

12 questions about modern money

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Modern Monetary Theory — or modern money as I prefer to call it — simply describes the truth about how money works in the real economy.

Governments create new money every time they spend. Taxation removes money from the economy to control inflation. That's not a theory: it's how the Bank of England says money works.

So why do politicians insist the government can "run out of money"? Why do they say the NHS can't be funded, but war and bank bailouts always can?

In this video, I share 12 essential questions to challenge politicians when they deny economic reality — and ensure the power of money is used for people, not for the wealthy few.

<https://www.youtube.com/watch?v=S3RGCq5KnTU&si=J3aACu1fpth-Lisz>

This is the audio version:

https://www.podbean.com/player-v2/?i=pgzct-19e28ed-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:

If you want to ask, what is the most contentious economic policy in the UK right now, I might well answer that it is modern monetary theory or the modern money model, as I might prefer to call it, or just modern money. And all that modern money does is describe how, quite literally, the money that you and I use functions inside the real-world economy in which we live.

As a matter of fact, and there is no dispute about this from central bankers, every time a government spends money, new money is created by the marking up of the government's bank account with its central bank to permit the payment in question to be made, just as much as your credit card statement is marked up every time you put your card on a card reader. There is literally no difference.

And then when the government wishes to clear that overdraft, and it does to control inflation because otherwise there would be too much money in the economy, it imposes tax to bring money back into the state coffers to limit the amount of new money that it has put into circulation. That is all that modern monetary theory says. You would think it is so logical, so straightforward, so complete, so absolutely sensible that nobody could argue about it, and yet it seems everybody wants to.

The right-wing hates it because they believe that this gives government a role that they don't want to afford it, and the left-wing hates it because they're petrified that this would enable them to deliver all the policies that they talk about, but which they don't know how to deliver.

The result is modern money, and its explanation of how the economy works, is abused by everyone. And yet it's true, and I really cannot put it otherwise. This is what actually happens in banking. It's been proven to be true. Central bankers know it. Bond dealers even know it. There is no news in this to anyone who really understands money, but politicians do like denying the truth, as we know.

So, as a consequence, I've come up with 12 questions you need to ask the politicians if they deny this truth, and what I want to run through now is just what those 12 questions are and why they might be useful.

The first is this. What do you think money is?

This is the obvious question to ask any politician who says, "Oh, money, that's scarce." No, it isn't. It isn't a finite resource; it's a public tool that we can choose to create as much of as we like and to then put to good effect. So why is it that you are treating it as finite when it's actually infinite, if we decided to make it so? Although, of course, we wouldn't because that would be negligent, because we need to control inflation, but the point is, the power to create money is with politicians. But if they deny that's with them, what do they think money is? That's the first question.

The second one is, who should decide how much money exists in the economy?

Now this is an important question because money is actually made in two stages. One by the government itself when it spends, and secondly, private banks create money when they lend, but of course, they can only do that under license from the government's central bank. In other words, private banks can't create money without government permission.

That's been the case in the UK since 1844, in case you think this is some new radical innovation.

But who should have the real control of the money supply? Should it be government, or should it be those private banks? Should they have unfettered and unlimited power to create money whilst the government begs for whatever shekel it can find, whenever it can be spared some by the City? Or, are we actually talking about the fact that the government should be in control of this process, both by understanding its own money creation process, and by imposing capital controls on the ability of private banks to create money in a way that can, and has, and does threaten financial stability? Who does decide? That's question two.

Question three is, if the government does not create the money we need, how do we earn the money required to pay tax?

This is really a variation on the theme of another question, which is: does spending have to precede taxation? And the answer is, of course, yes, because if a government declares a currency to be its legal tender, how do people get it if the government doesn't spend it into existence?

No one I know talks about the government getting that money into existence by printing a whole pile of it - as if printing money is now of any real relevance - and leaving it sitting on street corners to be taken away by whoever wants it. That isn't how money is created and certainly isn't how it is put into circulation.

Money is created by the government deciding to spend in accordance with a legal budget approved by parliament. The Bank of England then creates the money in question, having checked that the authority to do so does exist - there's a person who's authorised to do that - and then extending the government's overdraft to enable the payment to take place. That's how money gets into existence in our economy. There is no other way in which the process can begin.

Therefore, how do we get the money that we need to pay tax? We get it from the government because the government made it to pay for whatever it bought out of the economy in which we all live.

Therefore, in practice, when we talk about "Oh, I've got to pay my money back to the government," what you're paying back is the money that the government spent into the economy from which you benefited because it provided you with services.

