

FT Alphaville on modern monetary theory - just 'a diffe...

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The [FT's Alphaville](#) (which is free to access) featured a discussion on modern monetary theory yesterday. The key part was this (and I make no apology for quoting at length: this is in the public interest):

Allow us to grossly simplify. Advocates for modern monetary theory argue that, for a sovereign country with its own currency, there is no inherently unacceptable level of government debt - that country does not automatically begin to collapse when debt reaches 90 per cent of GDP, or even 200 per cent of GDP. The country appropriates what it believes is necessary for domestic programs, regardless of revenue.

A traditionalist would see this as a prescription for inflation: increase the supply of money and, as with any commodity, you reduce its value. Modern monetary theorists argue that inflation happens only when the real economy - plants, machines, workers - can't absorb what the government is spending. So: disconnect spending from taxation. Spend until the economy is at capacity, using all of its resources perfectly. Raise taxes only to cool down inflation, when the real economy exceeds that capacity.

Alphaville does not propose here to mount an extensive defense of modern monetary theory. There is not the space. (Will there ever be?) We are confident, however, that Howard Dean is correct. It is neither Marxist, nor is it bullshit.

Modern monetary theory is simply a different way of looking at fiscal policy, a way of describing what the real-world constraints on spending look like. It is in fact very close to how people in Washington, D.C. already approach spending. Again, we're not talking about what they say. Rather, we're talking about what they do.

This is the key point about MMT, about which I will have more to say soon. There are far too many in the MMT community who say it requires job guarantees, or that we leave the EU and that it leads to lands of bliss and honey. It might, but MMT does not say those things. They are people's interpretations of it. What MMT actually says is simply, as the FT notes:

a different way of looking at fiscal policy, a way of describing what the real-world constraints on spending look like.

Much of the rest can be taken or left, at will. Because it is not MMT. [As I have said before.](#)