THE AUSTRALIAN's economic columnist Henry Thornton is fond of the anonymous quote that consistency is the sign of a man's mind. It is not the time for middle-class thinking. The debate over whether the Reserve Bank of Australia should rethink its response to inflation, being every-day global oil and food prices has certainly unmasked some middle-class thinking by economic commentators troubled by the notion of change. But this is a debate about whether inflation is such a bad thing after all, as Terry McCrann seems to suggest. Of course it is. Unchecked inflation, as many commentators to this paper have pointed out, saps the value of retirement savings and forces wage earners to work harder to stand still. But focusing on the consequences of inflation is a different thing entirely from knowing how to combat it in all circumstances.

The admission of well-known inflation hawk Thornton is a wake-up call for RBA governor Glenn Stevens. Thornton has adopted a position first put by the Reserve Bank Governor. "I'm not sure when we asked whether the "solution to the pressure that comes from higher world oil prices, the drought and the currency factor" is higher in the world. Thus". From poverty to the First World really is to penalise people who are struggling to pay their home mortgage in "inflationary spikes that accompany" talks. Since then, there have been two 25-basis-point rises in official interest rates, compounded by independent increases in retail banks facing a global credit squeeze.

Consumer and business confidence measures have plunged but inflation has remained within its target band. Those economistic who now question whether a rethink is necessary have accepted the lessons of history. This includes the inflationary spike that accompanied earlier booms in Australia's terms of trade such as the post-war wool boom. They also acknowledge the certainty that economic recovery will not accommodate political reality. This is why Thornton says that, if they get it wrong, Wayne Swan will be among a group of one-term government and Mr Stevens risks squandering the prized "independence" of the RBA. Rather than accept Labor's argument that the Howard government is responsible for the current inflation problem, Thornton puts the blame at the feet of easy monetary policy at the start of the century. This caused a surge of asset prices, which are now refusing to fall to compensate for the rising cost of oil and food. The result of "sticky" asset prices means that, for Thornton to identify the difficult question for central banks as being whether to hang on to firm monetary policy to try to force down asset prices, "the exercise is with a bit of inflation as the repricing of food and oil works its way through the system. If central banks try to hold on to tight monetary policy and other prices don't adjust, the economy risks slowing into recession.

That is the point at which many believe the RBA now finds itself. A growing number of economists consider a return to zero inflation targets, at least for the time being. This is effectively an argument to lengthen the cycle over which an interest rate reduction should be delivered. The reality is that it will produce higher average interest rates over the cycle. But the alternative may well be an economic recession.

To admit that the present approach is not the best one for current circumstances is in keeping with the ultimate failure of both the Gold Standard and our present system. There is evidence that the Australian economy is slowing, and the RBA may yet get away with it this time. But problems such as it would be wise for the RBA to keep an open mind. Mr Stevens appears more concerned with staying out of trouble than wringing the maximum benefit from interest rate hikes already in the system. Meanwhile, having emphasised the RBA's independence, the Rudd Government has had a lot riding on the bank's continued credibility as it wrestles with fiscal policy challenges of its own. The Treasurer has already turned his attention to deficit reduction, in the likely impact of the global economic slowdown, something The Australian has urged. But this should not mean the government should cut all the free card on handing down a tough budget. The Government has already made the biggest inflation mistake possible by scrapping the Howard government's Work Choices industrial relations reforms. A flexible labour market with controlled wages has the best chance of containing the imported oil-price inflation spiralling into more worrying wage-push inflation. With Work Choices gone, it will be interesting to see if we now have a new wage claim whitewash and a wages-ied inflation breakout. It also remains to be seen how Labor will balance its rhetoric in favor of productivity gains with new flexibility clauses in workplace awards announced by Julia Gillard yesterday to allow employees to achieve a greater balance between work and home life.

The Government says it wants to put downward pressure on inflation but is agreeing away from sorting out generous non-means-tested welfare payments. It has proposed "root and branch" tax reform but excluded the GST from the mix. However, it has not been shy about introducing an ad hoc tax increase on one type of alcoholic drink or on tobacco to suit its social-political agenda. As written, the most likely outcome will be inflationary pressures from higher beer prices. The Government's mixed signal to the market, given its rejection of admission from the RBA that it may need to rethink its approach to inflation targeting, or lengthen the cycle over which average rates are measured, to take account of extraordinary circumstances.