No, not ones that you necessarily would always use. If you are a person who's never had children, then you may not have used education since you yourself were at school. But that doesn't mean that education is of no benefit to you.

If you're an employer and you have private medical insurance, you may not use the NHS very much, but that doesn't mean to say you don't benefit from the NHS, because, of course, your staff do.

So the point is you will have benefited. Everybody benefits from what the state spends.

How, then, do we pay for the tax that we owe? We pay for it out of the money that the government has spent into the economy, which it reclaims to prevent inflation happening. The government provides us with the money that we need to pay the tax that we owe. It's a bit of a shocking idea, but the truth is, it's true.

What about the fourth question? If we can always find money for war, bank bailouts, and corporate subsidies, why can't we find money for hospitals, homes, and care?

And the answer here is, of course, we can. There is no difference between finding money for war, or bank bailouts, or corporate subsidies, and, of course, we have spent a fortune on bank bailouts in 2008 and corporate subsidies during COVID, but we still claim we can't find money for hospitals, homes, and care. We could, it's just down to choice; nothing else explains the difference. We could always find money for those things if we wanted to, and we understood how money works.

So what's question five? Who benefits when we treat the government as financially constrained, because that's what governments do?

Rachel Reeves has her fiscal rules. All her Tory predecessors had fiscal rules. All of them pretend that they cannot spend because the markets won't let them, and money is scarce, and they can only put back into the economy what the private sector will let them have, which is a whole pile of hogwash.

They create a narrative of austerity, claiming it is a technical inevitability, and that political choices demand that they must therefore constrain the services that are available to us.

That is about preserving the interests of wealth.

It is about preserving the interests of right-wing economists who do want the state to be small.

It is about preserving the well-being of the City of London.

But it's not about preserving your well-being, or mine.

Austerity is then a technical choice based upon a total misrepresentation of the power of the state to deliver what we need by claiming money is limited in supply and austerity is necessary when, as a matter of fact, it never is.

What is question six? It is, if unemployment exists, who chooses it?

Now that sounds to many people like an odd question. Nobody chooses to be unemployed. , Don't; they want a job. And as a matter of fact, most companies don't like making people unemployed. I genuinely think that's true. Most people whom I've known who've had to make people unemployed in companies, and I have done so in my career, hate the process. They understand the pain they're causing. They are, most of them, human beings; they don't want to create unemployment.

But if unemployment happens, and unemployment happens on a large scale - in other words, it's systemic and not just because of a particular local failure - then who has chosen to create unemployment? The answer is, of course, the government has, because it has not injected enough money into the economy to use all the resources that are available within that economy to best effect. One of the resources that is not put to use is, of course, the people who want to offer themselves as employees.

So the government could create the money to deliver full employment whenever it likes. That is an option available to it when we understand that it can create money. They could secure work and dignity for everyone, but they don't. So if unemployment exists in an economy, who chooses it? The answer is a government who doesn't understand money.

What is question seven? Well, it's a big one. Can we tackle climate breakdown without large and sustained public investment? And the answer is very clearly, no, we can't.

We have climate breakdown precisely because the private sector has failed. The private sector treated the climate as an externality, as an economist would call it something they didn't have to worry about. A free gift of nature in economic theory. Something that we could exploit without any consequence. Only, we now know that all of that was garbage. There was in fact an enormous cost of treating the climate in that way. But if the whole of our private sector is designed to ensure that we do not account for the cost it imposes upon the climate, then, of course, it is only the public sector that is going to change things.

We have a choice, then. The government could deliver the future we need if only it chose to run the deficits that people who want to save with it require be created because those deficits give them the opportunity to literally save with the government, which is what most people want to do in most economies around the world, where the evidence is that more than 80% of all savings are in government-backed savings vehicles.

So what is question eight? What actually causes inflation?

And the answer is, it is not too much public spending. It is instead the abuse of market power by corporations and landlords.

Let's be clear about this: almost all the inflation that we have seen during most of my lifetime, and I am older than most people alive now, which is a shocking fact I have to come to terms with, was caused by the abuse of market power by corporations, or landlords, or banks.

In particular, most was caused by some companies somewhere denying resources to markets that people needed.

That was oil in the 1970s.

That was oil and gas during the recent outbreak of war in Ukraine.

