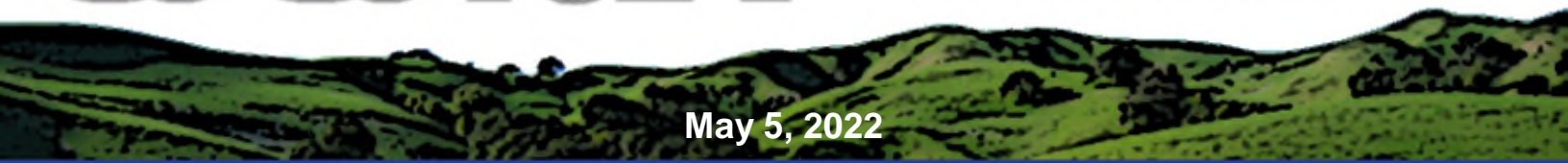




Promoting accountable, cost-effective and efficient government and opposing unnecessary taxes and spending



May 5, 2022

CoCoTax Vice President's Report – May 5, 2022

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**INFLATION-WHO NEEDS IT**

Inflation has become a prevailing issue in the nation and this commentary co-written by Mark Fernwood and Jim Pezzaglia explains the cause and why the federal and state governments have difficulty in addressing it. Why? Because less goods are produced. COVID resulted in massive "stimulus" checks, and the war overseas added great cost adding further to our vast over spending. Further, businesses, tenants and landlords received grant money. Still further, overly generous "unemployment benefits" resulted in millions opting not to return to work. The shortage of workers resulted in less productive businesses and inventory shrinkage.

Inflation is actually a very straight forward issue. It is solely a monetary issue. The classic definition is "too much money chasing too few goods," still holds true. The US has been running trillions of dollars in debt each year. In the past, this was financed by selling US Government Bonds but there is little market for these, at least not in the quantity needed. Instead the bonds are given to the Federal Reserve, which "pays" for them by printing vast sums of money. Printing "inflates" the money supply which results in rising prices. Rising prices are a symptom of the inflation, but not the cause of it.

In the economy there is a multiplier effect of the infusion of money, where the money circulates 7-8 times the original infusion. This makes printing trillions especially dangerous as more money chases a scarcity of goods and services and prices rise. The government prints and distributes the money and a chase for goods results and the general public is poorer.

The irony is that Government benefits greatly from inflation. Inflation pushes people into higher tax brackets. Higher dollar prices are paid for services and properties that have not changed in comparative value. Higher priced investments

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### Vice President's Report (continued)

push up capital gains taxes. The current administration has proposed increasing the long-term capital gains tax to 43.5%; this becomes even more burdensome as a wealth tax. The government limits personal residential exemptions on sales to \$250,000 per spouse, the balance is subject to capital gains tax on the inflated price. Marketable securities are sweetened by inflation, and when traders hold and sell securities short-term the gains are taxed as ordinary income. The government takes an ever-larger chunk. And governments spend it all, and the inflation grows.

So how do we get out of this inflation mess? The real solution is also quite straight forward but politically dangerous: drastically cut spending to balance the budget. A short-term "fix" is for the Fed to induce a "controlled recession" by increasing interest rates but this action invites a depression and a hard landing. Those in office want no part of this so they keep adding fuel to the inflation fire and blame everyone else.

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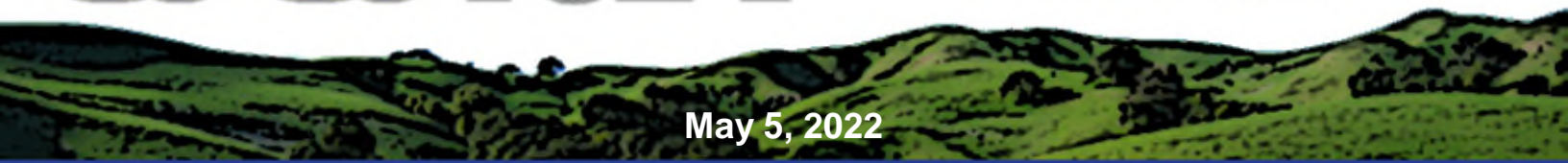


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**ANNOUNCEMENTS!**

The May 27, 2022 Breakfast/Board meeting is CANCELLED.

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