

A BIBLICAL VIEW ON
Inflation

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Inflation



For some time, we have been told that inflation is either insignificant or that it is transitory. But even now, most economists and government leaders will acknowledge that inflation is here to stay for the foreseeable future.

How should we think about inflation from a biblical perspective? What lessons can we learn from the past? How can we prepare for the future?

History of Inflation

Most countries and empires have had to address the problem of inflation. This includes the nation of Israel. God (speaking through the prophet Isaiah) pronounced judgment on the land because the country that once was full of justice had debased the currency and its products. "Your silver has become dross, your best wine mixed with water" (Isaiah 1:22). People were cheating each other by adding cheaper metals to their silver and by adding water to their wine.

When people do this, it is called counterfeiting and is severely punished. It was punishable by the death penalty in the Roman Empire. Even today, counterfeiting in China warrants life imprisonment. Unfortunately, when governments debase the currency, it is merely called monetary policy and justified to keep the government functioning.

Governments insist on honest

weights and measures, but usually exempt themselves from that requirement. Micah 6:11 asks, "Shall I acquit the man with wicked scales and with a bag of deceitful weights?" A government will prosecute someone who has dishonest weights and measures but allow its own government leaders and central bank to debase their currency.

In previous centuries, kings and citizens engaged in coin-clipping. This form of inflation was more visible. Today, paying back investors and citizens with devalued dollars is less visible and more insidious.

In a statement by someone regarded as one of the most important economists of the twentieth century, British economist John Maynard Keynes noted how inflation affects a nation and its citizens. He said: "By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens."

He also added, "There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law that come down on the side of destruction and does so in a manner that not one man in a million is able to diagnose."

What is the impact of inflation? The impact is felt in higher prices. In fact, the classical definition of inflation is "a rise in the general level of prices of goods and services in an economy over a period of time." If you want to calculate the impact of inflation on your family, you can use the mathematical "rule of 72." Take the current inflation rate and divide it into seventy-two. That will give you the number of years at that rate of inflation it will take for prices to double.

Consumer Price Index

Most Americans are starting to realize that the current inflation rate

is different than the consumer price index (CPI). The government uses a different methodology from the past. Here are a few reasons why the CPI is not an accurate measure of inflation.

First, the government's figures understate the inflation rate because they exclude food and fuel costs from its rate of "core inflation." The argument is that food and fuel are too unstable to be included in the inflation rate. But those costs are the ones we consumers feel the most. In fact, most of us spend one-third of our budgets on food and energy costs.

Second, the government also substitutes less expensive products when prices rise. In the past, economists used a "fixed basket of goods" to calculate the consumer price index. In other words, if I buy the very same goods every year, how much does the price rise? Now the government assumes that people will

switch brands or foods if the price goes up. For example, if the cost of steak goes up, the consumer price index replaces the cost of steak with hamburger.

Third, in averaging the price of different commodities, the government uses the geometric mean rather than an arithmetic mean. We don't need to get into the math. All you need to know is that technique also decreases the inflation rate.

Fortunately, various websites do provide a more accurate view of inflation. Some of them, for example, use the same basket of goods used in 1980 to estimate the current inflation rate. They conclude that the real inflation rate is more than twice the CPI estimate.

Why did the government change the way it calculates inflation? One reason is that government officials wanted to reduce the cost-of-living adjustments for government payouts such as Social Security. A lower

consumer price index reduces the amount the government must pay beneficiaries for a cost-of-living adjustment.

Chuck E. Cheese

One of my guests, in trying to explain the impact of inflation, compared it to the experience kids and parents had at Chuck E. Cheese. In the past, they would arrive at the arcade restaurant and purchase twenty dollars' worth of tokens. The kids spent their tokens and won certain games. At the end of the adventure, the kids counted their tickets and took them to the toy counter to purchase a prize.

They were thrilled that they had 1,700 points in children's currency. They were excited to trade those tokens for some real treasures. The toy counter was stocked with iP-ods, stuffed animals, and all sorts of prizes they are ready to take home.

But their excitement faded quickly when they realized that it

took 500 points just to purchase a Blow Pop. It took even more to earn a Chinese handcuff. The prizes they really wanted required hundreds of thousands of points.

