

## Inflation, and its consequences

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Food prices are reported to be at an all time world high.

So is petrol and diesel in the UK.

Things like cotton prices are rising - and Next have said their prices will rise by 8% this year.

Copper is soaring in price. So are other commodities. Some of this at least is the result of speculative pressure.

I remain of the view there are also strong deflationary pressures - not least because the labour amrket is being made so vulnerable.

But the point is a simple one: if labour markets are weak and wages cannot rise and prices do real incomes are going to fall and yet at the same time the pressure on central banks to increase interest rates because conventional logic says that is the way to force inflation out of the system could all catastrophically combine to create double dip recession or worse.

And because the real demand increases are not in the UK or even Europe but in India and China there's no impact our monetary policy will have on real prices.

I'm not saying this is a scenario not previously imagined. Clearly it is imaginable. But happening at this time in this combination with the possibility of policy based on false economics compounding real adjustments in the underlying world economy the threat to well being and the risk that creates is enormous.

Inflation is not the problem, I stress. We need inflation. It is the only way to flush the bad money that's in the system out of it. But those who own that bad money - the money the banks created that then fuelled the boom that created the crash - will not readily relinquish the power it still gives them.

The combination of stresses grows as a result of that inbuilt resistance to necessary

economic adjustment within our society and many others.

Those economists who say Osborne's plans will work because they don't think we will have any external shocks may be in for a very rude awakening.

2011 continues to look like a year when the outlook is, to say the least, rocky.