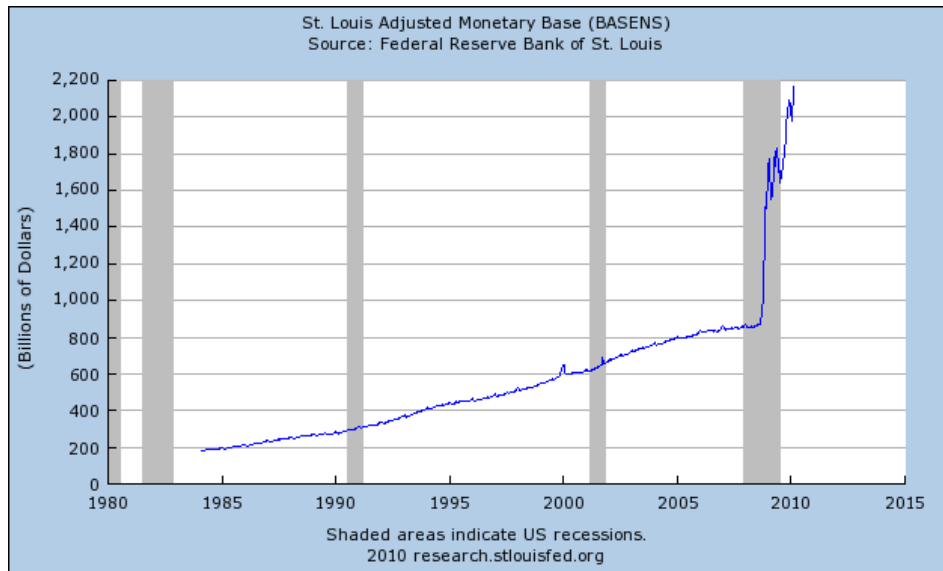


WHY HYPERINFLATION IS NOT IN OUR IMMEDIATE FUTURE

WEB BUZZ 2010.03.15

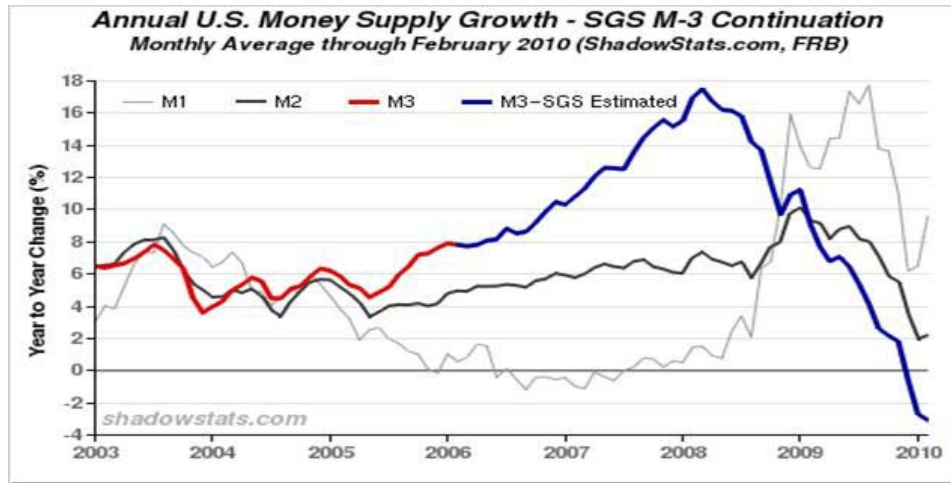
Please note chart 1, which is the adjusted monetary base as compiled by the St. Louis Federal Reserve. This is the extreme liquidity that the Fed injected into the system in an attempt to halt the recession. This action by the Fed increased the base almost three times. This means money supply *could* increase by \$14 trillion. Of course, to date, loans have decreased by a net of \$300 billion from a year ago and by \$600 billion from the top in 2006.

Chart 1 - Adapted from the St. Louis Fed



However, look at chart 2. The increase in the base had not led to an increase in the money supply. Why? Banks won't lend and customers won't borrow. You can lead a horse to water, but you can't make him drink.

Chart 2 - Adapted from ShadowStats.com



Please note the following comments made by fellow deflationist James Bibbings, which explains much of our thinking. The commentary can be found [here](#):

Why You Shouldn't Be Concerned About Hyperinflation

There are three major reasons why hyperinflation will not be playing at a theater near you anytime soon.

1. There has never been a period in US history when home prices have been falling and we have had real inflation. Currently, [prices on everything, everywhere \(almost\) are falling](#). Even more importantly in the [US home prices are still plummeting](#), so unless there was some sort of abrupt and magic end to this global and domestic price free fall, statistically by all historical accounts, inflation is all but impossible at the current time or in the near future. If hyperinflation can't be happening right now what is occurring? [Deflation](#) - A sustained fall in the general price level of goods and services; read up on it because the word will be in the news more and more frequently in the coming months.

2. Hyperinflationists, in general, only point to one side of the monetary argument when they discuss the "printing presses." In almost all hyperinflationary arguments the discussion of the rate at which global wealth is being destroyed, relative to the amount of currency being printed is never fully reconciled. This is problematic to the

hyperinflationists argument because they only take into consideration one component of monetary policy; creation of money not destruction. Institutions, small businesses, and average Joe's the world over have witnessed wealth destruction in the form of massive real and/or paper losses in almost all asset classes. This loss of wealth far outstrips the amount of money which has been printed in the US and points us further away from the idea of hyperinflation on a sheer creation replacement basis.

To illustrate wealth destruction I wish that there was a simple graph which I could use to represent the "print to destruction ratio" I am trying to explain. Unfortunately, given the difficulty of determining how much wealth has been destroyed (there is no government stat for this) the best we can do here is use this projection from the [Wall Street Journal and the IMF](#). They say:

"The report [from the IMF] indicated a significant deepening and spreading of the crisis beyond the mortgage-related assets in the U.S. responsible for sparking the turmoil. The IMF now projects that worldwide financial losses could top \$4 trillion through next year, with the estimated damage from U.S. assets alone increased to \$2.7 trillion from a previous forecast of \$2.2 trillion in January." . . .

3. When evaluating the risks of, and arguments for, hyperinflation (again this is not readily discussed) one must also consider the staggering reduction of consumer credit in the US and global economy. Over the past several months we have frequently heard our government officials refer to our banks as "not lending" and that being "the" problem. In fact just today [Tim Geithner announced this \(again\)](#) in response to questions asked of him (rightly) by congress about why the various rescue plans implemented do not appear to be working.

Now that you have looked at the wealth destruction component in point 2 above you can understand why, for these officials anyway, bank lending is a problem. To spell it out, credit is needed to reflate the loss of US wealth now that we have a staggering aggregate reduction in real global capital. As I have said countless times in the past: If the

problem was too much lending, then by definition, the solution could not possible[sic] be the same as the problem; more lending. So how does this relate to hyperinflation?

Due to the incredible level of credit contraction within the US, most of the money being put into the banking system by the government is not making it back into the economy. In general, banks are acting as they should by evaluating the overall lending risks in our economy and implementing tighter (more appropriate) lending standards. Under this regime few are willing to borrow and banks are also now unwilling to lend. Also under this ideology the printing presses could (in theory) run all day and nothing would happen because those who can afford to borrow money don't want or need it, and those who do need it can't qualify for it.

FYI

We do have an additional study done by Steve Keen, an Australian economist, which is more thorough and is yours for the asking.