How Our Government Destroys Your Savings

And Lies, So They Can Steal More

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06 December 2011

The U.S. government supplements its finances, without passing any tax laws, changing any rates, and or even talking about what they are doing. This manner of easing the federal government's sometimes precarious financial condition may be considered unfair and immoral, but it does permit the government access a greater percent of the national wealth than is possible using only taxation.

Real Dollar vs Nominal Dollars

Nominal Dollars are the ones you have in your pocket and bank account. They act like rubber yardsticks when you make comparisons between different years.

Real Dollars maintain their value over time. They are usually identified by a year.

Major differences between the two are only possible with a: fiat currency – one not anchored to an enduring commodity.

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It is important to understand the variations in the dollar's value, and how we make comparisons over time. Pull a dollar out of your pocket. Economists call it a "nominal dollar" because it, like a rubber yardstick, has a value that is highly variable over time. Many years ago, you could buy a full restaurant meal with that dollar. Now you would be lucky to get a soft drink. We all talk nostalgically about the "good old days" when prices were lower, but what we are really describing is the dollar's loss in value as the Federal Reserve creates more of them.

The dollar's value, because it varies over time, requires an abstraction that will buy a comparable market basket of goods in different period, so we can make comparisons. We call this abstraction the "real dollar."

Real dollars are normally specified by the year to which a comparison is being made. For example, we can say $100 dollars in 2011 will buy what $40.27 did in 2001. We use the consumer price index to convert any amount in 2001 dollars to 2011 dollars before we compare. Nominal dollars should never be compared between two different time periods because their value is not the same. You might as well be comparing a case of oranges to a single orange.

My wife and I bought a house in 1973 for $28,750 nominal dollars. We sold it in 1991 for $100,000 nominal dollars. If you convert the 1973 dollars into 1991 dollars to make a valid real dollar comparison, you find that we broke even. Unfortunately, Uncle Sam caused us to sustain a big loss because he taxed us on the $71,250 of phantom income he could see in nominal dollars. Is there any wonder our government loves inflation? It gets to tax illusory income, caused by its own currency manipulations, even when the victim obtains no real income.

We must convert prices of one year, using the CPI, to dollars of another year when we want to make valid comparisons across time.

Our Government's Special Game:

1) **The federal government borrows a lot of money at a low interest rate.**
2) **The government spends the money.**
3) **The Fed expands the money supply.**
4) **This makes the dollar worth less, reducing the value of fixed payments.**
5) **This reduces the value of principal & interest payments.**
6) **This liquidates a significant portion of the debt.**
7) **Citizens are shocked at how little their savings will buy.**
8) **The government statistical agency minimizes inflation in the CPI.**

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Any government issuing fiat currency can play this game. Fiat money does not have a fixed conversion ratio to a valuable commodity. Its sole value is its status as a government issued currency; a value the government controls. Since our federal government got off the direct link to gold in 1933 we have had a fiat currency.

Our government has a special game they play against people who use its currency. It has played this game twice before and is currently well into a third round. This game can only be played vigorously on a periodic basis, because it works best when it can deceive most of the American people.

In broad outline its game goes like this:

1) When interest rates are low, the federal government sells long-term bonds. In this latest game, the Fed has forced interest rates to a shockingly low level. It uses the excuse that low interest rates stimulate the economy. Only Keynesians think so. Other economists think it causes mal-investment and wastes precious capital.

2) The government spends the money for programs it has promised voters.

3) The Federal Reserve expands the money supply.

4) The dollar loses value. Consumers see this as inflation; the government, because it gets the additional money first, can buy closer to the old lower price.

5) All debts at fixed interest rates become easier to service, and the value of the principal and interest erodes.

6) The national debt becomes less threatening.

7) As the inflation proceeds, citizens become shocked at how little their savings buy and may cut back their consumption.

8) And in the latest round of the government's game the Bureau of Labor Statistics is using special tricks to report a CPI that is lower than under their earlier calculation techniques.

This game reduces the value of any debt owed by the government to its citizens or foreigners. Is it any wonder the Chinese are complaining? They sent us valuable products and we send them paper that continually shrinks in value.

Now why would our government deliberately reduce the value of the savings of its citizens?

<u>The short answer is desperation!</u> Taxes do <u>not</u> provide enough money to fund the promises it has made and passed into law.

What can politicians do when they promise too much?

Increase tax rates.

Rescind the promises.

Default on the debt.

Inflate and steal peoples savings.

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The government has made promises that it does not – and will not – have the money to fulfill.

