Egypt and why it Matters to your Wallet - Ben Bernanke's Revolution

February 3, 2011 - If you listen to the political pundits on TV, the current revolt in Egypt is largely being blamed on a movement that started last month in Tunisia. The people of Tunisia rallied and toppled the government there. For the very first time in modern history, and Arab county had its government toppled by a popular revolution and it was televised, tweeted and facebooked for the entire world to see. The people of Egypt saw this and started a similar revolt. But the reasons for what happened in Tunisia and what is currently happening in Egypt are very different. And depending upon the outcome in Egypt, there is a very real possibility of a huge spike in inflation.

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Late last month there was a popular revolt in Tunisia that topped the government there. The spark for that revolt was an increase in food prices. All of this has been reported in the main stream press. But what the press is not talking about are the reasons for increased food prices. And you may be surprised to learn that these prices have not just gone up due to increased global demand. They have increased in large part due to the policies of the FED and Ben Bernanke. It may turn out that this Chairman of the Board of Governors is single handedly responsible for destabilizing the Middle East and beyond.

A number of reporters have speculated that food prices are increasing because the cost of oil is also increasing dramatically. But why? Well, demand for oil is up. But that only accounts for a portion of price increase.

Oil is traded in dollars. And Ben Bernanke has been engaged in a policy that is called Quantitative Easing. That's economist-speak for "turn on the money printing presses." Bernanke has been doing just that. He's creating money to buy US Treasury bonds, and that policy is making the dollar worth less. It is also causing oil prices to spike. And because virtually all farming operations around the globe use petroleum based products, and because all food needs to be shipped, food prices are going through the roof.

If you have been to a grocery store recently, you know that prices have risen dramatically. Can you imagine what it must be like for people in areas of the world where the average annual income is less than $1,000 annually? That gives you an idea of what happened in Tunisia.

The people of Tunisia are different from the people of Egypt however. Tunisians are largely literate and they do have a middle class. In Egypt, a large portion of the population is illiterate which tends to incubate radicals. Egypt is also strategically located. It controls the Suez Canal - which much of the world's oil flows through - it borders Israel and it has a major oil supply pipeline that runs through it. If Egypt winds up with a radicalized government, the world's oil supply could become threatened.

Anyone who is old enough to remember the late 1970's knows what an oil shortage looks like. It means gas rationing and a spike in the price of all forms of fuel. During that period of American history, inflation was over 20%.

This time, we can expect the same thing but inflation may be much worse; especially in foo

d and oil prices. In the 1970's neither China nor India required the same supply of oil that they do now. They were largely agrarian countries. Today, they are industrial giants in the making. But they both have large portions of their population that live in poverty. With rising food prices, that's a recipe for disaster and could lead to the destabilization of their governments.

The bottom line is that everyone needs to be prepared for a wave of inflation over the next few months. And that wave started with Ben Bernanke. He's using methods to stimulate the economy that have never been used before, and he apparently never really though about the consequences of his policies.

byJim Malmberg
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