Presentation 30/8/25

Thinking Like An MMTer

Thanks to Phil for the invitation,
and thanks to all of you for being here.

Thinking like an MMTer

What I want to do today
is give you a sense of how we see the world,
how we think.

Specifically, how *I* think.
Reveal what goes off in my head.

Not everything, obviously.
That might be a bit much for a Saturday afternoon.

You see, the real differences between economic schools of thought
are not buried in the technical detail.

They start with the assumptions.

Change the assumptions—
and the whole perspective shifts.

That's what today is about:
a shift in perspective.

Currencies = Islands, Not Bolt-ons

This talk grew out of a paper Phil and I wrote together.

In it, we made a very simple point:
MMT starts with the state.

The state creates the currency.
The state sets the rules of the game.

That's very different from the usual economic view,
where the state is treated as an add-on

As if markets and money were there first
and government just fiddles around at the edges.

But flip that view,
start with the state,
and the whole picture changes.

The economy isn't a natural landscape.

It's a set of islands

Each one built and maintained by its currency issuer.
With those islands interacting with each other.

Heuristics Have Done Their Job

So if MMT changes the way we see things,
how do we explain it?

This is where Randy Wray's recent paper comes in.

He suggests that the heuristics we've used so far,
the rules of thumb, the little stories,
have done their job.

They've persuaded the people they were going to persuade.

But beyond that,
they start to lose their power.
They begin to sound repetitive.
Even a little bit churlish.

Which leaves us with a question.
If the old notes have played out,
what comes next?

New Ears Need New Notes

For the next stage,
we need new ways of telling the story.

Fresh metaphors.
New examples.
A different language.

Because new ears
need new notes.

Even if the new notes

are just the old notes
in a slightly different order

So let’s have a go…

Taxes Come Before Spending

Now I know what you’re thinking.

Let me explain

How Do I Know This

So how do I know this?

Here’s the Net Exchequer Position graph

More Inflows Than Outflows

See how the black line regularly pops above zero?
Those are the days when tax inflows exceeded spending outflows.

And the grey line?
It stays above zero for about a quarter of the year.
That shows inflows exceeding outflows over that time.

But the eagle-eyed among you will notice the dips.

More Outflows Than Inflows

Like here

Those are the days when spending exceeded tax flows.
And in the second half of the year,
the grey line dips below zero.

So although it is a fact
that taxation can come before spending,
it’s also a fact
that spending can come before taxation

What Can We Conclude?

So what can we conclude from this?

We can conclude
that taxation and spending are asynchronous.

They don’t happen in a set order.

We can get a burst of taxation.
We can get a burst of spending.
And the system will handle both quite happily

Not only are they asynchronous—
they’re concurrent.
Taxation and spending can happen at the same time.

Plus they’re parallel.
Separate institutions.
Separate processes.
Each with its own clock.

Parallel: Parliament, Government, Banking

Through Parliament.
Through government.
Through the banking system.

Tax collection and spending
run on their own tracks.
Completely Independently.

So what’s the real purpose of people jumping up and down
insisting that taxation *always* comes before spending.

The Frame Creates The Game

Well the frame creates the game

The Frame Creates the Game (picture)

They want you to believe zero has magical power.
That when the chest is empty, government is forced to stop spending.
That when its bank account hits zero, it must bend the knee.

None of that is true.

The journals will be written and accounted for.
The balances will fall where they may.
And only Parliament—not the numbers—can stop the process.

Questions to Ask

So when people say *“the government can’t just spend”*, there are a few questions worth asking.

First: who gets to say no?
It isn’t the Bank of England.
They have no legal authority to refuse.

Second: even if they try, how could they make it stick?
Hire a better barrister?
Wish on their ‘twin stars’ a bit harder?
Use a better horse in the glue?

They can’t.
If it ever came to it,
the courts would back HM Treasury
because they have the legal authority to instruct the Bank

And finally: sell to whom?
This is where the “sterling crisis” story usually pops up.

Think about it.
For someone to sell sterling,
there has to be a counterparty.

Somebody else buying sterling.

And they’re buying it for a reason.
What’s that reason.

If they’re shifting the sterling
from savings into spending,
that isn’t a disaster.
That’s stimulative.

