Campaign for UK Fiscal Responsibility

Why the UK Should Not Succumb to Modern Monetary Theory Evangelism

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About the Campaign for UK Fiscal Responsibility

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It encourages greater efficiency, less waste, better use of resources, greater focus on long term positive outcomes rather than taking short term gains, increased fairness in the way taxes are levied and public funds allocated and improved management of national and fiscal risks.

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About the author

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He founded the Campaign for UK Fiscal Responsibility in August 2025.

He has worked for UK and US civil engineering businesses for over 35 years in the fields of highway design and construction and more recently project managed the design of an early part of a major UK new nuclear build project. He has gained extensive resource and project management experience.

John has created and manages his own various small businesses.

He is the author of 'Hurry Up and Stop' a non-fiction book which considers the UK's legacy as it relates to our economics, environment, climate and wellbeing. It was first published in April 2020.

Abstract

This paper considers why the adoption of some of the key tenets of Modern Monetary Theory (MMT) espoused by some of the leading proponents of MMT should be rejected by the UK government and electorate.

It responds to an increasing exposure given to the proponents, partly through social media who present their case for the adoption of a different way of thinking regarding fiscal deficits and debt accumulation which in turn leads to a greater emphasis on achieving policy outcomes.

Much of the available information regarding MMT has been prepared and presented by academics. The academic proponents have taken control of their arguments regarding why MMT should be adopted. This paper acts as a bridge between academia and the wider UK population and equally tries not to just react to the points made by the proponents but considers more widely the reasons why the UK should not adopt MMT, considering specific aspects of UK politics and our economy that may not feature in the academic discussions. It considers relevant national and international circumstances as they exist today.

It focusses solely on the UK and what the implications might be should we try to adopt what might be seen as some or all of the components of MMT. This paper does not attempt to discuss MMT in broader terms.

The paper recognises the difficulty in defining what MMT is actually promoting. It is based on a review of the work presented by a number of the leading proponents.

In order to ensure that the paper does not become unwieldy it summarises the key points and uses footnotes to point the reader to further information where this may be helpful.

MMT takes a position that the UK should be less constrained regarding the creation of money and should be less concerned regarding fiscal deficits and the national debt. The paper explains why this position is misplaced in the context of the UK.

Introduction

A number of increasingly influential people have over recent years given impetus to the promotion of Modern Monetary Theory (MMT). For the purpose of presenting a brief overview of something quite complex MMT espouses that a government whose country issues a fiat currency (such as the US issuing the dollar and UK issuing pounds sterling) should be less focussed on public sector debt and more focussed on actual outcomes, such as achieving high levels of employment. A more comprehensive explanation of MMT is below.

The problem is that upending our approach to the management of public sector finances carries huge risks that outweigh any perceived advantages. Events over recent years were not necessarily considered by those who created the case in favour of the adoption of this changed approach.

MMT has been almost universally rejected worldwide but the reasons for doing so have often been somewhat superficial – such as a one-line reference to the risk of high inflation that would result.

Hundreds of pages of comment and opinion have been written by both the pro and anti MMT lobbies, along with hours of videos, conference presentations and discussions and blogs on the subject. I am not setting out to repeat the arguments – being pro or anti MMT isn't quite the point because elements of MMT describe the facts of what actually happens, so opposing MMT in its entirety suggests a rejection of reality.

MMT is like stating on Tuesday that yesterday was Monday – which is correct, but going on to conclude that therefore tomorrow will be Thursday. Part of what it states is true so you cannot just dismiss it. The problem is that having correctly identified the foundation it is the extension whereby MMT states or infers 'therefore' that is at best highly suspect. MMT proponents constantly point out to anyone challenging the concept that they are wrong to question the fact that 'yesterday was Monday', which is why I am not arguing that MMT is comprehensively plain wrong. It is the 'therefore tomorrow must be Thursday' element that should be challenged.

There is much in the MMT debate that is not discussed, particularly the softer 'people' issues, the UK specific political issues and how a transition would work. This paper adds some focus to these aspects.

In some respects MMT would like an absolutely fresh start, a blank piece of paper. For instance in relation to the desire for long term near to zero interest rates. It is fine to debate the merits or otherwise of this but what would happen if that was suddenly announced tomorrow? How would it impact our savings, borrowings, exchange rate etc. I discuss this later.

The issue is that MMT takes the reality in what I believe is the wrong direction, today in the UK. Whilst I believe we should not be deflected by MMT in the UK I do not offer evidence or opinion regarding its application in other countries – I am focussed entirely on the UK, but I do invite other countries to review the content of this paper.

What is Modern Monetary Theory?

An American economist and financial professor, Warren Mosler wrote a book called 'Soft Currency Economics' in 1993. This developed MMT and sparked a debate about it.
As such MMT is not completely new. Equally it isn't really a theory. Some would refer to it as a school of thought.

MMT explains that a country that issues its own currency (such as the US and UK), does not peg it to another currency or commodity and does not borrow in foreign currency cannot go bankrupt because it can create money as required to pay for debts denominated in that currency and to pay for goods and services.

It considers that a government deficit is necessary to build a private sector surplus, therefore, focusing on reducing the deficit is counterproductive.

It considers that taxes are used to manage inflation by removing money from the economy as well as creating demand for a fiat currency. UK taxes can only be paid in British pounds.

MMT does not state that there are no constraints on government spending. It says that the inflationary consequences of creating too much demand relative to the availability of real resources is the true constraint, not the availability of money.

