

Funding the Future

QE is here to stay: those who demand otherwise have got...

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The FT [has an article in it this morning](#) from a pension adviser called Ken Fisher. In it he says:

Reversing QE is the best way to stimulate lenders. Not at the glacial pace the Fed used until stopping in August. I mean a quick, total disgorgement. The Bank of England should start now – don't wait until after Brexit. Unwinding QE now would set the stage for a post-Brexit pop, with banks loosening lending just as businesses get the clarity needed to deploy pent-up plans.

Ms Lagarde should follow suit when she takes the ECB's reins next month. Cancel the ECB's planned bout of QE and start selling the \hat{a} , \sim 2.65tn of long-term debt it bought from 2015-18. US and Japanese central banks should join in, too. Mark Carney would become known as the Pied Piper of monetary sanity, leader of a return to normal central bank balance sheets and higher long rates. Long rates wouldn't soar – there isn't enough inflation for that. But they'd rise enough to re-steepen yield curves globally.

I reproduce in full to give a flavour of the passion with which Mr Fisher makes his case.

Mr Fisher's case is economically absurd. To be blunt, what he is calling for is a recipe for outright disaster. It is a perfect example of very particular self-interest, coupled with a rather limited appreciation of macroeconomics, or care for consequences, coming up with a suggestion so wrong that the FT manage to print it.

Let me deal with the self-interest issue first. Mr Fisher is described as *the founder and executive chairman of Fisher Investments and chairman and director of Fisher Investments Europe*. I have seen their adverts. They are targeted at the reasonably wealthy soon to be retired person whose portfolio Fishers wish to manage. So Mr Fisher has an alignment of interest with a particular group who want high-interest rates to keep them in retirement and to increase the value of their annuities.

This is the group who have already done best out of the recessionary environment of

the last decade.

And it is also the group who right now are the focus of much of the ire of younger generations. This is the group who have burned the planet.

And now they wish that the economy be trashed to keep them in retirement at cost to everyone else.

Let me explain why Mr Fisher's hopes are so misplaced.

First, Mr Fisher's facts are wrong. Bank margins on lending - which is what motivates them - have not fallen as a percentage or in value terms over the QE period. The fact is that QE has not hurt banks. So raising rates will provide them with no greater incentive to lend: they are already doing just fine, and increasing rates will not improve their margins. It will instead simply reduce the demand for borrowing and increase the rates paid to savers. This could harm them. Bankers like QE.

Second, there is no evidence that there is pent up demand for borrowing. The exact opposite is true.

Third, the increase in rates that Mr Fisher wants will crash the price of bonds: rates and the price of bonds are negatively related. The resulting losses will seriously impact many of the pension savers whose interests he thinks he is acting in.

Fourth, that increase in rates would also substantially reduce the price the government would get for the bonds it sold back into the market. Why would it want to sell in that case when it has no need to do so?

Fifth, there will not be a flood of new economic activity as a result of increasing interest rates, unless Mr Fisher is referring to the supply of insolvency services. Businesses are vastly over debt-laden at present. Most corporate failures of late are for precisely this reason. Increasing interest rates will force many out of business. There will be no boom then. But there will be bust.

And, sixth, the same is true in the household sector, where many households are in debt to their limits and beyond. It is very likely that increasing rates would tip many households into insolvency. Housing repossessions would increase. Bank balance sheets would rapidly look very weak as house prices fell as a result. And there would be no new buyers coming into the market: the young would be put off by the increased cost of borrowing even if they had the chance to borrow, which few have. A demand for increased deposits to provide banks with extra security would kill any increase in demand in any case.

It is highly likely then that, seventh, a banking crisis would follow.

And eighth, that would lead to recession.

Which in turn, ninth, might lead to new austerity.

And tenth, that is bad for pensioners.

Need I go on? Mr Fisher has all that he claims, completely, wrong.

The reality is that the QE that has been done is settled for good: that is now cancelled debt, and simultaneously new money. The deal is done and dusted.

And the same might be said of interest rates. These are now near zero and they will be staying there for a very long time to come because no alternative is possible. The sheer weight of the debt mountain within the economy makes nothing else possible. Interest rates have been killed by debt. And it will stay that way as the debt is not going away. R Fisher had better get his head around it.

And, simultaneously, he needs to appreciate the fact that this means that only government action through fiscal policy is now going to shape the economy: the market is not a player in that arena any more. They killed their golden goose by over-lending.

So Mr Fisher has every part of his economics and political economy wrong.

And last, quite amusingly in the context of the article, this decision is not Mark Carney's to make. Every single QE purchase was Treasury approved. There is no doubt that sales would have to be Treasury approved as well. Fisher has even picked the wrong target for his request.

I won't be seeking Mr Fisher's advice any time soon.