Richard Murphy’s Views On...Inflation

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This post is one of an ongoing series explaining Richard Murphy's views on significant topics in economics, political economy, politics, taxation, and accounting. It should be read as such, as an overview of a position developed across many years of writing and analysis, and not as a comprehensive treatment. Where more detail is required, the reading list at the foot of this post is a good starting point.

A formatted PDF of this post is available here.

Other posts in this series can be found here.

Inflation is one of the most politically charged and persistently misunderstood concepts in economic debate. Richard Murphy has written extensively on the subject, developing a position that challenges orthodox interpretations of inflation’s causes, questions the tools used to manage it, and argues that the policy response to recent inflationary episodes has been both analytically flawed and socially harmful. His analysis draws on Modern Monetary Theory, heterodox political economy, and close attention to the real-world distribution of economic power.

Inflation is Not a Single Phenomenon

A central theme running through Richard’s work on inflation is that the term is too often treated as though it describes a single, homogeneous economic event with a single cause and a single remedy. In practice, he argues, there are fundamentally different types of inflationary pressure, and they require fundamentally different responses.

Demand-pull inflation, which arises when an economy operates above its productive capacity, is relatively rare in modern economies characterised by persistent underemployment of both labour and capital.

Cost-push inflation, driven by increases in input costs such as energy and raw

materials, is far more common, and it calls for very different policy tools than the interest rate mechanism that central banks reach for almost by reflex.

This distinction matters enormously because the standard policy response of raising interest rates is calibrated to suppress demand and has no direct mechanism for addressing supply-side cost increases.

The Causes of the 2021–2023 Inflationary Episode

Richard's analysis of the most acute inflationary episode in recent UK memory is precise about causation. The initial pressure came from global supply chain difficulties following the rapid unwinding of COVID restrictions: factories that had curtailed production could not immediately restore it, shipping costs rose sharply, and the timing mismatch between recovering demand and constrained supply pushed prices upward across many goods categories.

That pressure was then dramatically intensified by the energy price shock following the Ukraine war, which drove up household energy bills, raised the cost of production across large parts of the economy, and pushed overall inflation to levels not seen in decades.

He has argued that UK inflation was slower to fall than in comparable European economies, partly because of the particular rigidity of Britain's domestic energy pricing arrangements and partly because of the structural vulnerabilities created by Brexit. The UK's dependence on international energy markets, combined with its diminished access to European supply mechanisms, meant that global price signals fed through to domestic consumers with unusual speed and force.

On top of these structural factors, Richard has identified a significant contribution from corporate profiteering: the phenomenon widely described as "greedflation," in which firms with market power use the cover of generalised inflationary pressure to widen their margins beyond what underlying cost increases could justify. Banks, oil companies, and many businesses in food supply chains were among those identified as having expanded their absolute profits during a period when most households experienced a sharp reduction in their real incomes.

Why Interest Rate Rises Were the Wrong Response

Perhaps the most consistent and emphatic argument in Richard's writing on inflation is that the Bank of England's response to the 2021–2023 inflationary episode was fundamentally misconceived. Raising interest rates is a tool for reducing demand in an economy that is overheating. Applied to an inflation driven by supply constraints, energy price shocks, and profiteering, it addresses none of the actual causes while inflicting real harm on millions of households.

Richard has made this argument repeatedly, from multiple angles, and with increasing force as the evidence accumulated. The Bank raised its base rate from 0.1 per cent at the end of 2021 to 5.25 per cent by August 2023, a pace of tightening unprecedented in recent decades. Richard argued throughout this period that the rate rises were not only ineffective as an anti-inflationary tool but were actively counterproductive. Higher borrowing costs raised the expense of mortgages and business loans, which themselves fed into the costs faced by households and firms. The Bank was, in this reading, contributing to the very inflationary pressure it claimed to be suppressing, while simultaneously transferring very large sums of money to savers and financial asset holders at the expense of borrowers and renters.

The distributional consequences of this policy were, in Richard's view, neither accidental nor politically neutral. He has shown that rising interest rates disproportionately benefited wealthier and older households who held significant financial savings, while falling hardest on younger households with mortgages and renters facing landlords' higher financing costs. The age and wealth profile of those who benefited from high interest rates overlapped almost precisely with the core demographic support base of the Conservative government that was nominally independent of, but in practice comfortable with, the Bank's approach.

