

# **Did Dr. Joshua Ryan-Collins go MMT?**

Presentation at the  
18<sup>th</sup> Annual AMI Monetary Reform Conference  
at the American Monetary Institute  
Chicago, USA, October 8, 2022.

# Introduction

- Paper and article by Dr. Josh Ryan-Collins
- Article: “Why the British state is a magic money tree“
- Allusion to MMT: Modern Monetary Theory
- MMT makes the claim that “Taxes do not fund spending”
- Paper: “The self-financing state: An institutional analysis of government expenditure, revenue collection and debt issuance operations in the United Kingdom”
- Claiming that the UK Government is self-funding
- Based on an analysis of the UK tax and spend system
- Criticism: evidence does not support the claim

# Structure of Presentation

- Abstract
- Dr. Joshua Ryan-Collins
- Flow Chart UK System
- The Exchequer Sweep
- Criticism
- Conclusion

# Abstract

A recent paper by Dr. Joshua Ryan-Collins et al makes the bold claim that the UK government pays for its expenditures with newly minted money and not with funds acquired through taxation or the sale of bonds.

This is an idea identical to a claim made in the post-Keynesian school of Modern Monetary Theory (MMT) that 'taxes do not fund spending'.

# Abstract (cont.)

The evidence for the claim rests on an analysis of the complex funding mechanism of the UK government, which is enacted through a system of multiple, inter-connected offices and entities.

The linchpin of this system is the Consolidated Fund (CF), which on a daily basis 1) starts with a zero balance, but is allowed to credit the accounts of government entities (thereby going into the red); then 2) receives later in the day the proceeds from taxation (resulting in either a deficit or a surplus); and 3) ends the day by balancing its books back to zero by either obtaining funds to cover its deficit from, or transfer its surplus to, the National Loans Fund (NLF).

# Abstract (end)

Technically speaking, the authors are right that UK government expenses are initially not paid by funds, but with money out of nothing.

But the CF does receive taxes and borrowings to plug the hole at the end of the day.

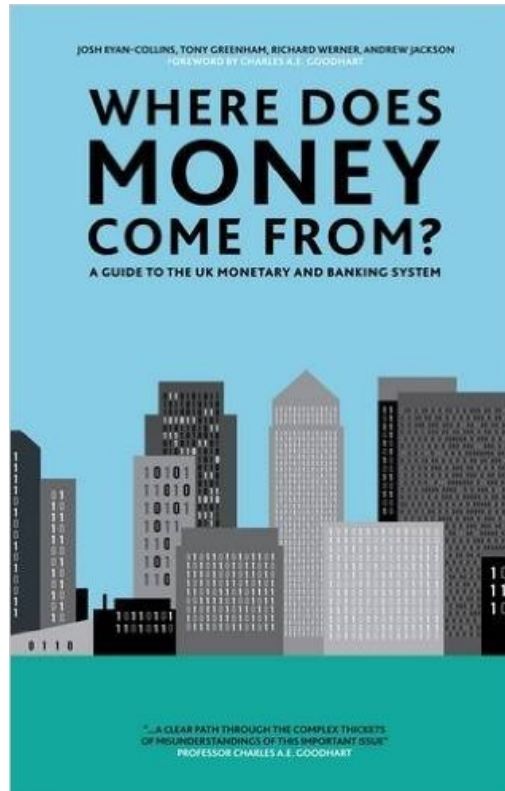
The authors' conclusion that the UK Government is therefore self-funding is unwarranted and certainly does not prove the MMT slogan that 'taxes do not fund spending'.

A better descriptive term to cover their interesting finding is to call it a temporary overdraft, and to name the MMT slogan a false promise.

# Dr. Joshua Ryan-Collins

- Co-author with Richard Werner of *Where Does Money Come From?* (2012)
- This book lays out the credit creation theory (CCT) of money and banking in great detail
- CCT: Commercial banks have created 90-97% of money supply by ceating money out of nothing when originating loans
- Book was cited more than 300 times in other important studies
- Maybe the most influential book on the credit creation theory of money and banking.
- Degree in economics in 2016 at the University of Southampton School of Business, supervised by Richard Werner
- Werner's 'Quantity Theory of Credit' was his starting point in 2010.
- Involved in other important publications relevant to monetary reform.
- Currently associate professor in economics and finance at the Institute for Innovation and Public Purpose

Ryan-Collins, Josh & Greenham, Tony & Werner, Richard & Jackson, Andrew. 2012.  
*Where Does Money Come From? A Guide to the UK Monetary and Banking System.*  
London: New Economics Foundation.





# The Paper

Berkeley, A., Ryan-Collins, J., Tye, R., Voldsgaard, A. and Wilson, N. 2022.  
“The self-financing state: An institutional analysis of government expenditure, revenue collection and debt issuance operations in the United Kingdom”.  
University Center London, Institute for Innovation and Public Purpose,  
Working Paper Series, IIPP WP 2022-08.

# The UK Spending and Taxing Mechanism

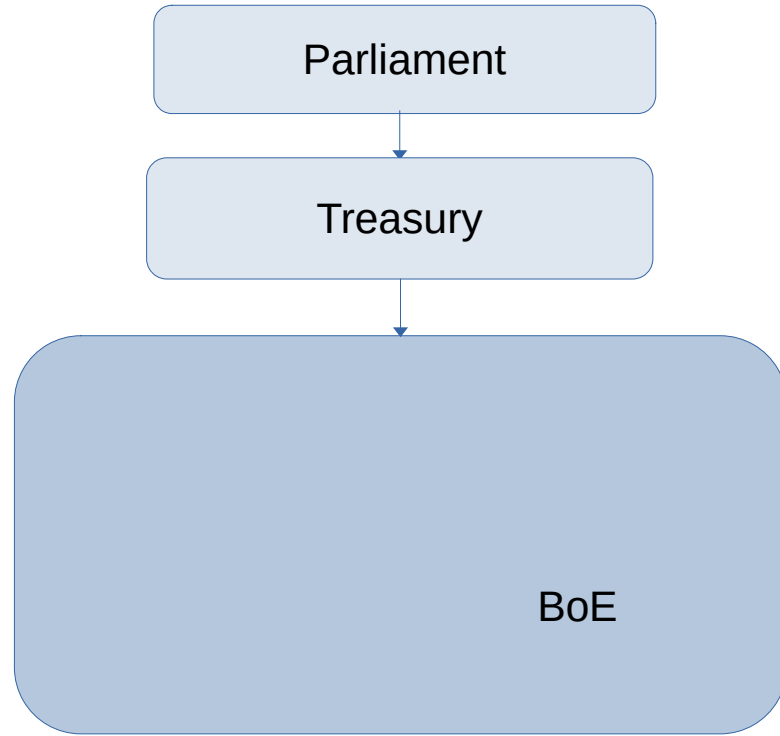
- In a dozen steps
- Vertical arrows: Lines of authority
- Horizontal arrows: Flows of money

