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The great nonsense against inflation

ECB slows demand and governments boost demand



Sources: Desire to write

The European Central Bank has just announced the largest interest rate hike in its history. The Federal Reserve has been raising them since well before and also other central banks such as England.

At the same time, governments are announcing and implementing multi-billion dollar public spending plans: the new British prime minister has announced a €115 billion plan. The German government announced a few days ago aid worth 95,000 million (which would join many billions already approved) and the House of Representatives of the United States gave the go-ahead last August to a new spending plan, now of 433,000 million dollars, at the behest of President Biden.

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In short. On the one hand, central banks try to curb demand (i.e. consumer or investment spending in the economy) by making the cost of financing more expensive. And, on the other, governments promote it, spending billions on giving money to households and businesses to continue consuming or investing.

Something so contradictory constitutes, in my opinion, one of the greatest economic nonsense in history and it is very easy to understand why.

Inflation is a phenomenon that, whatever the cause that causes it, has an unequivocal manifestation: a mismatch between the supply and demand of goods and services that makes the latter greater than the former. And that, when it is not consciously provoked by companies that have enough market power to raise prices arbitrarily without losing revenue.

Therefore, to stop it, it is absolutely essential either to ensure that supply and demand are balanced, or to prevent companies with too much power from imposing their will on the markets.

This can be achieved in three ways: increasing supply, restricting demand or putting controls on prices in those markets where there are companies that raise them at will.

All three solutions have problems.

Normally, the supply cannot be increased from one day to the next and in large quantities, because companies need time to produce and do not always (as now) have the resources or raw materials necessary to do so.

Por otro lado, si se restringe demasiado la demanda se puede producir una parálisis de la economía (matar al enfermo para bajarle la fiebre).

Y, finalmente, en la economía capitalista de nuestro tiempo no es fácil que los gobiernos dispongan de poder, medios o voluntad suficientes para enfrentarse a las grandes empresas (normalmente globales) y limitar sus precios. Y, si los tienen, puede que el tiro de esos controles les salga por la culata porque los mercados son los mercados.

Esta es la razón que explica por qué es tan difícil luchar contra la inflación en las economías capitalistas y por qué frenarla suele llevar mucho tiempo o costes muy grandes en materia de actividad económica, empleo y equidad.

Pero lo que está ocurriendo en los últimos meses es un disparate.

Se podría entender que los gobiernos (sometidos a los grandes intereses empresariales) no quieran intervenir los precios en los mercados en los que todo indica que suben por su estructura oligopólica (multitud de datos así lo confirman). Se podría explicar que se sientan impotentes ante una escasez de oferta derivada de problemas de suministro y que, por tanto, se opte por combatir la inflación disminuyendo la demanda, a pesar de que es perfectamente sabido que eso producirá un freno general y doloroso de la economía quizá peor que la propia inflación que se quiere combatir. Pero lo que no tiene sentido es que tomen medidas que se anulan unas a las otras.

Cuando se necesita que aumente la oferta, no se pueden tomar decisiones que elevan los costes de las empresas y limitan su capacidad de producir bienes y servicios (lo que ha pasado en Europa con las mal diseñadas sanciones a Rusia o con los nefastos sistemas de tarificación en el mercado eléctrico, por ejemplo).

Y si se quiere restringir la demanda mediante las subidas de los tipos de interés de la política monetaria, los gobiernos no pueden aumentar al mismo tiempo el gasto. Lo que tendrían que hacer (si no quieren anular el efecto de las medidas que tomen los bancos centrales) es reducir el gasto público corriente y aumentar los impuestos (y, por supuesto, no bajarlos, como piden los anarcoliberales). Y eso sí, hacer ambas cosas (política monetaria y política fiscal restrictivas) de forma equilibrada, ponderada, compensada y, por supuesto, coordinada, para no disparar a ciegas sino hacia donde efectivamente se manifiestan los desajustes entre oferta y demanda y para que no paguen justos por pecadores.

What is happening in the international economy is exactly the same as in the Marx Brothers' film in the West when they smashed the wooden train to feed the boilers that powered it with its pieces.

But it is not that the leaders of central banks, governments and international organizations have gone as completely crazy as Groucho, Chico and Harpo in the cinema, as it seems at first glance. What happens is that they are wrong because they are based on principles and theories that reality has shown to be completely wrong. And, above all, that this happens because they always try to favor them, as will happen now: interest rate hikes will benefit the holders of money and harm the indebted, will slow down economic activity and income generation, and will force households, companies and governments to borrow more or pay more for their current debt.

Again they will make the banks and the big oligopolies win. Although now, as they say in my neighborhood, they are passing three villages and they are going to mess it up.

Source: <https://juantorreslopez.com/el-gran-disparate-contr-la-inflacion-el-bce-frena-la-demanda-y-los-gobiernos-la-impulsan/>

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