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The FT noted yesterday that Europe might be heading for its strongest economic growth for 15 years right now. I confess I was not surprised, thinking 'so it should be'. We did, after all, see large parts of that economy shut down last year. If there wasn't a strong rebound when attempts at easing restrictions were made then it would be very odd indeed.

More interesting were three other things. The first is that the article noted considerable supply chain blockages. The second was it noted inflation as a result. Third, the European Central Bank still thinks this will be a temporary phenomenon.

As regular readers of this blog will know, I have long felt the most difficult part of this downturn will be the reopening. I always suggested this will be down to. a shortage of what is called 'working capital'. That is the net total of the short term money locked up in a businesses' production process. So it's the amount it is owed, the stock it owns less the people it owes money to, all related to available cash, of course. And when supply chains are disrupted for any reason - as I always thought that they would be during the reopening - then that working capital gets very strained.

Why is that? Well some things have to be paid, come what may. That includes the rent and the staff. But customers pay you late and, as is now becoming apparent, actually getting things done is hard, which means that the stock of half finished goods grows and have to be paid for to the current state of completion without much chance arising of turning that work into an invoiced sale because some crucial bits are missing. In the motor industry it is semiconductors that are missing. In building it is timber and tiles, and maybe more. It makes little difference what it is. For the sake of a missing washer it is entirely possible that a whole supply chain can collapse, and that is what is happening.

Most economists don't get this. That's in part because they have never been near, let alone run, a real business. But it's also because they do not want to get it because it makes the maths of their economic models hard. So, most pure neoclassical economists assume there is no lag in the economy between a change in possible circumstances (call it an economic reopening) and its consequences being seen. Things 'clear', as they would put it, perfectly. New-Keynesians think there is a delay in the clearing process, but that it happens. And the reality is that there is no guarantee of that clearing happening at all.

The simple fact is that working capital failures kill more businesses than almost anything else. The very best idea can be brought to its knees by a failure of working capital. And right now the government is moving to end its financial support for business, just to exacerbate matters.

Almost no economic forecasts I have seen appear to take this risk into account. But it is real. And it has three consequences.

The first is short term inflation as there is more competition for scarce resources. If the economists are right, however, and the market ‘clears’ and the blockages are released then this resolves itself. Supply chains reopening will end this cause of inflation. To some extent I am sure that will happen.

The second is that businesses could fail before that is possible. They won’t fail because they are not viable in the long term. They will simply fail because they can no longer pay their staff in the short term. And that is fatal.

Third, if too many businesses fail before supply chains properly reopen we end up in a wholly different economic environment. There may still be money chasing consumption in the short term but things will change pretty rapidly. Businesses will fail; unemployment will grow; debt failures will mount; banking crises will grow; government income will fall and Covid bad debts will have to be accounted for; and recession is possible.

And all that as a result of the disruption on reopening from Covid that it seems no economist thought about because they don’t actually have real world experience. The sequencing of reopening is now key to whether it happens successfully, or not, in other words. If ‘clearing’ takes too long we are in deep trouble.

We could pay a very heavy price for that lack of real world experience in that case. This crisis may not happen. But it might, and the signs are already there.

It’s not inflation we need to worry about. It’s the causes of the short term inflation we might suffer that are of real concern, and too few get that as yet.

I just hope the government is willing to step in again, because no one else can stop this.