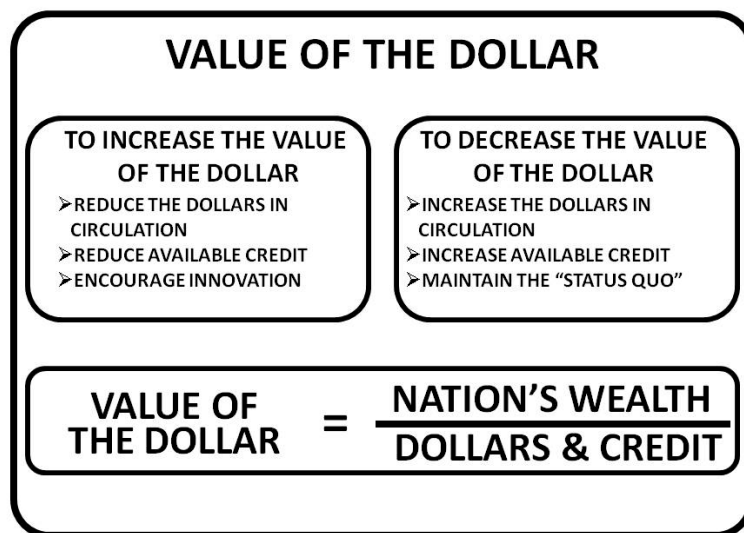


INFLATION – STEALTH TAXATION

The tyrants (Wannabe Peers) would have you believe that taxes are only raised when the legislature increases taxes. These tyrants use the confusion over the relationship between wealth and the medium of exchange (money) to perpetuate this myth. Actually, the tax on the economy rises whenever the government increases spending. Tax laws just determine who pays the tax. If the taxes fail to cover government expenses, the value of the dollar decreases and anyone who owns money pays the tax in the form of loss of purchasing power. Money, (paper money) has no intrinsic value. The dollar's value is determined by the quantity of wealth the market is willing to exchange for the dollar. The dollar's value eventually will be determined by the nation's wealth divided by the dollars and credit in circulation.



The figure at the left is a simplified representation of the relationship between the medium of exchange (dollar) and wealth. It shows that the value of the dollar is equal to the "nation's wealth" divided by the quantity of dollars and credit in circulation. The economy is a complicated and somewhat sluggish entity. Sometimes years are required to respond to changes in the quantity of dollars in circulation. Government borrowing extends the time required for the economy to

respond to the revenue short fall. However, when large increases in the medium of exchange or reductions in the wealth available in the market occur quickly, the response can be both rapid and catastrophic. This type of event can occur when the government prints large quantities of money and uses the new script to facilitate the consumption of wealth natural disasters occur, which destroy wealth. An example would be the hyper-inflation experienced by Germany in the early 1930s.

The value of the dollar can also be affected by factors other than the quantity of dollars in circulation. Innovation, which reduces the labor or material content of wealth, can increase the value of the dollar when the quantity of dollars in circulation remains constant. Conversely, government rules and regulations that increase the labor and all material content of wealth without a corresponding increase in value can reduce the value of the dollar even though the quantity of dollars in circulation remains constant.

Inflation is not a recent phenomenon. "Pieces of silver," the medium of exchange of the Roman Empire, started out as almost pure silver. When the Roman Empire fell, the "pieces of silver"

were almost pure copper. During the 19th Century the inflation rate in the United States was 12% for the entire Century. In 1800, \$0.89 had the purchasing power of \$1.00 in 1900, a change of about 12% in 100 years. From 1900 to 2007 the inflation rate was about 25 to 1, a change of 2500% in 107 years. A Google search lists over 20 pages of "inflation calculators." Three of the most popular inflation calculators list the inflation rate of between 24.6 and 27.71 from 1900 and 2007. In other words, one 1900 dollar had the purchasing power of twenty-five 2007 dollars.

What happened? In the late 1800's and early 1900's four factors emerged that caused inflation to increase. These are:

- Creation of the "Fourth Branch of Government," the bureaucracy
- Enacting and enforcing the Sherman Antitrust Act.
- Creation of the Federal Reserve and elimination of "hard" money
- Enacting the income tax
- Wars

How did these factors cause such erosion in the value of the dollar? Chapter 9 of "21st Century Common Sense" explains in simple terms how these factors produced inflation of the dollar and aided the "Wannabe Peers" in usurping our freedom. <http://commonsense21c.com/>