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I cover economic/political issues with liberty as my polar star.

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The Rising Price Of the Falling Dollar

By Charles Kadlec

Do you know why oil and prices are moving sharply higher? Some blame the oil companies, charging they are manipulating prices. Others cite U.S. sanctions on Iran and the threat of a military encounter that would disrupt the flow of oil from the Middle East.

Speculators, too are blamed for ostensibly bidding up the price of oil. In the political arena, President Obama is taking credit for increased domestic oil production even as his critics point out the slow pace of drilling permits issued by his Administration soon will hamper additional increases in the U.S. oil production.

Yet, the basic reason for higher energy prices is being overlooked, even though it is right before our eyes: Oil prices are up because the value of the dollar is down. Our common sense hides this source of higher prices because we view the dollar as fixed, and prices as moving. News reports explain the sharp rise in consumer prices in February were caused by higher energy and food prices, implying that higher prices cause inflation. Of course, higher prices do not cause inflation. Higher prices are inflation.

The cost of this deception goes well beyond the vilification of the oil industry and free markets. The real price of the on-going debauchery of the dollar is measured by the loss of our prosperity and the debasement of our liberty.

Neither the dollar, nor the price of individual items are fixed. Changes in the relative prices of goods and services occur because of technological change or shifts in supply or demand. The price of computers and televisions fall relative to the price of, well, just about everything. On the other hand, the freeze earlier this winter in Florida reduced the supply of oranges, leading to an increase in the price of orange juice. But, the value of the dollar also changes, usually in ways that are imperceptible over short periods of time. As a consequence, when the dollar price of gasoline rises 6% in a month, as it did in February, it appears that the price of gasoline is up, rather than the value of the dollar is down.

To see more clearly how the price of the dollar has changed, it helps to view price changes over a 10 year period. Since 2002, the price of a barrel of oil has increased four-fold, to $107 last Friday from $26 in 2002. To suggest that oil companies had enough power to impose such a price increase, or that speculators are responsible for a quadrupling of the price of oil is, on its face, preposterous. Instead, the price of oil and gasoline are up because the Federal Reserve has driven the value of the dollar down.

For example, if the dollar since 2002 had been as good as the:

• Chinese yuan, the price of oil today would be $82 and a gallon of regular gas would cost about $3.10;

• Euro, the price of oil today would be $77 and regular gas would cost about $2.90;

• Japanese yen, the price of oil today would be $71 and regular gas would cost about $2.75;

• Swiss Franc, the price of oil today would be $63 and regular gas would cost about $2.50.

Even these results miss the full decline in the dollar's value because the value of all of these currencies, too, have fallen over the past decade. If the dollar had been as good as gold, the price of oil today would be about $20 a barrel, and the price of gasoline would be down near $1 a gallon. That's right, the lower prices produced by the increase in oil and natural gas production have been disguised by the fall in the value of the dollar.

However, we do not see how the hundreds of billions of dollars of shareholder money put at risk to find and develop those vast new supplies of oil and natural gas have put downward pressure on energy pricers. Instead, when we experience higher gasoline prices, we intuitively know the nominal value of the oil in the ground developed with 2002 dollars has gone up right along with the price of gasoline, producing unbelievable profits seemingly at our expense. But, the paper dollar system, not the oil companies or, by implication, free markets, are to blame for the resulting windfall.

The on-going debauchery of the dollar also erodes our prosperity and our security. As detailed in the booklet I co-authored with fellow *Forbes.com* columnist Ralph Benko, since the final link between the dollar and gold was severed in 1971, the paper dollar system has produced slower growth, higher average unemployment, deeper recessions, and more frequent financial crises. Had U.S. growth continued at its pre-1971 post World War II average, the economy today would be 50% larger, and incomes, on average, 50% higher.

These findings were corroborated by a study by the Bank of England which found that when compared to the post World War II gold standard under the Bretton Woods system, world economic growth was a full percentage point slower, inflation 1.5% higher, downturns more frequent, and banking crises soared to an average of 2.6 per year.

The greatest price of the deception created by the falling dollar is the steady erosion of our liberty. The illusion of higher oil prices has been exploited by the governing class to increase the size and scope of government. Mandates proliferate, from the imposition of fuel economy standards to the wasting of billions of dollars in subsidies on ethanol, electric vehicles, money losing green energy projects, and windmills that slaughter 250,000 birds each year.

The power to print money at will also has corrupted our system of government. First, by financing growing government deficits with newly created money, it has removed the ability of market participants to check the growth of government. Even worse, the combination since December 2008 of zero percent interest rates and an 8% increase in the price level represents an unaccounted for partial default on the federal government's then $10 trillion in debt. In effect, the government has stolen $800 billion from the holders of its debt. On today's $15 trillion federal debt, the theft, and injustice, is even greater.

This lack of accountability has undermined the legitimacy of government — and also legitimate commerce. An unstable value of the dollar has contributed to the bubbles and more frequent and severe financial crises of the past 40 years. It has led to the proliferation of all sorts of financial instruments and derivatives that advantage Wall Street over Main Street. And, the Federal Reserve's zero interest rate policy continues to rip off savers by transferring hundreds of billions of dollars in spending power to those who borrow.

Far more is at stake than high gasoline prices. Restoring order to oil markets, stability to gasoline prices and legitimacy to government and markets requires a fundamental reform of our paper dollar monetary system. The latest oil shock, the current financial crisis, and the experience of the last 60 years demonstrate that replacing the paper dollar with a dollar as good as gold is essential if government is to fulfill is fundamental purpose of securing for the people their unalienable rights to life, liberty, property and the pursuit of happiness.

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