

Inflation is a figment of a few economistâ€™s imag...

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As some readers, and maybe more of my Twitter followers will know, Prof David Blanchflower of Dartmouth College (who is always known as Danny) and I have maintained a friendly banter and rivalry over our respective number of Twitter followers over quite a number of years. Over the same period we have also taken regular opportunity to discuss macroeconomics, in particular.

We did so yesterday, Danny was in Florida. I was in Ely. The theme was consistent, and that was that neither of us see any chance that those new predicting inflation in the major economies of the world are right. Despite this, discussion on this issue is now commonplace in the FT, [almost daily](#).

So why were we so comfortable that they are wrong?

We both agreed on one key issue, and that is that unemployment data is straightforwardly wrong. In the UK the figure excludes [4.7 million](#) on furlough right now, by no means all of whom will be back at work when furlough ends, [as is now predicted for June](#). On top of that there is the massive disguised unemployment amongst the self employed, for many of whom business has simply dried up since lockdowns began. The scale of underemployment in the economy is massive, and the unemployment data simply does not reflect that. Until that slack is picked up there is no chance of inflation.

Second, the data on earnings may also be seriously wrong because much of the data collection has been seriously impeded by Covid, and this has most impacted those now not working, who the surveyors have had serious problems reaching in the last year. Earnings data in the US, in particular, is apparently seriously skewed and wrong as a result. I suspect there is a similar trend in the UK.

Third, we both agreed that the 'Haldane' response to this is utterly bizarre. Andy Haldane is chief economist of the Bank of England, where Danny used to be on the Monetary Policy Committee, and where he was the sole voice there to get the 2008 crisis right.

Haldane has predicted that the UK is like a coiled spring, just waiting to spend. As I have said before, maybe he and his rich mates in the City are. But they are not representative of the population at large. As data on the sectoral balances used in [my talk for Keele](#) last night shows, consumers took more than five years to recover their confidence after 2008. This has been a much more severe downturn, and for many the economic shock has yet to arrive. Unemployment is, almost inevitably, going to rise this year, and not fall. The chance that, once holidays have been taken and friends have been caught up with (I pray with masks still in place, but doubt it), there is going to be wild consumer spending is remote, in both our opinions. People in fear of losing their jobs don't spend like that.

Of course I could be wrong. So too could Danny, who knows more about macro than I ever will. But neither of us see the Phillips Curve kicking in right now with upward inflationary pressure resulting, simply because the data on which those who use that curve to make inflation predictions are pumping false unemployment and consumer optimism data into their models.

We continue to live in a fundamentally weak economy, harmed still further by Covid, where hollowed-out firms sit on the brink of tottering into extinction without state aid. That's not an inflationary environment. And QE is going to be with us for a long time to come.

Danny and I both have the advantage of having called 2008 right. I think we are right again.

Time will tell, but I am pretty confident. You only have to look at what is really happening and not false data to realise the current trajectory. Inflation is not a risk in the real world.