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Hyperinflation Hits Iran Like Weapon Of Mass Destruction

Addison Wiggin, Contributor – October 8th, 2012

“Better buy now,” advised the rice merchant in Tehran. The retired factory guard took him up on the advice, buying 900 pounds of the stuff to feed his extended family for the next 12 months.

“As I was gathering my money,” the retiree told The New York Times, he got a phone call. “When he hung up, he told me prices had just gone up by 10%. Of course, I paid. God knows how much it will cost tomorrow.”

Iran’s currency, the rial, collapsed 40% last week under the pressure of Western sanctions and homegrown blundering. We’re not sure if Iran is in hyperinflation, as Cato Institute researcher Steve Hanke asserted in Friday’s 5 Min. Forecast, but at the very least they’re on the cusp.

Austrian economists describe three stages of inflation. In the first stage, people still hang onto their money, expecting prices to come down. In the second stage, people part with their money to stock up on goods before prices rise again. In the final hyperinflationary stage, people buy anything they can get their hands on — even if they don’t need it — because the goods are more valuable than the currency.

As we said on Thursday, Iran today is looking more and more like Iran during the 1978-79 revolution. Now there’s corroboration from someone who lived through those days.

“The new government wanted to prevent flight capital from leaving the country,” recalls Chicago-based derivatives specialist Janet Tavakoli, who married an Iranian while in college.

“In the panic to leave the country with some of their wealth,” she wrote in her 1998 book Credit Derivatives, “citizens found that although there was an official exchange rate of 7 tomans (10 rials) to the U.S. dollar, there was no means to convert money. Banks were closed much of the time. The government put a further restriction on conversion of currency. Citizens could take only $1,000 in U.S. currency out of the country and could take only a suitcase of clothing. The idea was to prevent citizens from taking valuable carpets, now labeled national protected works of art, out of the country."

"Before a currency goes into free fall," she writes now at Huffington Post, "its value can be chipped away while a distracted population fails to notice that the currency buys cheaper-quality clothing and less food in a package at a grocery store. That's the current situation with the U.S. dollar." You can see the visible effects of dollar weakening via a multi-year chart of the GLD or the UUP.

Iran, she says, is far beyond that stage. Where it leads this time, we have no idea but it's nowhere good.

Cheers,
Addison Wiggin