

Economics is not alchemy

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I have posted a new video this morning. In it, I argue that there is no magic to any government finding the money to do the things that we are capable of doing, because it can always create it by simply spending on these things we need – and then taxing that money back, if need be. Alchemy is not required for the government to do what is required of it.

https://youtu.be/U_FqzzSi8dg?si=CzhAeb9DVLvQxs6R

The audio version of this video is here:

https://www.podbean.com/player-v2/?i=kdwh5-16518e7-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=3267a3&font-color=&logo_link=episode_page&btn-skin=c73a3a

The transcript is:

Economics is not alchemy.

Alchemy was the ancient belief that you could turn things which were not gold into gold if only you could find the right formula. It was, of course, untrue. But, people as notable as Sir Isaac Newton thought it might be possible. In other words, even intelligent people can make massive category errors of that sort.

And our politicians are making massive category errors with regard to economics. They think that the whole subject is about what you cannot do. And that's not the case.

Economics is not about what you cannot do, which is the consequence of our politicians

and, let's be honest, some of our economists, claiming that economics is all about the shortage of money, when there is no shortage of money, because the government can create as much of it as it likes.

Instead, economics is about what you can do.

Now, this is what modern monetary theory, to which I broadly subscribe, says most of all. Instead of saying, you can't do things, modern monetary theory reflects John Maynard Keynes, the greatest economist of the 20th century, who said, "Whatever we can do, we can afford".

In other words, if it is possible to have clean rivers, decent hospitals, schools that aren't falling down, education that works, social care for those who need it, and so on - you can make up your own list - if it is possible to do those things because the resources to deliver them exist within our society, then we can afford to have them.

There is no constraint that is created by a shortage of money within government because the government creates all the money we have. Look at a banknote, see who made it, and then you'll see the answer to the question, "Who makes money?" So, in that case, this idea that economics is about what we cannot do is not right.

Economics is about what we can do. But we don't need to believe in alchemy to do those things. Because the possibility of achieving them exists because the government can enable them. In other words, we aren't, as Labour is trying to do at this moment, hanging their hat on the belief that somehow, in wild celebration of the Tories being out of office, business and consumers like you and me will spend so much more money that growth will happen.

Instead, economics says that, well, governments can deliver that growth by delivering the things that we really need. Like, as I've just mentioned, decent healthcare, education and so on.

So, there's nothing magic about economics. Economics is about what is possible. And we have to decide what is possible and what we want.

But nothing about economics says you can't have what we can do because we can always afford it.