QE - this time a policy by bankers for the benefit of b...

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We're going to have more quantitative easing. £75 billion of it.

Let's be clear what that really means. In effect it means that the Bank of England buys in £75 billion of government debt and takes it off bank and financial institution's balance sheets and puts it on its own.

At the same time of course the Treasury is issuing new debt to the same institutions because we're running a deficit.

Over the four months or so over which the QE programme will run the amount of debt issued will be a bit less than the amount of debt bought in. So what the heck you might think is the point of this?

Good question. There are three reasons for the policy.

First the old debt bought in is at high interest rates. The new debt is issued at low interest rates. That might sound like a saving. But for the banks that sell the debt back to the government it's better than that. The debt they sell back to the bank of England will result in a profit to them. Why? Well because the nominal interest rate on the debt sold to the Bank of England is higher than current gilt rates the price of that debt is inflated at present compared to the price at which it was originally issued to bring the real rate on the current price down to current rates. The consequence? Simply that selling this debt to the Bank of England delivers profit - and possibly quite a lot of profit - to the banks and finical institutions in question. You can imagine the result. It's bonus time this Christmas in the City thanks to HM Treasury.

But what else happens? Two things. First QE succeeds in effect in supplying finance to banks at Bank of England base rate -so 0.5%. But the banks then in effect lend that money on to the Treasury at more than 3%. So hey presto, there's another immediate source of profit to banks. More triple all round. And that is because the EU will not let the Bank of England lend straight to the Treasury that would cut out this margin for the banks. This rule, created when a failed banking system was not imagined. It's time it went.

And what happens with all this extra cash the banks get? The hope was they would lend it on. but they didn't of course. Far from it. Doing something so boring as providing banking services does not now occur to these organisations when it is so much easier to speculate, which is precisely what they do.

Last time they speculated in oil, commodities such as raw materials and food, forcing up prices in all of these because of the wall of money that was suddenly made available to speculate in these goods. We got inflation as a result. And this time because the Bank of England is really worried inflation rates will fall dramatically in the New Year because last year's VAT rise will fall out of the system as will the effect of the first round of QE they really want to push prices up - and that probably explains why the amount of QE is bigger than expected. But that inflation is of course created by profits to banks. Real people will see their pay frozen, and that means this inflation suppresses real incomes, rapidly, unless you are a banker of course. So that's another cause of celebration for the City. Nothing pleases them more than Ian increase in inequality in the UK and that is what we are going to get.

So what are the alternatives.

First, we should just get on with lending from the Bank of England to the Treasury and let the EU sue us in seven years time. This is a crisis. Maybe they should notice that.

Second, because banks will not lend this money into the economy the Bank of England should. since it hasn't got a mechanism to do that it should buy out the small rump of RBS it does not own and use RBS for the purpose as a new National Investment Bank.

Third the most odious public debt - PFI debt - should be repurchased in preference to gilts. Let's get rid of this odious debt for good and free future generations form real obligations.

Finally, let's also simply spend the money into the system - by VAT cuts, giving pension increases, buy cancelling redundancies. This has real prospect of saving us from the mess.

But I'm afraid to say that this time QE looks like it is a policy made by bankers for the benefit of bankers. And that is the last thing we need right now.