

A 3% inflation target would work just as well as a 2% one...

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I just posted this video on YouTube and elsewhere.

As I note, a 3% inflation target would work just as well as a 2% one - so why are we going to pay a massive price for getting to 2% inflation?

https://youtu.be/ykvEJyQJACK?si=n6bL2_N4t20Ni-cg

The transcript is as follows:

The UK's inflation target is 2%, but 3 per cent would do just as well. Let me explain.

The Office for National Statistics has just come up with new data that says that the inflation rate in March 2024 was 3.2%.

Markets have reacted really adversely. They expected it to be lower than that. And they're now saying, as a result, that interest rates must remain higher than we would otherwise want as a consequence of this month's aberration, that inflation fell, but not by as much as they wanted.

The fact is that. they are fixated with there being an inflation rate of 2%. But nobody on earth, and I literally mean that - nobody on earth - knows why the inflation rate that we target was chosen to be 2%. It was created one day, decades ago on the back of an envelope as a convenient target, which it was thought central bankers should aim for, although nobody has ever found out why it was picked.

My point is a very simple one. If they'd picked 3%, first of all, we'd be there. And secondly, we'd be just as well off as we are.

Actually, heading for 2 percent is going to make us much worse off than we are now.

The reason why is that to get to a 2 per cent inflation target, the Bank of England will

keep interest rates high for a long time. So we will have a risk of a recession. We will have a risk of higher unemployment. We will have a risk of lower investment. We will have a risk of less government spending. All of those things are going to make us all worse off. Worse off, all for the sake of meeting a 2 per cent inflation target that nobody can explain why we have.

My suggestion is very simple. Two per cent is not a good inflation target. In fact, it might be a very bad inflation target, because it means that some things will actually be deflating. For example, goods - that's literally physical products - are right now. So instead, fixing at a 3 per cent rate would create a more balanced, more stable and stronger economy.

So why are we continuing with 2%? I don't know. Nobody does. Nobody can explain it. But we're all suffering for it. And that makes no sense at all.