

Tax in modern monetary theory

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A commentator on this blog called Grahame [asked about the role of tax](#) in modern monetary theory yesterday. I pointed him to the Taxing Wealth Report and, in particular, [page 383 onwards in the full report](#).

PSR, who is a regular commentator here, [offered this explanation](#) instead, and I really like it, so I thought I would share it.

OK, Grahame, I will take you at your word and try to help you on your journey of understanding tax in the context of MMT.

You know how a steam engine works, right? It essentially just boils water and builds up enough steam pressure to not only move the engine but also pull a train.

But what if it has built up so much steam either standing or when working, and the pressure builds up, threatening to blow the boiler?

Well, then you need the safety valve that simply opens and allows the excess steam to safely blow off and take away the threat of destruction, cooling down the loco, and reducing pressure.

That is what tax can be in an MMT system: a safety valve for inflation, as money is printed into the economy. No fireman would light up a steam engine without a working safety valve on the loco Grahame. No chancellor should let money into the economy without balancing that with taxes. Credit or base money.

Currently, you could say that taxes are too high and there is not enough money in the economy, which is rather like releasing the safety valve on a steam engine before it has enough pressure to actually get working. What we need is both: money like steam in a steam engine being injected and ejected at the same time, creating a flow of money which is the real economy, you, me and everyone else, in motion.

Mull that over for a while and see how you get on. And then think about tax, why, even though it is thought of so negatively, it has such a potentially key and useful role.

And if you do not use tax as the safety valve, then you might have to use austerity or low wages, or meagre benefits, or poor public services instead. What would you rather have?

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