New American

Written by Charles Scaliger on March 23, 2020

Published in the March 23, 2020 issue of the New American magazine. Vol. 36, No. 06

The Inflation Tax

Government spending is only part of the fiscal crisis that has engulfed the federal government. The other side of the deficit and debt debacle is: How does the government continue to raise revenue? Many Americans assume that government is paid for by taxes, and, in a broad sense, that is true: The only way that the federal government can raise money is via taxation. But those taxes take many forms, going far beyond the complexities of annual and quarterly income tax filings.

Under the U.S. Constitution in its original form, the federal government's powers of taxation were comparatively limited. Article 1, Section 8, clause 1, does grant Congress the power to "collect taxes, duties, imposts, and excises" — but also stipulates that all such "shall be uniform throughout the United States." This meant that tax rates needed to be the same everywhere, and among all classes of people, a circumstance that prohibited taxing people of different incomes different amounts. Moreover, under the original Constitution, all "direct" or "capitation" taxes — i.e., any tax imposed directly on individuals (as opposed, to, say, sales taxes or tariffs, which are forms of indirect taxation) — were to be carried out according to a procedure called "apportionment." Similar to the way in which states are allotted representatives, direct federal taxes were to be apportioned according to a state's population. In other words, if a bill for raising a certain amount of revenue was passed, each state was required to contribute the percentage of the total amount equal to that state's percentage of the total population of the country. Because this requirement was often challenging to fulfill, it greatly dampened the enthusiasm of the states for direct federal taxation. It also meant that apportioned direct taxes could not be permanent; they would have to be reauthorized as populations changed.

Prior to the ratification of the U.S. Constitution, Congress had no authority to tax at all. This was hardly surprising, given that the American campaign for independence from England started as a series of tax revolts. Early Americans were deeply wary of the power to tax, and reluctant to grant any such power to the national government, until it became apparent that some means of raising revenue was essential. Insofar as taxes were necessary, the American Founders preferred them to be indirect, since indirect taxes are ultimately voluntary; tariffs and sales taxes are only paid if people choose to purchase the taxed articles. Tariffs in particular fell mostly on the wealthy, who could afford to buy luxury imported goods.

Direct taxes were generally despised for their involuntary and often arbitrary character; hence the Founders' efforts to circumscribe the federal use of them as much as possible.

Once Americans allowed themselves to be persuaded of the need for a permanent, graduated income tax, and the Constitution was amended to permit such a practice (the 16th Amendment), the Pandora's box of essentially unlimited modern forms of taxation was opened up. The odious "progressive" income tax — a core proposal of Karl Marx's communist program — began as a minor exaction imposed only on

the very wealthy, but quickly evolved into the oppressive monstrosity that impoverishes modern Americans of every social class.

The 20th century also ushered in heavy corporate taxes, capital gains taxes, estate taxes, and taxes to pay for Social Security and Medicare — all of them direct taxes, and all of which impose massive burdens on Americans, especially the middle class. Of the total pie chart of federal tax receipts, Social Security, Medicare, unemployment insurance, and other retirement taxes account for 36 percent of the total, while federal income taxes account for a whopping 50 percent. (All figures are rounded.) Corporate income taxes, at 7 percent, are another significant piece of the tax pie, while estate taxes amount to about three percent. The remaining five percent of other taxes includes tariffs. Prior to the 16th Amendment, which allowed for essentially unlimited graduated income taxation (including not only personal income taxes but also, eventually, taxes on corporate profits and on personal capital gains), the government was almost entirely funded by indirect taxes such as excise taxes or tariffs, which presently make up a small sliver of federal funding. It is shocking to consider just how much the size and cost of the federal government has grown over the last century!

However, besides the forms of taxation that the general public recognizes as such, the federal government has also, over the past century, acquired another tool in its taxation toolkit, a tool that is both subtler and much more dishonest than all other forms of taxes. This tool is inflation.

Inflation is often thought of as the phenomenon of rising prices, and its cause is mysterious to many. Many economists erroneously or disingenuously ascribe inflation to economic “overheating,” or to disruptions in supply, or to any number of other numinous causes. And while it is true that an event such as an earthquake, a war, or a hurricane can indeed cause prices to spiral upward, such effects are generally temporary and limited to certain products and specific places. True price inflation refers to the general, unending rise in prices across all goods, which has been a feature of the American economy since the early 20th century — but was not before that time. Since the teens of the 20th century, decade after decade, American consumers have watched prices of goods and services rise, sometimes slowly, sometimes rapidly, but always steadily. Savers have watched the purchasing power of their bank savings erode gradually. And purchasers of big-ticket items, such as cars, houses, and college educations, have watched the cost of these goods spiral out of control, especially in recent decades. All of these familiar processes are the byproducts of inflation.

Photo credit: alexsl/iStock/GettyImagesPlus

This article appears in the March 23, 2020, issue of The New American.

What is inflation, really? It is what happens when governments, with the help of the banking system, create new money and inject it into the money supply. This proc-ess is often styled “printing money,” but in reality, most new money never makes it to the printing press; it is in effect created by computer entry.

