

Schäuble gets it wrong, even in hindsight

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As the [FT notes this morning](#):

Wolfgang Schäuble has warned that spiralling levels of global debt and liquidity present a major risk to the world economy, in his parting shot as Germany's finance minister. In an interview with the FT ... said there was a danger of "new bubbles" forming due to the trillions of dollars that central banks have pumped into markets.

It took him a long time to form that conclusion. And if as a result there are bubbles now then the blame can be firmly laid at his door. [I wrote this in 2010](#):

No one was sure whether quantitative easing would work and no one is sure for certain whether it has worked. We do however suggest in this report that several things did happen:

- * The banks profited enormously from the programme, which is why they bounced back into profit so soon after the crash — and bankers' bonuses never went away;*
- * The entire government deficit in 2009/10 of £155 billion was basically paid for by the quantitative easing programme. If you wanted to know how the government met its costs, now you do;*
- * There was a shortage of gilts available for investment purposes as a result of the Bank of England buying so many in the market. Large quantities of funds were invested instead in other financial assets including the stock market and commodities such as food stuffs and metals. The USA also undertook quantitative easing at the same time as the UK, which meant that despite near recessionary conditions commodity prices for coffee and basic metals such as copper have risen enormously. This has impacted on inflation, which has stayed above the Bank of England target rate;*
- * Deflation has been avoided, although the relative role of quantitative easing in this versus the previous government's reflation policies is unclear;*
- * Interest rates have remained low.*

However, one thing has not happened, and that is that the funds made available have

not resulted in new bank lending. In fact bank lending has declined almost steadily since the [quantitative easing programme began](#).

The quantitative easing programme might be considered a short term success, but as we note, the benefit has been captured almost entirely by the financial services sector whilst further asset boom and bust cycles are, at least potentially being recreated with resultant risk to the economy. These are undesirable long run outcomes when the real aim is to get the UK economy working again. For that reason we cannot support a further round of quantitative easing in the form used in 2009.

If that could be seen in 2010 - and I did see it - the question for Schäuble is why has it taken him quite so long to state what is seemingly obvious when all the conditions for another bust have been laid on his watch?

And why isn't he also laying out the real alternatives, rather than austerity, which seems to be his preferred option? In 2010 I also wrote:

The need to reflate the UK economy has not gone away though: there is an urgent need for action to stimulate the economy by investing in the new jobs, infrastructure, products and services we need in this country and there is no sign that this will happen without government intervention. For that reason we propose a new round of quantitative easing — or Green QE2 as we call it.

If Schauble had any sense that is the option he'd take now. That, though, may be asking too much. If he had any sense a great many things would not have happened as they have, including the destruction of the Greek economy. All we can be grateful for is the fact that his influence might be declining.