There are several ways it could deal with this problem:

- Increase tax rates. Many politicians talk about raising taxes, often about taxing the rich, but usually vote against the increases for very good reasons. It visibly destroys jobs, pushes companies off-shore, and often brings in less revenue than did the lower rates.
- Rescind promises. Elected officials are wary of even talking about reducing Medicare, Social Security benefits, or many other programs, because rescinding these unwise promises would almost guarantee defeat in the next election. The recent vicious debate about attempts to cut a hundred billion annually from federal programs is only a slight foretaste of what might happen if the amount on the table really addressed the deficit. That would require cuts 15 times as large.
- Default on the debt. Many countries have defaulted on their debt, but it has so many negative side effects that it is very much a last resort. In the United States default would destroy any remaining reserve currency status and cause a world-wide sell-off of the dollar.

- Carry on as before, periodically stealing value from people's savings by inflating the currency beyond the rate at which interest rates compensate. The government can sell bonds in a period of low interest rates, then inflate the currency so that the bond holders get less interest than they lose to inflation. By engineering inflation rates higher than interest rates the government can even get savers to pay it for borrowing the savers money. Economists like to call this "Financial Repression," but I favor the more descriptive term: "Savings Theft."

The effects of lower valued savings (less capital):

Your money won't buy as much, so you spend fewer real dollars.

Private sector jobs become scarce, and pay fewer real dollars.

Demands for the government "to do something" encourages government sector hiring destroying more private jobs.

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Whatever we call it, our government feels compelled to ingest a chunk of its citizens' savings to continue funding what it perceives to be demands for government services.

The effects on citizens whose savings have suffered reduction in value are quite obvious:

- They find that their savings "don't buy what they used to." As they adjust to a lower standard of living their declining purchases have a negative impact on the economy.
- The folks that would provide those goods and services no longer have those jobs.
- With less capital, jobs offer lower pay.

- The government has spent the money and provided some jobs with its spending. Recent research across many countries shows that the government provides fewer jobs than those it displaces.

The net effect of this theft of savings is a less wealthy economy. If carried too far it actually causes the economy to regress to those not-so-good "old times."

Savings theft in WWII:

10% of our population in uniform.

Vast fleets of naval vessels and aircraft.

Tremendous expansion of government.

Tax rates were unproductively high.

$185 billion (over $8,000 billion in 2011 dollars) of war bonds sold at 2.9%.

Inflation made payoff easier for the government.

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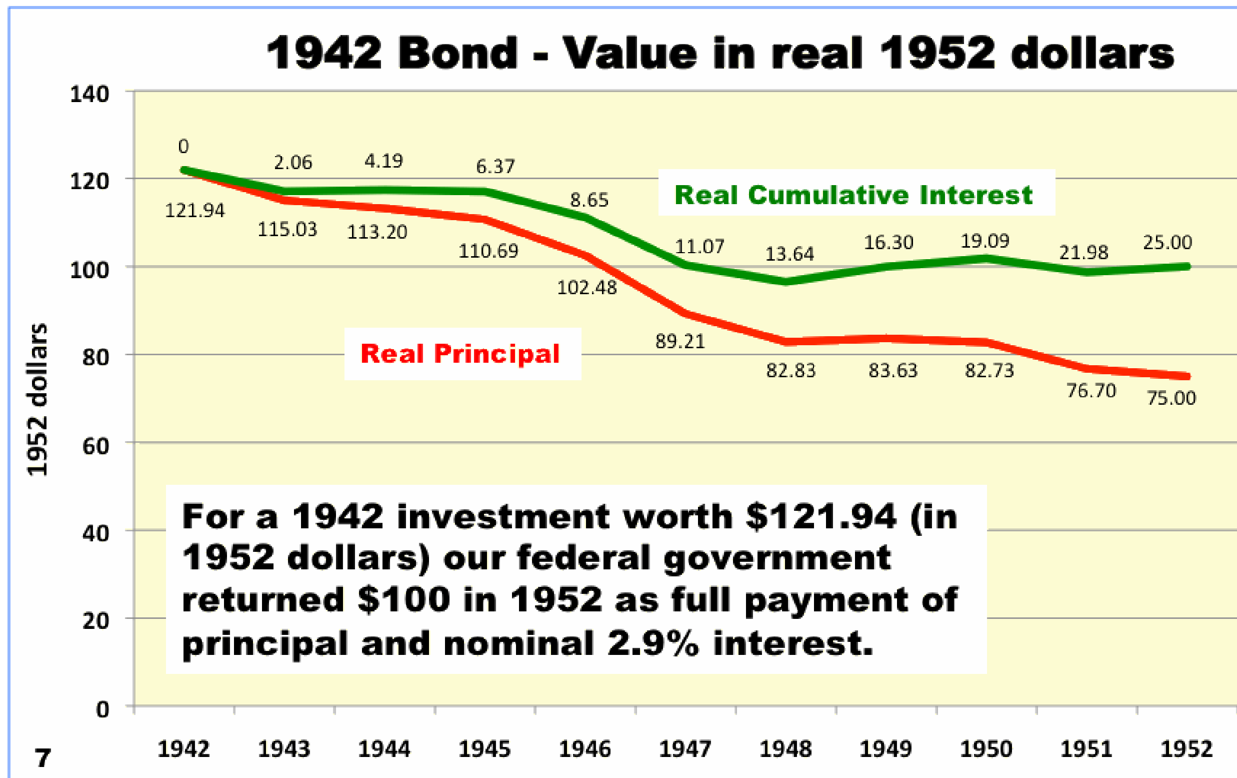
Generation of inflation depends on having a currency that can be manipulated. A gold or silver gased currency is not suitable. We have had a fiat currency internally since 1933 and internationally since 1971, so inflation is easy to create by just printing more money.

