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Street Sweep

Following the money in banking, economics and Washington

Why cattle markets are having a cow

February 2, 2011 6:40 am

Posted by Colin Barr

Cattle prices are on the hoof lately. But don't just blame Ben Bernanke.

There are plenty of other places to point the finger if you want to assess responsibility for record livestock prices. You can start with wrongheaded U.S. energy policy, tightfisted herders and soaring food demand.

Like so many other commodity markets, cattle have been in full trot since the Federal Reserve said in November it would loosen the money supply to keep the economy crawling along. Futures prices for live cattle, the ones being fattened up for slaughter, hit an all-time high last month after rising by nearly a third over the past year (see right), and the action in cash markets has been every bit as wild.

Another commodity high

"This has been a dramatic rise in the last few months," said Paul Engler, who runs **Cactus Feeders**, an Amarillo, Texas-based cattle feeder.

The Fed's monetary laxity is surely a contributing factor, though it is far from the only one. Prices for all agricultural goods have been screaming higher over the past year, as demand from fast-growing developing countries threatens to overwhelm supplies that aren't growing nearly as fast.

With incomes rising throughout developing Asia, in particular, the draw on food crops has grown intense. Among the biggest price gains have come in corn and soybeans (see right, bottom), both used as livestock feed, which is in great demand as emerging markets consumers clamor for protein. That trend is only expected to intensify in coming years.

"Almost no one can envision a reversal of the tight supply situation," said Glynn Tonsor, who teaches agricultural economics at Kansas State.

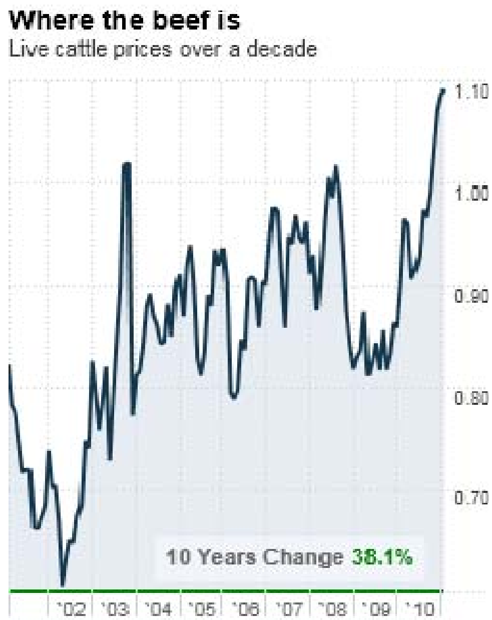
Meanwhile, the cow herd has been thinning out. U.S. beef production rose 1% last year, but the U.S. cattle herd shrank last year to 92.6 million cows, down 10% since 1996 and marking its lowest level since 1958. Beef output shrank last year in Argentina, Australia and Canada.

That means rising beef prices as far as the eye can see, in all likelihood. Retail beef prices rose 3% last year and have risen 10% since 2006, the government says.

But more increases are coming, thanks to the late-year surge in cattle prices. McDonald's (**MCD**), for instance, recently said it will **raise prices this year**.

"We are going to see higher prices facing consumers," said Tonsor.

Higher prices should spell good news for the U.S. beef industry, whose exports rose 18% last year. U.S. ranchers should field robust overseas demand for years if they can get their act together.



Not too volatile, usually

But the industry finds itself at a crossroads thanks to years of underinvestment and what looks like a permanent shift in agricultural markets.

"The beef industry was built on cheap grain, but we aren't going to have cheap grain anymore," said Derrell Peel, an agricultural economist at Oklahoma State. "We're at critically low inventory levels, and the industry is either going to have to rebuild the herd or face losing market share."

Though farmers often respond to surging commodity prices by growing more of whatever is in demand, expanding a cattle herd is a bit more complicated than planting more corn.