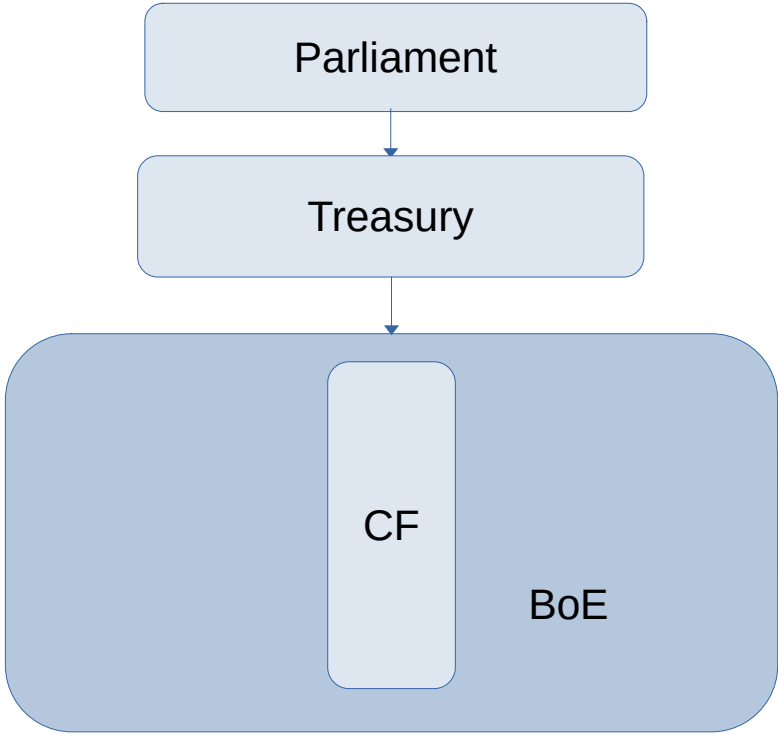
Parliament

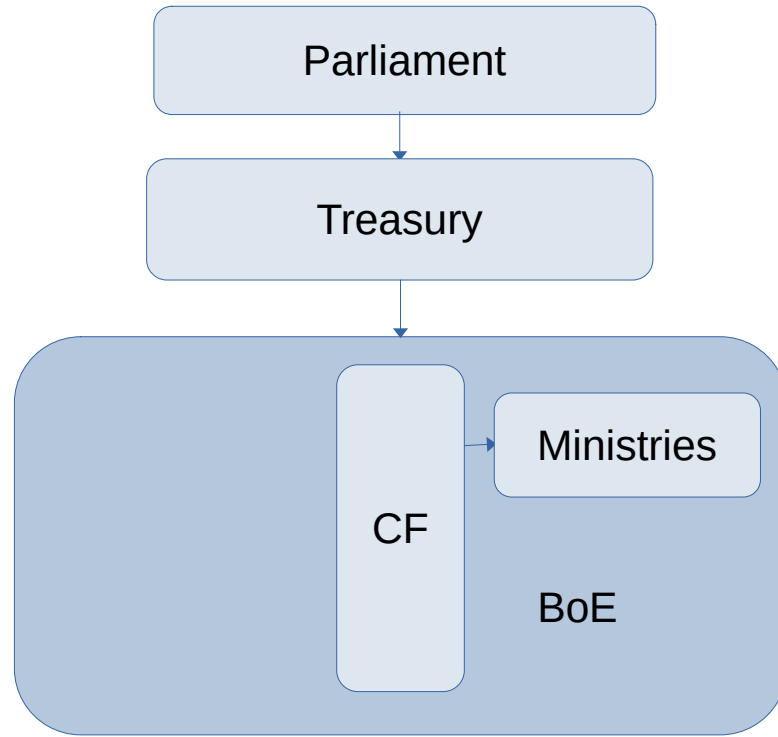
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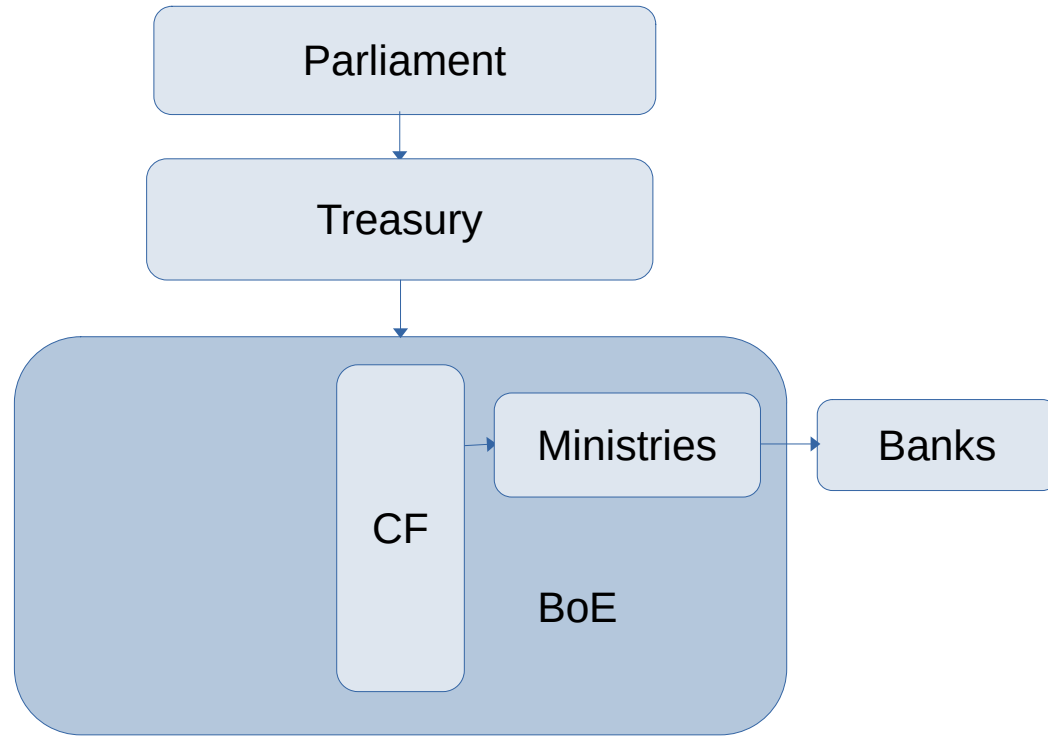