MMT suggests that the national debt (ie the sum of all annual spending deficits less the sum of all annual surpluses) is a political choice and that instead we should focus on outcomes, creating the money necessary to enable these outcomes.

Modern Money Theory's description of the economy leads to one of its core policies, that the government can guarantee 'full' employment. This would come with decent pay, benefits, annual leave etc. How 'full' is defined varies depending on the views of different MMT proponents but I am not taking it literally.

MMT points to the fact that debt created by the Government is a savings vehicle for the financial services industry. UK government gilts and Premium Bonds are just two examples.

Why is Modern Monetary Theory being promoted and by whom?

We are faced with many global challenges. Climate change, hunger, unemployment, disease, conflicts, poverty to name just a few. We are facing these challenges at the same time as many governments, including the UK are running ongoing fiscal deficits and increasing public sector debt levels. The sum of government debt globally is estimated to be around £80 trillion.

In a healthy society it is right that other ways of doing things or seeing things are brought out into the open and subjected to debate.

Academics, particularly those with an economic background have over recent years led the debate. This is actually their role – see that there is an issue, look widely at the problem and present potentially innovative solutions and ways of looking at the subject.

One key academic who is a leading expert and proponent of MMT is Stephanie Kelton[1]. She is a professor of economics and public policy at Stony Brook University. In June 2020 she authored the New York Times bestseller, *The Deficit Myth: Modern Monetary Theory and the Birth of the People's Economy*. Stephanie's views are regularly expressed in newspaper articles and podcast amongst other mediums.

Warren Mosler[2] is an American economist and theorist, and one of the leading voices in the field of MMT.

L. Randall Wray is a key founder of MMT. He is Professor of Economics at Bard College and Senior Scholar at the Levy Economics Institute, both in the US.

Richard Murphy[3] is a UK based political economist who has been very successful in expressing what MMT is and how it reflects the economy. His YouTube channel is very popular as are his blogs. He presents MMT to various live audiences.

Whilst acknowledging the work of others I mention these, along with including their online presence in the footnotes as they are very effective in presenting the case for the adoption of MMT principles.

[1] https://stephaniekelton.com/
[2] https://moslereconomics.com/
[3] https://www.taxresearch.org.uk/Blog/about/richard-murphy

Why UK should reject the key tenets of MMT

1. No one knows if it is correct

No country has fully and publicly adopted MMT as its economic framework. As such we cannot turn to a country and identify their long-term outcomes to help to compare their fiscal and social circumstances and determine how their outcomes might relate to our own.

For the UK to adopt the key MMT structural policy components would be a massive leap in the dark. Even a 'MMT-lite' approach would be risky. I acknowledge that some countries are in practice adopting a less constrained approach to the management of deficits and cumulative fiscal debt but this does not constitute the adoption of MMT as a whole.

2. The potential to influence political outcomes

Any political party espousing MMT could gain a significant electoral advantage.

UK politics are currently moving away from the dominance of the two largest English parties, Labour and the Conservatives and is seeing an upsurgence of either newer parties, such as Reform or parties that appear to be reinventing themselves, such as the Green Party. There appears to be such a level of dissatisfaction with the larger parties that the electorate is turning to other options. In some respect they may not want to try other options but feel forced to, if they choose to vote at all.

This opens up the possibility of any of the newer or less established parties promoting an approach of taking a sledgehammer to the financial system, for the 'better' by adopting MMT principles. This could be presented explicitly or by action without reference to MMT. As such they could adopt the MMT approach of suggesting that deficits and the increasing national debt are a political choice, that taxes don't pay for government expenditure, that, within reason whatever policies they adopt can be paid for through money creation and that 'full' employment is within our grasp. The party would need to address the risk of inflation.

Would such a party selling this not be an attractive electoral proposition? Almost certainly yes.

Because much of the MMT momentum currently sits with its proponents there would need to be a body of resources readily able to challenge and to influence the electorate regarding the reality of MMT. This does not appear to currently exist.

Many MMT proponents are politically left wing. Not all – it would be wrong to suggest that MMT is exclusively being promoted by the left. MMT sits well with left leaning policies in that it allows, within limits money to be created to fund social policies such as higher state pensions, giving more people some form of employment, increased welfare spending, increased NHS spending etc. The problem being that it creates a fantasy.

MMT argues that taxation is simply a way in which inflation is controlled – not that it pays for public sector goods and services etc. It argues that having first created the money it then circulates and some of it returns to the state through taxation where it is cancelled thereby ensuring that there isn't too much money present in the economy contributing to inflation. This is dangerous for several reasons:

i) It can disincentivise people to contribute to the tax take on the basis that they are being led to believe that paying tax isn't all that important and that there is no clear payback in terms of receipt of public goods and services. Some people will not be too concerned about inflation – particularly those with little or no savings (except where savings rates are linked to inflation), people with debts and those whose income increases in line with inflation – typically those receiving the state pension or welfare benefits. Given the ability to create money and particularly where MMT is adopted by left leaning parties there might be an expectation that benefits keep up with inflation – why wouldn't they?

ii) In the run up to an election a party adopting MMT principles could create a disconnect in their manifesto commitments by promising unfunded policies. Strictly speaking none of their policies would be funded because they would be saying that tax income is not needed to fund them. Obviously, the electorate will recognise that tax will need to be paid but there will be little certainty regarding what that would be. Also, in power the party could raise taxes at any time and in any way they wish on the basis of it being necessary to control inflation. Basically, the electorate would have no idea what they would be signing up to. There would no doubt be clear dogma related policies, such as taxing the wealthy contained in manifestos which would allow the electorate to be informed to a degree. I recognise that the current system allows chancellors to change how and where taxation is derived but MMT creates a greater level of uncertainty.

