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Inflation: the ultimate corruption [1]

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The ultimate corruption is the single, most cynical, abuse of the people by the State (your government), in perpetrating the myth that inflation is an economic disease that government cannot stop. The truth is that government perpetuates inflation and that it remains in the government's interest to maintain a level of inflation. The truth is that government makes itself out to be the victim of inflation when in fact it benefits from inflation.

> *"With the exception only of the 200-year period of the gold standard (1714 to 1914 in Britain), practically all governments of history have used their exclusive power to issue money in order to defraud and plunder the people." FA Hayek, Choice in Currency*

The truth is that government spends a lot of time and resources continuing the facade that they too are the hapless victims of this scourge called inflation. This illusion is maintained by social science academics having created a whole ?science? around the myth of inflation.

> *?We have indeed at the moment little cause for pride: as a profession we have made a mess of things?. ~ FA Hayek*

Inflation has a street definition which is ?rising prices? and even academics now pander to this definition. Rising prices in fact, are the effect of increases in money supply which is determined by government and its agencies. It suits government to have this skewed view of this 'intractable problem'.

> *The great danger of inflationary policies is that there exists a tipping point at which the loss of purchasing power and confidence begins to accelerate out of control. Since psychology and perception play a large role in determining that point, it is impossible to know where it lays ahead of time. And once started, the rapid erosion of a currency?s value is very difficult to halt. ~Henry Hazlitt*[3]

Inflation is caused by governments continually expanding the nation's money supply for which it holds a monopoly. The heart of the inflation engine is the credit creation process that banks are licensed to engage. The rewards for that process are immense in that banks are the first to receive the benefits of increases in money supply.

Inflation generates a sense of false prosperity and is the basis of booms and busts occurring in the economy. As Hayek indicated in his book, '*The Political Order of a Free People*':

> *"Government would be deprived not only of the main means of damaging the economy and*

constant expansion."

Inflation keeps people trapped on a perpetually moving hamster wheel and you cannot get off. Inflation constantly erodes the value of your savings and creates the illusion that you are getting wealthier because the money value of your assets is getting higher. This is illusion. If you sell your asset, your cash proceeds are soon depreciated away. It forces you to keep purchasing - to not purchase means your money loses purchasing power. This causes people to make wrong purchasing decisions, just as business people make wrong investment decisions because false pricing, including interest rates, create a distorted sense of an economy's prospects. Whether it's an investment property, or some consumer good, the hidden need drives you to divest your money because it has no store of value. Ironically this is good for economic growth. Buying things you don't really need is wasteful for you when your resources are better employed in some other way.

Inflation encourages debt. If you know something is going to cost more in the future because inflation will drive up the price of your purchase then, it makes sense to buy it now. If you need a little credit to help you with your purchase, that?s ok! Inflation helps by eroding the value of the money owing on your credit contract and IF your earnings keep pace with inflation, you are the winner.

You see, this is how governments benefit. They borrow massive amounts of money to pay for schemes and promises, made by politicians to win your vote and ensure your loyalty. They pay interest on the loans they take out on your behalf and inflation erodes the value of the debt over the life of the debt. But you are the one that ultimately pays the price and this is why inflation is the ultimate corruption and abuse of the people. As I said, the government gives nothing that it does not take from you first.

For government this has been such a good scheme. Left unchecked, government has made many promises and borrowed more and more to meet those promises so that now we have reached the stage where the jig is up! Examine the UK debt situation [4] below. You can see government has a problem which means you have problem. After all you are the one that will be left to pay.

?Government is the great fiction, through which everybody endeavors to live at the expense of everybody else?. ~Frederic Bastiat

We are not too many steps away from the situation where government defaults on its obligations to you. Unthinkable before - a realistic proposition now! Not only in the UK, but European countries, USA, China. We have all passed the point of no return.

Inflation also contributes to unhappiness and lack of wellbeing. Being trapped on the hamster wheel and having your standard of living perpetually eroding does not build confidence for the future nor does it build future, real prosperity. The sense is - enjoy the party now! At best it creates manipulated booms, doomed to failure. And the numbers don?t lie when they say ?the jig is up!?

Inflation promotes corruption by showing people that they too can game the system. It becomes a feeding frenzy of ?grab what you can? whether you are in business or receiving benefits. Rent-seeking, subsidies, moral hazard, market distortion, lobbying, regulation, government license and unintended consequences are the behaviors of people playing the government game.

> *"Corruptissima republica plurimae leges. (The more numerous the laws, the more corrupt the state.)" ~Tacitus, the Annals ca. AD 69*

What would it mean if we could end inflation?

Ending inflation would allow people to accumulate real wealth and they could aspire to an affordable quality of life based on real savings and investments and real equality of income based on their money having constant purchasing power. In other words £1 today would purchase £1 of equal value in one or twenty year?s time. Social and economic dislocation and disparity would be much diminished.

Ending inflation would mean that people could begin to save for their retirement without worrying that their savings will shrink as inflation chomps away. For people already retired, it would mean they no longer have to worry about how they will make ends meet.

Ending inflation also means that the national savings pool could begin to grow again so that the economy would have a sustainable basis for solid economic growth without the boom-bust fluctuations we have become accustomed to. Investors and entrepreneurs could feel secure in their decision making once again.

Ending inflation would mean affordable housing and real prices for goods and services. Inflation has caused property prices to soar over the last 20 years creating a gap between nominal house prices and real property prices. When the property price bubble burst in 2007-2009, nominal prices quickly fell. Ending inflation would allow real and nominal property prices to come together over time making housing affordable for more people.

Ending inflation also means governments would have to find another way of doing things rather than continuing to cheat the people.

> *?The first panacea for a mismanaged nation is inflation of the currency; the second is war. Both bring a temporary prosperity; both bring a permanent ruin. But both are the refuge of political and economic opportunists?. ~Ernest Hemingway*

What can we do?

We can send a signal to our politicians - enough is enough! In fact this is what voters did in 2010 when the general election returned a vote with no clear majority to govern. But that is not enough. They need to know that you do not want their meddling in your lives. Ignoring the promises of your politicians is another step. Remember, anything government offers you is firstly taken from you.

We need choice for consumers by allowing people with savings to hold their money in the form of cash, gold or silver. Allow banks to offer gold and silver savings accounts. Give people the choice about the kind of money they want to hold. It?s time to end the paper money farce and make money the store of value it could be.

The international monetary system has undergone change roughly every 40 years for the last 150 years. It's due for a change now. It?s likely the new system will introduce a store of value because the old is technically bankrupt. Many central banks around the world are already purchasing gold bullion because they see the writing on the wall. It?s not enough to wait for the change because that may worsen the catastrophe. We need to effect change now, even if it is too late.

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