Ressort: Finanzen

INFLATION, A NECESSARY EVIL

Inflation

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GDN - Let's get to know Ferdinando Lettieri
Ferdinando Lettieri is a financial consultant and educator who specializes in behavioral finance. He helps people understand and manage their financial behaviors in order to achieve better results in their investment decisions and money management.

He has developed expertise in the field of financial psychology and works with his clients to identify and overcome any psychological obstacles that may negatively impact their financial choices. His goal is to support people in achieving their financial goals through a holistic approach that takes into account both rational and emotional aspects related to money management.

We interviewed Ferdinando Lettieri and asked him what he thinks about inflation, and here's what he had to say.

Here we are again, expecting an increase in interest rates. Or rather, reflecting on it, desiring it.

It is true that, often, humans confuse desire - if not utopia - with reality.

Normally, interest rates are increased when inflation rises as a result of a strong economy. This removes liquidity, thereby preventing a price increase due to strong demand. But, I repeat, "usually."

Once again, everyone is standing still, looking at the finger and not what it points to.

We have forgotten that the economy actually had a collapse from which it will take at least three years to recover and break even.

We have also forgotten that inflation, for certain periods, was not even calculated: we had prices for oil that were actually "negative," meaning accepting a barrel of oil would also get you 25 dollars. How ridiculous!

We have forgotten that a mountain of debt was necessary to get out of the crisis and that employment itself must be financed with more debt.

And we think of raising interest rates?

I would also like to be handsome, blond, blue-eyed, and have the "turtle": what do I do? Do I join the Mister Universe contest?

We look too much at the percentage and too little at the absolute value.

It is true, moreover, that in the recent past there has been a perfect correlation between inflation and interest rates.

A bit like Athens and Sparta, always enemies! Or...almost always.

Today is one of those moments of "almost."

When a bigger danger threatened Greece, internal wars ended. Athens and Sparta allied to fight common enemies more powerful than themselves: the Persians.

Today, the biggest enemy is debt. This debt that continues to increase to support Health and Economy, activities and jobs.

It's foolish to think of raising interest rates at this stage to slow down inflation: a bit like the Athenians stabbing the Spartans in the back ready to defend the Thermopylae pass from the Persians.

In fact, inflation is to interest rates as the Spartans were to the Athenians and we can compare the danger of the Persians with the danger of debt.

To counteract this crisis, still far from being overcome, an unprecedented amount of debt has been created.

Raising rates would create more harm than benefits: further debt increase, lack of growth, less credit to citizens and businesses, less healthcare, and even less employment especially in a strong transition period like today.

In reality, inflation should be "used" to reduce debt in real value.

If, instead of measuring debt in currency, we measured it in real goods, like "loaves of bread," do you know what we would get?

Imagine having a debt of 100 euros for an equivalent of 100 loaves of bread.

If the price of bread increased by 3% every year for three years, the debt (of 100 euros) would be reduced to 91 loaves of bread. In this way, by using inflation, the debt could be reduced, avoiding suffocating the economy and services of many countries.

Not immediately, but after a few years, the debt would return to sustainable real values unless it was decided to cancel the debt created from a certain date. But that's another story!

The fact remains that inflation is not always evil and - today more than ever - it is necessary.

Even Pinocchio, to save himself from the whale, allied with the tuna: combining realism and intelligence!

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