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Hyperinflation

Inflation of 50% a month for at least one month is the threshold at which a conventional inflation becomes a hyperinflation, judged economist Phillip Cagan in his 1956 study, "The Monetary Dynamics of Hyperinflation." Though inflation is as old as money—or, at least, as old as governments tampering with money—hyperinflation is an affliction of the paper-money regimes of the 20th and 21st centuries. The debasement of the assignat during the French Revolution is the single exception to the rule, relates Peter Bernholz in "Monetary Regimes and Inflation."

Examples of hyperinflations include those in Germany in 1922-23, in Greece during the German occupation in World War II, in Hungary immediately following that war, in Latin America during the 1980s and in Zimbabwe during the first decade of the 21st century. "Hyperinflations are always caused by public budget deficits which are financed by money creation," Bernholz concludes. "If inflation accelerates, these budget deficits tend to increase. . . ."

In Greece in 1941, before the German occupation, a British sovereign—about one-quarter of an ounce of gold—was worth 1,200 Greek drachmas. In 1944, as the Germans hastily departed, a sovereign commanded 71 trillion drachmas.

But Hungary takes the cake for the most extreme hyperinflation ever recorded. From July 1945 until August 1946, according to "The Hungarian Hyperinflation and Stabilization of 1945-46," by William A. Bomberger and Gail E. Makinen (Journal of Political Economy, October 1983), "the price level rose by a factor of 3 X 1025. When stabilization was achieved on Aug. 1, exchange of old for new currency was at a rate of 400 octillion for one. This contrasts with the conversion rate in Germany's famous hyperinflation of a trillion to one."

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