

To a Muddy Death

by [Theodore Dalrymple](#) (June 2020)



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Successful political careers often end in failure and even humiliation, if for no other reason than that those accustomed to power do not really know what to do with themselves once they have lost it. Sycophants become detractors, and what were once seen as achievements come to be seen as culpably the root of present problems. Popularity becomes unpopularity or worse and praise turns to reprehension. The whirligig of time brings in his revenges.

Central bankers are not quite politicians, but they are not ordinary bureaucrats either. They are rarely heroes to anyone, but in one recent case, that of Riad Salamé, of the National Bank of the Lebanon, a director of a central bank was for many years a national hero—until, in a kind of gestalt switch, he became something like the devil incarnate. It is not only pride that goeth before a fall, but adulation; hero worship and dragging through the mud being but two sides of the same coin.

For twenty years after the end of the Lebanese civil war, which had lasted fifteen years, Riad Salamé had apparently produced an economic miracle by means of his direction of the national bank. He pegged the Lebanese currency, the Lebanese Pound, to the US dollar and set astonishingly high rates of interest on deposits, giving returns that were much greater than those that could be earned from any legitimate business.

Everything went well, and money poured into the Lebanon, as long as the peg to the dollar could be maintained. There

seemed to be immense prosperity, including a boom in construction. Syrians, who had once (and not very long before) been the masters in the Lebanon, became, with the terribly deteriorating situation in their own country, the slaves. Fortunes were made, especially by people with political influence, and general standards of living rose swiftly. No one seemed to notice that the country produced nothing and exported nothing except IOUs. It was a tribute to Riad Salamé's diplomatic and presentational skills that he managed to keep the whole system going for as long as it did. He was widely praised, not only in his own country, but around the world, winning both plaudits and awards for the wise way in which he steered the Lebanese economy.

But in effect he was operating a Ponzi or pyramid scheme. He was the Bernie Madoff of central banking. Those who got in early and got out quickly did very well. They could double their money in four years. But, as Gertrude put in it respect of Ophelia being kept afloat by the water absorbed by her wide-spreading robes, long it could not be. (Indeed, I would make all economists learn Gertrude's speech by heart, for it is a wonderful allegory of much modern central banking. Gertrude continues after 'But long it could not be', as follows: 'Till that her garments, heavy with their drink/
Pulled the poor wretch from her melodious lay/
To muddy death.' I trust that I do not have to belabour the analogy with Mr Salamé's economic policy, scheme or system.)

In retrospect, at any rate, it seems that his scheme was so obviously fraudulent—or would have been fraudulent if operated by a private individual rather than by a sovereign state—that it is surprising that no one seemed to notice until its inevitable collapse. My knowledge of economics is slight, and my doctrine is primitive, being that of Mr Micawber, namely

that to spend less than one earns is the path to happiness and to spend more is the path to misery; but I should have thought that it required very little knowledge of economics to spot that paying interest of between 20 and 40 per cent on a currency that retained its worth, more or less, while you earned nothing except what you could persuade the credulous to part with, was not economically wise or sustainable for long. The seven lean years were bound to follow the seven fat.

The seven, however, were twenty. This is remarkable in itself and in a way worthy of admiration. That the system was kept going in the Lebanon by bribery will surprise nobody, I should imagine, but that could hardly explain the blindness of those who could not be so easily bribed to the inevitable crisis that was ripening there. Perhaps they so wanted this beautiful country to recover from its terrible cataclysm that they believed in the so-called Lebanese miracle. Perhaps under the hard carapace of every economist, every professor of the dismal science, there beats a heart of pap. The heart has its reasons that economic law knows not of.

By all accounts the economic situation in the Lebanon is now dire—and was dire even before the Covid-19 epidemic. But perhaps we in the west should not be too condescending towards the Lebanon because, in essence, we have been running a scheme not totally dissimilar to Mr Salamé's for many years, for decades in fact. It is only by comparison with present borrowings that our past borrowings seem moderate and almost restrained.

For forty years, our governments have been issuing debt not so that they may invest (disregarding the fact that their investment choices are usually very good anyway, especially

when administered by a huge bureaucracy) but to prop up an unearned standard of living. In other words, they have borrowed to pay for sumptuary spending, even if those dependent on that sumptuary spending do not live very sumptuously.

There is no prospect and no intention of ever repaying the debt. Interest rates have to be kept close to zero because otherwise a government would be faced by a trilemma: it could debase the currency even more than it has already been debased, it could increase taxes, or it could default. None of these possibilities is very appealing and would bring troubles in its wake. Strictly speaking, rapid economic growth could take care of the situation, but developed economies do not grow at the rate of their need to borrow once they embark on their Ponzi scheme.

