The political and economic consequences of liberty

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In such a difficult political and economic context, one must stop, think, and find solace in the solutions proposed by our leading economists of the last century

John Maynard Keynes was revived quite a few times in the past decade, especially ensuing the financial crisis. He is the economist that proposed in his lousy book *The General Theory of Employment, Interest and Money* the economic multiplier and shaped the macroeconomics that we know, today. The Cambridge scholar mathematically proved that the classical economists were wrong in believing that the market can adjust through laissez faire economics.

Keynes proposed that governments should increase their spending in bad times and recoup the same spending in good times. The general idea is to balance the books over a cycle rather than on an annual basis. Keynes stated that firms will only produce output if they expect to sell it, otherwise production is halted or slowed down, which then effects demand. Perhaps the first signs of behavioural economics can be found in this book. Keynes described an individual's animal spirit – a term he borrowed from the Latin language for *Spiritus Animalis* – to explain how people come to their financial decisions in bad times and economic uncertainty, including the purchasing and selling of bonds and equities.

However, one might wonder why I chose the title of this article. Mentioning Keynes is obvious in such a geopolitical context. He was part of the delegation that saw the negotiations of the Treaty of Versailles and coined it in a letter to his mother as the Economic Consequences of the Peace. Keynes knew that Germany wouldn't be able to pay the reparations sealed in that Treaty, and that the humiliation would come back to haunt the European continent. This eventually fuelled the Second World War. Indeed, he was right, and he always professed to ideally be "roughly right than precisely wrong".

Let's acknowledge that the current geopolitical tensions between different economic blocks is exerting pressure and hardships not only on those that are currently experiencing war and arms aggression on their territory but also on those indirectly affected by the political decisions, among others the unprecedented sanctions imposed both at an EU and international level on Russia. Russia's invasion of Ukraine left many causalities. The true economic ramifications are still to be felt. The imposition of sanctions in such a complex situation is further exacerbating the problem. On one side we have a situation where the supply of basic goods and services is stalled at depots and ports, while on the other hand companies importing goods including potash, a nutrient needed for the cultivation and growth of crops, is stifled due to the ever-changing imposition of sanctions, thereby sending its price to astronomical levels.

Additionally, the price of wheat skyrocketed, and energy prices spiralled out of control. A naive assessment that sanctions would not fuel inflation, and that it would be low enough to manage and contain in the short run, while blocking President Putin in the initial phases of the invasion, wrought havoc to many western economies. This is risking a global food insecurity, and famine, especially in those countries where a lump sum of their citizens' disposable income is spent on food, even though sanctions are not imposed on such goods.

Locally, government is regularly spending gargantuan sums of money from the public coffers to subsidise fuels and energy prices, as well as wheat prices for local producers. Hitherto, we do not know the exact figure, as it was not made public, yet. Certainly, the acceleration of inflation is exerting pressure on public spending to cushion its impact. The global problem is in the supply of basic commodities and unless we find a diplomatic channel to increase the supply and production of food, wheat and other essential goods, the problem of inflation will persist. Also, it might stifle economic growth, the same figures needed to measure the deficit and debt to GDP ratio under the Stability and Growth Pact.

Time has come for the EU to step in with a plan and a programme, at least it my help EU citizens cope with the rising prices. Perhaps, the EU might explore to revise the Multiannual Financial Framework to park some unimportant projects and redeploy funds to aid European citizens coping with the increase in the energy and fuel prices, at least for a short to medium term and until inflation subdues, also with the help of the monetary policy tools at the ECB's disposal. Else, the only solution would be to maintain some flexibility in the Six Pack and Two Pack to cope with the current situation, at least for those countries that can go slightly beyond the stipulated figures.

Whereas the Treaty of Versailles sealed the Economic Consequences of the Peace, the imposition of Western sanctions on Russia sealed the Economic Consequences of Liberty.

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