WALL STREET JOURNAL

Notable & Quotable

Steve Hanke explains why the civil war in Syria will ultimately result in higher inflation rates.

October 23, 2013

While government expenditures remain robust during civil war, the sources of government finance become, well, problematic. The tax system and government administration begin to break down, and tax revenues dry up. Bond financing is nowhere to be found, since investors don't want to invest in a country that is at war with itself.

Often, combatants, including the central government, pass the begging bowl, seeking foreign aid to fill the fiscal gap. In the case of Syria, officials claim that the government has been receiving a total of $500 million per month from China, Iran, and Russia. . . . [W]hen economic sanctions are imposed on a country like Syria, smuggling and other illegal activities run rampant. . . .

But, at the end of the day, as a civil war rages, these sources of funds fail to come close to the level of government expenditures. What to do? Well, the government simply orders its central bank to start the printing presses and fill the deficit gap. It is this surge in the supply of money that generates higher inflation rates.