

Venezuela, the Weimar Republic and Zimbabwe prove MMT i

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It's said that states that have suffered hyperinflation prove that modern monetary theory (MMT) is not true. However, the exact opposite is the case. They demonstrate that the conditions that MMT says must exist for a well-managed economy to function are correct.

<https://www.youtube.com/watch?v=YrJDYQrLthQ?si=FLkOj7a4RXimO-9S>

This is the audio version of this video:

https://www.podbean.com/player-v2/?i=rhafm-16ff387-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=&logo_link=episode_page&btn-skin=c73a3a

And this is the transcript:

Venezuela, Zimbabwe, the Weimar Republic. What do they all have in common? Hyperinflation.

We remember them because the examples of hyperinflation are so rare that they stand out in our memory. But every single time I mention modern monetary theory on this channel, and the explanation that it provides of the way in which money actually works in modern economies like those of the UK, the USA, and even most European countries, whether or not in the Eurozone, somebody pops up and says, uh, look at what

happened in one of those three, and it ended in disaster.

Let's be clear: I'm not arguing that things did not end other than disastrously in the Weimar Republic, Zimbabwe, or Venezuela. Things really did not work out there, and I am not disputing that that was at least in part because all of those governments did, of course, print far too much money. But that wasn't the fundamental problem within those countries that gave rise to their economic disaster.

Let's look at what modern monetary theory says is necessary to have a properly functioning economy which runs its own currency because it's really important to understand those conditions because when they don't apply, of course modern monetary theory doesn't apply either.

And those conditions are that the government in question must be strong. In other words, it must have popular support.

It must be upheld by the rule of law.

It must be respected.

It must also have its own central bank or, in the case of the Eurozone, be an active participant in a currency zone where there is a strong central bank.

It must be able to operate an efficient tax system because if it doesn't have such a tax system, it can't recover the money from the economy that it has spent.

It must have a sufficiently large government sector that the government's demand to be paid, in the form of taxation, basically forces the currency that the government creates into use in that economy for everyday exchange. If there are parallel currencies operating in a country, it's very difficult to enforce any form of monetary policy.

The currency in question must also be acceptable for international trade. That's vital because if it isn't accepted for international trade, then the country is wholly dependent upon its ability to make export sales, to buy the currency that it requires, to pay for its imports, whereas if the currency is available and acceptable for international trade, then it can effectively trade internationally on credit. And that allows it to, therefore, ride out the inevitable troughs and highs that exist with regard to the economic fortunes of any country.

And perhaps finally, and very significantly, there must be no sanctions against trade with that country and no bars on the use of its currency, and it mustn't be the victim of war or some other deep political circumstance that means it's basically a pariah within the international community.

Let's now look at the situation of the Weimar Republic, and Zimbabwe, and Venezuela then.

Start with the Weimar Republic. Why did the Weimar Republic fail? Well, it didn't have a chance, did it? After the Treaty of Versailles, it was told it must make reparation payments to the countries that had beaten it in the First World War. But the reality was that Germany was already on its knees, just as those countries that had beaten it were. It didn't have the means to generate the foreign currency that it was required to make payment of as a reparation, let alone to meet its own need for imports. And that foreign currency was not under its control because it was all gold-backed, and therefore, Germany was in an impossible position, made worse when France, which had not got its reparation payments, then marched into the Ruhr, took over the main productive capacity of Germany for its own benefit, and denied it a chance to actually earn the foreign currency it was going to need to make the payments anyway.

The Weimar Republic failed because it was put in an absolute impossible position, where its own currency was never going to be acceptable, it had to make payments in foreign currency, and it was denied the chance to earn any of that currency.

The consequence was yes, it overproduced its own paper, its own money, and it collapsed in value because local people lost their faith in that currency just as the international community had. Unsurprisingly, there was hyperinflation.

Let's look at Zimbabwe. What happened in Zimbabwe? Go back to 1980 and Zimbabwe under Robert Mugabe declared UDI, a unilateral declaration of independence, which basically made it an independent country within Africa because it turned its back on the UK, which had been its governing power, and set itself up in contravention of what was then thought to be international law. Whether that was right or wrong doesn't matter. Sanctions were imposed upon the left-wing government that was put into place in Zimbabwe, and the world turned its back on the place.

At the same time, and probably unwisely, Robert Mugabe decided to throw the landowners off the land in his country and put in their place the people who previously worked for them as farm workers.

Unfortunately, the collapse of agriculture followed because there was simply a lack of organisation and managerial ability to make sure the production remained in place.

What was the consequence? Zimbabwe couldn't trade internationally. Its currency was not internationally acceptable. There were trade sanctions against it. It couldn't buy the resources it needed to make good the domestic shortfall, and its currency collapsed as a result.

Is anything like that happening in any country in Europe, or the USA, or any other developed place in the world right now? No. Therefore, that situation isn't replicated.

And what about Venezuela? In 2010, Venezuela began its really steep downward spiral with regard to its currency. And why was that? Well, firstly, because the USA hasn't

been too keen on left-wing government in its backyard. It isn't the only country to have suffered sanctions as a consequence. Nicaragua has in its time as well. And the pressure was brought to bear right across the whole of the Latin American region.

But then the oil price also collapsed and Venezuela had totally geared itself to a high oil price. As a result of the collapsing oil price, the government ran an enormous deficit. It printed money to cover it, and it was unable to make good that deficit from sales of oil because that wasn't possible and sanctions denied it the chance.

And what happened? Well, its currency collapsed as a result and people with the opportunity to use the dollar instead did so.

Therefore, and I make the point very clearly, in all three of those cases, none of the conditions which suggest that modern monetary theory could apply did exist. To therefore say that they prove that modern monetary theory doesn't work is absurd.

In fact, in a very real sense, they prove that precisely because they failed, modern monetary theory is a good explanation of how systems can work well, and it sets out the conditions for them to do so. They don't disprove the case; they make the case.

Venezuela, Zimbabwe, and the Weimar Republic failed because the world turned against them, their people, their governments, and their currency, and the outcome was inevitable.

In a situation where the world doesn't turn against the country, its people, its currency, and does instead want to trade in it, which is true of most countries in the world most of the time, then the likelihood that such a situation can recur is low, which is precisely why, as I mentioned right at the start of this video, we remember those cases because they are so rare.

Modern monetary theory is in some ways deeply misnamed. It isn't even a theory; it's an explanation. It is what actually happens in a country which meets the criteria for its use: a strong government, a good tax system, a central bank, its own currency, which is acceptable for international trade, and which is borrowed in by the country in question.

Then, as a matter of fact, the world works as MMT says. It's a simple and straightforward explanation of the truth.

Countries don't adopt MMT. Their behaviour is explained by MMT. And just as the behaviour of successful countries is explained by modern monetary theory, so modern monetary theory explains very precisely why countries like Zimbabwe and the Weimar Republic, Venezuela, could never have succeeded and never had a chance because their currencies had no hope, because they didn't meet the criteria for success.

These places are, therefore, outliers in every sense. But they're outliers not just because they got hyperinflation but because they prove that MMT is true.