3. More fiscal power and influence would rest with politicians – there would be a dilution of the current checks and balances

Under MMT control of fiscal policy rests entirely with the elected government. They would adjust spending and taxes as they considered appropriate. In our political system this prospect is alarming.

One of the failings of our current fiscal management is the fact that our politics work in short cycles – around 5 years between elections. Given that most politicians wish to remain in power for as long as possible many appear to be happy to increase the national debt in order to promote what could be seen to be populist policies or by failing to reverse any necessary fiscal intervention – such as dealing with the effects of the COVID 19 pandemic. Given that MMT at best plays down concerns regarding the size of the national debt what would prevent high inflation and an explosion in public sector borrowing by the time the incumbent party leaves office?

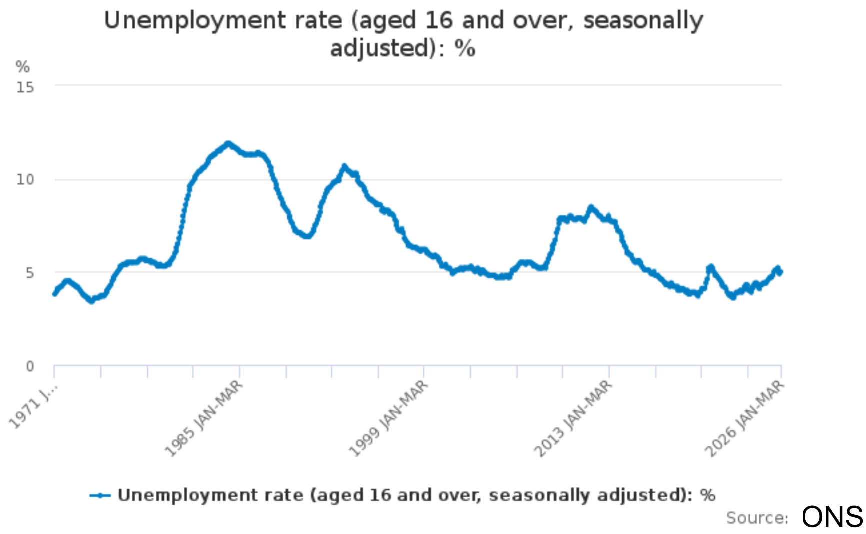
Under MMT the role of the Bank of England to control inflation is substantially reduced. Politicians would be required to make adjustments to the inflation rate by increasing or decreasing taxation.

Gordon Brown granted operational independence over monetary policy to the Bank of England in 1997. This removed the political influence from interest rate decisions. It enabled the Bank's Monetary Policy Committee to concentrate on keeping inflation as close as possible to the target rate set by government (currently 2%). The Bank has difficulties meeting the target, not least because of the influence of events that are outside of its control, such as supply shortages. The arrangement does offer a degree of continuity between outgoing and incoming government and necessary independence.

4. The target of 'full' employment is unachievable and undesirable

MMT advocates appear to want to see full employment and sees the only barrier being the potential to drive up inflation. It believes the state can create jobs if the private sector cannot do so and that the costs associated with these jobs would be funded by the money creation. It should be stated that what constitutes full employment does vary between MMT advocates, some adopting a more pragmatic definition.

In purely economic terms the UK unemployment rate which is currently 5% is not excessive.



This is not historically high and is only slightly higher than the 3.5% - 4.5% UK unemployment rate economists suggest is acceptable, that is to say that it avoids both excessive inflation and does not reflect widespread joblessness. It has been increasing and there is potential for the ongoing instability in the Middle East to further increase it.

Full employment is not achievable or is undesirable for the reasons I set out below:

a) Not everyone who is currently unemployed will take a job offered to them – under any circumstances.
b) Inflation will be a factor, particularly where the state and private sector have to compete for the same resources.
c) There are parts of the economy where there is scope to increase the number of workers but in others there isn’t.
d) Governments tend to instigate policies that push against either other. Typically at the moment we are increasing the cost of employing people, be it by the raising of Employers National Insurance rates or increasing the minimum wage, which disincentives employers to take on employees.
e) Jobs that are artificially created can be very unrewarding to employees. This can create high turnover, inefficiency and social issues.
f) The management and leadership required to ensure that the created jobs are effective will not necessarily be available. There could be high ratios of less well-trained new employees to managers because the number of managers required does not exist, or they are elsewhere in the public or private sector. Luring them away may be costly, have negative impacts on other parts of the economy or create inflationary pressures.
g) Injecting more people into the private sector can make us nationally less productive per person and internationally less competitive.
h) There are resource restrictions that can have an impact. Typically, we have limited electricity at peak hours of the day and our rail and highway infrastructure is limited.
i) Many state led initiatives are wasteful and ineffective.
j) People who are currently employed in jobs that society needs to be carried out but financially doesn’t always value may be disincentivised by the fact others are able to

carry out less demanding state instigated roles with potentially similar or better employment rewards packages.

k) Those employed in state schemes may be eligible for state funded pension schemes. These are a further long-term liability for the state and would sit on our accounts without funding if the MMT experiment failed.

5. High Inflation

Most people and organisations who are ideologically opposed to MMT cite inflation as being their main reason for rejecting it. This response tends to be superficial. Whilst potentially high inflation is a very real risk a much more robust response is required.

