

The FT says Corbyn's "People's QE"...

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The [FT has published](#), in the last hour or so, a review of People's Quantitative Easing on its FT Alphaville blog site. Written by an FT staffer it is headed:

For copyright reasons I cannot reproduce all it says, but given they have taken big chunks from me think I can borrow some in return. They start by saying:

If Jeremy Corbyn [becomes leader of the UK Labour Party](#), one positive consequence will be the ensuing discussion of the monetary policy transmission mechanism. It all started with his presentation on "[The Economy in 2020](#)" given on July 22:

The 'rebalancing' I have talked about here today means rebalancing away from finance towards the high-growth, sustainable sectors of the future. How do we do this? One option would be for the Bank of England to be given a new mandate to upgrade our economy to invest in new large scale housing, energy, transport and digital projects: Quantitative easing for people instead of banks. Richard Murphy has been one of many economists making that case.

That passage seems to have been mostly ignored until August 3, when Chris Leslie, Labour's shadow chancellor, [attacked the policy](#), which in turn led to [a detailed response from the aforementioned Richard Murphy](#) (see also [here](#) and [here](#)), at which point what seems like the bulk of the British economics commentariat erupted. Just search the internet for "Corbynomics" if you don't believe us.

As they note:

Much of the commentary has been negative – former Bank of England economist Tony Yates [concluded](#), for example, that "People's QE" would be "the first step along the road to undermining the social usefulness of money" – although Chris Dillow gave an [intelligent defense](#).

And as they then add:

We don't understand the negativity. Some of the specific arguments justifying the proposal may be flawed, but the core idea is sound and possesses an impressive intellectual pedigree. In fact, it could help solve one of the most troublesome questions in central banking: how policymakers can accomplish their objectives using the tools at their disposal, without producing too many unpleasant side effects.

Having discussed weakness in much of monetary policy they then note:

The existing monetary policy tools also have the unseemly property of appearing to work mainly by making the rich richer and hoping that some of the extra wealth gets spent. Even if it's true that the rest of society benefits from this, because otherwise they'd be unemployed, this is [trickle-down monetary policy](#). The Bank of England [admitted](#) that "in practice, the benefits from these wealth effects will accrue to those households holding most financial assets".

Quite so. They then say:

Cutting out the middle men is the most obvious way to improve the transmission of central banker desires into economic reality.

Spot on, except that they then note:

[Our preferred approach](#) would be direct deposits into household accounts offered at the central bank. It's simple and doesn't require any political debate about how best to spend the newly created money.

I quite strongly disagree: this would simply induce a rapid imports boom and GDP hit to be followed by some serious withdrawal symptoms soon after with no long term employment, investment or skills gain. I see no win in that, at all. They have noted that:

But Corbyn's plan to have the Bank of England fund government-directed investment in infrastructure could also work, especially if the pace of investment were adjusted according to the condition of the economy. In fact, Adam Posen [supported something similar](#) when he was on the Monetary Policy Committee of the Bank of England, except that he focused on small businesses.

They then compare Posen to my suggestion: they did not note that I got there the year before Posen did, but that's splitting hairs. As they say:

Posen thought that private lenders weren't providing credit where he believed it was needed, so he recommended creating new public investment banks that could originate and securitise loans into bonds that could then be purchased by the Bank of England, thereby funding new business investment. Corbyn/Murphy want specialised "green" investment banks, housing authorities, and local governments to be able to finance infrastructure investment secure in the knowledge that the Bank of England will be

there to provide funding support. We fail to see a significant difference.

And add:

You could oppose the policy because you think the government will make bad investments, but by that logic you're really just against any government-led infrastructure spending. You could also object to the idea that the government is effectively using the central bank to finance its deficit spending and undermining the shibboleth of "central bank independence", but you would have to contend with the arguments of, among others, [Martin Wolf](#), [Paul McCulley](#), and that old communist [Milton Friedman](#).

Before saying:

The main concern about Corbynomics isn't whether the monetary transmission mechanism needs an upgrade - it does - but whether the UK actually needs that much additional investment spending.

On this they use an analysis remarkably like [mine on private sector debt growth](#), before noting on pure macroeconomic grounds that:

If Corbyn's preferred investments are useful, they could help restore some of the lost ground in productivity and lead to higher real wages for Britons. And by expanding capacity, this extra investment spending may not even end up being inflationary. (The actual amounts in question, according to Murphy, are quite small relative to the size of the UK economy.)

And then conclude:

"People's QE" is far from an obviously wrong idea. Implemented properly, it could even improve the Bank of England's ability to fulfill its mandate without needing to goose house prices or get into contentious debates about helping the rich at the expense of pensioners.

I agree, but that's hardly surprising.