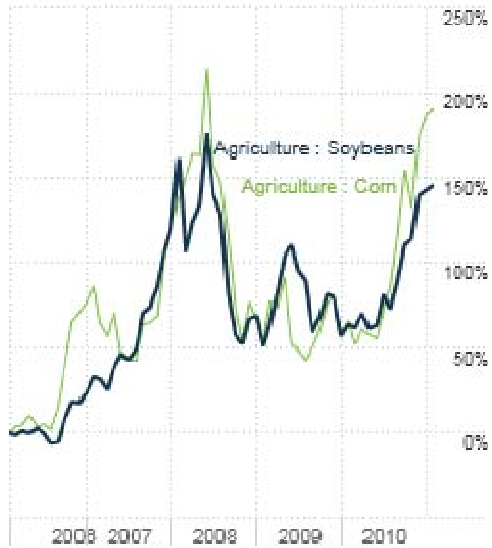
Cows are born one at a time, unlike pigs or chickens, and take two years from birth to enter the beef herd. Record high prices can slow that process even further by pushing farmers to sell now rather than holding cows off to the side to produce more calves.

"That's just the biology of this industry," said Peel. "There is always the dilemma between breeding and feeding."

Raising cattle is also more land intensive than farming chicken or pigs. Cattle producers thus find their decisions complicated by factors like surging land prices -- and by America's insane embrace of corn-based ethanol as a motor fuel.

Trough tax

Corn, soybean prices surge



Amber waves

The government's ethanol subsidy has taken millions of acres out of feed production and put it into inefficient biofuel production, right at a time when global food demand was lifting off. The "ethanol juggernaut" is part of what's behind the near tripling of corn prices since 2006, Peel says.

You'd think that development might send a signal to Washington that what it's doing isn't working, but you'd be wrong. The government recently cleared the use of cars that use fuel containing half again as much ethanol as previously permitted. With oil prices rising under the same global demand pressures felt by agriculture, there is no sign of relief for the rising prices on grains.

Peel says the agricultural repricing is forcing farmers and others to re-examine the economics of decisions that had looked settled for years, when priced were lower -- such as where to grow grain and where to feed cattle.

Still, if all these factors seem to be pushing irresistibly toward higher and higher prices, it's worth considering an alternative, just for form's sake.

Tonsor notes the threat, however unlikely, of a health-related beef scare. Take the 2003 outbreak of **bovine spongiform encephalopathy** that devastated beef exports in Washington state for several years, for instance. There's nothing like a disease outbreak to curb what looks like unstoppable demand.

"Everything looks like these prices are just going to go up," Tonsor said. "But I think we've heard that one before."

BofA gets serious on foreclosures

Posted by Colin Barr
February 4, 2011 5:06 pm

Is Bank of America finally going to drain its mortgage swamp?

Perhaps. BofA (**BAC**), which has frequently outdone the other big banks when it comes to **stupid foreclosure tricks**, set a **plan** Friday to belatedly work some private equity magic on its bloated bad loan book.

Try, try again, Brian Moynihan

The Charlotte, N.C., bank named Terry Laughlin, a veteran of OneWest Bank, to run a newly created Legacy Asset Servicing unit. Laughlin will "oversee the bank's mortgage modification and foreclosure programs, and continue to be responsible for resolving residential mortgage representation and warranties repurchase claims," BofA said.

It is about time, you might say. Bank of America has spent **billions of dollars** to pay off claims on souring mortgages written by Angelo Mozilo's Countrywide, acquired in 2008. But the bank has continued to stumble, and investors remain fearful that the cost of righting Mozilo-era subprime wrongs will **run into the tens of billions of dollars**.

BofA has spent **$50 million** in recent months paying Mozilo's personal legal tab, and billions more **settling Countrywide cases**. But more such bills stand to come due in coming months as cases work their way through the courts.

Meanwhile, BofA continues to sag under the weight of bad mortgages written by Countrywide before it collapsed in a late 2007 funding crisis. More than 14% of BofA's mortgages were late or in foreclosure as of September, according to data **published** by rival Wells Fargo (**WFC**) – compared with 11.5% at JPMorgan Chase (**JPM**), 9.5% at Citi (**C**) and 8.1% at Wells.

That's not all. BofA's rate of converting loan modifications offered under the government's Making Home Affordable program has lagged behind competitors. Data **published** this week by Ally Financial show BofA converting 31% of HAMP trials -- which is less than half of Ally's rate and compares with 42% at CitiMortgage and 38% each at Wells and JPMorgan.

Barbara Desoer, who has been seen as a possible successor down the road to CEO Brian Moynihan, will remain as head of the Bank of America Home Loans unit that now houses the former Countrywide.

