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Et tu Bernanke?

Posted by **Izabella Kaminska** on Oct 09 16:25.

Societe Generale's Dylan Grice, the Robin to Albert Edward's Batman, has published a fresh bit of research on Friday.

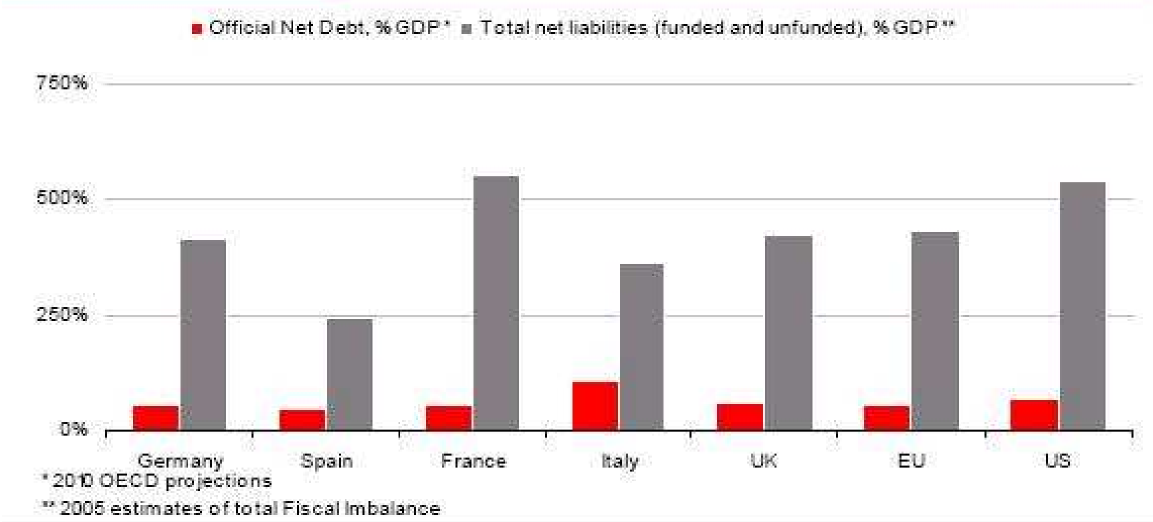
As can be expected of the bearish duo, the note does not disappoint on the bleakness front. In fact, it hints at no less than a repeat of the fall of Rome.

Some choice snippets from Grice, playing the role of the resurgent gladiator. Emphasis FT Alphaville's:

> *Believe it or not, the first great inflation occurred in third century AD Rome. The territorial limits of empire had been reached several decades earlier and the huge army, which in former times had financed itself (through the conquest of new, plunderable and taxable lands), was now needed to protect the border from barbarian invaders.*
>
> *Just like the baby boomers of today's developed world, that cohort of Roman society which had once been its engine of growth became its unsustainable financial burden, straining imperial finances so thoroughly that the government could only fund itself by debasing the coinage.* ***The silver content of a denarius, which had been 75% in 180AD, was a mere 0.02% by 270AD. Fiscal pressure had caused the first inflation and the Empire would never regain its former greatness.***
>
> *And since this early Roman experience the theme has repeated itself again and again. Medieval Europe, Sung China, revolutionary France, America during its civil war, Weimar Germany and arguably even post WW2 Britain and America, all saw inflations in which money was the vehicle, but the root cause was a government unable to pay its way.*
>
> *Albert Edwards has always said the Ice Age would end in substantially higher inflation because political desperation to avoid Japan's fate would drive government debt to such extreme levels that default would be inevitable.* ***Driven by an age old dynamic, this is exactly what is playing out now.***

As evidence, he cites unofficial figures compiled by Jagadeesh Gokhale of the Cato Institute, and who Grice describes as "not a maverick economist". The figures are for countries' total liabilities, resulting from unfunded obligations being added to official numbers:

Official government debt ratios look OK, unofficial ones (including unfunded obligations) don't



Source: Gokhale, OECD

These figures, says Grice, are truly eye watering, "almost unbelievable in fact". As he puts it:

> ***What they imply is government failure,*** *which until we glimpsed it in early 2009 was not something we had really had to worry about for a very long time. But upon reflection I decided that they are what they are best estimates, honestly produced. That we don't like them doesn't mean we should ignore them. So I've gone with them. They show that government liabilities range from 6.5x government income in Spain, to 19.3x government income in the US. Bear in mind that the US consumer is widely seen as dead in the water with debt at 1.3x income.*

Conclusion: inflation is mispriced.

[As a scholarly aside, what Grice overlooks on the ancient history front is that not only did attempts to replace the mighty denarius with a supra-fiat currency under Diocletian fail - on account of Gresham's law - but the eventual collapse of the coinage, by prohibiting trade, brought on the Dark Ages. That would be the known world's greatest and longest depression ever. It was only when coinage was revived many centuries later that economies finally began to recover.]

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