

## The type of deficit matters

Published: January 15, 2026, 4:06 am

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I wrote a post on the [likelihood of a Trump induced recession on Friday](#) and then disappeared for the day into a series of long meetings and discussions on research work from which I did not really emerge until early evening. In the meantime more than twenty comments had arrived suggesting that the conventional narrative of failure that I had portrayed were just wrong in an MMT environment.

There are a number of lessons for me in this. One is not to blog in haste. The other is to remember that I have elders on this blog, not all of whom will immediately follow my train of thought. Let me explain, before developing the real issue of consequence.

I actually based two posts on one FT article on Friday morning whilst rushing to work. [One was pure MMT](#) (modern monetary theory). The other (to which I am referring) was not. It was meant to explain why the Trump deficit can deliver a crisis because of conventional thinking on deficits, employment, interest rates, inflation and much else. I got the tone of that one wrong. I worked through the logical consequences of this forecast and the likely reactions to it for my own purposes without spelling out the caveats and explaining my purpose adequately. I sometimes forget that there is greater purpose to this blog than me working out 'what next?' for my own benefit. That was a mistake: please accept my apologies.

But some of the comments that were made on that piece were interesting and I want to take issue with them. I am not addressing those on whether the US has full employment or not: just as in the UK, I accept that official data does in no way reflect the true state of capacity in the US labour market. Instead I am concerned about those who suggested I should be indifferent to deficits because MMT says they do not matter. That, in my view, is a seriously incorrect view of the world. In fact, it's dangerous and lazy thinking. In my opinion it's the type of deficit that matters.

This is an extension of my thinking on tax. There I have suggested [that there are six reasons to tax](#):

1. Reclaiming the money the government has spent into the economy.

2. Ratifying the value of money.
3. Reorganising the economy.
4. Redistribution of income and wealth.
5. Repricing goods and services.
6. Raising representation in a democracy.

The essence of this argument - which is explored in [The Joy of Tax](#) - is that given that tax exists to cancel and simultaneously give value to government money created through public spending (purposes 1 and 2) then it is vital that it becomes an extension of government social and economic policy (purposes 3 to 6) in the process of doing so.

Let's be clear that MMT can suggest that purposes 1 and 2 are enough. At a pure economic level that might be true. But in my opinion what matters is political economy, not just economic theory. As a result one of my issues with MMT has always been that it has generally said 'we need tax to cancel money creation' but has not emphasised sufficiently the fact that there are better and worse taxes that might achieve that goal.

Regressive taxes do not achieve the goals I set for tax.

Nor are ones that promote useless or harmful social activity.

And which fail to correct market failure.

Or which undermine the relationship between individuals and the state.

And I would explicitly extend this logic to the matter of deficits. Deficits created by austerity - or the failure to spend when doing so would generate a fiscal multiplier effect - are not good.

Nor are deficits created by tax cuts the redistribute wealth to the already wealthy beneficial.

And, come to that, nor are deficits created by military spending intended to destabilise the world.

These are what Trump is planning to deliver, in the main. These concerns cannot be dismissed because he says he might do a bit of infrastructure spending as well, some of which is a Mexican wall. To pretend that any such spend makes the rest of his plans acceptable is to suspend political judgement and I do not think that has any part in modern monetary theory. Otherwise we're back to the logic that digging holes and filling them in again is useful economic activity and worth doing. It isn't.

MMT does, I very firmly believe, require that we continue to exercise sound political judgements. There are good and bad reasons for running deficits. To accept all deficits as being worthwhile when the economy needs a stimulus is simply wrong. The Trump deficit will meet almost no social criteria for usefulness. Indeed, the fact that the stimulus will be saved and so there will be a deficit is in itself some proof of that because it shows that the gains will go to those who have no reason for their wealth to be increased.

Might a make a gentle plea to those who think all deficits might be good to think again? That's simply not true. The world is much more complicated than that.