Richard has also challenged the Bank's own forecasting credibility on this subject. He has pointed out that the Bank's own published inflation forecasts, issued months in advance, showed clearly that inflation was going to fall as the energy price base effects worked through the statistical comparison period. The decline in recorded inflation was, in significant part, an automatic mathematical consequence of comparing current prices with the elevated prices of a year earlier. No interest rate rises were needed to bring it about; it was built into the structure of how the statistics work. The Bank knew this, published forecasts that reflected it, and yet continued to maintain rates at levels that Richard regarded as unjustifiably high.

The Arbitrariness of the 2 Per Cent Target

A related strand of Richard's analysis concerns the 2 per cent inflation target itself. He has argued forcefully that this figure has no sound theoretical or empirical basis. It was invented in the 1990s as part of the broader neoliberal project of handing power over macroeconomic management from elected governments to supposedly independent central banks. The number was chosen because it sounded reassuringly low, not because any analysis demonstrated that 2 per cent optimised real economic outcomes. Nobody, Richard has observed, can explain why the target was set at 2 per cent rather than 3 per cent; and if the target had been 3 per cent, most of the economic harm of the post-2022 tightening cycle would have been avoided.

He has further argued that the obsessive pursuit of a 2 per cent target is particularly damaging in an economy subject to repeated external shocks. In such conditions, modest inflation above the target may reflect adaptation to new cost realities and is not

in itself a sign of policy failure. The appropriate question is not whether inflation has fallen to an arbitrary number but whether real living standards are being protected, whether employment is being maintained, and whether the economy retains the capacity to invest in its productive future. Framing inflation as a moral failing to be disciplined out of existence, rather than as a policy trade-off to be managed, leads to exactly the kind of socially regressive interest rate policy that the Bank pursued from 2022 onwards.

The MMT Framework: Inflation as a Real Resource Constraint

Richard's approach to inflation is deeply shaped by Modern Monetary Theory, which he regards not primarily as a theory of government spending but as, above all, a theory of inflation.

In the MMT framework, inflation arises when total spending in the economy exceeds the real productive capacity available to meet it. A government that issues its own currency can always spend, but if it spends in ways that outrun the economy's ability to produce real goods and services, the consequence is price rises rather than real output increases. Taxation, in this framework, is not about raising revenue; it is about withdrawing money from circulation so that the spending the government has already undertaken does not generate inflationary excess demand.

This framework leads Richard to a nuanced position on the relationship between government spending and inflation that differs significantly from both orthodox and more naive heterodox views. He does not argue that governments can spend without limit or without inflationary consequence. He argues, rather, that the inflationary risk arises only when spending presses against genuine capacity constraints, and that whether such constraints exist is an empirical question that requires attention to the actual state of the economy rather than the automatic application of a rule.

Targeted spending that relieves bottlenecks, whether in housing, energy infrastructure, childcare, or transport, can reduce inflationary pressure over time by expanding supply. It is untargeted spending, particularly when the economy is already near full capacity, that risks generating excess demand inflation.

Richard has also been careful to argue that the appropriate tools for managing different types of inflation vary by cause. Where inflation is driven by excess demand, some form of demand restraint, whether through taxation or other means, may be warranted, though the form that restraint takes matters enormously: taxes on higher incomes and accumulated wealth bear less social cost than interest rate rises that penalise all borrowers indiscriminately.

Where inflation is driven by profiteering, the appropriate response is regulation, excess profit taxation, and competition policy.

Where it is driven by energy or commodity price shocks, direct intervention in markets, including price controls and publicly provided alternatives, may be more effective than any monetary policy instrument.

Interest rates, as a universal response to all forms of inflation, are in his view a blunt and socially regressive instrument whose dominance reflects political choices rather than economic logic.

Problems with How Inflation is Measured

A further dimension of Richard's analysis concerns the reliability of the inflation statistics themselves. He has raised persistent questions about the accuracy of the Office for National Statistics' inflation data, arguing that its methodology has at times produced significantly overstated figures.

