

## Stephanie Kelton on tax and modern monetary theory

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I would recommend anyone who reads here also subscribe to [Stephanie Kelton's blog on Substack](#). Stephanie wrote this on MMT (modern monetary theory) and tax yesterday, and I'm sharing it to promote her work and thinking, with which I am usually in close agreement:

In MMT, taxes are important for four big reasons:

1.) **Taxes (or other forms of compulsory payment) are a good way to start up a currency from scratch**, as history clearly shows. Define the unit of account. Impose tax liabilities payable in the state's unit of account. A state that can make and enforce its tax laws can compel people to produce for the state (mercenaries, roads and other public works, crops, etc.) in order to get the "token" (state currency) that is needed to pay the tax. The imposition/enforcement of the tax is what gives the state's otherwise (intrinsically) worthless currency value.

Remember, the British government literally used to spend "tallies" (notched hazelnut sticks. Upon payment of taxes, the two sides of the stick (the "stock" and the "stub") were matched up and the debt was paid. The sticks were then burned. Just as paper currency used to be burned once returned to the issuer. Beautiful short [paper](#) by Randy Wray covering this history.

2.) **Taxes can mitigate inflation by reducing income**. Every dollar taxed away from someone is a dollar they no longer have and cannot spend, chasing after goods/services. So taxes are one way to dampen inflationary pressures.

3.) **Taxes are good for altering the distribution of wealth/income**. Set the "need for revenue" completely aside. One might advocate a wealth tax, higher marginal rates, closing the carried-interest loophole, ending step-up-in-basis, etc. simply because one believes the outcomes (less inequality) are desirable.

4.) **Taxes can incentivize/disincentivize**. Again, forget about "revenue" (at the federal level, anyway). You might favor a carbon tax/gas tax/tobacco tax, etc because you believe it will discourage certain behaviors. Conversely, tax rebates on EVs, solar panels, etc. can be defended on grounds they will help support the transition to cleaner energy.

In MMT, we are never concerned with taxes as "revenue-raisers." Indeed, legislation that would rely on, e.g., a tax on "Wall St. speculation" to "pay for" free college can be counterproductive. It hitches the (good) free-college wagon to the (bad) behavior of Wall St. speculation, making you dependent on not only ongoing Wall St.