

The Beast That Is Inflation



The latest remarks by German finance minister Lindner, might be considered worthy to become word of the year. When he spoke about inflation, he called it a “beast.” His comment may be a winning entry for this year’s “word of the year” competition. However, considering his role in the German government, it is not so much the task of a finance minister to find pithy words to describe economic circumstances, but rather to increase the welfare of the citizens. At least, this is what ministers commit themselves to when they take their oath of office.

Unfortunately, those responsible for monetary stability have failed to prevent loss of purchasing power. To blame, first and foremost, is the European Central Bank (ECB), whose mandate is to ensure monetary stability. But governments in the EU can also make significant contribution to monetary stability through their budgetary and fiscal policies. However, sharply rising budget deficits (despite higher tax revenues) and enormous national debt, show that EU governments lack fiscal discipline.

The ECB is to blame for deteriorating economic prosperity, which has been ushered in by ever-

increasing inflation. It was not long ago when the ECB decided to create inflation with negative interest rates and gigantic bond-buying programs. Today, it has to be said that the ECB has fully succeeded in producing inflation - albeit with a time lag. As in Goethe's Sorcerer's Apprentice, it is time to say:

Ah, here comes the master!
Lord, the need is great!
The spirits I called, the spirits
I cannot get rid of them now.

In May, the rate of inflation was again well above the self-imposed target of 2%, at 6.3%. The rapid loss of prosperity by the popula-

tion thus continues, after the financial crisis, by means of “financial repression” and currently through sharply rising consumer prices.

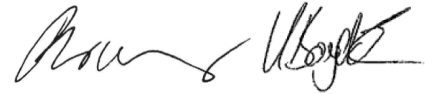
Meanwhile, the European Central Bank has just celebrated its 25th anniversary. In the celebratory speeches, an astonishingly positive tone was struck. Even the inflation trend over the past 25 years was met with satisfaction, despite the fact that consumer prices have risen by more than 50% since the introduction of the euro in 1999. Moreover, no mention was made of how low economic growth has been during this period. One of the sad truths

of the last 25 years has been the weak economic performance of the eurozone compared with the United States and China. This applies to both economic growth and growth of wealth amongst citizens. In this respect, one would have wished for a more modest tone from the speakers at the ECB. The efficiency and effectiveness of the European central bank system should be questioned. Compared with the U.S. and China, the eurozone has an oversized central banking system - each country in the eurozone has its own central bank, which is sometimes very large.

All in all, the ECB encouraged inflation with its permanently low interest rate policy and outrageously high bond purchasing programs ("quantitative easing"). In the process, it has been mightily harassing German interest rate savers. Investors in real assets fared better, as real estate and stock markets were able to flourish in the artificially created environment of cheap money. Dynamic tangible assets (those that can adapt to changing conditions) apparently mark the silver bullet of capital investment. This insight remains the guiding principle at LOYS.

Sincerely yours,

Fund managers and co-investors



Dr. Christoph Bruns Ufuk Boydak

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