

The political economy of People's Quantitative Easing

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I have, over the last few days, posted a series of blogs all of which ultimately lead to this one. What I have been seeking to establish is the political economic logic of what I once called green quantitative easing but which is now vastly better known as People's Quantitative Easing (PQE).

In the process I have [established that this is legal](#). [Mario Draghi](#) and [Mark Carney](#) have both made clear this is the case.

It has also been [widely acknowledged that it would work](#).

At the same time it's clear that [large numbers of economists say it is not needed](#). Their argument in saying so is usually that PQE is not needed now. I find this odd, not least because this is a pretty strange case to make since no government likely to implement it is likely to be elected before 2020, at which time [I argue that it very definitely will be needed](#). They either appear to be unable to project that far or seem to accept that all George Osborne predicts will turn out to be true; I know not which. The wider consequences of their argument I explore further, below.

Secondly, a few have tried to claim that it is inflationary, but the tendency appears to be almost entirely [amongst the political commentariat](#) and not from those with any real economic understanding. Most accept that in the current era of ultra-low inflation any tendency to create inflation it could possibly create might be welcome. Those, including some Labour politicians, who describe this as a money printing exercise to stoke inflation fears do in the process fail to note that it [has the exact same inflationary impact as any other deficit](#), and that Keynes would undoubtedly argue that in the current economic environment we should definitely be stoking the economy. Their arguments are disingenuous in that case, or they are explicitly saying they think now is the time to withdraw all expansionary activity despite the state of the UK economy at present. Again, I know not which.

Third, critics argue that PQE would threaten Bank of England independence, [but as I and others have argued](#), that so-called independence is just a facade in any case.

Fourth, the critics say [any required funding could be paid for with gilts](#). The trouble is, in an [era where ultra-low interest rates are likely](#) for quite some time to come this means that [borrowing costs are much higher than they need to be](#): PQE as a charge on reserves is cheaper than gilts. Why would they want to incur billions of additional costs?

And when it comes down to it, all that is offered is rhetoric: it is said 'we must preserve the appearance of central bank independence' when that is a myth, or 'we must not monetise debt' because of either a misunderstanding of the true nature banking or paranoia the need for central bank involvement in currency issuance, or 'central bankers should not be involved with investment decisions in the real economy' when no one has said they would be or 'the central bank should not take risk on investments' when again it is glaringly obvious they will not in the PQE hat I have proposed.

But what is more interesting is not that all these arguments are so obviously capable of being refuted, but what is not being said because in the gaps between the arguments. There it is possible to find many of the real reasons why so many people have lined up to oppose People's Quantitative Easing.

The first, and obvious issue to address here is implicit in the claim that PQE is not needed because issuing new debt could achieve the same goal. The first point to make is that many of those making this point will also have fuelled the paranoia about government spending, deficits and debt and will have argued that Osborne is right to impose austerity to achieve this goal - including by slashing public investment. So their argument is duplicitous: they say borrowing could be used to fund investment but then they argue against borrowing. I do not accept their narrative.

Second, implicit in that same argument is that they do not want discussion of the deficit and what it means. I am certain ([as is Zoe Williams](#)) that a debate on the [narrative of the deficit](#) is essential. As I have already argued, [the first issue to be addressed here](#) is the mis-statement of the extent of government borrowing. The second is the fact that when the deficit [is appropriately understood and analysed](#) it is clear that the part of it relating to capital investment has already been subject to QE (setting a precedent for PQE in the future) whilst almost all the rest has been created to meet the demand for sterling savings from money coming from abroad. Taking those two factors into account, coupled with a proper understanding of sectoral balances, the remaining deficit is not an issue (partly because it has overall been a surplus over a period of more than decade).

