

What would I do as chancellor?

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What would I do on my first day in office as Chancellor to create an economy in the UK based on the thinking that modern monetary theory makes possible?

In this video, I explain why MMT does not need to be “implemented” in Britain, because it already describes how government money works. The real task is to change policy. In that case, I set out six first-day reforms to:

- *
Replace false fiscal rules

- *
Launch a targeted public investment programme

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Create a policy that delivers secure, long-term jobs

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Reform the Treasury and Bank of England relationship

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Redesign tax to tackle inflation, inequality and rent extraction

- *
Redirect savings and pension subsidies into productive investment

This is not about fantasy economics. It is about ending neoliberal myths and managing the real economy in the public interest.

If you want to understand what an MMT-based economic strategy for the UK would

actually look like, this video explains it.

<https://www.youtube.com/watch?v=GonO5dEpnL8?si=UEd1TwKHuyLGMuMv>

This is the audio version:

https://www.podbean.com/player-v2/?i=4ruub-1aa77a4-pb&from=pb6admin&share=1&download=1&rtl=0&font=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

I was asked recently on my blog what I would do if I were chancellor in a Labour-Green coalition government. In particular, I was asked what I would do on my first day in office to deliver modern monetary theory, or MMT for short.

The first point I made was that we do not need to implement modern monetary theory or MMT in the UK because, as a matter of fact, the government financial system that we already have in the UK is completely and accurately described by MMT as it stands.

The government does create money when it spends into the economy in fulfilment of its plans.

It does tax the money that it creates back in order to control inflation.

It does not borrow from financial markets. It does provide depositors with a safe place to put their money with the government.

All of these things are facts already, and as a consequence, we do not need to implement MMT.

What we need to do is something quite different. What we need to do is put in place the insights and policies that MMT enables. We need to change our policy direction from those which are neoliberal, which we use now, which act in direct contradiction to everything that MMT says, and put in place those steps that are required to ensure that we can run our economy in the UK to achieve its best potential. That is what MMT permits.

So, I came up with a series of recommendations, which I'm going to discuss in this video. None of them are radical. All of them are practically achievable, and together they would reshape how we manage the real economy in the UK.

But before I start, let's be clear that MMT reveals that the monetary constraints, which are now imposed upon our economy by neoliberal thinking, are largely self-imposed and completely false. MMT makes clear that the real constraints on action in this country are based upon the availability of resources, labour, compliance with goals related to sustainability and inflation, but not by the availability of money itself, because the government can always create its own currency. It has the legal right to do so. There is no one who can stop it. It will if it wishes to, but inflation makes sure that it should not when it is unwise to do so.

In that case, current fiscal rules are based upon a false model of how government financially works. That is the change that is required to make sure we achieve our potential. That is the change that MMT enables changing. The framework changes what becomes politically and economically possible. So, implementing MMT is about ending the myths that are artificially constraining public action now. That would be my aim when I came into office as Chancellor, which, by the way, is never going to happen because I am never going to try to be an MP. So, what would I do if I was in this situation?

Step One

First of all, I would replace all the existing fiscal rules that are constraining people like Rachel Reeves and which have constrained all her predecessors since Gordon Brown first introduced these things way back in the 1990s. Those fiscal rules are fiction. They are based upon the idea that the government is dependent upon the money that it can raise from the private sector to fund its activity. That is not true. The money that the private sector has was created by the government in the first place and spent into the economy for the private sector to use as a consequence of the government fulfilling its own domestic agenda inside this country.

A new framework would be based on sustainable real resource use. I stress those words: sustainable to mean that they will be climate compliant, and real resource use. It would prioritise a policy of full employment and inflation management. It would remove artificial constraints on necessary public investment. The fiscal rules would be designed not to serve ideology, which they do at present, but to manage economic reality, and that is the foundation upon which everything else I say depends. We need to deal with that reality. We need to have it underpinning our economic logic. That will be my first step when coming into office. And of course, unlike Labour, in 2024, I would've prepared for this by preparing those rules in advance of arriving in office.

Step two

The second step that I would take would be to launch a programme of targeted public investment. We are massively under-investing in this country at present, and a programme of targeted public investment would seek to make good the deficit in public investment that we have suffered for decades in this country as a consequence of false economic thinking, which has constrained the role of government for the benefit of people in this country. The priority areas are obvious. We would need investment in sustainable energy and energy saving, which is a prerequisite of reducing consumption to ensure that we can meet our energy targets, and we would need to deliver truly sustainable transport for both private and public use and we are not there yet, or anywhere near there, as yet.

