Funding the Future

Article URL

Published: January 12, 2026, 5:58 pm

Some claim modern monetary theory (MMT) proves that tax doesn’t matter. They’re wrong. Tax is not about funding government spending—it’s about controlling inflation, creating demand for currency, and sustaining democracy. In this video, I explain why without tax, MMT collapses.

https://www.youtube.com/watch?v=raaj63WkGS0?si=rMmGYk9xulmKIlM1

This is the audio version:

https://www.podbean.com/player-v2/?i=ng4h2-1958258-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:

Some people say that modern monetary theory (MMT) proves that tax does not matter. Let's be blunt about this. They could not be more wrong.

Without tax, modern monetary theory doesn't work. So whenever you hear someone say, "Oh, it doesn't matter, we can always create more money in a modern monetary theory world," those people are talking complete and utter nonsense and know nothing of any value about what MMT has to say.

So let's discuss this in greater depth. The critics who say to me that tax does not matter always put it this way: they say "Government can create money, so tax is irrelevant because the government doesn't need to collect it to pay for what it's doing."

And they're right. The government does not need to collect tax to pay for what it's going to do, because, as I've said on this channel many times before, and will probably say again, every single pound spent by the UK government is made for it on the day that the payment is settled by the Bank of England, and that happens through a process of the Bank of England simply extending the government's overdraft with it. That's how all money is made when a bank lends to a person, and by definition, the government borrows from the Bank of England every single day.

So, in a very simplistic way, those who say that tax isn't needed because it doesn't fund government services are right.

But that utterly ignores the reality of the role that tax does play in an economy, and most particularly in a modern monetary theory economy, which is what we are living in - let me make it clear - because what I've just said about money creation by the government is what actually happens day in, day out now. You are living in a world where MMT is taking place. Don't presume it's some fictional world that one day we might adopt. We're already there.

So tax matters. And as a consequence, tax avoidance matters. And tax evasion matters. And let's discuss why.

First of all, let's reiterate it: all spending is funded by the Bank of England. But that doesn't mean to say the government can spend without limit. The truth is, there are very real limits on how much the government can spend, and that's the reason why Stephanie Kelton, in her book, 'The Deficit Myth', refers to inflation more than 250 times.

And the risk is that if the government ignores the reality that there are only limited resources available in any economy, or there are only limited number of skilled people available in any economy, and tries to spend in a way that denies those facts, therefore trying to buy resources that aren't available to them, they will create inflation.

So, a responsible government in a modern monetary theory world will always seek to balance the equation between its spending and the availability of real resources so that full employment is delivered, and sustainability with regard to other resources is created, and that's what responsible government is all about.

What then is the role of tax in this world, where so far we haven't mentioned it as a constraint on what the government can do?

Well, the fact is that by demanding that people pay their tax bills in the currency that the government creates, the government does, in turn, create a demand for that currency. After all, if people haven't got the money that the government creates, then they won't be able to pay their tax bills. And as a consequence, what the government does is force the money that it creates into use in the country for which it is responsible.

Now, there are countries where this is not the case. I went to Lebanon a while ago. And if you go there, you'll discover that although there is a Lebanese dollar, it's a bit of a joke. Nobody uses it. The US dollar is used by everyone. The Lebanese government has no control of its own national economy as a consequence, and that is plain for anyone to see.

If a government is going to have control of its economy, then it must have control of its currency, and it must use its own currency, a point that many Scottish independence politicians still don't seem to understand, but which is fundamental to every single independent country in the world.

What this means is that if the currency created by the government is in use, then the government has the opportunity to take macroeconomic control of the country, which it is responsible for, by setting a fiscal balance that it desires, a rate of stimulus that it wants, or a rate of retraction if it thinks that the economy is overheating, that it wants, and an interest rate that it wants.

It is in the driving seat, and it is tax that creates this concept of fiscal balance. Tax takes out of circulation the money that the government has spent into circulation. That is its absolutely fundamental key role inside a modern monetary theory economy, and I repeat the point, you are living in one now.

This is what tax actually does inside the UK economy.

Every day, the government creates new money with the Bank of England.

And every day, the government taxes, and takes the vast majority of that money out of circulation again. And not just out of circulation, it actually destroys it.

There isn't any recycling of that money because tax is paid in settlement of a debt, and when the debt is paid, the money disappears. And that's true of all money in relationship with all banks where debts are involved, whether that be with the central bank in this case, or with a commercial bank, if you borrow from them. A debt repayment is the end of money. It's cancelled, it's gone, it's disappeared, and forever.

We are dependent, therefore, on this continual cycle of new money creation and new money destruction and tax is fundamental to this process. I cannot stress that enough. This is the most important role of tax inside an economy, and it stops the money supply running away with itself as a consequence of government spending, and the consequence is that tax controls inflation.

What that means is that spending and tax are two sides of the same coin. You can't have government spending without taxation, but not for the reasons that most people think.

And just think about it for a moment. Tax could never have come first. How could people have paid tax if the government hadn't created the currency in which to pay it? It would, of course, have been impossible. There would've been no money to settle the liability. In fact, if the government hadn't created money in the first place, people wouldn't even have known what the money was that the government was asking them to make repayment in. So the government must have made money first. It's a simple, straightforward, logical statement of fact that is unavoidable and absolutely definitely correct.

But once we liberate tax from this role of having to fund government, and that's what this argument does, and we instead put it in the role of controlling inflation, we also let it take on other fundamental roles within the economy.

It redistributes income and wealth, and it does that quite well if we let it do so. And I stress that word 'if' in that last sentence because we must let it do so.

Tax market failures on things like carbon, tobacco and so on, where we reprice those things so that they are increased in price to correct for the externalities they impose upon our economy by creating ill health, pollution and so on.

Tax also helps a government manage economic cycles by letting it manage surpluses and deficits. And we can see that when the government runs a deficit, it provides a fiscal stimulus. When it reduces the deficit, it withdraws money from the economy to slow that economy down. This is a fundamental tool of economic management, although tax itself does not directly create that consequence.

And finally, let's be clear about it: tax makes democratic choice real because different parties offer different tax choices to electors when they come to the time when a ballot box is involved in their lives, and the consequence is democracy is enlivened by tax.

There are enormous risks if we ignore tax as a consequence.

Inflation gets out of control.

The government loses macroeconomic control of the economy.

Other policies that are dependent upon tax for their delivery may not work.

The public loses trust in money and democracy.

And the result is that without tax, our economy would self-destruct.

And this is, in fact, the clearest possible message from modern monetary theory, which is not delivered by any other form of economic thought. This is the most advanced form of thinking about tax that exists. It's not a backwards step. This is a fundamental understanding that most of neoliberal economics simply hasn't got.

Tax, then, is essential to modern monetary theory. It's not optional. But its role is fundamentally different to the neoliberal and neo-Keynesian view. They say that tax funds spending, but that cannot be true for reasons I've just demonstrated.

It cancels inflation because spending and taxation are inseparable, and without tax, MMT cannot deliver on its promises. With tax any economy that understands MMT can provide the tools for social progress. That is its promise, and that is what it will deliver.

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.

Comments

When commenting, please take note of this blog's comment policy, **which is available here. Contravening this policy will result in comments being deleted before or after initial publication at the editor's sole discretion and without explanation being required or offered.**