

Funding the Future

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Some people argue that modern monetary theory is irrelevant or that it changes nothing. They're wrong. MMT fundamentally reframes the power relationships within our economy, moving power away from banking and the City and towards democratic government control whilst prioritising people and full employment instead. No wonder so many people don't like it: MMT challenges all the privileges they enjoy at cost to the rest of us.

https://www.youtube.com/watch?v=DKoQAYPU_rE&si=9euLwYkUY6Uguirp

The audio file is here:

https://www.podbean.com/player-v2/?i=uu9v6-16d5a5c-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00

The transcript is:

Why is modern monetary theory so important?

I [made a video on MMT recently](#) and explained what it is. But knowing what it is isn't sufficient to explain why I think it is so important.

Critics of MMT say that it doesn't really change anything because, as they point out, and as I agree, MMT says that a government must tax a sum broadly equal to the amount of its spending if it is to control inflation.

If so, they say, so what? Does it matter whether we think that tax comes before spend or spend comes before tax? What's the consequence, they say, when, as a matter of fact, the books will be broadly balanced inside any macroeconomic system, whether it's using the principles of MMT or not? And my point is that, oh yes, it really does matter.

Their question is naïve; it's rather like a physicist saying, "We don't need Einstein and all that nonsense about the theory of relativity and everything else. What we can do is use Newtonian physics, which is an approximation to the truth in 97 per cent of situations, and that will do well enough for us."

Except, of course, it isn't. The three per cent of situations when Newtonian physics might well not provide a good approximation are where most of the important decisions need to be made.

And the same is true with regard to economics. It may be that MMT does really say that taxation is fundamentally important and that we must raise a great deal of it if we want to spend a large part of the national income through the government. But, understanding what MMT says makes an enormous difference to the way in which we interpret that spending and the relationships that exist within the economy.

Let me explain. First of all, understanding that the government is not beholden to financial markets, which is one of the core messages of MMT, is fundamental.

Modern monetary theory says that any government with its own sovereign currency that is internationally accepted and its own central bank can never be dependent upon the financial markets for money because it can always ask its own central bank to create the new currency that is required to enable government spending to take place.

As a matter of fact, we know this is true. It happened in the UK and in many other countries after the 2008 financial crisis, and it happened again during COVID. Quantitative easing tried to disguise that fact, but it failed in the real sense that we know that the amount of money in circulation created by the Bank of England or other central banks rose enormously.

So, that dependency on financial markets is not true. in existence, and MMT acknowledges that fact, which other theories of macroeconomics do not.

Being aware, as a consequence, that the government doesn't borrow from financial markets but does instead provide financial markets with the opportunity to save fundamentally changes the power relationship between the City of London and the government in the UK and similar relationships elsewhere.

The bankers don't rule. That is one of the messages of MMT. And it's got to be understood. But no one else is saying it but MMT and, therefore, that makes modern monetary theory really important.

Secondly, tax is fundamentally important in MMT. Anybody who says it isn't is wrong. Tax is, inside modern monetary theory, the principal tool used to control inflation. There is no other tool that can do it as well as taxation. Let's be clear about it.

And what MMT says, as a consequence, is that the whole of this myth of central bank independence and the whole role of interest rates in controlling inflation, which has imposed so much pain on so many people as a consequence of unnecessary increases in interest rate over the last couple of years, is not true. Instead, tax has that role. So, this again shifts the balance of power.

The balance of power now lies with the Treasury and its decisions over taxation, including short-term changes that it can make if necessary to control inflation, like changing the basic rate of VAT, which is entirely possible at any time within any economy the central bank suddenly becomes just a regulator of banks and not a controller of the whole of economic policy, which is the status we've given it for the last 25 odd years, wholly mistakenly.

And then the role of tax is also different. Instead of tax being just about revenue raising, with the obsession being whether a particular tax is good at raising money or not, tax is seen as something much bigger in terms of the delivery of government policy.

It's about the delivery of policy to tackle inequality.

It's about the delivery of policy to change the way in which the economy runs, by providing subsidies, for example, to those things that the government wants to happen, and by charging tax on those things that it doesn't want to happen. It's about, therefore, charging tax on those things which are bad, let's call them gambling, alcohol, carbon, whatever you wish, and it's about not charging tax on things that are good, like education books and so on.

It's also about building a relationship between citizens and government because it's vital that people understand how tax works because they pay it, and that is one of the ways in which they can decide how to hold government accountable. In other words, tax is a fundamental driver of democracy.

MMT makes all these things clear.

And it also makes clear that the government need not obsess about inflation, because inflation always goes away of its own accord. That's what history tells us, since 1210, when we've got data for that period in the UK. And, instead, the focus of government economic policy should be on things that are much more important.

Things like full employment, which MMT prioritises. Or investment, or inequality, or climate change.

All of those things could become the focus of attention rather than inflation, which has become so destructive as a goal, much more destructive, in fact, than inflation itself.

So, what MMT does is fundamentally change the description of how the economy works - the government spends and its taxes. Others would argue that the government taxes and it spends. And the sums of money will not necessarily alter greatly as a consequence of MMT. But what it does do is change our understanding of the power relationships around that.

This, then, is a political economic theory, because political economy is all about power relationships. And MMT puts the power back with democratic government, the Treasury, and the choices that it has to make about how to meet the needs of people, in particular by delivering full employment.

This makes MMT powerful, radical, different, and fundamentally important because it puts people, and not money, and not bankers, and not finance, at the centre of its economic policy. And that, I believe, is what has to happen now.