Sometimes, as during The course of the reopening from COVID, it was fitted kitchens or cars that people wanted to buy, which they couldn't get, quite literally, because they physically weren't available at the point they wanted to part with their cash, so they upped prices as a consequence in a bidding war to get whatever it was they demanded.

At other periods, it's been the consequence of the excess of corporate profits, or excessive interest rates, because excessive interest rates are themselves inflationary.

The point is, there's almost never during my lifetime been inflation caused by people demanding too high a wage rise, or the government spending too much.

There's no evidence in the UK that government money creation has in fact ever caused inflation. So every time you hear somebody saying, "Oh, if the government prints money, we'll get inflation" they're wrong; that hasn't happened, but abuse of markets by companies resulting in inflation is our lived experience.

So why do politicians choose to give the wrong answer? You now know the right answer. Ask politicians what actually causes inflation, and when they say it is government recklessness, correct them. Tell them in it's corporate power that does so.

What is question nine? Why should the left defend the idea that the state must borrow its own currency from the wealthy?

That's my ninth question, and it's because I don't understand where the left is with regard to modern monetary theory. We've made other videos on this question, and it's an important question to address because the left should be empowered by the idea that the state has available to it every single tool it needs to reallocate resources within society from money creation, which directs spending to achieve outcomes and taxation, which can be used to control inflation and, at the same time, redistribute

income and wealth.

This is the left's dream, which is, of course, why the right hate modern monetary theory, because they can see what it enables, and yet we are living with a left-wing political hierarchy in the UK and in other countries, who appear determined to deny the power that is already available to them, provided by the state that actually exists.

The left doesn't need a class struggle.

The left doesn't need a revolution. It doesn't need to overthrow.

It just needs to claim the power that democracy could give to it if only it could get its act together and get voted into office with a true left of centre agenda.

So, it's their time to talk the truth? And the truth is that the state has the power to deliver everything they already want.

What is question ten then? This is, if the state creates money, why do we pretend it can run out?

And, of course, that is said. People do claim that governments can go bankrupt.

It's said time after time that we might have to go to the International Monetary Fund for a bailout in the UK.

Or that we might default on our national debt, even though we haven't done so since 1694, and we've run one since then.

And the only reason, by the way we ever went to the IMF was because we were foolish enough to borrow in dollars, and we don't do that anymore.

So the pretence that the state can run out of money is false, because the state can always pay its debts because it can always create new money to do so by simply passing a legal budget through Parliament, which can then be used to instruct the Bank of England to make the payments in question. That's it.

Why do we then permit political projects that depend on maintaining this myth? I wish I could answer that question, because all I can say is we let them get away with this to abuse us. And abuse us, those who promote these projects, do. That, is the whole core of what they're trying to do.

What's question eleven? Who should then control the narrative of affordability?

Do we want to have hedge funds financiers, the City of London, maybe bankers, and sometimes even our life assurance companies and our pension funds determine what the state can supply for us, or do we, the electorate, want control? That is the choice

that we are faced with.

Do we want to give them the power over money?

Or do we want the government to have the power over money, which is its to have, if only it understands it? And which is ours to control if only we have politicians who will put themselves forward for election using that power by offering us different electoral agendas as a consequence.

But the point is, who should control the narrative of affordability? Is it the City or is it us? I really do think it's us, don't you?

Finally, if real limits are skills, labour, resources and the planet, why are we still behaving as if the limit is money?

And there is no real answer to this question because it's so baffling that the question has to be asked.

It's obvious that money is not what we can eat.

It's obvious that money is not what actually sustains us.

It is obvious that money is not the basis of our productive relationships.

It is obvious that money is not a store of wealth; it is merely a record of wealth.

To confuse money with the real thing is perhaps one of the biggest mistakes that modern politics does. It pretends that money is real when money is just a record. A note in a bank account. An entry in an accountant's ledger. A totting up of numbers on a spreadsheet. But the reality is something much, much bigger than that. It is real people, real skills, real resources, and the planet we live upon.

So why do we pretend that money is the problem where money can always be created if there is something useful to be done?

I stress the point if there is something useful to be done and there are the resources available to do it, but what modern monetary theory or modern money, as I prefer to call it shows, is that we can always find those resources because when we join together the power of the state to spend money and the power of the state to tax, we can allocate resources within our society in the way we want. That is literally what the joy of the modern economy is. We can help the well-being of people if only we wish to deliver it.

So you have been empowered. Those are 12 questions. You will hear those points. You will hear people say things that require those questions be asked, and now you know the answers and the arguments. Please go use them. We would have a better world if

you did.

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