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Inflation Is A Hidden And Regressive Tax On Americans

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I am always optimistic about the strength, resiliency, and ingenuity of the American free market economy. However, this economic strength and stability depends upon government creating a level playing field for free market competition, and even more importantly, not to handicap the economy through the imposition of unreasonable laws and regulations.

One of those handicaps includes the less visible, but very real effects of inflation on goods, services, and everything else. In fact, inflation in the U.S. increased faster this past year than it has in nearly 40 years—dating back to the administration of President Jimmy Carter. So, what exactly is inflation?

Well, economists tell us that inflation occurs when consumer demand in the economy rises more than the supply of consumer goods, describing this dynamic as "too much money chasing too few goods." In the simplest terms, the result is a general increase in prices and decrease in the purchasing power of money.

Further, from the daily news we know that this supply deficit is caused by several factors, including supply chain problems, reduced production from workers who are away from their jobs due to the coronavirus, and the damaging inflationary policies of the Biden Administration, including ending our energy independence and raising the costs of production and transportation of goods, both of which require huge amounts of energy. There is also the fact that the Federal Reserve has been "printing" money at a rapid pace and is only now planning to "taper off."

Why does all of this matter? Well, because it means our hard-earned dollars pack less "punch;" they don't go as far when we purchase food, energy, housing, and many other of the necessities of life. For example, a Big Mac at McDonalds may have cost $4.00 one year ago but today costs roughly $4.30 or more given the current rate of inflation. And, while a 30-cent cost increase may not seem like a big deal by itself, it begins to have a significant impact on our business and family budgets when *every* one of our consumer choices see a price increase.

Which products have seen some of the highest gains over the past 12 months? meats, poultry, fish, and eggs: 12.5% increase; fruits and vegetables: 5% increase; electricity: 6.3% increase; furniture and bedding: 13.8% increase; women's dresses: 8% increase; jewelry and watches: 7.2% increase; rent of primary residences: 3.3% increase. (Forbes Advisor).

The economists at the Heritage Foundation summarized the impact of inflation on lower income and working families in this way:

"As millions of Americans are experiencing, inflation can be the most destructive and painful tax of all. Lower-income families and working Americans are being especially hard-hit by skyrocketing prices because they spend a greater proportion of their income on things like energy and used vehicles, which are rising faster than the overall rate. For nearly two years, oppressive COVID-19 mandates suppressed the supply of goods and services. The elimination of work requirements for some welfare programs, overly generous unemployment benefits, and rounds of school shutdowns dramatically reshaped the economy, reduced the size of the workforce, and put massive strain on supply chains."

There is another important point to keep in mind. Inflation is a dishonest and regressive form of taxation—yet politicians prefer to impose it rather than cut spending or raise explicit tax revenue to cover the level of spending. (Cato Institute). Why is inflation considered a "regressive" tax? Because, unlike a "progressive" tax which increases as a business or individual's income increases, a "regressive" tax hits the poor and struggling. For example, if the price of a gallon of milk increases from $2 to $3, the "inflation tax" hits lower income individuals harder because that $1 increase reflects a greater percentage of their disposable income needed for the necessities of life.

Also, the largest expenditure for most households is housing. If you buy your home with a fixed rate mortgage, as upper middle-income households do, you are somewhat insulated from higher housing costs, but if you have to rent your home, there is not much you can do as rent goes higher and higher every year. And if you're buying a home right now you're getting much less for your money than you did two years ago. For first-time home buyers that's a killer.

One final thought. In addition to the regressive nature of inflation's impact on lower-income Americans, the other class of individuals who suffer greatly from inflation are blue collar, average middle-class workers; the people who kept working all through the hard days of the pandemic, including truck drivers, health care workers and many others. They bear the brunt. Why?

Because unlike most federal entitlement programs that are automatically increased to compensate for inflation, the typical American worker doesn't have that protection for his or her wages.

All of the above are likely why recent polling reflects the fact that an uncertain economy with historic—and still rising—inflation are a much greater concern to American consumers than the Coronavirus and all its different variants.