



## Iran on the Verge of Hyperinflation

*Sanctions wreak havoc on the rial*

by Megan McArdle - Oct 4, 2012

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In fact, on the verge might not be the right way to put it; in the middle of might be more accurate. Steve Hanke estimates that inflation is running at 70% a month. This is, as Alex Tabarrok points out, nowhere near a record. Still, it's a Big Deal. Hyperinflation has brought down governments--Iran is experiencing protests over the collapsing rial. And it's not hard to see why. At the current rate of inflation the value of a savings account (or a mattress stash) is now barely 40% of what it was one month ago. In a few more months, even a healthy balance will be about enough to buy a pack of gum.

Hyperinflation is destabilizing in all sorts of other ways--it quickly becomes impossible to buy foreign exchange, and therefore, to buy imports; contracts become hellish to write; investment is practically impossible; and the sheer administrative difficulty of acquiring and handling enough cash becomes ever-more problematic. In Germany, it's really true that people used wheelbarrows to carry their pocket change around, and housewives really used to run to the factory gates at lunch so they could get their husband's paycheck and spend it immediately--waiting until evening would have meant losing an appreciable amount of purchasing power. In effect, effort that used to be put into productive labor instead becomes focused on getting and spending money as quickly as possible.

In fact, it's so destabilizing that Iran's government just might be willing to give up its nuclear program. The source of this sudden, disastrous hyperinflation, you see, seems to be the sanctions we've imposed on Iran. This is good news for two reasons: maybe we get fewer nuclear weapons in the world, and also, if we can make sanctions work well, then they are a very good alternative to killing people.

Of course, we've yet to see how this will all play out. But we should know pretty quickly: the average hyperinflation episode lasts less than a year.