

Funding the Future

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I have not had time to read [all the evidence](#) submitted to the House of Lords Economic Affairs Committee on the sustainability of the UK's national debt. I have a feeling that doing so would be worthwhile. Even a simple summary of the evidence and weighting of it so that a summary of sentiment expressed was available would be useful. [My own is here](#).

That said I have [read the unedited transcript](#) of the Committee's aural hearing with Prof Joe Stiglitz, who I rather get the impression was chosen by the committee as the proponent of the "relaxed about debt" position.

The whole thing was bizarre on all sides. Stiglitz had clearly done little preparation, not knowing what the current UK fiscal was. The committee was keen to dismiss him as talking about the US than the UK. Quite what Stiglitz was really trying to achieve is often rather hard to discern, excepting one thing, which came in his opening exchange, which I share here:

The Chair: Welcome to this session of the Economic Affairs Committee. I am delighted to welcome Professor Joseph Stiglitz, who is joining us from New York. Professor Stiglitz, good afternoon to you.

Professor Joseph Stiglitz: Good morning.

The Chair: Good morning, rather. Thank you very much for joining us here in London on a wet and miserable afternoon. Can I start by asking you to set the scene with a very simple but big question: does debt matter? We have had evidence from certain quarters giving the impression that debt may not matter. What is your view?

Professor Joseph Stiglitz: Debt does matter, both economically, and, perhaps even more, politically. Let me first try to explain MMT, the modern monetary theory, which has argued that it does not matter at all. I also want to make it clear that the view held by many people, that it is the most important thing, is wrong. I am not at all worried about the level of debt in the United States. So the view that we face an existential crisis because of the debt is wrong, but the other view, that we do not have to think about it, is also wrong.

The origin of the view that it does not matter at all goes back to the 2008 financial crisis, where we expanded the basemoney supply enormously—by fivefold in the US and Europe—and there was no inflation. That led people to believe that you could increase the money supply enormously without any inflationary consequences. There was no inflation, because the money went from the Government into the banks' coffers and they did not lend it, so it did not have any inflationary effect, but it did not have any benefit either.

If that money had gone into the banks, the banks had lent it, and the people to whom it had been lent had spent it, we would have had enormous inflation, but we would not have needed to increase the money supply that much. We kept doing it, because we hoped that increasing the money supply would stimulate the economy, but it had a very weak effect. That is the fallacy in MMT: if you increase the money supply and nobody spends the money, it does not cause a problem, but it does not solve a problem, either.

What is clear, in that case, and given his own chosen priority afforded to the issue, is that Stiglitz apparently gave evidence with the primary intention of rubbishing modern monetary theory. The problem for Stiglitz, is that far from doing so, he made himself look stupid.

MMT has never said debt does not matter.

It has said, as I do, that it is misnamed. Stiglitz shows no sign of understanding this.

Nor is he apparently aware of this so-called debt's role in private wealth holding, or its fundamental importance to banking, trade, pension funds and other institutions requiring government backed opportunities to save. I think MMT does all that. He does not.

Nor does he recognise the role government deposit taking (which some describe as national debt) has in withdrawing money from use in the economy to control inflation, which is a shame, because MMT does most certainly understand this.

He also talks hints very strongly that he thinks banking is an intermediary , or a conduit for the use of savers' funds, even if the saver is the government through its money creation programmes. That's a shame, because banks do not lend other people's money: it is a widely acknowledged fact that they only lend the money that they create. How can he be so unaware of this?

He even suggests money supply can be created without being spent, which is to deny the essential debt basis of all modern money.

And he suggests by implication that MMT says you can spend without limit when that is the exact opposite of what it actually says, partly because MMT is obsessed with inflation and because it makes clear in a way that Stiglitz clearly does not understand,

presumably because he has never read anything anyone actually talking about MMT has ever said, that unless you spend within the physical capacity of the economy to absorb spending then of course money creation is inflationary.

So we have to conclude that Stiglitz did this deliberately. I stress, that I really would not mind if Joe Stiglitz had offered an honest critique of MMT to this committee. He is, of course, entitled to do so. Economics is full of disagreements. But he did nothing of the sort. He did three things.

First he revealed his ignorance, not just of MMT, but also of banking, the role of the national debt, and the fact that there is such a thing as double entry so that when discussing that issue we also have to consider the preferences of those who own wealth and their desire for safe places to save.

Second, he misrepresented the truth, and I am really not sure that this is what anyone should do before a parliamentary committee.

Third, as a consequence, he might have served his purpose but he made himself look stupid in the process. He might, like many economists, think that a worthwhile thing to do, but I would have thought that he had by now reached a sufficient stage of maturity to get over playing such silly games. It appears that he has not.

As a result he will, no doubt, enable those who wish to present an argument that what he clearly thinks to be debt, but which is not, must be repaid with the result that the UK economy will be pushed further into recession and further away from delivering what the people of this country need. Well done, Joe is all that I can say in response to that.