Time to Take Stock?

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There's a depressingly familiar juxtaposition between stories concerning fabulously rich individuals and the rest of the world experiencing rising prices. Significantly, the number of those suffering from hunger, measured in hundreds of millions, is likely to increase dramatically.

In the past couple of weeks, there's been reporting on Elon Musk's ludicrously high bid of $44 billion (£34.94 billion) for Twitter. Paying this for a social networking company that emerged from podcasting venture Odeo (Britannica, 2022), and became a company in April 2007 (the first tweet being sent just over a year earlier), but which has made annual losses in every year apart from 2018 and 2019 (Gair and Jones, 2022) does not seem logical.

Notably, in the year in which most up-to-date figures are available, 2020, Twitter lost a whopping $1.1billion. Little wonder many ask what Musk's strategy is? Typical is Jennifer Elia's piece on CNBC's website suggesting many investors, especially those with money in Musk's electric vehicle company Tesla, are concerned (2022).

As to how the Twitter deal works out, only time will tell. However, it must be said, there's a strangely febrile atmosphere in financial markets set against supply problems for energy and food caused by economies opening up after lockdown required because of the pandemic, which has been followed by conflict in Ukraine.

Though bad for the majority of us, conflict has proven beneficial to companies which produce oil and gas which, of course, we're all paying a great deal more for. Europe's largest oil company, Shell, has just announced its 'adjusted earnings', effectively profits, for the first quarter of this year of $9.13bn (£7.25bn). This figure is almost three times higher than the $3.2 billion is made for the same period in 2021.

As The FT's Tom Wilson reports, this adds to a "bumper first-quarter earnings for the world's biggest oil and gas companies"; BP recently reported profits of $6.2 billion as did Norway's state-controlled Equinor which "recorded its highest ever quarterly pre-tax earnings of $18bn" (2022).

Unsurprisingly, that these companies are making incredible profits at the very same time that the vast majority are struggling with the cost of living will intensify calls for them to pay a 'windfall tax' which could be used to ease pressure for the majority of faced with eye-watering rises for gas and electricity (Woodcock, 2022).

However, though conflict in Ukraine has enriched the shareholders of oil and gas companies, its impact is affecting rich Russian oligarchs who're desperately attempt attempting to find ways to protect their wealth (Hashmi, 2022).

While it's unlikely the collective tears shed for these individuals would barely fill the bottom of a thimble, the consequence of conflict in Ukraine will make the plight of the poorest people across the globe profoundly worse. According to the United Nation's Food and Agricultural Organisation in March, conflict in the country that's the 'breadbasket of Europe', and which supplies grain to many poor countries, is likely to result in increased global malnutrition (BBC, 2022).

Ominously, last week, the World Bank warned that ongoing conflict in Ukraine, and which shows no sign of lessening, could mean that the world will be experiencing expensive food and energy for the next three years (Elliott, 2022). Prior to the pandemic caused by Covid-19, world hunger was a problem. Campaigning organisation *Action Against Hunger* which stresses that there's sufficient food produced to feed the global population, states that "as many as 811 million people" experience daily hungry" (2022).

Given ongoing circumstances, it's difficult to see how any improvement will be possible. Indeed, as Action Against Hunger explain, conflict is both a cause and a consequence of hunger (*ibid*) and was the "primary driver" of malnutrition for 99.1 million people in 23 countries (*ibid*). The shortage of graine will, it may reasonably be predicted, mean that the threat of conflict will increase.

Turkey's citizens, a country with over 85 million (World Population Review, 2022), have in the last year to April 2022 experienced a rise in consumer prices of 70% (BBC, 2022a). This is an average and it's significant that the rise in food and non-alcoholic drinks, for the last year has been 89.1%.

As the BBC article explains, one of the reasons for the extraordinary spike in prices is due to the fact that Turkey's president, Tayyip Erdoğan, who wishes to prioritise exports and believes interest rates to be "the mother and father of all evil", has decreased rates from 19% last September to 14%. The consequence of this has been a collapse in the value of the Turkish currency, the lira.

Regardless of the fact that President Erdoğan has been able to use unprecedented control to "manipulate the electoral system in his favour" (Pitel, 2022), and has exerted ruthless power over those who oppose him, there's a danger that rising prices will cause an increase in dissent among the Turkish population.

Tragically, as Russia, a nuclear power, acutely demonstrates, the willingness of NATO to intervene is extremely limited. Beyond belatedly supplying weapons to enable Ukraine to defend itself, there's been a great deal of impassioned handwringing.

Inevitably, the death, destruction and suffering inflicted on Ukraine's people is heart wrenching. The best we can hope for in the short-term, it seems, is that economic sanctions imposed on Russia will make President Putin abandon his invasion. However, though sanctions imposed on Russia may make the life for its oligarchs uncomfortable, the greatest suffering will be borne by citizens.

Like the vast majority of citizens across the globe, current economic crisis being experienced will make them poorer (Ivanova, 2022). Inflation is becoming rampant and severely reducing purchasing power of people across the globe.

The challenge for governments is in how to deal with inflation which alleviates the financial pain being experienced by citizens, especially those who are poorest, whilst not choking off recovery.

Unlike Turkey's President Erdoğan, most countries will be willing to resort to a range of monetary policies to deal with inflation. In America the Federal Reserve raised the US interest rate by 0.5% on Wednesday, the largest hike since 2000.

