



Sometimes it comes back: inflation

Milton Friedman stated that "inflation is a form of taxation that can be imposed without legislation". If this is true, what repercussions could the return of the inflationary phenomenon have in this particular context, which, compared to the past, is characterised by greater and growing economic inequalities within the population?

A little over a year after the explosion of the Covid-19 emergency, the health situation, at least in Europe and North America, seems to be gradually returning to normal, or if you like, to a 'new normal'. The acceleration of the vaccination programme in recent months has undoubtedly led to an injection of confidence in both businesses and private individuals, as can also be seen from the rebounds in the relative indices, which are at an all-time high since the start of the emergency, although still significantly lower than the pre-pandemic situation (-8.5 points).

The reopening of economic activities has now all been "liberalised" and the economy is already back on track, with almost all countries (including Italy) showing GDP rebounds that are higher than analysts' forecasts. To cite just a few examples: the FED has revised upwards its estimates for US GDP growth in 2021 to +6.5% (from +4.2% in the December 2020 estimate); the European Commission estimates EU GDP growth of +4.2%, while also raising its forecasts for Italy (+4.2% in 2021 and +4.4% in 2022, the real year of recovery, also due to access to the PNRR).

Alongside all this, the "mythological monster" of price rises seems to be returning, almost unnoticed, a phenomenon that has been forgotten in Italy (above all) and much of Europe over the last 10 years but which has returned to the radar of operators in recent weeks.

This phenomenon, it should be remembered, is an important measure of the health of a country's economy: in fact, as well as measuring the level of confidence in the work of central economic policies, it represents, in the final analysis, a process of redistribution of wealth, therefore, to be taken into due consideration, particularly in those situations where significant socio-economic imbalances are already present.

Analysing recent data, inflation has accelerated significantly in recent months: in the USA, the issue is beginning to worry the chairman of the FED, who has already announced the start of "tapering", i.e. the reduction, by the FED itself, of purchases of securities issued by the US Treasury (currently around 120 billion a month).

In Europe, this phenomenon, which is also evolving rapidly, seems to be of less concern for the time being, as it is considered temporary and mainly linked to a temporary increase in energy prices and other events linked to external factors (e.g. blockage of the Suez Canal with a consequent increase in commodity prices, etc.). Mario Draghi himself, or "Draghi put" as he is nicknamed by Goldman Sachs analysts for "his ability to turn everything he touches into gold", recently addressed the issue of inflation, defining the increase recorded in recent months as temporary and not worrying.

Which current of thought should we rely on? American pragmatism or European/Italian optimism?

One thing is fairly certain: the significant worsening of the main economic parameters of the Italian State (GDP, deficit and public debt) recorded over the last year, together with the return of inflation could lead to further imbalances and new problems. According to economist Carlo Cottarelli, "an increase in inflation would not necessarily facilitate the reduction of public debt, as the newly issued bonds would incorporate the higher inflation...", adding, however, that "...if higher inflation led the ECB to interrupt the PEPP (the programme for the purchase of public bonds), this would have a significant impact on interest rates, leading to an increase in interest expenditure (currently more than 80 billion a year!) and making it more difficult (given the huge stock of debt), when they are reintroduced, to comply with the parameters set out in the European Stability and Growth Pact".

On the basis of these premises, the generation of a sustainable level of inflation will probably become not only one of the main challenges of the economic recovery of the Old Continent, but also one of the major tools for the containment and reduction of economic inequalities.

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