

# Quantitative easing only benefits the financial sector, UK research finds

October 10 2012

---



(Phys.org)—A review of evidence into Quantitative Easing (QE) has shown that the Government's hope that it will pull the UK out of recession may be unfounded.

Professor Chris Martin, from the University of Bath's Department of Economics, has looked at the impact of QE not just on [financial markets](#) but also the 'real' economy of jobs, inflation and output and concluded that there is no lasting benefit in continuing to pursue the policy.

He concludes that QE has produced a limited but temporary gain for the [financial sector](#), but it has been of no help to the wider business community or individuals and families struggling against inflation and unemployment.

His review has looked at studies of the performance of QE by central banks, including numerous historical studies of small scale QE purchases

and studies of the large contemporary QE programmes.

The policy of QE has seen the Bank of England buy £375 billion of [financial assets](#) through government bonds, to bring down the cost of government borrowing and lower interest rates across the economy.

He said: "QE is serving to help the financial sector, such as banks and [insurance companies](#). That's useful because it's a sector that was really facing the cliff edge in late 2008 and 2009 but in the end the aim of the policy is not to help the financial sector but to help the wider economy, and it's not feeding through into that.

"We've had four rounds of QE, bought more and more bonds, and we're still stuck."

He believes that the real problem behind the UK's economy is lack of demand and that only large scale government spending can overcome this.

"The [fundamental problem](#) in the UK is the lack of demand. Making the interest rate cheaper helps but it isn't addressing the major problem. The Government needs to start spending by employing people. It needs to get involved in large scale [infrastructure projects](#). Roads, airports and broadband are all helpful but spending £20 billion on infrastructure is a drop in the ocean compared to the £1.4 trillion deficit.

"We have to stop the cuts and start spending the money. It's been a very miserable five years and nothing else has really worked. What is there left to do other than get back to [government spending](#)?"

Professor Martin's review, entitled "QE: A Skeptical Survey," is due to be published in the *Oxford Review of Economic Policy*.

Provided by University of Bath

Citation: Quantitative easing only benefits the financial sector, UK research finds (2012, October 10) retrieved 20 September 2024 from <https://phys.org/news/2012-10-quantitative-easing-benefits-financial-sector.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.