Treasury

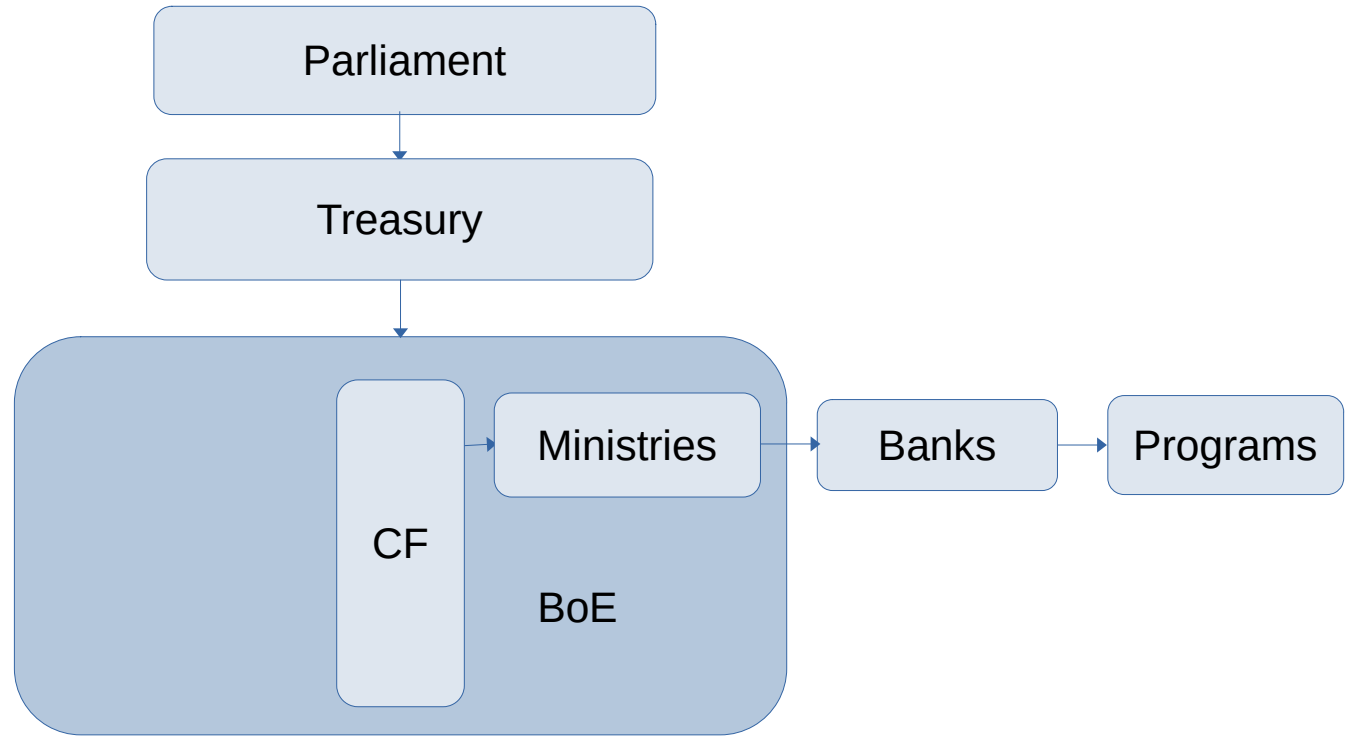


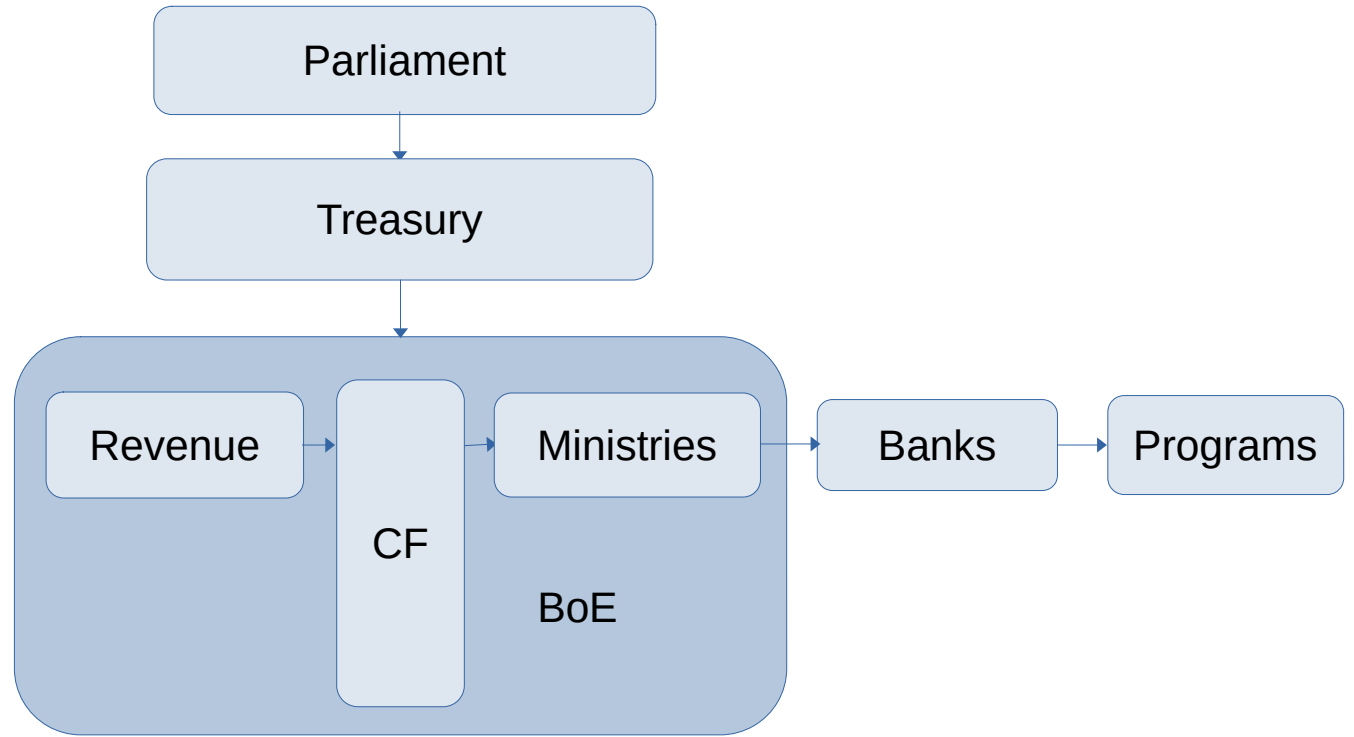


