

MMT is not theory: it's fact

Published: January 19, 2026, 7:03 am

I offer this video on MMT this morning without apology.

I know I have tackled this issue before now, but this, I think, is my best yet.

This is not, in fact, one video. There are up to 16 short videos that might be made from this.

People keep asking: “When are we going to do MMT?”

That question is built on a misunderstanding.

Modern monetary theory is not a manifesto, and it's not a magic “print money” promise. It is an explanation of how the monetary system already works, in the UK and elsewhere. It describes what government spending really is, why taxation does not fund spending, and what “borrowing” really means in a sovereign currency system.

In this video, I explain:

That the UK government creates the pound.

Why government spending must come before tax.

What tax is actually for (inflation control, demand management, and resource shifting).

Why government bonds are a savings product, not borrowing.

Why deficits create private sector net financial assets.

What the real constraints on the economy are.

Why austerity is always a political choice

MMT doesn't tell you what to do; it tells you what's true. And once we understand that truth, we can finally have an honest debate about policy, democracy, and the society we want.

<https://www.youtube.com/watch?v=J6ZUJbl829E&si=fzU6kJBfMje658RU>

This is the audio version:

https://www.podbean.com/player-v2/?i=kn26i-1a20407-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:

People keep saying to me, "When are we going to do MMT?" - or, modern monetary theory, which is what those initials stand for - but that's the wrong question to ask. MMT is not a policy. It's an explanation of how money works, and in that case, the claim that we are waiting to do MMT is a misunderstanding.

It's not a manifesto; MMT is an explanation. It describes the real monetary system we already live in.

When are we going to do MMT? Now. We are doing it today is my answer to that question, but the point is, most people don't understand that, and I want to clear up this basic confusion in this video.

MMT does not tell us what we want to do or what we should do. MMT tells us what is true about money and about how government spending actually happens; that's its purpose. The big error that people make is that they think that MMT is a programme, or a set of promises, or a "print money and spend initiative", but MMT is not a policy proposal; it's a framework for understanding the monetary reality of the world we live in.

Let me make a simple comparison. Think of physics. Gravity explains what happens. It's called a theory, by the way, and it does not then tell you whether to jump off a cliff. MMT is like that. It's also a theory, but just like gravity, modern monetary theory explains how the economy works, but it doesn't write your budget for you or tell you

what your politics should be, and this is really important. MMT describes what money is, how government spending occurs, what taxation does, why borrowing is different for states and households, and what constrains government in reality, and this is important because most people don't understand any of those things.

So, let's start off with the fact that MMT makes clear that the government creates our currency. In a sovereign currency system, the state is the issuer of our money, and that's true in the UK. Our government creates the pound. It does not get its money from anywhere else; it makes it. It creates the money that we get when it spends, and unless the government spends and creates deficits, there is no government-created money in our economy. And that's really important because government-created money is the bedrock on which everything runs.

Then, and this is also important, when the government has created money, it has to control that money supply because in the UK, each year the government spends well over £1 trillion. And of course, we cannot have an increase in the money supply of that amount in the UK economy each year, or we would have hyperinflation. And so the government has to create a tool that controls that risk of inflation, and it has got that tool, it's called tax. That's it; that's what tax does. Tax does not fund government spending. It can't, because the spending has already been paid for by creating an overdraft between the government and the Bank of England. Instead, tax is used to reclaim the money that the government has spent to bring it back into the Bank of England, to cancel that overdraft and to therefore control inflation. Everything else flows from that fact.

There are lots of interpretations that flow from this, and they're really important. The mainstream media story is that the government spends the taxpayers' money, and that the government borrows money from the financial markets, and that deficits are irresponsible and that the state must balance its books, and the state is like a household. The fact is that every single one of those stories is wrong. Households use currencies, governments issue currencies; they are, therefore, fundamentally different. Households can, as we all know, run out of money. Governments can always make payments in their own currency because they can always create the currency in question. The consequence is that managing a household and managing a government are utterly different things, and this is not a political claim. It is a simple observational operational fact. These are different activities, and the sooner our politicians, the sooner our economists, and the sooner our commentators realise this, the better off we will all be because we'll get better economic policy as a consequence.

So, how does state spending actually happen? Let's just run through the details because they are important, because this is a system which is heavily controlled, despite all the claims that are made about MMT. First of all, there is an absolute legal requirement that before the government spends money, Parliament must approve it. That is what budgets are about, by the way. They aren't about changing tax. They aren't about making announcements about changes in economic policy. Those get the

headlines, but the truth is the budget is there to authorise the government's spending to make it legal, to authorise the Bank of England to therefore make payments when the government gives it instructions to do so. That is what the budget is about, and when the government issues an instruction to the Bank of England to make a payment of whatever it might be - it could be my old age pension, it could be your teacher's salary, it could be to pay for a school, it could be for whatever - the point is, when the government issues that instruction, so long as it is legal, the Bank of England is legally required to make the payment and has been incidentally since 1866, which makes the term modern in modern monetary theory a bit of a misnomer. There's nothing actually very modern about this at all.