Damning her tenure with faint praise, BofA said the unit "will continue the company's strong momentum in extending home mortgage credit while improving its leading mortgage modification programs for distressed homeowners and resolving legacy mortgage issues." That is to say, it will try to continue building off an unbelievably low base in all areas.

One of Desoer's focuses in coming months, it seems, will be lobbying -- which only makes sense, given the losses Bank of America has already recognized on the ill-advised Countrywide acquisition. Just running the business as is, it seems, won't be enough to turn this turkey around.

> To capture the value of the industry-leading mortgage platform, Desoer will focus on the future of the Home Loans business, as well as the housing industry as a whole, leading Bank of America's efforts on critical issues such as housing finance reform and the future of the GSEs.

For his part, Laughlin joined Bank of America in July from OneWest, the private equity-run bank that in short order turned the remains of the failed thrift IndyMac into a **billion-dollar money machine**.

He "will lead an aggressive borrower outreach program to include more than 400 housing rescue fairs in 2011 alone, build additional customer assistance centers in hard-hit communities and expand partnerships with nonprofits," BofA said.

Fixing the broken BofA foreclosure mill surely will prove a stern test for Laughlin. But hey, at least maybe someone's going to try for once. If so, better late than never.

Tags: **bofa**, **foreclosures**, **modifications**

Nothing shocking: Google overpaid for another startup

Posted by Dan Primack
February 4, 2011 1:02 pm

Earlier this week I **wrote** that Google (**GOOG**) had lost its mind, in reference to its $100 million acquisition offer for photo-sharing startup Path. Just more evidence that the tech bubble has expanded beyond irrational exuberance and into indulgent ridiculousness.

Path rejected Google's exorbitant advance, just as Groupon had done late last year. But not all companies have so cavalierly looked Google's gift horse in the mouth.

Late last year, the search giant **announced** that it had acquired WideVine Technologies, a Seattle-based provider of online video optimization and digital rights management. No financial terms were disclosed, but Fortune has learned from a WideVine investor that the purchase price was $150 million.

"Google came in on December 1, offered to buy the company for $150 million [in cash] and said the deal would have to close by year-end," said the investor. "We were thrilled, because management only was valuing the company at between $30 or $40 million at the time. I think Google got a great asset, but almost certainly could have gotten it for less. There were never any other offers, including from the company's strategic investors."

Those strategic backers included Cisco, Dai Nippon Printing, Liberty Global, Macrovision, Samsung and Sony. But, again, not one of them stepped up with a rival bid (or an earlier bid before Google showed up).

Overall, WideVine had raised $45 million in VC funding since a 2003 recap, from the aforementioned firms and venture capital shops like VantagePoint Venture Partners, Charter Venture Capital, Constellation Ventures, Pacesetter Capital Group and Telus Ventures.

A Google spokeswoman declined to comment.

Tags: **google**, **M&A**, **Venture Capital**

Why we care that the Thai baht is on fire

Posted by Nin-Hai Tseng, writer-reporter
February 4, 2011 12:31 pm

Currencies are soaring in the parts of the world that helped the global economy recover. Will they now become what hampers it?

ILLUSTRATION: IKON IMAGES/CORBIS

At a time when the world's advanced economies stumble over huge debts and deficits, developing nations have been thriving. Emerging economies, especially around Asia, have led the global economic recovery by selling more goods and services abroad and by benefiting from the rebound in prices for everything from copper to coal and other commodities.

In 2010, global GDP leaped to 5% after contracting by 0.6% the previous year, **according to the International Monetary Fund**. Developing Asia -- from Thailand to China to India -- contributed to the bulk of this growth, growing 9.3%, compared with advanced economies from Japan to the U.S. to Europe growing only at a nimble 3%. Even at the height of the global financial crisis in 2009, developing Asia saw robust 7% growth, while GDP in the advanced world contracted by 3.4%.

When it came to forecasting, these economies have been a much easier read for economists and investors compared to, say, Europe, as the region's debt crisis has taken hold of Greece and Ireland and potentially Spain, Portugal, Italy and Belgium.

But for 2011, prospects in developing Asia are much murkier, thanks in part to the rise of their currencies, from the Thai baht to the Malaysian ringgit. Experts say it's one of the wild cards that could potentially hamper global growth. Stronger currencies, especially in developing Asia where growth is largely driven by exports, make selling goods and services abroad relatively more expensive.