An example of an almost superficially dismissive response to MMT advocacy can be found in the House of Lords Economic Affairs Committee's report 'National debt: it's time for tough decisions'[4]. The report was published in September 2024 following a call for evidence made in late 2023. In the responses to the call for evidence were a number of comprehensive submissions relating, positively to MMT, not least those made by the Gower Institute and Richard Murphy. These were dismissed in very few lines of text in a lengthy report.

So what is the position regarding inflation?

MMT allows or requires politicians to have greater control over money creation and inflation.

The most obvious risk is that if increased policy led spending meets limited resources inflation can result as there is competition between individuals, the private sector and the public sector for resources. MMT recognises that the availability of resources is a key constraint.

MMT argues that money is first created, circulates in the economy and then some of it is returned and cancelled in the form of taxation. It argues that inflation can be controlled by altering taxation.

Given the relationship between inflation and the availability of resources we should consider the UK political factors. Given our short political cycles it is difficult to adopt policies that would create the environment for industrial and services capacity to be increased. Equally because of the size of the fiscal deficits we currently run it is difficult to provide the funding not just to encourage an increase in capacity but as important to stop taking steps that positively discourage capacity expansion. For example, if the government wanted to adopt a policy of providing universal free dementia care using newly created money (additional annual cost of say £26 billion) it would be initially met by the existing shortage of trained specialists, staff and potentially accommodation. This would both cause the policy to fail and inflation to be created due to the availability of funding meeting the lack of resources.
The policy would undoubtedly have an influence on voting intentions if the electorate thought that MMT opens the door to such policies being adopted. The reality, which MMT recognises of the inflationary and practical constraints would not necessarily be immediately obvious.

When those additional jobs are created the intention of MMT is for them to be 'well paid'. It is impossible to define what that means but the state is likely to be in competition with both itself and the private sector for resources, potentially driving up costs for those sectors. This could particularly be the case where key management people are involved. In order to provide large scale employment opportunities significant numbers of managers or experienced works would be required.

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[4] https://publications.parliament.uk/pa/ld5901/ldselect/ldeconaf/5/5.pdf

There are occasions where the excessive creation of money has led to hyperinflation. These cases are often cited by those who globally oppose MMT. I don't believe they are entirely relevant but shouldn't be completely dismissed. There were specific causes, just a few of which relate to the current UK political and economic environment. The causes should be recognised on the basis that as we have seen with COVID-19 significant events happen and we have to be in a position to deal with them within the fiscal framework we operate.

Some of the hyperinflation events are as follows:

Hungary 1945 -1946. The daily inflation rate was 207%.
The underlying cause was a massive erosion of its wealth as a consequence of the second world war and the need to pay reparations.

Zimbabwe 2008. The daily inflation rate was 98%.
The causes were their agricultural reform programme which involved taking land off white landowners, resulting in agricultural decline and also Zimbabwe's involvement in the Congo War in 1998 together with the impact of US and European sanctions against the government in 2002.

Yugoslavia 1994. The daily inflation rate was 65%.
Various economic and political crises in the 1980s led to civil wars which ended with the break-up of the country back into its constituent republics. The cost of the conflict and breakdown of internal markets together with UN sanctions, uncontrolled public spending, corruption and inefficiency created the inflation.

Germany 1923. The daily inflation rate was 21%.
Germany was left with high debts and reparation costs as a result of World War One. Due to money printing in order to buy hard currency and to pay for the debt the national currency, the mark, lost value. The situation was made worse by a missed payment in 1923, resulting in the Ruhr Valley being occupied by French and Belgian troops which in turn led to production issues and strikes.

I comment further in the next section.

The inflation that followed the Covid 19 pandemic is sometimes referred to as an example of inflation resulting from significant additional money creation. I am not sure that a clear conclusion can be reached. According to the House of Commons Library's Research Briefing 'Public spending during the covid-19 pandemic'[5] published in June 2026 estimates of the total cost of our government's COVID-19 support measures range from about £310 billion to £410 billion. High inflation did follow, peaking at 11.1% in October 2022. It is difficult to attribute this inflation rate to any particular cause or to determine how much of it was due to the money creation. At the time the global economy was experiencing supply shortages which in turn resulted in higher prices. It took several years for supply chain breakdowns to be resolved, after which inflation rates return to more normal figures. In some parts of the economy deflation occurred as we changed our patterns and habits.

6. Political instability

A point which can easily missed is that MMT requires political stability. From my point of view that should not relate just to our own but that of our allies, trading partners and neighbours.

[5] https://researchbriefings.files.parliament.uk/documents/CBP-9309/CBP-9309.pdf

So, the question is do we and will we have that stability? I am not sure I can answer those questions in the positive.

Looking at the above hyperinflation events there is no parallel to the Hungary or Germany situations. However, there is in relation to the Zimbabwe and Yugoslavia events. In Zimbabwe the government took actions that led to agricultural decline. The current UK Labour government has shown that in practice, ignoring the rhetoric it does not fully support our agricultural industry and at times takes action to damage it. The evidence for this includes the Land Use Framework for England[6], decline of production subsidies, allowing our reliance on food imports at the expense of home production, the farm inheritance tax changes etc. These in their own right are destructive to the industry but are taking place in an environment whereby climate change is making the agriculture, horticulture and forestry industries financially marginal.
Zimbabwe suffered from sanctions imposed on them. Today, and potentially for the foreseeable future we are exposed to the imposition of tariffs, including the need from time to time of reciprocal tariffs.
The easy take aways from the Yugoslavia events are this reference to UN sanctions, or in our case tariffs and inefficiency.

