

# A Different Look at Inflation

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The construction of the Consumer Price Index and other measures of inflation in the economy seems always to be a matter of contention. For example, we who believe that deflation is the long-term result of the current economic environment cite the study done several years ago that the then CPI was biased upward by some 1%. Some changes were made that accounted for approximately 0.3% of that bias. The inflationists on the other hand, believe the bias is very much in the other direction. We have seen no credible study indicating this is true. What we have seen are a number of conspiracy theories opining that the party in the White House dummies up the numbers to suit themselves. Everyone attempts to find that which justifies one's own opinion rather than finding the facts which then form the opinion. That's human nature of which we are a great fan when it comes to financial market expectations.

Below please find something we should all be able to agree on – the result of Government intervention in the free market delivery of good and services. This chart, developed Robert Prector, is very revealing. Many rail at fiat money (no backing and expandable at will by the Fed) but what about fiat inflation? That is your government at work. Alan Greenspan recently quoted Milton Freidman's famous line that inflation is always a monetary phenomenon. We believe this is half-true – the other half is the wedge government creates between buyer & seller.

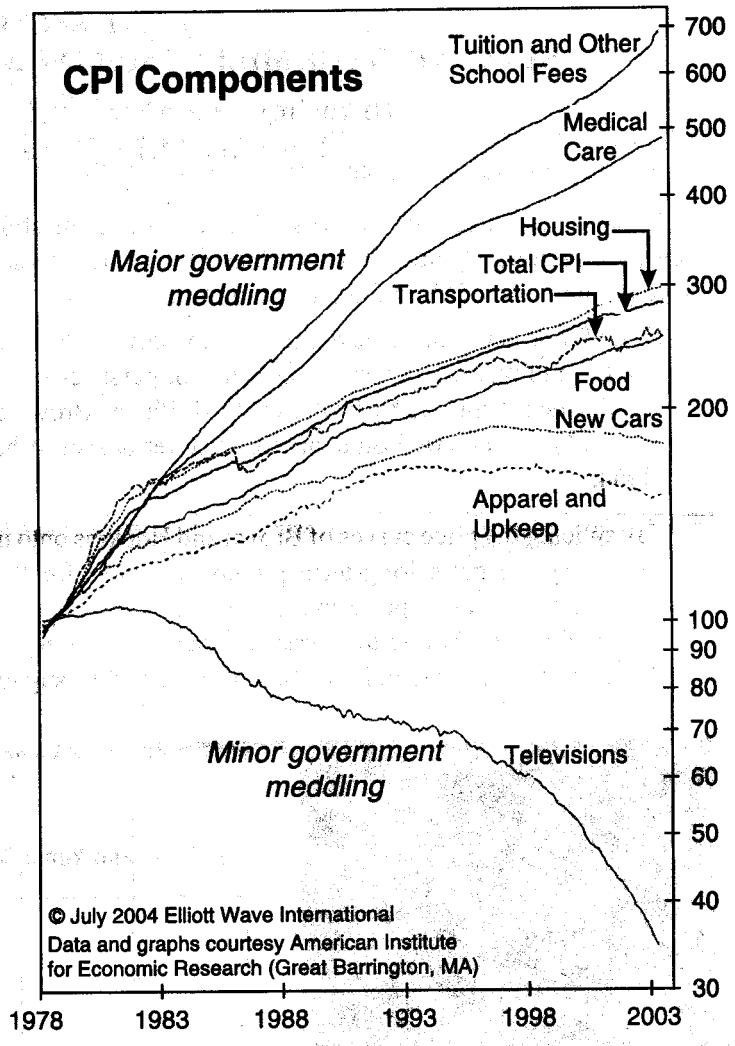


Figure 3