

The wrong type of QE

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The European Central Bank has launched its QE programme, which is planned to print €1.1 trillion (that's €1,100,000,000,000) of money in the Eurozone over the next two years.

Let's put this number in context. The EU tax gap - that is money unpaid because of tax avoidance and tax evasion over this period will be bigger than that. I have estimated this loss to exceed €1 trillion a year.

And let's also contextualise this: the EU as a whole has GDP of €13 trillion.

However looked at then the QE programme that has been announced is enormous. So why do it? The aim is simple: it is stated that the aim is to create inflation of 2% when the Eurozone is currently suffering deflation which could become endemic if not addressed.

But, and there is an enormous but to this, whilst the QE programme might achieve the goal of inflation (and might not) whether it does so or not the cost will be enormous.

I stress, I am not opposed to money printing, which is what this programme is.

Nor am I opposed to central banks buying government debt (which I suspect the vast majority of this will be) knowing it will never sell it again, which permanence is inevitable in the current case because there is no situation that I can foresee where markets will ever have the capacity to reacquire the debts now to be purchased by the ECB.

Let's then be under no illusion: this is a debt cancellation programme through the creation of new money and those who suggest otherwise are as deluded as those who think Greece will now repay all its national debt. All if that is fine, acceptable, and indeed what is needed right now to restore inflation.

What is not needed though is the consequence of this particular type of QE programme which will buy back debt from banks and other financial institutions. These

organisations have in recent years proved themselves entirely clueless in the art of investing money for social benefit. Despite this the QE programme will leave these bodies awash with cash. There are inevitable consequences.

First, because these bodies only invest in the private sector and there is no demand for new cash for private sector investment in the EU, or beyond it, this money will not be invested in new productive capital. Not a new job will be created as a result. Not a single social need will be met. Instead the money will be used for speculation. That may be in stock markets, but as much will be in commodities, and because all players in these markets will have more money to gamble the result is inevitable: asset prices will rise, significantly and artificially. This will not be the market at play, this will be distortion. There will be a boom. A bust will follow.

But in the meantime market gamblers will celebrate their profits, acclaim their abilities, and demand their bonuses. A few will get very rich indeed. Many will pay the inflated commodity prices and vast numbers of young people will end up priced even further out of property markets, where a few will purchase considerable portfolios and yet more trophy apartments that prevent access to housing at affordable prices to millions.

This will be socialism for the rich.

There is an alternative. [The Green QE programme I have promoted](#) would also involve central bank purchasing of debt, but this would be debt issued to fund hospital, school and infrastructure programmes as well as green energy and energy saving programmes to provide long term benefit to the society at large.

This programme would create jobs in every town and most villages throughout Europe. It would deliver social value. It would create inflation because ordinary people would have more money in their pockets because of increased employment and because wages and not asset prices would have been forced up.

This programme would not lead to bust: this programme would build the housing and other resources Europe needs. And this programme would deliver skills, hope and prosperity, and as costlessly in terms of money creation as the planned QE programme, because just as in that case none of this debt would ever be repaid. It's a costless injection into the real economy, not the speculative one.

I am not opposed to turning on the money printing presses. But I am if the result is a boom to be followed by a bust with a few benefitting enormously at cost to many in the meantime. That's what we're getting and that is tragic when an alternative exists that could deliver so much social benefit. This is the time for QE, but Green QE is what we need and is not what we're getting.