

[In the long run we're all dead](#) [1]

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Higher-than-expected inflation defies City forecasts? ([The Guardian, August 2009](#)) [3]

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Inflation pushed to 14-month high

? ([The Telegraph, February 2010](#)) [4]

UK inflation higher than expected in August? ([ITN, September 2010](#)) [5]

Inflation unexpectedly hits six-month high? ([Reuters, December 2010](#)) [6]

For the last 12 months inflation has been above target, and consistently seems to have been higher than expected. This has been accepted on the basis that the Bank of England's medium term forecasts have shown inflation falling to more tolerable levels. We are told each month that high inflation will be temporary, that the causes were just momentary changes in supply, and to rejoice that we are avoiding deflation. Yet, a long run trend seems to be forming.

Though Charles Bean, deputy governor of the Bank of England, says the Bank's economists are watching inflation like proverbial hawks, the threat of huge monetary stimulus remains.

Many will simply disregard these figures; what's a percentage point here or there? But inflation is hugely damaging to savers. Taking the current RPI inflation rate of 4.7%, if one were to hold savings of £10,000 for 15 years, perhaps for the children or retirement, it would lose half of its real value. If inflation rises and wages fail to keep up then wages fall in real terms. Moreover, inflation increases costs for companies as they must adjust to artificial changes in prices.

Even worse, though less immediately noticeable, is the effect of inflation on the long term stability of the economy. Artificially low interest rates, and increases in the money supply may distort the market, giving false signals that we have large stocks of savings. This can in turn lead to misdirected and unsustainable investment. With many prices actually declining (think plasma televisions and Chinese-produced manufactures), the full extent of inflation in certain markets can be disguised. Though the inflation may lead to what appears to be strong growth, eventually, the unsustainable misdirection of resources must end. The result is bust.

Caution is needed, or the Monetary Policy Committee's reputation may face a similar destruction to that of Brown's Treasury, with us all paying the (greatly inflated) price.

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