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## Systemic inflation – America's biggest financial problem

Steve Bakke  January 30, 2024



Inflation debates typically involve official bickering about spending, tax policies, and similar topics. Here I'll discuss more subtle factors such as informal and often unofficial government processes, bad governance habits, or unintended policy consequences. I label those "systemic inflation" because they drive inflation automatically. And there's an interesting solution being suggested for our biggest barrier to spending control.

First, our undisciplined budgeting process, a huge systemic problem, doesn't lend itself to the careful analysis of spending and borrowing decisions. These problems don't get our legislators' attention until spending authorizations are depleted or we're bumping up against our debt ceiling. Only emergencies attract attention.

We go through an endless stream of emergency budget and debt ceiling debates strung together with omnibus spending bills and continuing resolutions. There's dangerously little old fashioned "scrutinizing" going on.

A related process, "baseline budgeting," was intended as a tool only. It's a projection of receipts, expenditures, deficit or surplus that would result from making no changes in law or policy. When baseline budgeting dominates the process, rather than just being informational, serious budget analysis can't happen. There's a built-in inflationary bias when we simply do the same thing, along with inflationary adjustments.

When baseline budgeting is controlling our financial planning, we hear claims that budgets have been reduced, even after increased deficits have been announced. It's seems like a pretend world.

A cynic might complain that under baseline budgeting, "balanced" is bad, "reduced" is a code word for increased, "less" means more, "down" means up; and "draconian spending cuts" somehow result in borrowing increases. It's an upside-down world." Our financial management should return to "regular order" by thoroughly analyzing all 12 spending budgets.

Before I discuss what I consider our biggest example of a systemic financial problem, I'll just mention there are many other examples of systemic causes of inflation such as cramdwn energy policies, overwrought federal regulations, and the trendy Modern Monetary Theory which preaches deficits and debt are of little concern. It's easy to add to that list – try it.

I consider our entitlement programs to be the biggest source of systemic inflation. This includes Social Security, Medicare, Medicaid, as well as several others. They account for 70% of total federal expenditures. Because entitlements are apparently politically untouchable, legislators are forced to hunt for spending reductions by nibbling inconsequentially at discretionary spending budgets which make up a mere 30% of total spending.

I'm convinced, however, we have a potential ally for changing the nature of this problem and starting to pay for entitlements from "normal operations," without straining the system. I'm endorsing an idea that has been bantered about by many pundits, including Dan North, Senior Economist at Allianz Trade North America, who really got my attention.

Let's acknowledge that entitlement programs are, as of now at least, politically impossible to be reduced in any significant amount. Therefore, let's have as a goal of maintaining current individual benefit levels.

The U.S. is experiencing a dramatically aging workforce resulting in an urgent demand for more skilled workers and entrepreneurs. While we have established limits on the number of skilled legal immigrants, we're being overrun by largely unskilled illegal immigrants, a major drag on our economy.

It's simply common sense to dramatically "flip-flop" those immigration statistics. Let's legislatively increase goals for legal immigration of skilled workers and professionals to strengthen the economy and expand employment levels. This will immediately get us started down the long road to stabilizing entitlement programs. And of course, the millions of uncontrolled annual border crossings must be eliminated.

In November, Republican senators introduced legislation that would emphasize attracting skilled legal immigrants to the U.S. Let's get that done and follow it up by making sure we take back physical control of our borders and of those entering our country. We have no choice but to establish "old fashioned" border security with a physical barrier and entry points, enhanced by human and technological surveillance.

Common sense can go a long way to solving our systemic problems!