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Is the "Economic Stimulus" Leading to Hyper-Inflation?

Expert: "Immature" Policies May Cause Hyper-Inflation

By **Morgan Phelps**

Takeaways

- Worse economic crises may be on the near horizon
- Inflation may 100 percent according to an expert
- There is no easy answer

Is there a new economic meltdown in the works? While the consensus among some economists is that worst of this recession is behind us, others believe that the next crisis may be imminent. Bill Fleckenstein of MSNBC is one of them. In a recent article said that a certain outcome of the current economic stimulus is going to be inflation. A problem that he says is caused by the fact that Federal Reserve Bank is going to have to print large amounts of money in order to cover the shear amount of debt being created by bailouts given to banks and the automotive industry.

Richard W. Rahn, Senior Fellow at the Cato Institute and the Chairman of the Institute of Global Economic Growth, says that we can be looking at 100 percent inflation in the near future. He says that the problems we're facing today have sources that are too numerous to list, but says one of the primary causes is the over-issuance of debt - from both government and private sources. What would be the cause of this 100 percent inflation? Rahn says that Stanford University economics professor and former Treasury Undersecretary John B. Taylor has the answer. Additional government debt could trigger hyper-inflation. Long-term interest rates have jumped nearly an astounding 81 percent in just the past five months as a result of concern from the markets over increased inflation.

Rahn calls the government's approach to dealing with our current issues immature. He says that mature minds would see that more debt isn't the solution to being in debt.

Rahn writes: "A mature thinker would understand that part of the solution must be a reduction in debt, and only an immature mind would advocate the creation of mountains of new and almost never-ending debt - yet this is precisely what the majority of the political class in the United States and many other countries is doing in issuing many trillions of dollars of new government debt."

Instead of just printing more money out thin air, some economists are calling for an end to the fiat money system in favor of returning to the gold standard. According to the Financial Times the United States abandoned the gold standard on August 15, 1971 in favor of a system entirely dependent upon people's faith in the government's ability to back money. Terry Smith - head of Tullett Prebon - says, "Two-thirds of the world's assets are denominated in a fiat currency issued by a country whose authorities are taking policy actions which seem inevitably to lead to its debasement," explains Mr. Smith, noting that "it seems . . . the Chinese have now concluded that this is not acceptable", according to the Financial Times.

There doesn't seem to be an easy fix to our money woes. The Financial Times article makes clear that there may be no easy answer. It says. "Of course, for the moment all this muttering about gold is simply wild speculation. Even if western leaders suddenly were to decide they wished to turn back the clock, the logistics of embracing a new gold standard would be mind-boggling. UBS, for example, calculates that the US reserve of gold are so small, relative to its monetary base, that a price above $6,000 an ounce would be needed to reintroduce a gold standard. To implement that standard in Japan, China and the US, the price would be more than $9,000. Moreover, right now few western governments have any motive to even entertain the debate, given that inflation may soon seem the least bad way to tackle the current overhang of debt."

Cato Institute's Rahn is even less optimistic. "The good news is that there is still time to reverse the worst aspects of the destructive policies described above - to avoid ever-increasing inflation and interest rates. The bad news is those politicians responsible both for the current mess and these proposed harmful 'cures' will probably continue to act like immature teenagers with too much access to money and power."

Sources: 1.Bill Fleckenstein 2. Richard W. Rahn 3. Financial Times

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