

Green QE: a response to Frances Coppola

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Frances Coppola, who is a well respected commentator on banking issues, [has issued a response](#) to my comment piece in [Holyrood magazine on green infrastructure quantitative easing](#). It's entitled 'Green QE and the Juncker Plan: a response to Richard Murphy' so I think it's fair to respond.

Frances has summarised my plan as follows:

- * bond issuance by a government agency to fund infrastructure projects;
- * purchase of those bonds by the central bank using newly-created sovereign money.

There are technical faults in that summary, but let me keep to the big issues and suggest her response comes in three parts. She suggests:

- * that my plan is like the Juncker plan for investment in the EU, and then changes her mind;
- * that issuing bonds to fund infrastructure projects is a good idea;
- * that having them repurchased by the government using sovereign money is a very bad idea, albeit technically possible.

On the first point Frances reached the right conclusion: what I am proposing is nothing like the Juncker plan.

I could raise some technical issues on the way Frances thinks bonds must be issued in response to the second point, but they are not material to the argument here, so let me just note broad agreement and move to the third, and significant issue.

So let me turn to the third point. It seems that Frances has at least four objections to my plan that the government should use its right to create sovereign money for public good. These are:

- * the Bank of England should not bear the losses on such investments;
- * the government should not be telling the Bank of England what to do as it is meant to be independent;
- * The Bank of England will lose control of monetary policy
- * QE is meant to be reversible and what I am proposing does not look like it is;
- * my plan could lead to inflation.

Other comments all seem to be wrapped around those themes, so let me address them.

On the question of losses there are a number of responses. First, Frances ignores the fact that this issue has already been addressed by the existing QE arrangements: the Bank of England has been indemnified with regard to its losses on this arrangement by the government. This is, of course, entirely appropriate; it is wholly owned by the government. In that case to argue whether or not the Bank of England should bear a loss or not is, then, irrelevant to this discussion: ultimately it is always the government's and so such an indemnity simply passes the consequences of the QE programme onto the government. But tellingly, in the process it also reveals who is responsible for that programme, which is very obviously central government and not the Bank of England. This is an issue I will return to below in another context.

There are two other issues on losses that I think Frances also ignores. The first of these is the rather obvious one that if the money that might be lost was created out of thin air in the first place the loss is, itself, somewhat notional unless the loss is greater than the sum loaned and that is unlikely.

More importantly, the perception of loss that France is using is, essentially, a microeconomic one because it is viewed solely from the viewpoint of the Bank of England balance sheet, but that is inappropriate on this occasion. The proposal I've made is to create a macroeconomic impact and therefore in any measure of loss the leveraged consequence of the economic activity flowing from the investment that green infrastructure quantitative easing might enable has to be taken into account. Since the Bank of England balance sheet would not measure this it is very obviously inappropriate to measure the loss at that point, which is precisely why an indemnity would need to be issued to it.

Let me then turn to the question of whether or not the Bank of England should take instruction from the government. As Frances herself says:

Richard's plan would force the Bank of England to CHANGE its monetary policy stance in order to do the bidding of the fiscal authority. This is "fiscal dominance", and it would mean the end of operational independence for the Bank of England. It's quite a problem, considering that the UK is a member of the EU, which enshrines the

independence of central banks in treaty directives, and the Bank of England is a member of the Eurosystem and therefore (in theory) answerable to no-one.

To be sure, I have [pointed out before](#) that "independence" for a central bank is an illusion: central banks are only as independent as politicians allow them to be. So the loss of independence is perhaps not the main problem.

That might resolve that one in itself. But if in doubt, it's worth noting what Mark Carney had to say in response to a letter from Caroline Lucas in March 2014. [As the FT noted, he wrote in the specific context of whether or not Green QE was possible that:](#)

It is possible that if the MPC did vote to increase its asset purchases in future, it could expand the range of assets it purchased. Such a decision, however, would need to be agreed with the government.

I think that says a) all QE is under government control b) he will do what is asked.

