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Hyperinflation or deflation?

This weekend, ZeroHedge noted an interesting working paper from Cato Institute titled "World Hyperinflations". Hyperinflation is defined there as a yearly price inflation rate of 50 percent or more and it contains a list of the worst known examples. Apart from the yearly inflation rate, which in the worst cases amounts to completely unfathomable numbers, they have also included hyperinflation measures that are easier to grasp, such as the daily rate of price inflation and how fast the prices doubled when the inflation rate was at its peak. In Hungary 1946 the prices doubled in 15 hours, in Zimbabwe 2008 they doubled in 24.7 hours, in Yugoslavia 1994 they doubled in 1.41 days and in Germany 1923 they doubled in 3.7 days. However, the examples of hyperinflation from Cato Institute are simply not relevant parallels for today's situation. The economies that have been hit by hyperinflation have been mostly cash based. Today, however, most of the money supply has been created as credit. Less than ten percent of the money supply in developed economies consists of debt-free money. Instead we mostly have "debt money". ECB, IMF and others extend *credit* to the PIIGS countries, not cash. The Federal Reserve does not create a large amount of cash, but creates a heap of credit. Debts have to be repaid at some time, or disappear through default. In addition you have to pay interest on your debt, and even though interest rates in many countries are currently extremely low, they are not negligible for most debt. Many get the concepts mixed up and think that "money printing" by creating more credit will have the same effect as creating more money by physically printing more cash. The Fed:s "Helicopter Ben" Bernanke is famous for saying in 2002 that they have access to a printing press (or its electronic equivalent) for money, and in theory could prevent deflation by distributing freshly printed cash by helicopter, but this is *not* what has happened during the past few years. If the world's central banks had created new debt-free money either through physical printing or through creating new electronic account balances without any demand for repayment, then I would have worried about hyperinflation. Instead the central banks have created new "money" as credit to compensate the defaults which have been forced by the financial crisis. What has happened is that the debt as simply been redistributed (largely to tax payers). This is why I still, as long as the current monetary policies continue, do not see any large inflation threats (and definitely not hyperinflation), but instead a big deflationary threat, when the sum of credit becomes too large in relation to the size of the real economy. When debtors can no longer keep up with debt payments, creditors are forced to accept credit write-downs, which lead to a diminishing money supply (which is the definition of deflation). Greece's creditors have already been forced to do this, as well as creditors to US housing loans. Surely the list of hyperinflations from Cato Institute is interesting, but mostly for those who study the history of monetary policy. When the piles of credit floating around the world have been broken down, which will surely take many years, it might be relevant for certain countries to study historical examples of hyperinflation, but today I cannot see any such countries among the world's most important economies. Even in countries like China it's *credit* that has grown most over the last years. It is often said that it's not "different this time", but one thing that makes today's situation different from all historical parallels is that we have a global system of "credit money", where the total amount of credit is many times larger than ever before. This is a translation of an article from my Swedish blog.

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