

Inflationary Vice



by Theodore Dalrymple

Samuel Gregg, in [his article](#) on the French economist, Jacques Rueff, provides a timely reminder that inflation is much more than a merely economic phenomenon. It also has profound social effects. This, of course, was recognised by Keynes himself in the book that made him famous, [The Economic Consequences of the Peace](#). He recognised that inflation functioned as a transfer wealth from creditors to debtors, thus upsetting the previous social equilibrium; and he also quoted Lenin to the effect that the debasement of the currency was a sovereign method of producing revolutionary change.

Not all inflation is equally dramatic, of course. The grandfather of a German friend of mine once owned a portfolio

of mortgages on valuable properties and soon found himself in possession of pieces of paper of less value than yesterday's newspaper. Apparently, he took this loss philosophically and never turned to political extremism; he was later sent to Buchenwald. Not everyone in these circumstances stayed sane or decent, however.

But even less catastrophic levels of inflation have profound psychological, or perhaps I should say characterological, consequences. For one thing, inflation destroys the very idea of *enough*, because no one can have any confidence that a monetary income that at present is adequate will not be whittled down to very little in a matter of a few years. Not everyone desires to be rich, but most people desire not to be poor, especially in old age. Unfortunately, when there is inflation, the only way to insure against poverty in old age is either to be in possession of a government-guaranteed index-linked pension (which, however, is a social injustice in itself, and may one day be undermined by statistical manipulation by a government under force of economic circumstances, partly brought about by the very existence of such pensions), or to become much richer than one would otherwise aim or desire to be. And the latter turns financial speculation from a minority into a mass pursuit, either directly or, more usually, by proxy: for *not* to speculate, but rather to place one's trust in the value of money at a given modest return, is to risk impoverishment. I saw this with my own father: once prosperous, he fell by his aversion to speculation into comparative penury.

When inflation rises to a certain level, it is prudent to turn one's money into something tangible as soon as it comes to hand, for tomorrow, as the song goes, will be too late. Everything becomes now or never.

With the concept of *enough* go those of modesty and humility. They are replaced by triumph and failure, the latter certain

almost by definition to be the more frequent. The humble person becomes someone not laudable but careless of his future, possibly someone who will be a drain on others insofar as he has failed to make adequate provision for himself – even if, given his circumstances, it would have been impossible for him to have done so. For notwithstanding technical progress, automation, and robotics, we shall need people of humble and comparatively ill-paid employment for the foreseeable future.

Inflation plays havoc with the virtue of prudence, for what is prudence among the shifting sands of inflation? When inflation rises to a certain level, it is prudent to turn one's money into something tangible as soon as it comes to hand, for tomorrow, as the song goes, will be too late. Everything becomes now or never. Traditional prudence becomes imprudence, or naivety, and vice versa.

Inflation comes in more than one form. For quite a number of years it took the form of asset inflation, while the prices of consumables remained relatively constant or actually fell. This, in western societies, was the result, it seems to me, of a concatenation of at least two factors: the expansion of money while keeping interest rates low, and globalisation that allowed everything to be produced as cheaply as possible. The former allowed governments to run on deficits without apparent consequences for years at a time, while the latter allowed the less well-off to think that they were living in times of little or no inflation.

Asset inflation, though, has certain social and psychological consequences. First, it puts the meaningful accumulation of assets for those who do not already possess them out of reach. (I speak, of course, in generalities; there are always exceptions). This in turn has the effect of transforming a society divided by permeable classes into a fixed caste society. There have always been advantages to being born in a well-off household, but asset inflation encourages them to become hard-wired, so to speak, into the social fabric.

Asset inflation fosters delusions in those who benefit from it. I sit in my house and grow richer, though of course the house remains the same, with the same number of square feet (beside which, I have to live somewhere). I look at the value of my investments and hug myself, though in fact their value has no relation to their yield, which overall remains much the same. I am richer only if I sell them – and then, what do I do with the money?

Nevertheless, I am richer on paper, and for some dizzy people this feeling of wealth encourages sumptuary expenditure, often on credit. Why not take out a loan when interest rates are low and asset prices rising? At one time in the not terribly distant past, my bank offered me \$40,000 to pay for a holiday of a lifetime. Why not, when my house was increasing by far more than that every year? Luckily, I have lived (and live) a life of sufficient satisfaction that the concept of a “holiday of a lifetime” has no meaning for me: I cannot even imagine what it would be.

The inability of people at a lower level in the social scale to make any meaningful provision for themselves from savings, as well as the fact that so much is taken out of their hands by the state, means that their income is, in effect, pocket money of the kind that a child receives from its parents. They spend up to the hilt and even beyond, and remain economic minors. Gone in my lifetime is the idea that debt is to be avoided, that it is discreditable to live entirely on credit, and shameful not to repay. If you have no assets worth speaking of, the bailiffs have nothing to seize, and creditors can whistle for their money.

We have entered a more ‘traditional’ phase of inflation. No one knows how long it will last, or how serious it will be. But the very unpredictability creates anxiety even among those who have no real need to feel it – or rather, whom events will show to have had no need to feel it.

Inflation has not merely economic or social consequences, but moral and psychological ones too.

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