

## To QE, or not QE? That is the question

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I was confronted by one of my City University colleagues yesterday who, in the kindest possible way, said I had got much of my analysis on Labour's economic desirable economic strategy wrong. He was [referring to my talk at the University of East London on Monday](#), summarised here, and his particular beef was with the continuing support for People's Quantitative Easing, or Green QE as I called it when inventing the term (which i think I did).

His argument was simple. It is that right now there is massive demand from insurance companies, pension funds and others for high quality debt and little comes better than UK government gilts and so the UK government's duty is to meet that demand when the interest rate those potential gilt holders are demanding on their money is so low it would almost be a crime not to take it from them. I think my colleague would take almost any sum on offer and even bank it as such for future use to exploit the opportunity for cheap government funding now available. He says in that case it would be crazy to limit the supply of gilts by using QE, which necessarily repurchases them. His desire is for unfettered fiscal policy. His beef is with my mixing of that with monetary policy.

I have to disagree, in part. Where I agree entirely is that issuing bonds makes sense whilst the market wants to buy them, not least because this is about ensuring that the current best user of capital by far (which is the government) gets access to it. I stress, by their actions the markets are clearly saying that they know that the government is a more efficient user of capital right now than commercial markets. That is why they are making their choice. I would not wish to subvert their wishes, so I think gilt issuing should continue: my colleague and I agree on that.

But, and it's a big but, there are three (at least) reasons for continuing to support PQE even when the markets want to give money to the government at incredibly low interest rates.

The first is that the impression of dependency on financial markets must be broken. The idea that government can only spend because of the largesses of the private sector is

wrong, as a matter of fact, and the power of the bond markets, who believe they can hold government's to ransom because of this myth that government can do nothing without private money has to be shattered for good. QE does that by making clear it is spend first and then tax (or borrow, when appropriate) that is the right ordering of events and then only to the degree necessary to suit fiscal policy goals. There is, then, a point of principle to make in using QE.

Second, there is no reason to assume that the purchasing of bonds by the private sector will provide enough funding to allow a stimulus big enough to create full productive employment and so the resulting wage inflation that we need if the real economy is to be rebalanced. We cannot permit the gilt markets to be the determining limiting factor in creating the scale of change needed in the economy. In that case keeping QE as a component of change to deliver the scale of investment now needed is essential.

And third, as John Christensen and I discussed at University of East London, PQE can be used to buy out PFI at favourable rates right now and if the resulting injection of funds into the finance sector was matched by an increase in the required rates of central reserves to be held by banks then the cost of that buy back would be minimal and potentially nonexistent (the rate paid on deposits with the central bank is discretionary). PQE is about rectifying past funding mistakes as well as building a firm foundation for the future.

So, to QE or not? If that is the question then to PQE is the answer.