The baht rose by about 11% in 2010 – the second-strongest Asian currency after the Japanese yen. And so far this year, the ringgit has strengthened 0.4%, the most among Southeast Asian currencies. **More**

Tags: **Asia**, **Ben Bernanke**, **currencies**, **Economy**, **Malaysian ringgit**, **qe2**, **Thai baht**

How much does it suck to be Jamie Dimon these days?

Posted by Duff McDonald, Contributing Editor
February 4, 2011 10:38 am

It seems as if Jamie Dimon's teflon days are over. Now everyone wants a piece of him.

PHOTO: SIMON DAWSON/BLOOMBERG VIA GETTY IMAGES
The role of Lloyd Blankfein will now be played by Jamie Dimon.

For a time there, the chairman and CEO of JPMorgan Chase (**JPM**) could do no wrong. He was the only banking CEO to prepare his firm to withstand the economic storm that broke the backs of a few competitors and hobbled several more. He was hailed as a potential savior of the economic system when his bank acquired Bear Stearns. Hell, he even had a largely **admiring biography** written about him. (By yours truly.)

These days, not so much. Dimon is appreciated by journalists everywhere for the general lack of a filter when expressing his views. He makes for good copy, we like to say. In Davos, he did not disappoint. His claim **during a panel discussion** that he was tired of "this constant refrain—bankers, bankers, bankers," was met with derision. Poor, poor Jamie, wrote the editorialists. He even delivered French President Nicholas Sarkozy an opportunity to make a spirited stand on behalf of sensible financial regulation and against nonsensical banking bonuses.

This week hasn't brought relief. Late yesterday we learned that the trustee in the Bernie Madoff case **has accused JPMorgan Chase** of being at the "very center" of the massive fraud. JPMorgan made at least half a billion dollars in fees and profits off the backs of Madoff victims, trustee Irving Picard is arguing, and is responsible for at least $5.4 billion in damages for its role in "allowing the Ponzi scheme to continue unabated for years." **More**

Tags: **Banking**, **Benie Madoff**, **Goldman Sachs**, **Irving Picard**, **Jamie Dimon**, **jpmorgan chase**, **Lloyd Blankfein**, **Matt Taibbi**, **Simon Johnson**

Deutsche Bank: king of the bonus pool

Posted by Colin Barr
February 4, 2011 6:45 am

How do you say overpaid in German?

Put away your Google translator -- and your stereotypes about thrifty Teutonic types, for that matter. The answer for 2010 is Deutsche Bank (**DB**).

The big Frankfurt-based bank was Wall Street's most lavish check-writer last year, with the average employee at its New York-based investment banking unit receiving $514,332 in compensation. The **number** comes from Deutsche's **fourth-quarter financials**, released Thursday.

The average take at Deutsche Bank's corporate and investment banking business is up 5% from a year ago and is well above the numbers at the other big firms on the Street. The average worker at Goldman Sachs (**GS**), for instance, made $**430,700**, which is down 14% from a year ago.

Those at J.P. Morgan, the Wall Street unit of JPMorgan Chase (**JPM**), had to scrape by on $**369,651**, which is down 2% from a year earlier.

At Morgan Stanley (**MS**), average pay rose 8% from a year ago to $**256,627**, though that number isn't strictly comparable with the others because Morgan Stanley has 62,000-plus workers – roughly double the headcount at Goldman and JPMorgan and four times that of Deutsche.

All the banks are paying more in stock and deferring more payouts nowadays, in line with the wishes of regulators who would rather not see bonus-fueled risk-taking lead to another **financial meltdown on their watch**, thank you very much.

Even so, the funds showered on financial types last year hit **$135 billion last year**, up 6% from the previous year. No matter how the Fed and others might talk tough on pay, a bonus deferred is most definitely not to be confused with a bonus denied.

So if you happen to find yourself in Frankfurt, the word is **uberzahlte**.

Tags: **banks**, **bonus**, **deutsche**, **excessive pay**, **regulators**

Dear David Stockman: Please own up to your firm's failure

Posted by Dan Primack
February 3, 2011 4:49 pm


Dear David Stockman,

Hey, how are you? It's been a couple of months since we last talked, and my best guess is that you feel a bit betrayed by **the magazine column that followed**. You know, the one in which I argued that media sycophants should at least mention your miserable investment career before promoting you as an economic oracle.