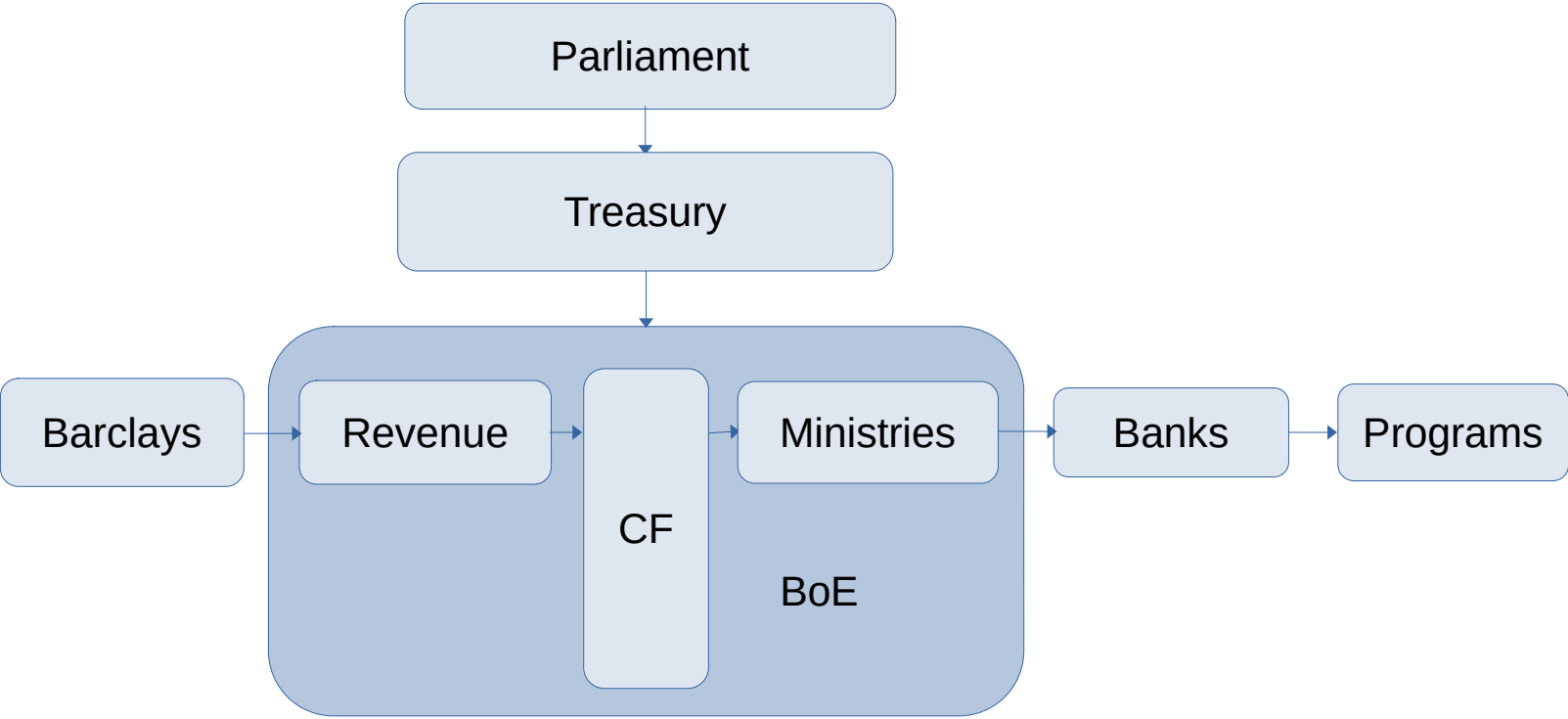


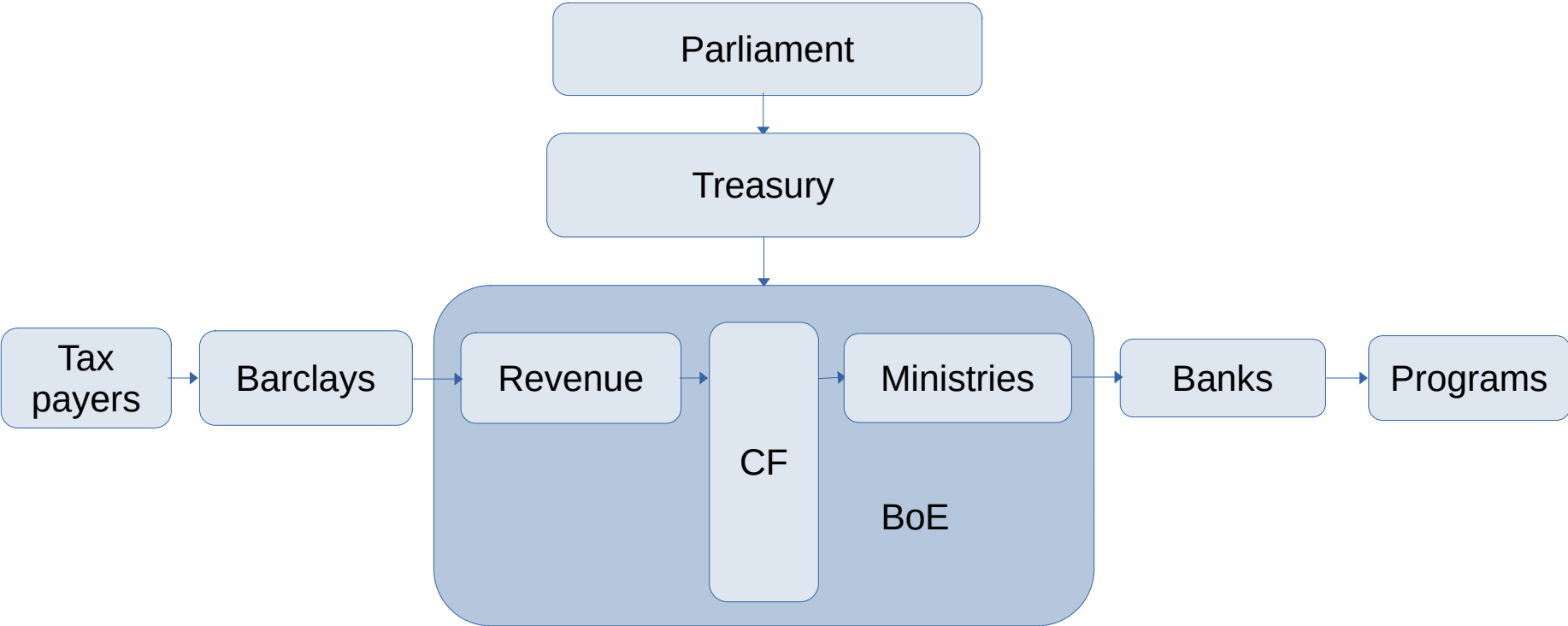


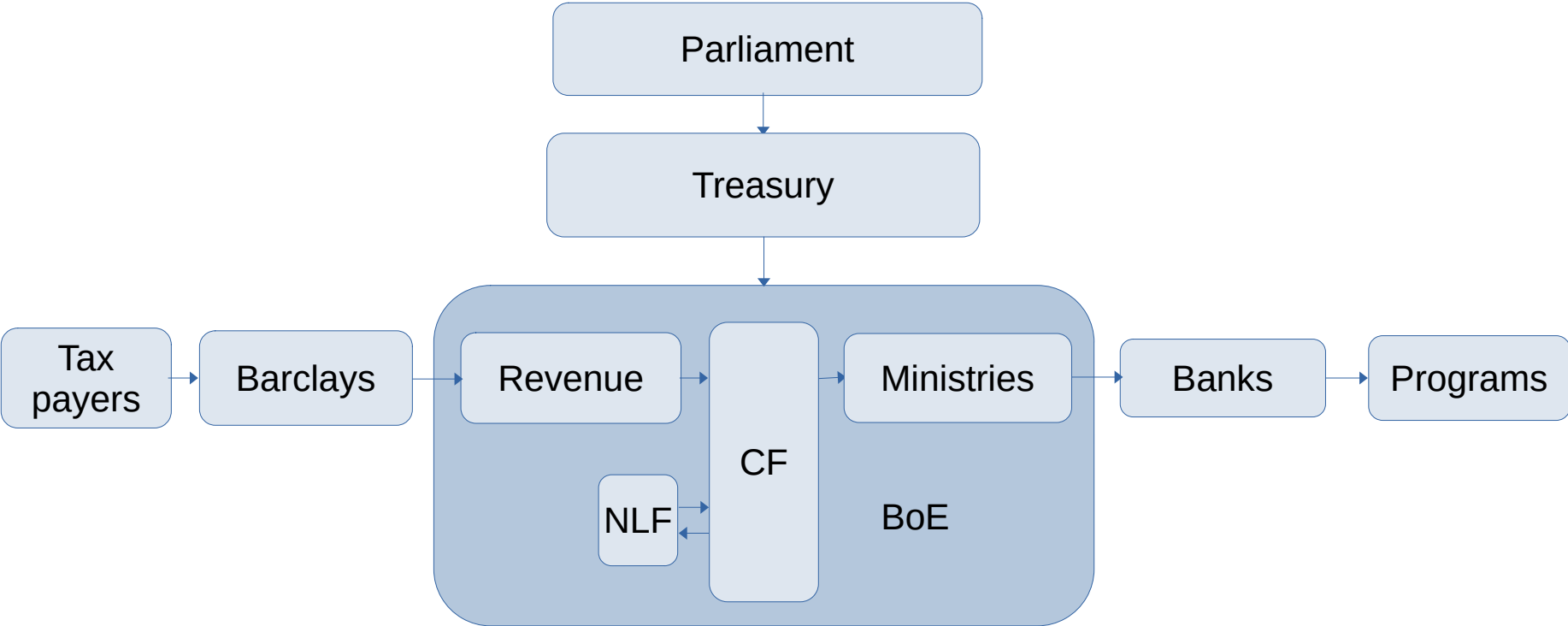


