

The cost to social cohesion

It never ceases to amaze me that economists dismiss the spectre of inflation because there is still high unemployment.

I think the rationale goes something like this... Wage increases are responsible for most of the increases in inflationary pressure so whilst there is no wage pressure there is no inflationary pressure.

Yet in the real world most hyperinflations occur in the midst of high unemployment due to a recession or a depression. E.g. Venezuela, Zimbabwe.

The most predictable human behaviour is homeostasis... the tendency for humans to behave in congruence with their past behaviour. Governments are not going to stop trying to spend their way out of any crisis which comes their way. Central banks are not going to stop accommodating them either, *ceteris paribus*.

Interest rates will rise as inflation emerges BUT it will not change their behaviour, it just means they have to print more to cover the interest bill as well, pushing inflation on a hyperbolic curve.

Only once the currency has been well and truly demolished will it become apparent the scale of the financial and social devastation.

I remember an anecdote from Zimbabwe at the start of the inflation, where supposedly government leaders needed USD 50m to go on an overseas conference but there weren't any foreign exchange reserves. At the time, the Central Bank Governor told them there was no money but they simply instructed him to go onto the black market with freshly printed Zimbabwean dollars and buy the required amount of USD. He cautioned that it would drive the black market rate sky high but their reply was "what's your point?"

Very few people monitor exchange rates and I believe it will be the risk vector that destroys value.

I watched the Sir James Goldsmith congressional hearing on GATT and was amazed at his prescience. He basically said that by opening up free trade to the world we will increase our GDP but the spoils will go to capital in the Western world and labour in the East.

Yes GDP has increased but the Bezos' of the world have reaped the rewards at the cost of hollowing out employment in the Western world. It is like Bill Gates walking into a pub in a depression hit coal-mining town and the Mayor declaring that average GDP has risen massively!

The cost to social cohesion and stability has been huge and Goldsmith warned of this in 1994.

To add insult to injury, these huge companies, big tech especially, have cozied up to government via lobbyists to ensure they are the lowest taxpayers in society. This is unfairness at its root.

Governments in turn have smoothed over the rapidly appearing cracks in society by handing out money giving the appearance of normality. In reality by doing this, they are plunging further and further into irrecoverable debt solvable only by inflation.

This cannot end well.

My main point is that rising interest rates are not going to change behaviour, usher in austerity and prudence. In fact the opposite will be true, inflation will begin in earnest when central banks need to fund not only rising spending but the high interest bill as well.

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