

Are you a democrat, or not? That is the question that M...

Published: January 13, 2026, 4:08 am

This comment/question was put up on the blog this morning by someone called Peter Rodd. I am presuming it is genuine:

Enjoy your posts and the comments thereon. What do you think of Prof Stephanie Kelton's interpretation of MMT, in particular her book The Deficit Myth? She visited here (Australia) recently and a lot of shouty ranting ensued. To a non-economist (but retired accountant) it was confusing and a bit dismaying. Thank you. Peter

The first thing that I should say is that I do find Stephanie Kelton's explanation of MMT much superior to any other that is available. It is certainly the point at which anyone should start. It is the least dogmatic explanation available. It is also the most readable and, in many ways, the one least tainted by the policy objectives of those offering comment. For all those reasons, The Deficit Myth is a book that I recommend.

Let me, however, step back from personalities on this and instead suggest what the real conflict between those proposing MMT and other schools of thought is all about.

The real issue is one of political economy, and not economics. The question that MMT seeks to answer is, does the government have the power to create new money to fund its spending, and does it, in that case, have the right to create money at will (subject to the physical constraints that exist within the economy as to what is possible) to achieve its economic, social and industrial objectives, such as the delivery of full employment on a sustainable basis, with everyone having a sufficient income to meet their needs?

As a matter of fact, economics now says that governments can create money. There is no major central bank that now pretends otherwise. The Bank of England has been particularly explicit, saying in 2014 that the economic textbooks suggesting otherwise were wrong. It also made clear at that time that suggestions that banks act as intermediaries between savers and investors borrowers are wrong, that models of fractional reserve banking are simply incorrect, and that in the commercial sector, it is bank lending that creates sums that are saved, and it is not sums that are saved that create loans.

Extrapolating this, as some central banks, such as that in Canada, have done, leads to the conclusion, which the Bank of England has been reluctant to state, which is that whenever a government in the position of those in the UK, the USA, Canada, Australia, Japan, and many other countries, wishes to spend, what it does is instruct its central bank to make a loan to it, creating in the process the money that it wishes to spend, with the promise to repay being backed up by the power that the government in question has to extract future taxation revenues from the population over which it has authority. In other words, government spending always comes before taxation because, unless that were true, the money to make settlement of tax would not exist.

If you wish for practical evidence that governments can create money at will to achieve their policy objectives, then the deficit spending (but not the QE process) that existed after 2008, and during the Covid crisis is all the proof you need. The QE process simply disguised the reality that governments were spending newly created money to meet their obligations behind a pretence of bond transactions, which were deliberately meant to confuse, and have, most successfully, duped many politicians into believing that central banks cannot do exactly what they did during those years, which is create money at will.

If, as I suggest, the economics of this are now both known and acknowledged, what the real debate about MMT is all about is not now the facts of the matter, which are clear. It is, instead, about who has power over the scale of government spending. Is that the government itself, as MMT would suggest, or is it still the case, as it was in the long-gone gold standard era, that the willingness of financial markets to lend to the government, and of taxpayers to make settlement of sums legally owing to an elected government, constrains what a government can do?

MMT makes clear that financial markets do not have the ability to constrain government activity. The government is not dependent upon borrowing. Instead, the government provides financial markets with saving opportunities, but if the financial markets do not wish to take advantage of them, that does not necessarily mean that the government cannot spend.

Again, if tax revenues fail for any reason (as they did in 2008/09 and in 2020/21) then this does not mean that the government cannot spend. When that happens, a government of the sort noted can simply create the money needed to ride out the crisis.

MMT would argue that not only can a government do this, but that it should do this, and all the evidence is that this is exactly what governments did in these situations. In other words, they have acted as if MMT is true and that what it suggests is the right course of action to follow

Let me make it clear that by saying the above I am not saying that either savings with the government or tax have no role in the overall management of a government's

financial affairs. That would be utterly untrue. MMT makes it absolutely clear that the government cannot create money at will without taking into consideration the actual physical constraints within the economy to undertake real economic activity. It is quite clear that if excess money supply is created, then it follows that monetary demand in excess of the capacity of the economy to supply goods and services at prevailing prices will exist and that inflation will inevitably, at some point in time, follow. MMT is obsessed with this point and, as a consequence, says that taxation to withdraw money created by the government from circulation within the economy is absolutely fundamental to the creation of a proper fiscal balance in any country.

Likewise, if a government does not want excessive savings balances to be injected into speculative rather than beneficial savings activity within the economy, then it will wish to make sure that sufficient funds are saved with it to prevent asset price speculation. In that case, a government that understands MMT will have a very active approach towards attracting funds to be saved with it for precisely this reason. That said, it should be noted that it holds all the cards of power when doing so, not least because it can determine the interest rate it is willing to pay, and everyone else is subject to its whim as a consequence.

It is then this question of power that is critical when discussing MMT. The facts are actually pretty straightforward. MMT describes what happens in an economy. Central bankers now know and tacitly acknowledge that what it says is right. And in reality, governments behave as if MMT works. Therefore, the only question of consequence is why governments, economists who should know better, and economic commentators who are paid to present a view on this matter all pretend otherwise.

The answer is that there is a power struggle going on that is clear, blatant, and open for all to see. Those who are threatened by the reality of MMT, who can be summarised as the old financial community centred around the world's major banks and financial markets, wish to pretend they still have the authority to constrain government, even though that is obviously untrue. That said, they have the resources to fund media, academics and others to pretend that they are right. They can also make sure that politicians who are sympathetic to their view and that of the wealth holding that they represent are elected to office. Antipathy towards the state is implicit in their arguments that markets must have power, even though they very clearly do not.

What, in that case, we see played out in debates on MMT is an increasingly crude power struggle. Mark Blyth, as a political economist, who should understand these things, demonstrated this very clearly in the interview I noted here yesterday, using very crude and inappropriate examples whilst misrepresenting what MMT says. On the way, he claimed that Scotland as a nation-state would have no power and would, therefore, be subject to the whim of financial markets, who would not tolerate its existence as a nation-state or use its currency. This was absurd. Nation states of similar size with their own currencies clearly exist, and very successfully so. Data on Comments made on Scotland's trade below my post yesterday made clear that what he had to say on that

issue was incorrect. In all, he created a fabricated situation to defend the power relationship that financial institutions seek to impose on the world. Why he chose to do this, given that he is an intelligent man, I do not know.

The question to be asked when considering MMT is, in this case, a very simple one. The debate is not about facts because there, I would suggest that the argument is over; every single central banker knows that MMT is right. Instead, the argument is about who you want to hold power. Are you interested in a small financial elite representing those with considerable wealth to hold the power over the capacity of the state to supply services to meet those needs, or would you rather that an elected government, chosen by the people of a country, doing its best to meet that needs have that power instead? In other words, are you a democrat, or not? That is the question that MMT poses, and which everyone needs to answer.