



FINANCIAL PREPAREDNESS

"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen

Issue #119
May 19, 2023

Inflation

I just finished reading [Inflation: What It Is, Why It's Bad, and How to Fix It](#) (4 stars), which was ghostwritten for Steve Forbes and published in 2022. This short and sober book highlights the corrosive effect that inflation has on society and its morals.

Thanks to government schools (which usually never even mention it) and the media, inflation is mostly misunderstood, which is just how the government and ruling class like it. For example, the book says that Joseph Robinette "has insisted that government spending actually *suppresses* inflation [by breaking] up the bottlenecks in our economy." So government spending is like a laxative. As Ringo Starr observed, "Everything government touches turns to crap."

Not only did Isaac Newton come up with the Law of Gravity; as head of the British Royal Mint, he fixed the value of the British pound to gold, a ratio that held for more than 200 years (!), which helped turn Britain into the mightiest industrial power in the world. How did it do that without a central bank with 23,000 employees, a dual mandate, open market operations, quantitative easing, tapering, forward guidance, dot plots, sterilized intervention, reverse repos, etc.?

Speaking of reverse repos, the book says that in February of 2021, the Fed had very few of

them on its balance sheet, but by December, the amount had mushroomed to more than \$1.7 trillion. They allow the Fed to continue expanding its balance sheet by buying government bonds, which holds down interest rates and enables reckless government spending. The book asks, "What if there's an event, like a sudden military crisis, and Uncle Sam can't meet its obligations? You would see a financial crisis that would make 2008 look like a hiccup." Yes, a financial crisis at the same time as a military crisis. There is a contagion effect between [complex systems](#) such as financial markets and war.

When people lose faith in a fiat currency, they rush to convert their wealth into anything physical, even if the buyer can't use it. The book provides an example I had never heard of: "Impoverished citizens of the old Soviet Union and Eastern Europe would stockpile bricks. They weren't perishable and could be used [by someone] at some point in the future." Brilliant! So despite what you've heard recently, local "brick and mortar banks" are here to stay.

The book sums up the end result of inflation, which is far more consequential than merely higher prices: "Sooner or later, inflation leads to more government control....central banks devalue money; prices shoot up. Governments look for ways to tamp down inflation by keeping people from spending. They also respond with price controls, capital controls, higher taxes. Governments grow larger and often impose more constraints. People lose their freedom, and worse."

This is the book's most profound observation: "But inflation's most damaging effect may be its debasement of social behavior....By providing a mutually agreed-upon, standard unit of value, money facilitates trust between buyer and seller, lender and borrower. It helps people *cooperate* [the other option is violence]...based on expectations that promises will be fulfilled....When money is no longer a trustworthy measure of value, these promises aren't kept. Market behavior and relationships between people become warped and distorted. Agreements are voided."

The book continues: "Worst of all, no one knows why all of this is happening. [[Certain people](#) are] getting rich not through honest work, but from distorted capital markets or government cronyism. Inflation, thus, foments a sense of unfairness and grievance. As John Maynard Keynes himself acknowledged: 'There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency.'...there is an undermining of social trust. Political divisions are inflamed. Angered by the unfairness and inequality they see around them, people search for scapegoats....Humiliated by the devaluation of their wealth, people retaliate by devaluing others."



shortly before Kristallnacht

Eventually, inflation destroys the government that created it: “The legitimacy of government collapses in a hyperinflation. Citizens resentful of higher taxes feel no moral imperative to pay them. Tax evasion soars. [This is one reason why Biden wants to hire 87,000 more IRS agents.] All of this just increases the pressure on government finances, leading to more money printing. With this moral unraveling comes endless corruption.”

The authors also note that inflation severs the link between effort and reward. As Adam Fergusson writes of Weimar Germany in [When Money Dies](#), “As the old virtues of thrift, honesty and hard work lost their appeal, [everybody was out to get rich quickly](#), especially as speculation in currency or shares could palpably yield far greater rewards than labour....There were few in any class of society who were not infected by, or prey to, the pervasive, soul-destroying influence of the constant erosion of capital or earnings and uncertainty about the future. From tax-evasion, food-hoarding, currency speculation, or illegal exchange transactions...each of which...became for individuals a matter of survival—it was a short step to breaching one or other of the Ten Commandments.”

When government—the entity that is supposed to be enforcing the law—is leading the plunder (via inflation), it sends a strong signal that crime is acceptable: “Crime soars in nations with rampant inflation. Brazil, a chronic inflator, has long been bedeviled by rampant crime and by lawless police behavior. Hyperinflator Venezuela, where the annual inflation rate has been as high as 60,000%, has the highest crime rate of any nation in South America.”

Fiat currencies magnify the normal business cycle into severe booms and busts: “Studies have shown that the number of major financial crises have dramatically risen in the fiat-money era since 1971. No economic crisis was ever caused by stable money.”

Finally, fiat currencies provide a significant opportunity for the power-hungry, corrupt, and delusionally incompetent: “John Maynard Keynes himself essentially admitted to the attraction of power that comes from managing—or more accurately, mismanaging—economies via the manipulation of floating fiat currencies.”

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