

The market will not fund infrastructure: PQE has to ins...

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One of the arguments used by those who say that People's Quantitative Easing is not needed is that if it were necessary to invest in social housing, infrastructure, and other socially necessary facilities then the market would provide. Let me [take Robert Peston as typical of this genre](#) when he said:

[Richard Murphy] clarifies that the debt to be acquired by the Bank of England would be issued by a new state-owned investment bank, whose role would be to finance housing, transport, and so on.

But I am not sure the existence of this new public-sector bank significantly helps his cause.

Because there would be widespread concerns that the Bank of England would be indirectly financing white elephants via this investment bank — and would, as I mentioned earlier, be throwing good money after bad.

Or to put it another way, quantitative easing for people makes good economic sense only if you believe that a state investment bank would make viable investments that the private sector refuses to make.

His implicit assumptions are:

- 1) If these investments are not being funded by the market they are of no use
- 2) The market is capable of assessing this usefulness
- 3) They're not happening so it must follow that right now they are not needed.

Then I read what Gillian Tett has to say in the FT yesterday, [where she noted](#):

[T]hese days, it seems that a subtle – and largely unnoticed – shift is under way in how American companies are placing their spare funds. To understand this, take a look at a survey recently released by the [Association of Financial Professionals](#) on the behaviour

of corporate treasurers. This analysis starts by highlighting a point that is well known: namely that holdings of [corporate cash](#) have recently swelled, because company profits have surged, but investment has remained relatively low.

The AFP reports, for example, that 31 per cent of treasurers said that their cash balances rose last year, while 46 per cent reported that they were unchanged, and most treasurers expect this pattern to continue. Little wonder, then, that [economists estimate](#) that there is between \$1tn and \$2tn of unused firepower now sitting on corporate balance sheets.

Now I am assuming:

- 1) That these companies approximate to the market: they have decided to withhold this money because they think it rational to do so and their shareholders have not stopped them doing so by demanding dividend payments instead (although I would argue that is irrational of them);
- 2) These companies are not investing in public infrastructure: in the USA and UK the need for such investment is massive but it is not happening;
- 3) These actions are unrelated: there is no link at all between the corporate decision to hoard cash and the process by which investment decisions on public and social infrastructure are made barring the fact that these companies are overloading the banking system with deposits, which helps keep rates low.

Now, Robert Peston and I have made different assumptions. The question is which is more useful? Is he right that because corporate treasurers in the UK and US will not fund social housing there is no need for that housing, or am I right to suggest that they have never once thought it their job to do such a thing, and the state has to create the mechanism to make sure such investment happens?

I'd venture to suggest I am right, and that I would also be right in saying that a great many of those who argue that People's QE is not needed subscribe to what I might call the Peston line. How might I summarise that line? It is that 'the market knows best'.

I venture to suggest that is nonsense for three reasons.

First, markets don't consider social returns.

Second, as a result they don't invest for social purpose.

Third, worse than that, they don't even consider shareholders and their return or they would not be sitting on up to \$2 trillion in cash for no good reason whatsoever, messing up the balance in the banking system in the process and so suggesting alternative funding mechanisms must be created if social purpose is to be achieved.

That's People's Quantitative Easing, of course: the way in which the Bank of England can help the government correct for the wholly irrational behaviour of the markets right now.