

Inflation

Fast inflation is damaging to jobs, activity, savings and the conduct of economic policy. Hyperinflation, inflation above 50% a month, destroys an economy completely, making normal economic activity for wages and money receipts near impossible. Venezuela has hyperinflation thanks to printing and borrowing too much, and nationalising and price controlling much of what is left of Venezuelans of industry. Maybe incomes and output have halved as a result. It is difficult to measure their economy with the daily surges in prices. Argentina has inflation of 55% and is trying another IMF programme to get it down a bit. Turkey has allowed 70% inflation by expanding money and state borrowing too much. These are the warnings to advanced countries not to let inflation rise further and embed.

The main advanced countries led by the USA with inflation at 8.4% and the EU with inflation at 7.4% have inflation at similar levels to the UK for similar reasons. The US and the EU printed huge quantities of dollars and Euros throughout 2021 triggering first an asset price bubble and then upwards pressure on goods. It is true all have suffered from a sharp rise in energy and food prices, in part owing to the Russian invasion of Ukraine. This however, has also been experienced in China and Japan which have inflation rates of around just 2%. China pursued a tougher monetary policy. Japan always gets away with massive money printing and borrowing probably owing to the cautious consumers who avoid excess demand. Switzerland, another large energy importer, has also kept inflation under control.

The UK authorities started to rein in their monetary excess late last year. We are now living through the inflation based on last years excess. Owing to price controls on energy the full effects on inflation were delayed until April and maybe also until the autumn when there will be another catch up increase. This year's tightening should mean a sharp decline in inflation next year as the Bank is now forecasting. The European central Bank is still printing more Euros and keeping interest rates at zero. So they are still risking continued high inflation. Maybe they hope the evidence of slowdown and possible recession will be sufficient to lower the price rises.

There are several lessons the UK authorities need to learn from these experiences. The first is you cannot carry on printing and borrowing when you are well into recovery. The asset inflation is likely to spill over into goods and services. The second is imposing price controls on an essential like energy does not protect people from inflation in energy prices for more than a few months. The price rises catch up with you. It also means more losses to be absorbed by taxpayers on the businesses that go bust and need rescuing as a result of the price controls. The government should drop this approach. In the short term government is the great winner from inflation. Its revenues go up as prices and wages go up. The real cost of repaying most of its debt go down as savers are swindled out of the real value of their savings.