So before we panic about “the market saying no,”

before we invoke that false god

we should ask:
who exactly is doing the saying,
and what game are they really playing?

That’s One. Any Others?

So that’s One Any Others?

How about this?

Government Borrows To Spend

Now I know what you're thinking.

Let me explain

How Do I Know This?

So how do I know this?

How Do I Know This? (2)

Because the government banking service settlement accounts
are swept to zero every night.

And the Consolidated Fund account
is zeroed at the same time.

Which means: the central funds
start the day with a zero balance.

Yet at 9:30am, BACS settlement happens anyway

And before that, between 1am and 7am,
the state pension has already been credited.

Now look at that sequence…
Imagine a bag of coins moving between those steps.
It doesn't work does it

So what does work?

The Balance Sheet

Here's the aggregated balance sheet after BACS settles.

The pensioner is in credit with their bank.

But that's not all.

The Balance Sheet (2)

In this example, HSBC is also in credit with the Bank of England.
And the Bank of England is in credit with the Consolidated Fund.

Both of these are technically loans.

The banks are lending in the direction of the arrows.

Which means
the entities at the arrow point
are borrowing.

BBC article

So when the BBC puts up this infernal article…

You would not believe how many times I've complained about this thing.

So when the BBC puts up this infernal article…
And they talk about "government borrowing."
Strictly speaking, they're right.
Because they are falling back
on the dictionary definition of "borrow."

Dictionary Definition

The bank gives money to somebody.
They agree to pay it back at some future point.

So by that logic—according to the BBC—
if you walk into a bank with a gun and demand £500K,
then as long as you agree to pay it back at some time in the future,
you're borrowing from the bank… not robbing it.

Of course, the BBC knows what it's doing.
It's being disingenuous.
Because it wants you to think of borrowing in the *ordinary* sense.
That's the frame game here

So instead of arguing about the word "borrowing,"
let's ask a better question:
on what terms is that borrowing?

On What Terms

Here's the kind of borrowing most of us know and love.
Let's say you go cap in hand for a mortgage.

The lender decides how much money.
The lender sets the interest rate.
The lender fixes the repayment schedule.
And in a dispute, the courts back the lender.

That’s Lender-Constrained Borrowing.

On What Terms (2)

But there is another sort of borrowing.

Here, the borrower decides how much money.
The borrower sets the interest rate.
The borrower decides the repayment schedule.
And in a dispute, the courts back the borrower.

That’s Borrower-Imposed Borrowing.

In MMT Terms

In MMT
we reserve the term “borrowing”for the first case: Lender-Constrained.
And we use the term “issuance” for the second: Borrower-Imposed.

That mismatch in terminology
is where the confusion lies.

If we focus on the borrowing terms,
not the borrowing label,
the picture clears up pretty quickly.

Questions To Ask
So when you hear talk about government borrowing, ask:

Who is setting the terms—borrower or lender?
Is the term setter artificial?
Is the government just binding its own hands?

What’s the aggregate alternative?
Does the lender really have a choice?

In aggregate, lenders are stuck with sterling
They have to lend it to someone

And what about maturities?
When people hyperventilate
about yields rising at a particular period,
The ten year
The thirty year
ask if they have checked the shorter maturities?

Because the fix is simple: issue the shorter bills.

Look at the 1-month Treasury Bill.
Its yield is basically the Bank Rate—
sometimes even lower, thanks to compounding.
It hasn't moved an inch.
But you never hear about it.

So if you're going to issue bonds,
just issue the ones the market is asking for—
and avoid the ones it doesn't want.

That's Two. Any More?

That's Two.
Any more?

How about this one?

Exports Bring Benefits

Now I know what you're thinking.

Let me explain

No Imports Without Exports

There can be no imports
without a matching export of some kind.
Otherwise, they wouldn't be called imports.
They'd be called "foreign aid".

Exports are the necessary cost of obtaining imports.
Imports are the domestic benefit.
Exports are the domestic cost.

...Necessary Cost of Obtaining...

Necessary cost of obtaining
Let's look more closely at those words

"Necessary cost"
What are the exports?
What is the domestic cost?
Identifying that isn't as easy as it first seems.

