



Written by [Gary Benoit](#) on October 20, 2008

McCain-Obama Tax Debate Ignores Inflation Tax

McCain also said that "Barack Obama's tax plan would convert the IRS into a giant welfare agency, redistributing massive amounts of wealth at the direction of politicians in Washington."



Later on the same day, Barack Obama, in a speech before a huge crowd estimated at 100,000 people in St. Louis, claimed that "McCain wants to give the average Fortune 500 CEO a \$700,000 tax cut but absolutely nothing at all to over 100 million Americans. I want to cut taxes — cut taxes — for 95 percent of all workers," he said. In remarks quoted by the Associated Press, Obama added: "It's time to give the middle class a break, and that's what I'll do as president of the United States."

In the back-and-forth between McCain and Obama on tax policy, McCain has repeatedly referred to "Joe the Plumber" — one Joe Wurzelbacher, an Ohio plumber who, when Obama was canvassing his neighborhood, elicited Obama's comment that "when you spread the wealth around, it's good for everybody."

That statement identifies Obama as a socialist, just as McCain claims. But lost in the debate is the fact that McCain is a socialist too. McCain, like Obama, voted for the legislation that provided the Treasury Department with \$700 billion to buy the troubled mortgage-related assets as well as stocks of major banks. That program, which according to its proponents is needed to rescue the sinking economy, represents a huge transfer of wealth from the American people to the wealthy.

Media reports about the exchange between Obama and McCain on taxes ignore the fact that direct taxation only represents part of the cost of government. When government spends more than it takes in — for programs such as the bank bailout — it must borrow the money to make up for the shortfall. When the money is borrowed from the Federal Reserve, and the Fed creates new money out of thin air so the federal government can pay its bills, then the result is a devaluation of the dollar and a corresponding increase in the cost (in terms of dollars) of everything we buy. In short, inflation is a hidden form of taxation, and it hurts everybody including Joe the Plumber.

There is no such thing as a free lunch, and the real cost of government is what it spends, not just what it collects in direct taxes. In fact, in theory, the government could abolish all taxes and pay all its bills through the creation of money out of thin air. But such an approach would make obvious the fact that inflation is a tax.

The specifics of their tax proposals notwithstanding, both Obama and McCain have proposed programs that would increase the cost of government, and both believe that we can spend our way out of recession or depression through programs such as the bank bailout. With either McCain or Obama in



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the White House, the spending programs would hurt the American people including Joe the Plumber, regardless of whether the programs are paid for through direct taxation or the inflation tax.

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