

“The streets of Paris, strewn with the carcasses of the mangled victims, have become so familiar to the sight that they are passed by and trod on without any particular notice. The mob think no more of killing a fellow man – one who is not even an object of suspicion – than wanton boys would of killing a cat or a dog.”

- *The Times of London*, Monday 10th September 1792, reporting on the September Massacres, a foretaste of ‘The Terror’ to come.

Some suggest that the most appropriate analogue for the current global crisis – the spread of a pandemic that has resulted in some catastrophic mis-steps by multiple governments – is the Great Depression of the 1930s. (The economist Sean Corrigan, riffing on this theme, offers the coinage of ‘the Great Suppression’.) Others compare the crisis to that of the Second World War (with lockdown presumably playing the role of the Blitz). Our preferred comparison, as things currently stand, is with the 1970s, with the economic fallout from the oil crisis, the three-day week, and increasingly fractious relations between unions and the government. But perhaps an altogether darker and more substantial comparative reset is that of the French Revolution itself.

Some historians, perhaps most notably those of a Marxist bent, regard the French Revolution as the most significant event in the history of the modern world. The Revolution replaced a monarchy with a republic, reshaped the social order and the role of the aristocracy and the Church, ushered in a period of extraordinary outbursts of violence, and ultimately led to a dictatorship under Napoleon – who would then export many of its principles, by force, to much of western Europe.

Like so many revolutions, this one was in large part triggered by finance. When Louis XVI took to the throne in 1774, the French state was nearly bankrupt, primarily due to the country’s involvement in the Seven Years’ War and then the American Revolutionary War. A financial crisis and a linked constitutional crisis forced the monarchy to call the Estates General – a body that had not been summoned since 1614. The financial crisis came about through defaults in tax payments after bad harvests and systemic weakness throughout a network of local tax officials and provincial treasuries which ultimately failed. The damage was intensified via a crisis in the international money market following the conclusion of the American war; the market simply stopped lending to Paris, cutting off the King’s ability to borrow.

As Louis' authority evaporated, violence ensued. The fate of Joseph Foulon de Doué, the minister of the King's finances, is illustrative. Parisians alleged that when told that the poor throughout France were starving, de Doué responded that they could eat straw. After the storming of the Bastille in July 1789, de Doué attempted to flee Paris, but he was discovered and forced to walk barefoot back into the city. After trying and failing to hang him three times – since the rope could not support the weight of his body – the mob decapitated him, stuffed his mouth with straw, and paraded his head on a pike.

Few social groups were spared. In the September Massacres of 1792, more than 1200 people were slaughtered over the course of five days or so, including prisoners, priests and nuns. During the so-called 'Reign of Terror', for example, as many as 40,000 accused prisoners may have been summarily executed or died awaiting trial.

The very earliest days of the Revolution offered a promise of hope, and not just to the citizens of Paris or wider France. The English poet William Wordsworth, in a passage from *The Prelude* originally published as *French Revolution as It Appeared to Enthusiasts at Its Commencement*, had written

Bliss was it in that dawn to be alive,

But to be young was very heaven !

But by 1794, sickened by the wild violence that attended the Revolution, he was saying in a letter to a friend

I am of that odious class of men called democrats

and in another he flatly stated

I recoil from the bare idea of a revolution..

By 1811, in *View From the Top of the Black Comb*, he was likening Napoleon to Milton's Satan.

The author and critic Sinéad Fitzgibbon writes of the Revolution as seen through the poetry of the time:

As is often the case with such things, it can be argued that two competing narratives have grown up around the events in France at the end of the 18th century – there is the myth and there is the reality. The second generation of Romantic poets, including Byron and Shelley, were greatly inspired by the utopian ideals of the early Revolution, without giving sufficient weight to the destruction and horror which followed. It was easy for them to embrace a selective, almost mythical, version of events twenty years after the fact. Not so for Wordsworth; for him, the French Revolution was reality, and a painful reality at that. In renouncing all the beliefs he had once held dear, he was perhaps the most honest of them all.

Of all the things that governments provide, maintaining the peace is surely at the core. But it seems today that wherever you look, the glue of social order seems to be slowly – or not so slowly – dissolving. One by-product of the pandemic has been a general erosion of trust in many of our own major institutions. The police, the Church, government, the scientific ‘establishment’, the judiciary, and the mainstream media; each of them has endured a pretty miserable crisis thus far. And then you look abroad.. As the sheriff replies laconically to his deputy in the book (and film) *No country for old men*,

If it ain't [a mess], it'll do till a mess gets here.

