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The Velocity of Floral Inflation

by The Mogambo Guru

"But after all of this, you suddenly realize that the money that was taxed away comes roaring back into the economy as government spending, making a mockery of the whole thing, and then there is inflation to consider..."

To show you how weird things are getting, John Mauldin of Frontlinethoughts.com writes about the velocity of money, and for some inexplicable reason, immediately seems to confuse it with inflation when he writes, "When most of us think of the velocity of money, we think of how fast it goes through our hands. I know at the Mauldin household, with seven kids, it seems like something is always coming up. Velocity, at least in terms of how fast money seems to go out the door, seems faster than normal."

As an interesting aside, he is the proud father of a daughter getting married this summer, and as much as I cry and wail about inflation in the money supply and inflation in prices, like gasoline climbing towards $4 per gallon and how suddenly everybody in the family has to always need to be someplace clear across town for some damned reason, which I was just now wailing about until he said that if I want to see real inflation in prices, "forget gas", as he informs us that his daughter's upcoming wedding has taught him that "you haven't seen inflation until you start buying floral arrangements."

Inflation in floral arrangements! Wow! An indicator I never even heard of! Thanks!

But what is the velocity of money, really? Well, velocity is just a plug factor that makes Fisher's equation balance out. If you have forgotten, Fisher's equation (usually written PQ = MV) famously balances the total of goods sold (Price of things sold multiplied times the Quantity of goods sold), which he says must have been paid for by the other, money side of the equation, namely the total amount of money spent (Money supply times the Velocity with which the money supply goes from hand to hand) that was used to pay for the PQ.

So, I am sorry to say, this is where velocity comes from; it is just the number that makes the equation balance! Hahaha! April fool!

And this doesn't even account for taxation, which makes it all the more weird. I mean, the after-tax money that Mr. Mauldin spends at the florist results in a smaller amount of after-tax money being subsequently spent by the florist for, say, a couple of days lounging around the beach, and the hotelier spends a smaller amount of that after-tax money on some lovely bit of fluff at Miss Maggie's Magical Men's Club, and the owner of the men's club used a little of that after-tax money to buy gasoline to track down his cheating girlfriend who is meeting some damned florist at their little "love nest" at the beach, and the gas station spends a little of that smaller amount of after-tax money on paying me to go away ("Here's a buck. Now scram!") and stop bothering the customers by helpfully informing them "We're freaking doomed to death by inflation in consumer prices, and probably deflation in asset prices, too, because the despicable Federal Reserve created all the excess money and credit to finance a series of bubbles that are now popping, by creating the money to buy the enormous debt of a system of

governments that is now so large, so freaking large, so overpoweringly large that our system of government constitutes a full half of GDP! Half! And which employs one out of every seven workers! We're freaking doomed, you morons!"

But this is not about how people going into a stupid convenience store are "bothered" by me politely informing them about how stupid they are, and how the last 4,000 years of human economic history shows that they should be buying silver and gold instead of an Extra Large Big Gulp soda, a bag full of delicious highly-processed foods (like Twinkies) and a handful of Lottery tickets, but about the velocity of money, and about how the power of velocity, as the money cascades hand to hand in transaction after transaction, is seemingly reduced at each step by the tax rate.

So, what is the average tax rate? 20%? If so, then the amount of money is reduced by 20% at each transaction, and thus the velocity of money is reduced. So out of the $1.00 you spend, the guy you gave it to can spend 80 cents, and the guy he gives the money to can spend only 64 cents, and that guy can spend only 51 cents, etc., until one day there is only a penny left out of that original dollar that has not been taxed away, and then 20% of that penny will be paid in taxes, leaving that last guy in line with, literally, nothing, sort of like how you give the kid a twenty-dollar bill to buy you a couple of Twinkies, and you never get the change back from the twenty, only not all at once, but every bit as real and as irritating.

But after all of this, you suddenly realize that the money that was taxed away comes roaring back into the economy as government spending, making a mockery of the whole thing, and then there is inflation to consider, and soon my brain is whirling, whirling, whirling until I have no idea what anything means anymore.

Mr. Mauldin kindly senses my confusion, and suggests that I "look at the adjusted monetary base, or plain old cash plus bank reserves held at the Federal Reserve. That is the only part of the money supply the Fed has any real direct control of. And it is not growing that much (less than 2%!), and a lot of the cash goes overseas, never to come back to the US." He's right! The monetary base is actually going overseas! Yikes!

But then, to show you how really weird things are, he next says "Also note that the growth in the monetary base has been trending down until recently." You look, and sure enough, he includes a graph of the St. Louis Adjusted Monetary Base, whose source is given as the Federal Reserve Bank of St. Louis, and sure enough, it shows that the monetary base has indeed been going down since 2005.

My eyes open in surprise and mouth hangs open for the same reason because what makes this so weird is that I also chart the Monetary Base, using the data shown in the Federal Reserve Data Bank in the Market Laboratory section of Barron's, and it has been going up steadily since 1997!

An anomaly! I don't like it when things are this kind of weirdly incongruous, and I always start to panic, until I realize I own gold, so I have nothing to worry about.

I breathe a sigh of relief, and I look nervously over my shoulder because I know that most people do not own gold to protect themselves against inflation, and they will soon become bold enough to attack me from behind in their desperation. Watch me and learn about the joys of inflation!