US money supply growing fast (or `How to debase the dollar`)

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This article was previously published at GoldMoney.com.Â For an explanation of the different Austrian measures of the money supply (AMS, TMS, and MA), see the recent paper from Kaleidic Economics,Â â€œAn introduction to a new measure of the money supply: MAâ€• (PDF).

With all the troubles of Europe hogging the headlines, commentators are ignoring money supply in the US, which is growing strongly, with the broad measure of M2 growing by over 10% for the last 12 months. Furthermore, the annualised growth rate over the last six months has been above 15%. The story told by the True Money Supply confirms this.

The reason for using TMS is simple. According to the Ludwig von Mises Institute, it represents the amount of money in the economy available for exchange. Furthermore, it is designed to clearly show any expansion that results solely from central bank injections of cash and commercial banksâ€™ credit creation, by excluding anything that has to be converted into cash first, such as credit and money market funds. It is therefore a pure measure of money in the economy available to be used for transactions, more pure than official MZM, M0 or any other central bank â€œMâ€• measures.

In economic theory this is important, because money is simply a commodity that happens to be used exclusively as a medium of exchange. And as a commodity, its value ultimately depends on its supply and the demand for it. By using TMS we keep the relationship between actual money and prices pure from other arguable factors.

The growth in US dollar TMS over the long-term is shown in the chart below. From this chart it can be seen that following a pause in its long-term trend at the time of the 2007-08 financial crisis, TMS has been growing strongly ever since.

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