A particular concern has been the ONS's practice of using official list prices rather than prices actually paid by consumers, which can differ substantially from one another when loyalty scheme discounts and supermarket pricing structures are taken into account. The effect of this methodology is to overstate inflation as experienced by real households, with consequences for policy decisions, pay settlements, and benefit uprating that flow from the published numbers.

He has also raised more fundamental questions about what inflation indices measure and whose experience they capture. The standard Consumer Prices Index basket is an average, and the inflation experienced by households in the bottom half of the income distribution, whose spending is concentrated on food and energy, is often sharply higher than the headline figure suggests.

A measured inflation rate that is politically manageable may simultaneously represent a genuine crisis of affordability for those on low and fixed incomes, a gap that Richard argues requires explicit political attention rather than the assumption that a single number captures the economic reality of diverse households.

An Alternative Policy Agenda

Richard's critique of orthodox inflation management is not merely destructive. He has consistently outlined what he regards as a more effective and socially just approach.

Where energy prices drive inflation, he has argued for direct public intervention: price controls where market power is evident, windfall profit taxes on companies benefiting from commodity price spikes and accelerated public investment in renewable energy as a structural solution to dependence on volatile fossil fuel markets.

Where profiteering contributes to price rises, stronger competition regulation and excess profit taxes represent more targeted and more effective responses than broad monetary tightening.

On the longer-term management of inflation, Richard's MMT-informed position points to the importance of maintaining adequate real productive capacity in the economy, so that public spending can expand without pressing against binding constraints. An economy that has been chronically underfunded in its public services, its housing stock, its energy infrastructure, and its workforce development will be more vulnerable to inflationary pressure precisely because its productive capacity is lower than it should be. The solution to that vulnerability is not to keep interest rates high and growth suppressed; it is to invest in expanding productive capacity so that the economy can meet the demands placed upon it without price rises.

Across all of this, Richard maintains that inflation policy must be assessed against its distributional consequences, not merely against an aggregate price index. Who gains from inflation? Who suffers? Who gains from the policy response? These are political questions, not merely technical ones, and pretending otherwise is itself a political act.

The evidence from the post-2022 tightening cycle, in his view, is that the policy chosen worked primarily to protect financial asset holders while imposing its costs on working households, renters, and public services.

Understanding why that choice was made, and in whose interests, is central to his broader project of exposing the political economy concealed within the language of technical necessity.

Reading List

The following posts from the Funding the Future blog provide a starting point for further reading on Richard's views on inflation:

* "***Central banks failed on inflation***", **20 May 2026.**

* ***"The UK's inflation data has been seriously overstated", 30 April 2025.***

* ***"What do you do when the target's wrong?", 17 October 2025.***

* ***"Why 2% inflation?", 23 October 2025.***

* ***"Does taxing the wealthy control inflation?", 18 November 2025.***

* ***"MMT questions", 21 December 2025.***

* ***"A 3% inflation target would work just as well as a 2% one", 18 April 2024.***

* ***"The Bank of England used the inflation crisis to boost the wealth of the wealthy, but did nothing at all to control inflation", 10 May 2024.***

* ***"The Bank of England has been fuelling inflation by boosting the incomes of older, wealthier, Tory supporters", 5 January 2024.***

* ***"The Bank of England knew inflation was going to rise now – in February", 18 December 2024.***

* ***“Greedflation is alive and well in UK boardrooms”, 22 August 2023.***

* ***“The way to cure inflation is to cut the Bank of England base interest rate”, 21 June 2023.***

* ***“The risk of the Bank of England massively overshooting on inflation is high”, 4 August 2023.***

* ***“Inflation is falling, but not thanks to the Bank of England or government policy”, 15 February 2023.***

* ***“Why is UK inflation not falling as fast as it is in Europe?”, 19 April 2023.***

* ***“Can public sector pay rises cause inflation?”, 14 April 2023.***

* ***“Who has caused inflation in the UK?”, 3 February 2023.***

* ***“When will we get price controls to limit inflation?”, 24 May 2023.***

* ***“The inflation we are suffering is by government choice”, 18 May 2022.***

* ***“We need a proper windfall profits tax”, 31 August 2022.***

* ***“Why the UK’s 2% inflation target is wrong”, 9 May 2018.***