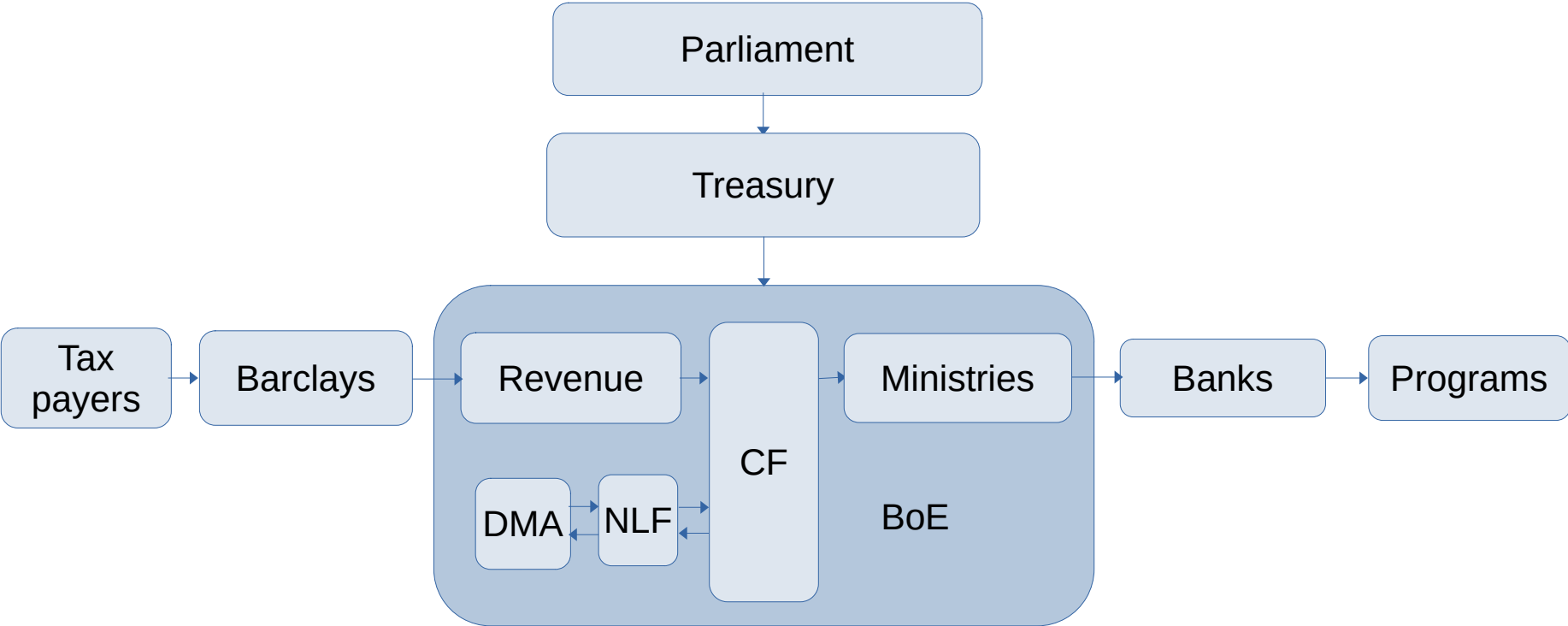


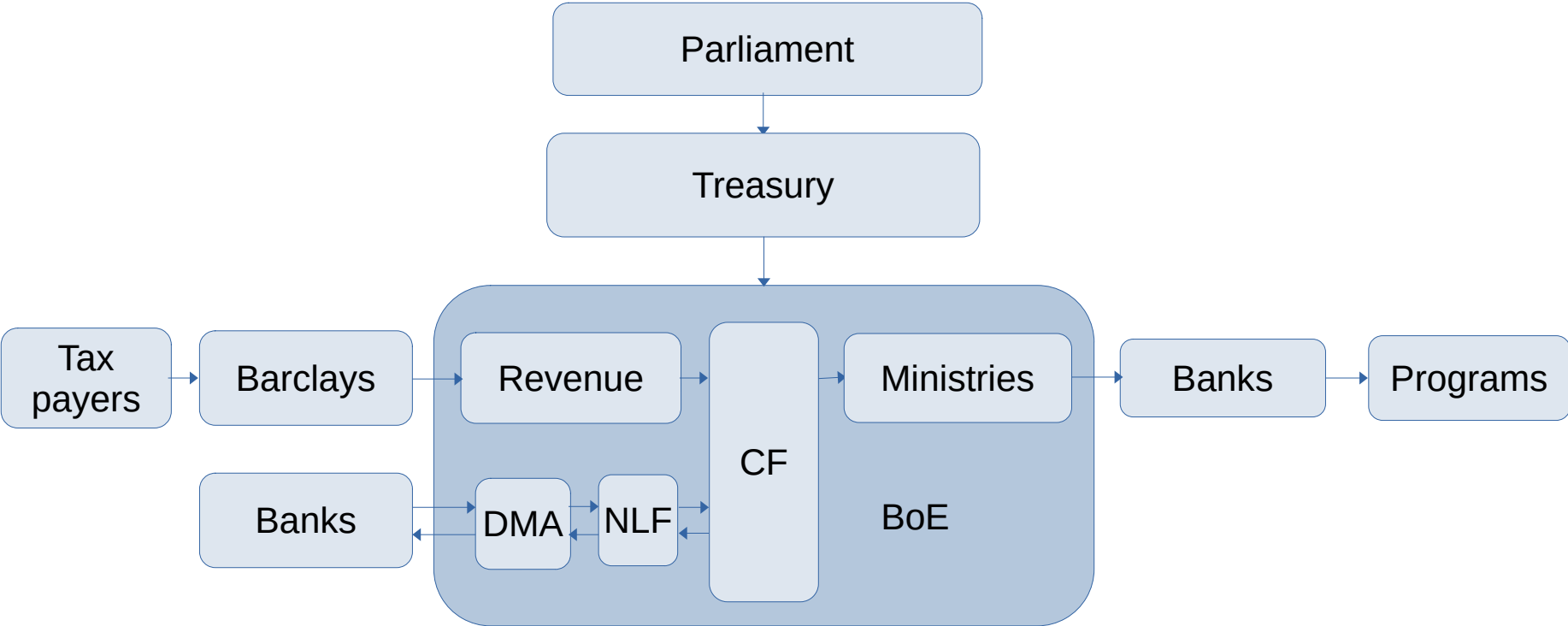












