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Great hyperinflation episodes in history — and what they tell us about the Fed

Brad Plumer on August 21, 2012

Ever since the financial crisis first hit, it hasn't been hard to find people warning that Federal Reserve Chairman Ben Bernanke is about to trigger a raging bout of hyperinflation in the United States through his efforts to inject money into the economy. Bernanke himself has even had to address the issue in a press conference, saying that "hyperinflation is not going to happen."

But how can we tell if Bernanke's right? One possible approach might be to look back at past episodes of hyperinflation around the world, as Steve Hanke and Nicholas Krus of the Cato Institute do in a fascinating new paper (pdf). The authors define "hyperinflation" as any period when the monthly inflation rate rises above 50 percent. (It ends after a year in which inflation rates don't rise above this level.) And, although measuring skyrocketing prices can be difficult, the authors do their best to rank the great hyperinflation cases around throughout history:

THE HYPERINFLATION TABLE

LOCATION	START DATE	END DATE	HIGHEST MONTHLY INFLATION RATE	EQUIVALENT DAILY INFLATION RATE
Hungary[1]	Aug. 1945	Jul. 1946	4.19×10^{16}%	207%
Zimbabwe[2]	Mar. 2007	Mid-Nov. 2008	7.96×10^{10}%	98.0%
Yugoslavia[3]	Apr. 1992	Jan. 1994	313,000,000%	64.6%
Republika Srpska†[4]	Apr. 1992	Jan. 1994	297,000,000%	64.3%
Germany[5]	Aug. 1922	Dec. 1923	29,500%	20.9%
Greece[6]	May. 1941	Dec. 1945	13,800%	17.9%
China§[7]	Oct. 1947	Mid-May 1949	5,070%	14.1%
Danzig[8]	Aug. 1922	Mid-Oct. 1923	2,440%	11.4%
Armenia[9]	Oct. 1993	Dec. 1994	438%	5.77%
Turkmenistan††[10]	Jan. 1992	Nov. 1993	429%	5.71%
Taiwan[11]	Aug. 1945	Sep. 1945	399%	5.50%
Peru[12]	Jul. 1990	Aug. 1990	397%	5.49%
Bosnia and Herzegovina[13]	Apr. 1992	Jun. 1993	322%	4.92%
France[14]	May 1795	Nov. 1796	304%	4.77%
China[15]	Jul. 1943	Aug. 1945	302%	4.75%
Ukraine[16]	Jan. 1992	Nov. 1994	285%	4.60%
Poland[17]	Jan. 1923	Jan. 1924	275%	4.50%
Nicaragua[18]	Jun. 1986	Mar. 1991	261%	4.37%
Congo (Zaire)[19]	Nov. 1993	Sep. 1994	250%	4.26%
Russia††[20]	Jan. 1992	Jan. 1992	245%	4.22%
Bulgaria[21]	Feb. 1997	Feb. 1997	242%	4.19%
Moldova[22]	Jan. 1992	Dec. 1993	240%	4.16%
Soviet Union[23]	Jan. 1922	Feb. 1924	212%	3.86%
Georgia[24]	Sep. 1993	Sep. 1994	211%	3.86%
Tajikistan††[25]	Jan. 1992	Oct. 1993	201%	3.74%

Note that many of the worst hyperinflation episodes in history were associated with the end of World War II or the breakup of the Soviet Union. Somewhat surprisingly, the famous hyperinflation of the Weimar Republic — when Germans were shopping with wheelbarrows full of cash and using worthless bills as wallpaper — ranks only fifth on the all-time list. Postwar Hungary is the official champion: at its hyperinflation peak, in July 1946, prices were doubling every 15 hours.

By and large, these episodes all occurred because of a rapid (or accelerating) increase in the supply of money that wasn't matched by a corresponding increase in goods and services. Weimar hyperinflation, for instance, worsened when workers in the occupied Ruhr region went on a general strike and the Weimar government continued to print money in order to pay them. But such hyperinflation also tends to happen only in rare circumstances with severe external shocks. As the Cato authors

note, “Hyperinflation is an economic malady that arises under extreme conditions: war, political mismanagement, and the transition from a command to market-based economy—to name a few.”

So what does any of this have to do with the Fed? One thing to observe, as Cullen Roche points out, that none of the most severe instances of hyperinflation appear to be triggered by a central bank simply trying to inject money into a basically intact economy in order to reduce the unemployment rate. “In fact,” he notes, “the monetary explosion is almost always the result of some other rare or extreme exogenous factor”— such as war or a collapse in productive capacity or a country ceding its monetary sovereignty.

Back in March, The Atlantic’s Matthew O’Brien offered a more detailed explanation of why the United States isn’t likely to suffer the same fate as the Weimar Republic or any other country on the list above. Here’s the short version: “How are the United States’ historic budget deficits, money-printing and depressed economy any different from the country’s that have experienced hyper-inflation? The three-part answer is: (1) we don’t have any problems selling our debt; (2) we aren’t actually printing money; and (3) the United States is a highly productive economy that is nothing like bombed-out Budapest.”

(At the moment, by the way, U.S. inflation has been sitting at just 1.4 percent for the past year, well below the Fed’s 2 percent target.)

On the other hand, some analysts, like Anders Åslund of the Peterson Institute for International Economics, have recently argued that Greece or some other unlucky euro zone countries might be better candidates for hyperinflation if Europe’s currency union collapsed. That’s hardly a foregone conclusion—as Åslund concedes, not all economists agree that the breakup of the Soviet Union is a good analogue to a potential breakup of the euro zone. But that at least bears a slightly closer resemblance to the worst hyperinflation episodes of the past.

(The Cato link is via economist Timothy Taylor.)