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Rising interest rates will cause "even deeper recession

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Economist Joseph Stiglitz argued on Monday that measures taken by central banks to raise interest rates "will not do much to solve the problem" and will cause "an even deeper recession."

"Almost all episodes of inflation have been caused by over-demand, as well as the oil price crises 50 years ago are the result of shocks in the supply chain," explained the 2001 Nobel Prize in Economics, saying that these shocks began with the covid-19 pandemic and are now being exacerbated by the war in Ukraine."

In his speech at the seminar "The winter challenges of Europe: energy, economy and politics", an initiative of the ERSTE Foundation, Europe's Futures-Ideas for Action (IWM), Presseclub Concordia, and the Journalismus und Medien Forum (fjum), the economist said that interest rate hikes by central banks "will not do much to solve the problem".

Last week, the U.S. Federal Reserve (Fed) announced a 75 basis point rise in its interest rate, an increase identical to what it had decided in the last two meetings and the fifth increase since March, with the federal funds rate between 3% and 3.25%, the highest level in the last 14 years.

On September 8, the ECB raised the three key interest rates by 75 basis points, the second consecutive increase this year, as on July 21, the three key interest rates, the first rise in 11 years, had risen by 50 basis points, the first rise in 11 years, with the aim of halting inflation.

At the seminar held in Vienna and with virtual transmission, Stiglitz said that the world is "in a peculiar situation" in which it can face, at the same time, a severe recession and high inflation.

"We are in a peculiar situation where there is a debate about whether the world is about to face a severe recession and inflation, and usually these two factors are on opposite sides: if the economy is weak, there is deflation, and if the economy is strong, there is inflation, and this has not happened for a long time," he said, pointing out that there are many variables that cannot be anticipated, such as the war in Ukraine, the pandemic and its effects on China.

The Nobel Prize in Economics also addressed concerns about winter in Europe, saying that many of the uncertainties and suffering "are self-inflicted."

Stiglitz argued that the United States of America and Europe have not yet realized that they are at war and that this unprotects their economies.

"My concern is that the U.S. and Europe have not yet realized that we are at war. When countries are at war, they don't leave economies as if they were in peacetime. Economies at war and in peace are different. Markets are still being used, but much more is regulated," he said.

In this regard, the Nobel Prize in Economics said that "by not admitting that it is at war, Europe is making its people suffer much more."

Similarly, Stiglitz criticized the fragilities of the markets, which resulted from what he said was the "short view" of neoliberalism.

"We thought the market was much better than it was, when the market was much worse, and that's part of my criticism of neoliberalism, it has a short view and no one could believe it had little resilience," he said.

The economist added that, rather than an underestimation of inflation, there was an overestimation of the resilience of the markets.

"When we are told that they 'underestimated inflation', what they should really say is that they overshot the competence of the markets, and the markets have proven to be very bad," he concluded, setting an example of the shortage of formula milk on supermarket shelves in the US.

The energy crisis arising from the Ukrainian conflict is one of the main concerns of European countries, which are preparing for a difficult winter.

In today's outlook, the Organisation for Economic Co-operation and Development (OECD) improved the eurozone's growth prospects this year to 3.1%, but worsened next year's to 0.3%, also estimating inflation of 8.1% this year and 6.2% next year.

On the global scale, the OECD maintained this year's global Gross Domestic Product (GDP) growth prospects at 3%, with the G20 economies expected to grow by 2.8% (0.1 percentage point (pp.) more than in June.