



FEDERAL RESERVE HELPS FINANCE SPENDING AND WARS WITH HIDDEN INFLATION TAX

By Dennis Constant

“This is an interesting, different type of war.” – George W. Bush, May 2, 2007

The President and his friends in Congress are free to spend literally trillions of dollars on military ventures and pork barrel projects, and, furthermore, the President doesn't even have to ask Congress for income tax hikes to fund his military crusades. The President and Congress have allies that are truly indispensable: the Board of Governors of the Federal Reserve System. It is the “Fed” that helps to finance this spending, using the hidden tax-increase of inflation.

The inflation rate from November 2006 to November 2007 was 4.31%. In contrast, the inflation rate from November 2005 to November 2006 was 1.97%. In November 2007 the money supply (M2) was \$7.424 trillion, up from \$6.990 trillion in November 2006, an increase of 6.2%.

The media is awash with misinformation regarding the “causes” of inflation. Inflation is not caused by the price of gasoline, greedy consumers or conspiracies involving oil companies. They do not contribute to inflation because they do not control the money supply. No, inflation is caused by the Federal Reserve literally creating money out of thin air, cheapening the value of money. When the growth of the money supply exceeds the rate of economic growth, inflation results.

To put it in practical terms, a person with an estate of \$750,000—not a large figure in view of the present value of homes—saw his assets decline in value this past year by \$32,325, just from inflation.

Financing an undeclared war takes a lot of money. The Iraq war so far has cost \$478 billion--\$4,100 per household. It takes a lot of money to fund corporate welfare too. The Fed is bailing out the banking industry by giving it \$40 billion just in December 2007. It also will make \$24 billion available to the European Central Bank and the Swiss National Bank, to increase the supply of dollars in Europe.

Inflation also is financing the gigantic corporate welfare program to farmers. The recently passed farm bill is a staggering \$286 billion. Farmers are paid federal subsidies just for owning land and growing crops.

How does the Fed create money to help finance wars and corporate welfare? The Fed creates money out of thin air by buying securities from the U.S. Treasury, by creating a check drawn on itself. The Treasury then uses this new money to finance increased federal spending.

The Fed's role in creating money out of thin air causes inflation, and this inflation, which helps fund the massive spending by the Federal government, is financed by taxpayers, who pay for the spending with the loss of their assets due to this inflation.

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