The world has become less stable and the actions of other countries do have significant impacts on ourselves. For example, conflicts in Ukraine and the Middle East, the upending of traditional allies and organisations and the imposition of tariffs do affect us. Often when you read the letters sent by the Bank of England to the Chancellor explaining why we have missed our inflation target by more than one percent the reasons include the impact of another country's actions on the price of energy.

Judging from overseas events over recent years it is possible for what appeared to be a relatively benign political environment with considerable checks and balances to be placed under intense strain.

Under MMT the elected government manages inflation using fiscal policy, primarily through taxation and spending adjustments, as opposed to the Bank of England adjusting interest rates. This requires any government to take a long-term fiscal view, something which has proven to be very difficult given our short government and Prime Minister cycles. It also requires our elected government not to go rogue.

7. UK's naïve approach to being reliant on the kindness of strangers

UK imports more than it exports. In 2025, the UK's exports of goods and services totalled £930 billion and imports totalled £969 billion, an overall trade deficit of £39 billion.
A deficit of £242 billion on trade in goods was partly offset by a surplus of £203 billion on trade in services.
The current account, which includes investment income and transfers as well as trade, had a deficit of £95 billion in 2025, compared with £85 billion in 2024.
A deficit means that we are reliant on money from abroad to fund our economic activity in the world economy.
A trade deficit of this order in normal political, social and economic conditions is not a significant issue. However, Warren Mosler suggests the UK should not issue bonds and should adopt a zero percent Bank of England base rate (what this means is unclear but might refer to the interbank rates). This would weaken the value of the pound as UK

[6] https://assets.publishing.service.gov.uk/media/69c69033471d520038d0f7a6/Land_Use_Framework_Accessible.pdf

becomes a less attractive place to invest in and the cost of our imports increases as a consequence.

We have become used to a relatively benign financial system in relation to financing our national debt. This has led to us becoming complacent regarding the size and speed of increase in the debt. The pound has not come under concerted attack by other countries and by effectively increasing yields we have been able to attract sufficient inward investment in our bonds. Even under these conditions we are paying a significant amount every year in interest on that debt. However, as Japan is finding as their investors begin to retreat from purchasing US debt (Japan has been the largest holder of US debt), in part due to exchange rate concerns, the US intervened to prop up the Yen by selling Euros (selling this as an act of kindness to Japan). With massive increases in the US government debt the US no doubt does not want to see significant withdrawals. This act impacted the euro whilst doing little for the Yen. What this identifies is that the world's fiat currencies do not stand in isolation and even if your own currency was not being subject to attack or support it is possible to become third party collateral.

8. Zero interest rates would create inflation in some parts of the economy

I am unclear whether zero percent interest rates are a true MMT aim but Warren Mosler said three years ago that the UK should adopt this position and I believe that Stephanie Kelton also leans into this. If we did adopt zero percent interest rates we would take away one of the available levers to control inflation and in turn create inflation in some parts of the economy – for instance higher house prices. Also savings rates would be low and if inflation was relatively high the value of people's savings would be eroded. There would of course be clear benefits, including lower industrial and commercial investment costs. It should be recognised that altering interest rates can be a blunt tool with regards to controlling inflation.

9. An ever-increasing national debt is both undesirable and unsustainable

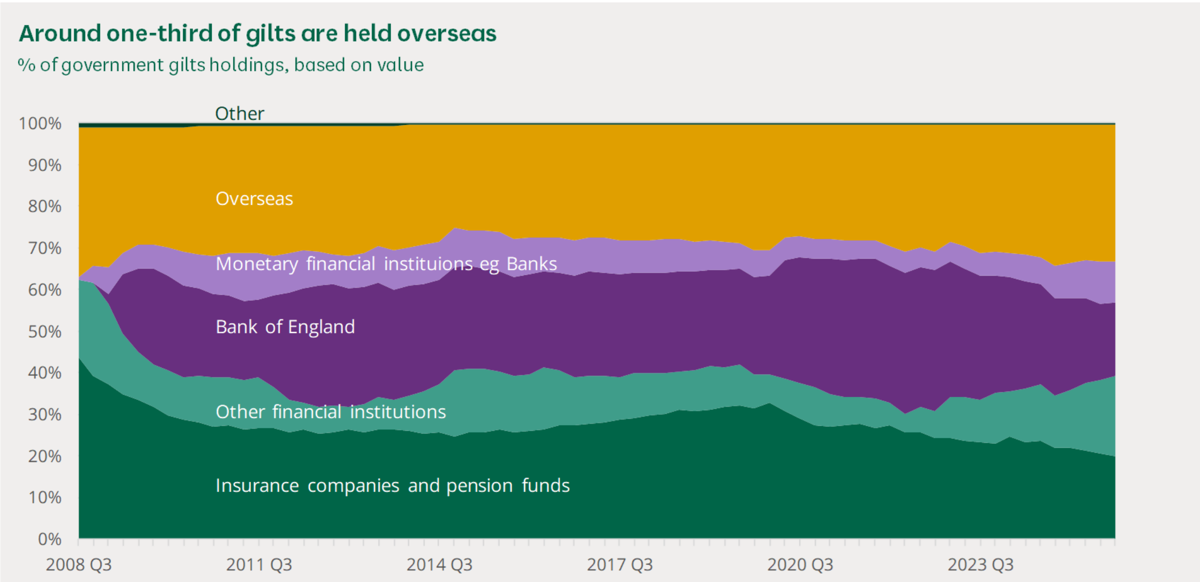
The MMT position regarding the UK national debt is that unlike a household or business debt it does not need to be paid off. It argues that the UK government cannot be forced into bankruptcy or default.

