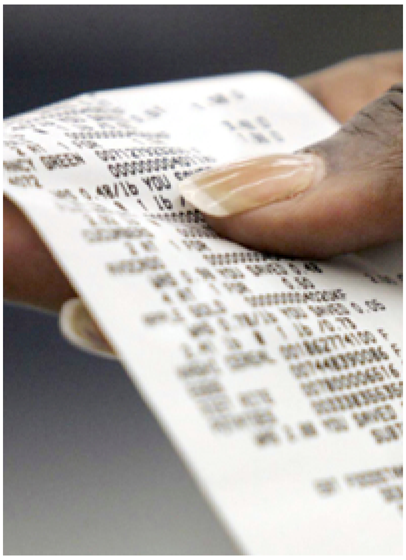
How Hyperinflation Could Start in America



According to Badkar, the runaway inflation of Germany in the early 1920s is one of the worst cases in history, where, at its nadir, the *monthly* inflation rate reached 29,500 percent in October 1923. In post-World War II Greece, inflation peaked at 20.9 percent a month in October 1944, while in July 1946, inflation in Hungary hit 207 percent *daily*. In China, following the Second World War, inflation reached 2,178 percent in May 1949, equivalent to a daily rate of 11 percent.

In the mid-1970s, Chile suffered from an inflation rate of 746 percent annually, while Argentina's inflation rate in 1989 hit 12,000 percent. Bolivia's inflation between May and August 1985 hit 60,000 percent on an annual basis. Nicaragua's inflation rate in 1987 exceeded 30,000 percent; Yugoslavia's daily rate of inflation reached 64.6 percent between 1989 and 1994; and in perhaps the most famous hyperinflation of all time, the purchasing power of Zimbabwean dollars was virtually obliterated, with inflation reaching 416 quintillion percent annually.

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German citizens [related their stories](#) of how they were impacted. Walter Levy, a German-born oil consultant in New York, commented,

> My father was a lawyer and he had taken out an insurance policy in 1903, and every month he had made the payments faithfully. It was a 20-year policy, and when it came due, he cashed it in and bought a single loaf of bread.

A student at Freiburg University ordered a cup of coffee at a café. The price on the menu was 5,000 marks. He had two cups. When the bill came, it was for 14,000 marks. When he complained, he was told, "If you want to save money, and you want two cups of coffee, you should order them both at the same time."

A German factory worker described payday, which was every day:

> At 11:00 in the morning a siren sounded, and everybody gathered in the factory forecourt, where a five-ton lorry was drawn up loaded brimful with paper money. The chief cashier and his assistants climbed up on top. They read out our names and just threw out bundles of notes. As soon as you had caught one you made a dash for the nearest shop and bought just anything that

> was going.

Notably missing from Badkar's summary was any mention of hyperinflation in the United States and yet, as explained by Charles Scaliger in *The New American*, for nearly 100 years prior to the Constitutional Convention in 1787, the infant society suffered repeatedly from the disasters and aftereffects of government printing of paper money without commodity backing to pay its bills. Such printing, Scaliger noted, "has the potential to damage severely the body politic. Hyperinflation in particular is usually accompanied by civil unrest, regime change, and dictatorship. Wherever it rears its ugly head, confidence in banks, money, and the economy as a whole is lost. Savings are wiped out as currencies lose value, and pauperized citizens revert to a barter economy." Scaliger noted that all it takes is a "trigger" to start the hyperinflationary process sufficient to cause "not merely a currency correction but a calamitous collapse of the entire economy on a scale that would dwarf even the hyperinflation of the Revolutionary War."

In the confidence model of hyperinflation, all it takes is "some event, or series of events, [to] remove the belief that the authority issuing the money will remain solvent."

For Germany that "trigger" event was the assassination of a well-known politician, Walter Rathenau. As noted by George Goodman in *Paper Money*, "Rathenau was a charismatic figure, and the idea that a popular, wealthy and glamorous government minister could be shot in a law-abiding society shattered the faith of the Germans, who wanted to believe that things were going to be all right. Rathenau's state funeral was a national trauma." The unraveling of the German economy began soon thereafter as people, having lost faith in the government, also lost faith in their currency.

