

Just suppose we were only borrowing Â£35 billion a year...

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Over the last week [I've been arguing that](#) the government gilt purchases made under the quantitative easing programme effectively cancel that debt. Being realistic, [as the IFS predict](#), we're running big enough potential deficits over the next few years to mean there will in practice be no capacity to resell this debt. The reality is that as money supply is falling but for quantitative easing we could not also resell the debt. So for all practical purposes it's cancelled. That means in net terms over the last seven years from 2005 to 2011 inclusive we've borrowed a little under £35 billion a year in net terms, and that is less than we did in each of the years 2005, 2006 and 2007.

Do long as the banks do not lend this situation will persist. Bank lending has been the way we've made the money that the country needs to keep the economy going. As long as banks don't lend, and that looks likely to be for some time to come since without an increase in one of consumer demand, business investment or net exports their lending is bound to fall, then it will fall to government to both fill the gap in the economy that they create by their inaction and at the same time create the money that's needed to keep the economy going. So, I can pretty confidently predict that if, as the IFS suggest, the government deficit will be £120 billion next year, £99 billion the year after that and £79 billion in 2014-15 then you can be pretty sure that quantitative easing in those years will be £85 billion, £65 billion and £45 billion respectively leaving net borrowing at around £35 billion a year. Total government debt despite the deficit will, therefore, be no more than about £750 billion or so in 2015 which will be, give or take, about 50% of GDP, a figure that will be vastly lower than elsewhere in the Eurozone in particular. And we won't have inflation as a result because, as a consequence of the actions of this government which have pushed almost 3 million people now onto unemployment, with that figure bound to rise over these years, wage inflation pressure will be virtually non-existent whilst the collapse of demand in the Eurozone will take the pressure off other prices too.

It's pointless arguing about the opportunities that this provides to this government: it is clear that this government only has the main of destroying the state sector and public well being. It will do this for doctrinaire reasons whatever the economics of the issue. So the question is what opportunity does this provide to Labour?

First, it has to tell this story. Politics is about telling credible stories about how the world works. This one is such a story.

Second it has to claim credit for it. Labour created quantitative easing.

Third it then has to say the debt crisis is not an excuse for all that has happened: there has been no debt crisis. The pain we're going through and the much greater pain to come is not and cannot be justified by the economics of this situation: they will have been imposed by Tory choice.

Fourth, we could then plan a very different economy. We could then plan to borrow for growth. After all, we're hardly borrowing at all now. Net borrowing of just £35 billion a year by the government is not enough net borrowing to meet the demand of pension funds for UK government gilts to underpin the pensions of baby boomers now retiring in ever increasing numbers - and it is those gilts that are actually used to pay those pensions. So the government may actually need to borrow more to meet the demand for gilts.

What might it do with the extra lending? Well, it could invest in the Green New Deal for a start, making this country much less dependent upon carbon fuel and much more fuel efficient in the process. That would provide a massive rate of return on the spending incurred in the future, and help our long term exchange rate. And it could build all the hospitals, schools and other infrastructure we need without recourse to PFI. It could even build the flood defences we need - to stop the Wash and 50 miles inland flooding, for example. We could also build the social housing that is so obviously and desperately needed in the UK; housing that would pay for the interest on the borrowing with the rents received.

The point is, once we understand that our borrowing is now already under control we can then talk about what we really want to do with the economy.

And because of quantitative easing, whether it was planned to achieve this outcome or not does not matter, our borrowing is now under control. And in that case we can plan for the sustainable growth in jobs we need.

Now of course as employment would rise quantitative easing may cease to be possible as the risk of inflation would then be real. I accept that. But that doesn't matter. By the time that became an issue those then in work would be paying enough additional tax to make sure we need not need quantitative easing anyway. A virtuous circle of debt reduction would have been created.

All this is possible: we just have to realise that quantitative easing [has delivered the solution to our debt problem](#). Why are we waiting?