

THIS INFLATION IS "DIFFERENT"



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Abstract

Certain peculiar features of inflation, which has reappeared after some forty years of absence, raise questions as to whether it is the classic, that is, the one we have known for years. In particular, the current inflation does not seem to confirm its basic definition, which is based on the existence of a positive relationship between the quantity of money and the general price level.

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There is no relationship between the quantity of money and the price level

For nearly four decades, not only inflation but also the panic that surrounded it in the past had virtually disappeared from the advanced economies of the West. Modern governments of recent years have been trying in vain to achieve a minimum level of increase in the general price level of 2%, necessary to revive the economies. And in the EU in particular, the strict monetary balance conditions of the Stability Pact, introduced to protect the euro from inflation, but not from stagnation, which was not foreseen, were now being treated as a 'bargaining chip'. The break in the traditional relationships between money and prices and between money and unemployment occurred during the period of globalization and, above all, before the start of its retreat. This rupture was recognized as the dominant symptom of the stagnation of the Western economies and

the emergence, in several of them, of the extreme unorthodox phenomenon of negative interest rates. The search for explanations for these unfavorable developments has brought to the fore the old Alvin Hansen theory of the stage of perpetual stagnation of mature economies, which the Western economies are now experiencing. According to the famous American economist of the last century, when economies enter the stage of maturity and decline, they are unable to continue their positive development and enter a state of permanent stagnation. The need to address the considerable reconstruction needs of economies after the Second World War seemed to disprove Alvin Hansen's theory, but it is already re-emerging with a vengeance. This economic theory, moreover, is complemented by Oswald Spengler's theory of the succession of civilizations, which predicts the end of Western civilization and its assignment to a successor. The East, and more specifically Chinese civilization, is already imposed as the successor.

Of the multitude of reasons that have caused the deactivation of the money-price relationship in modern economies, and the West's entry into a stage of economic stagnation, I will choose here what I consider to be the dominant one, in my analyses of recent years, but which several economists are already focusing on. It is the dramatic consequences of globalization, which have dealt a severe blow to neoliberal capitalism and which have led it to break its promise of 'prosperity for all'. The reasons for this failure are due to the reversal of the conditions of general equilibrium resulting from the unprecedented inequality in the distribution of wealth at all levels. An ever-larger share of GDP, which used to belong to labor (according to the laws of the Cobb-Douglas functional distribution), has since 2000 been retained by capital (expropriated by shareholders). This rising and extremely dangerous imbalance is due to the reduction of progressive taxation, tax havens, the rise of monopoly situations, the tendency to equalize wages between developing and advanced economies, the decline of trade unionism, the shrinking of the public sector, the assignment of the fate of economies to the invisible hand, etc. This culminating inequality has led to a dramatic fall in demand for consumption, but of course also for investment, to a reduction in the rate of growth, to an increase in public and private debt (in order to prevent consumption from completely collapsing), to the derailment of monetary theory and to the emergence of a 'newer monetary theory', which allows and justifies almost everything.

In the new conditions prevailing in the Western economies, there is plenty of liquidity, but it is not channeled into economic activity, but into stock markets, speculation and hoarding. And this explains the negative interest rates, the inability, until recently, to achieve inflation of 2% in spite of monetary easing in the EU, the swelling of bank deposits, even in bankrupt economies such as Greece, but it also explains the fact that the trillions spent on for pandemic needs in the US and EU had no impact on the general price level, initially and up to a certain point. However, the event beyond that point, namely the emergence of inflation, does not seem to be related to "helicopter money", or to the monetization of public debt (central bank bond purchases), even though the monetary base amounts to over \$15 trillion.

We can therefore conclude that the sudden rise in prices, already reaching 6.2% in Greece, and a little bit less in the EU, is not directly related to the additional amount of money put into circulation to deal with the pandemic, nor will it be related to the millions that are expected to flow into Europe

through the Recovery Fund. Furthermore, the re-emergence of inflation has nothing to do with the volume of unemployment, which also seems to be no longer affected by the amount of money. Therefore, it is not traditional inflation. But it is not stagflation either, since in this case, although there is a relationship between money and prices, the economy is not able to increase its GDP or reduce unemployment. Finally, and it is important to note, this type of inflation is not dealt with by raising interest rates, as the Federal Reserve and perhaps the ECB seem to hope. In order to restore the traditional relationship between the quantity of money and the general level of prices, as well as the possibility of money having an effect on the volume of unemployment, it is necessary that a wide-ranging redistribution of income should have taken place beforehand in order to restore the broken equilibrium between the shares of labor and capital in GDP. For it is precisely this imbalance that is responsible for the inactivation of the relationship between money and prices.

The causes of the present inflation?

In so far as the present analysis of the data corresponds to reality, the rise in prices is due to causes which, even if the money supply were reduced and interest rates increased, would not affect their level. These causes, a significant proportion of them, are attributable to factors directly or indirectly related to the pandemic, among others:

- * The disruption of the production chain in many parts of the world,
- * The shortage of spare parts, as many of their producers wrongly decided to reduce production at the beginning of the crisis,
- * China's decision to increase its production at home in order to reduce its dependence on foreign countries,
- * The shortage of labor, mainly in low-paid and insecure jobs, as the pandemic has resulted, among other things, in a realization of the need to seek better working conditions,
- * The inability of ships to cope with the sudden increase in demand for their services,
- * The concentration of demand on scarce goods and less on services, and of course,
- * The sharp rise in energy prices.

In the realm of reasonable predictions, the hypothesis that the return to normality after the pandemic is over (if and when it occurs) will gradually reduce price pressures. This hypothesis applies to all of the above causes that push prices upwards, except for energy. For, especially in its case, several facts encourage fears that normality will take a long time to be restored or even that developments in this respect are likely to hold surprises. First of all, let me recall that the high energy prices are due in large part to the fact that the West, and Europe in particular, was in a hurry to switch to green energy before it had gone far enough in making the necessary investments to replace traditional energy. It is predicted that green energy will take a long time (5 years is predicted) and very expensive investments to complete. But beyond these difficulties, energy developments are shrouded in a thick veil of doubt and uncertainty, as they depend not only on the

laws of supply and demand, but also on geopolitical aspirations and complex, if conflicting, interests in the international arena.

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