Expect to hear much more about the Overton Window – of acceptable social policy – in the weeks and months to come. When we first started discussing it, back in 2019 and very early 2020, concepts like UBI (Universal Basic Income) and MMT (Modern Monetary Theory) were still theoretical. Now, just a few months later, the central bank printing presses throughout the world are working overtime and millions of workers have been paid for the best part of a full year to sit at home and watch Netflix. The Overton Window hasn't just been widened – it has been smashed to pieces. But the furlough will not last forever.

Hindsight is admittedly a wonderful thing, but there will need to be some sort of big and credible enquiry about the government's (and indeed most governments') handling of the Covid crisis, not least the decision to forcibly and voluntarily close down most of the economy. It should also include decisions made, admittedly in a hurry, and in a state of imperfect information, about (our) health services. As Dr Max Pemberton writes for *The Spectator* ([‘Nothing to applaud’](#)):

I work around the corner from where Baby P was murdered and many psychologists, therapists and social workers now dread what will be discovered when services start to go back into the estates that we have abandoned for months. The lockdown was based on research that was not peer-reviewed from someone with no clinical experience and a history of making errors in his predictions. Yet where was the caution in acting on this modelling ? Where was the usual critique that doctors would employ before adopting something that had the potential to be so damaging ? When all this is over will we look back with horror at a trail of misery and death caused not by the virus, but by our attempts to prepare for it ?

And Dr Pemberton is writing exclusively about the (physical and mental) health implications of lockdown. What about the economic implications ? And [as they observed here](#) on 15th March 2021, the House of Commons Public Administration and Constitutional Affairs Select Committee pointed out that since the British government rushed the country into lockdown without any real consideration of **any** sane or accountable way of justifying such action, enacting any escape from lockdown is similarly compromised by the lack of **any** form of sane, reasonable accountability either. Many things died during 2020 and 2021. Respect for due process and democracy just happens to be among them.

The financial analyst Doug Noland [nicely captures](#) the surreal nature of the securities markets even as the real economy burns:

A global pandemic and historic economic downturn. A rapidly escalating U.S./China cold war. Surging U.S. unemployment and economic depression. A deeply fragmented society with intensifying animosity and conflict. Heightened social instability, with mounting protests (and even a number of ugly riots). Friday Drudge headline: “A Society On Brink of Complete and Utter Chaos...”

A booming stock market. Rapidly expanding “money” supply. Exceptionally loose financial conditions, with record debt issuance. Huge inflows into corporate investment-grade and high-yield bond ETFs. Record Treasury and investment-grade corporate bond prices.

It’s easy these days to question securities market sanity. Yet it’s a fundamental tenet of Credit Bubble analysis that things turn crazy at the end of cycles. In the waning days of history’s most spectacular financial Bubble, should we be too surprised by Complete and Utter Crazy ?

How you should prepare for what’s to come over the medium term should be, in part, a function of whether you think the market / economic impact of world governments’ overreaction to Covid-19 will most closely resemble recession, depression – or perhaps even some form of V-shaped recovery. In the words of the economist and strategist Dave Rosenberg,

A recession is like a cut and heals quickly. A depression [whether inflicted by government or not] is a deep wound that heals slowly; a wound that ushers in a secular change in consumer attitudes towards debt, savings and expenditure..

We mention ‘children’ in the title of this week’s commentary advisedly. What awaits the generation coming of age in the midst of a pandemic, closed schools and colleges, and a shuttered economy ? There are lucky generations and there are unlucky ones. This correspondent’s parents’ generation suffered the Blitz and post-war austerity, but they were then the beneficiaries of a generalised rise in prosperity, along with some of the healthiest pension provisions in history – at least, for those lucky enough to receive an index-linked retirement. As a member of Generation X, your correspondent has benefited from a comparable generalised rise in prosperity, of a sort, but has also experienced a wholesale debasement of monetary solidity which is now accelerating. ‘Generation Covid’ faces educational turmoil, softer economic prospects, and a profoundly uncertain future. If they feel angry about the Boomers having ‘eaten’ their prospects, **they have a point**.

It is easy to reach the conclusion that the legacy of the French Revolution – despite its evident cruelty – was **ultimately** largely benign. In ending the monarchy, France developed democracy. Civil rights were implemented. The French people were granted freedom of speech and of religious worship, freedom of association, freedom of the press and the ownership of land. But looking at the state of the EU and its chaotic response to Covid-19 hardly inspires confidence about the union’s sustainability today. The rise of China points to a multipolar rather than unipolar geopolitical world, and the global response to the pandemic points to a violent reaction against globalisation – a retreat, if you will, against prospects for wealth, full stop. Meanwhile the unified central bank response – print money and be damned

