

Four causes for inflation

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I wrote this yesterday in response to a [comment on this blog](#) written by a right-wing opponent of modern monetary theory who claimed that all current inflation was attributable to quantitative easing, which she confused with MMT:

Inflation can be caused for four reasons.

First, if a government tries to spend more within an economy already at productive full employment it will create inflation because the resources required to meet the demand that it is stimulating will not be available. Price increases would, then, be the inevitable consequence. This is an incredibly rare phenomenon because full employment at a living wage, indicating that all labour is used productively, is almost unknown.

Second, inflation can be caused by a shortage of supply. This is particularly relevant when there is a shortage of alternatives to the product in short supply. For example, if all foodstuffs are in short supply then prices for food will, inevitably, rise. If, however, a particular consumer item is in short supply it is more than likely that consumers will substitute alternative expenditure or wait for prices to fall, meaning that the impact of this type of inflation is almost invariably limited.

Third, there are externally imposed shortages of supply. These are most common with regard to energy where producers know that they can, if they wish to for political purposes, create considerable disruption in markets by creating shortages compared to demand. There is almost nothing that a government can do to react to this if they are not themselves a producer of the product in short supply meaning that they have little choice but sit out such situations in the hope that they will correct themselves relatively quickly.

Fourthly, inflation can be imposed by domestic political choice. For example, a government may decide to undertake a politically motivated course of action that has consequences for its exchange rate. Brexit is an example of this. The consequences of the impediments to trade that this created are, inevitably, inflationary.

I added to elaborate these points:

MMT addresses the first of these issues.

The second is about failed supply chains. The answer is market reform.

The third is about foreign policy. MMT is not a theory on foreign policy. But what it does imply is that dependence is dangerous. So, like the second category, the suggestion that MMT makes is that diversification in supply is critical and in this case significantly more renewable energy is required.

The fourth is about government incompetence and the answer is do not elect incompetent governments.

Inflation is not, then, arising for any reason that MMT can address any more than physical policy can address it in the conventional sense, or that monetary policy can address it in any normal sense. We are looking at political phenomena or problems within the real economy that no theory of money can correct, alert might suggest that diversification and competent government are very useful things.

Thoughts, comments and observations would be appreciated. Does this communicate what is necessary is the question I am asking?