

For the sake of money creation the Tories are going to ...

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The IMF [issued a pretty exceptional blog post yesterday](#). It was about addressing the coronavirus crisis and its economic impacts. In it they said:

With many workers still unemployed, small businesses struggling, and 80â€™90 million people likely to fall into extreme poverty in 2020 as a result of the pandemic—even after additional social assistance—it is too early for governments to remove the exceptional support. Yet many countries will need to do more with less, given increasingly tight budget constraints.

I could have written that. That cannot always be said of IMF blogs.

They then added:

Although the global fiscal response to the crisis has been unprecedented, responses by individual countries have been shaped by their access to borrowing as well as their public and private debt levels heading into the crisis.

And they then noted:

In advanced economies and some emerging market economies, central bank purchases of government debt have helped keep interest rates at historic lows and supported government borrowing. In these economies, the fiscal response to the crisis has been massive.

In many highly indebted emerging market and low-income economies, however, governments have had limited space to increase borrowing, which has hampered their ability to scale up support to those most affected by the crisis. These governments face tough choices.

Limited room for maneuver

High debt burdens have hampered the fiscal policy response, especially in emerging market and low-income economies.
(announced measures as of September 11, 2020, in percent of GDP)



But it was what came next that was exceptional. They said, and I think this worth sharing in detail. They started with this:

As economies tentatively reopen, but uncertainty about the course of the pandemic remains, governments should ensure that fiscal support is not withdrawn too rapidly.

This could be targetted at Rishi Sunak. This is, of course, exactly what he is planning to do.

But they went further, saying:

However, it should become more selective and avoid standing in the way of necessary sectoral reallocations as activity resumes. Support should shift gradually from protecting old jobs to getting people back to work—for example, by reducing job retention programs (wage subsidies), reintroducing job search requirements, and training new skills—and helping viable but still-vulnerable firms safely reopen. With low interest rates and high unemployment, [boosting public investment](#)—starting with maintenance and ramping up projects—can create jobs and spur economic growth.

Why not just call it the Green New Deal with a dollop of care and education thrown in? Because that is what is required.

But correctly they note:

Emerging market and low-income economies facing tight financing constraints will need to deliver more with less, by reprioritizing spending and enhancing its efficiency. Some may need further official financial support and debt relief.

That is true, and also welcome, as is this:

Governments should also adopt measures to improve tax compliance and consider higher taxes for the more affluent groups and highly profitable firms. The ensuing revenues would help pay for critical services, such as health and social safety nets, during a crisis that has disproportionately hurt the poorer segments of society.

I was [literally saying this last night](#).

And they concluded that section of their commentary saying:

Once the pandemic is under control, governments will need to foster the recovery while addressing the legacies of the crisis—including the large fiscal deficits and high public debt levels.

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Countries with fiscal space and major scarring from the crisis, such as large long-term

unemployment, *should provide temporary fiscal stimulus* while planning for an adjustment over the medium term.

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Countries with high debt levels and less access to financing will also need to adjust over the medium term, striving to protect public investment and transfers to lower-income households.

We are in the first category. We have the room to create money and borrow money: there is, in the IMF view, no reason not to support the economy through this, and every reason to do so.

So what was their overall conclusion? It was this:

Looking ahead, countries will need to make it a priority to invest in health care systems and education. They should also strengthen social safety nets to ensure that all people have access to food and other basic goods and services.

As economies begin to recover, governments should seize this moment to move away from the pre-crisis growth model and accelerate the transition to a low-carbon and digital economy. Carbon pricing should be a key feature of this transition, because it encourages people to reduce energy use and shift to cleaner alternatives—and, moreover, it generates revenue that can be used in part to support the most vulnerable.

As governments ramp up their public investment and other fiscal measures to foster the recovery, their policy choices will have long-lasting effects. They should make a decisive push to make economies more inclusive and resilient, and to curb global warming through green measures that also boost growth and employment.

I agree.

There was no MMT in this, but there was money creation. And there was an appreciation that it is not money that is the constraint now. And yet in the UK it is money that is already being said to be the reason why we cannot address the crisis that we are in.

The IMF has this right.

Rishi Sunak and the Tories have this very badly wrong.

No wonder this country is heading for turmoil and breakdown. For the sake of money creation the Tories are going to tear this country apart. And even the IMF says that they have got that wrong.