Hey, we're on a series of episodes on finance and, a little while back, we talked about income taxes and whether those income taxes are an *unwelcome* financial partner for citizens. Go listen. In the current politically-supercharged environment, you might find it a bit surprising! Today, we're picking up on something impacting countless people in the U.S. at the time of this episode—and that's inflation! To start, I'm going to revisit a couple of quick introductory points from our previous income-tax discussion.

Here we go with that… Have you ever partnered with someone else on a project, perhaps even a business? Maybe it was a version of the proverbial lemonade stand on the sidewalk in front of your home when you were just a kid. And if you did that with a sibling or a neighbor kid, you both did the work, presumably paying for the lemons and the sugar and taking the money from your customers. Then, at the end of the day, you split the profits! You shared the work and the risk, you split the profits. That's a key part of the magic of free markets, fulfilled by the managed cooperation between the parties involved in the transaction. In short, you enjoyed the benefits of embracing a financial partner!

But there are a couple of situations where your "financial partner" is not always so very welcome, and, after first taking a look at income taxes, we're now making a few key, peculiar observations about inflation and federal debt—when government is effectively your real partner! Let's look at a slice of that.

Inflation is part of *economics*, which itself is a social science. That means it's a "flexible" science that's not a concrete, physical science like chemistry or physics. So, there is a "social" dimension, meaning that there's a lot of human behavior involved and quite a bit of the related unpredictability! And, boy, is inflation a *social* science! It involves lots of people and their choices…but it especially involves powerful people who've been given some very significant control over our financial lives. So, just how is that true?

Inflation can be broadly defined as a general increase in the prices of goods and services in an economy, yeah, a loss of purchasing power! In contrast, a general decrease is called *deflation*. But where there's inflation, that means the same amount of money that purchased a general basket of goods or services last year or last month will not be able to purchase the same basket of goods and services today. You know, when your $50 last month purchased a lot more than your $50 this month.

It's commonly held there are two broad profiles of professional economists regarding inflation: the monetarist view and the Keynesian view. Monetarist economists, like the famous Milton Friedman who's been so influential since the 1970s, generally believe that government's policies about the supply of money direct the destiny of inflation, while Keynesian economists (named after famed economist from the 1930s John Maynard Keynes) generally believe that it's about the demand. There you go—experts butting heads! Tells us a lot, right? Experts often disagree deeply! But one thing *is* pretty clear: a foundational driver in moving the needle the most in the U.S. is government money policies and actions!

Let's create an example. Of course, government is in charge of its money supply—it essentially "prints" the money. So, let's take a case of an entire nation of, say, just 1,000 people. And let's say that each of those people have just one asset, $1,000. So, the total wealth of the entire nation is the resulting product: $1,000,000 (yeah, 1,000 people times $1,000 each). Now, let's say the government decides to print another $1,000,000 and distribute that equally to each of the 1,000 citizens. So, the government has inflated the currency by 100%. But everyone is equally wealthy, and they are competing to purchase the same goods and services. So, in this particular imaginary world, the price of everything will double, like a loaf of bread would cost $4 now instead of $2. That sounds pretty harmless, right? Everything doubles! But that may only seem harmless because I created too simple of an example to get us started!

So, let's tweak that with just one vital change in assumptions: what if government distributes that new $1,000,000 to just half the people, only 500? Then, these 500 folks each receive $2,000 more, so that each now has a total of $3,000. But the other original 500 folks each still only have $1,000. Now the 500 folks with $3,000 can bid up the price of consumer goods because they are now relatively wealthier than the 500 folks with just $1,000…all due to that preferential treatment embedded in a government action.

Truly, this second picture of the effects of government policy is much more accurate as to *the fact that inflation always impacts each person differently*, based upon all kinds of factors: their wealth; the type of assets they own; which good and services are hit with the most impact by the inflation; whether they are on a fixed income; and many others! Now the key foundational reason that inflation rears its head at all is that currencies like the U.S. dollar are what are called *fiat* currencies, essentially meaning that the only thing backing the currency is the will and ability of government to sustain the value of its currency.

