookkeeping entries.
2. That new money is loaned to the banks at close to zero percent interest.
3. The banks then lend that money to the federal government by purchasing U.S. Treasury Securities that pay perhaps two or three percent.

Now, why would a bank lend money to the government and collect two or three percent when it can lend money to John Doe at four percent so he can buy a house? After all, four percent is a greater return on the bank's investment. Yes, but the Treasury debt has *zero risk*. (There is zero risk because the bank knows the government can always print more money.) The consumer loan, on the other hand, carries *significant* risk. If a bank lends someone \$100,000 to buy a house and the borrower then loses his job and defaults on the mortgage, the bank not only does not collect the four percent interest, it loses most of the original \$100,000 when it forecloses on the house and sells it for a loss. One can call the banks greedy, but they are only acting in their own rational self-interest—which is what the average (mentally healthy) person does every day of his life.

The problem is caused by the Federal Reserve—the “Fed”—which should not be lending cash to the banks at close to zero interest rates in the first place. Why is the Fed doing so? Because the federal government has a \$1.3 trillion deficit and it cannot find enough foreign buyers or individual investors willing to buy Treasury debt. They are instead buying gold, silver, other commodities, real estate, and stocks that they believe will withstand inflation and the collapse of the euro and the dollar.

The solution is to prohibit the Federal Reserve from creating money out of thin air to finance deficits, and to stop running those massive deficits. Of course, both of those actions require political courage, which few legislators or presidents on either side of the aisle have. (There are some who are willing to address the issue honestly, like Congressman Ron Paul and, to a somewhat lesser degree, Congresswoman Michele Bachmann.)

Obama, his fellow Democrats, and the mainstream media have led millions of people to believe that increasing taxes will solve the deficit problem. But it is *impossible* to raise taxes high enough to eliminate the \$1.3 trillion deficit. Doing so would simply decimate the economy—and it's already in terrible shape. Millions of jobs would be destroyed if taxes were raised by \$1.3 trillion—even if there were enough taxable income to do so. “Tax the rich” will not solve the problem. Don't believe anyone who says it will—including Obama. The deficit is simply too overwhelming. It *is* possible to eliminate the

deficit by *slashing* federal spending, but few have the guts to do that. Remember that they use federal spending to buy votes. Democrats, for example, would never agree to eliminate the Department of Education, because they get their campaign cash from teachers unions that support their leftist policies. Likewise, few Republicans from farm states will agree to eliminate farm subsidies.

Because it will not slash spending and cannot find enough lenders to give it \$1.3 trillion per year, the only other path the government can take is to finance the deficit by printing money. The \$1.3 trillion that is used to buy federal IOUs did not previously exist. It is “new money” created for that purpose. That money works its way into the private economy and causes price increases. Keep in mind that inflation does *not* mean rising prices. Inflation *causes* rising prices. The supply of money is “inflated,” and the increased amount of money chases after the same amount of goods and services. That is why you are not wealthier if you today earn \$50,000 per year and used to earn \$25,000, because the increased money supply has merely caused prices to increase. Borrowers—like governments—benefit from inflation because they can pay back their debt with cheaper dollars. Lenders suffer because they get paid back with dollars that are worth less. Savers suffer because the inflation-adjusted value of their savings goes down, rather than up.

The government, not surprisingly, wants people to believe that inflation means “rising prices” rather than “printing more money,” because the voters then blame businesses for the phenomenon rather than the government. If the price of your groceries doubles, you will blame the supermarket when, in fact, you should blame the printing press, the politicians of both parties, and the Federal Reserve. Inflation is nothing more than a hidden tax. The worst part of inflation is that it harms the poor the most. The wealthy person is hardly concerned if the cost of a loaf of bread doubles. But that increase is devastating to a poor family. When Obama and others argue that the government must run deficits in order to “grow the economy,” remember that his massive deficits will eventually lead to massive inflation.

The mind-boggling deficits created by both the Bush and Obama administrations and their Congresses (of both parties) are destroying the economy and our standard of living. It will only get worse—unless we demand an end to the monumental and unjustifiable federal spending and the elimination of the Federal Reserve.

Remember that most bankers are not crooks. They are simply reacting to the events. The crooks are the thugs at the big banks (like Goldman Sachs) who wheel and deal with the likes of Hank Paulson, Timothy Geithner, and Ben Bernanke. Blame them. Do not blame one political party. Blame both.

I have absolutely no faith in any politician doing the right thing. Powerful forces control many of the legislators and the media (including Fox News, which varies slightly from the standard “formula” for ratings purposes). Those forces will *not* allow government to be reined in. They have money and power and will fight to keep it. It would take a (well-protected) courageous president in the White House and an overwhelming majority of libertarian-minded legislators to make things right. I have no reason to believe that will

come to pass. Continued spending and money-printing is therefore what we can expect. I suggest people act accordingly, in their own economic self-defense. That is not being greedy; it is being realistic.

When the manure hits the fan you had better have a supply of cash on hand for the bank holidays, and then a supply of something you can barter when the ATMs stop operating. Stock up now on what you won't be able to buy when nationwide trucking strikes and food riots cause the supermarket shelves to be emptied. But don't let your neighbors know you have a "stash." When their kids go hungry, they won't hesitate to club you over the head with a baseball bat for your canned goods and bottled water. I suggest maintaining a stockpile of cigarettes, even if you do not smoke. A person desperate for a pack of Marlboros may be willing to trade almost anything.

Be prepared for 2012. It is going to be a bumpy ride. Add an election to the mix and anything is possible. The Eurozone is collapsing. If it is held together, it will only be through the printing of more euros. The bankruptcy of MF Global was only the beginning, because banks throughout Europe and on Wall Street own a boatload of European debt that will soon be worth next to nothing.

In the short run, the dollar will rise against the falling euro. That will make people believe that the United States is weathering the storm. But that will only be the calm before the storm. As recession sets in across Europe, that will have a significant effect on U.S. trade. The media has reported that the U.S. trade deficit declined in October, making it sound like that was good news. But the media largely ignored the complete story, that although imports fell, *so did U.S. exports*. The trade deficit declined only because exports did not fall quite as much as imports. But *both* fell. That is an indication that the economy is getting worse, not better. And, of course, the 8.6 percent unemployment rate is a bogus figure.

Arguably, the U.S. government is already defaulting on its debt. Why? Because it is paying back debt with dollars that are worth less due to inflation. If you lend someone \$10,000 and he pays you back that \$10,000 plus \$1,000 in interest you are not \$1,000 ahead if your \$11,000 is worth only \$9,500 because of inflation. You have lost money. In that fashion you are getting cheated every time you buy a U.S. savings bond. Don't buy them. Buy silver dollars instead. You want something that will be worth more in a few years, not less.

I may be wrong about 2012—perhaps the disaster will not come until 2013. But the day of reckoning is coming. Do not believe "It can't happen to the United States." It can. Greece and Italy did not think it could happen there either.

History shows that governments with massive debts eventually address the problem by printing money. But that only delays the inevitable default. Eventually you reach a point of critical mass where you simply cannot borrow and tax enough to pay the bills. The next step is inflating the money supply, and the massive reduction in the standard of living that it causes. We are close to that point.

Other than printing money, the only other “solution” on which governments typically rely is to go to war. Don’t think that is not being considered.

Stay safe.

Don Fredrick
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