As the Covid-19 epidemic has demonstrated with startling clarity, the scheme has been kept going for so long by outsourcing the production of almost everything that can be outsourced to countries in which production costs are much lower (that is to say, much lower so long as currencies retain their value relative to those of the poorer countries). In this way, the illusion was created that we can print and borrow as much money as we like without sparking inflation.

But of course there has been inflation, though not of the type that causes bread riots. Let me give a small illustration of the kind of inflation that we now suffer (or benefit from, depending on our place in the economic hierarchy). An old man of my acquaintance bought his house for the equivalent of one year of his modest salary sixty years ago. It would now cost him eight times his yearly salary. And there are many people

of my acquaintance who could not now afford to buy the house that they own.

Inflation in the price of assets is deeply conservative in a bad sense because it unduly favours those who already possess at the expense of those who do not. It fixes a society into castes rather than classes and reduces social mobility. There are no doubt drawbacks to a society in which there is social mobility according to ability, merit or cunning, but once meritocracy becomes a semi-official ideology, or at least a mantra, it becomes dangerous to erect obstructions to social mobility. People who might once have accepted their lot because it reflected their relative slight ability (though not a terribly comforting thought for those who are ambitious but fail in their ambitions) now become resentful: and resentment, together with hatred, is the strongest of all political emotions. Resentment will lead a man to self-destruct if he cannot destroy others.

It seems to me that the current plan of governments to spray their respective economies with vast sums of money conjured out of nothing can only reinforce the pattern: not that I have anything better to suggest, because it seems to me that once you have started on turning your whole economy into a Ponzi scheme, you have little option but to continue and hope that you die before the whole thing collapses in a heap. To use another metaphor, we have painted ourselves into a corner from which there is no escape without getting wet paint on our shoes.

If I had been finance minister of any country I would have done the same, because consolidating the power of the possessing class is better than impoverishing everyone, which

at the moment is the alternative. It seems obvious that large corporations are, for more than one reason, going to be bailed out sooner than the corner grocery store: first, because they employ a lot of people, they will cause more general hardship if they are allowed to go bust, second because it is easier, and more efficient, for banks or other entities to deal with a few large clients rather than hundreds of thousands of small ones, and third because of the pre-existing relations between the banks, the government, and large corporations, in which acquaintance slides by degrees into outright corruption. In other words, there will be, at least for a time, a tendency for an increased corporatisation of society, in which there will be the government and corporations, with ever more interpenetration between them, on the one side, and the rest of the population on the other. Thus an individual restaurant will close, but a chain of restaurants will survive, albeit that the quality of food it serves will be inferior and, in so far as it finds itself in a position of monopoly or oligopoly, of declining quality.

Some corporatisation is necessary or inevitable, of course. You cannot start to build airliners in your back yard, nor can there be hundreds of competing airliner manufacturers. Medical research is very expensive, and though possibly more expensive than it need be—many regulations have effects, and perhaps purposes, other than guaranteeing the safety and efficacy of products—we do not want to return to the days of apothecaries' potions made of ostrich eggshell and dragon's urine as a cottage industry.

But to return to the case of Riad Salamé and the Lebanon: surely it was not necessary to hold a PhD in economics to see that the supposed economic miracle was no such thing and was little more than living well for a time at someone else's

expense. If the basic facts had been given to a reasonably alert sixteen-year-old, he would have been able to see it without much difficulty.

Why, then, were people who devoted their entire lives to economic matters blind to the most evident economic truth? No doubt it was in part caused by the charisma of the principal actor; charisma will get you far in a world of appearances. No doubt the existence of very good restaurants in Beirut played a part also (and there are few cuisines better than the Lebanese). Bankers and other visitors to the Lebanon must have thought that if you can eat as well as this, and Lebanese wine can be surprisingly good too, all must be well with the economy. Such a trivial consideration, after all, is at the root of multiculturalism as a social doctrine: any person of sophisticated taste can learn to love a hundred different cuisines and find virtues in them all. But if Lebanon had had a bad cuisine instead of an exquisite one, maybe no one would have fallen for the myth of its miracle.

But perhaps there was yet another reason. Riad Salamé had only done in a relatively acute way what governments and bankers in many countries in the west had been doing chronically and in a slightly different way for decades. To recognise the crooked foolishness of what the Lebanese banker had been doing would be to recognise their own crooked foolishness. To adapt very slightly the words of Macbeth in another context:

We are
in debt

Stepped in so far that were we to borrow no more

Bankruptcy would be even worse.

No wonder that Riad Salamé was once voted Central Banker of the Year.

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