So you know, I happen to agree with many of your concerns about how America's debt affects its economic future. And about the lack of serious attention being paid to such matters in Washington, D.C. (which is different than political attention, of which it's gotten lots).

But I'm writing today because, once again, you've gone and tried to defend the indefensible: Heartland Industrial Partners, the private equity firm you created in 1999.

Heartland's $1.3 billion fund is among the worst-performing private equity vehicles of all time, which prompted peHUB's Bernard Vaughan to **ask you what went wrong** (as part of a larger series). You replied with a five paragraph screed against those who prosecuted you for fraud, and against those who aided in the prosecution. A sampling:

> Heartland's outcome has nothing to do with investment performance. The fund was destroyed by Davis Polk in a grotesque act of reckless legal malfeasance in May 2005. Their destructive attack on me and Heartland's lead company, Collins & Aikman, was compounded when they forced it into an unnecessary bankruptcy, and then recruited an incompetent, rogue prosecutor from the U.S. Southern District to bring charges against me and other officers of the company...
>
> In short, Heartland's flagship company was destroyed and thousands of people lost their job because in its eagerness to book millions in Sarbanes-Oxley investigation fees, Davis Polk acted with rash, careless arrogance. Since Collins & Aikman constituted one-third of the Heartland's portfolio, it could not recover from this body-blow nor from all of the disruption that attended my unwarranted prosecution—notwithstanding my ultimate vindication."

Look, I get why you're pissed off at David Polk and prosecutor Helen Cantwell (now at Debevoise & Plimpton LLP). You believe that the original evidence was fundamentally flawed, that you managed to prove those flaws and that you still got railroaded into a $7.2 million settlement with the SEC (which you memorably called a "money-harvesting machine"). And, no doubt, the investigation forced you to leave Heartland prematurely.

But there is no way that you can credibly place the blame for Heartland's failure on any doorstep other than your own. You formed the firm in order to pursue a belief in a coming Rust Belt revival, and formed a concentrated portfolio that would live or die on the legitimacy of your thesis. As you might have noticed, the Rust Belt has only gotten rustier over the past decade-plus.

Collins & Aikman certainly struggled under the weight of federal investigation, but it was in trouble long before that. Don't you remember moving up to Michigan -- even renting out a motel room for months at a time -- in order to take over as CEO in 2003? Pretty sure that was to help prop up what had become a sagging investment. Perhaps you were improperly forced out in 2005, but the investigation isn't why Collins & Aikman filed for bankruptcy just days later.

In fact, you've previously admitted that the company's main problem was a systemic collapse of the U.S. auto industry. In other words, a repudiation of your investment thesis. How is that the fault of attorneys or prosecutors?

Moreover, who is to blame for other portfolio missteps? Like Metaldyne, on which Heartland lost much of its equity investment before ultimately selling the company to Japan's Asahi Tec in exchange for stock. Not only did Metaldyne itself go bankrupt once Asahi Tec opted to stop propping it up, but the value of Asahi Tec stock has sunk around 90% in the interim. Or Spring Industries, which has hardly been a winner for Heartland (now a Brazil-based company where your equity stake is valued at just around $27 million, based on Q3 2010 holdings). TriMas (**TRS**) has performed well, but not enough to help Heartland's fund even approach break-even.

You might find this hard to believe, but I bear you no ill will. I just ask that you take ownership of Heartland's failure, and for the losses suffered by those who put their faith in you. Not only because it's the right thing to do, but because it's the honest thing to do.

Tags: **David Stockman**, **Private Equity**

China Media gets hit by a bus: corrected

Posted by Colin Barr
February 3, 2011 3:37 pm

Another Chinese reverse merger company just got flattened.

Shares in China Media (**CCME**), a Fujian-based company that runs a television ad network on intercity and airport express buses in China, lost a third of their value Thursday as doubts about the company's reported numbers intensified.

Take the train next time

Muddy Waters, a Hong Kong-based research firm that bets against the shares of companies it reports on, issued a **note** Thursday afternoon asserting that China Media "is engaging in a massive 'pump and dump' scheme whereby it significantly inflates revenue and profits in order to enrich management through earn-outs and stock sales."

