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OPINION | LETTERS

Economists Reply: How's This for Proof on Money Supply and Inflation?

We used the tried-and-true quantity theory of money and M2 to predict the year-over-year inflation rate.

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Dan Thornton, a former St. Louis Federal Reserve official, claims that there is no empirical evidence linking changes in the money supply to changes in inflation (Letters, July 22). He then takes us to task for claiming that there is ("The Fed Ignored the Money Supply, and a Recession Is Coming," op-ed, July 8, and Letters, July 19), and demands that we provide proof of such a connection.

Exhibit A is our op-ed "Too Much Money Portends High Inflation," which appeared on these pages a year ago (July 21, 2021). In it, we admonished Federal Reserve Chairman Jerome Powell for being in denial about the linkage between money (M2) and inflation. We then used the tried-and-true quantity theory of money and M2 to predict that the year-over-year inflation rate in the U.S. would surge to "at least 6% and possibly as high as 9%." We hit the bull's-eye. There's the evidence.

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