Talking with Zack Polanski

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My podcast with Zack Polanski, leader of the Green Party in England and Wales, was published last night:

https://www.youtube.com/watch?v=a27AfFTOW3o?si=SpFNFdvXmz2NsFYY

I make no apology for the fact that my enthusiasm comes over in this discussion.

I have used AI to create this summary of the discussion, using the YouTube transcript as the basis for this:

The conversation began with Zach Polanski questioning the familiar household-budget analogy so often used to describe the national economy. I argued that the comparison is completely wrong. A national economy is, in almost every respect, the opposite of a household. A household can cut spending or "push costs outside the fence" by skipping a holiday or asking adult children to move out. A government, if it is humane, cannot do that. In practice, most cuts to public spending merely remove someone else's income.

A household has to earn before it spends and can run out of money. A government that issues its own currency can never run out. It creates the money it spends and can always meet its obligations in that currency. Balancing the national budget is therefore not a virtue—it is actually harmful, because it would remove too much money from circulation.

That led us to talk about inflation. I questioned the obsession with a 2 per cent target. No one can explain why 2 per cent is the "right" number; it's an arbitrary figure that has become a rod for our own backs. A modest level of inflation is healthy. Without it, we risk deflation—a far worse condition that discourages spending and raises the real burden of debt. Moderate inflation helps erode debt over time and redistributes wealth, as my own generation discovered through housing. The real problems are unexpected inflation spikes and persistent cost-push inflation in food, energy, and rents—much of which is made worse by the Bank of England’s unnecessarily high interest rates. Inflation, I argued, has distributional consequences, hurting those on low incomes while leaving the wealthy largely unaffected.

Zach then asked me to explain Modern Monetary Theory (MMT) and whether, in light of it, Liz Truss had been right. I said MMT is badly named: it is not modern, not particularly about money, and not really a theory. It is simply a description of how money works. When a commercial bank makes a loan, it doesn’t lend out depositors’ money—it creates new money by crediting two accounts. In the same way, when the government spends, the Bank of England credits the necessary accounts; it doesn’t check for existing balances first. By law, the Bank must make those payments. Later, the government may issue Treasury bills or bonds, but that is a policy choice, not a funding necessity. Taxes do not fund spending—they withdraw money to control inflation and help give state money its value. The real constraint is not finance but real resources, particularly labour. The UK is far from full employment. Under-employment, ill health, and weak investment mean we have enormous unused capacity.

Government spending, I said, is never lost. It becomes someone else’s income, generating tax flows and further spending. If it is directed wisely—on the NHS, for instance—it can return more to the Treasury than it cost. MMT shows that money should liberate an economy, not constrain it. It applies to any country that issues its own currency, has a central bank, and borrows in that currency, as the UK does.

On Liz Truss, I said her “mini-Budget” was incompetent and regressive, but she did not actually crash the markets. The turmoil was triggered the day before by the Bank of England’s announcement of quantitative tightening—the decision to sell government bonds back to the market just as investors wanted safer assets, not fewer. Pension funds that had been geared to quantitative easing panicked, and that liquidity crisis pulled Truss down. The Bank caused the crisis, but she was still inept.

We then discussed another Bank of England policy: paying full base-rate interest on hundreds of billions of pounds of commercial bank reserves created during QE. I argued that this was an unjustified subsidy to banks—over £40 billion a year at current rates. The Bank could pay a lower rate on most of those balances and still manage interest rates effectively, saving perhaps £20 billion annually—money that could transform public services.

Zach asked me what a “new paradigm” for the economy might look like. I described what I call the “politics of care.” I first explored it in *The Courageous State* and later in *The Joy of Tax*. It means putting people at the centre of policy—building an economy that frees them from fear. Right now, people are frightened of ill health, insecure work, poor pensions, unaffordable housing, failing education, and the climate crisis. We need to rebuild a welfare state that restores that post-war ideal of freedom from fear, with full employment for those who want work, decent benefits, and strong public services.

Zach said that much of what I described sounded like the Green Party's vision of "people and planet," and we agreed that the challenge was not just policy but communication. It is difficult to explain these counterintuitive ideas when decades of neoliberal framing have made the wrong story sound like common sense. I acknowledged that and said that was why I keep writing my blog and recording daily videos—to create a counter-narrative that makes economic reality comprehensible again.

We then discussed taxing wealth. I said that the wealthy are drastically under-taxed, but that a broad annual wealth tax is the hardest and least effective place to start. I have shown in my *Taxing Wealth* report that the overall rate of tax falls as people get richer. There are simpler, more powerful reforms: align capital gains with income tax, reintroduce an investment-income surcharge equivalent to national insurance, apply VAT to many financial services bought only by the wealthy, and raise corporation tax to a sensible level. Together, these could raise £90 billion a year with minimal new administration—more than any plausible wealth tax could achieve. The principle is simple: go for the easy wins first.

From there, we turned to power. Zach asked whether governments really had to "worry about the bond markets." I said no. Gilts are simply safe deposit accounts for large institutions—mainly the Bank of England itself, pension funds, insurers, and foreign central banks. They need those deposits more than the government needs them. The UK, with its own currency, can always pay its debts. If yields rise, the government can issue different maturities—or, if necessary, borrow directly from the Bank of England. The story that "the markets" control democratic governments is a myth cultivated by those who profit from it.

Finally, Zach raised a universal basic income. Within MMT circles, many prefer a job-guarantee scheme as an automatic stabiliser, but I am sceptical of both. A job guarantee feels authoritarian; a UBI large enough to matter would require very high tax rates and could destabilise the system. I prefer to start with universal basic services—free access to essentials like health, education, transport, and care. Once people experience that security, we can discuss additional cash guarantees later. Economic change, I said, must be sequenced and narrated carefully: take people with you, don't overwhelm them.

The conversation ended with Zach inviting me back for a second discussion, and I directed listeners to my *Funding the Future* blog and video channel. Across all the topics—from inflation and deficits to bond markets, taxation, and welfare—the theme was consistent. Money is a tool, not a master. A government that issues its own currency has the power and the duty to mobilise real resources for public purposes. The goal should be to reduce fear, build resilience, and design an economy that works for everyone—not one trapped by myths that make us smaller than we could be.

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