China Media overstated its 2009 revenue by a factor of five, Muddy Waters claims, and in many cases its vehicles don't even play the ads the company claims to have sold to its customers.

"We estimate that over half of CCME's network buses do not actually play CCME content," says the report from Carson Block of Muddy Waters. "Rather, drivers play DVD movies that are often provided by passengers."

A representative of China Media didn't immediately respond to a request for comment.

Muddy Waters could just be talking its imaginatively named book, of course. But its credibility on this call is aided by the **quick demise** of another Muddy Waters **short**, a Chinese maker of emissions gear called Rino International, which was delisted shortly after admitting it didn't actually have a couple contracts it had previously claimed.

Like Rino, China Media was created in the purchase of a publicly traded U.S. shell company. Short-sellers have been circling these companies on the assumption they used this back door to go public for a reason other than saving on bothersome road show costs.

The battle over China Media has been intensifying over the past few days, with another short-selling site, Citron Research, publishing a **report** Monday calling China Media "the China reverse merger stock that is 'too good to be true.'"

Citron called China Media "a phantom company" that has published financial numbers that "don't make sense." In response, China Media issued a **press release** saying it hadn't been contacted by Citron.

It added that it "strongly disagrees with the views expressed and believes that investors should rely on the Company's public reports filed with the Securities and Exchange Commission."

John Hempton, a widely followed investment blogger who runs the Bronte Capital hedge fund in Australia and is short China Media, **wrote** this week that the China Media case is fascinating because the company is either one of the extraordinary businesses in history, or one of the most brazen frauds – "and so far nobody has the extraordinary evidence."

Hempton writes that the strongest point in China Media's favor is a big investment in the company by Starr International, the investment firm associated with Hank Greenberg, which would presumably have the know-how to kick the company's tires. Starr is the company's **biggest shareholder**, with a 16% stake.

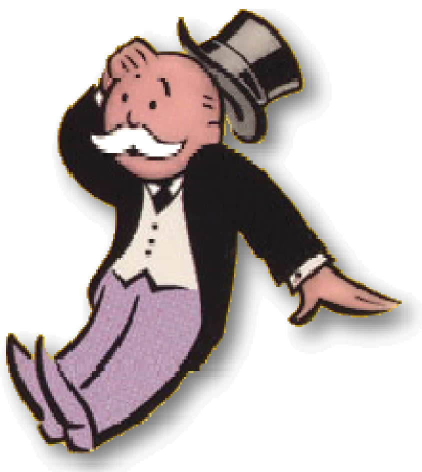
Whether the tires on China Media were kicked or not, they are quickly going flat Thursday. The stock, down more than $5 to $11 and change, has lost more than half its value over the past week.

*Correction: Earlier I wrote China Media Express was previously known as "Delightfully Frozen Corp." and that its recent securities filings were signed by someone named Con Unerkov. Those statements are true not of China Media Express, but of the unrelated China Media Group of Hong Kong. My apologies for the error.

Tags: **china**, **muddy waters**, **reverse mergers**

Blackstone pays for success: Compensation rises 28% in 2010

Posted by Dan Primack
February 3, 2011 3:12 pm



Earlier today **we wrote about** earnings at The Blackstone Group (**BX**), which just finished its best year since going public in mid-2007. Now we know that the firm's success didn't come cheap.

FINS **reports** that Blackstone employees, on average, were paid $810,717 last year -- an increase of 29% over 2009. It adds that overall headcount was expanded by approximately 23% -- up to 1,500 employees at year-end.

This doesn't seem to jibe with Blackstone's earnings release -- showing that total monies set aside for compensation at the firm fell from $3.77 billion to $3.6 billion -- but FINS says that the majority of those figures relates to stock options granted as part of Blackstone's IPO.

In general, these figures are *way* above private equity industry averages. A recent compensation report published by Dow Jones and search firm Glocap found that private equity *partners* in 2010 earned average compensation of $1.49 million. Those are the top dogs. Average principals made $567,000, while vice presidents made $430,000 and senior associates earned $313,000. Lowly analysts brought home $203,000, and there are all sorts of other employees who typically make even less (IT pros, administrative assistants, etc.).