According to the *Guardian's* Dominic Rushe, The Economist Intelligence Unit believes the Fed will raise rates seven times in 2022 to potentially reach 2.9% by early 2023 (2022). Additionally, Rushe, reports, commencing in in June, "officials also plan to shrink their $9tn asset portfolio, a policy move that will further push up borrowing costs" (*ibid*).

In Europe though the European Central Bank is taking a more "gradual" approach than the Fed to dealing with inflation, it's widely speculated it will raise the interest rate for countries in the Eurozone for the first time in a decade in July from minus 0.5% to "above 1 per cent next year" (Arnold and Smith, 2022).

Here in the UK, the gradual process of raising interest rates is already well under way. Having not quite reached zero, being 0.1% as recently as December, the Bank of England interest rate, set by the nine members of the monetary policy committee (MPC), independent of the government, have over the last four months consecutively raised the cost of borrowing to currently stand at 1%.

This is the highest the BoE interest rate's been since 2009 when we were experiencing the economic chaos due to the Global Financial Crisis (GFC). Many commentators believe the crisis caused by the cost-of-living issue is going to get much worse. As the MPC accept, the UK faces a "sharp economic slowdown" and we are likely to enter "recessionary territory".

Inflation, already at 7% is expected to exceed 10% by Christmas (Thomas, 2022). It's all but certain there'll be another spike in the energy price cap this autumn – the figure of 40% being suggested – which will mean spending power by consumers being even more severely reduced.

According to MPC predictions, the UK economy will expand by 3.75% this year but decrease by 0.25% next year which raises the prospect of stagflation which last occurred in the UK the 1970s.

The *Telegraph's* Tim Wallace and Louis Ashworth believe that we face a "slow, grinding recovery through the 2020s" which will be undermined by reduced demand for exports as the world experiences corresponding slowdown (2022).

The increasing cost of energy and raw materials is, according to Office for National Statistics data "hitting UK businesses hard, particularly in the hospitality sector" (Romei, 2022). This is leading to concern that these rises will further stoke inflation and potentially force some operators out of business.

Little wonder that unemployment, currently3.8%, is forecast by the MPC to increase by 2025 to 5.5% which, they contend, will moderate wage demands and assist in reducing inflation. It's equally unsurprising the pound fell by 25 against the dollar (Tapsfield, 2022).

However, in the immediate future, "households will face one of the most significant hits to their take-home pay since records began in 1964" (Nachiappan and Khan, 2022). For all but the few lucky workers enjoying huge rises in pay, real income is predicted to fall by 1.75% this year which includes the measures already announced by the Treasury to support households.

This will be a similar contraction to that experienced in 2011 when the chancellor George Osborne was implementing austerity measures to reduce the UK debt.

The MPC's forecasts concerning the economy which accompanied the rise in interest rates, representing "the gloomiest since the financial crisis" signal some really tough times ahead (Barnett, 2022). Karen Ward, a markets strategist at JPMorgan Asset Management, quoted in the FT believes that the "combination of the pandemic and Brexit has changed the fundamentals of the UK economy" in terms of inflation (Giles, 2022).

Even before Thursday's announcement by the MPS, the portents were of an economy entering difficulty. As the *Guardian's* Richard Partington points out, there was an "an unexpectedly large decline in March retail sales and consumer confidence in April dropping to the second-lowest level in almost 50 years" (2022). People were already fearful of the immediate future.

As always, the state of the economy will weigh heavily on the reputation of a government which, having promised so much almost two and a half years ago when it won the general election in December 2019, is now faced with living standards falling for the next year or so (Rees and Ashworth, 2022).

Prime Minister Boris Johnson and his chancellor, Rishi Sunak, will be only too aware, voters experiencing a drop in their living standards are rarely inclined to re-elect the party which was in power when this happened.

Even though the era of historically low interest rates and quantitative easing which have existed since the 2008 GFC is over, we should expect to see intervention by the government to stave off possible calamity at the next general election.

Whatever Rishi Sunak may say about needing to reduce the size of the public debt by cutting back on state spending, the imminent prospect of destitution and inability of families to eat properly will surely ensure intervening becomes politically essential to avoid social catastrophe not experienced in this country for generations (see Joseph Rowntree Foundation 'Overall UK Poverty Rates', 2022).

Potential investments by billionaires in companies taking their fancy, or the plight of Russian oligarchs wishing to protect their assets, merely provides a short-term distraction. Rather, most people in this country will, as economic conditions continue to deteriorate in coming months, will focus on paying increasing bills and trying to make ends meet.

Regrettably, the only crumb of comfort they might be willing to acknowledge is that dreadful as their situation may be, for many throughout the world, it's a great deal worse.

Solving world hunger when, as widely accepted, there's more than sufficient food produced to feed everyone on the planet should remain a priority for all governments, regardless of domestic issue.

There's the distinct probability that a worsening situation in Ukraine will mean additional spending on defence capability is achieved by further reduction in expenditure on essential services and support by local authorities and agencies dedicated to alleviating poverty amongst the poorest (Walker, 2022).

Introducing a 'windfall tax' on oil and gas companies currently making 'super profits' as well as greater taxation on footloose corporations most people believe do not pay their fair share would certainly be popular among voters (Peat, 2022).

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