Howard Ruff

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Hyperinflationary Depression

Until now, I have given equal credence to two possible scenarios:

1. We could have several years of inflation as we do now, and the powers-that-be would have a sudden rush of brains to the head, like Paul Volcker and Ronald Reagan did in 1980, and stop the "printing press," ending inflation and the gold and silver bull market, for at least a few years; or

2. It is too late to stop it. The political forces and the Unfunded Liabilities would prevent the powers-that-be from ending the money-printing process, and in fact, would grossly accelerate it. This would result in a hyper inflation (400 percent inflation or more), and the eventual total destruction of the dollar. Suddenly America would find its money totally useless. Store shelves would be empty, gas would go through the stratosphere, and Americans would suffer through the greatest threat since the Great Depression of the '30s.

So what caused me to settle on number two?

I received **John Williams'** recent newsletter "*Shadow Government Statistics*," www.shadowstats.com in which he describes his case for a hyper-inflationary depression. It was most persuasive. It certainly persuaded me, and is consistent with what I've said for years.

I spent the '70s fending off the media label of "Prophet of Doom," arguing that I expected much less than doom. It turned out to be so.

With my new book in circulation, I'll face the same accusations, and this time they are right. The financial world we know and love is facing genuine doom. You could lose the value of all your assets in the stock market. You could find yourself unable to buy essential commodities, when you want them, and gold and silver will be valued, not in the tens or hundreds of dollars per ounce, but in the thousands!

John Williams' *Shadow Government Statistics* newsletter is most unusual. John is a consulting economist with all of the academic credentials. Most of his clients are bank officers and high-ranking corporate officers. He has rearranged the government data according to historical analysis.

For example, the government says inflation is under four percent by the simple expedient of eliminating energy and food from their calculations. John says inflation is over 11 percent, including energy and food.

His academic credentials are way ahead of mine, but at least I know enough to understand his work. It's my job to try to reduce such things to terms my subscribers can grasp.

Here are some brief paragraphs from this 25-page report.

"With the creation of massive amounts of new fiat (not backed by gold) dollars will come the eventual complete collapse of the value of the U.S. dollar and related dollar-denominated paper assets."

" …a law professor at Harvard and The University of California, Berkeley, who experienced the Weimar Republic hyperinflation, said, 'It was horrible. Horrible! Like lightning it struck. No one was prepared. You cannot imagine the rapidity with which the whole thing happened. The shelves in the grocery stores were empty. You could buy nothing with your paper money.'"

"…the still-unfolding banking solvency crisis has confirmed the Fed's and the U.S. government's willingness to spend whatever money they have to create in order to keep the financial system from imploding."

" The circumstance envisioned ahead is not one of double- or triple- digit annual inflation, but more along the lines of seven- to 10-digit inflation seen in other circumstances during the last century."

"The historical culprit generally has been the use of fiat currencies - currencies with no asset backing such as gold - and the resulting massive printing of currency that the issuing authority needed to support its system, when it did not have the ability, otherwise, to raise enough money forits perceived needs, through taxes or other means."

"The United States is no exception, already having obligated itself to liabilities well beyond its ability ever to pay off."

"***Hyperinflation*****:** Extreme inflation, minimally in excess of four-digit annual percent change, where the involved currency becomes worthless. A fairly crude definition of hyperinflation is a circumstance, where, due to extremely rapid price increases, the largest pre-hyperinflation bank note ($100) becomes worth more as functional toilet paper than as currency."

"The current economic contraction is about halfway towards being classified as a 'depression.'"

"Official CPI could be running in double-digits by year-end 2008."

"The U.S. economy has been in a recession since late-2006, entering the second down-leg of a multiple-dip economic contraction, where the first down-leg was the recession of 2001 that really began back in late-1999. Annual CPI inflation currently is running around 11.6%, again, facing further upside pressures."

"The evolving depression quickly will move to great-depression status, when the hyperinflation hits. It will be extremely disruptive to the conduct of normal commerce."

"Ongoing M3 currently shows a record annual growth rate of 17.3%."

"In the near future, dollar selling should build towards an extreme, with heavy foreign investment in the dollar fleeing the U.S. currency for safety elsewhere. With the domestic financial markets and U.S. Treasuries so heavily dependent on foreign capital for liquidity, the Federal Reserve - now touted as the formal financial market stabilizer - will be forced increasingly to monetize federal debt. That process will build over time, given the federal government's effective bankruptcy."

"Again, the current circumstance will evolve into a hyperinflationary depression, then a great depression.

Although such is not likely much before 2010, or after 2018, the financial end game for the current markets will tend to come sooner rather than later and will break with surprising speed when it hits."

"2008 will favor an incumbent party loss, i.e. a victory for the Democrats."

"What promises hyperinflation this time is the lack of monetary discipline formerly imposed on the system by the gold standard, and a Fed dedicated to preventing a collapse in the money supply and the implosion of the still, extremely over-leveraged domestic financial system."

