Harry's Take

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Forget Hyperinflation: NO Inflation Correlation With Massive Money Printing!

It is such a compelling argument. Governments print money for short-term gains… and the punishment is inflation from all that money printing. And since governments do tend to print exponentially more to keep the Ponzi scheme going, inflation will eventually turn into hyperinflation.

That's why gold bugs like Peter Schiff and Jim Rickards sell twice as many books as I do: I say that money printing will end up in deflation…. What? Print more money and you get less? That just doesn't make sense to most people.

Now, I agree a lot more with Schiff and Rickards than with mainstream economists, who see no problems with ramping up endless debt and financial asset bubbles to stimulate an economy rather than letting it rebalance and deleverage. To the mainstreamers, growth is the goal, pursue it at all costs…. Those people are the real idiots, and they understand nothing about history and natural cycles.

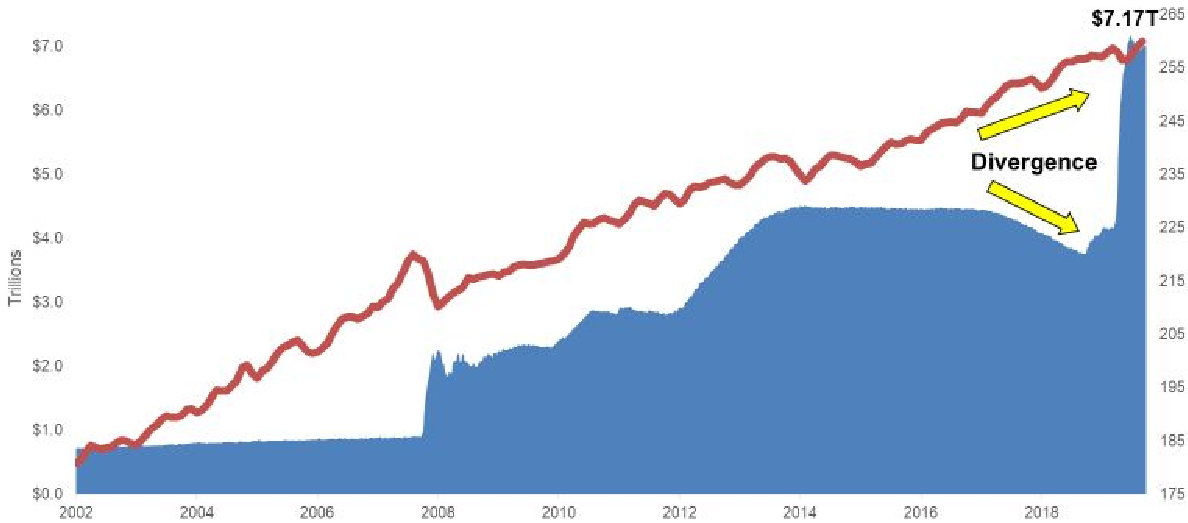
I merely noticed this simple, inescapable scenario that recurs in history: Private debt bubbles grow during boom times with liberal lending and low-interest rate policies. Such debt bubbles cause financial asset bubbles in stocks, real estate, and bonds, which benefit from more money and lower rates in the system… **BUT** then those bubbles burst and **massive amounts of money and wealth are suddenly destroyed, including the bad loans.** That's how and why economies end up with deflation in prices—through a heavy-duty debt and financial asset deleveraging and reset. Paradoxically, that reset is the only thing that restores the economy to balance, efficiency, and competitiveness again.

Hyperinflation happens mostly in banana republics that have to borrow from foreign banks and institutions. When their bubbles burst, they have massive defaults and also get currency collapse, which massively magnifies the repayments…. And with this, they can only print money exponentially to pay until hyperinflation destroys their economy. Germany after World War I is the one example in the developed world; they borrowed foreign currency to fight a war they lost, and then they went bankrupt. Germany got reparations on top of that, and then its currency collapsed.

The German Weimar Republic hyperinflation scenario has nothing to do with what is occurring in the developed world today! Almost all major private debt bubbles in history have been followed by deflation, not inflation, much less hyperinflation… Period!

Here's an interesting chart. There is nearly NO correlation between massive money printing and subsequent inflation in the greatest global, 11-year peacetime money printing in developed countries EVER!

No US Inflation/QE Correlation: Steady Up; No Impact After 2020 Surge



Source: Federal Reserve

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In the boom from 2002 to 2007, inflation went up steadily and surged a little at the end, as is normal. There was no quantitative easing (QE) until late 2008. Then there was a massive surge in QE from all of the major central banks. Inflation dropped as expected in the recession and then came out very modestly. There was no correlation with the massive surge. The surge continued its unprecedented rise with continued strong, but less-extreme money printing, and inflation just marched up in a straight line like nothing happened.

There was a big expansion of QE from late 2012 into 2014… with NO change in the modest inflation trend. Then there was tapering from 2014 to 2017 with no net new QE. Again, there was no real change in the inflationary trend that just kept marching up….

And the ultimate in NO correlation happened: The Fed sold off bonds, taking money out of the system, which should have been deflationary. Instead, inflation went up a bit faster—an actual negative divergence!

What about “money printing does not create inflation” do people not get here? It does cause inflation, just in the financial asset prices that it is used to directly purchase. QE does not put money into the banking and lending system as do normal, low-interest-rate policies. It is injected directly into buying financial assets, and that bids them up in price.

You want to know what drives consumer price inflation? Workforce growth, as I discovered with a new indicator in 1989. It’s the cost of incorporating low-productivity new workers, which happened to an exaggerated degree with the Baby Boom generation into the late 1970s, when there were the highest inflation rates in modern history even with NO QE or money printing.

QE caused inflation to reignite only after the 2008-2009 Great Recession, and then only modestly, with continued slow labor force growth. This would not have occurred if we had fallen deeper into the winter season depression that started in 2008. Hence, that is the only way in which QE generated minor inflation.

The US dollar did not collapse as gold bugs predicted, because other countries only printed more money as a percentage of GDP. The dollar has been up by as much as 46% in February of this year since its bottom in early 2008.

I lay this argument to rest from all angles in the October issue of *The HS Dent Forecast*.

Whether you prosper from the crash of our lifetimes and the great sale on financial assets to follow depends on whether you understand this proven historical principle: deflation, not inflation or hyperinflation, follows great bubble bursts.

The only thing that will occur in both my scenario and the gold bugs' is that stocks will crash either way. But bonds, real estate, and gold will react very differently….

Don't be right about the crisis ahead and wrong about the outcome! The U.S. dollar and the highest-quality bonds will do well; almost everything else will deflate and reset very painfully… including gold and silver.

Harry

Got a question or comment? You can reach us at info@hsdent.com.