We'd also need to invest in housing, health and care, and the education that those systems require. That, again, is vital. Let's not pretend that everything is about investment in hard infrastructure. It isn't. Soft skills are required, and so too are all the support facilities to make sure that people can get to work to ensure that these programmes can be delivered. So there is a major programme around care and the delivery of education and support to families associated with all these objectives as well.

The goal is to mobilise underused capacity in the economy, and we have got that underused capacity in the economy. We are already tolerating around 5% unemployment in the UK economy, and 10% amongst young people. But if we look at the world of work, there are a very large number of people who are working on few hours or in self-employments which are deeply unproductive. If they could be transformed into adding value within the economy by undertaking jobs which are worthwhile at higher rates of pay, with security and the prospect of proper holiday pay, union rights, training, and advancement through a career structure, we could massively increase the capacity of the UK economy as a result.

The result would be that this programme would address the deep structural weaknesses that markets have failed to fix in this country. It would, in effect, be the proper version of the job guarantee that modern monetary theory always promises. You can call it a Green New Deal if you like, because that is what it is, and I was one of the authors of the original Green New Deal, so unsurprisingly, I'm still committed to the idea.

Step 3

Then I would create a job creation programme. This would be designed to tackle persistent unemployment. It would be designed to bring people into work because I do believe that a large number of the people who are now unemployed in the UK would like to work if only opportunities were provided to them, and I am incredibly aware that the world of work is at the moment deeply alien to many people because it is so hostile to the reality of human lived experience and the skills that people have and everything is getting worse about this, especially in the private sector.

Underemployment, as I've already noted, is also a problem. This problem would also be tackled by this programme of job creation. The intention would be that we would take people from where they are, which may be in a place of insecurity because they have not been at work and of limited skills because they have not long been in the workplace, and provide them with both skills now. We would provide them with a sense of security which employment can deliver. We would provide them with the skills to ensure that they can make advances. That's why I said when we were talking about investment, we need to provide the education to support this programme. Real on-the-job education to provide real working skills that are necessary to ensure that we can solve the problem of unemployment in this country for the long term.

I'm not talking here about temporary jobs. I'm not talking about the sort of thing that some in MMT do talk about when they come to the job guarantee, which is a short-term fix between two periods of other employment. I'm talking here about creating things like the Carbon Army that I've talked about for more than 15 years now with regard to the Green New Deal: the people who are required to put solar panels on the roof of every property in the UK, and to insulate those properties, and to make sure that each and every one of them could be a power station to ensure that we are no longer vulnerable to the requirements of fossil fuels and the exposure that creates in a period of war, as we're suffering now.

The point is I want to deliver full, secure, stable long-term employment with fair pay, union rights, and career progression for everyone in the UK. This would be an opportunity open to all, and it would transform the UK job market as a consequence. It would also transform the private sector job market in the UK because this would set a benchmark they would have to achieve, and at present, they don't.

The economy should be run for the benefit of people. The Government should be ensuring that people get what they need, and that is proper work with proper pay, with a secure environment to ensure that they can manage their futures and the well-being of their families safely, forever, and that is what we would deliver. And at the same time, local economies would be supported and not be left to decline as they are at present.

Step 4

So, three points into my programme, what would the fourth step be? I would reform the relationship between the Treasury and the Bank of England. At the moment, we treat the Bank of England as if it is independent of the Treasury, and that is nonsensical. It is absurd. It is a neoliberal policy designed to undermine democratic control of government policy within the economy. We need government, fiscal and monetary policy to be coordinated.

Let's be clear about what I mean. The term fiscal policy is used to describe the relationship between government spending and taxation, and the impact that has upon

the economic stimulus or suppression that is injected into the economy: A stimulus when taxation is less than spending, and suppression when taxation is more than spending, which can be required to control inflation. Whilst monetary policy involves the setting of interest rates to coordinate with fiscal policy.

At the moment, they work at cross purposes. Fiscal policy can be trying to stimulate the economy whilst monetary policy is trying to actually deflate the economy. This is absurd. That has to end. We need to also end the over-reliance on interest rates as the primary tool to control inflation, quite simply because it doesn't work. There's plenty of evidence of that. It only controls inflation when inflation arises as a result of exuberance and over-enthusiasm within the UK domestic economy, which gives rise to excess consumption, and that has not happened for decades. Our inflation that we have suffered of late has all been imported via energy and other raw material prices, and interest rate policy has no control over this at all.