MMT proponents argue that we shouldn't consider the national debt to be a negative issue because it creates an equal and opposite asset within the economy. The phrase 'one man's debt is another man's asset' comes into play. This phrase represents the 'Monday' part of the argument. The 'Thursday' part is that unlike MMT proponents I do not believe that this is a good reason to allow the debt to continuously increase. This is where it becomes unclear regarding what MMT's position is regarding the debt. On the one hand some proponents point to the fact that the bonds and other debt related products present a safe haven for our savings and pension funds, whilst some, including Warren Mosler think that we should not issue government bonds, the implication being that the Bank of England should buy debt, effectively carrying out Quantitive Easing.

For context regarding our national debt, it is around £3 trillion, approximately the equivalent of 95% of annual gross domestic product, in the last financial year it increased by just under £130 billion, the interest we pay to service it is around £110 billion per annum. There are no anticipated windfalls (such as oil revenues) to potentially ease this position. The UK's Office for Budget Responsibility recently published their latest 'Fiscal risks and sustainability' report[7] which amongst other things indicates their thoughts regarding the direction of travel regarding our public sector net debt. It would be wrong to try to summarise their report here but in short their various scenarios show significant increases in the debt to GDP ratio over the next 50 years with factors such as demographics, climate change and productivity amongst the influencers. Whilst MMT focuses on outcomes rather than measures such as the debt to GDP ratio we should not ignore the warning we are being given.

The following graphic (courtesy of the UK Debt Management Office) shows who owns the debt. It shows that around one third is owned by overseas parties, the amount owned by insurance companies and pension funds falling over recent years to around 20% and the Bank of England reducing its holding. Whilst gilts were once a financial product relied on by pension companies to secure funding for final salary scheme obligations this is less the case now. What happens if overseas investors no longer want to buy our debt (see also my point about being reliant on the kindness of strangers)?

There is an issue regarding the involvement of hedge funds. Some of these hedge funds are part of the overseas investor group. It isn't known what the overall percentage of gilts owned by hedge funds is but reports suggest that around 60% of the daily electronic trading volume in gilts is undertaken on behalf of hedge funds.
The Bank of England are concerned regarding the resilience of the gilt repo market. Hedge funds use a wide variety of strategies in the gilt repo market. They borrow cash via repo to fund long positions and use reverse repo to gain short exposure to securities. Understanding the technicalities is beyond my competence but the Bank is concerned that in the event of any instability in the markets the rapid unwinding of positions could create significant financial stress.



7 https://assets.publishing.service.gov.uk/media/6a4cb4c74889d85e75ab40e0/E03599617_OBR_FRS_2026_Accessible.pdf

This gives some context regarding where our tax money that is paid to service the debt actually goes, including out of the country and to parties who take financial positions that potentially put our financial stability at risk.

In practical terms we are not going to pay the national debt down in the near future, if ever. Those who lend money to the UK government know this. They also know that they will almost certainly get their money back and they know how much interest they will receive. What they do not want is for the value of their returning money to have been significantly depreciated by inflation or adverse currency movements. If MMT principles are brought to the fore in the UK investors are highly likely to be concerned about the potential for high inflation and adverse currency movements. This concern doesn't have to be based on facts – MMT proponents would no doubt argue that high inflation isn't a necessary consequence of the adoption of increased public sector spending – but it would not be a certainty and therefore investors would consider this to be a risk that they would want to be reflected in higher borrowing costs.

Having a large national debt is a relatively modern phenomenon (apart from during wars). In the early 1990's our debt to GDP ratio was around 35% and the debt itself was around £200 billion. The fundamental reason for the increase is our misplaced belief that we are a wealthy country. Consider our national debt and our unfunded spending commitments versus our assets and we are not. The fact that the government spends more than it collects on an annual basis is testament to that. If a significant part of the expenditure was investment for the future due account could be taken of that – but it isn't. We rely on a system to fund our excess spending that in fact doesn't feed back benefits into the UK economy to the extent that MMT proponents would want us to believe and also has put our economy at risk from financial institutions making bets.

If the private sector did not have UK gilts to invest in they would find other opportunities elsewhere. Given the lower gilt yields in other countries, exchange rate risks and global political and economic uncertainties there is no guarantee that the investments would flee the country.

If we do anything to destabilise the UK bond markets (such as the adoption of MMT principles) the resultant bond yield increases would cause significant issues regarding financing our debt. It would be an act of national self harm.

10. High expectations that cannot be fulfilled and industrial unrest

Given the MMT stance that money can be created with far fewer restrictions there would be enormous pressure brought on government to accede to all public sector pay demands, which in turn would adversely affect the private sector. For instance, if the train drivers asked for a 10% annual pay increase would the government be able to say that they cannot afford it? Not convincingly because MMT says that we can create money. The caveat regarding restraint where there is potential to create inflation due to limited resources would not apply. What would the train drivers do? It would be a reasonable assumption that they would go on strike with the resultant negative impact on the rest of society and our productivity. When the government caves in, which they will do because MMT would have destroyed the main counter to the train driver's pay claim that there are limited funds available, others would do exactly the same. Whilst I cite the example of train drivers it could be any part of the public sector.

When people working in the private sector see how easy it is to gain pay increases in the public sector there would inevitably be a situation where they demand higher wages to remain or would indeed move to the public sector.

