

All forecasts are wrong

Published: January 13, 2026, 3:08 am

Politicians and economists pretend forecasts are facts. But they're not. They're guesses – and running the economy on guesses guarantees failure. In this video, I explain why fiscal rules based on forecasts are absurd, why Rachel Reeves is already using them to justify austerity, and why we must plan on the basis of present needs, not imagined futures.

<https://www.youtube.com/watch?v=YKAZR1GrJ-s&si=AAhAu4uUJnGNWfrk>

This is the audio version:

https://www.podbean.com/player-v2/?i=qnw7c-196a529-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

All forecasts are wrong.

As a matter of fact, we cannot know the future.

There's nothing desperately radical about me saying that, and yet people like to think otherwise.

I used to have clients who had asked me to prepare business plans, forecasts,

projections, whatever they wished to call them, and I did. And I built a model to do so, long ago. And I would produce very nice-looking documents, and they would be very pleased. And I would give them to them with a bill and say: "The bill is right and payable. The forecast is wrong. It's a best estimate. That's the most you can hope for." And that is true. Nobody can do better than that.

The trouble is, we have turned forecasts into facts when we come to do economic planning in this country, and many others around the world. And that's because forecasting is implicit in the way in which we now use fiscal rules, because we require behaviour at the current point of time to change as a consequence of our forecast of the future, when we know we can't forecast what the interest rate is going to be in five years' time.

We can't forecast what the growth rate is going to be.

We can't forecast what the inflation rate is going to be.

We can't forecast whether there's going to be an economic meltdown, a war, a typhoon, or whatever else that might hit us.

And instead, we just decide to pretend that forecasts are true.

But they're not. And that is the difficulty because by pretending that our forecasts are true, what we've actually created is enormous, inherent risk in our economy by pretending that what might happen will happen, and then changing the present to suit that possible outcome.

This is absurd, because it's on the basis of this assumption that she knows the future, which therefore affects the present and the outcome of her fiscal rule, that Rachel Reeves is going to deliver austerity to the UK this autumn, for reasons that may be entirely false.

There is a ridiculous sense of precision inside the forecasting that people like the Office for Budget Responsibility and the Bank of England undertake, none of which reflects reality.

So what they're doing is trying to fit today's spending patterns to produce the outcomes that their guesswork suggests will fit the fiscal rule in five years' time.

We can't do that.

We don't know what the feedback loops are.

None of this makes sense.

The whole process is, in fact, quantum. There just is too much uncertainty in it, which is

what quantum thinking embraces. And it's not linear and predictable as Newtonian thinking suggests. We are creating a shackle on ourselves by making ridiculous future assumptions, the veracity of which we cannot know.

Politicians, however, love fiscal rules, and they love forecasts because they could reel them off when they present their budget and say, "In the next five years, growth will be 5.2%, 3.1%, 1.7%, 0.8%, and minus 0.3%." I made those numbers up at the spur of the moment, and they're probably something akin to what actually will be happening as a trajectory on the basis of what Rachel Reeves is doing. But the point is, nobody can ever make such forecasts, and yet politicians like to speak about them as if they are facts. And they speak about them as if they're facts because they blame the Office for Budget Responsibility, in the UK, which they claim is independent and therefore an authority for producing these budgets, which must therefore be accepted as if they're the gospel truth. But the fact is, they're just a bunch of computer spreadsheets, and you can change any of the numbers in them by changing an assumption, and the result would be just as realistic as the number that a chancellor might like to read out at the dispatch box, but which, if they're wise, they would know is wrong.

So there are real consequences, and the real consequences are that - and I've already mentioned it - if the forecast suggest it's going to be difficult to meet a fiscal target in five years' time - then services are cut back now, even though that might actually guarantee that targets might be difficult to hit in five years' time, precisely because there's insufficient spending now to make the whole economy work.

These forecasts are, in fact, predictive: they're not neutral, and they're not observational.

If you say that you're going to have difficulty with spending, then people will get the message that they shouldn't spend.

If you say that you can't afford an investment now because you won't meet the fiscal rule, then not only will the government not spend now, but other people won't spend now because they won't have the reason to invest to create the services that the government might otherwise have bought.

The whole economy is therefore held back by fictional numbers, which are being created by forecasts which are always inherently wrong. Democracy is being undermined by rules that no one voted for.

We have to face reality. And the simple fact is, we don't know the future, and no forecast we can create can change that.

So why do we want to manage the economy on the basis of these unknowns when we actually know there are things that we do need?

We know that there are people in need because they're in poverty in the UK.

We know that there are hospitals that need rebuilding.

We know that there is education that needs to be invested in.

We know there are training programs to create the jobs that we require in the future that we could spend upon.

We know that there is a requirement for more housing.

These are facts. We don't have to predict the future to know them. We just have to go outside our front doors, walk around a bit, observe the world as it is, and realise that what I've just said is true.

We shouldn't, therefore, be planning on false forecasts. We should be planning on the basis of current realities. And that means we should therefore scrap definitively created rules that tie us to forecasts and instead plan around how we can optimise the use of the real resources and capacity that we have in the economy now. And how we can create the capacity that we might need in the future.

In other words, instead of planning everything on the basis of projections that we know are wrong, let's plan for real outcomes.

And instead of planning to hold politicians to account for their delivery against a projection, let's hold them to account for what they actually do.

If we know forecasts are wrong, isn't what I'm saying sensible?

Shouldn't we actually be planning for the present? And doing what we know, and tackling real need rather than worrying about something that might never happen? That's, after all, where neurosis creeps into economics, politics, and into the whole psyche of the country.

It's not surprising that people think this country is failing. Our politicians do because they've tied themselves to acting on the basis of projections, which they know deep down are wrong. Of course, we are failing. Our choice to run the economy on the basis of projections guarantees that we will fail.

It's time to replace spreadsheet fictions with democratic planning and to deliver what people in this country really need, and that we know they need now.

Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, [**here**](#).

**One word of warning, though: please ensure you have the correct MP.
ChatGPT can get it wrong.**

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