

# Funding the Future

Article URL

Published: January 12, 2026, 7:32 pm

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The are a confused bunch over at The Economist. They [have a feature this week](#) that says things like:

*IT IS hard to exaggerate the decrepitude of infrastructure in much of the rich world. One in three railway bridges in Germany is over 100 years old, as are half of London's water mains. In America the average bridge is 42 years old and the average dam 52. The American Society of Civil Engineers rates around 14,000 of the country's dams as "high hazard" and 151,238 of its bridges as "deficient". This crumbling infrastructure is both dangerous and expensive: traffic jams on urban highways cost America over \$100 billion in wasted time and fuel each year; congestion at airports costs \$22 billion and another \$150 billion is lost to power outages.*

And as they note:

*In 2013 in the euro zone, general government investment—of which infrastructure constitutes a large part—was around 15% below its pre-crisis peak of €3 trillion (\$4 trillion), according to the European Commission, with drops as high as 25% in Italy, 39% in Ireland and 64% in Greece. In the same year government spending on infrastructure in America, at 1.7% of GDP, was at a 20-year low.*

Of which they say:

*This is a missed opportunity. Over the past six years, the cost of repairing old infrastructure or building new projects has been much cheaper than normal, thanks both to rock-bottom interest rates and ample spare capacity in the construction industry.*

And:

*Investment in infrastructure can provide a tremendous boost to an economy. Standard & Poor's, a rating agency, reckons that the activity spurred by increasing government spending on infrastructure by 1% of GDP would leave the economy 1.7% bigger after three years in America, 2.5% bigger in Britain and 1.4% in the euro zone.*

All of which, I should say, I agree with.

And then there was [that other article by them on Corbynomocs](#) in which they said:

*[A]nother of Mr Corbyn's ideas is dangerous. He promises "people's quantitative easing", a radical twist on a policy that the Bank of England has pursued since 2009. Instead of using newly created money to buy government bonds, as happens under ordinary QE, Mr Corbyn seems to want the Bank of England to use that cash for more productive purposes, by buying bonds from the national investment bank.*

*In the short term people's QE might gee up economic activity without increasing the stock of government debt—currently 80% of GDP—since the Bank of England could write off the bonds it had bought.*

So, they say that the infrastructure that they think desperately needed, and which they think has an enormously positive return, could be funded as I have suggested (and I note they have made no suggestion at all as to how they think cash should be found) but they refuse to consider my option because:

*[I]t is a risky proposal. At present the bank looks unlikely to embark on a fresh round of QE (instead it is mulling monetary tightening). If Prime Minister Corbyn were to rely on QE to fund public investment, he might be tempted to cajole the bank into prescribing more of it. At the mercy of politicians, the bank would lose its credibility, and confidence would drain from the economy, forcing interest rates up and crimping investment—again, just the opposite of what was intended.*

Or to put it another way, they say that a central bank that can't find a way to create inflation (and so is failing in its core task) should not be used instead to fund infrastructure investment that the government knows is sorely needed and pays a fantastic rate of return.

Why, oh why, oh why do we have to be slaves to a failed dogma?

It's a question those opposing PQE need to answer.

And for the record, they cannot suggest borrowing should be used instead. That is because borrowing, like tax, withdraws private sector money from the economy, but if you want to encourage growth you don't want to encourage that unproductive savings exercise: you want to keep private sector money, as far as is possible in productive use. So this is not an alternative.

PQE is the best option.

Hat tip: [Paul Hunt](#)