

The Guardian really does need to improve its economic I...

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The [Guardian](#) has one of its occasional economically illiterate editorials today, on the subject of PFI and John McDonnell's plan for it.

The illiteracy starts with:

Mr McDonnell was — it soon emerged — exaggerating when he told an ecstatic conference that Labour would take them all [pfi contracts] back in house (a project with an incalculable price tag).

Of course it is not true that the cost of buying out all PFIs is incalculable. There is a finite sample of contracts. It is relatively easy to foresee a [methodology for appraisal that parliament might adopt to assess worth](#). And we can be sure that if it was not worth buying a contract back parliament need not approve doing so. In other words the cost is, inevitably and deterministically, less than the current forecast spend. There is no incalculable price tag.

Second I note this comment:

Recent Treasury figures put the capital investment value of current private finance deals at £58bn; yet there are outstanding cash commitments of £232bn — nearly four times their original value.

The second part of the liability - which includes the value of services supplied - is not not in any way qualified to recognise that fact, which is absurd. The implication, that the excess is pure profit that will have to be bought out, is just wrong: it is only the margin that does in that case have to be compensated for. What is more, since much of that profit is way in the future it is not paid for (by a long way, as [I have noted](#)) at current prices; deeply discounted ones can be used. Again, there is no hint of that. And that is misleading.

Instead this is said:

Labour's plans for individual examination of each against a set of criteria, and potential

nationalisation with compensation set by parliament, have to be set against the continuing need to persuade the markets to lend the government money.

At this point I despaired. First, no government has to borrow. QE proves that. We have done £435 billion of it. Another £58 billion to cover capital costs and a little bit more to cover lost profits is neither here nor there in that scheme of things, and since QE's debt carries no interest cost there is precisely no cost at all to buying these contracts in as a result, as I have long argued in the form of People's QE. So let's be clear, the idea that we are beholden to the bond market 'confidence fairy' (as Paul Krugman so aptly named it) is just nonsense. The fact is that if bond markets are truculent the government (any government) can just work around them.

Second, this comment ignores the fact that there is enormous demand for government debt from two sources. One is the growing number of relatively (and I stress, relatively) wealthy retirees needing a secure home for their money. The other is big business that is sitting on massive cash piles because it has no idea what to do with all the profit its monopoly based activities now generate for it, and so they lend it to governments as the only secure place to deposit mountains of cash. These people (real and legal) are not doing the government a favour: by providing them with a secure home for their money the government is doing them the favour by removing the risk they face by being so cash rich.

Third, as the Bank of England has [recently agreed](#) here (and this is an issue I must return to), the reality is that if a government wishes it can also just print money. I am not saying it needs to do so for this exercise, but it can.

It really is time that the Guardian woke up and smelt the coffee on economics, because right now it is about as economically literate as the Mail, and that's not a commendation. As a result what it has written on PFI is best described in one word: it's wrong.