

# The paradigm is shifting - and MMT and the Green New De...

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A correspondent called James Meek [asked a number of what I might call quite normal intelligent questions about MMT yesterday](#). Let me address them. First he said:

*First, your point about the bond vigilantes and currency fluctuations. I can see how your bond point works for some British buyers of bonds, but what about overseas buyers, or British buyers who count on strong sterling vis-a-vis other currencies? Isn't the fundamental reason bond rates go up and down that buyers have not just inflation expectations but currency exchange expectations? It's easy to see how you can create pounds to buy bonds; less easy to see how you can create more pounds and expect to buy more euros.*

There are two answers to this. First, we don't have to buy foreign-owned bonds in anything but sterling. And we would not. The owner of them has a sterling asset after all: we'd not offer to buy it from them in another currency. Nor are we obliged to do so. The currency risk is all theirs then.

Second, if the buyers of new bonds are overseas and they threaten not to buy we just don't sell bonds: we could QE new issues instead whilst they imposed their embargo on buying. We could go for several years on that basis if we wished. There is then no issue here.

So, on to the second point:

*Second, a related point — if the implementation of some form of MMT in the UK were to lead to a radical devaluation of the pound in respect of the euro, dollar etc, how severely would that impact on inflation — regardless of what was happening to the labour market, demand and supply etc — just because of the high level of our imports? It's certainly interesting to see how despite the drop in the value of the pound since Brexit inflation hasn't rocketed upwards, but I'd slightly turn the question around — what does inflation since Brexit tell us about how a further, deeper devaluation might affect inflation in future?*

That is an interesting question but let's ask why using MMT would devalue the pound.

There is simple case study to use. QE of £435 billion did not apparently devalue the pound. Brexit did. In other words, it's not money creation that changed value: a real change in potential value because of a changed political circumstance did do that. And that change in circumstance only had an impact because it was likely to change buying power.

All exchange rates revolve around buying power at the end of the day - speculators can only change that for limited periods at most at a time. So will MMT change buying power? Well, if it sucked in too many imports, yes it might, a bit. But I stress, a bit. And so it has to be managed to make sure it does not do that. And suppose instead of sucking imports in that investing in the UK economy, and that most especially substituting local power for expensive energy imports (as MMT plus the GND would do) did the reverse? Suppose it increased the relative value of activity in the UK economy? And why wouldn't it do that? I can't see why it would not. Or to put it another way I can see no reason why sensible MMT - only designed to use available resources in the UK economy - could in any way trigger the crash you imagine. So why worry about something that is not only not going to happen, but where the reverse, being a currency appreciation, is more likely?

And so to the third point:

*The third kind of follows on from the first two, which is that a fair degree of distancing from the as-is global economy seems to be baked in to MMT implemented by Britain alone — not just devaluation, with a consequent fall in imports and perhaps rise in exports, but perhaps currency controls as well. That's all fine, and would be absolutely fine in an essentially self-sufficient economy like the US or the EU. But my question relates to the capacity of the British economy specifically — not capacity in an abstract, theoretical economics sense, 'the economy is at full capacity' and so on, but in a concrete sense of the British economy having become so specialised and globally interlinked that it just isn't capable of producing all that is required without a consequent increase in imports, from roadbuilding equipment to specialised engineers. Isn't MMT an argument, in a specifically British context, for a much higher degree of industrial and educational self-sufficiency than we — thanks to 40 years of Thatcherism — currently possess, and isn't the restoration of that self-sufficiency a project requiring 20 years of political consensus, rather than five years of a radical reforming government? If one possible MMT answer to the devaluation question is 'our trading partners would see that we were using extra 'debt' to build real assets and create real jobs in the real economy', that question remains — currencies respond to their traders' (not normally left-wing sympathetic) scepticism about an agenda before they respond to their grudging admission of its success many years down the road.*

Let me reiterate that if we add value we build the currency. But let me also answer the broader point. MMT is happening now for a reason. Whatever its interesting intrinsic curiosity it is out there now getting attention because of the Green New Deal, which I also happen to have had a hand in. Now your assumption is, in effect, that the GND is

going to happen in the UK alone and the rest of the world is going to ignore that and go its own way and keep burning the planet as it has to date. And I stress, that has to be your assumption because MMT and the GND are now, in effect inextricably linked. And I'd suggest that if the scenario you outline happens - that we do in the UK do the GND using MMT (in part, maybe - and we may not need to do that at all - it is a backstop, after all) and the rest of the world does not do the GND then you have very much more to worry about than whether we have an exchange rate difference or not, because candidly sometime soon that exchange difference is quite literally going to be washed up on someone trading desk as it sinks below the waves.

Getting priorities right is the issue here. We either all go for the GND or we're all in trouble. That raises other issues on the role of government, it's power to drive change and the power it has to cooperate. Those are big issues and potential subjects for a book. They're the hardest parts of the GND - much harder than MMT. But worrying about exchange rates is not on anything like that scale. And bluntly, when the alternative is annihilation then I suggest we worry about that before worrying about whether we can go alone. We can't. Our job is to persuade everyone to come with us.

In summary, James' questions are reasonable, but the paradigm is shifting and they belong to another era, I think.