This is the reality of inflation. If you type in “how much purchasing power has the dollar lost” into a search engine, you will read that “the US dollar has lost more than 96 percent of its purchasing power since the creation of the Federal Reserve in 1913.” That would mean that a one-dollar bill from 1913 would have less than four cents of purchasing power today. The federal government has a CPI Inflation Calculator that will give you an estimate of the amount your money has been devalued based on the government’s CPI calculations.

Causes of Inflation

Government leaders have been arguing that the current inflation is merely due to the disruption of supply chains. While that is partially

true, it ignores the bigger picture. After all, inflation has been taking place long before the pandemic, lockdowns, and supply chain problems.

Business leaders acknowledge that providing a supply of goods due to the supply chain bottleneck has resulted in increased prices. Demand exceeds supply. Also, there are higher costs for employees and higher freight costs. Limited supplies of lumber and copper, for example, raised those costs.

But the bigger issue is the fact that the federal government and the Federal Reserve have been printing more dollars. In the past, other governments (e.g., China, Japan, etc.) would buy our treasuries. They have ceased buying those financial instruments, perhaps because they believe that this country is on an unsustainable trajectory with its high-consumption, low-savings economy.

This is easy to see on the graphs

provided by the Federal Reserve. The M2 money stock has been increasing for many years. You will also notice that the amount of money printed shoots straight up in 2020. On some charts, you may notice something else. The weekly chart is discontinued and only updated monthly. That might give you some idea of what may be coming.

Is inflation good for you and the economy? That is what some pundits and politicians are telling us. Type in words like “inflation is good for you” or “inflation is good for the economy” and you will see the latest attempt to make us feel good about inflation.

On the one hand, inflation is good for the federal government awash in national debt. It is probably good for people in debt. You can pay back debts with devalued dollars. But inflation also allows the federal government to continue to expand without having to live within its

means. State governments must live within their means and balance their state budgets. Families are supposed to live within their means, though many take on significant debt. Our previous books, *A Biblical Point of View on Debt* and *A Biblical Point of View on Money* are relevant to these concerns.

On the other hand, inflation is devastating for most people in society. Rich people can invest in appreciating assets (growth stocks, real estate, etc.) while people in the middle class or lower class are hurt by rising prices in food and energy (a significant portion of their monthly expenses). Most Americans are hurt because wages never rise as fast as inflation. Ultimately, inflation makes income inequality even worse.

Biblical View on Money and Inflation

Debt is one of the reasons for the increasing money supply that is causing inflation. The Bible has quite a bit to say about money, and

a significant part of these financial warnings concern debt. Proverbs 22:7 says: "The rich rule over the poor, and the borrower is a servant to the lender." When you borrow money and put yourself in debt, you put yourself in a situation where the lender has significant influence over you. The government is spending more than it is bringing in through revenue. The national debt is increasing every day.

The Bible also teaches that it is wrong to borrow and not repay. Psalm 37:21 says: "The wicked borrows and does not pay back, but the righteous is gracious and gives." The printing of more money has no end in sight. The federal government has been borrowing money from US citizens, foreign governments, and the Federal Reserve. Will we ever repay our debt? Even if we do so, it will be with devalued dollars.

The Bible teaches that individuals (and governments) should have

honest weights and measures. Deuteronomy 25:13 says, "You shall not have in your bag two kinds of weights, a large and a small." Proverbs 20:10 warns that "Unequal weights and unequal measures are both alike an abomination to the Lord." Ezekiel 45:10 says, "You shall have just balances, a just ephah, and a just bath."

How should Christians respond to rising inflation? We should begin by paying our debts. We cannot honestly call for the government to live within its means if we won't set the example and live within our means. We should, "Honor the Lord with your wealth and with the first fruits of all your harvest; then your barns will be filled with plenty, and your vats will overflow with new wine" (Proverbs 3:9-10).

We should also make wise investments. We should begin by diversifying. Solomon gives this investment advice: "Divide your por-

tion to seven, or even to eight, for you do not know what misfortune may occur on the earth" (Ecclesiastes 11:2). It makes sense to diversify your portfolio since no human being can accurately and consistently predict the future (James 4:13-15). By diversifying your investments, you minimize the risk to your entire portfolio.

