

Are we at a Galileo moment in economics?

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What if everything you think about money is wrong? And does it matter for the UK economy if it is?

Most people believe governments must tax or borrow before they can spend. That belief shapes every political debate, every austerity programme, and every argument that public services "can't be afforded." But what if that belief is simply false?

In this video, I explain why modern monetary theory (MMT) is forcing a reckoning with economic orthodoxy, and why understanding how money works and how money creation actually functions is essential if we are ever to escape the trap of unnecessary austerity and constrained public investment.

The parallel with Galileo is not accidental. Just as heliocentric astronomy was resisted by those with institutional power to lose, the truth about government spending and fiscal policy is resisted today by politicians, commentators, and economists who cannot afford to admit they were wrong. The cost of that resistance is paid by the rest of us: in underfunded public services, stagnant wages, and a UK economy that fails the majority.

This is economics' Galileo moment. The choice is between a comfortable illusion and the truth.

https://www.youtube.com/watch?v=FDd6N1-mZZ0?si=e_Z_Tx87TJshF1xX

This is the audio version:

https://www.podbean.com/player-v2/?i=n28mf-1a8b6e6-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:

I want to talk about Galileo, modern monetary theory, and the question of economic truth. That's because I had a conversation with a journalist this week about changing views on money. He had asked for my help with regard to a training session being run by his organisation on tax, about which I know quite a lot, but I suggested to him that a session on modern monetary theory would be of more use. He said there was no chance of changing the views in his organisation about the way in which money worked. That, he said, would be too difficult to deal with.

His belief is that ideas on money are so entrenched that they cannot be shifted, and his view, I think, does reflect the dominant view about economic narratives at present, that they are fixed and cannot be changed. But that, however, raises questions over whether the truth can overcome economic orthodoxy, and this, of course, was the challenge that Galileo faced. He said that the Earth revolved around the sun when everyone believed that the sun revolved around the Earth. He had to change orthodoxy. So too did those who believed in modern monetary theory. Galileo, of course, won, and that is the starting point for this argument.

History shows that dominant ideas can be overturned. Resistance to change does not make existing beliefs correct. Scientific truth eventually displaced accepted falsehoods in the case of the revolution of the earth, and the same possibility must exist in economics.

What, after all, would've happened if Galileo had not succeeded in changing opinion? False ideas would've remained embedded as accepted truth. Power would've continued to suppress inconvenient facts, and progress would've been delayed or even denied. That is the risk we face in economics today. There is, therefore, a parallel between Galileo and MMT.

MMT challenges deeply embedded beliefs about money. It questions how government spending actually works. It confronts the idea that public finance is constrained like a household, and this creates resistance from those invested in the old story.

The core MMT claim is that government spending creates money. Money is introduced into the economy by state action as a result. This reverses conventional thinking about public finance, which says that tax fund spending: it doesn't, and MMT thinking does make it clear that governments are not financially constrained in the usual way. That is the idea that many people, including the journalist I spoke to, I think, find difficult to accept.

The reality is that taxes do not fund spending, but instead reclaim money from the economy that's previously been spent into it by the government in fulfilment of its

democratic mandate to supply the services that we all depend upon. Tax is, in that case, a tool for managing demand and inflation, and that reframes the whole purpose of a state's tax system.

In the process, it challenges the household analogy of government budgeting, and it alters how we think about fiscal policy choices.

The idea is resisted because it overturns familiar narratives and influential voices fear having to admit that they have always been wrong. That I suspect is the biggest reason for resistance to MMT that exists. Institutional power depends on maintaining current beliefs, and that power is pretty strong, and that of MMT is not.

At the moment, the risk is that the media and commentators are reinforcing the orthodox story, and change is threatening their authority and credibility as well. That's why they may be persisting in their refusal to recognise a story that they know is true. There's fear in admitting their previous understanding of money, and it's as strong as that of the politicians and economists. Economic reporting is often presented by those with little training in economics, and they do, as a result, repeat orthodox assumptions. That shapes public understanding in misleading ways, and it blocks meaningful debate on how the economy really works.

The cost of misunderstanding now is, however, very high. Policy decisions are being based on incorrect assumptions. Public services and investment may be unnecessarily constrained, and we may get austerity because the truth is not understood. The economic potential of our economy is, in effect, being limited by false beliefs, and society is going to bear the consequences of those errors.

My belief is that we may be approaching a Galileo moment in economics. The choice is now between truth and comfortable illusion, but that comfortable illusion is now leading to consequences that are themselves so uncomfortable that truth might have to prevail. We might need change that will require willingness to rethink the basic economic assumptions on which all our mainstream thinking is based. As a consequence, those who are trying to shape public opinion on this issue do now have the opportunity to raise questions that might challenge the power of the prevailing narrative.

So, will economic truth displace entrenched orthodoxy, or will fear prevent necessary intellectual change? History suggests change is possible but not guaranteed. The outcome depends on courage and honesty. The stakes are not abstract, but deeply practical. Our economic well-being may well depend on what happens. Understanding money correctly is essential for good policy. Persisting with false ideas carries the risk of a real potential social cost. The Galileo question is now ours to answer; whether we change or not will shape our economic future.

That's my opinion, but what do you think? There's a poll down below. Please let us

know your opinion there or in the comments, which we do read, and if you like this video, please tell us that is the case by ticking the like button, sharing it, and subscribing to our channel.

Poll

[poll id="356"]