There are plenty of good things for the Bank of England to do within our economy, but control of inflation is not one of them and we now need to create coherent economic governance, not institutional turf wars between the Treasury and the Bank of England. So the gap will have to be removed. The Bank of England would come back under government control, and if the international system didn't like that, we would be leading the way to the reform that everybody would need to follow.

Step 5

Fifth, on this first day of action in the Treasury, I would begin a redesign of our tax system in the UK. Our tax system is designed for all the wrong reasons. It is designed on the assumption that taxes are used to fund government spending. It isn't. Tax manages inflation, it reduces inequality, and it discourages rent extraction within our economy, and it is not achieving those goals as well as it might because it is insufficiently progressive and it does not provide the stimulus that is required for the real actions that are necessary to achieve full employment, create sustainable investment, and deliver long-term prosperity in the UK.

It also does not tackle the problem of inequality we've got. Too many taxes are charged on those with low incomes. Too little is charged on those with high incomes. It is time for a rebalancing to take place. Redistribution of income and wealth must become an explicit policy objective with regard to our tax system, and I would ensure that was the case.

And the pretence that tax is simply a funding mechanism must end. This will be a major shift in understanding of what tax is all about, and it will facilitate the tax reform that I think is both possible and deliverable, and that would be why I would start this process on the first day in office.

Step 6

Finally, what would be my sixth reform? I would begin the reform of savings and pension tax relief in the UK because, at present, we are spending more than £80 billion a year subsidising the savings of those who are already largely wealthy in this country, and that is an £80 billion waste of money as a consequence. We do not need to provide higher benefits to many people who are wealthy in the UK than we do to those who are in need. But as a matter of fact, we do at present, on average, provide more pension tax relief to people who are in the top 1% of the income strata than we do provide universal credit to people who are in real need in our economy, struggling to make ends meet for their families.

So, this process of redesign of the tax reliefs on pensions and savings would have to happen with the goal of ensuring that not only is money appropriately directed to those who need it, but that these reliefs will ensure that money is not used to subsidise speculation within the City of London, but is instead redirected towards the productive investment that is needed in our economy, which, of course, ties in with my programme of investment already mentioned as my second objective.

We would therefore put in place a system whereby all ISA savings would be saved in government-based bonds designed for this purpose to ensure that the money invested in all new ISA accounts from the time that I went into office was put into these bonds, which would then become the capital to fund the investment that is required to transform the UK economy into being a highly productive, sustainable and well-paid economy. What could be more important than that?

£70 billion a year goes into ISAs in the UK. That's more than enough to achieve this investment programme by itself. I do believe that is entirely sustainable. I do believe people would enjoy the opportunity to save in a way that delivers well-being in their own communities. And if we required that 25% of all new pension contributions were invested in the same fashion, in exchange for the tax subsidy that pensions receive as a consequence of savings being made in this way, we could boost that sum available for investment to more than £100 billion a year, so that all those cynics who say, "How are you going to pay for it?" which is the standard response of all journalists at present to every spending proposal, could be well and truly answered. Everything I'm saying here could be addressed through this one issue, and every journalist could be satisfied. I would know what I was doing in a way that would meet their own neoliberal perceptions of how the economy works before they are reeducated in the thinking that would fundamentally underpin what I'm doing.

This reform would then directly change tax policy and directly connect it to the investment agenda, which is at the core of what I want to do to achieve the outcomes that I desire within the UK economy.

Conclusions

Let's be clear. Let's step back for a moment. All these six steps share a single purpose.

They are about managing the real economy in the public interest. The enemy is not spending. The Treasury's idea that it has to always cut is wrong. The enemy is the myth about money that constrains necessary action at present. The real constraints are, and I'll say it again, resources and their availability; labour and its availability; compliance with sustainability standards; and the need to control inflation.

Those are the policy issues that we must address directly, and an MMT government, when looking at that issue, will ask, not 'Can we afford it?' but 'Do we have the real capacity to deliver on our promises?' That question, honestly answered, opens up a very different kind of politics, a very different kind of economics, and a very different future for the people of the UK.

That would be my agenda for my first day in office. There would be an exciting period to follow that up, but that was the question I was asked. Those are my answers. This is what I would do. I think these are really important, but what do you think?

There's a poll down below. It can't provide answers to everything, so you can leave your comments as well if you want to. We will try to read them. We do read a lot of them, and please also like this video if that's what you do, and share it if you think it's worthwhile others having a look at it. And if you would like to make a donation to support this work, if you like this agenda and what I'm talking about, then we'd be very grateful.

Poll

[poll id="376"]