In the United States, the first major round of savings theft under a fiat currency occurred during and after WWII. This may not have been intentional.

The natural result of putting over 10% of our population in uniform while building vast fleets of aircraft and naval vessels was a tremendous expansion of government expenditure. Although income tax rates were increased to impossible levels (94% in 1944), the war was largely financed on money borrowed from citizens.

War bonds were one way of financing the war and soaking up some of the cash that wartime payrolls produced. These bonds were promoted in every conceivable way and eventually 85 million Americans (out of 140 million men women and children) purchased $185.7 billion in bonds. In 2011 that would be over 8 trillion dollars. They were sold for $17.75, $75, $750 etc. and matured in 10 years for $25, $100, $1,000, etc. producing a 2.9% nominal yield.

Inflation chewed away at even that modest yield and ate substantially into the value of the principal.



The chart above shows what happened to the value of a $75 war bond purchased in 1942. Both principal and interest are shown in 1952 dollars. Inflation made the original seventy-five 1942 dollars worth $121.94 in 1952 dollars, and caused a fairly steady decay in the worth of both principal and interest. By the cash-in date in 1952 the investment was worth only $100.

Bond purchasers in 1942 got back principal and interest in 1952 that was worth only 82% of their original investment.

Paying off those war bonds:

If cashed at the end of the 10 year period, on average they returned as both principal and interest 86% of their original cost.

The patriotic Americans (60% of the total population) who bought war bonds got back $6,900 billion for the $8,000 billion they had invested (2011 dollars, SGS).

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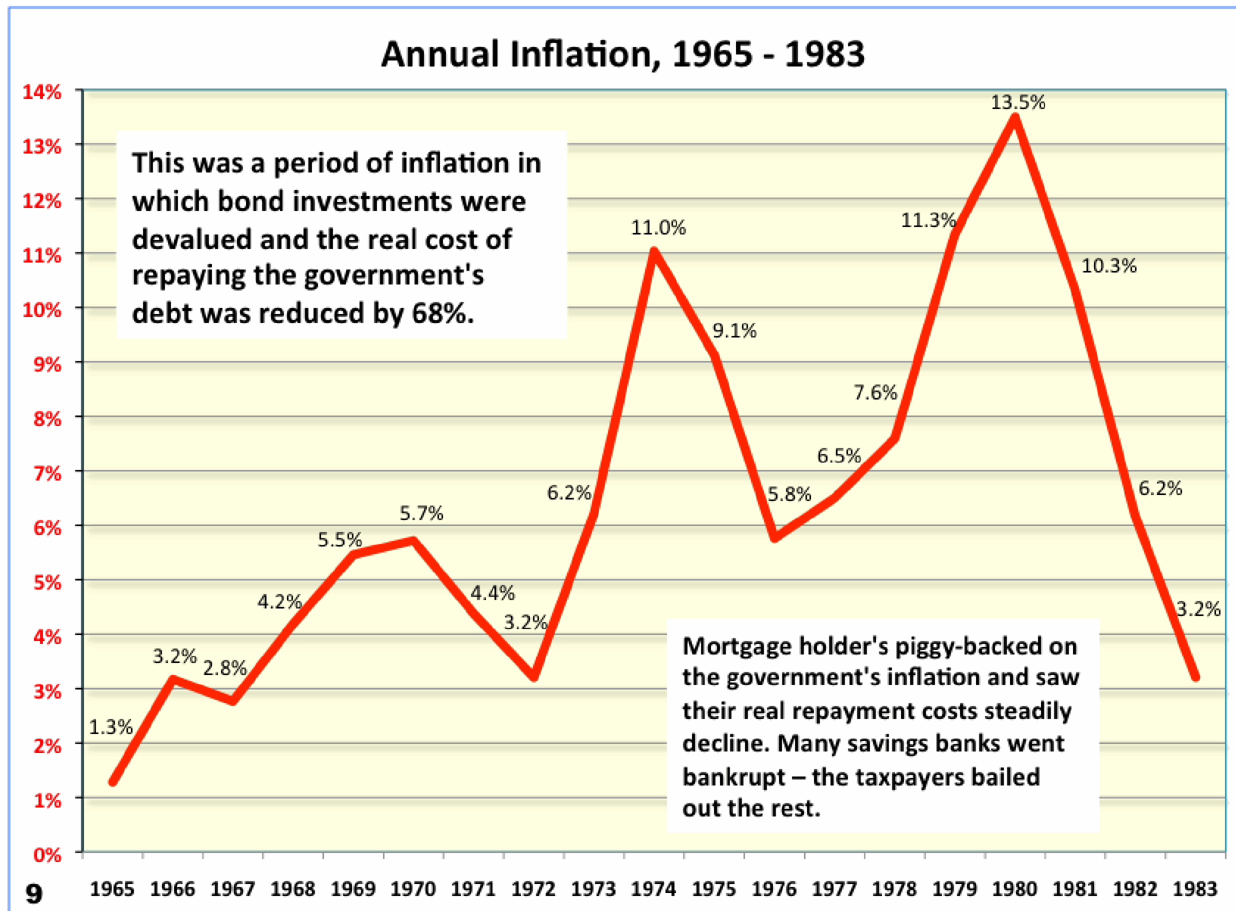
Bonds sold in the primary war years of 1942-1945 returned to their investors after the 10 year period only 86% of their original investment's value. That 14% loss in value was only $26 billion during WWII. If we express the loss in 2010 dollars it would be between $328 billion (if you trust the government's heavily modified consumer price index) and $1,055 billion (if you use the BLS 1980 methods as does Shadow Government Statistics).[1]