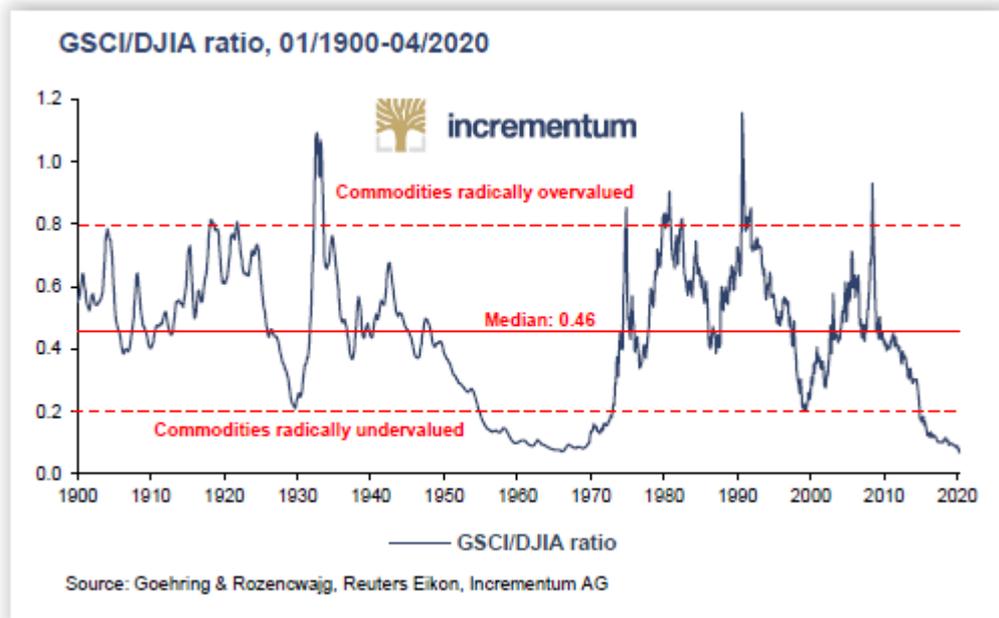
– reinforces the case for the ownership of commodities (especially gold), unloved (but highly cash-generative) value stocks, and absolutely **not** the ownership of debt, especially government debt.

Historians, perhaps inevitably, continue to argue about the importance of what happened in Paris all those years ago. Linda Colley, writing for the *London Review of Books* in the French Revolution's bicentennial year, 1989, reviews Simon Schama's *Citizens: a chronicle of the French Revolution*. Colour him 'not impressed' by its achievements:

Schama's anger is made more emphatic by his belief that the Revolution accomplished very little. Far from making France safe for capitalism, he argues, it actually retarded for several decades the nation's commercial and industrial growth. As for the organisation of the state, he agrees with de Tocqueville that survivals of pre-Revolutionary trends were more apparent than any overwhelming change instituted after 1789. The abolition of seigneurial rights and guilds, he claims, promised ordinary Frenchmen and women far more than they actually gained. And for those who were really poor, the Revolution proved an unmitigated disaster. It devastated the Roman Catholic Church's charitable and educational foundations without in the short term establishing any adequate alternatives. As one of my colleagues at Yale remarked in a recent lecture, Schama's verdict on the French Revolution is doubly damning: its achievements were small and it was horrible.

It may be that the economic and cultural damage, triggered not so much by Covid-19 as by governments' panicky overreaction to it, will quickly subside. But one doubts it. Our take is that the pandemic has acted like a time machine, hurtling us years forward, in a matter of months, towards the end phase of a process that was going to happen anyway: the build-up of unsustainable government debts globally that can ultimately only be 'resolved' by an inflationary, or even stagflationary, bonfire.

Is there opportunity amidst all this (real and anticipated) gloom ? Undoubtedly. To paraphrase *The Graduate*: "One word; 'commodities'."



As Incrementum's chart indicates above, based on the ratio between the Goldman Sachs Commodity Index (GSCI) and the Dow Jones Industrial Average (DJIA), commodities haven't been this cheap versus stocks since at least the 1960s. The 1970s was, of course, the decade of inflation, helped not least by Nixon severing the link between the dollar and gold. We don't think it's too early, nor too late, to be accumulating the monetary metals, gold and silver, and related mining concerns, as a form of protection against all those things consistent with any kind of 'revolutionary' change to 'the system'.

Such an inflationary process as discussed above could plausibly be accompanied by a global monetary reset as confidence in the existing fiat money infrastructure completely evaporates. But the forces of deflation – the state to which markets would naturally revert if free to operate away from the influence of governments – are pitted against the forces of inflation represented by governments and central banks, so we may yet get a deflationary shock before the inflationary tsunami hits. If you weren't already defensively positioned in your portfolios, and with a specific commitment to inflation protection, now might be a good time to start. Perhaps the hedge fund manager Kyle Bass should have the last word, at least for the time being:

I see deflation in the things you own and inflation in the things you need.

Times of dramatic change are accompanied by huge uncertainty, to be sure – but with great change also comes great opportunity. **Fortes fortuna adiuvat.**

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