What happens

then? When the Bank of England issues a payment, a bank account is credited, and new money is created in the process. What that means is, then, that spend always comes before tax. Because tax has to be paid in government money the government has to spend the money into existence before the government can reclaim it by way of tax, otherwise, we'd have that proverbial chicken and egg problem, which came first, the tax or the spend? Well, you couldn't tax if there was no money, and the money only exists because of the spending; therefore, the spending has to come before the tax. Let's be clear about it. There is no debate to be had here. This isn't a statement of ideology. It's a simple, logical statement of fact which central banks agree with around the world. The Bank of England, the Bank of Canada, the Bank of Norway, Germany's Central Bank, the European Union's Central Bank - all have agreed that this is right.

What does tax do then? First of all, it creates demand for the currency. By that, I mean you have to use the pound if the government insists that you pay your tax using the pound that the government has created. It won't accept dollars. It will let you pay using euros, but they will be translated into pounds before the balance is settled, so that's just a money exchange system. You will always eventually have to use pounds, and they will always insist on that because if you must pay your tax in pounds, you are then basically always going to use the pound to undertake your transactions in the economy, and that means the government, by controlling the money supply, can control the economy and that is one of its goals as a government.

So, tax achieves that goal for the government, but it also delivers economic stability for you. And it does that by removing money from circulation. Tax takes money out of circulation, which the government has already spent, and the consequence is that it reduces inflationary pressure. In fact, most of the time, and for most purposes, this is the best tool a government has got to control inflation, and it can control almost all inflation this way, except that inflation, which comes from external shocks to the system, from activities taking place outside the UK, which are usually, let's be candid about this, beyond our control.

But, tax does some other things as well. It does, for example, shift resources from

private use into government use by reducing demand for private consumption. And it can be used to change economic behaviour. It can favour some types of consumption over others. So, for example, healthcare and education are favoured by the VAT system over the consumption of other products and services. Foodstuffs are favoured over alcohol and so on, and tax can also redistribute income and wealth. So tax is a powerful instrument for government, social, and economic policy; let's never forget it, but it doesn't fund government spending.

So what about borrowing? Does the government have to borrow to spend? No, it doesn't. Households might need to do so when they buy large ticket items like houses, or cars, or whatever else, they go out and borrow. And that's a normal part of life; most of us have done that. I know, I have, so I suspect you have too. But governments do not need to borrow to get money. Why? Because they make the stuff. So why would they borrow it? And they don't, as a matter of fact, need to ever borrow money from the City or anyone else.

Bond issuance, the things called Treasury bonds or the national debt, or gilts - the terms are interchangeable - are issued by the government as a favour to the City of London, above all else. They're tools of monetary management. They are a way to offer savings mechanisms for billions of pounds and even trillions of pounds when people in the City have vast quantities of money to deposit, and the only safe place to put it is with the government. Why? Because the government is the only person who can guarantee to repay such sums when banks can't, because banks can't create money to repay sums that have been deposited with them, but the government can.

So that is the reason why bonds are issued, that, plus they're a mechanism to help control interest rates, but we'll ignore that for the minute. The fact is, government borrowing is not borrowing; it is simply like running a savings scheme. In fact, we know that because around £250 billion in total of government, so-called borrowing, is in fact things like premium bonds and money saved with National Savings and Investments by anybody, like you, who wants to put their money with the government instead of with their local high street bank or building society.

So let's then talk about the deficit because this is important, and modern monetary theory, MMT, helps us understand it.

The deficit arises when the government spends more than it taxes back; that is all a deficit is. There's a difference between the amount of money that the government spends into the economy in a year and the amount it taxes back, and the government's debt is the cumulative total of the amount by which the government has spent more than it has taxed back.

So if our total national debt at present is supposedly around £3 trillion, that's the total amount since 1694, when the UK national debt began, that has been spent into the economy and not taxed back.

What this then means is that the private sector has received new net financial assets as a consequence of the government running a deficit, and this is the fundamental insight that modern monetary theory brings to the whole issue of the deficit. A government deficit creates private assets.

How do I know? Because, quite literally, government bonds are private assets. They're owned by private banks. They're owned by private pension funds. They could be owned by private individuals, and premium bonds are owned by private individuals.

And if you want to understand for how long this has been going on, go back and read some Jane Austen novels.

Mrs Bennett was able to appraise the value of Darcy as a son-in-law by looking at how much interest he earned in the government's 4% bonds. If I remember rightly, it was £10,000 a year, meaning that he was worth £250,000, which was a staggering sum of money at the time, and therefore made him decidedly eligible indeed. But the point was that the government deficit was a private asset, and this is always the case. Fortunate young people will inherit the government's debt because they will get the private asset that it represents.

