

The tortured logic of the Bank of England is total gibb...

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The FT [features an interview](#) with Huw Pill, the chief economist at the Bank of England, today. In it, he says:

The decline in headline inflation is largely exogenously driven. It's basically driven by the fact that we've seen this decline in energy prices and slowing food price inflation, and we've seen international goods prices basically stabilise. Those are the three main external sources that drove inflation up, and they have all now gone in the other direction and are bringing inflation down.

In other words, the fall in inflation that we have seen has nothing whatsoever to do with the increase in interest rates in the UK. It is all down to factors totally beyond the control of the Bank.

A wise person would have concluded as a result that the Bank had made a serious error when raising rates and that it should now be saying that they needed to fall. But Huw Pill is not a wise man. Far from it, in fact. What he said to justify continued high interest rates (which is his obvious goal) was:

This is why I emphasise the supply side of the economy. To the extent that you think that slowing activity, spending and employment growth are associated with a deterioration in the supply performance of the economy — and not just a weakening in demand — you are not opening up that slack, that easing of resource pressures, which will bring domestically generated inflation down.

Very politely, that is gibberish. I don't think the FT understood what he is saying. Certainly, their [analysis article](#) does not shed much light on this claim.

As I read it, I think he means that because the UK economy has structural weaknesses in it (most especially a shortage of skills) then even if demand falls there might still be inflationary pressure because the economy is unable to meet even normal low levels of demand for goods and services now without inflation arising. That, I think he is saying, means that inflationary pressure still exists and so that weakness in the structure of our

economy must be punished through penal interest rates, causing untold misery and havoc.

It takes a quite exceptionally tortured mind that is desperately seeking a reason to justify already wrong action to come up with such logic. In effect, he is saying that because the beatings have had no effect as yet, he must find another reason to continue them because he is enjoying imposing them so much, even if he is well aware that further beatings cannot in any way address the actual weaknesses in the economy that he claims exist.

As [I have already noted this morning](#), all that this indicates a poverty of thinking that is simply staggering. Pill is utterly dedicated to the theory of monetary policy that demands that interest rates be high. He is so dedicated to that idea that he is indifferent to reason and is clearly beyond worrying about the consequences of his thinking.

And you wonder why I am worried? I am because, not least, Rachel Reeves says that she believes in these people.

How much more must we suffer before sense is seen?

Footnote: The more I think about what Pill said the more bizarre it seems to be. His logic seems to be that suppressing the economy and its capacity to change so that inflation might be beaten is much more important than letting the economy actually fulfil its primary function with society of ensuring that need (I stress, need, not want) is met. To suggest that he has lost all sense of priorities is to be kind to him.