Inflation: The Cruelest Tax of All

Disclaimer: I am not an economist and don't play one on TV. My brother, Cliff, is a Professor of Economics, and in his professional opinion, what I'm about to say likely violates mostly all established economic theory. My credentials are not very impressive, but I do bring more than seven decades of business and lifetime experience to the table.

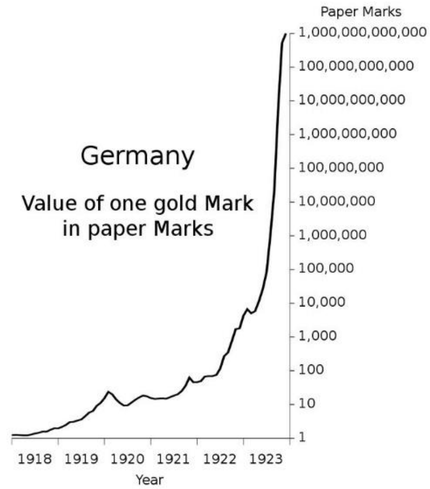
In my Summer 2021 *Rant* contribution to EDM Today titled "The Tyranny of Inflation," I included some graphic illustrations of runaway inflation which I'll repeat here in summary form to *begin* this tome.

The British Pound

The British pound is officially the pound sterling, a denomination of currency that was actually the value of a pound of sterling silver. Currently, silver is valued at approximately $26.00 per ounce. If you do the math, you'll see that a pound of silver is currently worth about $416.00. However, if one checks the most recent currency exchange values, today a British pound is worth about $1.39, a staggering drop in value. Admittedly, it took more than a couple of hundred years of inflation to cause that devaluation, but it is still a vivid illustration of the impact of inflation.

The German Mark

Okay, I get it. Maybe the previous example goes too far back in time. So, let's fast forward to the period 1921-1923 when Germany experienced hyperinflation. By 1923, the German mark lost 41% of its value *in a single day*. My father, who grew up in Germany, witnessed this debacle. He recalled that on pay day, industrial workers in multi-story factory buildings would throw their pay out the window to their wives waiting outside below so they could quickly spend it before it became worthless.



Zimbabwe

Is the German hyperinflation still too far in the past to be believable? Let's fast forward to the previous decade to the African country of Zimbabwe. Pictured is a *one hundred trillion dollar* bank note!

United States

Okay, the history lesson is over, and this is the good ole USA, not pre-Nazi Germany or third world Zimbabwe, but that shouldn't lessen the concern here. According to the administration and most economists, after a brief, dramatic increase in inflation supposedly due to the pandemic and supply chain issues (but in reality due to multi-trillion dollar deficit spending during that time), inflation is almost under control, but is it really?

In the *Rant* referenced above, I bemoaned how a fifteen cent McDonalds hamburger had morphed into a $5.45 "value" meal. Well, fast forward a little over two years to today. That same meal is now $7.37, a thirty-five percent increase!

Anyone who regularly visits a grocery store is continually shocked by skyrocketing prices. A bag of potato chips that used to sell for "2 for $5.00" is now $7.50. Tangerines sell for $2.50 each. An heirloom tomato costs $4.00. A six pack of Coke 7 oz bottles that sold for $5.00 is now $8.00.

In addition to regular price increases, another form of inflation has come to the fore: shrinkflation. Shrinkflation is when, rather than increasing prices, the quantity in a package is reduced. For example, a half gallon of Florida Natural orange juice is now just 54 ounces. A bar of Dove soap which weighed 4 ounces in 2019 is now only 3.17 ounces (essentially a 20% price increase). A box of Kleenex which used to contain 200 sheets now only contains 160 sheets.

Even the thickness of toilet paper has been reduced, so you can't even escape the effects of inflation even when going to the can!

Of course, the grocery store is not the only place inflation is rampant. Have you dined out lately? My wife and I dine out regularly, and the price of dining has increased more than twenty-five percent in the last couple of years. Also, like in the grocery store, prices are raised in other ways. My favorite restaurant no longer includes a salad with the meal. The salad is now a five dollar menu item!

I recently noted at a Lowes store that refrigerators can now cost over $3,000!

I'm certain that in your business world you've also seen substantial increases in everything from dielectric oil, to EDM wire, tool steel and services.

By selectively choosing from various price indices, government officials downplay current inflation. For example, one index which is often used removes food and energy prices. Removing food prices…really? In addition, government indexes usually do not account for shrinkflation.

So, what's causing all this? Not one thing but a number of factors.

First and foremost, even economists will agree that it's more dollars chasing a fixed amount of goods or services, and, as I pointed out in the January *Rant*, those dollars are generated by uncontrolled government deficit spending and increases in the money supply.

In addition, legislation has artificially increased wages by more than doubling the minimum wage, which is often the basis for negotiating labor agreements. My dry cleaner's labor costs went from $7.50 per hour to $15.00 per hour overnight, with a commensurate increase in his prices. That huge settlement recently negotiated in the auto industry (helped no doubt by the first President of the United States to walk a picket line) will substantially increase the price of automobiles. Fat union settlements are guaranteed to result in higher prices: UPS drivers now earn close to $100,000 per year, resulting in higher shipping costs.

Government also is a key factor in raising electricity costs. Utilities are *required* to purchase increasing amounts of "renewable" electricity at often more than double fossil-based energy, the cost of which is rolled into everyone's base rates.

So who benefits from inflation? Debtors, because debts are repaid in inflated dollars. And who is the biggest debtor of all? Our government. The government, despite all the howling about inflation, is happy to repay those thirty year treasury notes in today's dollars, worth less than 5% of the dollars borrowed all those years ago.

And who suffers from inflation? Those people on fixed incomes or living off retirement savings and the poor who live from paycheck to paycheck. The majority of Americans have not benefited from the booming stock market.

So, what can we do? Elect a president, congress and state leaders who have the courage to tackle our unsustainable deficit-ridden economy, instead of kicking the can down the road as both political parties have done for decades. Unfortunately, the likelihood of that is small since there are now more voters that benefit from government spending than those who pay taxes to support it.

It's time to pay the piper. For every day we put off the inevitable, the eventual pain grows exponentially.

Roger