“It’s still a cost.”
So we will want to minimise that cost where we can.

“To obtain imports, and keep obtaining them…”
We need a diverse export base.
We don’t want demand for any particular export to vanish
and take the whole system down with it.

The same goes for imports.
We need diverse suppliers.

We don’t want shortages in one area
knocking out everything else.

But circling back to the main point—
exports and imports must match.
If you think they don’t,
then you’re missing an export somewhere.

Currency’s Dual Nature

Which brings us to the dual nature of currency.

Just as light can be both a wave and particle,
currency can be seen as both credit and commodity.

Currency as a Commodity

As Warren and Mat put it,
in one of the more under-quoted MMT papers

“While currency does not obtain its value by virtue of its status as a commodity, once endowed with value a tax-driven currency can be analysed like any other commodity.”

Financial Savings Are An Export Product

Which means
that we can treat financial savings
as an export product.

They’re the missing export.

And once you see them that way—
a lot of the usual “trade deficit” talk falls apart.

There is No Trade Deficit

In a floating exchange rate system,
there isn't a trade deficit as such.

Like "money supply"
it's an accounting artefact.

It comes from drawing borders around countries,
not currency users.
And also from classifying some things as "money"
that don't really belong there.

Let me give you some examples.

There is no Trade Deficit (gold)

Here's everybody's favourite valuable commodity.

If we settled exports in gold bars,
there would be no trade deficit.

Goods would come in
Gold bars would go out
Everything would balance.

Unless, of course, we arbitrarily decided
to call some gold "monetary"
and some "non-monetary."

Which is what actually happens.

It's complete nonsense.
It's the same element,
the same purity.

Now you may think:
well gold can be used anywhere,
not just in the UK

So let's take a look at another commodity

There is no Trade Deficit (marmite)

Marmite.

If we settled exports in Marmite,
there would be no trade deficit.

Now I realise I'm scraping the barrel here—
quite literally in this case.

But apparently
there are some sick, sad individuals in the UK
who actually like this stuff.

And that creates demand.
Demand in the UK,
which means demand overseas,
because somebody somewhere will want to hoard it.
Just like gold bars.

Importantly, nobody in the UK has to take Marmite.

There's no claim on UK output
just because you hold it.

You still need someone
willing to do the work in exchange for it.

There is no Trade Deficit (fifty pound note)

So if there's no trade deficit with gold,
and no trade deficit with Marmite
why would there be one if we used these?

There is no Trade Deficit (gilt mockup)

Or even this.
Here's a mock-up of a UK government bond.

You'll notice it has a gilt edge,
and a row of coupons on the bottom.

It's basically the same as a fifty pound note
but it costs more.

So when it's held as the financial saving
in exchange for imports
the government is adding a subsidy.

Which is great if you're importing Ferraris.
For everyone else, maybe less so.

Another reason, perhaps,
why we might want to stop issuing them.

Financial Savings are an Export Product

So financial savings are the missing export product.

They act like Marmite—
but probably taste better.

And that's the point:
other countries hold them
because they know people in the UK will want them.

But there's no obligation for us to take them back.
Just that we probably will,
at a reasonable exchange value

Like any other commodity.

They take the fewest resources to produce.
Somebody presses a button,
and suddenly we can swap them
for part of the world's surplus production.

Because where else are the over-invested going to sell their stuff?
That's why they accept our financial savings.
They've run out of better options.

Which means
there's no need to pay people to take them.
They'll take them anyway, just to offload their stock.

But we shouldn't rely on financial savings exclusively.
Or even mainly.

No more than anyone would rely on coffee beans
as their sole export.

Diversity of exports

There has to be a mix.

A variety of exports,
to a variety of destinations,
to maintain resilience.

And we need to understand
that different exports come with different resource costs.

So before we talk about which exports are “best,”
we need to correctly identify what the actual export is—
and what it costs the currency area.

Only then can we judge
which exports are worth undertaking.

A Firm Example

Let’s consider an export-led firm.

This one imports its supplies from abroad,
pays its staff to assemble those parts into a product,
and then exports the finished product.

The classic example would be a car plant.
A UK factory producing left-hand drive cars for export.
Cars that aren’t much use here.

