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Senator warns of hyperinflation rivaling the 1980s

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The economy could spiral into hyperinflation not seen since the early 1980s if the Federal Reserve does not tighten its monetary policy soon, Sen. Chuck Grassley (R-Iowa) warned Tuesday.

Grassley, speaking about the renomination of Federal Reserve Chairman Ben Bernanke to a second term as head of the Fed, asserted that Bernanke's ability to hold down inflation would be the metric by which the Fed's success would be measured.

"We won't know for a year if he's done a good job so far, because he shoveled money out of an airplane to save banks and the financial system," Grassley said in a conference call with Iowa reporters. "But shoveling money out of an airplane to solve problems can be inflationary — in this case, hyperinflationary — if he doesn't start mopping up some of the money that's out there."

Grassley, the ranking member of the Senate Finance Committee, said that inflation as a result from government spending on bailouts could result in inflation rivaling rates in 1980, when it hit a peak of 13.5 percent.

"The Fed has the ability to put money out, it's got the ability to take money back in, and if they don't do that, we will have hyperinflation worse than we had in 1980 and '81," Grassley said. "And I hope he demonstrates that ability."

Grassley argued that while it would be a year until lawmakers will know whether Bernanke has been successful at bringing inflation under control, it would probably be best to keep the chairman on board for a second term as head of the Federal Reserve.

"I would suggest that right now, when everybody's nervous about the economy, that you don't change horses in the middle of the stream, and consequently, it would probably be detrimental to not have him reappointed," he said.

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