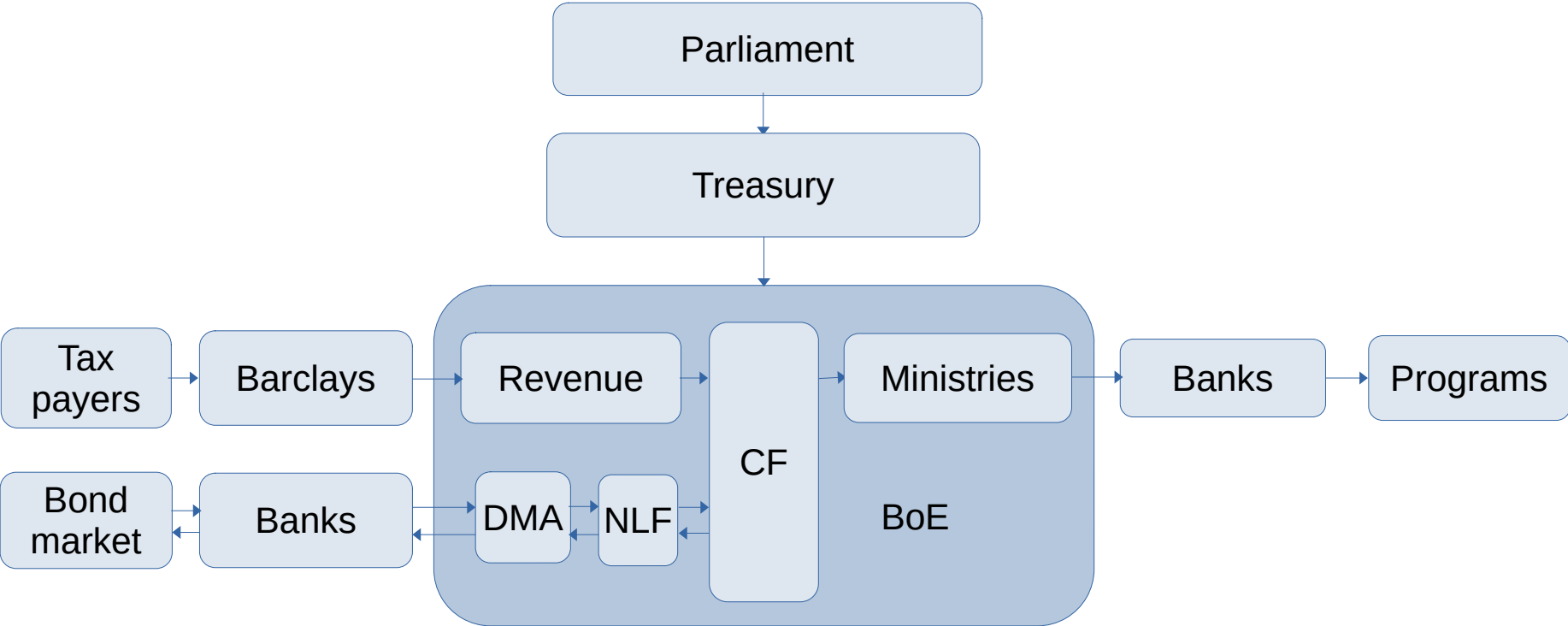
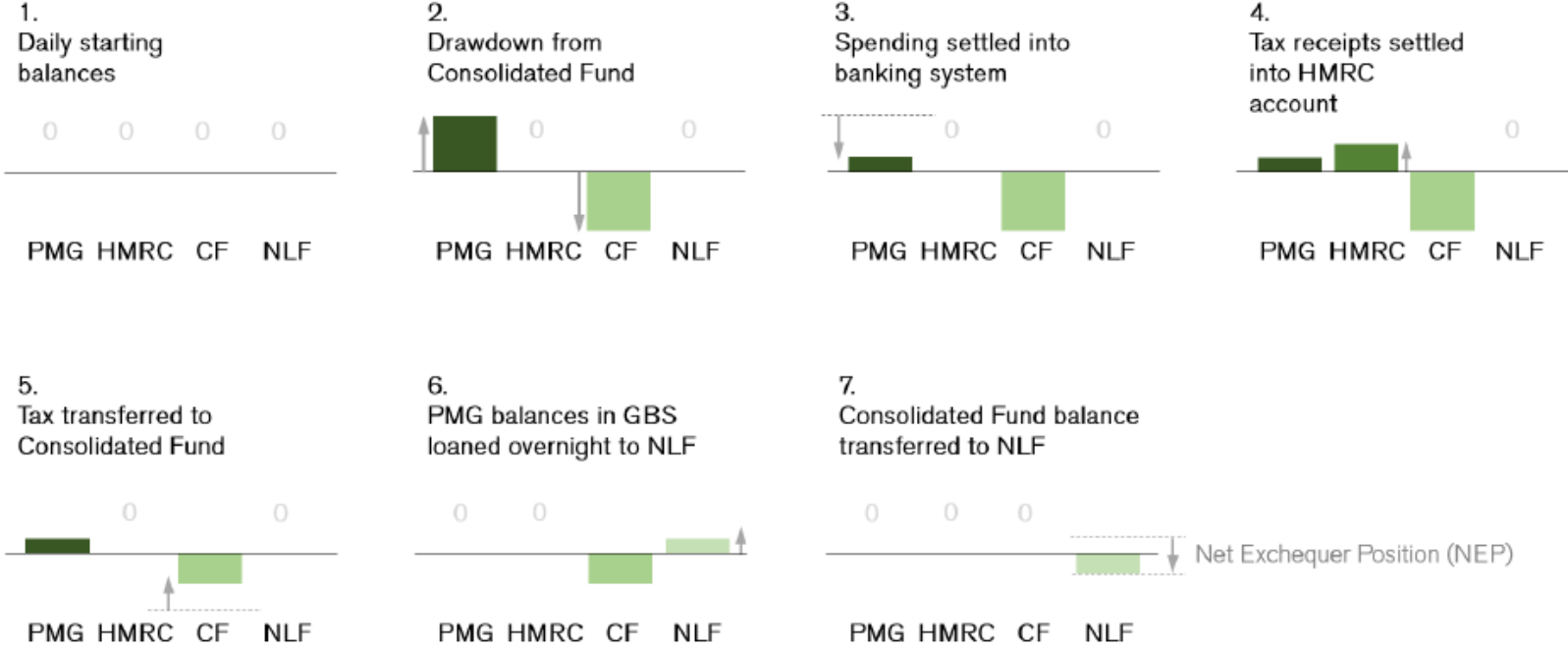