Now at first glance, the export looks like the cars.
But if you look closely, that’s not really true.

The inputs are all imported.
The outputs are all exported
What actually hits the sterling area
are the payments to keep the assembly line running—
wages, rent, utilities.

So the real export isn’t cars.
It’s labour hours.
Maybe a bit of power.
Maybe some land use.

Phantom Sterling

And yet—
in the national accounts,
the whole net export,
the outputs minus the inputs,
is entered into GDP in sterling.

But there's no actual sterling flow behind that
It's just a statistical conversion.
A fixed-exchange-rate hangover in a floating system.

The flow isn't real.
It's a phantom.

We can see the problem more clearly
if we run a thought experiment.

Productivity Thought Experiment

Suppose this firm doubles its productivity.
Inputs double.
Outputs double.
But wages and rent in sterling stay the same.

What happens?
The benefits go to the foreign currency area.

There's no extra flow into sterling.
No new products available in sterling.
No more foreign currency exchanged for sterling.

GDP grows—on paper.
But the sterling zone sees nothing.

When we're told GDP growth equals higher welfare,
we should be sceptical.
Thinking in an MMT manner shows us another reason
to doubt that claim.

GDP is just another frame.
And again—the frame creates the game.

FDI = Trickle Down Thinking?

This viewpoint also calls Foreign Direct Investment into question.

You've heard the usual pitch
They say: "Bring investment" — with what money?
They say: "Bring jobs" — with what money?
They say: "Boost demand" — with what money?

A foreign firm doesn't have the right sort of money
It has to borrow sterling here to do any of that.

It's just doing what government is told it mustn't do
While pocketing a margin,
off the back of a systemic shortage of jobs.

Some argue FDI increases the tax take.
And yes—extra monetary circulation will raise taxation.
But that's deflationary in the first instance.

We don't need it to justify spending.
If the resources are there,
government can just spend directly.

And if the output is exported,
where's the local benefit?

Jack Welch, one time CEO of General Electric
was at least honest when he said:
"Ideally you'd have every plant you own on a barge,
ready to move with currencies and changes in the economy."

That's the logic of FDI.

So apply that thinking in analysis.
Imagine every export-led business on a barge.
Ask: what goes on the barge,
what comes off,

How tightly is it tethered to the shore?
Do we keep having to pay subsidies
just to stop it drifting away?

Thinking about exports this way
lets us measure their true cost.
And decide which are worth keeping—
and which should be abandoned.

Rank exports by resource cost

So what kinds of exports make sense?
Here's one way of ranking them:

Tourism—heaviest cost, heavy footprint
In tourist towns housing is reserved for visitors,
Shops become seasonal,
As does the work.

In season it’s unbearable for the locals,
Out of season, desolate.

Universities—heavy cost, similar footprint
Universities bring in out of area students,
and out of area academics,
Locals get crowded out of housing
So much like tourism in that regard

How many shiny student flats
have local homeless sleeping in their doorways?

Automated factories—lighter cost, smaller footprint
Now we’re talking
Low labour inputs, profits retained

Think of a wind farm tied to a syngas generator,
Built locally
Owned locally
where economies of scale
flow back into the currency area

That’s how productivity gains
could actually improve the terms of trade

Outward investment—lighter still, income flows home.
This is what Britain used to be good at
setting up firms abroad
and extracting value.
dividends, royalties, factor income

If the Universities want foreign students
then set up a campus abroad

That way the income still comes home,
but without the local social cost

And finally financial savings
The cheapest thing to produce
And oddly, one of the most valuable

Because it lets other nations
pretend they are issuing money
against “hard currency”
rather than their own power to tax

Takeaways

So what do we take from all this?

GDP entries are not sterling flows.

Always identify the actual exports
leaving the currency area.

Keep your export base diverse.
Keep your export customers diverse.

Aim for exports with minimal local cost.
Aim for imports with maximum local benefit.

Exports aren't about national pride.
They're about paying the entry fee for imports.

Exports are the ticket.
Imports are the prize.

The only real question is:
what do we want to pay with?
And what do we want to bring home?

Any More

Are there any more?

Plenty But Not Today (1)

Plenty

Plenty But Not Today (2)

But not today, as we're out of time

Thank You

Thank you very much