In a plausible scenario, Gonzalo Lira, writing for the *Business Insider*, proposed how a "trigger" event could begin the unraveling in the United States. He suggested that

> one day — when nothing much is going on in the markets, but general nervousness is running like a low-grade fever — there will be a commodities burp. A slight but sudden rise in the price of a necessary commodity, such as oil.
>
> This will jiggle [raise] Treasury yields as asset managers reduce their Treasury [holdings] and go into [oil] in order to catch a profit.
>
> So Bernanke and the Fed will buy Treasuries in an effort to counteract the sell-off and maintain low yields.
>
> The Fed's buying will … encourage asset managers to dump even more Treasuries into the Fed's waiting arms. Most likely … the selloff in Treasuries will be orderly …
>
> However, the Fed will interpret this as a run on Treasuries … and buy up every Treasury in sight.
>
> The TBTF (Too Big To Fail) banks, on seeing this run on Treasuries, will add to the panic by acting in their own best interests: They will be among the first to step off [sell their] Treasuries.
>
> Here the panic phase of the event begins: asset managers — on seeing the massive Fed buy of Treasuries — will dump their own Treasuries *en masse.*
>
> It will be a flash panic — much like the flash-crash of last May. The events I describe above will happen in a very short span of time — less than an hour, probably. But unlike the event in May, there will be no rebound.

He concludes his plausible scenario:

> By the end of that terrible day, commodities of all stripes — precious and industrial metals, oil, foodstuffs — will shoot the moon. But it will not be because ordinary citizens have lost faith in the dollar (that will happen in the days and weeks ahead) — it will happen because once Treasuries are [no longer] the sure store of value, where are all those money managers supposed to stick all those dollars?
>
> By the end of the day of this panic, commodities will have risen between 50% and 100%. By week's end, we're talking 150% to 250%. Of course, once commodities start to balloon, that's when the ordinary citizens will get their first taste of hyperinflation. They'll see it at the gas pumps.

From there the scenario plays out as it has elsewhere: panic, food shortages, riots, martial law.

In his book *Patriots*, author James Wesley Rawles notes that in this scenario, Washington and the Federal Reserve are virtually powerless to stop the hyperinflation: "All that the bureaucrats in Washington, D.C. could do was watch it happen. They had sown the seeds decades before when they started deficit spending. Now they were reaping the whirlwind:

> Citizens on fixed incomes were wiped out financially by the hyperinflation within two weeks. These included pensioners, those on unemployment insurance, and welfare recipients. Few could afford to buy a can of beans when it cost $150. The riots started soon after inflation bolted past the 1,000 percent mark. Detroit, New York and Los Angeles were the first cities to see full-scale rioting and looting. Soon, the riots engulfed most other large cities.

It doesn't have to happen. With sufficient understanding, citizens will not only recognize the nearness of the peril but their ability to impress upon their representatives the proper course to take: Stop the spending and end the Fed.

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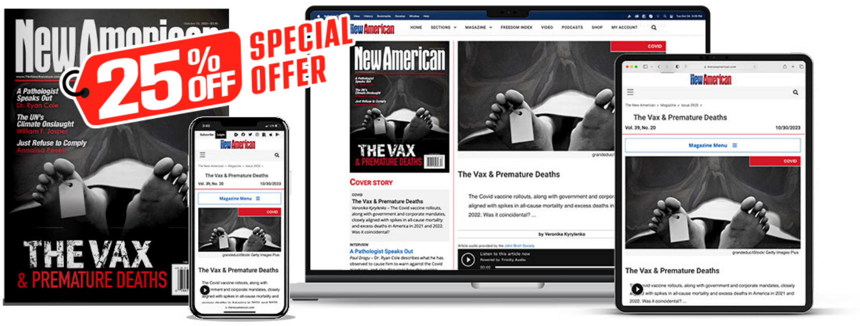

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