

Funding the Future

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Peter May has a fascinating post on the [Progressive Pulse blog](#). As he notes:

It was almost a year ago that I originally wrote to my MP to ask him to enquire of the Chancellor 'Where does money come from?'

I have, at last, received a reply:

As Peter notes:

It reads rather as though the writer, John Glen, Economic Secretary to the Treasury, has received intensive training from the Ministry of Circumlocution. Or maybe that's just the way they teach them at Oxford.

So we get: 'While it is theoretically possible for monetary authorities to finance fiscal deficits through the creation of money, allowing governments to increase spending or reduce taxation, without raising corresponding financing from the private sector, there is a risk that money financing could rapidly undermine the stability of inflation expectations.'

Which is just the old canard that printing money causes inflation.

More importantly, he adds:

But, interestingly, this is the sole argument against government money creation.

And when the letter continues: 'the majority of money in the modern economy is created [my italics] by commercial banks.' it indicates that the rest of the money is created by the government itself, of course.

But what Peter notes is that:

So the Treasury knows there is a Magic Money Tree but through involuntary (or voluntary) intellectual blindness misunderstands the role of tax in preventing

inflation. They have already admitted in this letter that tax is not required to pay for anything.

In fact, all that they have not noted is that the role of tax is to cancel the money the government has created, meaning that the tax yield and not the interest rate is now the primary tool for the control of inflation in the UK.

This is important. What we actually have here is, as Peter has noted, an admission that the government can create money at will. So the 'magic money tree' exists, as a matter of fact. But what we have not got is an admission on the role of tax in this equation.

What that suggests is that the role of tax in controlling inflation has to be the next argument brought to the Treasury's attention.