Independent Women's Forum®

— TOP TAKEAWAYS —

Understanding Inflation

INFLATION IS A KITCHEN-TABLE CONCERN

- Inflation happens when demand for goods and services outpaces supply. This can be the effect of excess demand, or restricted supply, or both.
- The inflation rate hit a 30-year high in October 2021 at 6.2 percent.
- Labor shortages can also drive wages up, which in turn drives prices up.
- Inflation is a tax on all consumers, but not everyone is impacted the same way. Rising costs for goods such as food and gasoline disproportionately affect low-income, working poor, and elderly Americans.
- Rising prices reduce workers' real wages and their purchasing power to obtain the goods and services they need. Inflation also devalues savings and wealth and erodes retirement dollars.

FEDERAL POLICIES CAN ACCELERATE INFLATION

- Government policies meant to help households and businesses during crises can backfire by overheating the economy and driving inflation higher.
- By increasing the supply of money that banks, households, and businesses have to spend or loan rather than save, the Federal Reserve aims to stimulate a sluggish economy.
- Cutting taxes and increasing federal spending via government programs puts more money into people's hands and thereby increases the demand for goods and services, which also stimulates the economy.
- Prolonged and excessive inflation can lead to a scarcity of goods. Eventually, the value of money diminishes to nothing or nearly nothing.
- Policymakers need to exercise great prudence and care when pursuing even worthy goals such as stimulating the economy, boosting homeownership, or encouraging labor force participation so that they do not accelerate inflation in a harmful way.

Click here to read the full policy focus and learn more about inflation.