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See **Video Presentation**: http://tradervicindex.com/reference_material.html then click on Hyperinflation video or http://tradervicindex.com/hyperInflation/hp.html

Definition of hyperinflation: http://www.econlib.org/library/Enc/Hyperinflation.html

On February 16, 2010, I first gave a speech titled **"Hyperinflation: A Statistical Inevitability"** at a charity event in Dallas, Texas. In essence, the talk was a "warning" that unless the growth of the nominal debt versus nominal GDP changed to a more normal balance, the US would "eventually" suffer from hyperinflation.

Hyperinflation is a debt problem whose root cause is when a country's level of debt rises to a level that when its economy goes into a deep recession (or depression) the country cannot borrow money or raise enough taxes to cover its expenditures, and therefore it is forced to print money to cover a greater percentage of its expenditures than the markets and investors think is sustainable. This concludes in the country's inability to pay the interest on its debt, which progressively consumes its overall budget, causing the country to continue to print money to pay its ever increasing debts and interest thereon, which ultimately leads to a loss in confidence in its currency, ending with hyperinflation as the result.

Frankly, I have always felt that it is common sense to point out that if debt accumulation continues, more or less, without any constraints then disastrous economic consequences would result.

Since my firm's Trader Vic Index website recently uploaded a subsequent copy of my hyperinflation speech, I have been asked to give an update on my views. Before proceeding, though, **I would like to reiterate that my views on hyperinflation are long-term, without a time element in the short-term.**

To give a similar example, in the long-term, I believe that the Euro currency block will break up eventually. However, it is difficult if not impossible to predict when this will take place. Similarly, my argument for hyperinflation is based on the trajectory of U.S. debt creation. Realistically, given the complexity of the global economy as well as the United States' unique place in it, and the continuously changing dynamics of debt, taxes, inflation, interest rates and GDP, one cannot pick the date that this will occur, only that the trend of debt continues to move toward this destination.

Understanding the Nature of Hyperinflation

To understand what hyperinflation is, let's begin by defining hyperinflation and distinguishing it from inflation. Hyperinflation was defined by Phillip Cagan in 1956 as an increase in the inflation rate (e.g., the CPI) of 50% in one month. "Common" inflation is simply the result of higher average annualized increases in prices, from increasing the money supply more than producing goods and services, like what happened in the U.S. in the 1970's. While inflation is often times associated with economic expansions, **hyperinflation is often associated with depressions, where money supply expands at very high rates unsupported by GDP growth, and a high and increasing velocity of money.** This results in the inability of government to borrow money from the public to pay current bills, including interest and principal payments on debt, and therefore government has to print even more money to pay these bills. The rapid expansion of money supply causes the underlying currency to lose value rapidly. Additionally, hyperinflation is associated with wars, when a loss of confidence of the sustainability of the currency occurs due to printing huge amounts of money. The break point is when the country borrows 40 % of what it spends the nation always went into hyperinflation at some time.

Where the U.S. Stands Today

My original speech was based on the 2010 Congressional Budget Office's Budget and Economic Outlook Fiscal Years 2010-2020. At the time, total US debt was growing at an unsustainable rate of 11.90% compounded from 2006 -2010 (fiscal years) while gross GDP was growing at a nominal rate of 2.75%. Debt was increasing at 4.3 x's higher than growth. Clearly, this was an unsustainable situation.

Since the beginning, my viewpoint has been the development of this very rare event of hyperinflation will occur in the next recession when the future debt predictions explode. Currently, if you read the most recent CBO Report (February 2013), the debt to GDP ratio is projected to decline (which has no meaning to my prediction) as the government does not include "off-budget spending (which the CBO says will be $9.562 trillion in the next ten years (CBO 2/13 Report page 9)) or unfunded liabilities (estimated by some to currently range from $55 to $222 trillion - see below). The CBO also assumes impossibly rosy outcomes. They assume no recessions in the predictions even though we had two from 2001-2009. I believe the growth, debt, deficit and interest rate assumptions and statements border on fraudulent if one were showing them in the context of a disclosure document selling securities.

