

Economic relationships that no longer hold true

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In my opinion the must read economist is no longer the likes of Krugman, or even Martin Wolf. The economist who is delivering most value, at least in the UK and on the web right now is [Duncan Weldon at the TUC](#).

Duncan is not just a good economist with his political sentiment firmly grounded, he's also good at presenting complex narrative in about as approachable a way as possible. [Take his blog yesterday](#); he summarised a long and complex debate on what has been called secular stagnation in macro-economic policy and produced this list of observable facts that summarised the basis for the thinking:

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Rising GDP growth does not necessarily feed through to rising standards of living for households in the middle and below.

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Periods of growth are associated with a falling household savings ratio.

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Periods of growth are associated with a widening trade deficit.

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Household borrowing is more responsive to low interest rates than corporate borrowing.

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The marginal propensity to invest is falling. There is, in times of growth, a large surplus of profits over investment.

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There is a long term tendency for the share of consumption in GDP to rise.

It takes skill to do that.

What that list say, fundamentally, that relationships long held to be true in economics don't any more. As Duncan puts it:

During periods of decent GDP growth the fruits of that growth are not distributed as used to be assumed.

Income growth is accruing to those at the top of distribution where as those in the middle increasingly grow their spending by more than their income.

And that has real consequences:

In terms of financial balances, that of the household sector is negative and that of the corporate sector positive. This is reversal of the assumed disposition whereby households are net savers and through financial intermediation those savings are channelled to the corporate sector to fund investment in the capital stock.

The result is rising household debt, rising imports, weak investment and an increase in financial vulnerability to external shocks.

This suggests to me that timidity will be the economic theme for a long time to come; conventional thinking will suggest inappropriate macro-economic solutions which will be deliberately muted in impact to avoid risk when in fact new thinking is needed to create a different economic paradigm based on these new facts, of which as Duncan (again) says:

The drivers of which are increasing corporate short termism and rising inequality.

That's about it, in a nutshell.