

MMT: Magic, myth or reality?

<https://www.taxresearch.org.uk/Blog/2025/06/22/mmt-magic-myth-or-reality/>

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Forget the myths. In this video, I set the record straight on MMT: what it is, how it works, and what it doesn't claim to do. If you've ever wondered how modern monetary theory could change things, this is your explainer.

<https://www.youtube.com/watch?v=GyJckrwB4kA?si=4hAA8CPb-HdBkcqu>

This is the audio version:

https://www.podbean.com/player-v2/?i=d2fnv-18e1bc5-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

Hi, I'm Richard Murphy, and today is one of those days when we're going to try to answer one of the big questions in political economy.

Tom's got the question. What are you going to ask me, Tom?

The question today is, is Modern Monetary Theory or MMT, the cure for global financial crises?

Lots of people have been asking us this question. It was very high on the list of those

that people said they wanted us to address.

So, let's start by asking what does Modern Monetary Theory actually say? And I think that's really important because if I don't define this, the rest of the answer makes no sense.

Modern Monetary Theory, or MMT, describes how money really works in what is called a fiat currency economy.

Now, a fiat currency economy is one where money is not backed by gold, silver, or any other asset, but is simply legal tender because the government says it is, and that's all there is to the money in the country in question. It's just a promise to pay from the government.

In those situations, the government spends new money into existence, that new money is created for it by its central bank in the case of the UK, the Bank of England, in the case of the USA, the Federal Reserve, and in the case of many European countries, the European Central Bank. But the point is that the money is simply created by that bank and spent by the government, for the government to fulfil its obligations in the economy.

And then, the government taxes, but it doesn't tax to fund spending. As MMT explains, tax has the role of removing from the economy the money that was created to fund government spending, and the purpose of that is to control inflation because otherwise, there'd simply be too much money in circulation.

But there's a critical point about this. MMT says that if you understand this, then the goal of the government when it comes to economic management is not to provide financial stability for the money that exists within the economy, because that money is created by the government in the first place, so it has the power to do that by implication of its control over the money supply. Instead, the role of the government is to create full employment and price stability, but not balanced budgets.

In that case, what MMT is is an economic explanation. But it isn't a political prescription. A lot of people somehow seem to think that Modern Monetary Theory is some form of left-wing politics, but it isn't. It's just about an explanation of how money really works. It could be used just as much by a right-wing government as a left-wing government. It does allow a government to pursue a policy of full employment, but it doesn't require a government to do so. A government could pursue some other goal instead, like impoverishing everyone in the country it rules. Why it would want to do that, I don't know. But the point is, everything about policy is a choice.

What MMT provides a government with is the opportunity for pursuing what I call active fiscal policy, which just means that it uses the combination of its spending and taxation, and the difference between them, which is the deficit, to manage demand within the

economy. As a consequence, it can also manage inflation.

If the difference between spending and taxation is small, it is likely that inflation will be low. If it is large, it is likely that inflation will be higher, and if the difference between spending and taxation is small, there'll be little stimulus effect with regard to increasing employment. But if employment does need to increase, then increasing spending in proportion to taxation provides the incentive to create more employment, and that should not, in that situation, create inflation, so this is a real economic tool.

The contrast is with monetary policy, which uses interest rates to try to control inflation, and at the same time help a government balance its budgets.

Fiscal policy tends to have a bias towards the poorest in a community, because if the government spends more money into the economy, the poorest tend to benefit most by securing employment or better benefits.

In contrast, monetary policy tends to be biased towards the wealthiest because the poorest are the biggest borrowers and they pay more interest, whilst the wealthiest are the owners of the debt that the poor owe, and therefore they earn more if monetary policy is used to increase interest rates.

When making the choice between these two policies, fiscal policy stands out as the more effective, and the reason why is straightforward. Fiscal policy can be put into place very quickly. Monetary policy takes up to two years to have an impact, by when, very often, the inflation which it is meant to be addressing has disappeared.

So, fiscal policy should be the government's preference because it is the best tool available to it. But that might require us, and I think MMT makes this clear, to rethink the role of some taxes. In particular, VAT, which tends to vary in rate very little under existing policy regimes, might have to vary quite a bit to be an instrument to deliver the immediate tax changes that MMT requires.

MMT might also require some form of financial transaction tax, particularly on flows through the bank accounts of larger companies or maybe the wealthy, basically charging a tax on their use of money, if necessary to slow down the economy because there's a risk of inflation, or to eliminate that tax charge to encourage greater investment.

But those options exist. It does require a different approach to taxation, and those tools are not there as yet, and I have to stress that's the case, but then that's because nobody's trying to seriously use MMT.

So, is MMT a panacea? No, it clearly isn't. Modern Monetary Theory cannot fix every problem in an economy. For example, it wouldn't have prevented the inflation that happened after the invasion by Russia of Ukraine because that was caused by an

external source and the panic in the financial markets about the restriction in the supply of oil and gas that might follow.

There was no financial cure, monetary policy, fiscal policy, MMT, or anything else that could have dealt with that, except better regulation of the financial markets.

But what MMT does offer is a more accurate understanding of how money works, and that is really seriously important because that means it provides practical tools for managing economies in a way that is fairer and more effective. And that's why politicians have to understand MMT when far too few do.