We are heading for economic uncertainty. That is why we need to trust the Lord with our wealth (Proverbs 3:9) and be good stewards of the resources God has provided to us (1 Corinthians 4:2).

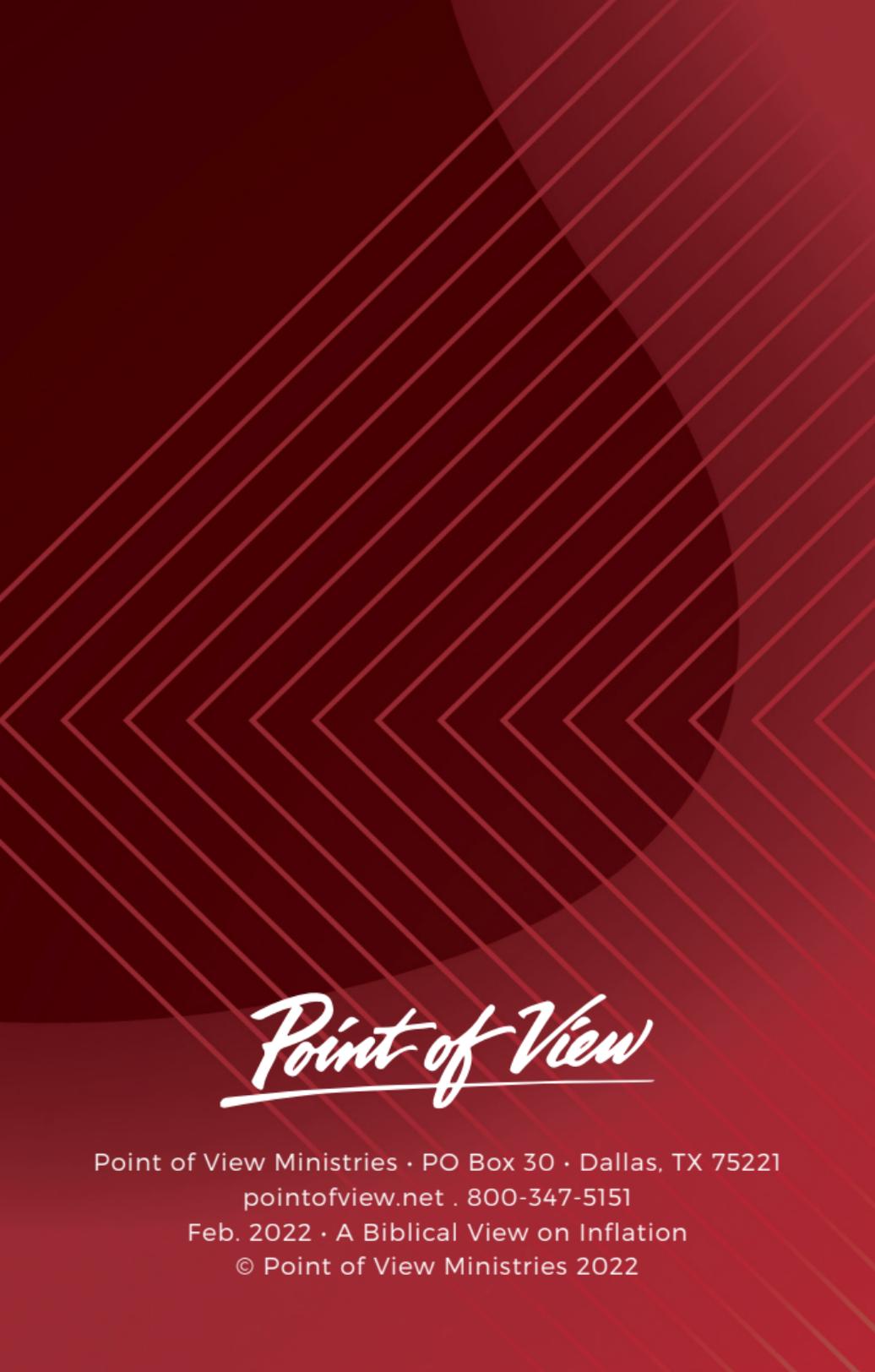
Additional Resources

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