

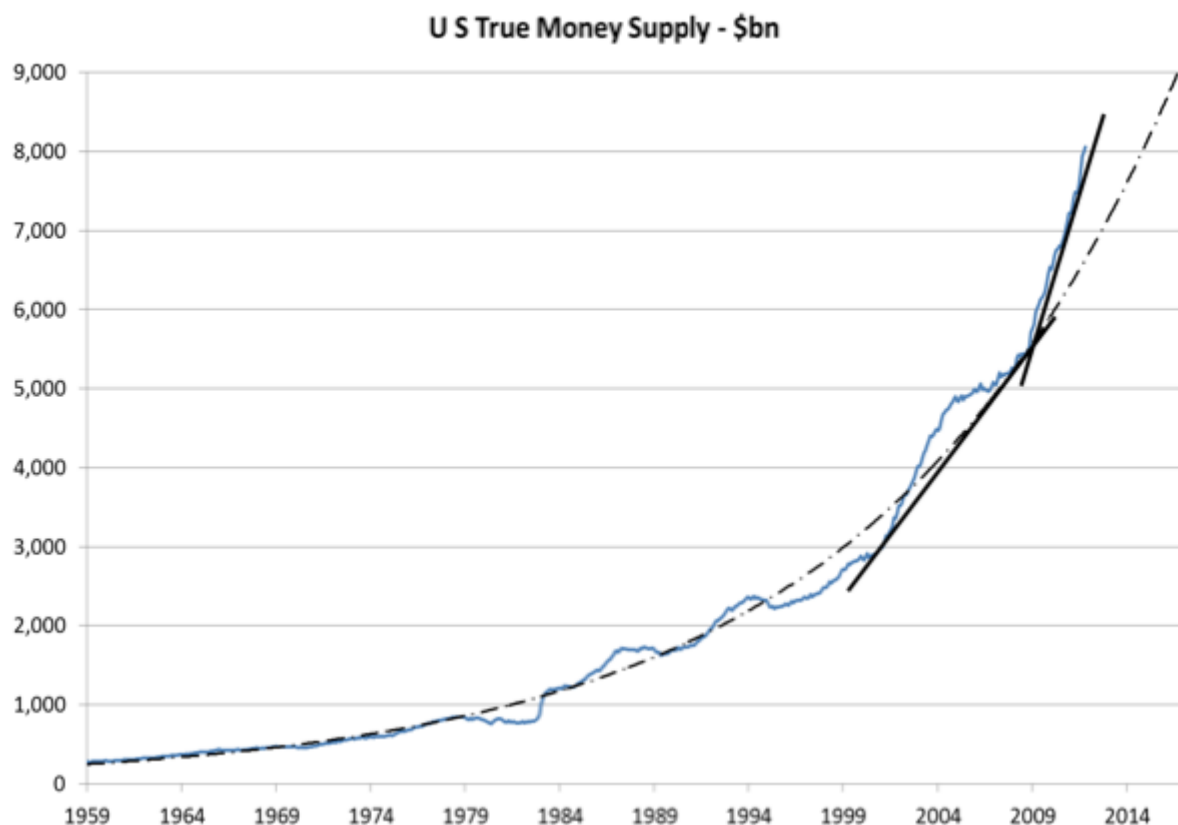
Money supply explosion will lead to accelerating inflation

This article was originally posted at [GoldMoney](#)

