

## Goldilocks policy?

Janet Yellen the US treasury Secretary wants to run the US economy hot. She wants Daddy Bear's porridge straight from the cooker. The UK authorities seem to be looking for Goldilock's favourite, neither too hot nor too cold. The UK has done under half the monetary loosening of the USA. After a similar large fiscal response last year the USA is now doubling up with its monster \$1.9tn further package whilst the UK is looking to phase out the special cv 19 assistance and get borrowing under more control this year. So who will fare better?

It seems likely the USA will grow faster this year than the UK and certainly faster than the EU which is struggling with vaccines and continued lockdown. The \$1400 cheques for most adults sent by the state will combine with the substantial savings accumulated over the lockdowns by the many who kept their jobs but faced restrictions on travel and other spending. This means there is plenty of consumer firepower to unleash. As soon as enough states have relaxed restrictions on retail, leisure, entertainment, hospitality and travel there will be surge in new spending.

What is less clear is has the USA decided to overheat? Could some of that formidable spending power generate more price rises than is desirable? The thought of world re opening has already powered a substantial increase in the price of energy and some other commodities. There has been a sharp rise in freight rates as trade picks up, and a substantial price rise for semiconductors as a world shortage emerges. Will restaurants, hairdressers, holiday firms and hotels respond to a sudden revival in bookings to put up prices, in an effort to recoup some of the losses from the last year? Will there be many economic areas where capacity has been cut by closures that prove permanent, giving more pricing power to those who remain?

The authorities are relaxed. They want a bit more inflation, a bit more pricing power for companies to generate some cash again. The US expects inflation currently at 1.7% to rise towards 3% and to stay above their 2% target for a bit. They do not expect a price/wage spiral. The high level of unemployment and the need to get so many people back to work suggests to them wages will stay under control.

If the USA is right and it can get away with the huge stimulus it has administered without a worrying inflation, the UK has underdone it a bit. If the USA has gone too far with its monetary and borrowing bazooka, the UK may turn out to be Goldilocks after all.