

Why MMT won't crash the pound or the bond market

<https://www.taxresearch.org.uk/Blog/2025/08/26/why-mmt-wont-crash-the-pound-or-the-bond-market>

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The story goes that if Britain were to adopt modern monetary theory, the bond market would revolt. The truth is the opposite. In this video, I explain why the UK government's ability to create money, to invest in real assets, and to build a stronger economy, all of which would be enabled by modern monetary theory thinking, would make British investors in the UK more secure, not less.

<https://www.youtube.com/watch?v=8Y33063Wn3o?si=-kTcnoFPy9-gHJli>

This is the audio version:

https://www.podbean.com/player-v2/?i=2wi4i-1944610-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:

People keep saying to me, if the UK invested as modern monetary theory makes clear is possible, then the bond markets will panic. Interest rates will rise. The value of the pound will collapse, and we will be in deep financial trouble, all because the government has tried to do what MMT - modern monetary theory - says is possible, which is to go for full employment. And what I say is that is nonsense.

Now I accept that there is a neoliberal framing of markets at present. Theirs is an

argument that says that markets are in charge, the government is like a household and has terms dictated to it, and investors will gang up on the government if they think that the government does something they don't like. This narrative is built on fear and not evidence. It's built on mythology and not fact. And the truth is just about everything about it is wrong.

Governments do, as a matter of fact, create money before they tax in the UK. And they can spend before they borrow. And that, as modern monetary theory explains, is simply because the UK government has its own central bank, which creates our currency, the pound, on command from the government.

So the government can spend to drive growth and productivity if it wants to, and as the basic calculation of GDP proves, if it can increase either investment or consumption and government spending on things like the redistribution of income and wealth, then there will be consequences for growth, all of which are positive.

Investment creates real assets and services. People are better off. The whole economy's resilience improves.

So the question to ask is, why would bond markets panic if they knew that the government was trying to achieve this outcome?

If they also knew that the government had identified those resources that it could put to use, and if they knew that the government was spending to increase productivity, as would be the outcome if they spent more on health and education, then what is the point of the bond market panicking when, in fact, everything that the government is going to do is going to increase prosperity in the UK? That is the consequence of the policy which people are saying would lead to investor flight from the UK, when in fact the consequence would be growth, and that should lead to capital flowing into the UK.

And that's my point here. Traders might play short-term games in the financial markets, but real investors look at fundamentals. They know that investment turns into a stronger economy and turns into better returns.

And that turns into an economy where the rate of return on bonds is likely to be better guaranteed, more stable and logical, and therefore, to sell bonds would be entirely irrational.

And we know that people need bonds. Let's not beat around the bush here. The markets need safe liquid assets in which to save, and that's why the UK government bond market is worth well over £2 trillion. UK government bonds are desirable assets which the wealthy wish to hold, whether they be pension fund managers, insurance companies, bankers, or individuals. All of them want assets which, on occasion, match safety with scale, and the only thing that can really do that is UK government bonds.

So the chance that there will be a real rout in the bond markets if the government did decide to increase investment is in itself very low. In other words, the effect would be very transitory. But if the government truly communicated what it was going to do, then I believe that, in fact, bond markets would get stronger as a consequence of the use of MMT, and all this nonsense about there being capital flight out of the UK because the government was going to spend more on services would be shown to be complete nonsense.

It is, in fact, confidence that builds capability, which the bond markets want, and they don't want austerity, which crushes the scale of activity in the UK economy, making it look more vulnerable meaning, as a consequence, that the price of government bonds looks too expensive to bear.

So what we need is investment that delivers higher employment. Higher employment, delivering higher income. Higher income, delivering more savings. And more savings, creating more demand for UK assets. And if we got that, there would be a virtuous cycle created by MMT, liberating investment, and all the neoliberal myths about there being a rout from the markets would be literally shown to be total nonsense and neoliberal scare stories. In fact, those neoliberal scare stories are the thing that is most likely to create a financial crisis in the UK by simply undermining our economic well-being.

So, markets don't and won't act against their long-term interests if MMT understanding is used to invest in the genuine growth of the UK.

We don't need the market's permission to do that. But what we do need is a government that understands what it is doing and communicates it. And that is perhaps the most fundamental thing that we are lacking at present, because we don't have a government that is able to do that.

The truth is, growth of the sort that I'm describing in a new future where people are better trained, where people are healthier, where there's climate change stability, where there is energy sustainability, and where transport systems are working for our well-being and so on; those create stability.

They don't feed false narratives.

They don't give rise to a crisis.

Instead, they make the UK government look more secure than ever, and that's what MMT would deliver for the UK.

Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, [here](#).

One word of warning, though: please ensure you have the correct MP. ChatGPT can get it wrong.

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