Funding the Future

Inflation is not what we need to worry about: the risk ...

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Today we had a parting shot from Andy Haldane on leaving the Bank of England, in. which he claimed inflation will be 4% by Christmas, unleashed as the economy gets over Covid.

I seriously wonder about the ability of people like Haldane to analyse data. He has long had a theory that all the spending deferred by Covid will be unleashed when the pandemic is over and that inflation will result, and the only credit you can give him is that he has stuck to the theory, even though there is no evidence to support it.

Post 2008 it took eight years for consumers to start spending at pre-crash levels in proportion to income. This crisis was worse, threatened more jobs, created more unemployment (albeit still disguised, but furlough is ending now) and there was no Brexit impact to add the air of general economic unease. There are literally no reasons why anyone barring the quite wealthy should go on spending bonanzas now that will wipe out their Covid savings.

As I noted this morning, there are already signs that the spending boom is fading.

And then there is Covid itself. I know the charlatans in government like to pretend this is all over, but it is not. There were 26,000 new cases today. And that is not all. Click on the links in this live tweet to see more data. Hospitalisations and ICU bed cases are rising too.

https://twitter.com/Dr_D_Robertson/status/1410253965472808964?s=20

The claim that the link with death is over may also not be true: there may simply be (as was always obviously going to be true) a lag. I am not saying that things will be as in January because no one knows. What is glaringly obviously true is that things are going to get much worse as yet.

I just have to look at the data and as an economist I think three things.

First, and glaringly obviously, this pandemic is not over yet. The risks of further waves because our vaccination programme is so poor is high. I say that because too few are vaccinated, children are not, and as yet none of the first batches of elderly people are scheduled for top-ups, and their immune systems may now be very vulnerable again, most especially if they had Pfizer. If anything, risks are now rising from the failure of the vaccination programme rather than falling, as is widely claimed.

Second, in that case, and because a majority of people are not stupid (albeit, some are) self-isolation amongst the population is growing to be increasing rapidly soon as people react to the very obvious risks that Covid creates.

Thirds that means that the chance of a boom is very low this year.

I accept that does not mean there will be no inflation: chaos from Brexit, worldwide increases in food prices and supply chain disruption may create some inflation. But none of those things can be corrected through any of the policy instruments available to the Bank of England, which also marks out how poor the analysis fro Haldane is, when after 30 years at the Bank he does not know that. These things are solved by either political responses, or by accepting that they just have to work their way through the system, with appropriate protection for the most vulnerable in society as to the consequences being provided.

But what we have not got is a scenario remotely close to a boom. The risk we face is of a major collapse in the private sector, and especially amongst smaller companies. That's the result of spending not growing, effective lockdowns continuing, and government support being withdrawn as debt burdens have to be repaid. That's a massive triple whammy. But that's not anywhere on the horizon of the Treasury or the likes of Haldane, who are all deeply comfortable in their own little economic bubbles where they are not exposed to the real world of business, in which none of them has ever been engaged.

I am worried. And the more I see the more worried I am.