When governments create new money — and, in the modern age where gold and silver standards have been deemed obsolete, all governments are inflationary — it has the effect of reducing the value of money relative to other goods for which money is exchanged, because there is now more money in circulation in relation to goods and services available. This process is sometimes characterized as being akin to throwing bales of money out of helicopters, but in reality, the process is much subtler. Inflation depends crucially on general ignorance, and if the government were so crass as simply to print bales of

money and distribute them freely, money would soon be worthless.

Instead, governments use a range of tricky procedures to manipulate the money supply to their advantage, usually involving debt in some way. For example, "open market operations," whereby government-issued debt is bought and sold weekly at special auctions by privileged brokers, is the most important way that the U.S. government (technically, the Federal Reserve, America's central bank, in coordination with the Treasury Department) manipulates the money supply. Other methods include (but are not limited to) raising or lowering the reserve requirements for banks, and raising or lowering the rate of interest at which the Federal Reserve loans money to member banks (the "discount window"). If the Fed sells more government debt, the amount of money injected into the money supply by the banking system to offset the new debt purchased will increase the money supply. If the Fed lowers reserve requirements or lowers the discount window, the demand for debt will rise, causing debt-based assets in the banking system to increase and the money supply to expand. Taking the opposite course for each of these actions ("tightening") will cause the money supply to contract.

While the Fed does both, over time, the net tendency is to expand, not contract, the money supply. This is because "loose" money policies always benefit the wealthy and well-connected. For while it is true that, over time, inflation leads to higher prices for everyone, it does not affect everyone at the same time. When new money is first injected into the economy, it appears first in the large money-center commercial banks and investment firms that serve as privileged dealers for the Fed. Those firms in turn use the new money to purchase stocks, real estate, and other large-scale investments before the effects of the new money ripple through the rest of the economy. Such actions drive up the stock market, the bond market, the real estate market, commodities futures markets, and the like, all of which is enormously beneficial to those already leveraged in such markets. Eventually, of course, the new money finds its way into the rest of the economy, driving up prices at the supermarket and the gas pump. For ordinary Americans, inflation drives up the price of living while driving down the value of savings. It is, in other words, a type of tax — because the money created by inflation benefits the government enormously. It allows government to create new money by issuing debt, at the same time enriching the wealthy and powerful. The inflation tax effectively confiscates wealth from the poor and the middle classes and transfers it to the wealthy and to the government.

It is no accident that the 20th century was the century of Big Government and Big War. From the inception of the Federal Reserve in 1913 onward, the U.S. economy has been inflationary — but by that time, so were all of the major economies of Europe and the rest of the developed world. With inflation at their disposal, governments are much more willing to do unpopular and costly things, such as wage war, because they can appear to pay for them without raising taxes directly.

It should be clear that America's debt crisis is also a tax crisis. Taxes are, after all, merely the price we pay for government. Big Government requires Big Taxation, whether direct, indirect, or inflationary. To dismantle America's Big Government, it will also be necessary to get rid of the corrupt system of taxation that allows it to flourish. That will mean abolishing the income tax and all other forms of progressive direct taxation, getting rid of the Federal Reserve (the central bank that enables our age of inflation) and restoring the gold and silver standards of the past to force a return to monetary restraint. All of these will be necessary steps, if America is truly to win the war on Big Government.

Photo credit: alexsl/iStock/GettyImagesPlus

Written by **Charles Scaliger** on March 23, 2020

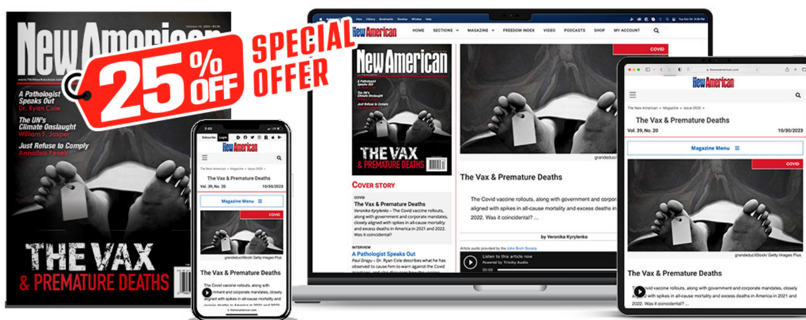
Published in the March 23, 2020 issue of the New American magazine. Vol. 36, No. 06

Subscribe to the New American

Get exclusive digital access to the most informative,
non-partisan truthful news source for patriotic Americans!

Discover a refreshing blend of time-honored values, principles and insightful perspectives within the pages of "The New American" magazine. Delve into a world where tradition is the foundation, and exploration knows no bounds.

From politics and finance to foreign affairs, environment, culture, and technology, we bring you an unparalleled array of topics that matter most.



Subscribe

What's Included?

24 Issues Per Year
Optional Print Edition
Digital Edition Access
Exclusive Subscriber Content
Audio provided for all articles
Unlimited access to past issues
Coming Soon! Ad FREE
60-Day money back guarantee!
Cancel anytime.