# Show Me the Money!

*November 21, 2022*

The Federal Reserve is committed to reducing inflation from current levels to 2% over a reasonable period. The Fed got the blame for the high inflation rate since interest rates were lowered in 2020 as part of the response to Covid 19 that triggered a surge in money supply. Inflation is caused by too much money chasing too few goods and the collision of the Fed's easy money policy and the shortage of output due to the loss of workers who came down with the virus gave us close to double-digit inflation not seen since the 1980s.

The concept of too much money gained popularity with the onset of monetarism, a school of economic thought that developed a relationship between money and inflation. One problem was defining what money is. As the theory gained general acceptance, various definitions of money emerged. The basic level of money was M1 or bank demand deposits plus currency. M2 included M1 but added savings accounts. The definitions grew to include all sorts of transaction equivalents. In the Seventies, the definition of money included M8 that included a myriad of financial market instruments. Back in the Seventies, an editorial in the WSJ provided a critical analysis of all these definitions. With tongue in cheek, we wrote a letter to the editor that defined an additional measure of money supply, M9 that was defined as M8 plus food stamps. The letter was never published but times have certainly changed and the addition to the measure of money supply growth has an important distinction in today's inflationary environment.

Today, the media decry the rise in food prices. Why would food prices be on an upward surge when commodities in general are not rising? The answer is simple: M9 or, more specifically, food stamps. Food stamps are a medium of exchange and are specifically required to be used to purchase food. As a result, they have a unique ability to drive the costs of food higher. Whereas dollars can be used to purchase anything, food stamps have a concentrated monetary effect on food because that is the only thing that they can purchase.

While the Covid 19 pandemic was in full force, both monetary and fiscal policy had their foot on the gas pedal. As the crisis wound down, both of those sources of economic stimulus began to recede. The growth in money supply slowed appreciably as did the size of the federal deficit. However, no such good luck could be attributed to the inflationary effects of food stamps. Federal spending on USDA's food and nutrition assistance programs totaled $182.5 billion in fiscal year 2021, a whopping 49% increase from the previous high of $122.8 billion in fiscal 2020. Why wouldn't food prices be surging when the government is essentially giving away over $60 billion to individuals to buy food—and only food?

If the federal government continues to expand the food stamp program by double-digits we can be confident that food inflation will continue to rise at an above-average rate. Such policies should at least be complemented by programs that are geared to increase food production and distribution.

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