

Economic questions: the Stephanie Kelton question

<https://www.taxresearch.org.uk/Blog/2025/11/20/economic-questions-the-stephanie-kelton-question>

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This is one of a series of posts that will ask what the most pertinent question raised by a prominent influencer of [political economy](#) might have been, and what the relevance of that question might be today. There is a list of all posts in the series at the end of each entry. The [origin of this series is noted here](#).

After the first two posts in this series, the topics have been chosen by me, and this is one of those. This series has been produced using what I describe as directed AI searches to establish positions with which I agree, followed by final editing before publication.

This is the second post in a sub-series here, where I acknowledge notable economists who have influenced me and who also happen to be friends. This time, the subject is Stephanie Kelton, the world's most prominent proponent of modern monetary theory.

*Stephanie and I have met a few times. We have corresponded rather more often, often in exchanges about emerging economic situations worldwide. I was flattered to be asked to write a comment for the back cover of the UK edition of her most important book, *The Deficit Myth*.*

In a world in need of new economic narratives, Stephanie Kelton's significance is hard to overstate.

*[Stephanie Kelton](#) has done something very rare in modern economic debate: she has taken a basic accounting fact, that sovereign governments create the currency they spend, and shown how its denial has warped our politics, our public services, and our imagination. In *The Deficit Myth*, she does not offer ideology but clarity: governments that issue their own currency are not like households; public deficits are someone else's income; and the true limits to public spending are not financial, but real.*

Kelton's argument is as simple as it is destabilising. If the government cannot "run out

of money,” then the entire narrative of scarcity that has justified austerity, privatisation, wage suppression, and the abandonment of public purpose begins to collapse. The question she poses is therefore profound, not technical.

Hence, the Stephanie Kelton Question: ***If a monetarily sovereign government can always afford to mobilise the resources it actually has, why do we continue to run societies around the fiction that public spending is financially constrained?***

The household analogy that never belonged

Kelton begins by dismantling the most powerful and misleading story in modern political economy: that of the household analogy. Governments, we are told, must “live within their means,” “tighten belts,” and “balance the books”, just like families must do. It is a comforting metaphor, but entirely false. Households use the currency; governments issue it. Households must earn before they spend; governments spend before anyone can earn.

This misunderstanding is not accidental. It has been cultivated because it limits public ambition. If the state is imagined as a large household, it must behave timidly. It must fear deficits. It must view public investment as a threat. Kelton’s point is that this metaphor has done immense political harm, shrinking our sense of what collective action can achieve.

Money creation as a public instrument

Kelton’s core insight is not that governments **should** spend without limit, but that they **can**. The true limit to spending is the availability of real resources — skilled labour, energy, technology, materials — not the availability of money. Currency-issuing governments create money as a matter of routine when they spend. They delete, or cancel, money when they tax.

Money, in this framework, is a tool for mobilising productive capacity, not a scarce commodity. Once we understand this, the supposed trade-off between public purpose and public finance evaporates. The question becomes: what do we want to achieve, and do we have the resources to do it?

If the answer is yes, financing is never the barrier.

The politics of fear and the manufacture of scarcity

Kelton shows that the deficit narrative is not neutral. It is ideological. By insisting that “we can’t afford” healthcare, housing, green investment, social care, education, or

infrastructure, governments transfer responsibility away from political choice and onto imaginary financial constraints. Austerity becomes a necessity rather than a preference. Poverty becomes a natural condition rather than a policy outcome.

In this sense, deficits are not economic tools but political weapons — used to discipline governments, suppress wages, and justify the erosion of public goods. Kelton exposes this as a political project masquerading as prudence.

Inflation, not insolvency, is the real constraint

Critics accuse Kelton of ignoring inflation. She does nothing of the kind. Her point is that inflation — the only meaningful limit to public spending — must be managed by understanding **real** constraints, not by restricting public investment through arbitrary accounting rules. The dangers of inflation arise when governments spend beyond the economy's productive capacity, not when they spend "too much money" in the abstract.

For Kelton, inflation management requires planning, resource mapping, anti-monopoly measures, and coordinated fiscal-monetary strategy — not blanket austerity. She reframes the issue: inflation is a signal of resource strain, not a reason to fear public purpose.

Deficits as records of public contribution

Kelton restores an older understanding: public deficits are not signs of irresponsibility but records of private saving. When governments run deficits, they inject financial assets into the private sector. Public balance sheets and private balance sheets move together. The obsession with "reducing the debt" does, therefore, mean reducing private wealth.

Kelton insists that the moral significance of deficits depends entirely on what the spending achieves. A deficit that builds green infrastructure, improves care, houses people, or expands education is not a burden but a legacy.

The deflated imagination of modern politics

Kelton's argument highlights something deeper than accounting: how profoundly we have shrunk our sense of political possibility. When governments claim they "cannot afford" basic public goods, the public begins to accept deprivation as natural. The collapse of social housing, the decay of healthcare, the underfunding of education, and the abandonment of climate goals — all are rationalised by a narrative that pretends money is scarce.

Kelton asks us instead to face the real question: if we have the people, the skills, the technology and the materials to meet human need, what does it say about us that we choose not to?

Her work is not technocratic. It is moral.

What answering the Stephanie Kelton Question would require

To accept Stephanie Kelton's insights would mean dismantling some of the deepest fictions in modern political economy. That would require:

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Reframing public finance, recognising that government spending is constrained by real resources, not by revenue.

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Planning for inflation through real-capacity management, not through voluntary impoverishment.

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Ending austerity politics, acknowledging that austerity damages capabilities, undermines growth, and is never a financial necessity.

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Designing public investment around public purpose, whether that be housing, care, climate, education, health, all guided by need, and not by spreadsheets.

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Democratising economic imagination, making clear that fiscal choices are political decisions, not inevitable sacrifices.

These changes transform economic debate from bookkeeping to statecraft.

Inference

The Stephanie Kelton Question asks us to confront the fiction at the heart of contemporary politics: that money is scarce but human need is limitless. Stephanie Kelton reverses this. Human need is real; money is not. Money is a tool we create to organise resources. When governments claim its scarcity, they are not confessing helplessness; they are abandoning responsibility.

Kelton's work exposes this abandonment and insists that a society rich in capacity has no excuse for failing to meet basic human needs. The task she sets is not simply to understand public finance more clearly, but to reclaim public purpose more boldly.

If a sovereign government can always afford to mobilise what it truly has, then the real

deficit we face is not financial but moral: we face a deficit of ambition, courage, and care.

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