

MMT is not a policy option; it's a description of the...

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Some people seem to think that modern monetary theory (MMT) is a set of policy options a country might adopt. It isn't. It's a description of how the economy of the country we live in really works. What's powerful about it is that it describes actually happens - and so leads to better decision making.

https://www.youtube.com/watch?v=oDCLBPkcN_U?si=74yqHH18HBRG6KIO

This is the audio version of this video:

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This is the transcript:

Modern monetary theory is not a policy. It is an explanation of how money works in a modern fiat currency economy. Let me explain.

A modern fiat currency economy is one like the UK, the USA, all those countries in Europe that have their own currencies, even to some degree the Eurozone, And, of course, many other countries around the world, like Australia, New Zealand, Canada, South Africa, oh, and most of South America, plus Japan, who actually are countries that issue their own currency from their own central bank, and there is precisely no asset backing for that currency.

It is purely money because the government of the country in question declares it to be so, says it's the legal tender of the country in question and that currency gets its value because the country in question is able to collect tax to give it that value. That's what a modern fiat currency is.

And when a country has a modern fiat currency, then what modern monetary theory says happens.

There isn't a choice about whether it happens. It does happen.

So, in the UK, for example, when the government wishes to spend, it passes a legal budget. How do we know it's legal? It's been approved by the House of Commons. Once it's been approved, the government can spend against that budget. So, all they have to do is tell the Bank of England to make a payment on their behalf.

As I've said many times before on this channel, and no doubt I will say again, the Bank of England doesn't, in that case, look to see if there's any money in the government's bank account on the day when the payment is to be made. It simply makes the payment because, under an Act of Parliament of 1866, basically it has no choice but do so; that is its job as the central bank.

So, in that case, what modern monetary theory does by saying that governments create money by their spending, and they do so before taxing, is a matter of fact. It's not something that a government suddenly decides to do.

A government doesn't one day say, "Oh, let's spend, and then we'll tax." No, ever since governments began to work as fiat currencies - and that transition happened across the world basically between the 1930s when countries like the UK abandoned the gold standard to 1971 when the USA finally abandoned it - over that period of adjustment, everybody moved from being a gold standard currency to being a fiat currency, and during that period of transition gradually everyone moved to this point where the central bank simply always created money whenever the government issued an instruction for it to do so.

So MMT is not a choice, it's a description of what actually happens.

And that's true with regard to the fact that tax then cancels the money spent. This isn't some form of choice that a government would make. As a matter of fact, that's what the role of tax is. Because if tax isn't used to fund government spending, and it can't be, because government spending is funded by money creation by the central bank, then what else does tax do?

Well, it cancels the money that the central bank created. That's the obvious corollary of the first situation.

And therefore, tax acquires, as I've explained before in other videos, other social

purposes - to redistribute income and wealth, to reprice market failure, to support a fiscal policy, to support democracy, and so on.

But when it does those things, it is simply doing what a government decides to do. Now those are policy, but they are all the almost inevitable policy consequences of understanding MMT.

What MMT does not do, is require that a country have a job guarantee.

It could be said that full employment is the goal of economic policy. It could be that anybody who wants a job who has not got one could be provided with a job by government, which is what the job guarantee process does. All of those things are possible when you have MMT.

But I make a very clear distinction that I don't think everybody who talks about MMT does. Those are policy consequences of understanding how a monetary system works in a modern fiat economy. They are not necessary consequences. They are choices. There might be good choices in some situations, and they might not be in others. But I'm going to dispute with those in MMT who say that they must be part of an MMT policy, because I don't think they are. I think they are choices.

The same is true with regard to those who say that the government can always spend to meet its policy goals. Well, MMT does say that, but actually it also doesn't say that. Let me explain that one.

A government can always spend to achieve its social goals, so long as there is something to be spent upon. In other words, the government cannot achieve its social goals if there is no resource available to deliver on its social goals. There are no, for example, people to be employed. Or there are no physical resources with which to build a road. Or they cannot be afforded for any reason whatsoever. Then, you cannot just create money to achieve that goal because money by itself doesn't deliver social goals. Money is only an enabler.

So, MMT doesn't say the government can spend without limit.

It can spend more if it wishes, and MMT rightly says that, but it must, in that case, as a corollary, increase the amount of tax that it charges because the increase in the tax, first of all, cancels the inflationary effect of that spending and, secondly, if you have more tax paid by those who are in the private sector economy they will do less in the private sector economy and that will free resources for the public sector economy to use.

Now that is an appropriate balance on which a government must decide: how much of this economy is going to be state; how much is going to be private, that is a decision that can be made, but that's a decision that is enabled by a proper understanding of

MMT. It is not an MMT policy.

So, let me go right back to the start of this video. I said that MMT is not a policy choice. Modern monetary theory is a description of how money behaves in a modern fiat currency economy. But that description is powerful because, as a consequence of it being understood - and I think it is only a matter of it being understood that is in dispute - then we have options made available to us to do things that other understandings - wrong understandings as it turns out of the way in which money behaves at present, which are based upon old gold standard thinking, and the gold standard hasn't existed for over 50 years - if we replace that wrong thinking with right thinking which MMT provides, then we can make appropriate choices for the modern economy.

That's what's modern about modern monetary theory. It lets us manage the economy in the way that is required now. But it isn't because of MMT itself. It's because it empowers us to make better decisions about how to manage the economy. And that's what needs to be understood about this very powerful economic idea.