2011-DEC-17



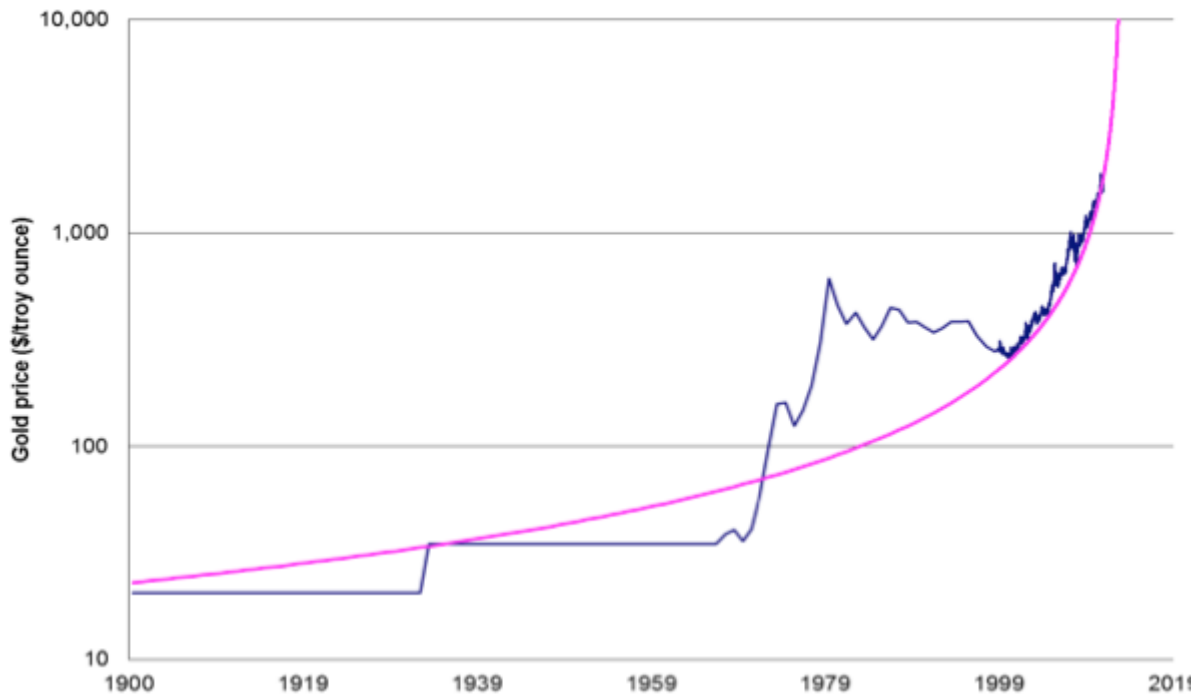
This is the time of year when City pundits produce their forecasts for the forthcoming year. Historically there has been little point to this exercise. Instead, here is the one chart which defines the background to all events in the coming years. It is the [Mises Institute's True Money Supply \(TMS\) for the US dollar](#). TMS consists of cash, checking accounts and no-notice deposit accounts, as well as a few other minor cash balances. It represents the actual cash and electronic cash in the system that is instantly available for purchases of goods and services, and the chart goes back to 1959.



The dotted line is the exponential growth trend, in other words the maximum rate of growth that can continue for ever. This trend was valid until mid-2002, since when TMS has accelerated at a faster rate, telling us that TMS growth entered a hyperbolic phase when the Fed eased rates in the wake of the dot-com collapse. Put another way TMS is already hyperinflationary.

Bear in mind that economists are now telling central banks to accelerate monetary growth even faster to offset the tendency for bank credit to contract. They see no other way to avoid a bank balance sheet implosion with all the deflationary consequences that implies. So the prospects for 2012 and thereafter are for TMS to continue its hyperbolic trend, and incidentally supply funds for a government deficit completely out of control. Also bear in mind that when such a trend becomes established it becomes almost impossible to stop, since the whole debt-based economy and the banking system would collapse.

The second chart shows gold's established hyperbolic course. This chart was put together by Armand Koolen, a Dutch physicist, after reading James Turk's and my writings on gold and economics. In Koolen's words, the hyperbola fits in with the official gold price in the early 1900s, the revaluation to \$35 in 1934, the onset of the secular bull market in 2001, the bottom in October 2008 and its approximate track since then.



His discovery is interesting. Singularity for this curve, or the point where the gold price goes to theoretical infinity, is in February 2014, only 26 months away. Unless this long-term trend is somehow broken, gold is also telling us the dollar is heading for hyperinflation.

It would be a mistake to vest magical powers in such an extraordinary discovery, but given TMS itself is showing signs of going hyperbolic we must sit up and take notice. And we know how difficult it is to stop printing money at an accelerating rate: after all, the ECB's reluctance to do so is threatening to collapse the eurozone. Will the Fed pull the trigger on the US economy or chicken out? The answer is clear.

So in 2012 we can expect a further escalation of money-printing. This being so, it will be followed by unexpected and accelerating price inflation. Nominal interest rates will then rise at the market's behest, bringing a sovereign debt crisis for the dollar with it as the cost of borrowing for the government escalates.

And the world is on a dollar standard, which is why the chart of TMS tells us all we need to know about 2012.

Tags: [debt crisis](#), [dollar](#), [ECB](#), [Fed](#), [inflation](#)