

MMT questions

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I was asked this question in an email this morning:

I came across your MMT videos and really enjoyed them and have become really intrigued by MMT.

I had a couple of questions if you were able to help as I must admit some of the complexities have let me a little confused!

As I'm sure you are aware we are in a cost of living crisis with high inflation (over 3%, well above the central bank target) which hurts the poor proportionally far more than the rich.

Is it correct that in order to get this inflation back down MMT would prescribe raising taxes currently? If so wouldn't that just add to the cost of living crisis?

Also if you massively increase spending as per MMT theory given we already have high inflation, wouldn't that just make it go up further (i.e we clearly do not have real resource space for say big increases in benefits)?

I thought it was worth sharing this answer, which was:

These are fair questions to ask, and the confusion is understandable because MMT is often misrepresented.

First, MMT does not say "raise taxes whenever inflation is above target". Inflation is not a single phenomenon with a single cure. The key MMT question is what is causing the inflation.

If inflation is being driven by excess demand across the economy - too much spending chasing too few resources - then yes, higher taxes can be part of the response, because they withdraw spending power. But that does not mean raising taxes on people already struggling. Taxes would need to be targeted at those with surplus income or wealth, not those facing a cost-of-living crisis.

Much recent inflation, including in the UK, has not been demand-led. It has been driven by energy prices, supply shocks, profiteering, rent extraction and broken supply chains. In those cases, broad tax rises or interest-rate hikes mainly hurt the poor while doing little to address the cause. Regulation, price controls, excess-profit taxes, and direct public provision are often more effective.

Second, MMT does not advocate “massively increasing spending regardless of conditions”. Spending must always be judged against real resource capacity. If there is no spare capacity, untargeted spending can be inflationary. But targeted spending that relieves bottlenecks – housing, energy efficiency, childcare, transport – can actually reduce inflation over time by expanding supply and lowering household costs.

So the MMT position is not “spend more, tax later”. It is:

- *diagnose the source of inflation*
- *protect the poorest from price shocks*
- *tax excess income, wealth and profits where needed*
- *spend to expand capacity and reduce future inflation*

MMT is about using the right tools for the right problem, not ignoring inflation or hardship.

I hope that helps.

Clearing MMT confusion seems to be part of my job these days.