

We used to fear inflation: deflation is a much bigger t...

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As [the FT has noted](#):

The European Central Bank on Thursday responded to fears of deflation across the eurozone by unexpectedly cutting rates to a record low and insisting it had more weapons in its "artillery" to prevent price falls.

The threat from deflation has been a regular theme for discussion amongst the economists linked to the Green New Deal group over the last few years and rightly so. Deflation might appear to increase the value of wages, but the effect is to encourage people to defer investment in the belief that there will be a financial gain from doing so. The consequence is a drain on economic activity that would compound current woes and just at a time when what the economy needs most of all is investment on a sustainable future.

The ECB was right to act.

The Bank of England is instead clearly thinking about when rates might rise here because the pressure of the pocket of house price inflation in London. That's profoundly worrying when what we need are new housing, taxes to take the heat out of over-valued existing housing and long term stable and low real interest rates to encourage investment. Push too hard and we could easily end up with what the ECB fears.