

Inflation? Forget it

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There was a time when Andy Haldane was the supposed wise head at the Bank of England. But that was long ago before he got just about everything on Covid wrong. Now he is off to the Royal Society of Arts, an organisation I resigned from a long time ago because of its neoliberal tendencies.

There is, however, a new wise head at the Bank. As Larry Elliott has noted in the Guardian:

[Jan Vlieghe](#), one of the nine members of Threadneedle Street's monetary policy committee (MPC), said the UK was "not yet out of the woods" despite the vaccine-induced bounce in activity, and there was a risk of higher unemployment as the furlough scheme was withdrawn.

In a speech to the University of Bath, Vlieghe said that after an unprecedented fall in activity in 2020, there would be an [unprecedented increase in 2021](#). "There is some temptation to call that a boom," he said, but added: "I think it is more accurate to call it a prospective return towards normal."

As importantly, Vlieghe said:

On the domestic economy front, we still have the wind-down of the furlough scheme ahead of us. While the MPC expect most furloughed workers to be reintegrated into the labour market smoothly, this process is subject to significant uncertainty. We are talking about millions of workers, and even if only a small share of them end up in unemployment later this year, that could lead to a rise in unemployment that is of macroeconomic significance.

And as Larry Elliott noted:

Vlieghe rejected the idea that increases in the money supply, commodity prices or wages were poised to send the inflation rate permanently above the government's 2% target. "Comparisons with the 1970s are misplaced," he said.

What to say, apart from 'I agree'?

Three things. First, if anything the warning is understated. Covid risk is high and the likelihood that the end of furlough would create significant unemployment is also high as a result.

Second, to use Vlieghe's logic, this is nothing like the 70s then because there will be little or no wage pressure.

And third, in that case inflation risk once supply chain disruptions clear (which they will so long as government does not withdraw support from business too quickly) is low.

It's good to hear some sense from the Bank.