The report also found that private equity compensation rose just 1% in 2010, compared to Blackstone's 29% increase.

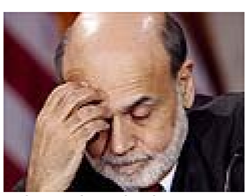
Tags: **Private Equity**

Bernanke points finger on food prices

Posted by Colin Barr
February 3, 2011 2:11 pm

Don't blame the Fed for soaring food prices, Ben Bernanke said Thursday.

Bernanke, the Fed chairman, shrugged off claims that the Fed's embrace of easy money is irresponsibly saddling the likes of China, India and Brazil with runaway inflation in vital food and energy goods.


What a headache

Without naming names, Bernanke urged leaders in emerging countries to stop resisting changes that would shield their populations from the ravages of surging prices.

"In some cases, some of the emerging markets are facing inflationary pressure because their own economies are growing faster than their own capacity," Bernanke said in response to a question at the National Press Club. "It is entirely unfair to attribute excess demand pressures to U.S. monetary policy."

The comment amounts to the latest pressure on China to loosen its peg to the dollar and for other emerging markets leaders to tighten their own policies. Loose money in those countries is part and parcel of a globe beset with unhealthy economic imbalances -- just as it is here.

In response to a question about the civil unrest in the Middle East and the Fed's role in the months-long surge in commodities prices, Bernanke strongly denied that central bank purchases of Treasury bonds, known as quantitative easing, are the primary driver of higher global food prices.

Instead, Bernanke attributed the surging prices of things like **corn**, soybeans, sugar and **livestock** to rising incomes in developing countries.

Higher incomes translate into strong growth in global demand for food, particularly an increased appetite for animal proteins such as beef, pork and chicken.

"As people's diets become more sophisticated, their demand for food and energy grows," he said.

Beyond that, Bernanke said, policymakers in developing countries like China, India and Brazil have tools at their disposal to keep inflation under control.

Leaders in those countries have been critical of the Fed's policy, which they contend results in the United States exporting inflation to their shores. But without singling out any country or leader, Bernanke snapped back that those pointing the finger should first pull the levers available to them.

China, for instance, has kept the value of its currency, the yuan, closely pegged to the dollar -- even as China's growth far exceeds that of the United States and inflation in China threatens to surge.

Were China to allow the yuan to appreciate, Chinese inflation would fall. Of course, so would Chinese exports to rich countries such as the United States and the members of the euro zone. A slowdown in the Chinese export machine could result in a destabilizing loss of jobs in China.

So it is unsurprising that the Chinese are slow to embrace this remedy. Nonetheless, Bernanke is right to point out that surging developing markets growth creates its own headaches -- and that it's hardly fair to pin all that pain on the United States.

"It is up to emerging markets to find the right tools to balance their own growth," Bernanke said.

Tags: **bernanke**, **china**, **food inflation**

The flip side of the pension crisis

Posted by Nin-Hai Tseng, writer-reporter
February 3, 2011 12:43 pm

Those pension recipients we eye with scorn as our state and local budgets are crushed under the burden of their generous benefits? They're being crippled too. Sort of.

Not such easy living for everyone.

If you're retired, you're probably paying closer attention to the consumer price index than most of us -- when prices rise, pension payouts typically rise along with them. When you're living on a fixed income, it's the only real way to get a bump in pay.

But for the second year in a row, more than 58 million Social Security beneficiaries won't receive cost of living allowances (COLA) in 2011 because of a lack of inflation. By law, the cost of living adjustment is based on the rate of inflation between the last adjustment and the most recent third quarter. The last increase was at the end of 2008 and when the administration announced there would be no COLA for 2011, the consumer price index had fallen by **0.6% between the third quarters of 2008 and 2010**.

The inflation problem, or lack thereof, isn't just hitting federal retirement and disability payments. Many who receive state and local benefits won't receive a cost of living increase for 2011 either. Keith Brainard, research director for the National Association of State Retirement Administrators, says most of the retirement systems that have discretionary power over COLAs (i.e. those that don't automatically adjust with the rise and fall of inflation) are choosing not to increase payments, given tight public budgets and the lack of inflationary pressures. **More**

Tags: **CPI**, **Economy**, **inflation**, **municipal debt**, **pension plans**

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