

# The Inflation Cult

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Wish I'd said that! Earlier this week, Jesse Eisinger of ProPublica, writing on The Times's DealBook blog, compared people who keep predicting runaway inflation to "true believers whose faith in a predicted apocalypse persists even after it fails to materialize." Indeed.

Economic forecasters are often wrong. Me, too! If an economist never makes an incorrect prediction, he or she isn't taking enough risks. But it's less common for supposed experts to keep making the same wrong prediction year after year, never admitting or trying to explain their past errors. And the remarkable thing is that these always-wrong, never-in-doubt pundits continue to have large public and political influence.

There's something happening here. What it is ain't exactly clear. But as regular readers know, I've been trying to figure it out, because I think it's important to understand the persistence and power of the inflation cult.

Whom are we talking about? Not just the shouting heads on CNBC, although they're certainly part of it. Rick Santelli, famous for his 2009 Tea Party rant, also spent much of that year yelling that runaway inflation was coming. It wasn't, but his line never changed. Just two months ago, he told viewers that the Federal Reserve is "preparing for hyperinflation."

You might dismiss the likes of Mr. Santelli, saying that they're basically in the entertainment business. But many investors didn't get that memo. I've had money managers — that is, professional investors — tell me that the quiescence of inflation surprised them, because "all the experts" predicted that it would surge.

And it's not as easy to dismiss the phenomenon of obsessive attachment to a failed economic doctrine when you see it in major political figures. In 2009, Representative Paul Ryan warned about "inflation's looming shadow." Did he

reconsider when inflation stayed low? No, he kept warning, year after year, about the coming “debasement” of the dollar.

Wait, there’s more: You find the same Groundhog Day story when you look at the pronouncements of seemingly reputable economists. In May 2009, Allan Meltzer, a well-known monetary economist and historian of the Federal Reserve, had an Op-Ed article published in The Times warning that a sharp rise in inflation was imminent unless the Fed changed course. Over the next five years, Mr. Meltzer’s preferred measure of prices rose at an annual rate of only 1.6 percent, and his response was published in another op-ed article, this time in The Wall Street Journal. The title? “How the Fed Fuels the Coming Inflation.”

So what’s going on here?

I’ve written before about how the wealthy tend to oppose easy money, perceiving it as being against their interests. But that doesn’t explain the broad appeal of prophets whose prophecies keep failing.

Part of that appeal is clearly political; there’s a reason why Mr. Santelli yells about both inflation and how President Obama is giving money away to “losers,” why Mr. Ryan warns about both a debased currency and a government that redistributes from “makers” to “takers.” Inflation cultists almost always link the Fed’s policies to complaints about government spending. They’re completely wrong about the details — no, the Fed isn’t printing money to cover the budget deficit — but it’s true that governments whose debt is denominated in a currency they can issue have more fiscal flexibility, and hence more ability to maintain aid to those in need, than governments that don’t.

And anger against “takers” — anger that is very much tied up with ethnic and cultural divisions — runs deep. Many people, therefore, feel an affinity with those who rant about looming inflation; Mr. Santelli is their kind of guy. In an important sense, I’d argue, the persistence of the inflation cult is an example of the “affinity fraud” crucial to many swindles, in which investors trust a con man because he seems to be part of their tribe. In this case, the con men may be conning themselves as well as their followers, but that hardly matters.

This tribal interpretation of the inflation cult helps explain the sheer rage you encounter when pointing out that the promised hyperinflation is nowhere to be seen. It’s comparable to the reaction you get when pointing out that Obamacare seems to be working, and probably has the same roots.

But what about the economists who go along with the cult? They’re all conservatives, but aren’t they also professionals who put evidence above political convenience? Apparently not.

The persistence of the inflation cult is, therefore, an indicator of just how polarized our society has become, of how everything is political, even among those who are supposed to rise above such things. And that reality, unlike the supposed risk of runaway inflation, is something that should scare you.

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