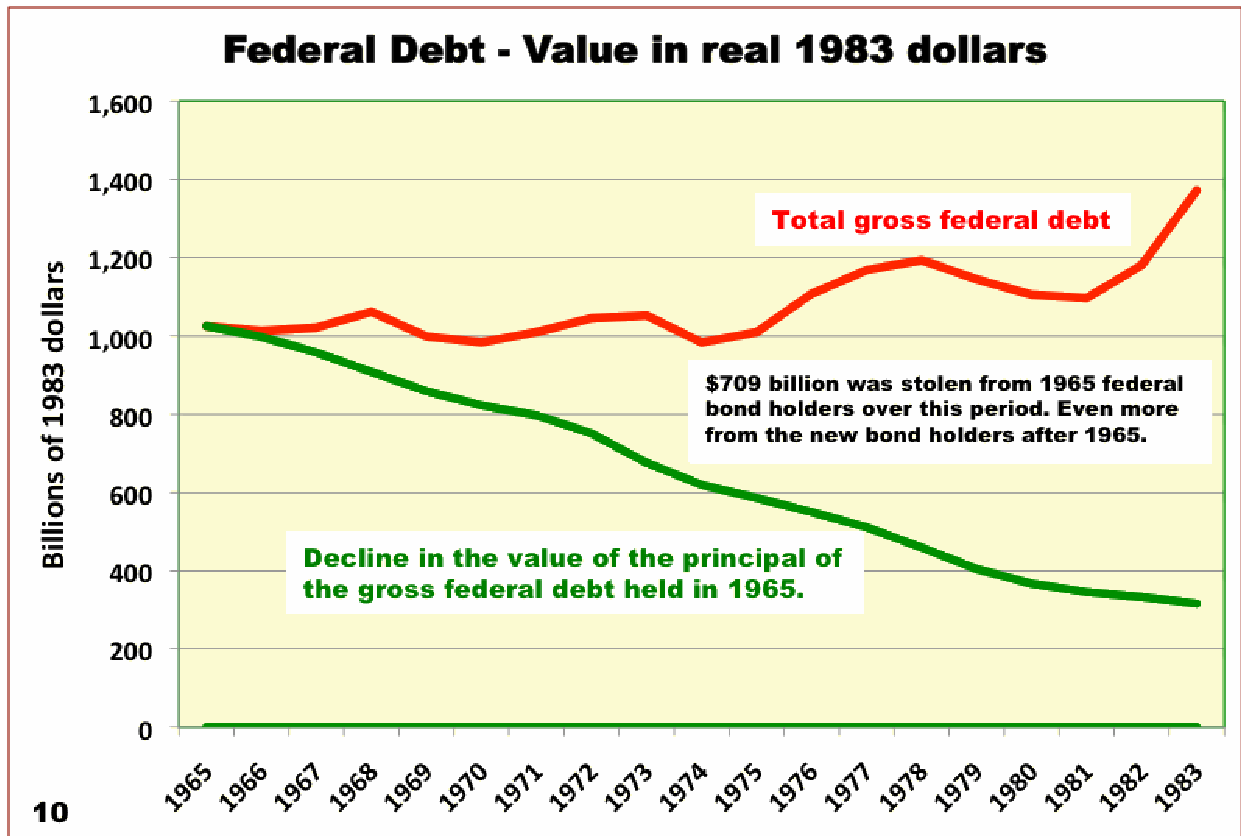
In other words, those 85 million Americans who did their patriotic best and invested in War bonds paid an extra tax that contributed heavily to the federal government's war expense.

