Why Hyperinflation Is On The Way

Appearing on NBC's *Meet the Press* on August 7, former Federal Reserve Board chairman Alan Greenspan was asked by host David Gregory, "Are U.S. treasury bonds still safe to invest in?" Greenspan responded, "Very much so. This is not an issue of credit rating, the United States can pay any debt it has because we can always print money to do that. So, there is zero probability of default."

Greenspan's amazing—but arguably accurate—comment explains why the U.S. dollar has declined in value by more than 95 percent since the creation of the Federal Reserve—the money supply is continually being inflated. Monetary fools like Greenspan and his successor, Ben Bernanke, are the cause of the coming hyperinflation. (What is amazing is that Greenspan *admitted* the scheme. The magician is not supposed to reveal the secret of the trick, even if half the audience already knows what it is.)

The above chart shows that Bernanke has been doing the only thing he knows how to do: print money. When the nation's money supply is increased, prices increase. When the money supply is increased dramatically, prices increase dramatically. To finance Obama's record deficits, Bernanke has been pumping new money into the system as fast as he can. The *only* reason Americans have seen substantial but not horrendous price increases is that most of that new money is still sitting on the sidelines. Banks are holding it and not lending it, and businesses are holding it and not spending it. At some point that money will "hit the streets," and all Hell will break loose.

Making things worse is the "multiplier effect" of the banking system. A bank lends out more money than it actually has in the vault because it does not expect every customer to arrive on the same day to withdraw all of their deposits. A bank with $10 million in liquid assets may have $100 million in outstanding loans. As a result, Bernanke's tripling of the money supply over the last few years can result in more than three times as much money "being created." In other words, a tripling of the money supply does not mean that prices will triple. They will increase much more than that. Skyrocketing prices are therefore in the future—but no one knows if that future will be late 2011 or 2012 or 2013.

Those who believed Obama when he said that no family earning less than $250,000 per year would face a tax increase should realize that he meant only an increase in the income tax rates—*he did not rule out the hidden tax of inflation*, the tax on which all irresponsible governments inevitably rely.

Do not say, "It can't happen here. We're not Germany, Brazil, Argentina, or Zimbabwe." It *will* happen. It is only a matter of *when*, not *whether.* Hyperinflation is inescapable. Add massive price increases to massive unemployment and a weak economy and the result will be stagflation. *It will be worse than anyone could ever have imagined.*

One might think that the advice, "Just print more money!" comes only from naive, ill-educated individuals. In fact, universities—as well as *The New York Times* and the halls of Congress—are full of fools who suggest just that. Consider Yale University professor

Jack Balkin's absurd proposal that the Treasury Department simply produce two platinum coins, each with a $1 trillion denomination, and then give them to Obama to pay the nation's bills!* It is unclear why Balkin should stop with only two coins. Why not mint 308 million of them and give one to every American, making them all trillionaires?

Of course, all reasonable people would see through the foolishness of such a proposal. Giving everyone one trillion dollars would only cause prices to rise, because the overnight printing of money does not result in the overnight creation of goods and services. Having one trillion dollars does not make one better off if it means a loaf of bread costs $5 billion and a new car sells for $500 trillion. *But Balkin's proposal is nothing more than an exaggeration of what Bernanke is doing: printing more money.* That Bernanke is printing "only" a few hundred billion dollars at a time, rather than 308 trillion, changes only the degree of the outcome, not the outcome itself. When prices rise, do not blame the store that sells the product. Blame the man who is printing the money—and the administration that has been asking him to print the money.

Obama may deserve to be called the worst president in history, but Ben Bernanke may soon be the most hated person in the United States of America—once the citizens figure out who is at fault for their miseries.

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*http://mises.org/daily/5515/Saved-by-a-TrillionDollar-Coin

Note also the chart below, which shows the dramatic increase in federal non-defense spending since Obama entered the White House, going from an average of 15.6 percent of GDP to 20 percent. Taxes cannot be raised enough to continue Obama's massive spending without destroying more jobs. Nor will the Treasury Department be able to find enough buyers for the nation's debt. That leaves only two options: cut spending or print money. Obama and Bernanke have chosen the latter.