

Tax at the core of MMT

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I have just noticed (hat tip to Simon Wren-Lewis) that [New York magazine has an article](#) on modern monetary theory and Alexandria Ocasio-Cortez in the current edition. Written by Josh Barro, the key sentence in it in my opinion is this:

MMT does not relieve policy-makers of “pay-for” questions – it just describes differently how policy-makers should evaluate whether they’re collecting enough taxes for a given level of government spending.

This is the angle from which I reached MMT (from first principles, pretty much: I had got to many of its answers before I realised it existed).

What MMT does is say that government will need to raise tax, always. And the amount of tax it will require is, inevitably, related to the amount that the government spends. There is absolutely no point pretending otherwise, even if it is absolutely true that tax does not fund government spending. And that is because MMT is a better way of looking at two things.

One is the importance of fiscal policy, and the extent to which deficits are required (I stress the word required) to achieve three goals. One is to create money supply. The second is to stimulate the economy and the third is to control inflation (remember, we wanted it for ages and could not deliver it).

The other is to understand that there is an alternative to the absolute poverty of the austerity narrative that makes no sense at all when MMT is understood because money is not a constraint on government activity: it is instead a tool to be used to deliver the well-being of the society for which a government is responsible, and which austerity always and without exception seeks to destroy.

But what I think so important is that this one sentence puts tax at the core of MMT - which is where it both belongs and without which MMT makes no sense at all.