For example, the real growth assumes an average of "real" GDP of 3.56% (CBO 2/13 Report page 5) from 2014-2018? That is a little less than the period from 1995-99! How will this occur? By raising taxes and increasing regulations, while instituting outrageous health care costs? Also, GDP growth in the last 10 years was only 1.68% compounded in “chained” 2005 dollars. Since the administration tells the CBO what it believes is going to happen which the CBO then in-turn reports on, effectively President Obama believes the “real” GDP data will more than double for the next 5 years running compared to what it was the last 10 years.

The future problem is the inability to pay the interest on the debt from revenue. The basis to my Hyperinflation prediction is the current level of debt and the likelihood of our inability to pay the future interest payments (let alone principal payments) from tax revenues and additional borrowing. We have already discussed my concerns over projected GDP growth, and now we must determine what the real debt level is. The debt clock says $16.794 trillion, but it does not take into account "off balance sheet" spending totaling $9.562 trillion in 10 years (CBO 2/13 Report page 9). I estimate that the current off balance sheet items add $10 trillion more outstanding debt than is stated on the clock, but leave this aside....the debt clock also does not account for "unfunded liabilities", which range from $55 to $222 trillion, depending on who you ask. The estimate of Professor Laurence Kotlikoff, a Professor of Economics at Boston University who has many accolades, is the high at $222 trillion in unfunded liabilities, and he believes that the U.S. is bankrupt. He implies the U.S. will default. I say, when you have a printing press, you will always use it.

Add the fact that the “real” deficit was not $1.3 trillion last year, a figure obtained using "cash based accounting." Instead it was $6.6 trillion if the federal government was using generally accepted accounting principles (GAAP), which almost every business, state and city has to use. The $6.6 trillion number is from John Williams of ShadowStats, an academic, and is derived by adding to the $1.3 trillion deficit the net present value ($5.3 trillion) of the $84 trillion in Unfunded Liabilities over the next 75 years (government stated assumption).

Further, the reason that I state hyperinflation will occur "within" the next 10 years has a logical basis. If one takes the position that the net debt will grow at 5% a year, total U.S. debt will be $27.324 trillion in 10 years (not including current off-balance sheet items or unfunded liabilities). As the CBO does not project total U.S. debt, only public debt, the $27.324 trillion figure is based on my projection. Now, what will interest rates be in 10 years? The CBO says an average yield is 4.6% (CBO 2/13 Report page 5), but let’s assume it reverts to the mean for bills and bonds of the last 52 years, or from 1961, which was 6.01%. Assuming that spending increases 5.08% a year from 2014-2023 (CBO 2/13 Report page 3), they say annual spending will be $5.082 trillion in 2023 net of annual interest. However, annual interest in 2023 on my projected $27.324 trillion total U.S. debt (using the historic average interest rate of 6.01%) will be $1.642 trillion, or 32% of projected 2023 annual spending without interest and 24% of projected 2023 annual spending with interest. Today, interest is 6% of the budget. Therefore, one has to ask the question, where does the approximately 20% difference come from? I believe U.S. bond holders will sell what they own, the U.S. dollar will decline, and the Fed will print money at a rate that will make today's Fed look like they are Shaolin Monks.

No one ever expects the U.S. government to repay the stated debt of $16.7 trillion+ (not including current off balance sheet items or unfunded liabilities). It is not even talked about. However, the U.S. government must pay the interest, and if it does not, it defaults – see Greece for the effects. I believe it is certain that interest will be paid for with printed paper and this will cause a loss of confidence by U.S. dollar and bond holders and ultimately result in hyperinflation.

In summary: **I never put a date on this event because it is impossible to predict, as it has a psychological impetus that will cause a loss of confidence in investors to buy and own U.S. bonds or hold U.S. dollars at some point which cannot be predicted – like the run on a bank.** These are my beliefs based on the numbers and the current trend to increase spending to enlarge government. It is this simple logic: the gross quantity of total debt matters to the survival of our system, and the principal has been extended and added, however, the interest that has to be paid, but will be too much to pay in the future when interest rates rise to mean levels (see Europe for this example). Hiding the total debt, accounting gimmicks, off balance (Enron-like) games, disregarding unfunded liabilities, and printing unlimited amounts of fiat paper money to keep the economy from going into recession is a sham. The reality of all this cannot be avoided forever.