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COMMENTARY

The most regressive tax a government can use

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The commonsense definition of inflation could be stated as the persistent rise in prices of goods and services. A more useful definition used by many economists is the expansion of the money supply in an economy. This may occur with or without an increase in economic activity or an immediate increase in prices a la the commonsense definition.

To understand inflation in our monetary system, imagine balance scales, such as the scales of justice. In one basket is the "value" of the economy - goods and services. In the other basket is the money supply. By axiom, the scales must balance over the long term.

Assume that we measure the U.S. economy at the current time and that the monetary basket is \$10 trillion. Therefore, the value of the gross domestic product in dollars is \$10 trillion, balancing the scales. Now, assume the following year there is no change in goods and services, but the Federal Reserve increases the money supply by 10 percent, or \$1 trillion. After wobbling, the scales return into balance. Now the identical economy measures as an \$11 trillion economy instead of \$10 trillion, thereby cheapening the value of the U.S. dollar.

That is inflation. Incidentally, someone attempting to deceive could falsely call such a change economic growth.

Inflation does not occur simultaneously across the economy because money does not move into the economy evenly or all at once. The government gets first use of the created money, then the corresponding Federal Reserve banks, then the initial borrowers from those corresponding banks and so on until the money finally infiltrates the entire system.

The government gets to spend the new dollars and receive the full value of the dollars spent. However, as the money moves through the economy, the players in the system become "aware" of the dilution and compensate by charging higher prices. The money becomes less and less valuable the further removed it becomes from the source - the Fed.

Inflation pulls value out of the dollar and gives that value to the government and a few players receiving money early in the "food chain." In effect, inflation is taxing wealth from taxpayers. From the government's viewpoint, it is a very beneficial tax, because they can finance their projects without being honest about the taxes they must levy to pay for them. Politicians can also falsely state their "outrage" when inflation becomes out of control.

It is particularly hypocritical when politicians who supposedly are champions for the "little guy" use inflation as a tax resource. Being furthest from the source, the poor have the greatest percentage of their "wealth" sucked away by inflation. The poor suffer most from inflation because they do not have any "excess" dollars. Because of the deficits they cause, transfer payments (welfare, Social Security, Medicare, etc.) the government gives to the poor eventually end up hurting as much or more than they help. Cost-of-living adjustments only kick in after the fact.

What a great way to lock in a voting bloc. Act as if you are helping the poor, but instead of levying honest taxes on those who can pay, you hit the very recipients you are supposedly helping. Unfortunately, the poor keep voting people in who say the "right" things. I guess you really can fool some of the people all the time. Besides, if they levied honest taxes on those who can pay, none of these politicians would ever be voted back into office.

Please remember - inflation is a result of the deficit spending of the government and the use of the Fed as a means of financing those deficits through inflation. Inflation would stop today if the voters understood what was happening and demanded it never happen again.

Inflation persists in the U.S. because the government uses it to avoid the levying of the taxes it would really take to finance its ever-expanding agenda of programs. It is unconstitutional. It is immoral. It is nothing more than the most regressive tax a government could possibly use. It is there because the politicians of this country are more afraid of losing voters than they are of doing the right thing for America and its citizens.