What if the UK admitted it uses MMT and turned that int...

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What if the UK government admitted it already uses modern monetary theory? Would markets panic — or would we finally have the power to rebuild Britain?

In this video, I explain:

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Why MMT isn't a policy, but a fact.

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How the "market panic" MMT would supposedly create is a myth.

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How the UK could use MMT to invest, create jobs, and tackle inequality.

The truth is simple: the UK already creates money this way. The question is — how do we make that work for us all?

https://www.youtube.com/watch?v=ufst9cxbyZA?si=Dkm5p2jEkoOW1KEh

This is the audio version:

https://www.podbean.com/player-v2/?i=cmi4w-19892be-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

People keep asking me the question, "What if the UK openly adopted modern monetary theory? Would markets panic and run? Suppose they did. What would happen then?" people say to me, and what I want to show is that if they did, and I don't think they would, that panic could be turned into a plan to build a stronger Britain.

In other words, what we're dealing with is a load of hype, misinformation, and nonsense, none of which is related to any form of reality that I can recognise. But the reality that I can see as a possibility of openly acknowledging that modern monetary theory is not only true, but can change the way in which we manage the economy, and that's all positive.

So let's discuss this in more detail.

First of all, modern monetary theory is not a policy. It is simply a description of how money works. More than that, it is actually a description of how money works now. We never need to adopt modern monetary theory for the UK to use modern monetary theory because modern monetary theory explains what the UK government already does.

The UK government has its own central bank.

It has its own tax system.

The rule of law applies in this country.

And every single day when the government issues an instruction to the Bank of England to make payment for something that has been approved by a Budget passed by Parliament, the Bank of England has no choice but make the payment, and it never looks in the government's bank account to see if there's enough money there or not, because it doesn't need to, because legally it can simply mark up the government's overdraft, which it runs on its behalf, and make the payment to whomsoever the government has instructed. That is the economic fact and reality of what goes on between the Treasury and the Bank of England every day, and that is what modern monetary theory describes.

MMT, for short, simply says that the Bank of England can, like any other bank, the fact of which has been acknowledged by central banks around the world, create money out of thin air by simply picking up a computer keyboard and entering two numbers, one of which is a positive, and the other of which is the exact opposite, except it's a negative. One of which records a payment, and one of which records the fact that the bank is owed back the money that it has just paid out on behalf of its customer; the customer, in this case, being the government.

And then the government taxes.

This is the key point. We would have to admit, if we actually acknowledge that modern monetary theory applies in the UK, that tax never funds government spending. And nor, incidentally, do government bonds issued into the market ever fund government spending. Acknowledging that we use modern monetary theory, which we do, I keep on making that point, but it's absolutely fundamental that you understand it, requires that we recognise that tax has the role of cancelling the inflationary tendency that would otherwise arise because the government has spent more money than the economy can absorb. And that money does therefore have to be taken out of circulation, which is what tax does in the first instance, and which bonds also do by simply providing a safe place of deposit for the amount of money that the government creates in excess of the amount of money that it taxes back.

That's all that MMT says happens, and that's exactly what happens in the UK. So let's be clear about it. Accepting that MMT takes place is no more than acknowledging the truth.

So why do so many people get confused by this? And what do they really mean when they say, "Suppose the government admits that it's doing modern monetary theory", and why are there left-wing economists, people like James Medway and Anne Pettifor, or Grace Blakely, who go into breakdowns of fear when they say "MMT is not how the world works", when bluntly it is, and they're all wrong when they deny it.

Ah, that's because they don't want to admit that if MMT were in existence, the policies that they should be promoting, like full employment, like investment to achieve social goals, like tackling climate change, all of them would be possible. And all of them would be possible in a way that, if we have a tax system that matches the spending by creating a charge on wealth, could reduce inequality, which they claim they want, but which they aren't willing to support by acknowledging the proper role of tax within our society.

So what we have to talk about is what markets would do if we actually went for this true, and I would describe it as social democratic approach towards policymaking, that I believe MMT enables, which is providing the funding for our schools, our hospitals, our transport systems, our climate change, and our local services, which are critical to the well-being of millions in this country.

