

Funding the Future

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I had an email conversation with [Prof Stephanie Kelton in the USA yesterday](#). She is a leading modern monetary theorist and currently Chief Economist on the U.S. Senate Budget Committee whilst on leave from her position as Associate Professor in the Department of Economics at the University of Missouri-Kansas City.

During the email exchange Stephanie, when discussing the problem of explaining who pays for government investment, offered a quip I thought worth sharing:

The problem ... is that they all think money grows on rich people

That was, I admit, a laugh out loud moment. But that's because it is so true. The whole logic of our current economic debate is the, usually unstated but always present, assumption implicit within it that unless, for example, we have bankers out there trashing the finance system and making vast profits doing so then we can't have nurses or teachers.

But that's not true. Any government with a sovereign currency can spend without taxing in theory: it has the right to create the money. In fact, to state the glaringly obvious, there can never be tax paid until a government creates (or permits the creation of) the money needed to make settlement.

So, just as we once thought we needed bank deposits before loans could take place, and now we know that actually deposits happen as a result of loans that banks create, so too is it the case that not a single penny of government spending is dependent upon the existence of the rich to pay for it because the spend always comes first out of money that the government can, and as a matter of fact does, create. But, since a government that kept on spending without taxing would rapidly create hyper-inflation we must tax to make sure that this does not happen and that the money in circulation is fit for purpose.

Once you do that you do, of course, ask for most tax from the rich for three very good reasons. The first is that they have most of it. To put it another way, they have benefitted most, whether directly or indirectly, from government spending. Second, this ensures social justice. Third, if you didn't you could never recover enough to achieve

the goal of monetary stability.

But what is clear is that not once, not ever, are the taxes paid by the rich a pre-condition of government spending. That could happen with or without them because the cash to pay for it is always available to any government that has its own currency. It's just someone else would be paying the tax if the rich did not exist. That's all. But please don't worry for those who'd be paying the extra tax if the rich disappeared: they'd have received more of the benefit of the state spending if this was the case. They would, quite simply, have more money. In fact, they'd be the new rich. That's the way it works.

And there is a footnote: if you can have zero inflation with a deficit then you don't need to worry about the deficit: the money you have is credible. That's the surest sign there is that you have got the balancing of the economy right. It's not some book-keeping equation that says income equals expenditure that matters when you're running an economy that can print its own money: it's getting the money right that matters. By chance we pretty much have right now. Don't rock the boat is the message in that case. Just in case anyone is listening.