
Hyper about hyperinflation? Read this.

By Editor Test Tue, Feb 19, 2013

Many people look at the massive bond purchases by the Federal Reserve and conclude that America is headed for Weimar-style hyperinflation. But before you resign yourself to using a wheelbarrow for a wallet, peruse this essay from Jeremy Grantham's website.

A reality check on unnecessary anxiety about the threat of “hyperinflation” in America is overdue. Luckily, an essay recently posted on Jeremy Grantham’s [homepage](#) provides one. Written by James Montier, a member of the Asset Allocation team at GMO, the \$106 billion global management firm that Grantham and colleagues founded in 1977, the essay explains that it takes more than a few rounds of quantitative easing in response to a credit crisis to trigger hyperinflation. Below you’ll find a brief abstract of the essay. Click [here](#) for the complete version.

“To say that the printing of money by central banks to finance government deficits creates hyperinflations is far too simplistic (bordering on the simple-minded). Hyperinflation is not purely a monetary phenomenon. To claim that is to miss the root causes that underlie these extraordinary periods. It takes something much worse than simply printing money. To create the situations that give rise to hyperinflations, history teaches us that a massive supply shock, often coupled with external debts denominated in a foreign currency, is required, and that social unrest and distributive conflict help to transmit the shock more broadly.

“On the basis of these preconditions, I would argue that those forecasting hyperinflation in nations such as the US, the UK, or Japan are suffering from hyperinflation hysteria. If one were to worry about hyperinflation anywhere, I believe it would have to be with respect to the break-up of the eurozone. Such an event could create the preconditions for hyperinflation (an outcome often ignored by those discussing the costs of a break-up). Indeed, the past warns of this potential outcome: the collapse of the Austro-Hungarian Empire, Yugoslavia, and the Soviet Union all led to the emergence of hyperinflation!”