

'Burritonomics 101'

\$12 burritos, the Mayflower, inflation and the USA

By Andy Killion
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The chile relleno with pork burrito I so love from a local eatery now costs \$12.66 before the drink. The price includes magical ingredients lovingly stuffed inside a warm flour tortilla with its hallmark tinfoil wrapper and grease infused paper bag. Antacid not provided. How has this come to pass right under our snouts if the burrito hasn't changed in 40 years?

The answer isn't what has changed in the burrito but rather what has changed with our unit of value, the dollar. In other words, the burrito isn't better (how can perfect get better?), there are just far more dollars chasing too few delicious burritos.

More dollars today

Why are there more dollars today than there were 5, 10, 40 years ago? (a terrific question!)

The U.S. Federal Reserve Bank began in 1913 to maintain price stability, inflation and full employment by managing our nation's money supply. The FED has met many challenges, including, but not limited to, two world wars, two pandemics, one Great Depression, one Great Recession, the Korean, Vietnam, Iraq 1 and 2 and Afghan wars.

The results of its efforts are apparent all around the world with the demise of Nazi Germany, the Imperial Japanese Empire and the Soviet Union as some of its larger assists to

our fantastic free enterprise self-governed system. It is not a perfect system but the best we have at our disposal.

But what does the FED have to do with a \$12 burrito, you ask?

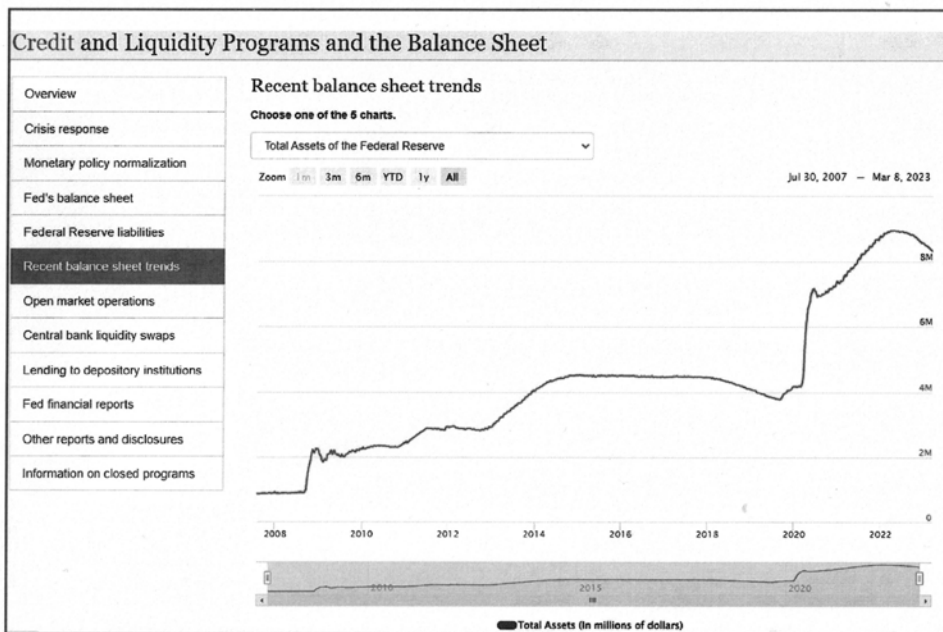
Historically, the FED has provided banks access to money by purchasing banks' loans (mortgages, car loans, credit lines, etc.) to enable them to continue doing what it is there to do—lending money to you, me and our employers.

Our fractional reserve banking system allows banks to lend a large fraction of their net deposits meaning every loan purchased by the FED provides a much larger amount of credit to our financial system, us.

Historically, the FED has purchased and held approximately \$500-\$800 billion on its balance sheet, in turn providing trillions of lendable dollars to borrowers. In recent times, like the 2007-2008 financial crisis and the COVID epidemic, the FED aggressively maintained our system (with the approval of Congress) by larger bank asset purchases and keeping interest rates at or near zero.

Today, the FED holds 10 times as much compared to historical averages equaling \$8,342,000,000,000 in loans and other securities. Applying a multiple to this balance (because banks lend out multiples of their deposits) you can see how much money has entered our system since 2007. All things being equal (but they never are) a \$12 burrito seems surprisingly cheap.

Burrito shops are not the



A picture is worth a trillion words...

only beneficiaries of all that money. In 1980, the U.S. median home price was \$47,000 and median annual household income was \$21,000. This means that the ratio of median home price to income was 2.24.

Expansion

Today, the U.S. median home price is \$392,000 and median annual household income is \$54,132, equating to a 7.24 ratio between home price and income. That equates to a 324% increase of the median home price to annual household income ratio since 1980. This expansion is observed in all aspects of our lives from the price of my favorite burrito, a home, a new car or a share of stock.

Sure, my favorite burrito has gotten expensive, but it pales in comparison to examples in history.

Take the lesson we were all taught in history class about the 1930s hyperinflation that decimated Germany's Weimar Republic where it took a wheelbarrow piled high with currency to purchase just one loaf of bread.

Things got so bad in Germany that their central bank could only afford to print on one side of their bills and never mind how many bills it took to buy the wheelbarrow!

Labor last to benefit

The West's free-enterprise system has done a great job

offsetting the parabolic increase in the money supply through efficiencies, capital allocation and technological innovation. Unfortunately, labor has historically been the last to benefit, for just as soon as a worker's hourly earnings rise to help pay for that \$12 burrito, the economy contracts and layoffs follow. In the words of The Mandalorian, "This is the way."

A quick look back at a historical reference: America began with help from investors seeking a return from beaver pelts and gold through The Virginia Company, which funded the charter of the Mayflower and the Jamestown Colony more than 400 years ago. Unfortunately, its stockholders were

not rewarded for their risks as the corporation failed and was dissolved. Our nation is forever grateful for the risks they placed upon their capital.

Like the Virginia Company, the United States of America is also a legal entity with a charter and stakeholders endeavoring to conserve a robust system of transparency, liquidity and accountability.

Fast adapters

Nowhere else on Earth is there a system that can match ours. I trust we will avoid past mistakes of other nations who fell short by overcoming challenges, growing tougher and becoming more resilient. Take a look at today's headlines and you can see direct evidence of our system's ability to quickly adapt to ever-changing market conditions.

Let us hope that we continue to benefit from the delayed reliability provided by the foresight of our nation's framers so that our children can also enjoy the simple pleasure of a chile relleno with pork burrito in the year 2063, even if it does cost \$46, without the drink. Antacid not included.

I hope this was helpful and that you will return to me when I introduce the next successful business attribute. Have a great day and be safe out there!

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