Inflation

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Two main measurements

- Headline Inflation
  - Change in price over a year of a standard 'basket' of goods (CPI – Consumer Price Index)
    - Food, Petrol and Diesel, Gas, Electricity, Clothing, Rent, Restaurant, Transport etc.

      Can change quickly due to external factors such as a war or environmental changes (drought, flooding, fire etc.)

- Core Inflation
  - Change of price over a year of goods and services excluding Energy and Food

      Measures internal inflation from demand and supply, excluding mostly external factors such as war and climate change effects on food prices

"All lies and statistics" (Churchill)

- When reading / hearing about inflation from politicians and or economists, check out which inflation they are using – especially if it concerns inflation-linked pricing such as pensions, minimum salary, unemployment benefit etc.

Imported to Domestic Inflation

Imported Inflation (such as a fuel crisis due to the war by Israel and the USA on Iran and the blocking of the Straights of Hormuz) leads to domestic inflation.

Higher fuel costs to Higher production costs to Increased product prices to Decreased Purchasing Power to Demands for Increased Salaries to Increased Production Costs etc. in a continuing Inflationary Spiral.

Controlling Inflation

- Keynesian Solution for Domestic Inflation due to high level of demand
  - Increase Interest Rates (make borrowing more expensive TO reduce demand). This is Monetary Control.
  - Increase Taxes (reduce purchasing power). This is Fiscal Control. Especially effective in countries with floating mortgage rates.
  - The danger of stagflation – Stagnation and Inflation at the same time.

Keynesian Control with Imported Inflation

- If the state increases the Interest Rate, this increases the costs of borrowing (especially mortgages).
- If the state increases taxes to reduce spending it reduces consumption, tax revenue and growth depending on income elasticity
- Citizens are already suffering from weakening Purchasing Power – and an increase in the IR makes things even worse.
- Politically, economically and socially bad (remember the 'Gilets Jaunes'

Interest rates

- If the EU does not increase the IR, but the US does, this improves EU exports but worsens the cost of importing oil which is always in dollars, and hence can worsen the Balance of Payments
- The French state can cap fuel prices (hence reducing inflation but reducing tax revenue. Scylla and Charybdis

Scilla and Charybdis
Ulysses' impossible choice

The Solution

- **Reduce dependence on importing energy** by becoming more autonomous – preferably in my view – by renationalising the French energy sector with a long-term industrial strategy to reduce import risk and lower energy prices for business and consumers.
- **Do what is possible to control USA financial deregulation and US and Israeli agression**
- **Remember** – Wall Street Crash 1929, Israeli/Arab wars 1948, 1956, 1967, 1973, 1982, 2006, 2026, Arab Oil Crisis 1973, Iran/Iraq war 1980, Dot-Com bubble 2002, US invasion of Iraq 2003, Sub-primes crisis 2006, European debt crisis 2006-2026, Russia/Ukraine war 2022, US-Israel war against Iran 2026.