

The PQE downsiders

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There are those who seem to have little time for People's Quantitative Easing. Many, it seems, are in the Labour Party. Now, [I stress \(and will keep stressing\)](#) that I am not a member of any political party, but I find this curious. That's not for political reasons: those are for Labour to sort out, but because of what the arguments used imply.

Andrew Harrop, the secretary of the Fabian Society, is one such opponent. [He has written recently that:](#)

Poorer families would be the first to suffer if Corbynomics were to lead to fewer jobs and affordable homes. They might also be victims of his proposals for monetary policy, which are likely to fuel inflation. During the leadership election, Corbyn proposed that the Bank of England should create money for public investment, seemingly on an ongoing basis. While some variant of this scheme might have been a sensible option in the depths of the financial crisis, as a permanent policy it is not. If pursued on a sufficient scale this 'people's quantitative easing' would inevitably drive up prices. Corbyn is right that the UK needs a permanent, structural increase in investment, but printing money to spend on infrastructure can only be a temporary, cyclical intervention before it triggers inflation.

Corbyn should instead have called for the government to significantly increase borrowing (especially while it is so cheap) in order to create new assets, an entirely orthodox position for macroeconomists and accountants.

John Mann MP has not been wholly dissimilar in his critique [in Progress magazine](#):

'People's quantitative easing' sounds like a dose of medicine that must be for good for the health of the nation. In fact it has the opposite effect. Its origins stem from monetarism and is a variant of concepts developed from the philosophies of Milton Friedman and the Chicago school of economics.

It is an emergency option in a period of financial meltdown, but it is a rightwing answer for today.

He then goes a little further:

'People's QE' works by boosting the private sector. This will most likely be through infrastructure expenditure, but will be at the expense of higher inflation. As the governor of the Bank of England said last month, the losers from 'people's QE' are the poor, the elderly and the vulnerable.

'People's QE' is therefore a misnomer that needs correctly labelling. It would be more accurate to describe it as 'large private sector multinational QE,' for these are the direct beneficiaries.

Before adding:

Some are taking it a dangerous step further by questioning the need for an independent Bank of England and recommending a huge devaluation.

Printing money in this way will always damage the immediate standard of living of those who are on fixed incomes and those with an occupational pension. Postal workers, local government workers, the NHS, teachers and the mineworkers' pension fund will all be the automatic losers.

And then saying:

But there is another option which has already been proposed by Paul Krugman, Danny Blanchflower and others: use simple Keynesian economics to provide an alternative to austerity. With our current record low interest rates they argue that we can afford to simply pay off the deficit at our leisure, not by making drastic cuts today, but by growing the economy and using this growth to pay off the national debt over a longer period of time. Like the mortgages that many of us are tied to, we have to be able as a country to service the debt, but that is considerably easier in a period of continued low interest rates. Simple Keynesian economics works where monetarism and its simplistic panaceas fail.

Before asking:

So are we to be a monetarist party, inspired by the Chicago school, or a Keynesian party inspired by and responding to the real economy?

'People's QE' is the use of monetarism to boost the economy, paid for by the poorest in society. Simplistic, nationalistic solutions have not worked before, are not working today and will not work tomorrow. Let's not be blinded by the same old medicine being fed to us in a different-shaped bottle.

It is passionate stuff. And both Andrew and John are, I think, wrong.

I have to admit I do not wish to take part in their political hyperbole. I would really rather deal with facts, such as what has actually been said. Take this from [the Guardian this morning](#):

Murphy himself disputed an allegation made by Cooper during the campaign that “people’s QE” would provide false hope while stoking inflation and increasing debt. “At this moment, I’m not saying I would actually do a People’s QE programme. I would do a borrowing programme today to fund infrastructure investment. We have low interest rates and so I agree with those people who have said to me, why can’t we borrow? But, I am anticipating a recession, the importing of deflation from China and the risk that we’re going to have a serious downturn — not a 2008 crash but a recession ... The chance we get to 2020 without a recession given all these circumstances is very low. George Osborne is going to discover what it feels like to be running a recession on his watch and created on his patch. I have a very strong feeling he is not going to enjoy that, but that’s what’s going to happen. Therefore the job of responsible opposition is to say this is a problem that it can sort out.”

This does, pretty much, destroy what Harrop and Mann are saying and is exactly what I said to the FT in early August [where it was noted](#):

Richard Murphy, a prominent advocate of people’s QE, told the Financial Times the idea works only if the current government's plan fails badly. “People’s QE is necessary only if George Osborne’s plan comes off the rails pretty fast, which it almost certainly will,” he said. “There is a significant risk of another recession.”

What is it, then, that Harrop and Mann are engaged in?

Andrew Harrop, rather disappointingly, appears to be guilty of not checking his facts, and he knows where I am. A man who cannot be bothered to find out what has been proposed is really not making useful comment or is playing at politics and neither is beneficial here.

John Mann is in another place. But he, like Harrop, seems to have some real difficulties with economics.

Both seem to think inflation the great evil. This is really rather strange. First, it is (and was under Labour) policy to promote inflation. We need it. Badly. In periods of deflation (and we will be back in it next month, I can predict pretty confidently) there is little incentive to invest, the cost of borrowing goes up in real terms and there is no chance of significant real wage increases to ensure that the deterioration of the overall reward to labour in the economy is addressed. The argument that inflation is bad for those on wages is just wrong: it writes off debt, increases real earnings, and if there is an impact on those on fixed income then it is up to the state to adjust for it and not for left wing commentators to simply wring their hands. Let's be blunt, inflation always pays borrowers and costs lenders and so is a powerful tool for economic redistribution and I

despair of the left when they cannot see that.

Moving on from this Mann seems to have become a caricature of an SWP member: nothing that can in any way benefit the private sector must happen. What can I say? Is he serious? Does he believe in a mixed economy?

But most of all, does he, like Harrop, think that Osborne has cracked the economic problem and we will never face a downturn again? And do neither of them think it is the job of Labour to think and talk about what might happen if Osborne's plans cannot be fulfilled if that is, as I am sure, the case? If so, what do they think responsible opposition is about? Right now it appears to be it's about a little tweaking of Osborne's plan. I suggest that will not do: that plan is so flawed that labour has, surely, to plan for its failure? If not, why, is the question?

The PQE deniers really do need to open their eyes. When the [Bank of England are signalling](#) we're in for considerable stress why are they suggesting that the economy is doing just fine?