



# MONETARY & ECONOMIC REVIEW

Volume XXIV, No. 1

Spring/Summer 2009

## The “Invisible” Tax

By Chuck Bates

*Charles E. “Chuck” Bates is Executive Vice President and News Director for IRN/USA News. He formerly served as an assistant to the Deputy to the President for Political Affairs in the White House. Chuck is also co-host of the national radio talk show, “News & Views.”*

You needn't be an economist to notice that many of the things we purchase regularly have consistently cost us more over the last year or two. With notable exceptions in the housing market and thankfully at the gas pump, most other prices have been on the rise. But why are prices rising in the midst of a recession – and where does it stop?

Undoubtedly we should expect politicians at all levels of government to demand more money to meet budget shortfalls. From New York City to Los Angeles, residents are bracing for higher and higher taxes on everything from sales to property. New York is even thinking about new taxes on soft drinks and text messages! At this rate we will tax everything the “rich” earn (\$250,000 a year, according to Obama), and eventually the category President Obama denotes as “wealthy” may include every family making in excess of \$60,000 a year. But all of these various schemes and proposals pale in comparison to the invisible tax of inflation that is looming on the horizon.

Inflation has been defined as, “a rise in the general level of the prices of goods and services in an economy and a decline in the real value of money and a loss of purchasing power.” But what causes inflation? The answer: it is simply the creation of new dollars placed into circulation in an economy. Whenever a central bank – in this case, the Federal Reserve – increases the money supply, they make the existing currency worth that much less. With all of the recent “bailouts” of one industry or sector after another and the new dollars being printed and flooded into the market to “stimulate” the economy, we are actually destroying the value of the dollar, and in turn, your purchasing power. You didn't set up a derivative hedge fund that went belly-up or make bad loans to those who should never have qualified for them, but you get to pay a price – a tax, if you will, for others' poor behavior and performance.

In recent months we have witnessed a second and third bailout for AIG, discussion of billions more for the failing U.S. auto industry, TARP funds for banks, additional monies for the financial sector, bailouts of Fannie and Freddie, a “stimulus” package passed without review that is expected to top \$3.2 trillion, and the Fed shocking the markets with the plan to flood an additional \$1.2 trillion into the money supply. Folks, these are trillions with a “T” and it is the estimation of many economists that the end results will be catastrophic to the U.S. dollar and our purchasing power.

While I do not expect us to have the 230 million percent (you read that right) inflation of the nation of Zimbabwe who just this year introduced the \$100 Trillion note, I do anticipate a further 50 percent to potentially 90 percent decline in the value of the dollar as the printing presses at the Fed seem to be running in high gear. Unfortunately, this means that all of our dollars – cash in the bank or in dollar-denominated investments (i.e., stocks, bonds, CDs, etc.) – will be worth a lot less this time next year.

You could call inflation the neutron bomb of economics. It leaves your figures intact but it destroys your buying power. A case in point: if you have \$10,000 in a CD yielding 2 percent, at the end of the year you would have \$10,200 in your account. Now the government will get \$40 of that in capital gains and you will then have a net of \$10,160. Now figure in real inflation numbers (not those watered down, fixed, government reported figures) of roughly 10-13 percent and on the low end you have a real purchasing value of only \$9,144. In other words your account reads \$10,160 but it only buys you \$9,144 worth of goods or services.

So, in a nutshell, the policies of government and central bankers are eroding the value of your hard-earned dollars. What can you do about it? Diversify into tangible assets such as precious metals, paid-for agricultural real estate, and other items you may anticipate needing in the next year while you still have the buying power to do so. Of course, you cannot flee the U.S. dollar completely, as it is the currency of choice for the time being. However, it is imperative to

diversity in order to avoid hyperinflation – an invisible tax that packs a real wallop on the pocketbook. Hang in there folks – the next few years are likely to be a very bumpy ride for the economy.

For more on strategies you can use to protect yourself and family from inflation, send me an e-mail at: [info@inforadionet.com](mailto:info@inforadionet.com).