



A Touch of Stagflation?

Posted by [Stuart Staniford](#) on October 6, 2005 - 9:56pm

Topic: [Economics/Finance](#)

Tags: [hubbert peak](#), [inflation](#), [oil](#), [peak oil](#), [stagflation](#) [[list all tags](#)]

So, the ECP (Extremely Clueless Physicist) model of the economy says that when there is less available energy, the likely economic consequence will be stagflation: simultaneous inflation and economic contraction. I articulated this model in debate over at [Econbrowser some time back](#). The basic idea is that when there's less energy, the physical economy must contract, at least as a short term response, since all economic activities require energy, and the amount of energy required in any given activity is pretty much proportional to the amount of that activity one is doing. Since the money supply does not tend to contract immediately, there is both real economic contraction and a change in the ratio of money to real goods and services (ie inflation).

The assembled macro-economists at Econbrowser were hard on this theory, viewing inflation and economic contraction as only possible together due to clueless actions of the government based on long discredited theories. So it was with interest this morning that I read the following in the San Francisco Chronicle that accompanied my omelette: **Concern rising over possibility of stagflation. Seasoned market watchers say traders may be overreacting as Dow drops 124 points**

Investors and economists are growing increasingly concerned that inflation could be creeping upward even as economic activity slows.

The Dow Jones industrial average dropped nearly 124 points, or 1.19 percent, to close at 10,317.36 Wednesday, as Wall Street reacted to a report from the Institute for Supply Management showing that service sector economic activity grew in September, but more slowly than in August, and at the lowest rate since April 2003.

At the same time, the institute, an association of private sector purchasing managers, said its index of prices jumped to the highest level since the measure was devised in 1997.

Go to [SFgate.com for the rest of the story](#).

Just what the ECP model would predict after a touch of hurricane induced energy loss follows a period of flattening energy supply...



This work is licensed under a [Creative Commons Attribution-Share Alike 3.0 United States License](#).