Funding the Future

The problem with PQE might be it is too successful

Published: January 13, 2026, 7:09 am

Simon Jack, interviewing me on the BBC Radio 4 Today programme this morning, said he had discussed People's Quantitative Easing with a range of economists, most of them right wing, and their real fear about it was that the multiplier effect it might have would be too strong.

Let me explain this. The multiplier effect is the impact that £1 of government spending has on growth. A pound of spending by the government always adds to growth by that sum unless (as in time of war) it is so great that it is intended to stop private sector activity: we are nowhere near that situation now. But it also adds additional growth too because the person being paid by the government does then, of course, go on to spend what they get, and the person they spend it with then spends some of what they get, and so on. Duncan Weldon wrote about this rather well when he was still with the TUC.

The size of these multiplier effects is subject to dispute. So, for example, the Office for Budget Responsibility says £1 of government spending on capital may create another £1 of economic activity as well. The IMF says that could be £1.70 extra. But what was really worrying the economists that Simon Jack spoke to was that PQE spending might have too high a multiplier: the impact of the spend would be higher than other types of spending, they said. Or, to put it another way, there might be no better way to stimulate the economy at lower cost than PQE in their opinion. And that is why they did not like it.

Try to work out the logic of that.

You won't be able to unless you realise that change of the sort PQE would deliver is not what the markets and these commentators want. Remember, after all, that Robert Peston said last week that:

there would be widespread concerns that the Bank of England would be indirectly financing white elephants via this investment bank

What sort of white elephants? He named:

housing, transport, and so on.

And we wouldn't want that to happen, would we?