Figure 5: The Exchequer sweep



Note: All balances reflect each entity's position vis-à-vis the Bank of England. PMG: Paymaster General. HMRC: Her Majesty's Revenue & Customs. CF: Consolidated Fund. NLF: National Loans Fund. See also Figures 2 and 4 for each entity's position in the monetary system.

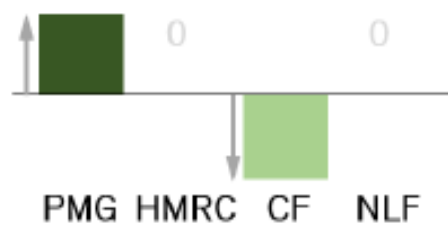
1.  
Daily starting  
balances

0      0      0      0

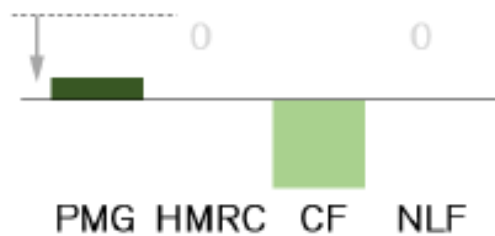
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PMG   HMRC   CF   NLF

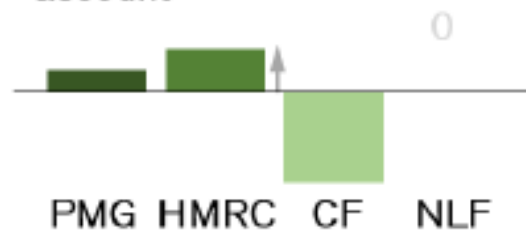
2.  
Drawdown from  
Consolidated Fund



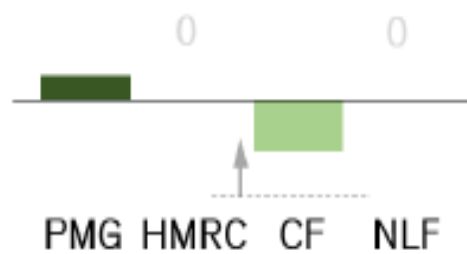
3.  
Spending settled into  
banking system



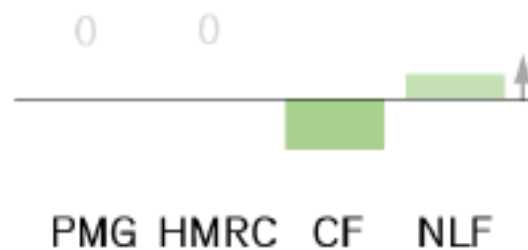
4.  
Tax receipts settled  
into HMRC  
account



5.  
Tax transferred to  
Consolidated Fund



6.  
PMG balances in GBS  
loaned overnight to NLF



7.

Consolidated Fund balance  
transferred to NLF

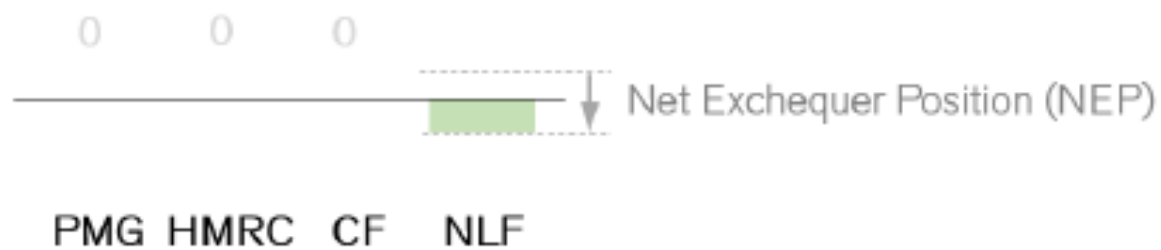
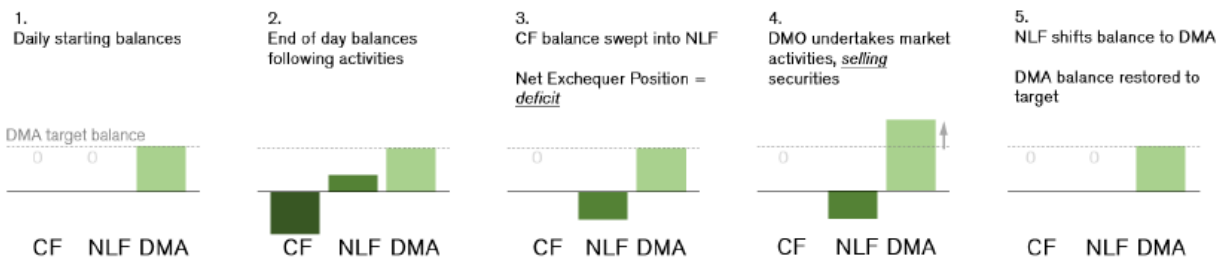