[1] http://www.shadowstats.com/



The second major round of savings theft occurred in the 1970's. The chart above shows inflation in the period 1965 to 1983. All of these years had inflation, and four had inflation over 10%. President Johnson continued to add to domestic spending at the same time we were fighting an expensive war in Vietnam. His inflation continued and got worse under Nixon and Carter, with a slight reduction under Ford and then a serious reduction under Reagan.

The government's debt got another significant reprieve while savers' suffered. Borrowers, on the other hand, piggy-backed on the government destruction of debt and could pay off their mortgages with ever cheaper money. The Savings and Loan Associations with their extreme mortgage exposure would have almost all failed if the government had not bailed them out. Many people had long-term 5% mortgages, but the S&Ls had to pay 12% or more for their deposits.

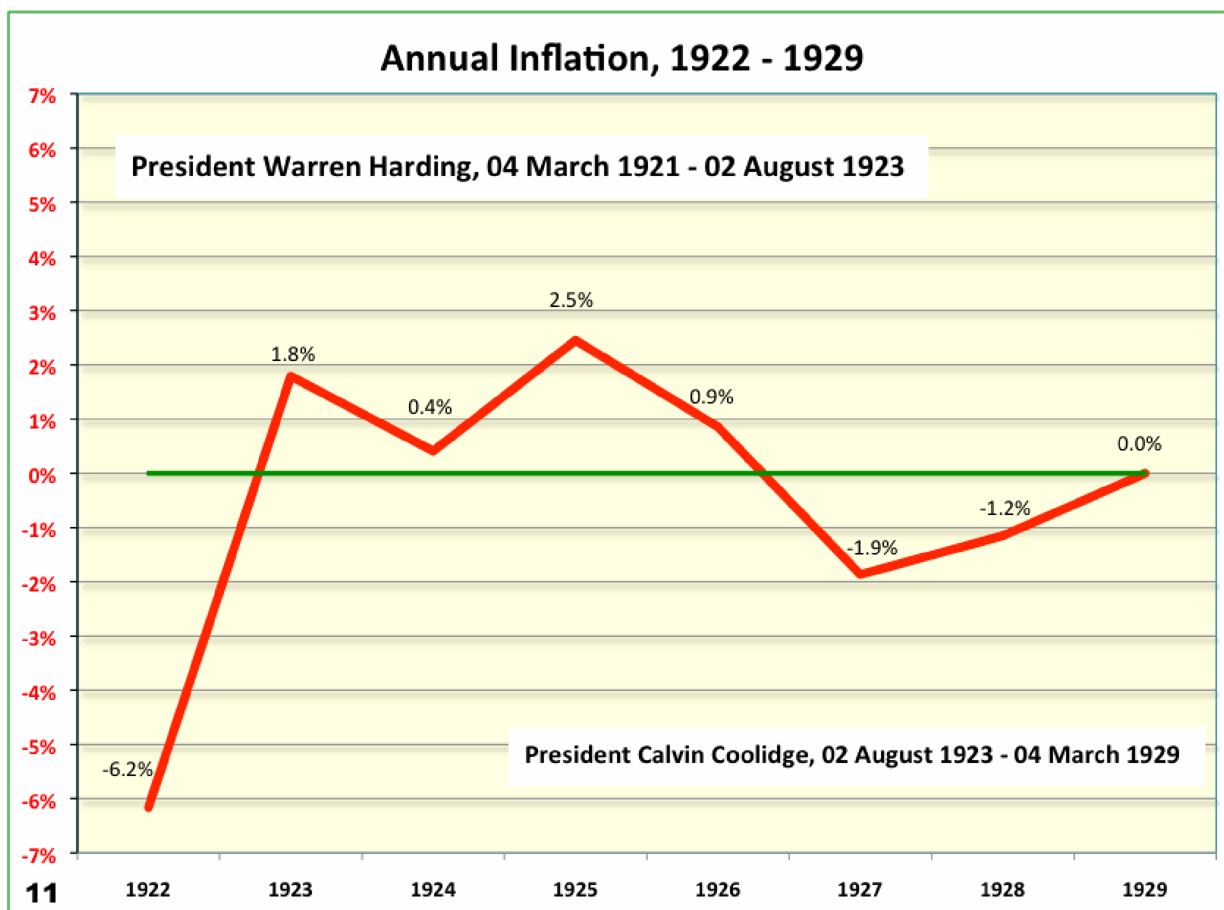


In 1965 the government had $1,025 billion of debt in real 1983 dollars. Inflation alone reduced the value of this debt to $316 billion by 1983 (the green line on the chart above). Over 2/3 of the debt the government started this period with was melted away