

# Fighting inflation without a big downturn

The Fed, the ECB and the Bank of England all made the same mistake last year. They carried on printing more money and buying up bonds to keep interest rates around zero for too long. They were right to offer a big stimulus in 2020 to offset the covid inspired downturn, but misjudged the recovery and helped fuel the inflation. They ignored those of us who warned against excessive laxity. They stuck to silly unrealistic forecasts of inflation for this year of around 2% when it was obvious it would rise considerably higher, especially in the USA where the stimulus was largest.

The Bank of England saw sense soonest, stopped money printing at the end of last year and has started to raise rates. The Fed carried on printing until March this year and has only just started to hike and unbelievably the European central bank is planning to print Euro 90 billion more in the second quarter of this year and is putting off tightening to be reviewed again in the third quarter. Spanish inflation is already at an alarming 9.8% and Eurozone inflation generally is over 7%. How much higher do they want it to go?

The UK has to be careful, as it is not only tightening money policy but also increasing taxation at the same time. The danger is this double hit to an economy which has been recovering well from covid lockdowns will prove too severe, slowing the economy too much. The Bank's tightening means dearer mortgages and credit, squeezing many consumers further as the high energy prices kick in like a big tax rise. That makes the NI rise and the tax increase on energy that comes with higher energy prices an inappropriate added threat to ,jobs and output.

The UK needed a bit of tightening to curb price rises. It does not need to lead world austerity just as the cost of living crisis hits. The government also needs to do more to assist and stimulate more domestic production of everything from fertilisers to gas and from food to microprocessors. To the extent that the inflation stems from a series of supply side shocks, boosting supply can start to right the position.