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A global inflation problem like no other — and what can be done about it

The inflation that is gripping many countries of the world is hurting both peoples and their governments. Many different explanations are being advanced by economists and financial experts for the sudden massive surge in the price not just of fuel, but also food and most other products.

And needless to say, as is usually the way with different schools of economic thought, many of their hypotheses disagree sharply with each other.

There is first of all, the classic monetarist theory that inflation comes from too much money swilling around, and that those countries whose central banks pumped too much cash into their economies during the recent pandemic slowdown, mostly through so-called quantitative easing, are being hit by inflation the hardest. Look at Japan, this group says, or at Switzerland with 2.8% inflation against Britain's near 10%. Doesn't this prove that tight financial discipline always wins out?

Unfortunately no, or not entirely. Japanese core inflation prices, although low by European or American standards, have just hit a seven-year high. As for the Swiss, they have massive hydro-electric capacity and are just not large oil and gas importers. The prudent Swiss also have ample gas storage.

There is also the point that even if the monetarist viewpoint had validity in the past, and a grain of truth now, it is all too late to make a correction. Interest rates can be raised, and probably will be, but that all takes time to work through. It may hit stock markets but it does nothing at all for the massive suffering here and now of millions of households (not just the poorest) who can scarcely afford to put warm food (cooked by gas) on the table for fear of running up energy bills they may not be able to pay.

So what about more direct action? The British government's response is to distribute substantial grants, some of them to all households, whatever their circumstances, to take the edge off the current average increase in price of about £700 ($875). It won't cover it all and it won't cover the even bigger jump expected for the autumn, currently forecast to be in the range of another £800 per household. Nor will it cover the 30% jump in gasoline prices (and much higher prices for diesel) or alleviate the way that these increases feed through to all transport and processing costs, and thus to supply chains and basic product prices all around.

Nor can such largesse, welcome though it is, counteract the wave of food shortages world-wide that Russia's unprovoked aggression and slaughter in Ukraine has caused by blocking wheat and barley exports from that country, one of the world's biggest producers. The conflict is pushing up food prices everywhere and sending several Middle Eastern nations, reliant heavily on Ukrainian grain imports, to the edge of starvation.

Then again there is the undeniably powerful voices of those concerned over the climate, who say that the sooner the world gets out from under fossil fuels the sooner reliable low carbon sources, both renewables and possibly new nuclear power, the sooner we will be free of the present energy price volatility and impossible price spikes such as the world is currently suffering through.

True in the longer term, but that, too, does nothing to ease the immediate pain. The same goes for other promises to safeguard future energy supplies by copious new technologies in the pipeline for converting wind energy into storable hydrogen and ammonia, harnessing the tide, smaller and more waste-free nuclear plants, ever more efficient solar capture and an exciting variety of other energy technologies. These are all possible in the long term, but in as the great economist John Maynard Keynes once sardonically remarked, "in the long run we are all dead."

Yet another argument, a more austere one, is simply that consumers should use less power and fuel, better insulate their doors and windows, wear heavier clothes and dial down the heating. Again, this all takes time and money and is especially challenging for the old and vulnerable.

Meanwhile, the usual chilling and wet winter of Northern Europe lies only months ahead. Probably oil intensity (that is the amount of oil used per unit of product) will go on falling. Most likely world oil demand will indeed peak in a few years, so easing the pressure. But that is tomorrow and the unendurable hardship and pure panic is now, today, this minute.

So can nothing more than all this marginal assistance, plus brave assurances about a better future, be done? Not quite. There is one absolutely immediate answer that could knock energy prices down sharply — the root driver of the whole inflation scene — and offset the Russian supply cutoff, thereby taking the steam out of rocketing inflation (and the need to cushion it with enormous extra public spending).

This is quite simply to meet demand with more supply, or in other words to deploy maximum diplomatic skills and international cooperation between willing partners to get much more oil and gas swiftly pumped into world markets.

This is possible, with the help of determination and clever diplomacy. The OPEC countries have spare capacity almost equal to Russian exports (about 3 million barrels a day). So far they have doggedly refused to cooperate, insisting that oil markets are 'in fundamental balance', which they are obviously not.

But there is a gleam of hope. At the latest OPEC meeting on June 2nd, there was a different and more helpful tone. Perhaps, after all, they could do something. The hint of this has already sent crude prices sharply down.

As for gas, there never has been any real supply shortage. For example, British ports are currently crowded with liquefied natural gas tankers eager to unload their cargoes. Qatar wants to ship more. Norway could send more into mainland Europe by pipeline. Chinese thirst for more gas has slowed. American shale gas could be shipped faster. Even Iran, if other issues can be sorted out, is ready to add another million barrels per day onto the market.

The truth is that the world could be awash with both gas and oil in the short term. The real immediate solution is both to get the gas into European grids as a top emergency priority and to persuade the world's main oil producers to agree to move faster. If that happens, then down will come world energy prices, and with them, the price of everything else. Maybe it's not the usual solution to an inflationary outburst, but just about the only one that will work in time.