

# MMT, tax, pensions, ISA funding and the Green New Deal

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I noted some discussion on my Facebook page yesterday (to which I link my blog posts but otherwise pretty much ignore) on [why I was suggesting that pension and ISA funds might be used to fund the Green New Deal](#) when it could be financed entirely by the creation of new money, as those making comment suggested MMT implies.

I admit some of those making comment are those who I long ago decided not to engage with: there are those in the MMT community who should realise that at least some civility might help their cause. But the issue is worth addressing.

By chance I submitted a paper on MMT to an academic journal yesterday. Drawing on the work of various MMT academics and Abba Lerner I argued that in essence MMT describes a process for the management of aggregate demand within an economy with its own fiat currency. You can't summarise it much more succinctly than that, I suspect. I am sure there are those who will disagree, but I would suggest that a careful reading supports this view. And so too does an understanding of the role of tax in MMT, which was the issue I was discussing in the paper I have written.

The key appeal of MMT is that it removes the primacy of a supposed monetary funding constraint from economic planning (and all governments now economically plan) and substitutes a capacity constraint. But, and I would stress the point, that does not mean money has no significance. The clue that this is the case is in MMT's title, I would suggest.

As serious MMT scholars have suggested, the role of tax in the MMT fiscal funding cycle (because there is one) is essentially twofold. The first is to create capacity for government action by reducing aggregate demand for private sector created goods and services. The suggestion is mildly uncomfortable because it implies that the government sector might squeeze out the private sector in the first instance, for which normative justification is then required (and, I would suggest is readily available). It also, even more uncomfortably, suggests that tax might come before spend in this context, but I leave that be. This is the first claimed justification for tax. And the second is that tax is a tool for planned fiscal control to ensure that aggregate demand

expectations are fulfilled (in other words, full employment amongst those seeking to work is delivered) without significant inflation arising. This tax does by cancelling the impact of government created credit that results in the injection of new money into the economy in a form that might deliver inflation.

In other words, inflation matters in an MMT managed economy. And so too does tax. At a macro level that is because it is the primary tool to be used to cancel inflation. Whether it does this in accordance with a plan, or after inflation has broken out, is a secondary issue (and MMT prefers the first explanation, and I have sympathy with that): the fact is that the use of government injected funds into an economy is only possible if the willingness to tax exists. And such are the likely real margins inside many economies that nothing like the Green New Deal could be done by simply using government injection of funds without there being a superficial demand for additional tax payable, and quite possibly in significant amount if inflation was to be avoided. There are spare resources in the economy, but not that many.

This then requires some joined up thinking on two issues. The first relates to the necessary reallocation of resources to create the capacity for something as radical as the Green New Deal, because let's not pretend that this will happen with all existing activity within the economy coexisting beside it. Indeed, by its very nature the Green New Deal seeks to change much of that existing activity because it is now recognised as harmful. And, second, whilst it might be argued that regulation could achieve this effect, I would suggest the practical experience suggests otherwise, and in any case MMT makes clear that tax is a tool for manipulation of aggregate demand, and I suggest that it should be used as such.

My proposal that pension fund and ISA savings be used to finance the Green New Deal should be seen within this context. Let us not pretend that these do not change aggregate demand within the economy. First of all, by providing tax subsidised savings mechanisms they do distort demand by diverting financial resources: this in itself has an impact upon the real economy. And, secondly, any argument that they merely create stocks of notional financial assets with no real impact is far too limited a perspective. The fact is that massive amounts of resource are actually reallocated by this savings process this process and this has a very real current impact upon resource allocation within society, both in consumption and investment terms, and both have real consequence.

I could, then, be bold enough to say that without tackling the way in which we save we cannot have a Green New Deal: the allocation of financial resources to particular types of demand that the current savings infrastructure does, essentially, require means that unless that structure is tackled the reallocation of demand that is necessary cannot take place. And the fact that these savings structures have been heavily tax subsidised at a cost of more than £60 billion a year, suggests that tax reform is critical to this reallocation of an essential component of aggregate demand.

That is precisely why I am suggesting that tax relief on pensions must be conditional upon part of pension contributions being used to fund Green New Deal assets, and I am similarly suggesting that all ISA related saving must be linked to GND related assets.

There are two aspects to the suggestion that need to be highlighted. The first is that tax subsidies are in effect tax not collected. Tax subsidies achieve absolutely the same net macro tax consequence as reducing tax rates. And that is vital to understand. MMT works by equating a net aggregate tax sum collected with government spending to promote, or subdue, aggregate demand. Therefore changing the use of tax subsidies, which is precisely what I am doing by saying that pension and ISA arrangements can be re-orientated towards Green New Deal investment, achieves the net MMT aggregate macro tax objective.

Second, and critically, what I am also saying is that these assets in which savings takes place need not only be issued by government: when a majority of the activity in our economy is not government financed, which will continue to be true in the event that there is a Green New Deal, to place such a condition on GND savings would both be wrong, and wholly counter-productive. In itself this suggests that to say that government created money can fund all the Green New Deal is inherently incorrect: business will also have a funding need and to ignore it is akin to preventing a Green New Deal happening,

So, what I have done is link the need for change in aggregate demand to the tax reform that has promoted current resource misallocation and have suggested changes that might achieve the reallocation of demand by changing net tax relief due in a way that is likely to meet the inflation constraint within MMT (and let's not pretend that there is one). In effect, by changing the nature of the tax relief on savings I am suggesting a mechanism for withdrawing from the economy the funds created by government to fund the Green New Deal without creating a new, or apparent, tax demand which will undermine the appeal of this arrangement.

In the process what I have done is something many adherents of MMT need, I suggest, to do more often. I have suggested that the GND, and its MMT linked finance, does not exist apart from the existing economy but is instead intended to fundamentally reform that existing economy, and must, therefore, be integrated within it. This necessary and needed integration is what the simple suggestion of 'print more money' too often fails to recognise.

And this is why having a coherent theory that links the aggregate, or macro, role of taxation within MMT with a practical policy for delivering tax reform that is consistent with the normative objectives that MMT promotes is vital. And that, by the way, is what my paper is about. Whether it is accepted for publication is, of course, another issue.