by inflation – theft from the savers who had invested in the government's bonds. Sadly, additional debt was continually incurred, but was also much eroded by inflation. In spite of this, the total debt was higher by almost $400 billion at the end of this period than at the beginning.

This form of savings theft is indiscriminate. Corporations who sold bonds gained at the expense of their bondholders. Every other person whose savings were denominated in dollars lost the same proportion.

Even many of those who held no dollar assets in this period took a significant hit. Suppose you bought a rental unit in 1965 for $100,000. You made no capital improvements, but maintained it so it was worth the same in 1983 when you sold it for $318,095. In reality, you neither gained nor lost money until you paid the extra income tax on $218, 095. Once again the government is the big winner from the inflation they generate.

For a few years after 1983 inflation was a more modest 3% to 5% before it started to advance again.



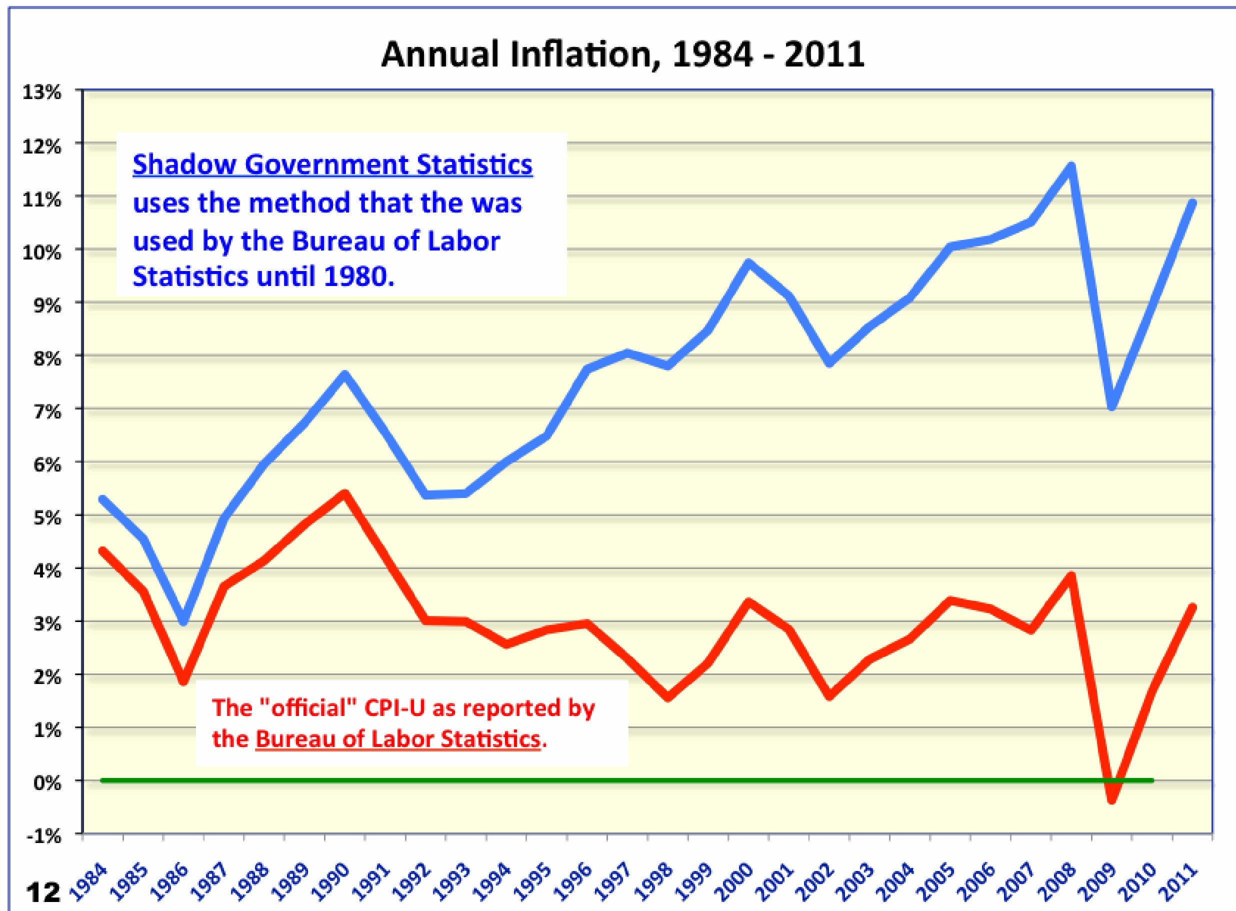
Let's review the most recent period when our government had truly responsible fiscal leadership – the administrations of President Harding and President Coolidge (chart 11).

