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Analysis of today
Assessment of tomorrow

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Government spending and money printing are killing the middle class

The new mayor of New York City, Zohran Mamdani, stated in his victory speech that "there is no problem big enough that the government cannot solve."

He is obviously lying. Government is the problem, not the solution to affordability problems.

Government spending added to fiscal and monetary interventionism has destroyed the middle class in most developed nations.

Government spending is currency printing, and the constant erosion of the purchasing power of money combined with asphyxiating taxation is making the middle class disappear.

Weak real wage growth is the defining feature across developed nations since 2021, with a significant impact on families and living standards.

However, these real wage measures are calculated using the official CPI, consumer price index, which is far from a realistic measure of the rising cost of living.

The cost of living crisis

Despite official small positive real wage growth in most OECD countries in the past two years, many workers continue to feel poorer as the cost of essential goods and services, particularly groceries and housing, exceeds wage gains in most advanced economies.

Inflation is cumulative, and after an average of 24% CPI inflation between 2021 and 2024, there is no comfort for families when housing and groceries have risen up to 40% due to the insane destruction of currencies coming from so-called "expansionary" fiscal and monetary policies.

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Bloated government spending, high taxes and disincentives towards productive investment result in weak productivity growth, which means modest wage improvements and the subsequent impoverishment of workers earning a salary.

Furthermore, the current cost of living crisis was created by the insanity of monetary and fiscal policy of 2020-2022.

Wage recovery remains poor

After years of a sharp real wage slump between 2021 and 2023, workers in most developed economies have seen modest real wage growth in 2024 and the first half of 2025.

However, it is worth noting that this wage improvement is discounting an inflation measure, CPI, that has been altered substantially to show a basket where housing and groceries have a lower weight or do not reflect what citizens see in their daily expenditures.

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According to the OECD, as of the first quarter of 2025, annual real wage growth was positive in 33 of 37 monitored countries, with median growth between 2.5% and 3.5%.

However, this recovery remains poor, as real earnings are still significantly below pre-inflation benchmarks in many countries.

The wage gains are insufficient to offset the losses experienced during the inflation surge, fundamentally because productivity growth has been exceedingly weak.

For example, Spain's real wages are up only 2.76% over the past thirty years, and real net

wages are down since 2019, one of the weakest records in the developed world, according to the OECD.

In countries like Belgium, Iceland, and Japan, real wage growth was slightly negative or stagnant in early 2025.

Rising grocery and housing prices outpace wage gains

Food and grocery prices remain the largest concern for families through 2024 and 2025.

Across the EU, the UK, and Japan, food inflation remains notably higher than overall CPI data indicates, hurting disposable income.

The UK experienced food and drink price inflation of 4.9% in 2025, while the Bank of England projects food inflation to remain between 2% and 3% heading into 2026.

Government interventionism does not reduce prices; it increases them - Daniel Lacalle

In the euro area, food, alcohol and tobacco inflation was 2.8–2.9% in 2024, compared with a headline inflation rate of 2.3–2.4%.

By September 2025, food, alcohol, and tobacco prices were up 3.0% year-over-year, according to official indices, even as the broader consumer price index rose by just 2.2%.

Housing costs in developed economies have risen even faster than wages, making it even more difficult for families to make ends meet.

According to the OECD, housing cost inflation remains high in Portugal, the UK, Canada, Australia, and several other advanced economies.

Mortgage and rental burdens have risen significantly: average rent in England rose from £230 per week in 2024 to a projected £240 in 2025, while energy bills are unaffordable due to high taxes.

In several OECD countries, the price-to-income ratio for housing has increased more than 20% since 2020.

While headline CPI inflation has eased from its 2022-2023 peaks and nominal wages are rising, the burden of higher grocery and housing costs continues to erode the living standards of developed economies' consumers.

For most, the pay increase disappears with higher rent and supermarket bills before they reach the bank account.

Governments created the inflationary crisis by increasing expenditure and printing currency at a record pace in 2020 and 2021.

The next time you read that the government is going to give you free stuff or solve your affordability problems, remember government interventionism does not reduce prices; it increases them.