Let's just suppose we actually acknowledge that government has a positive role to play in the economy, which is what acknowledging the possibility of MMT really means.

If the markets didn't like this, let's talk about what they could do in reaction. They could try to sell government bonds. Let's be honest, that is why there is a market in these bonds, but to sell the bonds, they've got to find a buyer first of all. They don't just disappear these bonds when you sell them. Somebody takes them off the hands of the person who doesn't want them by paying a price for them. They still exist. Government debt isn't changed because somebody has sold these bonds. It's still there.

So, if people, whether they be UK residents or foreigners, wish to sell their bonds, all they end up with is a sterling cash balance instead of owning bonds.

Two things then. First of all, the bond still exists, but the price might have gone down if everybody's trying to sell, which means that in effect, the real interest rate will have gone up for the short term and they've now got a sterling cash balance, which they've got to put somewhere, which will inevitably end up in a central bank reserve account at the Bank of England.

All they've swapped is, eventually, a balance, which is backed up by a deposit in the Bank of England, with a balance backed up by a government promise to pay on a UK government bond. That is the whole sum of the crisis we're talking about. People will be moving out of bonds and into cash, but cash that will ultimately be backed by the UK government.

There isn't a crisis, then let's be clear, because that sterling hasn't disappeared either. It's ended up in a bank. So what we've got is a simple repricing of bonds in the short term and maybe some pressure to increase interest rates at the same time, but that is it.

So, can the government do anything about the fact that the price of bonds goes down and interest rates might go up, which is always something that happens simultaneously because the price of bonds and the interest rate on them is effectively the inverse of each other.

Yes, of course, the government can do something about these things. It can manage the interest rate, and we know it can because we saw it do so. For example, from 2009 to 2022, during that near enough 13-year period, it forced interest rates down to near enough nothing. That didn't happen by chance. It happened because the government chose to do that.

In other words, the government has the power to alter interest rates, and those who pretend otherwise are talking complete nonsense because it's our lived experience that this is how governments operate.

And in fact, the reason why we have relatively high interest rates at present is precisely because the government has decided that's what we want and has allowed the Bank of England to not only raise the base rate to currently 4%, but it has also allowed it to undertake quantitative tightening to force that rate up in practice to something even higher - we can expect that that's worth about another three-quarters of a per cent on the UK interest rate - or 4.75% in all, which is not far below what the current rate on bonds is in this country.

So the government controls interest rates. Let's accept that as a fact and now talk about what it can do to change interest rates if there was a market crisis, which was trying to force them up.

It could, first of all, tell the Bank of England to cut its base rate. That's completely within its power.

Secondly, it could simply stop issuing new bonds. It doesn't have to issue new bonds to balance its books. It could force that money into bank accounts instead, and as a consequence, it would actually flood the banks with money, and they would lower the interest rate as a consequence. The market crisis would solve itself pretty quickly, I suggest as a consequence.

They could also tell the Bank of England to stop doing quantitative tightening, the programme by which the Bank of England is selling bonds wholly unnecessarily, which it acquired during the 2009 and 2020 crises, and which is not necessary for anything but ideological reasons.

The Bank of England could also stop paying interest on its central bank reserve accounts to the banks in the UK who deposit money with it, which would fundamentally change the interest rate that they would offer to commercial customers, bringing down that rate, and therefore influencing the overall rate within the market and restabilising it.

And the government, to indicate that it was definitely committed to these policies, could simply carry on borrowing for the time being, but only from its central bank and not from the markets themselves, while the markets worked out how they could reorganise themselves.

In other words, this whole situation could be managed.

But there are plenty of opportunities that also arise out of it, and that's something that I really want to stress.

For example, if the price of government bonds falls heavily, which is what people claim would be the case, if the government went for a programme of MMT, the government could actually say, "Well, that's great. The price of bonds has fallen. We can buy them back cheaply and cancel the interest charge on them at a discount. We could actually make money by buying our own debt back." And this is exactly what businesses do when the price of their debt falls. They buy their debts back in, because effectively they get a negative interest rate as a result and boost their profitability by cancelling their debt. The government could do exactly the same thing, and it would be rational for it to do so.