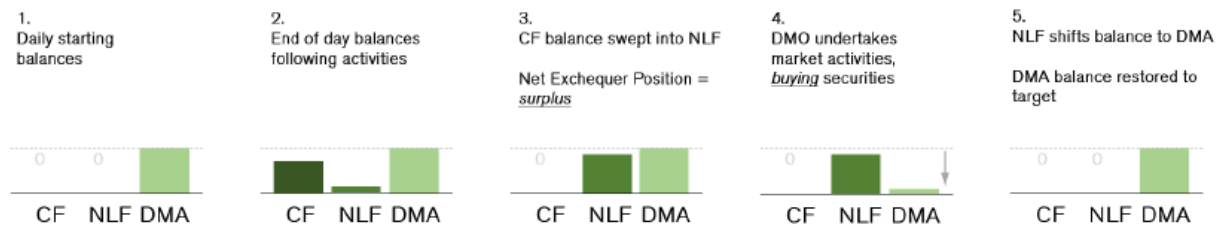


Figure 6: Cash management with daily fiscal deficit and surplus

A. Net Exchequer deficit position



B. Net Exchequer surplus position



Note: All balances reflect each entity's position vis-à-vis the Bank of England. CF: Consolidated Fund. NLF: National Loans Fund. DMA: Debt Management Account controlled by the Debt Management Office (DMO).

5.  
NLF shifts balance to DMA

DMA balance restored to  
target



# UK Economy 2021

- GDP \$3.2tr
- Debt \$2.4tr 75% of GDP
- Deficit \$190b 6% of GDP
- D / day \$750m 190b / 250 days
- DMA \$1b Prudent target

# Preliminary Conclusion

It is quite clear that the CF runs every day a temporary overdraft, only to be settled at the end of the day, and backed by sufficient funds in the DMA.

Therefore I accept as sufficiently proven the following sequence of:

- 1) the CF starting with a 'nil balance' (the night before it finished with a 'nil balance');
- 2) the CF spending into government accounts putting the CF balance into the red;
- 3) receiving tax receipts and similar income at the end of the day;
- 4) settling the balance with the NLF to reset the CF back to the 'nil balance'.
- 5) NLF then settles with the DMA, which has the funds *That's it.*

# Criticism

Assuming the CF staff operates within the civilized window between 9 am and 5 pm UK time, we have to conclude that the overdraft is sustained not longer than eight hours. And at the end of the working day the revenues and bonds do make up for the spending.

It is not, as MMT seems to argue, that one government office (CF) just creates the money out of nothing and passes it on to the different government entities, and there is the another office (HMRC) in another part of London receiving taxes and just booking them away, and there is no connection between the two.

# Criticism

- The paper doesn't seem to underpin some of MMT's biggest claims:
- 1) Taxes do not fund spending
- 2) The state is the ultimate monetary sovereign.

# Criticism

On claim 1) that taxes do not fund spending, I hope to have shown that taxes and bonds actually do fund spending in the UK, but with, at most, an eight hour delay, i.e. government accounts are credited with new money throughout the day and at the end the balance is set back at *nil* again with income from taxes, bonds and other revenue, backed by an amply funded account.

# Criticism

On claim 2) that the state is a 'self-financing state', I like to refer back to Dr. Ryan-Collins own book *Where Does Money Come From?*

This study makes it quite clear that the state is not the ultimate sovereign lording over its own currency.

“Government has no direct involvement in the money creation and allocation process”

“ . . . rather than the central bank controlling the amount of credit that commercial banks can issue, it is the commercial banks that determine the quantity of central bank reserves that the Bank of England must lend to them to be sure of keeping the system functioning.”



# Criticism

So, are we now to forget these highly relevant insights into the money creation process?

Are we now to pretend that it is the state which all along created the money supply and can fine-tune the economy guided by the idea of 'functional finance', i.e. strategic taxation and bond sales as if they do not fund nor impact the state's spending?

As far as I have tried to analyze the issue by engaging the meaning of primary texts referred to by the authors, this claim now sounds far-fetched, but in the abstract of the paper the bold claim was made that,

[T]he UK Government creates new money and purchasing power when it undertakes expenditure, rather than spending being financed by taxation from, or debt issuance to, the private sector.

# Criticism

And in Ryan-Collins' article we read:

The mechanics of the UK spending process demonstrate, beyond doubt, that government spending is not dependent on raising taxes or its ability to borrow on financial markets.

What are we missing, if anything?

# Conclusion

Technically speaking, the authors are right that government expenses are initially not paid by funds, but with money out of nothing. But the CF does receive taxes and borrowings to plug the hole at the end of the day.

The authors' conclusion that the UK Government is therefore self-funding is unwarranted and certainly does not prove the MMT slogan that 'taxes do not fund spending'.

A better descriptive term to cover their interesting finding is to call it a temporary overdraft backed by ample funds, and to name the MMT slogan a false promise.

# Other Countries

Canada:

Eder, Jeff. 2021. “Modern Money, Forget Theory: Part 2: How Government Financing Actually Works (TAB)S”.

Progressive Money Canada YouTube Channel. 18 May 2021.

Quote: “Money must be in the CRF before the federal government can spend”

The Consolidated Revenue Fund of Canada is the account into which taxes and revenue are deposited, and from which funds are withdrawn in order to defray the costs of public services.

# Larger Context I

Two counter-intuitive claims in economics.

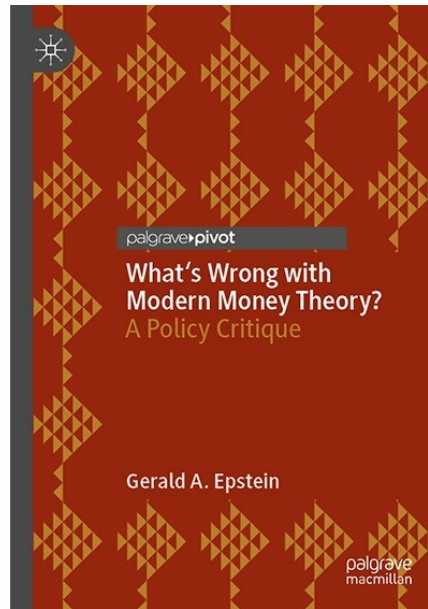
- 1) “Taxes Don’t Fund Spending”
- States with their own sovereign money system spend money created out of nothing (and can not go bankrupt) and when people pay their taxes, money gets destroyed.
- This is part and parcel of Modern Monetary Theory
- Evidence: Only from MMT-ers.

# Larger Context II

- 2) “Deposits Don’t Create Loans”
- When banks originate a loan, they create out of nothing the money by crediting the borrower’s account and destroy money when the principal is paid back.
- This is the credit creation theory of money and banking.
- Evidence from: Economists, Central Banks, Commercial Banks, Social Scientists, Rating Agencies, Philosophers.

# Larger Context III

Epstein, Gerald A. 2019. *What's Wrong with Modern Money Theory? A Policy Critique*. Cham, Switzerland: Palgrave.



Thank you