11. Transition implications and costs

Assume a party is voted into power with a mandate to adopt MMT principles. From the moment that there is a remote possibility that the party could form a government the bond markets would react adversely by either not purchasing or forcing up the effective interest rates. This might settle down but as reflected in this paper the possibility of any party creating money to suit their political agenda, in turn causing higher inflation and devaluing gilt investments is so significant that it would take a long time to convince the bond markets that they will and do act responsibly. In the meantime, if and it is a big if, it is possible to convince them the price we pay in debt interest would be higher.

If the MMT experiment failed what happens next? Possible reasons for failing are that the deficits are too high, inflation is too high, the national debt increases significantly, productivity gains are insufficient etc. Most of the negative issues become baked in and are carried forward. Even deflation rarely manages to cancel out previous inflation. It is unlikely that the national debt will be reduced in any meaningful way using conventional methods. We pay for the failed experiment.

12. Currency depreciation

As touched on above one of the risks associated with significantly increased government spending without the revenue to fund it into any economy which is resource constrained, including there being low levels of unemployment is that the pound would be depreciated. The consequences of this would be higher import costs and further inflation.

13. The potential to burden society with the actions of political extremes

In the event that a far left or far right party adopted the principles of MMT and were voted into power they could bring about changes that matched their own political doctrine but not necessarily be good for the country in the long term. For instance, a left leaning party might bring in a policy of renationalising core privatised utilities in the UK, typically the water and energy sectors. The cost of this would be, say £300 billion. They would argue that MMT money creation could finance this and it could be done quite quickly. Whether renationalisation is a good thing or is not is not the immediate point, there are arguments that support either view but it is an action that once done would be very difficult to undo. Again, the cost is added to the national debt and we would all be paying the interest on that debt for the foreseeable future.

14. The role of taxation

MMT argues that the role of taxation is to withdraw money from the economy to in turn help to control inflation. It states that taxation is not required to fund public services because money is created for that purpose.

There are two issues to address here. The first is the reality of how the government receives and spends money and the softer, human issues.

Starting with the former.

The government uses HM Treasury to receive and pay out money on its behalf. In basic terms it operates a Consolidated Fund Account which was set up in 1787 with the remit ‘One fund into which shall flow every stream of public revenue, and from which shall come the supply for every service’. In order to separate government revenue and expenditure on the one hand and government borrowing and lending on the other, the National Loans Fund (NLF) was established on 1 April 1968 by the National Loans Act 1968 to account for government borrowing and lending which were until then accounted for within the CF.

Both the CF and NLF are administered by HM Treasury, with the bank accounts maintained at the Bank of England. By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the CF.

The CF receives the proceeds of most taxation and certain other government receipts, makes issues to finance supply services, meets the standing services directly charged by statute and reimburses the NLF for net interest costs. The finance needs of the CF are met by the NLF (via the proceeds of borrowing) to the extent that taxation and other receipts are insufficient to meet its outgoings. The CF finishes every day with a nil balance on its bank account because any surpluses or deficits are offset by transfers to or from the NLF.

This information is based on the Treasury’s Consolidated Fund Annual Report and Account 2025-26[8] which is presented to Parliament. It is the reality of how government collects receipts and pays out money.

Taxation accounts for most of the non-debt related income into the Consolidated Fund.

If you look at the Consolidated Fund on any one month you will see how much money came into it, mostly through taxation, how much money went out to fund the public sector and how much, if any had to be brought into the Fund through borrowing in order to create the zero balance.

I have outlined this because I want to challenge the MMT notion that taxation is not raised to fund public sector obligations but simply to control inflation. Yes taxation does help to control inflation but when taxation is entering an account from which obligations are paid then in mechanical terms it clearly does pay for those obligations.

Regarding the human issues, it is irresponsible to promote the idea that we are taxed in order to control inflation. Most people pay tax because they have to but to many paying tax is a matter of choice. I am not referring to the massive UK tax gap (the difference between the tax we should pay versus the tax we actually pay). This is currently estimated to be £59.2 billion in the 2024-25 financial year, meaning that we only collect around 93.6% of all the tax due. I am referring to people who can plan their finances in order to legally minimise their tax obligation and also those who are disincentivised to generate income because of the amount that the state then removes. To replace at least some notion that taxpayers are contributing to the state’s services, some of which they will benefit from by the idea that we pay tax to control inflation, something some people will care little about would be a national own goal.

[8] https://assets.publishing.service.gov.uk/media/6a577063822fbe6b8245c99c/Consolidated_Fund_Account_-_2025-26.pdf

Taxation is an incredibly blunt tool with which to try to control inflation. We should bear in mind that whilst we consider inflation to be the issue so too is deflation.
Receipt of taxes often lags far behind the announcements that introduce or change them. Take for example the imposition of inheritance tax on private pensions (30th October 2024 to 6th April 2027). Some tax changes can be made effectively 'overnight', such as an increase in fuel duty. However, there is usually a delay in order to ensure that people have a reasonable chance to take steps to accommodate the change. If in order to control inflation only tax changes that can legally and practically be made in a very short time are used the focus would be on a relatively small number of taxes. Much should be learned from the WASPI women situation regarding changing pension entitlement dates in the context of alleged poor communication of the planned changed and the opportunities afforded to accommodate the change.

15. MMT can increase wealth inequality

Under a scenario whereby MMT resulted in an increase in the issuance of gilts on the open markets those who already have much of our wealth, including those working in the financial services industry have increased opportunities to increase that wealth. Much would depend on the involvement of the Bank of England's Asset Purchase Facility and whether low interbank lending rates were adopted. When money is available to the financial services industry (and in the MMT case increased flows on money) they are very effective in making use of it for their own benefit initially. That is their business model.
Low interest rates allow individuals and businesses to borrow money to increase their ability to purchase assets, at the expense of those who do not have the basic resources to do so and often putting them outside their reach (housing being an example).
Balanced against that is that in a low interest rate economy more employment opportunities could naturally be created which can benefit those who are less wealthy.