President Harding took office in March 1921 when a severe depression had been under way for 15 months. That depression was more severe in those months than the one that started in 1929. Harding cut tax rates on upper incomes and cut government spending by almost 50%. He also made annual payments to reduce the debt. The depression reached bottom in August of 1921 and improvements started almost in step with Harding's first budget.

In the chart above, the zero inflation line is across the middle of the chart. Responsible government balances inflationary years with deflationary years.

Neither the Fed nor the administration can control inflation precisely. They control the quantity of money, but they do not control the speed with which it circulates. Both are critical to price inflation.

The velocity of money is currently low, so the government can print gobs of money without horrendous price effects. However, as transaction speeds return to a more normal range, prices will rise even without the injection of more monetary inflation!



We are now in the third major wave of savings theft by the US Government. This round is by no means completed, and by every indication it will be far worse than the previous rounds.

Some economists are even saying that the ingredients for hyperinflation are "locked in." A common definition of hyperinflation, is when inflation exceeds 100% per month.

The Bureau of Labor Statistics added a series of new features to their consumer price index since 1980. The chart above shows the annual effects of its "new, improved" version compared with the technique in use before 1980. After the first changes in 1980 the BLS made even more drastic changes in 1993 and since. As a result, the Social Security cost-of-living adjustment and any other contract tied to the CPI since 1980 is worth only 29% of what it would have been, if fully adjusted for inflation using the 1980 CPI calculation.

Some minor corrections to the CPI calculation may have been warranted, but the "corrections" have gotten out of control to the point that the new CPI understates the old CPI by over 7% a year.

In the BLS' new version of the CPI, for example, it applies geometric rather than arithmetic weightings to sampled items within each category. The effect of this change is to emphasize those items that are declining in price, while deemphasizing those increasing in price. This lowers the new CPI by about 2.7% (eg. from 6.7% to 4%).

The BLS' has also made calculation adjustments for what may be termed "product improvements" (hedonics). For example when the government required new additives in gasoline, the increased cost of the new gasoline was removed from the inflation calculation because it was considered a product improvement. It was just too bad that MTBE made people sick and had to be withdrawn. In another example, your computer has vastly improved features at the same price. Since the improved speed and features are improvements, the BLS records a large reduction in the price of computers. If the new machine is five times more capable, its price will be considered as having dropped by 80%. Too bad, if it only does a little more than the old clunker.

Since the Democrats took over the House in January 2007 the federal deficits (in FY2008-FY2011) have run 4,463 billion (or $14,537 for every man, woman and child in the United States). They also are working hard to prevent the new Republican House from reducing an optimistically estimated deficit of $1,100 billion in FY2012.

The Current Major Round of Savings Theft

1) **The Federal Reserve has artificially depressed the interest rate.**
2) **The federal government has borrowed a lot of money.**
3) **The Fed has vastly expanded the money supply.**
4) **The inflation rate is increasing.**
5) **The BLS CPI is no longer believable as a measure of household welfare.**
6) **Savings have lost 60% of their value in the past 10 years (SGS).**
7) **The losses are just beginning!**

