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The spectre of stagflation: when the world relives the 1970s

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There is a word that central bankers utter in hushed tones, as if they are afraid to conjure it up: stagflation. A sinister portmanteau of stagnation and inflation, it is the worst nightmare for an economy. It is not just a recession or inflation, but both together

in a lethal embrace that erodes wealth, jobs, and confidence in the future. Those who lived through the 1970s still remember car-free Sundays and alternate-day driving restrictions: emergency measures imposed in the wake of the 1973 oil crisis, when the price of crude oil skyrocketed and the industrialised world was forced to confront its dependence on oil. Today, half a century on, that history risks repeating itself.

Two fronts of crisis are converging menacingly. The first is a supply shock: tensions around the Strait of Hormuz, a vital artery through which oil and natural gas flow to Europe and Asia, could drastically reduce global energy flows for a long time to come. The result? A permanent rise in fuel and electricity prices, with knock-on effects for every product that is transported, produced or heated.

The second crisis is more insidious and has its roots in the past decade.

Following the 2008 crash, central banks flooded the markets with liquidity in the form of zero interest rates, massive bond purchases and abundant money, which inflated share prices, bond yields and property prices. This injection of liquidity continued to accelerate during the health crisis and has spilled over into the prices of goods and services since spring/summer 2021. And now it is picking up again, with the paradoxical situation of US stock markets hitting new all-time highs as if there were no problem at all. Abundant liquidity, an energy shock and paper money, coupled with fewer real assets, is the perfect recipe for double-digit inflation accompanied by a sharp economic slowdown.

Moreover, central banks find themselves at a dead end. Should they raise interest rates to curb inflation? There is a risk of stifling growth further and plunging into recession. Leave them low to avoid stifling the economy? Inflation will gallop ahead, devouring the purchasing power of wages and pensions, with potentially explosive social consequences. The response likely to be adopted is the least 'costly' in the short term: opening the liquidity taps once again, albeit at the risk of creating increasingly uncontrollable inflation. Paper money can be printed, but barrels of oil cannot.

Another aspect of this crisis that has not received adequate attention is fertilisers. Produced largely from natural gas, they too pass through the Strait of Hormuz. A shortage would result in poorer harvests: in wealthy countries, higher food prices; in more fragile ones, a real risk of famine. Therefore, should the current crisis escalate, there would be no geographical or sectoral boundaries: it would affect everyone and everything.

In this scenario, Europe is facing its rendezvous with history in a precarious state of health.

Italy, in particular, is paying the price for decades of anaemic growth. It has effectively stagnated for over twenty years, with 'growth' consistently in the region of zero point something. This confirms a system that cannot take off, caught between energy dependence, an ageing population, the tax burden, and an overabundance of regulation that weighs down businesses and investment. When a structure is already fragile, any external shock — whether geopolitical or energy-related — quickly translates into a deterioration in real living conditions.

However, crises can also be seen as opportunities because they force us to face reality. The current situation did not arise overnight; it is the result of at least thirty years of missed opportunities, postponed reforms, and misplaced priorities. However, it is precisely for this reason that it could mark a turning point. Energy security, source diversification, reduction of the tax and regulatory burden, and productivity revival: these are the watchwords of an agenda that Europe and Italy can no longer afford to postpone. At stake are not just next quarter's GDP figures, but also the continent's social stability and its influence on the global balance of power in the coming decades.

In this regard, Claudio Descalzi's recent statements are significant. Descalzi is the CEO of Eni and said, 'On gas, I believe it is necessary to suspend the ban due to come into force on 1 January 2027 on the 20 billion cubic metres coming from Russia'. He continues: 'It is gas that provides flexibility in the grid, not renewables and certainly not nuclear power, which we do not have. We need gas, and we must realise this. Our society relies on this gas.' Finally: 'We cannot be radical and dogmatic; we must use common sense in an extraordinary situation.' To whom is Descalzi's criticism implicitly directed? Evidently, it is directed at the European Commission, which was also criticised by Emanuele Orsini. At the conference on the 'economy of the sea' on 17 April in Genoa, the President of Confindustria highlighted how Italy must reflect on the halt to Russian gas and stated: "This short-sightedness truly frightens me. Perhaps we need to change who is governing us in Europe."

However, Europe is stubbornly ploughing on with its own agenda. While acknowledging that the continuation of the war against Iran could lead to a crisis worse than those of 1973 and 2022 combined and that Europe will have to prepare for years of high energy prices, the responses remain unchanged. As always, the valuable contribution that nuclear energy could make in the long term is overlooked, and the

'solutions' put forward are the usual rhetorical calls for austerity, the ideological stubbornness with which the energy transition is being pursued, and the confirmation of the suicidal decision to abandon Russian gas strategically, even in the event of peace with Ukraine.

This time, simply turning off the air conditioning won't be enough. A change of Europe's ruling classes is not merely desirable, it is necessary. It is urgent to act quickly.