16. MMT requires a resilient economy. At best ours is soft

A resilient economy is a financial system that can absorb shocks, adapt to the disruptive effect of crises or natural disasters and can quickly bounce back.

We are exposed to high energy prices and have been considerably impacted by the war in the Middle East. The government is providing targeted financial support but it is limited in its ability to do this, given that the timescales for these elevated prices remains uncertain. Businesses that have tried to absorb these cost pressures are increasingly being forced to pass them on.

US government tariffs have created a degree of uncertainty into our industrial activities and pricing.

We have some government financial reserves but a political system that currently resists creating them from within existing public sector funds.
Our growth is minimal and whilst the corporate sector has held up well there is an expectation that corporate insolvencies will rise over the year.
Our economy did bounce back following the COVID-19 pandemic but we continue to carry a significant financial and social legacy.

Whilst we have diverse supply chains we are reliant on imported items such as energy, food and technology. We are showing signs of lacking resilience in our water supply both in terms of society undervaluing it leading to lack of investment and problems maintaining supplies in the face of climate change.

Our services sector does hold up well.

Our workforce is not particularly flexible in that it tends not to have varied skills in some areas enabling resources to be switched to match demand.

17. We don't have a widespread proactive approach to creating resource capacity

MMT requires a proactive approach to be taken to the creation and maintenance of buffer stocks and industrial capacity.

In a report titled 'Future Proofing Security of Supply in a Contested World[9]' recently published by our National Preparedness Commission points to many significant shortcomings in our available capacity. Typically, although the UK is one of the least self-sufficient countries in Europe in terms of food, with a production to supply ratio of 62%, government neither has a strategic stockpile nor does it require key wholesalers and distributors to hold inventory. We also have profound shortages of ammunition, artillery, vehicles, air defences and personnel, which would be depleted within weeks or even days in the event of a major conflict.
There are numerous other examples but these two critical items reflect a thinking that was best suited to a previous era when perhaps we were exposed to fewer risks.

The Monetary Policy Committee considers the availability of spare capacity in the economy when setting interest rates. They find it very difficult to establish the true position but considered in their July 2026 report[10] that there is a margin of slack in the labour market.

The government is taking steps to help people to undertake vocational training and to get more people transferred into the workplace and this has to be matched by employers having the confidence to create the roles into which they will be placed.

18. The potential to increase immigration and imports

Related to point 17 above is the potential for increased immigration where we do not create our own spare capacity in the economy into which spending can take place.

Take the example of government investing heavily in social care. Social care is currently resource constrained. According to the Nuffield Trust in 2025 'social care has been entirely reliant on recruitment of non-UK nationals to meet growing demand, with the number of British nationals working in the sector falling in recent years'. It is hard to believe that the MMT 'jobs guarantee' would create the workforce required to fully resource additional social care objectives and as such we would continue to rely on immigration. That is not to say that we shouldn't improve our social care provision but a consequence of creating the money to do so is potentially an increase in immigration, something that is a contentious issue in the UK.

MMT appears to take a positive approach to imports, seeing them as a sign of success rather than something that we should be concerned about. Sometimes we import to then add value which outweighs some of the disbenefits of the import. My concerns are that MMT

[9] https://nationalpreparednesscommission.uk/publications/future-proofing-security-of-supply-in-a-contested-world/
[10] https://www.bankofengland.co.uk/monetary-policy-report/2026/july-2026

exposes us to currency fluctuations (on top of other fluctuations that can be caused by global events), can encourage us to take a relaxed approach to creating capacity within the UK, is often not environmentally friendly and again puts us in a position of needing to rely on the kindness of strangers. A clear recent example of that is in relation to the conflict in the Middle East. We have been reliant on the import of energy, fertiliser etc. from that part of the world which for many years worked well for us but resulted in the reduction of our own manufacturing capacity. It works up to the point that there is instability, whether caused by political changes or environmental impacts. It can be mitigated by diversification but we should challenge MMT in relation to its approach to imports.

Conclusion

Having an informed electorate is an important part of our democracy. This paper has outlined some of the issues associated with MMT that should at least form part of the debate.
MMT proponents are becoming increasingly effective in selling the potential benefits and are being positively received by parts of society, particularly those who feel that neoliberalism (a political and economic philosophy that supports free-market capitalism, private property, deregulation, privatization, and lower government spending) has not worked for them.

Neoliberalism may be considered to be favoured by those who lean to the right politically, whilst MMT could find favour with those who lean more to the left. The Green Party of England and Wales has recently, under the leadership of Zack Polanski moved considerably to the left and appears to favour some economic approaches consistent with MMT. I have no knowledge regarding whether the party has or will formally embrace MMT thinking.

Much of what is presented in this paper should first be considered by anyone thinking about supporting a party who embraces MMT in whole or part on the basis that MMT potentially does not give us the better fiscal environment and social outcomes that are perhaps being sold.

It is important that we look at the wider issues relating to MMT, including the potential impact on our politics and move away from a basic rejection of MMT based primarily on the potential risk of inflation. Within the constraint of relative brevity this paper provides a series of points that should help inform the debate.

On initial consideration MMT appears to be attractive, enabling the creation of money to achieve more positive social and fiscal outcomes. It is only as you look at the implications of transferring into a MMT environment that you realise that in the UK it should remain no more than a school of thought.