Let me turn into the question of monetary policy. To do so let me go back to 1997 and the announcement that Gordon Brown made then about the creation of an independent Bank of England Monetary Policy Committee. [According to the BBC he said:](#)

I want to set in place a longterm framework for economic prosperity... I want to break from the boom bust economics of previous years.

That worked well then. Just as it has on inflation, growth, regulating the finance sector, preventing bank failure, changing the culture of politics and so much more.

It's also important to note that the BBC suggested in 1997 that:

It means the bank will now be free to decide monetary policy without taking the short-term wishes of politicians into account.

I am quite sure that the reference to the short term is is not a chance: this is what the briefing said. No one pretended, and no one should ever pretend, that a central bank should be above and beyond the control of a democratically elected government. That may be what bankers want, and may even be what bankers think is the case, but to suggest that monetary policy should be beyond democratic control is not just deeply worrying, it is profoundly anti-democratic. I am entirely happy that detailed workings of certain parts of government, of which I consider the Bank of England just one, can and should be delegated to committees of competent people, but to remove those committees from accountability is an affront to proper processes of government and so the objection to my proposal on the basis that it would take monetary policy into government control is, I hope, just a semantic error, because if it is anything else I am troubled.

I would add that this does not, of course, mean the end of monetary policy as Frances

suggests. Short-term monetary policy would remain entirely under the control of the Bank of England. But given that I would only suggest that green infrastructure quantitative easing be used in periods when monetary policy is, in any case, largely ineffective (as it has been for five years) nothing changes in this respect: if that situation changed and the economy was sufficiently vibrant with business investment flourishing there would simultaneously be a need for monetary policy and no need for green infrastructure quantitative easing. There is, then, no conflict between the two.

What then of the concern that green infrastructure quantitative easing of the type that I have suggested would appear to be irreversible? I admit that I cannot take this objection seriously. If it was really necessary to reverse any green infrastructure quantitative easing at sometime in the future because the markets were so vibrant that the whole sum of £375 billion of government debt purchase between 2009 at 2012 had already been reissued into the money markets to reduce their exuberance then the problem that we would face would not be the irreversibility of the green infrastructure quantitative easing that I propose (which would, over the next few years, accumulate to a somewhat lesser amount than £375 billion) but would instead be the fact that we would have a runaway credit boom that would put us at risk of imminent financial collapse in the style of 2008. In other words, if the irreversibility of green QE was ever an issue there would be much bigger ones to worry about, and so I dismiss this objection now.

As for inflation? £375 billion has led us to zero inflation. Would another £50 billion of QE for each of the next five years really change that when there is, at present, a declining real money supply and a need to restore an inflationary environment? I hardly think so: in fact, I can only see it being a benefit. And as for the long-term, see the previous paragraph.

Let me pull all this together then. The first thing to say is that it is agreed that new investment is a good thing. Second, it appears to be agreed that green infrastructure quantitative easing is a new, and technically different idea from others that have been proposed. Third, Frances appears to be agreeing that technically green infrastructure QE is entirely possible. Fourth, with central government permission it is very obvious that it is also within the Bank of England's remit to undertake it: Mark Carney has already agreed that. Fifth, if it does create inflation that will be of benefit, and sixth, its irreversibility is of no consequence, and of profound benefit to the projects that it will fund. Seventh, if there are losses then to the limit of the sum invested these will be purely notional: the loss will be of money that has already been created out of thin air. Beyond that any loss will have to take into consideration the multiplier effect that the investment has taken before a net appraisal of benefit is undertaken, which is precisely why the loss could not sit on the Bank of England balance sheet.

So, what objections are left? Only, it seems to me, that the state must not use its power to create money for the public good, and that this power must be reserved solely for the benefit of the financial services sector. That is not an economic objection; it is

a purely political one. And that, I suggest, is all there is to Frances' objection to my proposal.

It is my opinion that the state can, and should, use its power to print money during periods of economic downturn for the benefit of the entire economy and everybody who lives within a state, and not just to bail out the financial sector. Some, it would seem Frances included, believe that this power should be reserved solely to benefit a small elite in the financial markets, which is how it has been used to date. I am entirely happy to disagree on this point, but I think it only appropriate to point out that this is what the objection really comes down to.