

## ***LIVING WITH THE LIE OF LOW INFLATION***

**REAL MONEY column for The Santa Fe New Mexican**

**By Rob Rikoon**

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We are all living with a big lie called low inflation. With no relationship between our paper money and any real asset, the last few decades have seen a widening gap between what we are told and reality. For readers interested in details, look for Kevin Phillip's book "Bad Money".

Part of my job is to protect our client's standard of living. When financial market activity is primarily based on specialized access to information (hedge funds), massive technology (banks), or just plain misinformation (government statistics), there is a problem. The difficult thing is how to articulate how these lies impact us regular folks.

The truth is, as economic beings, we are experiencing a debilitating loss of purchasing power simultaneous with a seeming inexorable decline of job opportunities. The amazing part is that we are unaware, on a day to day basis, of how this is occurring. John Williams coined a phrase for economic deceit of "Pollyanna creep" and Bill Gross, who manages more bond money than anyone else on the planet, calls the state of our economics (and therefore stock and bond markets) a "haute con job".

Inflation numbers have been under reported for 40 years now, with each successive Administration adding to the mirage. The benefit to the government is obvious, social security payments would be 70% higher than they are today if the figures used to calculate cost of living adjustments were based on the original, common sense methods established in the 1960s. If you feel like you are being screwed but can't quite figure out by whom or how, herein lies one piece of the puzzle.

Other important numbers that we rely upon to know where we stand have also been purposefully falsified. There are six definitions of unemployment now with only the lowest used in the media. Measuring the nation's output has been fudged to the point where the terms recession and recovery have little bearing on most people's experience of employment or investment opportunity.

The net result of all these lies is that people understandably and justifiably doubt the fairness of the "system". This is a problem if you are an investor relying on the markets to protect wealth, a retiree relying on fixed payments or a consumer trying to find durable domestic products. When people lose faith in their government and official markets, economic activity starts to move off the books, underground and outside of voluntary tax collection channels. This is normal for under developed nations with little history of multi-cultural participatory democracy.

Most people in the developed world are culturally trained to comply with their government's directives. If we wake up one day and sense that we have been duped, a change of occupants in the White House or Roundhouse will not matter. The severe under reporting of inflation and

unemployment is an effort to keep people believing in the status quo without feeling just how fast the standard of living is declining. The over statement of the nation's output growth rate is intended to keep investors optimistic while public deficits mushroom out of control.

I am not quite sure what will give out first, the international money funding our fantasy lives or our tolerance for being lied to. We aren't forced, on a daily basis to feel the pain that may be required to take the cure that reality would prescribe: living within our means and doing what it takes to be sustainably productive.

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