

#### 4. Who's afraid of inflation?

For roughly two decades, indeed ever since the oil shocks of the 1970s, the world's economic policy-makers have been haunted by a fear of inflation. For the past decade or so they have even acted on this fear, tightening monetary policy despite the pain this inflicted on their citizens. Many governments have set themselves formal inflation targets, increased the independence of their central banks, and taken other steps to squeeze the inflationary menace out of their economies. It is a policy that has been economically correct, and sometimes politically courageous. Unfortunately, there are now some grounds to fear that it is a policy in danger of being abandoned.

In Britain, the government's decision in 1992 to set itself an inflation target was widely supported. Now the government seems set to miss this target. Of 48 forecasters tracked by the Bank of England in August, only five expected Britain's inflation to fall within the aimed-for range of less than 2.5% by the end of next year. But instead of pushing the government to raise interest rates, most City economists recommend no change, or even a cut. A similar story is unfolding in the United States. A panel of forecasters which *The Economist* polls each month expects America's inflation rate to rise from 2.6% to 3.4% next year, with the economy growing by a reasonable 2.4% in 1996. Yet many American economists are urging yet another interest-rate reduction. Even Germany's inflation-phobic Bundesbank cut rates recently, notwithstanding the fact that inflation is above the Buba's medium-term objective of 2%.

##### **Facts, forecasts and false conclusions**

In recent months the beguiling idea that inflation has at last been conquered has been spreading in many rich countries. Those who take this view are fortified by a fact, some theories, and a strong temptation. The fact is that the average rate of inflation in the seven big industrial economies is now only 2.5%, close to its lowest rate for 30 years and a lot lower than anyone had predicted. The theories range from the almost plausible notion that, in some circumstances, a little bit of inflation can be a useful economic lubricant, to the frankly outlandish one that structural changes in the world economy have made it impossible for prices ever to rise again. The temptation is the perpetual desire of governments to nudge growth along by relaxing their monetary guard.

This temptation has grown all the stronger now that growth in most industrial countries has slowed sharply, reducing the risk of economies overheating. Japan is suffering from outright deflation, while many economists in America, Britain and continental Europe are calling on policy-makers to cut interest rates to spur flagging recoveries. In this atmosphere, anybody who continues to raise the alarm over inflation is accused of waging yesterday's battle. But on closer inspection, the claims that inflation is dead, that recovery is sputtering, and that interest rates should therefore be cut to stave off recession, are far from convincing. Much of the slowing output in America and Europe is due to destocking by firms. With consumer demand and corporate investment holding up well, it is quite possible that growth will rebound as soon as firms have trimmed their stocks to desired levels.

The most generous comment to make on all this is that recent structural changes may, just possibly, have increased the rate at which economies can grow before inflation takes off. But the more extreme version of the argument – that inflation has gone forever – verges on the economically illiterate. Even if you buy the dubious proposition that technological change is faster than ever before, the hard fact is that inflation is a function of the macroeconomic relationship between growth and the money supply, not of structural changes in the technology or competition. For this reason, the chief influence on inflation is still monetary policy: if economies grow faster than their sustainable rates, whatever that rate might be, inflation will eventually surge.

Some commentators make a different, more serious, argument. They say that the world needs a little more inflation, on the grounds that it can sometimes be a useful lubricant that helps relative prices and wages to adjust. In a declining industry, for example, real wages need to fall. This is easier for workers to accept if achieved through inflation, while their nominal wages remain constant or continue to rise.

Naturally, „money illusion” – the masking of real price changes by inflation – can occasionally be useful in these ways. But, like all illusions, it is more likely to be dangerous. Price stability offers the best environment for investment and growth. Inflation sows uncertainty and obscures relative price movements, making it harder for the price mechanism to direct resources to their most productive use.

## Első feladat

Válassza ki a szöveg alapján a helyes megoldást, a példa szerint (0).

**0. The governments have tightened their monetary policy because they**

A. didn't want to cause pain to people.

**B. were in fear of inflation.**

C. wanted to increase the independence of the central bank.

1. Inflation targets were set by

A. British government.

B. American government.

C. European government.

2.

A. The inflation rate has raised by 2,4 % in America.

B. The growth of economy has raised by 2,4% in America.

C. The interest rate has raised by 2,4% in America.

3. Both English and American economists urged interest rates

A. to be raised.

B. to be reduced.

C. to be levelled off.

4. Policy-makers have been called by the economists to cut

A. production.

B. employment.

C. interest rates.

5. Inflation functions

A. as a link between growth and money supply.

B. structural changes and competition.

C. technological changes and competition.

## Második feladat

Döntse el a szöveg alapján, hogy az állítások igazak vagy hamisak, a példa szerint (0).

	Statements	True	False
<b>0</b>	<b>According to some economists the world needs more inflation so that people can easier accept continuous wage-rises.</b>	<b>X</b>	
6	The idea that countries have overcome the inflation was spreading in rich countries 30 years ago.		
7	According to some theories a little inflation does good for the economy.		
8	Other theorists say that prices will stop rising owing to some changes.		
9	Many firms in America and Europe have kept their stocks in order to defend their economies.		
10	Making relative price movements in the form of 'monetary illusion' can show price stability.		