The bottom line is this: real people can and do get very hurt by forces outside their control, like when a government *doesn't know what's it doing*—or doesn't actually *care* what it's doing! In some cases, inflation can get very bad…that's called *hyperinflation*. Two cases of that. About a century ago, in just one year, 1923—just from January to December—Germany's currency became worthless…yes, *in less than a year!* Imagine your parents and grandparents having all their savings become worthless! Some historians say this political event helped give rise to Hitler and the Nazis. And how about modern-day Venezuela? Taken over by socialist dictators, the entire economy faltered. Venezuela's own central bank reported the inflation rate between 2016 and mid-2019 to be *53 million %!* Devastation. Extensive ruin.

What about America? Well, in the last few years…starting in the COVID pandemic…the U.S. government spent *unprecedented trillions*. In 2021, just one stimulus bill in Congress had $1.9 trillion in "stimulus" spending. So, to get context, just how much is a trillion dollars? Well, if you spent $1 million per day, it would take you over 2,700 years to spend $1 trillion! And, while Congress was spending, supply chain woes precipitated by government shutdowns made some goods more scarce and government energy policies helped make gasoline more expensive. And the Federal Reserve initially did little to try to thwart the inflation clearly in the works—its inaction because any inflation was labeled "transitory."

Here's the thing. These policy areas really are complex. But the policies chosen are all-too-often unwise, driven by ideology and bad politics. And nations are inextricably bound to their fiat currencies like the dollar—meaning citizens can only hope their leaders are wise. *But wait, the government can just borrow the money spent, too!* And, so it goes: many countries are afflicted with bad long-term stewardship by leaders. So. Do you believe the U.S. to be wise when it comes to spending, inflation, and federal debt?

Well, start by recalling that $1 trillion definition—spending $1 million per day for over 2,700 years. Then recall that the U.S. is over *$30 trillion in debt* (up from $20 trillion in 2018), not counting *additional unfunded obligations* in the future for social programs of *$70 trillion more*—a total of *$100 trillion!* So, who cares that the U.S. has a *new* $1.9 trillion stimulus spending bill? Well, not Congress! Amazingly, in its public report, *even the U.S. Government bureaucracy itself* labels this "An Unsustainable Fiscal Path!"

Let's go "micro" for a minute. With inflation, there are lots of individual economic losers…but also some possible economic winners. You see, like we talked earlier, government actions *always inherently* pick relative winners and losers. Inflation losers are savers, cash holders, and people whose income adjustments won't cover the increases in the cost of necessities. Relative winners can be those who owe debt, some real-estate investors, and some so-called "hard" asset investors. The biggest winner is likely the IRS. That's because those investors who are winners will be paying a lot more income taxes at higher marginal tax rates. But will Congress relieve that burden by indexing tax rates?

Here's reality. The shameless, ceaseless arrogance of government leaders presumes that their increasing centralized policies bring desirable results. It doesn't bring that outcome often—*but it does bring deep control!* A fruitful policy is low-inflation free markets…people holding others accountable with allocation of resources in each transaction, like buying carrots or cars. Still, the U.S. government *routinely*, *casually* swings the bat with trillions spent…clear evidence of a lack of wisdom for the long-term. Predictably, unwise government actions bring huge debt—and often inflation. Yeah…unwelcome financial outcomes.

So, where's the hope? Well, our faith is core…yes, God will indeed provide for all our needs! But, let's be honest, that'll surely be *despite* the types of approaches by government bringing $100 trillion in debt.

A&A: Application & Action

1. Is inflation unwelcome or a benefit in your personal world? As a financial steward, are you clear about how to best personally handle inflation? Discuss and share the proven approaches you are using that yield desirable results.

2. When the COVID stimulus checks were being sent in the U.S. and additional trillions were also being spent in the U.S. during that general period of time, how much did you hear about the long-term consequences of that being discussed—like the debt obligations of the U.S.? And, was the top-down Federal financial response appropriate, or should the response have been expected to be more local, even down to citizens simply helping their neighbors? Discuss.

3. When it comes to being impacted by high inflation in your city and nation, does that reality tend to cause you to first think more and act on behalf more for yourself and your family or to think more and act on behalf of others? Discuss the practical, Christlike response to a modern experience of inflation.