

Quantitative easing has never been repaid. And there's ...

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Quantitative easing is the same process whether used to buy conventional government gilts and other financial assets (the process known as quantitative easing to date from which the main beneficiaries are the financial services sector) or the bonds issued by a national investment bank (People's Quantitative Easing) that uses its funding to create investment in the real economy. In either case the government creates money out of thin air (as all banks do every day, day in and day out whenever they agree to create a loan) and uses it to buy the debt created by the government or one of its entities.

In the US more than \$4.5 trillion of quantitative easing purchases have taken place.

In Japan it is more than US\$1 trillion.

In the UK £375 billion.

In the EU it will be more than €1 trillion.

And Yvette Cooper is sure it will all have to be repaid. Every penny of it, apparently. That is what she is saying of People's Quantitative Easing (the scale of which will be modest compared to the above) and implies the same must be true of conventional QE in that case.

Let me assure her then, none of these sums will ever be repaid.

And we have worldwide 0% inflation, or thereabouts despite the markets knowing that.

It is true there is some growth right now: the US looks a bit like the real thing. The UK looks like an extended housing bubble. The EU and Japan just dream of it.

All told though the consequence is that not only has no QE been repaid, but the chance it ever will be is remote, in the extreme. Because repaying it would mean that the deficits that have been funded by QE (because that is what it has done) would actually have to be paid for out of higher taxes or by all investment funds being directed to government bonds, and not to create new investment but just to reshape the Bank of

England balance sheet. Both actions would have a profound impact on the economy: they would create a massively negative environment in which growth would become a distant memory, there would be a shortage of government created money to underpin credit in the economy, and there would most likely be heavy deflation - exactly what QE was meant to prevent. No government of any persuasion is ever going to pursue such a policy: it would be economic suicide.

So let's be clear about three things:

- a) QE has not created inflation, try as people might to suggest it has
- b) QE has delivered modest growth, but not universally
- c) QE will forever remain on central bank balance sheets, never to be unwound.

The chance that Yvette Cooper is right that People's Quantitative Easing would have to be repaid is so remote that no-one, anywhere, need ever worry about it. In fact, all they should worry about is that someone in such authority thinks it might be wise to even countenance such a thing. I am deeply baffled as to why she should. The harm from doing so would be enormous.

So shall we move on?