The Greenspan Legacy of Hyperinflation

By Adrian Douglas

Since 2000 I have, like many others, been expecting that the huge imbalances that have been created in the financial system to result in a stock market crash , a currency collapse and gold and mining stocks going to very high levels in terms of a highly depreciated fiat currency. While this will be the final Act of this tragedy I have come to realize that we are going to see a hyperinflationary period first, because this is the path that has been determined by the Greenspan legacy.

If the purchasing power of currency is reasonably stable then business goes through cycles of expansion and contractions but overtime this is a continuous growth trend because the world population is growing and industrialization and automation is still progressing. Business would not need to be cyclical if we could always balance perfectly supply and demand in the economy. That is not possible so there is an oscillating wave superimposed on the growth trend.

After having gone through an expansion of the 1990's the US was due for the prescribed contraction. But I said this is what happens in a stable monetary environment. What about if the money supply is pumped up and purchasing power declines? This allows a "temporary" cheating of the system. Just when demand should be falling creating the natural and necessary recession spending is FORCED to be increased by monetary debasement. This artificial stimulation of demand looks like economic expansion, and if the stimulus is high enough it can, at a casual glance, look better than the real thing!

How does this work? When consumers see that prices are rising they buy more than they need. If, for example, they know the price of shoes is going up they will buy two pairs and keep one pair in the closet for when the first pair wears out. When they put gas in their car they fill up the tank completely instead of just putting in 5 gallons. Because food is going up in price they buy a second refrigerator to be able to buy more food at a time, this also saves money because the price of refrigerators is also going up so best to buy now. So because everything they are buying is going up in price they need to demand pay rises from their employers.

On the other hand, companies realize that their wholesale prices are going up so they buy more at a time and build inventory because it is cheaper than what it will be next month, thereby increasing demand. Companies switch from holding cash balances to holding very little cash and high inventory. The mind-set of companies and consumers subtly changes. They don't realize that they are actually "investing" in real things through these actions and holding less cash. Buying becomes less consumption driven and more "hoarding" driven but it has an identical effect on increasing demand. The hoarding may eventually result in

consumption such as buying two pairs of shoes, but it may just be for the sole purpose of buying something that will have a higher exchange value at some later date than it does today. This is what precious metals investment is all about. Investors are not hoarding gold to eventually consume it, they are hoarding it because it will have a much higher exchange value in the future.
As this process accelerates the cure is to provide less “liquidity” not more. But the people see they need more currency to meet their expenditure so they ask for pay rises, they take out loans, and companies raise their prices and borrow more money and the government pumps more and more “money” into the system as the people “demand” more money and hyper-inflation takes root.

When this happens in “The Banana Republic” it does not last too long because the people eventually see an escape route is to change their currency into a foreign currency that is not being inflated and they refuse to spend more than what is required for their immediate needs so their “hoarding” is in a foreign currency not in “real things” and as a result the stimulation of the local economy dries up and the country goes into a recession requiring the money oversupply to be reduced to end it (this is what is happening in Zimbabwe today).

But the dollar is the Reserve Currency of the world. Everyone around the world is holding it. The liquidity that the FED is pumping into the US is forcing everyone to spend to get out of dollars. When the Banana Republic debases its currency the world looks on as its population buys foreign currency and it watches the nation implode. When the US debases the dollar every country in the world debases its currency so as not to be at a disadvantage!!!!! If all the currencies are losing purchasing power then there is only one alternative solution …SPEND IT. (Central Banks are referring to this as “diversifying out of dollars”!). This “spending” exchanges dollars for something that will have a higher exchange value in the future expressed in dollars.
Stock markets are rising as stocks offer a means of escaping from holding dollars (to some extent), which then attracts more buying. Mergers and acquisitions are on the rise again as a way of spending company cash. China is buying up resources in Africa and Latin America.

By the process of mutual debasement, the currency cross-rates do not reveal the true loss in purchasing power. The US Dollar strength gets judged by the USDX Index which measures the depreciating US dollar against a basket of depreciating currencies! The massaging of Inflation Indices can also fool the people that inflation is tame despite them seeing higher prices in the shops, especially if the focus is on a measure of “core inflation”, which deliberately excludes the prices of goods that are increasing the most! The canary in the coal mine is, of course, gold. This is why hundreds of tons of gold from central banks must be dumped on the market, coupled with a leveraging with futures and derivatives and appropriate media disinformation, to try to stop gold from blowing the whistle.

So conventional economic wisdom says that we should have a recession, but we have seen that since 2000 the Fed and the US government have taken the course of “increased liquidity” and even the unprecedented step of making M3 a State secret. There is NO reason to think they are likely to now throw in the towel and get an Austrian Economics education.

Ian Gordon, Vice President of Canaccord, says he has a friend who knew Greenspan in the 1960’s and he quotes Greenspan as saying “I would love to be Federal Reserve Chairman when the Kondratieff Winter comes because I think I could override it by dropping the interest rates and printing enough money that it would overcome all the deflationary aspects of the economy.”

As we know Greenspan did become the FED Chairman and he did drop interest rates and he did create ungodly amounts of dollars. And it would appear that the recession of the Kondratieff Winter has been “overridden”. But this “override” can only be temporary, it doesn’t cancel winter, it just delays it. In a healthy economic expansion demand comes from high consumption. In an artificial boom created by inflation and hyper-inflation consumption falls but is more than offset by hoarding such that composite demand increases. But this demand that is fueled by a desire to diversify out of a depreciating currency depends on someone being willing to take the other side of the trade and to accept currency in exchange for their goods. Initially higher and higher prices are what motivate buyers but they also motivate sellers because it seems that they are receiving “more” for their goods. The game comes to an end when no one wants to accept the currency. The winners are those holding the goods and the losers are those holding the currency.

The only way to mitigate the catastrophe will be to return to some form of sound money, such as gold, as France did after the devastation caused by John Law’s Mississippi Scheme, and Germany did after the Weimar Republic inflated the Reich Mark to zero.

Greenspan has dabbled in alchemy, experimenting to see if he could turn paper into gold, and defy the Laws of Economics. One man had the power to use the whole world as his economics laboratory. In 1966 Greenspan wrote an article called “Gold & Economic Freedom”, in that article he said:

“If everyone decided, for example, to convert all his bank deposits to silver or copper or any other good, and thereafter declined to accept checks as payment for goods, bank deposits would lose their purchasing power and government-created bank credit would be worthless as a claim on goods. The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves.

This is the shabby secret of the welfare statists’ tirades against gold. Deficit spending is simply a scheme for the confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one *grasps this, one has no difficulty in understanding the statists' antagonism toward the gold standard"*

It has been stated on many occasions that this paper revealed that Greenspan is really a sound money advocate, but the leopard changed his spots to become the Federal Reserve Chairman. I think a more logical interpretation is that he knew what was the real obstacle to him succeeding in his alchemy experiment to frustrate the Kondratieff Winter. In this context it is very easy to see why gold has been manipulated.

But the gold manipulation is failing, and the tinkering with the Kondratieff cycle is revealing itself as inflation that will soon transform into hyperinflation. Such is the Greenspan Legacy.

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May 17, 2007