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Jun. 15--Want to feel like a trillionaire? You can do it, right downtown.

At Wayne Miller Coins, the eponymous owner just purchased a fistful of currency from Zimbabwe -- in increasingly large increments. He's got a bill worth $5 billion, another worth $100 billion and the largest worth an astonishing $100 trillion.

You can own it for nine bucks.

"Its worth is as a novelty item to show the extreme of what can happen if a country continues to over-spend and under-produce," Miller said.

He's selling the notes, but he's also holding them up as a cautionary example of the ravages of inflation.

In light of the hundreds of billions of dollars in economic stimulus spending flooding the American economy in recent months, many observers believe a period of inflation in this country is right around the corner.

Miller doesn't believe the U.S. Mint will resort to printing $100 trillion notes anytime soon. But inflation wouldn't have to approach those levels for it to have a devastating effect on the nation's economy.

While nobody expects the U.S. economy to follow a course like that of Zimbabwe, a number of economists are concerned that the current machinations of the government to try and stave off a recession will lead to inflationary problems in the future.

In most basic terms, inflation occurs when an economy has too much money chasing too few goods and services. Demand drives prices up, because people have more money to spend and fewer things to spend them on.

In more technical terms, the money supply multiplied by its velocity, or the number of times each dollar is spent, is equal to the quantity of all goods and services produced multiplied by their price. The equation looks like this: MV=PQ.

Toby Madden, a regional economist with the Federal Reserve Bank of Minneapolis, noted that while the Fed has increased the money supply (M in the equation), the velocity of money has slowed, so prices (P) haven't necessarily increased to balance the equation.

He said that while the Fed's balance sheet has increased from $800 billion to $2 trillion, an increase in M that raises fears of inflation, "what people don't take into account is the 'V' portion of the equation."

Banks aren't lending as much money as they're allowed to, Madden said, choosing instead to park their reserve dollars with the Fed, so money's velocity (V) is down and prices haven't increased to balance the equation.

"What's happening now is we're cranking out the base money, but that money is coming back to us in excess reserves," Madden said. "It's going out the door but it's coming right back in. The concern is, what happens when banks take those excess reserves and start lending them out (increasing 'V')? At that point our job is to lower our balance sheet and suck those dollars back out of the economy."

In the view of Jerry Pohlman, a veteran banker and consultant with a doctorate in economics from Cornell who will teach "the dismal science" full-time at Carroll College this fall, substantial increases in government spending, and a lack of the political will needed to rein in that spending once the economy has stabilized, will eventually lead to inflationary troubles.

"I'm on the side of the worriers about inflation. I think it's one of the biggest threats we face," Pohlman said. "The amount of debt that's out there that the U.S. government has incurred, the amount of unfunded liability the government has is so huge, politically it's a hot potato and nobody wants to touch it.

"I think the problem is out-of-control spending," he added. "Spending is so large now that people can't even get their hands on how big it is. Plus there are other distortions that that leads to: Now you have the government in the automobile business. So it really squeezes out the dynamism of the private economy."

In Pohlman's view, politicians won't have the backbone to raise taxes enough to pay down the debt, or to cut entitlements and services enough to balance the budget on existing revenues.

That leaves inflation, either through devaluing the currency or printing more money, as the most likely outcome.

Pohlman said inflation rewards borrowers and punishes savers. Borrowers are favored because the money they borrow today won't be worth as much in the future and thus will be easier to re-pay.

"But from the side of a retired person, it punishes them," he said. "Say they have $100,000 in a savings account that they worked 30 years for, and with inflation it's suddenly worth half as much."

While most agree inflation is troublesome, economists are hardly in agreement about whether inflation is an immediate threat to the U.S. economy.

Patrick Barkey, director of the Bureau of Business and Economic Research at the University of Montana, said while inflation is always a concern, officials have bigger worries in the economy right now.

"An equal concern is deflation (prices and wages falling), considering that the national economy for two consecutive quarters has shrunk at a 6 percent rate, and we expect that will taper to 'only' a 3 percent rate in this quarter," Barkey said. "That's giving us a capacity glut in many areas, and those circumstances are not necessarily breeding grounds for inflation."

He agreed, though, that federal budget forecasts several years into the future call for massive deficit spending, and that spending is predicated on people (both Americans and foreign countries) being willing to invest in U.S. debt to finance spending beyond the government's revenue projections.

But those issues are years away, Barkey said.

"The argument for the stimulus is that you can expand output through borrowing and make the recession shallower," Barkey said. "You build up a debt that, yes, you have to pay back later, but there's less of a precipitous decline today because you filled that trough in with extra business."

While he agreed that productivity is down and the money supply is up, Barkey noted that there's plenty of excess production capacity in the U.S. that will need to be filled before inflation becomes a big problem.

Barkey also noted that savings rates today, in this country and around the world, are much higher than they were a year ago, and that in times of economic turmoil, people are still willing to lend money to the "safe haven" of the U.S. government.

That may be starting to change, though. The yield on the 10-year U.S. Treasury note, which last fall was around 2.5 percent, this week crept above 4 percent. That means the government is having to pay more interest in order to borrow money.

To fight inflation, the Federal Reserve will move to slow the economy and/or draw money out of the system. Among the Fed's tools for doing that are increasing the reserve requirements for banks to slow lending; increasing the Federal Funds rate to make borrowing more expensive; and selling government securities and keeping the proceeds out of the economy.

It's those moves that concern Scott Rickard, director of the Center for Applied Economic Research at MSU-Billings.

"I'm not as worried about the direct effects of inflation as I am about the Fed's likely response if inflation does start up," Rickard said. "The Fed would not allow inflation to go up to those levels, but they would drive us into recession to soak that excess money out of the system. It has happened before."

As with many conditions in the economy, people's expectation of inflation can become something of a self-fulfilling prophesy. If people think prices are going to rise quickly, they're quicker to spend money, since their money won't buy as much tomorrow as it will today. That in turn drives up demand for the products they're buying. And when demand goes up, suppliers have the power to raise prices.

Bingo: inflation.

"Even if nothing has changed in the real economy, (fear of inflation) makes people want to spend faster, and that brings about the very inflation you're worried about," Pohlman said.

There's also the matter of the world trusting a country's currency and being willing to buy it to finance the country's debt.

Consider again the Zimbabwe example. According to a Cato Institute paper published earlier this year, the inflation rate in the African country reached 50 percent per month in February, 2007. By last November, that rate had increased to an impossible-to-comprehend 89.7 sextillion percent -- with prices doubling every 24 hours. Transactions in the country now take place in foreign currencies.

"Even though the Zimbabwe paper money remnant circulates alongside foreign currencies, its real value is tiny, its use is limited, and its value against the U.S. dollar is cut in half every two days," wrote author Steve H. Hanke.

Most people agree that one of the most important factors for the country's economy going forward is the world's continued trust in the U.S. dollar as perhaps the planet's safest investment.

"The stability of the dollar is crucial to a country like ours," said Wayne Miller, the coin shop owner. "Right now, the stability of our country is such that we can take a piece of paper and slap some ink on it, and someone in Paraguay will say, 'This is worth $100 because the United States of America says it's worth $100.' "

That confidence still exists, but some wonder whether the world's appetite for American debt is waning. Brazil this week expressed interest in investing in International Monetary Fund bonds rather than U.S. debt. America's debt will become an enormous problem if foreign countries are unwilling to finance it.

In the end, Pohlman said, economics is about trade-offs, and the allocation of scarce resources.

"You buy something, you have to give something up," he said. "And the government is acting like there is no trade-off, like we can spend all we want."

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