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Hemingway Was Right About America (Turns Out He Had Paul Krugman Figured Out, Too)

Dear Fellow Expat:

Ernest Hemingway once wrote: "The first panacea for a mismanaged nation is inflation of the currency; the second is war."

Imagine what Key West's finest author would say about the United States today, as it barrels relentlessly through both conditions.

You feel it. I feel it. We're sending tens of billions of dollars to Ukraine and a comparative pittance to burned-down Maui.

Our cities are falling apart, but the \$1.4 trillion inflationary deficit isn't putting a dent in the nation's problems.

All the while, these situations are normalized by America's intellectual class.

Get this...

Even as we pump tens of billions a month into our perpetual war machine, economists like Paul Krugman now suggest Americans should live with higher inflation *for longer*.

What gives?

Live With It, Plebs



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Index Momentum

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RED

This week, Paul Krugman backed a Harvard University professor's call in the *Wall Street Journal* for the Federal Reserve to abandon its 2% inflation target.

Harvard professor Jason Furman used to work in the Obama White House. He says the inflation targeting *dating back to 2012* can be adjusted from the Fed's official target rate. He says a 3% *inflation rate* is "good enough" to "declare victory."

And there it is, folks: Once again, we'd be changing definitions and moving the goalposts for political purposes.

Here's the gist for those unfamiliar with the concept of inflation targeting.

Inflation targeting consists of using the central bank's open market operations to influence the increase or decrease of inflation to a specific target, about 2% per year. Open market operations include hiking and cutting interest rates, using bond purchases and sales to control the money supply, or engaging in repo operations.

So, when inflation is only at 1%, the Fed will cut interest rates or buy assets to pump money into the economy. Its hope is that these actions will push inflation up to the 2% target.

In the case of the 6% inflation earlier this year, the Fed raised interest rates and sold assets like bonds to pull money out. Its efforts have contributed to a decline in the Consumer Price Index (CPI), a profoundly half-assed measurement of U.S. inflation.

It's the Silent Killer of Empires

First, the obvious.

Furman (and most media outlets, for that matter) ignore the fact that the Fed's inflation target has been publicly known since 2012, or barely 11 years.

But it's been a core central bank policy since the early 1990s; the Fed just kept it secret for two decades. There is ample evidence that then-Fed Chair Alan Greenspan [directed the Fed to engage in this practice](#).

Even Ben Bernanke openly [spoke about the subject in 2003](#).

But why a 2% or 3% target at all?

Well, as you know, not even Powell could explain that during Congressional testimony in March.

But I will in just a moment.

In economics, inflation is referred to as "the silent killer."

It sank the Roman Empire. It helped usher in totalitarianism from Germany to China.

It's an absolute morale killer for workers and their bosses alike. And it's completely manmade.

But after all this historical evidence, along comes ([dare, I say, war-hawk](#)) Paul Krugman telling us to dismiss the 2% target and "JUST LIVE WITH 50% MORE INFLATION."

Furman argued that the Fed still has a lot of work to do to keep inflation down. Krugman thinks everything is just fine.

"I'm puzzled by his assertion that there's a lot of work still to do, and that the hardest part may still lie ahead. Most measures of underlying inflation are currently sitting around ... 3%," Krugman writes before dismissing the idea that the central bank should keep going.

"So, if you think 3% is the right target, shouldn't we be declaring victory?" Krugman said. "Or to put it a different way, if 2% was a mistake, how many people should lose their jobs for a mistake," he noted.

I agree that 2% is a mistake... but not for the reasons Krugman argues.

The entire prospect of inflation targeting has been one of the leading drivers of economic inequality and central bank



malfeasance for the last 30 years.

The Fed's expansion of assets has largely benefited large financial institutions, who benefit from higher asset prices and the financial engineering which are central to Open Market Operations.

When the results of inflation targeting eventually trickle down to the working class and pensioners, they see no benefit - only higher prices and reduced purchasing power.

John Maynard Keynes - the father of Keynesian economics and a big influencer of Krugman's "thought" - once warned: "By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens."

The 2% target is said to be necessary to influence money out into the economy - because if Americans believe their currency will decline in value in the future, they will spend it now.

This also helps explain why consumers are racking up alarming debt levels right now. If you think debt will be inflated away, you rightfully spend. After all, inflation is a transfer from savers to the debtor class.

The reality is that a set 2% inflation target by the Fed has been little more than legalized theft of purchasing power... just enough to have Americans tolerate this gift but not enough to send them into the streets with pitchforks.

It enables more financialization of the economy, the printing of new currency, and the refinancing of the debt-based system.

The War on Savings

There's a lot to unpack with Krugman.

He's argued that the U.S. doesn't have to pay off its \$32.6 trillion in debt.

There isn't a deficit that Keynesians won't dismiss because America has a money printer, and the general Keynesian view is that you can inflate away your debt. This is fishbowl economic theory because it fails to recognize that some nations won't do business with you anymore if you inflate away your debt.

Some might even go to war with you.

The only people who will when it gets out of control are the populace that is forced to use a failing currency.

Imagine being a Nobel Prize-winning economist... and not taking 30 seconds to admit higher inflation is downright poison for the average American citizen...

Only some people can charge five figures for a speech, hold a cushy Op-Ed gig for the *New York Times*, or teach at MIT.



Most Americans are living paycheck to paycheck.

So, with a 2% target on inflation, let's do a very simple math equation.

How much - at an inflation rate of 2% - would your \$100 maintain in purchasing power after five years?

After the first year, your dollar would be worth 98 cents. So, the mathematics here is to take 98% of the previous number.

The equation is simple: .98 to the fifth power... or $\$1 * 0.98$ (end of year 1) $\times 0.98 \times 0.98 \times 0.98$.

After five years, that \$100 is worth \$90.30.

That's a near 10% aggregate decline over five years. As an American, you'll deal with it. Politicians will tell you that inflation is much worse in other nations - even though their policies create inflation in the first place.

Now, let's try 3% inflation.

The equation, again, is simple: .97 to the fifth power... or $\$1 * 0.97$ (end of year 1) $\times 0.97 \times 0.97 \times 0.97$.

That \$100 would be worth \$85.08 after five years.

That's a total decline of roughly 15%.

In what logical context is the debasement of currency rationalized when just looking at those differences?

And that's assuming that inflation is just 3%?

The math is outrageous at 6% or higher regarding how it quickly erodes purchasing power over time.

Investing in a Krugman Inflation Spiral

The average American would lose more than 50% of their purchasing power in 36 years under a 2% inflation target regime.

That figure falls to 24 years in a 3% target regime.

We'd be curious how Krugman would advocate that ordinary Americans, tolerating his proposed inflation target hike, hedge against declining purchasing power.

He's mocked gold as a "pet rock."

He said that cryptocurrency has no economic purpose.

So, what is the Krugman defense... or defense against Krugman?

Remember that inflation and money printing can and will drive up the costs of real assets - like cars, houses, land, and more...

The never-ending release of funds over the last decade put us on this path - where central banks and the government printed too much money - ran the risk and real assets higher... and priced out a generation of Americans from ever owning a home.

But don't worry about the debt...

For Krugman, we can always print more money.

And we can always take a page from Orwell and declare war on East Asia - or maybe Oceania, depending on what week it is.

Inflation and war.

The signs of a mismanaged nation.

Hemingway was a better economist than Paul Krugman.

Stay positive,

Garrett Baldwin
Secretary of Finance