That would also, perversely, stop the interest rate from falling too far. So we have yet again come up with a policy that counters the effect that it is claimed the markets will create by acknowledging MMT. It's entirely possible to turn this into a benefit and not into a problem.

At the same time, the government could also explain what its policy is. How difficult is that, you might ask? Well, actually, very difficult when at the present point in time, we have governments that seem to have no ability at all to explain just what they're doing.

But the government could announce major public investment programmes. It could say, "We are not only going to force the interest rate down. But we're going to, at the same time, actually use the lower price money that we're going to force into markets to fund housing, care, energy infrastructure and skills to create jobs, to raise wages, and to boost tax revenues from the increased economic activity that will take place. And we will break the myth that investment can only be done by markets because it can be done by the government, and that will deliver growth.

And if the markets don't like it, it should take the opportunity to do something even more innovative, which is to say, "Frankly, you can get stuffed", to the financial markets, and instead, it should make a direct offering to the public and to companies using National Savings and Investments and saying, "- into a Southwest England fund or into a Northeast England - you get my idea by now - fund."

The point is this: the government could go direct. Over £100 billion has already been saved in ISAs this year - most of it in cash ISAs this year - individual savings accounts - and those could be used by the government to fund that direct investment programme I've just described, if they've put the right incentives in place to ensure that the money flows to them and not into the financial markets, where this money is basically lost without a trace and has no true economic function. It could become the capital for that investment instead.

So, the government could say, "We are going to ignore the markets. We're actually going to do something radical. We're going to reform the markets to make them fit for the 21st century, when they are as yet not even fit for the 20th century." That would really rattle the City of London, but it will give us financial markets that truly work for the benefit of people.

And finally, the government should, if it had to reframe any change in the exchange rate, which would be a fall according to the City of London and all those economists who think that MMT is going to be a disaster, as something that is a massive opportunity because, in fact, the exchange rate in the UK is presently far too high.

We have a pound that is seriously overvalued because of the finance curse of the City of London. Because hot money comes into London, keeping the value of the pound too high because the interest rate is too high, we have an exchange rate which is distorted and prices our exports out of the markets where they should be sold.

If the pound fell in value, our exports would become saleable. We would therefore create jobs in manufacturing, agriculture and services. We would expand prosperity beyond the financial sector, which is just about the only location where there's any growth at present, because that's what Rachel Reeves says she wants.

We could, by embracing a lower exchange rate and saying it's a strength and not a weakness, frame this as the policy we want.

And at the same time, we could, of course, release a giant multiplier effect. All this investment I'm talking about would boost our real growth. And when you boost real growth, money flows into an economy because there are people who want to spend. So it's very simple and it's very straightforward.

We could do all of this. We could, as a consequence, reassure the markets. We could tell them that there is no unforced market error going on here. We are following a deliberate policy to actually meet need, which will fuel real economic growth, which will keep investors happy and will create bonds that are sustainable, and people will be buying them just to prove the point, and I guarantee they will be, because if you've marketed these correctly to people saying you can invest in your children's future, people would do it.

So, we could build a more competitive economy.

We could change exchange rate shifts into opportunities and not into problems.

We could create stability by redirecting money into productive use.

The consequence would be a stronger domestic economy. We could create more prosperity for the regions of the UK.

Perhaps most particularly, we could beat so many of the problems which are currently fueling right-wing extremism in this country because our politicians have abandoned people, and this policy will give them hope. We would build strength.

The power of MMT is to create possibility. At the present point in time, we have people who want to deny that.

The power of MMT is that it shows austerity is a deliberate political weapon, not an economic necessity. The fact is, we have people who are denying that, even on the left wing of politics.

We could manage this process. We could deliver well-being and a stronger UK economy simply by saying, "We, the government, are in control and we're actually already using modern monetary theory to manage the economy. What we're just going to do is use that ability to manage the economy for the benefit of everybody and not just the City of London, which is how it is used at present."

There is no real risk from adopting MMT. The real risk is from refusing to use it.

So, what do you think? Should we explicitly recognise the importance of modern monetary theory? Should we permit the investment that it would enable? Should we use it and the resulting tax changes to tackle inequality?

Let us know. There's a poll below.

Poll

[poll id="226"]

Comments