"The limits to the unlimited abuse of the debt standard are particularly evident in the GAAP-based financial statements of the U.S. government, which show the actual federal deficit at $4.0-plus trillion for 2007 alone, with total federal obligations standing at *$62.6 trillion*. With no ability to honor these obligations, the government effectively is bankrupt."

"Although the U.S, government faces ultimate insolvency, it has the same way out taken by most countries faced with bankruptcy. It can print whatever money it needs to create, in order to meet its obligations. The effect of such action is a runaway inflation - a hyperinflation - with a resulting, full debasement of the U.S. dollar, the world's reserve currency."

"Oil prices are near historic highs, the dollar is near historic lows, and money growth is at an all-time high. The near-term outlook for all three is for new record levels and for extremely strong upside pressure on U.S. inflation. … gold prices should continue setting new historic highs."

"The difference is in accounting … for unfunded Social Security and Medicare liabilities."

"Put into perspective, if the government were to raise taxes so as to seize 100% of all wages, salaries and corporate profits, it still would be showing an annual deficit using GAAP accounting on a consistent basis. In like manner, given current revenues, if it stopped spending every penny (including defense and homeland security) other than Social Security and Medicare obligations, the government still would show an annual deficit."

"U.S. federal obligations are so huge versus the national GDP that the country's finances look more like those of a banana republic than the world's premiere financial power and home to the world's primary reserve currency, the U.S. dollar."

"The effect of this structural change has been that most consumers have been unable to sustain adequate income growth beyond the rate of inflation, unable to maintain their standard of living. The only way personal consumption can grow in such a circumstance is for the consumer to take on new debt or liquidate savings. Both those factors are short-lived and have reached untenable extremes."

"From the Fed's standpoint, it can neither stimulate the economy nor contain inflation. Lowering rates has done little to stimulate the structurally-impaired economy, and raising rates may become necessary in defense of the dollar."

"By the time hyperinflation kicks in, the economy already should be in depression, and the hyperinflation quickly should pull the economy into a great depression. Uncontained inflation is likely to bring normal commercial activity to a halt."

Hyperinflationary Great Depression

"In the United States, the printing presses have not been revved up heavily yet, but the commitments are in place, as seen in the annual GAAP-based deficit running on average more than $4.0 trillion per year. That amount is far beyond the ability of the government to tax or the political willingness of the government to cut entitlement spending. While the inevitable inflationary collapse, based solely on these funding needs, could be pushed well into the next decade, actions already taken likely have set the stage for a much earlier crisis."

"It is this environment that leaves the U.S. dollar open to potentially such a rapid and massive decline, and dumping of U.S. Treasuries, that the Federal Reserve would be forced to monetize significant sums of Treasury debt, triggering the early phases of a monetary inflation. In this environment annual multi-trillion-dollar deficits rapidly would feed into a vicious, self-feeding cycle of currency debasement and hyperinflation."

"Given the extremely rapid debasement of the larger denomination notes, with limited physical cash in the system, existing currency would disappear quickly as a hyperinflation broke. From a practical standpoint, however, currency would disappear, at least for a period of time in the early period of a hyperinflation."

"**Barter System.** With standard currency and electronic payment systems non-functional, commerce quickly would devolve into black markets for goods and services and a barter system."

"Gold and silver both are likely to retain real value and would be exchangeable for goods and services. Silver would help provide smaller change for less costly transactions."

"In such a circumstance, gold and silver would be primary hedging tools that would retain real value and also be portable in the event of possible civil turmoil. Also, at some point, the failure of the world's primary reserve currency will lead to the structuring of a new global currency system. I would not be surprised to find gold as part of the new system, in an effort to sell the system to the public."

"I still look for U.S. stocks to take an ultimate 90% hit, peak-to-trough, net of inflation, during this period."

Ruff Times subscribers who accept John's scenario have no downside! At the worst, if Scenario number one occurs, they will make tons of money in gold and silver, then we will eventually put out a sell order and the world will return to relatively normal. If I and John Williams are right, it will literally save your current lifestyle, and perhaps even your lives.

By Howard Ruff
The Ruff Times

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Howard J. Ruff, the legendary author and financial advisor, has re-edited and will re-issue his 1978 mega best seller, How to Prosper During the Coming Bad Years, still the biggest-selling financial book in history, with 2.6 million copies in print. He is founder and editor of The Ruff Times Financial Newsletter. This article appeared in the March 7, 2008 issue of The Ruff Times. The newsletter is much more comprehensive and deals with a broad spectrum of middle-class financial issues and includes an Investment Menu from which you can build your portfolio.

(You can learn about it here). The Ruff Times has served more than 600,000 subscribers – more than any financial-advisory newsletter in the world. His new book is now in book stores or at www.rufftimes.com.