

## We can use private capital for public benefit

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I [was asked this question on the blog last night](#) and, to be candid, was just too tired by the time I finished work to answer it. This morning, it seems like it might be worthwhile addressing both issues it raises in a blog post:

*Richard two questions one related to the above one not so.....first you seem to be MMT light in regards to looking at taxing and borrowing (isa etc) as a means to paying for increased infrastructure....is this an attempt to fit into a more orthodox fiscal thinking ie are the political parties so fiscally dogmatic that it's the only way to engage with them?*

This part of the question relates to my suggestion that funds from both ISAs and pension funds might be used to fund public investments in the climate transition, social housing and other infrastructure needs.

As I have long made clear, I reached an understanding remarkably akin to the core elements of modern monetary theory (MMT) before I ever read anything by an MMT author. I have never, as a consequence, felt bound by anything that they say. I agree with quite a lot of what Stephanie Kelton has to say. I do so much less with Warren Mosler and Randy Wray, and to be frank, Bill Mitchell dresses up a pile of claims as MMT when they are simply his political prejudices. So, if you say I subscribe to MMT, then presume that I think that governments do always spend before tax, and tax is used to control inflation. That's all that needs to be said, albeit I place vastly more emphasis on tax in that process than most in MMT do because many MMT exponents get the whole nature and significance of tax wrong. In summary, my support for MMT has always been qualified.

It is also necessary to apply sense to any economic theory. These theories are like maps: they are ways of interpreting the territory but are not the territory itself. They provide a selective view. That is why I have more than one mapping app on my phone. Google Maps is great, but if I am walking, the OS app is brilliant (one of the best I own and well worth the cost). Each has a different, selective view.

MMT is like that. It has a use in describing the way the government spends and why it

taxes, but to pretend it answers all questions is just wrong. In particular, it only really addresses the issues around base money (cash and balances in central bank reserve accounts) and commercial bank money does exist.

So am I trying to fit into orthodox thinking, or do I think MMT just has not got an answer to all questions? I am certainly not doing the former. What I am proposing for [ISAs](#) and [pension funds](#) is not orthodox thinking. Mainstream politicians have not thought about using tax incentives for saving to provide the capital for public investment. So, I do not think I can be accused of appeasing conventional thought.

At the same time, I am suggesting that just because MMT says that a government can fund all its spending out of money creation if it so wishes, that does not mean that is the only way public investment can be funded or that it has to do this. As a matter of fact, there is a thing called financial capital. It has been used to fund the private sector. It is, therefore, real: we can see the evidence.

All I am saying is that if that financial capital can be used to fund the private sector, it can also be used to fund the public sector.

So, I am simply suggesting that an identifiable phenomenon called private capital be redirected for use for public benefit. If it can be capital in one sector it can also be capital in the other. That seems obvious to me, even if not (it seems) to almost anyone else. Such is the way that change happens: what is staring us in the face as a solution to a problem does, at some point, become apparent. This is my answer to the problem of funding public investment.

Turning to the other question asked by Andy, it was:

*Also and kind of related can you answer a question regards gov bonds used to cover public spending shortfalls....when these are issued we are told it's to bridge the deficit gap for that tax year but what happens when the lender removes their deposits after the bond has matured....the shortfall still exists (eg 2022 treasury bond for £100 million is issued and taken up by depositor for 10 year period bearing a yield fir thst period) . Do the BoE just wipe that £100 million shortfall out or is it then just added to the national 'debt' after the 10 years?*

The answer to this one is simple: the government issues a replacement bond, and the financial markets subscribe to it, and the world carries on as before. The interest rate may have changed, but that's about it. And if the government issued the new bond and there were no buyers (which is incredibly unlikely), that would not be a problem: the government could just QE it and hold it until there were buyers. It really is that simple. We are not in hock to financial markets, whatever politicians would like us to think.