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United States Senate

WASHINGTON, DC 20510

April 25, 2011

Chairman Benjamin Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Chairman Bernanke:

I am concerned that inflation has already accelerated inside the U.S. economy while lagging government measurements will take too long to give sufficient warning. Once higher inflation gains momentum, it will do great damage to the U.S. economy by stifling small businesses, challenging families and fixed-income seniors.

During your March 1st testimony before our Senate Banking Committee, you noted that rising commodity prices and uncertainty over oil supplies could change inflation expectations with *"...sustained rises in the prices of oil or other commodities [that] would represent a threat both to economic growth and to overall price stability, particularly if they were to cause inflation expectations to become less well anchored. We will continue to monitor these developments closely and are prepared to respond as necessary to best support the ongoing recovery in a context of price stability."*

It appears that your words of warning have been realized. As of April 1st, many commodity prices are sharply up since last year, including copper (18%), light crude (25%), soybeans (48%) and corn (85%). In my meetings with small business owners across Illinois, they report rapidly increasing prices inside the U.S. economy. This strong upward price trend may take weeks, if not months, for government measures to record.

Recently, the Chairman and CEO of Berkshire Hathaway, Warren Buffett, stated "I would recommend against buying long-term fixed-dollar investments…[I]f you ask me if the U.S. dollar is going to hold its purchasing power fully at the level of 2011, 5 years, 10 years or 20 years from now, I would tell you it will not." This is a stark warning from one of our country's most experienced and successful investors.

The Bureau of Labor Statistics reports that twelve month inflation rates rose from 1.7% in January to 2.2% in February to 2.7% in March, a nearly 60% increase over the last 90 days. The latest seasonally-adjusted Bureau of Labor Statistics CPI-U reports an even higher rate of 4.7%. Additionally, MIT economists now project the world inflation rate rose to five percent. Clearly, European and Chinese central banks expect inflation and took measures to slow it. Both the CPI-U and the MIT worldwide rates are now substantially higher than the "1.25 to 1.75" U.S. inflation range projected by the Federal Reserve just six weeks ago at the March 1st hearing.

As the home of the world's reserve currency, the United States should experience lower inflation than markets overseas. Recently, both the *Wall Street Journal* and *Washington Post* editorial boards warned that with a weakening dollar, this may no longer be true. Yesterday, the *New York Times* highlighted a Northwestern University study by Professors Arvind Krishnamurthy and Annette Vissing-Jorgenson who showed that under Quantitative Easing interest rates decreased, but only for companies with top credit ratings. They wrote "rates that are highly relevant for households and many corporations — mortgage rates and rates on lower-grade corporate bonds — were largely unaffected by the policy." Recently, the President of the Philadelphia Federal Reserve, Charles I. Plosser, echoed the conclusions of that study. Regarding Quantitative Easing, he said "I didn't think it was going to have much of an impact, and it complicated the exit strategy. And what we've seen has not changed my mind."

The rising price of energy, negative S&P outlook for U.S. debt and broad-based increase in the price of other commodities/goods puts the U.S. in a rapidly changing environment for expected inflation. I would strongly urge you to increase the speed with which you measure prices. Should you also find the trends that I have now heard widely about, you should prepare the Board for an early end to Quantitative Easing, along with other monetary measures to protect Americans from rising inflation.

Thank you for in advance for your response.

Sincerely,

Mark Kirk

Mark Kirk
U. S Senate

cc. Chairman Buffett
President Plosser