Third, and perhaps most importantly, is the fact implicit in almost all the arguments offered is that we fundamentally have the direction of UK economic policy and decision making right. So, for example, it is said that we do not need a stimulus. But this is absurd. That is only true if it is accepted that having 1.8 million unemployed is acceptable. And if having 5 million or more, largely involuntary, self employed on steadily declining earnings is acceptable. And if having millions more on minimum wage is acceptable. And having many under 40 locked out of security in their living

accommodation for a lifetime is acceptable. I do not accept any of those suggestions, any more than [I accept the plausibility of Osborne's plan for the UK](#), which almost all commentators seem to do without having apparently cast a critical eye over the absurd assumptions that underpin it.

Instead the logic that we do not need a stimulus now because we have 'growth' fuelled largely by a house price boom and extended consumer credit seems to me to say that the sole criteria of economic plausibility that those rejecting PQE apply is that of GDP growth, from wherever it comes and whatever the distributional elements to it. What they do not, of course, mention is the fact that they are tacitly accepting that this acceptance in their part has the consequence of condoning increasing inequality, any more than they say that their implicit support for an independent Bank of England implies they have limited faith in democracy and instead believe bankers and economists who are very largely wholly uncritical devotees of neoliberalism always know best.

So I think in that case I need to spell out explicitly the political economy of People's Quantitative Easing, as I see it.

First, this is a policy that starts from the assumption that it is the role of government to explicitly meet need when markets do not or cannot, including the need for education, housing, health, transport, justice, energy, defence, and so much more.

Second, it assumes that those engaged in meeting such needs must be appropriately rewarded. This is a policy about fair pay, secure employment, regionally spread, and with appropriate training.

Third, it is a policy about saying that the government has to prevent market excesses that are harmful. Banks have clearly indicated their ability to cause harm. One way in which they secure their position in the economy is by retaining significant control over policy making and a supposed essential role in funding government deficits. Neither are necessary or can be justified: PQE helps balance power on such issues for the good of society as a whole.

Fourth, it is about value for money: People's Quantitative Easing is cheaper than other funding options. The question has to be asked why more should be paid than is necessary to secure the investment the economy needs that must be paid for by the state. We have suffered decades of PFI now that is a massive transfer of value from the state to private sectors that increases inequality. PQE challenges the prevailing logic in the financial world that the state will always do this: it won't because PQE shows it has no need to do so.

Fifth, PQE is about saying inflation is not the only economic priority: this may be a priority for the country's debtors to whom money is paid but they have no right to dictate the sole economic priority of the government. Others such as full employment,

real wage growth, reducing inequality, sustainability and more are just as important and inflation may play a role in achieving them.

Sixth, PQE is about saying that what the state does is not a residual that fills in the gaps when the market does not operate at full capacity when, as [Robert Peston implied](#), the state undertakes white elephant projects to keep things ticking over until the market gets its act together again. Instead this policy implies that what the state does is fundamental, most especially [when business has no clue what to spend its money on](#). In fact, it is a government saying that the needs now unmet by the market may be at last as important as anything the market can deliver. Shockingly, to some, the suggestion is that modern markets, that are as far from the free markets that suggest optimal resource allocation can be delivered by free enterprise as it is about possible to get, engage a few people to make sub-optimal decisions on how to meet the needs of a minority in society whilst PQE would, through democratic control, empower decision making on how to meet the needs of a majority.

Seventh, in that case PQE is not just a funding tool, it is indicative of a whole new way of thinking about political economy. Many may not like that. After all, it seems that there is a comfortable part of the UK that has no concern for those, mainly younger than those enjoying the comfort, many who cannot now have secure homes, do not know how to make ends meet and still provide for their children, and who suffer services that are crumbling because the state has decided that meeting their needs is no longer a matter of concern. PQE is part of the rejection of that philosophy and is a way of providing the infrastructure needed to build a firmer foundation for a new, fairer, UK where political decision making is undertaken by confident (maybe, even, [courageous](#)) politicians who know that serving the electorate openly, transparently and accountably, including by explaining how much they are spending on what, is key to what they must do.

Restricting a consideration of PQE solely to the issue of economics is, in that case, akin to asking almost all the wrong questions about it. Political economy extends that scope, and its in that context that it is important.