So, in this case, what MMT says is something quite radical. What it says is that money is never a constraint upon government activity. We're told it is. We're told there's no money to be had for whatever project we want. We are told that we've run out of money to pay additional pensions. We are told we can't afford to pay benefits. We are told this, that and the other, and it's not true. Never is it true, because the government can always create money. That doesn't mean to say it's always wise to create money because there are real constraints, but the constraints are in the actual economy and not within the Bank of England or the Treasury.

The real constraints are the availability of real resources, like people trained to do the jobs that we want done, skills which people haven't got, and productive capacity, which has not been invested in, or energy and materials that either have not been generated or have not been imported or whatever is necessary. And, of course, there are also ecological limits. Those things, real resources, labour, productive capacity, energy, materials and ecological limits are what constrain activity inside our economy; money can't.

As Lord Keynes once said, "We can afford whatever we can do." What he was saying was, these real constraints determine the level of actual activity we can undertake in the economy, and if we can undertake it, we can afford to pay for it, and that was true.

There is also a reality that inflation is always possible if the government tries to spend when resources aren't available. MMT highlights this. It is absolutely untrue that MMT will encourage inflation. MMT is obsessed with controlling inflation. It puts it at the very centre of its theory, and what it says is that if spending outruns capacity, prices will

rise. It says that that is unwise, and that means that the control of inflation is not a monetary issue. It's an issue around demand and resources. It says we shouldn't be focusing our control of inflation in the Bank of England, which is just all about managing the money supply. We should be looking at what's going on in the real economy instead, and let's not pretend this has anything to do with money. Let's look at the real economy, and let's not offer excuses, which is what the Bank of England does.

So, let's begin to draw some of these arguments together and ask the question: Why does modern monetary theory so annoy people in this case? And that's because it exposes that austerity is always a political choice. If someone believes that austerity is a good thing and that people must pay the price to ensure that inflation is controlled and wealth is protected, then they will not like modern monetary theory, and we saw a recent example of this. Rory Stewart had a go against modern monetary theory when interviewing Zack Polanski on the *The Rest is Politics* channel, and really, what he was saying was that he would prefer austerity to actual spending to deliver a vibrant economy for the people of this country. Now, you know, his political spots.

What MMT also exposes is that the "There is no money left" argument is entirely untrue. There's always money left over because the government makes the stuff, but it also exposes something else. MMT makes clear that unemployment is not inevitable, and that public investment is usually affordable so long as resources are available, and that markets don't fund the state.

Now, all of those things deeply upset the City of London. They like unemployment. Our central bankers want unemployment because they believe a pool of unemployed people lets them control inflation. They make unemployment deliberately. One in twenty people in the UK at present is unemployed at the choice of the Bank of England and our politicians, who do not care that those people's talents and resources, let alone their well-being is destroyed as a consequence, all for a false understanding of inflation.

And we are not getting public investment in the way that we need because the government says it can't afford it, when that is nonsense. If the resources are sitting available and we know they are, because one in 20 people in this country is unemployed, then we could have public investment now.

What's also true, and this is why the City of London is annoyed by modern monetary theory, is that the City doesn't fund the state. That's what MMT says. It points out the truth, and they don't like it because they want to be in charge.

So, does MMT imply big government? No, not necessarily. MMT does not say, and this is where I started this video, spend more, tax less, nationalise everything, run permanent deficits and that inflation doesn't matter. It just says, be honest about the reality of the economy. Talk about the real economy. Don't talk about money as if money is the real economy. Money is the mechanism that we use to exchange within that economy;

that's something different. Let's talk about real people, real resources, the real climate change that we have to face, and everything else. Let's talk about those things. But that does not mean MMT lays down your agenda. It gives you the tools to understand your agenda, and that's something fundamentally different.

So, this is where policy begins. Once you understand money, you then ask, what should the government spend money on? What should we tax and why? What level of inequality is acceptable? What is our climate obligation? What is our definition of a good society? MMT again doesn't answer those questions; politics does, but MMT empowers us to ask these questions, and that's why it's important, and that is absolutely critical to understand.

MMT is not a promise; it is just a description. It tells you how the plumbing of the economy works. It explains the operating system. It clarifies what is possible. It reveals what is a choice. It exposes what is a myth, and it lets us decide on policy in a more informed manner, and when policy failure has become absolutely synonymous with economics of late, that is why MMT is so important.

It changes the focus from money to policy.

It changes the focus from finance to people.

Let's talk about that. Let's throw aside these false monetary stories that are used to constrain us, and instead, let's talk about a simple, truthful description of money in our economy, because that is what we need, because we can only have democracy when we understand how our economy works.

Let us know what you think. There's a poll down below.

Poll

[poll id="296"]

Tickets are now on sale for the Funding the Future live event in Cambridge on 28 February. [Tickets and details are available here.](#)