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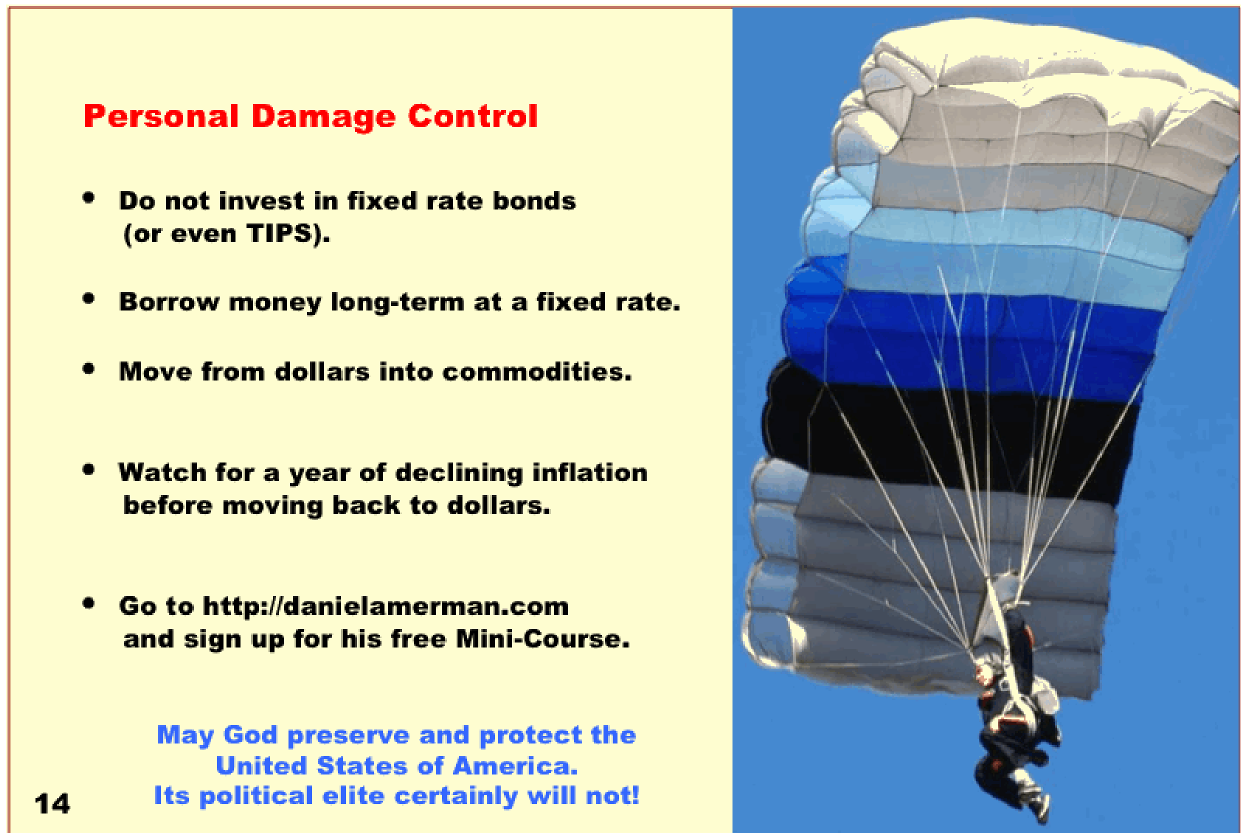
The current round of savings theft contains some new wrinkles. This time the Fed is artificially depressing the interest rates and the BLS has tinkered so much with the CPI that many of us believe it is intentionally dishonest.

So much money has been borrowed that the debt has grown by $4.5 trillion in just 4 years and now amounts to nearly $50,000 for every man, woman, and child in the United States.

The money supply has been expanded and inflation is increasing. If one uses the SGS CPI, inflation is currently about 11%/year and the dollar has lost about 60% of its value in the last 10 years. We cannot expect to do even that well in the next decade. The losses are just beginning.

In WWII and in the 1970's I am not sure that government economists really understood the mechanisms for theft of the people's savings. But this time, with all the previous examples, only an economic illiterate could not be aware of the setup for the greatest theft in American history.



We are past the point where governmental solutions will avert the current crisis. Therefore, its every man for himself; personal survival and damage control!

In the past 10 years the dollar lost 60 percent of its value. Any savings linked to the dollar did the same.

Unfortunately, that was just the setup phase. We are the sheep who have been set up for a tremendous shearing. Unless our federal government goes on a severe crash diet it will be forced to continue reducing the value of the dollar. At present it appears that the next 10 years will be worse that the last 10 years.

The savers of this country may be severely damaged, but that does not mean that everyone will be impoverished to the same degree. Many of you may have had open mortgages through the 1970s. If so, your mortgage got easier and easier to pay off as your income compensated for the

damage to the dollar, but your fixed-rate mortgage did not. Remember all those Savings & Loan Associations that were going belly-up and the major bailout program? Well those S&Ls had mortgages on their books at far below 1980 rates. The government through inflation had forced them to subsidize open mortgages. Many of us got a lot of the S&Ls money.

That can be done again by:

1) borrowing long-term money at the current low rates, and
2) squirreling it away in durable commodities.

You can piggyback on the government's theft program!

We don't have the time to examine specific techniques, so I refer you to the world's number-one expert on preserving money from the government's program of savings theft, Daniel Amerman. Mr. Amerman was heavily involved in the S&L bailout program of the 1980's when he realized that the S&Ls were losing their money to their mortgage holders.

Take his mini-course and read some of his books.[2]

May God preserve and protect the United States of America!
Our political elite certainly will not!

[2] http://danielamerman.com