Take deflation seriously: it has the power to derail al...

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At the age of 55 I have never lived in an economy facing deflation. I have only known inflation. And I have only known the political ogre that has been made of inflation when it comes to rhetoric on the importance of stable prices.

That's what makes Christine Lagarde's warnings on deflation, as reported here by the BBC, so important and also discordant:

The head of the International Monetary Fund has warned about the risks to global economic recovery of deflation.

Christine Lagarde said that "optimism is in the air" about growth, but the recovery is still "fragile".

"If inflation is the genie, then deflation is the ogre that must be fought decisively," she said in a speech in Washington.

Earlier, the World Bank said that the global economy was at a "turning point" but "remained vulnerable".

"We see rising risks of deflation, which could prove disastrous for the recovery," Ms Lagarde said at the National Press.

She is right to issue the warning. Inflation is falling fast, even in the UK. With almost no wage pressure in the economy that may be inevitable. It is also serious.

When there is deflation people don't borrow because what they have to repay goes up in value, and not down, over time. Implicitly real interest rates become very high and there is nothing government can do about it when notional rates are already near zero, apart from printing money.

Deflation also encourages the deferral of spending and investment: it will be cheaper in the future.

And in a downside, which is what deflation feels like, businesses and their managers, raised on the idea of growth, have no idea how to manage.

Losses are also likely as wages are (as we have see in this recession) downwardly sticky.

So, businesses fail, jobs are lost, investment falls, real interest rates rise, wealth disparities increase dramatically as those in debt are increasingly indebted and those with wealth get increasingly rich, and government finds itself with falling incomes and increasing commitments.

Deflation is, as Lagarde says, to be feared.

We need to have printing presses at the ready.

More importantly, the printing of cash has to be focussed. It has to be spent into the economy. The risk of deflation increases the need for a Green New Deal and Green Quantitative Easing. Their time has come.