How Plans of the New President Will Affect You
By John V. Kamin

Jim Rogers, a money manager in an MSNBC interview in November said that the new President's main plans were protectionism and tax hikes on capital (wealth). Rogers wondered aloud how tax hikes could be stimulating to an economy in a recession. Usually, the effects are the opposite. Other contributors felt that a "tax on wealth" was a "tax on capital" and would serve to diminish hiring (jobs), not increase hiring.

Protectionism is another story. During the great Depression, many protectionist schemes, quotas and tariffs were adopted. The net result was that most countries could not continue to do business with each other in a free and forthright manner. That made the Depression much worse. Protectionism, tariffs and quotas were called "beggar thy neighbor" policies, where your country would seek to "protect jobs at home" while impoverishing trading partners and exporting unemployment. When trading partners did the same, that also cut jobs at home.

FDR felt the way out of the Depression was to re-inflate the economy. First, he grabbed all the gold at $20 per ounce. After getting it, he raised the price in stages to $35 per ounce – an arbitrary benchmark.

Did it work? Not really. By 1940, eight years later, the USA was still in Depression mode. Recoveries were short, brief and temporary until 1942, when World War II deficit expenditures lifted everything!

Recently, Jim Rogers said that the Fed is "printing money like crazy." Also, debt musts be monetized, created. The USA must create fresh bailout money by borrowing, which will crowd out small borrowers.

Fiat money (unbacked by gold and silver) creation at astronomical rates historically leads to a much higher inflation. Those who understand economic history advocate traditional inflation hedges and hard asset accumulation, well in advance of inflation in the years ahead.

I don't think you have to worry about deflation, even amidst bankruptcy sales and Wall Street deflation so much. Instead, you may focus on future planning for the much higher inflation that usually follows a flood of new fiat money. Many prices are still rising.

Inflation Myths
Some ask, or believe, "How can you have inflation amidst recession?" Simple. The cost of doing business goes up, raw materials go up, labor goes up, cost of capital goes up or is not available through normal borrowing and then prices begin to creep upward.

If firms cannot make money on what they produce in goods and services, then they go out of business. Yes, it has been demonstrated that you can have recession amidst inflation and high inflation at that. From 1971 to 1980 the entire decade was inflated, even though Wall Street was often in the dumpster. The prime rate soared to 16%; the inflation rate soared to 16% as President Carter was de-elected in 1980, replaced by Reagan.

Two years later, the watered-down Reagan tax cuts began to stimulate the economy. But eventually, Congress was overspending greatly by 1986. Bush, Sr. raised taxes in October 1990 in the "Deficit Reduction Act of 1990", setting the stage for another de-election.

A tight-fisted Congress, plus the tax hikes by Bush, Sr. had set the stage for President Clinton to declare credit for "balancing the budget".

Forecast: The plans of new President Obama seem to indicate:

- Higher inflation ahead
- Higher taxes ahead
- Negative news for capital formation, wealth and savings
- Lengthier recession than most people expect.

Kamin's 13th Law: *In a fiat money economy, halting inflation and raising employment are incompatible goals short term. Programs to reduce unemployment usually increase inflation and programs to reduce inflation usually increase unemployment.*

Kamin's 14th Law: *Business cycles do not revolve on opinion surveys of bankers, consumers, brokers, businessmen, agents, economists or bureaucrats. While cycles may influence consensus opinions, cycles do not depend on group opinion surveys, but operate independently, medium term and long term.*

Suggestion: Watch out for more unexpected surprises. Remember that business cycles cannot be legislated out of existence. Many have tried, none have succeeded. Most forced job creation efforts have only succeeded in exacerbating inflation, a common occurrence under fiat money systems.

We can hope that Professor Larry Summers, Tim Geithner and other Obama advisors can bring into focus the history of protectionist efforts, accompanied by studied history of tax hikes, to limit the damage. Let's hope your Uncle Sam doesn't crowd out small borrowers and small businesses who need lines of credit to prosper and create jobs. Let's hope that efforts to deprive lenders of the collateral backing mortgages (homes and buildings) by halting or delaying foreclosures does not discourage those same lenders from lending, because lenders can't get access to the collateral backing newly-unpaid loans (homes)!

Questions and Answers Troubling Many
Question: Is a depression possible?
Answer: Yes.
Question: Do you think more inflation is ahead? I see many people preaching "deflation" ahead and personally, I think an inflationary depression is possible.

Answer: Yes. Undoubtedly, there has been deflation in some areas. Wall Street, commodities that China bought heavily and has now stopped overloading.

But other things, including service industries, are rising in price. Insurance costs, tuition, health care costs, hybrid cars and regular cars. Repair bills and even phone bills are creeping up as well as vegetables and fruit. When you are in a fiat money situation, when inflation is a problem, when $100 billions are being printed for bailouts, $1 trillion in debt being monetized, longer-term inflation is inevitable. This is a different situation than 1929 to 1932 when the money was still backed by gold and silver coinage, plus a huge government gold and silver hoard of precious metals.

I forecast the U.S. dollar to continue to lose purchasing power long term, 2009 to 2020. Bar None.

Question: I see people selling 10 oz. silver bars and 100 oz. silver bars on the Internet. Many can't deliver. They talk a good "case" for buying silver. What do you think?

Answer: Silver bars have no numismatic value; no collector value. PREDICTION: Bars will not have collector value this year, next year, the next 10 or the next 25 years. They should be avoided. Also, did you also check on the Internet the prices they are charging such as $16.95 per oz. or $17 per oz or $20 per oz?

RESALE: How are you going to make money if you pay nearly double the current $10 per oz. silver price for bars? Some people appear to be buying silver options contracts and taking deliver of larger bars, then trying to melt them down from 1,000 ozs. To make up 100 oz. or 10 oz. silver bars. The refineries are backed up many weeks. Your bars and your money are tied up while refineries work through the backlog and you have no control over the silver price.

In my personal opinion, buying the bars, small or large, is a little bit of a weird idea. I have some experience with refineries, in that I tested them several times and their practices. I don't want anything to do with silver bars – buying or selling or making recommendations on them. I don't want to be in the refinery business, risk refinery backlogs or other "hang-ups" or delays. Have you considered necessary resale transactions? Suppose you buy a 100 oz. silver bar. To whom will you resell it - especially if you paid $1,700 or so for it? Our firm will not buy it or sell it. Maybe a refinery would, but they'll only pay you the going daily rate for silver less a substantial profit charge. You may be also charged for assay or verification.

Since most bars are privately minted, there can sometimes be some dishonest things going on and it's very different from buying or selling USA government-minted coins, where you know the maker and you know that they are honest.

It's your money; you can do with it what you wish. But I don't wish to have anything to do with Internet transactions in silver, silver bars, privately minted items or the like. And

I don’t want to wait for weeks or months with unknown Internet sellers waiting to receive money or valuable goods; that, I deem taking unnecessary risks.

Remember, I’ve been interested in silver for many decades, since it was 91 cents per oz., following it closely and researching it. And if a pro like me is “turned off” by certain Internet transactions, how can the less experienced individual expect to profit? Especially if they pay nearly double simply to acquire privately manufactured bars!?

[Editor’s Note: Mr. Kamin is a numismatic and can buy and sell coins as a broker for his subscribers. He has purchased tens of thousands of dollars worth of gold coins for Dan Faller and is highly recommended by Dan.]

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