

MMT should be about the real world and not angels on pi...

Published: January 13, 2026, 11:14 pm

My exchanges on MMT are ongoing. One is with NeilW, who I presume to be Neil Wilson. In that exchange, [I suggested that](#):

MMT is itself a phenomenon of fiat currency – a successor to asset-backed money. MMT needs to start not with no money but with how the transition from asset backed money works. The rest is irrelevant.

In response, [Neil has said](#):

The MMT argument is that money has only ever been partially asset backed. Randall Wray uses the example of “tally sticks” to show that taxation has long been a key component of the monetary system.

He added:

If it’s only partially backed, the currency is only one step away from having no backing at all. During times of war the backing was indeed removed entirely, only to be restored when the conflict was over.

There was no great difficulty moving between the two regimes, contrary to what you are implying. This suggests that “asset backing” was more for psychological reasons than anything to do with the actual functioning of the economy.

The claim is, therefore, that the abandonment of the gold standard was of little consequence and that, contrary to my claim, the event has no real role in MMT history, which does instead explain money for all time.

I do not agree with this. As a political economist, the claim makes almost no sense to me.

Saying so, I do of course accept that as a matter of fact, there was not a precise delineation between asset-backed money and fiat money. I know that there was an element of fiat within asset-backed currency. So, let us accept that is a fact.

Then let us also accept as a matter of fact that all money is a human construct and that what matters about it is not what is, or even is not a fact, because such facts are always to some degree variable in each person’s interpretation. Instead, what matters is the issue NeilW dismisses, which is the psychology of money. This is all that matters

when we discuss MMT as far as I am concerned as a political economist.

You might think that the technicalities matter and, of course, they are of significance. That is why I pay so much attention to the details within MMT and money more broadly. But, at the end of the day those technicalities, which all eventually come down to the nature of double-entry bookkeeping because that is the only way in which money is really recognised to exist, are irrelevant if the understanding of those entries is wrong, and this is what matters.

The psychology of asset-backed money is that money is in scarce supply, and for the state to use it then it denies a resource to the private sector, thereby potentially constraining beneficial activity in that sector, with the substitution of state activity in its place. This is, of course, the tale told by Warren Mosler, with the suggestion being that the threat of violence ensures this claim by the state is respected even if (by implication, or threat would not be needed) it produces a less than optimal outcome for overall well-being. This is, of course, the view of everyone from the Austrian school, right through neoliberalism, to much of neoclassical economics. From the paper that Warren Mosler put forward in defence of MMT, it also seems to be his view. I accept that may not be the case, but if so he needs to radically improve his writing style, and we need to debate the issue.

I do not share that view. In my opinion, what MMT makes clear is that, as a matter of fact, state spending can precede taxation and, as a matter of fact, a government need not borrow to fund that expenditure, nor need it tax except to control the consequence of inflation created by spending in this way. That is, in my theoretical interpretation, what MMT says, even if it does not in yours.

As a result, the change in psychology is significant. This theory says that the state can spend without harming markets. There is no necessity of crowding out: there is merely competition for resources, with people having a choice as to which sector they wish to participate in. If the state exists, it is not because of the threat of violence but because people chose that it should because they want to work for it.

As importantly, actions otherwise unavailable for collective gain are enabled by MMT with consequent gains to well-being, none of which would appear to be referenced within your MMT framing.

I could, of course, elaborate these arguments, but I do not need to do so. The essential point is about the impact that this change in the psychological approach to economic management, when properly framed and expressed, has on political economy, i.e. the power relationships that determine the actual use of resources within a society. That impact is radical. This is what matters to me in all my engagements. Psychology is at the beginning and end of this framing. You dismiss it. I think it is paramount.

And that is precisely why the difference between asset-backed and fiat currencies is so

significant. Whether or not asset-backed currencies were constrained in supply is not the point. The fact that they were thought to be in short supply is the point, and MMT shatters that myth. In that case, I defend my suggestion that MMT is all about explaining the transition from asset-backed to fiat currencies which, so far, the world has got disastrously wrong. Why would you want to disagree?

To put this another way, are we debating angels on pinheads here, or real-world political economy? Only one really matters to me, and I'll only engage with angels and pinheads if there is a real-world consequence. Most of the debate Mosler apologists are promoting has none, and that is what worries me about it.