

Inflation

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[Inflation: mercury rising | Comment is free | The Guardian](#).

Aditya Chakraborty writes the economic leaders in the Guardian with considerable skill, style and perception.

As he, I presume, says today on inflation:

[I]nflation that continues around [current] levels is a major headache for the new chancellor. For a start, he wants to freeze or cut public-sector pay, which is hard enough at the best of times, but will be near-impossible if shop prices are rising at 5% or more. Second, the whole Conservative justification for cutting back on government spending is that it allows the Bank of England to keep rates at record lows. Again, high inflation makes that hope a no-no. Come 2011, the UK could be in the middle of the biggest spending cuts since the second world war (which is what the Tories have got pencilled in) and mortgage rates and business borrowing costs could be heading north. Put those together and you have an economy that is flatlining.

The funny thing about this situation is that a burst of higher inflation for an indebted, recession-bound economy is not that bad a thing. Adopting a higher inflation target would not only help burn away some of the UK's outstanding debt; it would also enable rates to be kept low to stimulate economic activity. Couple that with direct lending to productive enterprises, and you have a plausible recipe for growth. Even the International Monetary Fund, those sentinels of economic orthodoxy, have suggested something similar. The trouble is that George Osborne is from the party of sound money, and spent much of his time as shadow chancellor warning about higher inflation and a falling pound. Now he faces the same dilemma as his predecessor: allow a little burst of inflation, or get hawkish and choke off any recovery? Not an easy choice.

Not if you're George Osborne.

If you were possessed of economic wisdom the choice is glaringly obvious: go for inflation, low interest rates and let growth happen, put people into work, allow debt to

write down its own value and create the basis for well being.

You'd have thought it a political no-brainer. Except, I suspect, for the bankers' friends now in the Treasury.