Funding the Future

MMT answers

Published: January 13, 2026, 6:16 am

I got an email overnight that I could reply to as a private mail, or I could hide the identity of the person who sent it and reply here, sending them the link. I have chosen the second option as I suspect the questions are not uncommon.

My correspondent began by saying:

I have been reading a bit about Modern Monetary Theory, including your joint paper with Andrew Baker. I think it's a really interesting and in many ways appealing proposition, but there are a couple of things I can't quite get past. I was wondering if you might be able to quickly address them for me please?

This was the first question:

I don't understand how it wouldn't just lead to massive inflation. Or would this be solved by high levels of taxation, thereby transferring spending power from private individuals to the state without having much, if any, inflationary net effect on demand?

I admit I always find this type of question perplexing, most especially if anyone has read a paper like the one I wrote with Andrew Baker, which is about the role of tax in MMT. But the real reason why it is perplexing is that there is nothing in MMT that says that:

* Money can be created without limit;
* There are no inflationary consequences of money creation;
* Additional money, compared to existing budgets, must be created.

People who do not understand MMT, or have not read it, or who seek to undermine it might suggest it says such things, but the reality is that it does not.

MMT explains how money works. It says that government spending is in a modern economy with its own central bank is always funded by central bank money creation in the first instance. This is as true of right wing as it is true of left wing governments. There is no policy prescription here.

Then it notes that money cannot be created without limit. In fact it makes explicitly clear that such money would be worthless. That is because MMT says a government must tax to reclaim the money it has created, and by demanding that the tax in question be paid using the currency that it has created it both gives that currency value and requires that it be used for transactions in its own economy, providing it with macroeconomic control. Tax is in that case as much a part of MMT as money creation is.

What is not essential in MMT is government borrowing. This is optional, with a government overdraft with the central bank being the alternative. MMT makes clear money markets need not be involved in funding government. It's a choice to permit them to be so, but then only on terms the government dictates.

But let's be clear: MMT obsesses about the control of inflation and provides a clear explanation (money withdrawal) on how this can be managed. The impression that a description of how money works is inflationary in itself is just wrong.

The second question was as follows:

Much of the literature on MMT from the late 2010s seems to take the low interest rates/inflation of the time as a given. Now that this is no longer the case, does this significantly change the argument for MMT? And if not, why not?

MMT thinks low inflation is good. Low interest rates must follow unless the economy is to be crushed by real transfers of wealth to those already wealthy. Low interest rates are a consequence of low inflation. We had both for more than a decade.

And let's be clear that the UK Office for Budget Responsibility is forecasting much lower rates of inflation soon and deflation in 2024 and 2025. We have had disruption of markets caused by Covid and war, but not by momentary conditions. It is highly likely low rates of inflation will return. The great worry is that low interest rates might not. If so we will have recession, businesses collapsing, households bankrupt, house repossessions and a banking crisis. Why wouldn't you want low interest rates back as MMT suggests desirable?

MMT makes it clear what the linkages are that can create high interest rates. It also explains why they are so destructive now (as they already are) but the way the money system works, which is what MMT describes, does not change with higher interest rates. MMT does however explain the consequence of high rates, and they are grim. By braking the link between government spending and money markets MMT also makes clear interest rates need not be set to appease markets.

Finally, my correspondent asked:

We've seen recently in the UK that negative market reactions to changes in government policy can render them totally impracticable. Do you think MMT could withstand this?

That is an interesting claim. Markets reacted adversely to a budget that was issued without support information, that appeared economically incoherent and without any supporting theory to explain what was planned. In the absence of information the markets priced in risk. That was fair enough.

MMT is a coherent theory of money. It makes clear exactly what role each party has in government financing. It makes clear who (the government) is in charge. It makes clear that markets are given the favour of being able to save with government and that the government is not dependent on them. It also makes clear how good economic policy can be maintained. It does, therefore, deliver everything Kwarteng and Truss did not.

Of course MMT can withstand market pressure. For a start, it makes clear what’s going on. Second, it makes clear that if markets want to be silly they can be, but government can just cut them out if the equation. I suggest no economics could be better equipped to withstand market pressure.

I hope these explanations help.