

Let's get quantitative easing in perspective - because ...

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There's a lot of debate on quantitative easing going on right now. It's being seen as the magic bullet that might revive the Eurozone.

It might. And it might not. QE was invented by Prof Richard Werner of my alma mater, Southampton University. The aim, as I see it, was threefold.

First it was to create money when private banks - to whom the task is usually devolved - will not. So it is about providing the liquidity that is essential if an economy is to function properly.

Second, it is about keeping interest rates low. This reinforces central bank policy and provides economic stimulus (it is hoped) because low interest rates should mean more consumer spending and higher investment by business, which along with net exporters and government activity are the drivers of an economy.

Third, QE effectively cancels debt. As Richard Werner has argued - using the case of debts issued in 1914 by the Bank of England to replace German assets on the balance sheets of UK banks that would have otherwise been insolvent - the Bank of England (or any other central bank) does not have to do anything to effectively achieve this cancellation - the process of doing nothing has that effect. But, and this is important, the effect could be (and has been, although denied) that a government can spend without relying on tax revenue and still in effect balance its books by printing the money that the economy both wants and needs so creating the economic activity of which the economy is capable without in effect borrowing, so undermining the small minded argument that the government must pay with taxes for all it does. And this subversive element is what offends those who want to apply a 'household economy' approach to government funding so that its actions are constrained and its possibilities are limited.

The fear is, of course, inflation. And the evidence at present (and I accept, nothing lasts forever) is that this will not happen precisely because commercial banks are not producing money, which is why there is a need for QE in the first place.

I think QE is a powerful economic tool. Those who are deriding it as some sort of voodoo are showing they do not understand money creation, the macroeconomics of government funding or inflation come to that, let alone the relationship between central bank and Treasuries.

Equally, QE can be heavily abused. So far QE has been inflationary - but not in ways most people have perceived - because it has fuelled asset price inflation. That's the absurdly over-valued stock market, housing prices and was commodities until the US and Saudi decided to crash oil prices to spite Russia. So the benefit has gone to a very few.

But that need not be the case. This is a perversion of QE. QE need not be based solely on buying sovereign debt. It could be used to buy other debt to be used for specific purposes - such as infrastructure and housing spending. There is absolutely no reason why not. Then it becomes what I Green QE - [for which term I can claim some credit](#). It is not the case that QE must boost banking or create asset price inflation; it could just as easily create real economic activity, as good bank lending can also do.

But that depends on us having renewed confidence in the ability of governments to pick winners.

Winners like housing.

And transport infrastructure.

And ending PFI.

And creating green energy.

And investing in new technologies like tidal energy.

Things that all seem desperately unlikely to fail in other words.

A willingness to embrace Green QE will, I am confident, become a very clear political dividing line in due course around which debate will really flow. It is going to be one of the key questions on how we build the future we want.

It's why the voodoo commentary on QE now has also to be called out, because that is simply about denying real economic choice and opportunity, and that is very definitely wrong.