

Money isn't the problem

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People often ask me what difference Modern Monetary Theory (MMT) would actually make in practice.

The surprising answer is that, in many respects, MMT already describes how the UK monetary system actually works. The government already creates new money when it spends, through the Bank of England. Taxes do not fund spending in the way most politicians and economists claim. Instead, they remove money from circulation and help manage inflation.

So if that's already true, what difference does MMT make?

The answer is that it changes how we think about policy.

Using the current debate over defence spending as an example, I explain why cancelling infrastructure projects to "pay for" defence makes no economic sense. Roads are built by different people with different skills from those who design advanced military equipment. Destroying one part of the economy does not magically create capacity somewhere else.

The real constraint is never money.

It is always people, skills, technology, energy and other real resources.

MMT encourages governments to ask the right question: do we have the resources to do this? If we do, then financing them is not the obstacle politicians pretend it is.

This changes everything from defence to healthcare, housing, climate policy and public investment.

Whether you agree with me or not, this is one of the most important economic debates taking place today.

<https://www.youtube.com/watch?v=MyVsdntYWj4?si=c7B8-Y1YejO9bmgx>

This is the audio version:

https://www.podbean.com/player-v2/?i=smf2r-1b04c1c-pb&from=pb6admin&share=1&download=1&rtl=0&font=Arial&skin=f6f6f6&font-color=&logo_link=episode_page&btn-skin=c73a3a

The Debate Ammunition for this video is available here.

This is the transcript:

People sometimes ask me: what does modern monetary theory really have to say when it comes to practical policy? How would we tell the difference?

And I answer in some ways, you wouldn't tell any difference because, in fact, modern monetary theory is already in use in the UK economy. It describes what actually happens in the UK already.

The government does already spend money into existence when it spends. Every single penny of government spending is created by the Bank of England on behalf of the government. And tax does already exist to take money out of circulation in the UK economy, as modern monetary theory describes, and which most economists deny.

But there are big changes you would see, and I want to use a recent political example to explain this.

We've seen the whole of our political establishment go into some form of paranoia about defence spending of late. They believe that the Russians, who are currently bogged down in a field in Ukraine, are deciding that they will be invading Europe soon, even though they cannot make any progress in the war they've currently got underway and are losing, maybe, millions of people on the front there.

But they say, as a consequence, we've got to spend a fortune on new defence spending. And apparently, the £15 billion that Keir Starmer has promised as his swan song isn't enough.

And when he did promise that £15 billion, he said he had to fund it by cancelling road

schemes, energy schemes, other types of funding arrangement, and still leave £5 billion unfunded. And people are now attacking him on all fronts for that.

The point is, Keir Starmer showed why he should not ever have been Prime Minister, and if Andy Burnham inherits his views, why he shouldn't be Prime Minister either, because there is no logic in cancelling a road scheme to pay for defence.

The fact is, the people who will work on that road scheme will not be working on defence. They have different skills. The people who dig up roads and lay roads are highly skilled engineers, but they're not defence engineers. Defence engineers are quite different. By and large, they won't be transferring from civil and mechanical engineering, which is what road engineers need, to electrical engineering and aerospace engineering in particular, which is what defence needs. So, we are not going to see a transfer of skills, and the real economy depends upon real skills.

So what Keir Starmer actually said is, I'm going to make a pile of people redundant so I can try to find some new alternative people whom I will pay more. That makes no sense at all. If we've got a pile of aero engineers and electrical engineers and other people who can create the defence systems that we need, put them to work with new money, Keir Starmer. That's what MMT says.

But don't now put those people who were working on roads or transport systems, or whatever that we need, out of work because we still need those people in employment. And if you put them into unemployment, which is what he's suggesting, you will create a burden on society, reduce tax revenues, and create waste.

This is the thinking of the person who believes that money is the most important resource available to government when it isn't. And this is the big change that modern monetary theory enables. MMT actually makes clear, despite its name, that money is not the constraint on activity inside our economy.

Money is just a tool.

Money isn't even really a thing.

It's a process.

It's a record-keeping system.

It's a claim, but it isn't something that is in short supply, and it isn't something that we need to worry about with regard to constraints because, as we know, more of it can be created at any time.

I've made a recent video in which I explained we could double all the money in the economy overnight, but that wouldn't create a single new engineer, a single new missile, a single new soldier, a single new whatever you want.

The fact is that money doesn't do that. And yet we are treating, and Keir Starmer clearly is treating, money as the constraint on defence activity.

If we have people who can do defence activity, we can afford to pay for them. It's as simple and straightforward as that. In fact, we're better off by paying for them because they will now be paid more, and they'll pay more tax, and we'll see a return from the stimulus that they provide through their spending throughout the economy as a whole. That's the economic multiplier effect.

But we don't need to make people who can't become defence engineers, or whatever we might need, redundant to achieve that goal because that just shoots ourselves in the foot. It undermines our defence, in fact, by making us into a weaker economy, and that is illogical.

MMT points out that illogicality. It says the real issues that we manage in the economy are not money at all. They are the real resources. That's the difference between MMT, with its focus on an understanding of money, and the economics that is driving the Treasury, driving our politicians, driving our economic commentators. They think money is the constraint. MMT proves it isn't.

MMT liberates us to think about what we can do best with the resources we have available to us: people, skills, energy, the planet. What can we do with those to achieve the outcomes that best meet the needs of society?

This is the difference that MMT makes.

Keir Starmer doesn't get that.

Andy Burnham doesn't get that.

Kemi Badenoch doesn't get that.

Ed Davey doesn't get that.

Nigel Farage certainly doesn't get that, nor does Rupert Lowe, whatever his name might be in Restore UK.

None of those people understands this.

Only a politician who does could make effective decisions. We might have such a person in Zack Polanski. I can only say I can live in hope, but we don't have many others. Maybe we've got them in Wales, Plaid Cymru, now. We don't seem to have in Scotland.

This is a problem. We need to have people who understand that managing the real economy, where real economic activity takes place, is what we need and that money is

not the constraint. That's what modern monetary theory teaches us.

Look at the real stuff. Don't worry about the money because the money will follow real activity if we can create socially useful activity with the resources we've got.

That's my key point. You might disagree with it. There's a poll down below. Please let us have your opinions. Please share this video. This is an important issue because it talks about the fact that our economy is not being managed properly by those in charge of it. And if you'd like us to make more videos like this, if you'd like to make us a donation, we'd be very grateful.

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