

Funding the Future

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I have [already noted](#) the bizarre evidence submitted by Joe Stiglitz to the House of Lords Economic Affairs Committee.

Now, I have been tipped off (by another economist) about the similarly absurd, anti-MMT evidence [also supplied by Charles Goodhart and Olivier Blanchard](#) to this committee. Both made their comments in their opening statements, like Stiglitz did, and without any (apparent) prompting from the Chair.

Goodhart, whose work has become increasingly odd with age, said:

Yes, of course [government debt] matters. It has to be repaid with interest. The Government can always pay it by creating money to pay it off, but that causes inflation. One of the problems with MMT is that it assumes you can wait until inflation hits before doing anything, whereas the inflationary conditions can get worse and lead up to an inflation that is much more difficult to counter when it takes place.

Blanchard said two things that I want to draw attention to in his preamble. The first was:

Coming back to the question on debt, my answer is that debt is costly; I agree with the other two speakers. From an economic point of view, it decreases capital accumulation. Depending on what capital accumulation is decreased, it may be costly or not very costly, but it is an issue. From a fiscal point of view, as Charles said, it requires more taxes in future, although the answer there very much depends, again, on the valuable $r-g$. When $r-g$ is zero, you can finance the interest for new debt and keep the debt ratio constant, so the cost in terms of future taxes may be quite limited. However, the notion that debt is costless is a non-starter.

The second was:

On MMT, I have never fully understood and, I think it is incoherent. One thing that has been said by some is that the central bank should basically cancel the debt it holds, which would decrease the debt. That is nonsense, but I will stop there.

Let me deal with these, in turn.

Goodhart is wrong: government debt is never paid off. It rolls forward and has increased steadily over time. There is not the slightest evidence that it is ever going to be paid off. In that sense it has no cost. That is hardly surprising: it represents cost-free money creation. We need that money in use. Why does he want to deny that?

Then there is the question of the cost of interest. As Blanchard said later in his opening comment, if $r-g$ (the interest rate minus the growth rate) is zero, then there is no real interest cost either. And as Goodhart noted later in his evidence:

From having been negative, you are likely to get something like 3% to 4% inflation [now], 1% to 2% growth, and nominal interest rates at about 5% on average, so real interest rates on the order of zero.

So, there is no cost to capital repayment, and there is, in the case Goodhart outlines, no foreseeable real interest cost to borrowing. What, in that case, is the question of sustainability that they were pontificating about in a very narrow frame all about?

So, having demolished all they had to say with their own words, let me turn to their MMT comments.

Why did they raise this issue right at the start of their sessions? Could it be that they had been asked to do so?

No one defending MMT is being called, as far as I can see. What are their Lordships terrified of?

And as for the observations: Goodhart could not be more wrong about what MMT says. Its absolute suggestion is that money in excess of what is required to put all available resources to use must not be created if inflation is to be avoided. MMT says the exact opposite of what he claims.

Blanchard is no better. First he declares ignorance. Full marks for honesty and none for competence: why is he so scared of something he apparently knows nothing about. I simply do not believe his claim.

And what is nonsensical about saying a debt, when bought by the person who issued it is, for all practical purposes, cancelled and that if new debt is then issued, it is not in economic substance that which was repurchased? If he cannot comprehend that, then he really should not be giving evidence. This is, after all, what the UK Whole of Government Accounts show precisely because this is, when substance rather than form is considered, what really has occurred.

So let me explain what they clearly do not understand, which is that MMT is rooted in reality.

The question about whether debt is sustainable requires, first of all, the question to be

asked, 'Is the government in debt?' The answer is it is not.

Second, the question then is, do people want to save with the government? The answer is undoubtedly that they do. It is savings that are credits on the government's balance sheet, not debt. Now you deal with the uneconomic reality of that. This is what MMT does.

Then, MMT looks more broadly at aggregate demand in the economy and the means of providing the liquidity required to maintain it at full employment levels. That is the question of concern, not the sustainability of debt. The debt is always sustainable if we have the aggregate means to pay for it - which we do at full employment.

The problem for these economists is that they were talking about microeconomic siloes of concern, not macroeconomic issues of reality. That's the difference between them and MMT.