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Rep. Kevin Brady Has Noble Intentions, But Must Back Them With Inflation Knowledge

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Though its purpose has been corrupted in modern times by an increasingly fraudulent economics profession, the basics of money remain the same. Money's singular use is as a measure meant to facilitate the exchange of consumable goods, along with real wealth in the form of investment.

Money is always and everywhere a measure, but in a modern sense a highly debased economics profession has ascribed magical qualities of wealth to the proverbial foot ruler. Implicit in Ben Bernanke's infantilization of money in the form of quantitative easing is the belief that money is not a stick used to measure the wealth we exchange, but actual wealth itself.

Enter Rep. Kevin Brady. Correctly sensing growing unease inside the electorate about dollar policy, Brady seeks a monetary commission to hopefully discuss the true purpose of money, along with a Sound Dollar Act meant to give credibility to money that's lost a great deal of it since 2001 alone. For bringing sound money into a political discussion that has too often avoided it, Brady should be lauded.

What's concerning is his own definition of inflation, how it reveals itself, and what the implications of inflation are for the electorate. At a Cato Institute speech last week, Brady exhibited questionable knowledge about inflation. He's not alone in this regard inside the political class, but it's essential from a political perspective for Brady to get the basics right.

Brady's most notable error in his speech was the one concerning inflation itself. He spoke as though we've not been in the midst of an inflationary era, or as he put it (quote paraphrased), inflation will arrive "once all that money printed by the Fed is lent into the economy." This presumption fails on many levels.

For one, assuming there weren't an inflation problem at the moment, Brady not only wouldn't be floating legislation related to money, but he also wouldn't have a monetary following at all. Inflation, to be explicit, is a decline in the value of the unit of account; in our case, the dollar.

The dollar bought 1/250th of an ounce of gold in 2001, yet today it buys 1/1286th of an ounce. That is inflation. The value of the dollar in terms of the commodity historically used to define money thanks to its stability is fairly explicit that we have an inflation problem. It's not an IF as Brady presumes.

Brady suggests inflation may reach us when banks start lending us all the dollars the Fed has flooded them with, but this gets inflation backwards. Inflation is not a supply of money phenomenon (quality money is heavily circulated), rather it's a quality of money phenomenon. Quality money is heavily demanded, so assuming we reach a point whereby banks experience demand for their loanable credit, that will probably signal a stronger and more stable dollar. Lending was up enormously in the '80s and '90s precisely because the dollar was more stable.

Brady's explanation for low inflation per the government's measure of it includes the view that we may face another financial crisis, hence economic activity is subdued. The problem with such a view is that it ignores the basic truth that absent a weak, floating, inflationary dollar during the Bush years, there's no economy-suffocating rush into housing to begin with, and as such no government errors of the bailout variety that lead to what was a government-authored crisis.

He then argues that Dodd-Frank related regulations on banks are holding back what he deems inflation. Not defending Dodd-Frank for even a second, it must be stressed that banks account for a small percentage of total lending. Even if Dodd-Frank is reducing actual bank lending, that just means credit would be accessed from non-bank sources. Of course all of this presumes that credit drives inflation, as opposed to monetary devaluation. The latter is true inflation, and looked at in terms of credit, we'd see the most lending (think '80s and '90s again) when money is most credible (meaning not being devalued) precisely because those with credit would be most likely to lend it out when it's not declining in value.

More broadly, Brady ties what he presumes to be low inflation to a weak economic outlook. This view is rooted in the Phillips Curve, which says economic growth itself is the driver of inflation. The problem is that it's not. Assuming labor and production capacity shortages stateside, that just means new capacity and new labor force entrants would reveal themselves, not to mention that most U.S. companies access the world's labor force and the world's capacity in producing for customers.

Beyond that, stable money values attract investment, and new investment means more production. Put plainly, it's precisely when money is of the highest quality that production is greatest. Production per Say's Law is what drives demand, so it's hardly the case that boom times are inflationary. They're actually the opposite. Indeed, inflation, meaning a decline in the value of money, is made blindingly evident as a 'today' or 'now' concept precisely because economic growth has been so slow.

When money is losing value, meaning we're suffering inflation, investors are less likely to commit capital to new ideas. Why would they if their investments will be devalued? Reduced investment means less production and slower economic growth, and that's why a weak dollar since 2001 has largely coincided with a growth-starved electorate. Brady talks of inflation as an IF concept, but once again, slow growth under Bush and Obama has revealed it as a NOW concept; the dollar’s value since 2001 in terms of foreign currencies and gold further explicit evidence of the electorate having suffered an inflationary era.

Of greater concern owing to the truth that Brady will need broad consensus to achieve monetary reform, was the congressman’s assertion that “Wall Street is roaring” amid the Fed’s corruption of money through QE. This is a popular view, it no doubt generates huge cheers among his constituents, but it’s also utter nonsense.

If Wall Street were ‘roaring,’ it would certainly be the case that its financial firms would be hiring with great gusto. In truth, Wall Street staffing is at 1997 levels alongside talk of further layoffs. Similarly if Wall Street were ‘roaring,’ bonuses would be ascending to levels that would have every individual possessing numerical ability clamoring for a job in finance. The problem is that bonuses are predicted to fall 20% this year.

Though it does not play well in the very near term to an electorate that is understandably horrified about monetary policy, the simple truth that Brady would be wise to understand with politics in mind is that Wall Street is healthiest when Main Street is. Wall Street had its best years, most hiring, and biggest bonuses in the ‘80s and ‘90s when the dollar was most stable, and the U.S. economy booming.

Taking this even further, Brady should remember that the Wall Street bailouts didn’t spring up out of nowhere. Instead, the bailouts took place after seven years of dollar debasement from the Bush Treasury that fostered an economy-sapping rush into housing consumption over the IPOs and M&A that always take place with powerful regularity amid dollar stability. More to the point, Wall Street is a limping supplicant of government precisely due to the very policies of dollar debasement that Brady correctly decries.

Rather than bash Wall Street as the problem, Brady would be wise to open the tent and include this brilliant symbol of global finance in his efforts to revive the dollar. What’s good for the dollar is good for Wall Street despite what you hear. It’s not only untrue to suggest that Wall Street benefits from the corruption of money, but it’s also anti the consensus that Brady will need to turn his vision into legislative success.

At present there’s cause for economic optimism. Perhaps pricing in a weaker President Obama alongside the departure of Ben Bernanke (Janet Yellen will not have Bernanke’s power to wreak major havoc), the dollar has rallied from $1,900 gold over two years ago to $1,286. While still too weak, a stronger greenback will on the margin be good for investment (stocks are in better shape now) and overall economic growth.

Still, let’s not forget what created the electoral marketplace for Rep. Brady’s attempts to reform monetary policy to begin with. The modern push is a function of an inflation problem that’s been with us since the early 2000s; one that slowed economic growth, eviscerated paychecks in the form of higher food and energy prices, and that weakened a Wall Street that is healthiest when it’s merging and taking public our best and brightest companies.

In short, inflation is *now*, and Brady will be most effective if he gets on board with this reality. To presume that what ails us is a future concept is to misunderstand inflation altogether, not to mention a very frustrated electorate.