Did Dr. Joshua Ryan-Collins go MMT?

Govert Schuller[1]

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'. 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 governement 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); 4) if the NLF itself ends in the red there is the amply provisioned Debt Mamagment Account (DMA) to make the NLF whole. Technically speaking, the authors are right that government expenses are initially not paid with pre-existing 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, and is backed by the DMA. The authors' conclusion that the UK Government is therefore self-funding is unwarrented and certainly does not proof the MMT slogan that 'taxes do not fund spending'. A better descriptive term to cover their interesting finding is to call initial governement spending a temporary overdraft, and to name the MMT slogan a still unsupported claim.

Keywords*: monetary systems, monetary policy, monetary reform, modern monetary theory, post-Keynesian theory, endogenous money.*

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§1. Introduction

A recent article and research paper by Dr. Joshua Ryan-Collins has caught the attention of the monetary reform movement, because it looks like that this is the first time a prominent monetary reformer from our sovereign monetary reform (SMR) camp has embraced the Modern Monetary Theory (MMT) idea that 'taxes do not fund spending' (or a variation thereof). This is not only remarkable, but also troubling and calls for a closer look.[2]

The core issue is that SMR embraces a very strong justified and highly probable true belief that banks create 93-97% of our currency in circulation when they extend loans—named the credit creation theory--which unearned privilege creates numerous problems like destructive boom and bust cycles in the economy, increasing inequality between the 1% and the rest of us, the requirement of relentless economic growth with its negative effect on communities and the environment, and cash-strapped government entities unable to provide decent physical, health-care and educational infrastructure for all to have a fulfilling life. The solution is a) to bring back the money creation privilege back to the state, where it constitutionally belongs (at least in the USA); b) have banks become intermediaries between savers and borrowers as most people erroneously think they function now; and c) have congress spend democratically new, debt-free money into circulation on quality of life projects.

On the other side there is a post-Keynesian economic school of thought, named Modern Monetary Theory (MMT), which claims that states, when they have their own currency, fund their expenditures with new money *ex nihilo*, for the financing of which they do not need taxes nor bonds, which are deemed only functional to manage inflation and provide safe investments. Though MMT does here and there acknowledge that banks have the power of money creation, they seem to ignore its devastating effects and think we can spend our way to a better world without the state regaining that power.

People in the SMR movement think that MMT is egregiously in error in its 'taxes do not fund spending' claim, and people in MMT do not think that MRS properly understand

2. For criticisms and counter-criticisms of MMT see the in the extensive Bibliography Monetary Theory and Reform. Last accessed 7 Oct 2022. http://www.alpheus.org/bibliography-monetary-theory-and-reform/. My own contributions are Schuller 2020a & b & c.

their theory. Some think it is a minor quibble between two schools which have much in common—and therefore should build bridges—while the parties in question are seemingly in a polemical stand-of. With that in mind, let's return to Ryan-Collins and his writings.

Ryan-Collins was the co-author with Richard Werner and others of the important 2012 book *Where Does Money Come From?* (Ryan-Collins et al, 2012), which is referred to in his article. This book lays out the credit creation theory of money and banking in great detail and was cited more than 300 times in other important studies making it maybe the most influential book on the credit creation theory of money and banking.[3]

Ryan-Collins got his degree in economics (Ryan-Collins, 2016) in 2016 at the University of Southhampton School of Business, under the supervision of Richard Werner, whose 'Quantity Theory of Credit' was Ryan-Collins' starting point in 2010. And he, usually as co-author, has been involved in other important publications relevant to monetary theory and reform.[4]

Therefore, if someone of Ryan-Collins' caliber seemingly goes MMT, we have to pay close attention.

§2. The Claim

The claim by Ryan-Collins is not just made in his *The New Statement* article (Ryan-Collins, 2022), but is based on research he co-authored in the working paper *The Self-financing State* (Berkeley et al, 2022) for the Institute for Innovation and Public Purpose at the University College London. A video addressing the same territory has been circulating since March 2021 (Berkeley, 2021).

Here it is where we must look to get our minds wrapped around his chartalist MMT thesis that the state is a self-financing entity, with taxes and bonds fulfilling other purposes than funding the state's spending. Or in their own words from the abstract:

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3. Google Scholar. Citations of Ryan-Collins et al (2012). Last accessed at 29 May 2022. https://scholar.google.com/scholar?cites=6035448264504869812&as_sdt=2005&sciodt=0,5&hl=en

4. Find "Ryan-Collins" in the extensive Bibliography Monetary Theory and Reform. Last accessed 7 Oct 2022. http://www.alpheus.org/bibliography-monetary-theory-and-reform/

> [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 (Berkeley et al, 2022: Abstract).

But then, in my reading, the second batch of statements do not necessarily underpin that first statement:

> The spending process is initiated by the government drawing on a sovereign line of credit from the core legal and accounting structure known as the Consolidated Fund (CF). Under directions from the UK finance ministry, the Bank of England debits the CF's account at the Bank and credits other accounts at the Bank held by government entities; a practice mandated in law. This creates new public deposits which are used to settle spending by government departments into the economy via the commercial banking sector. Parliament, rather than the Treasury or central bank, is the sole authority under which expenditures from the Consolidated Fund arise. Revenue collection, including taxation, involves the reverse process, crediting the CF's account at the Bank (Berkeley et al, 2022: Abstract).

In my reading, and please correct me if I am wrong, there is no clarity about the point whether the Consolidated Fund (CF) initially a) has the money or b) doesn't have the money, when the Bank of England (BoE) moves funds from the CF to other government entities. What is clear is that revenues do go into the CF, described in the paper as "the reverse process", which minimally means that taxes, when collected, do not get destroyed as per MMT. Let's keep those two points in mind as we go deeper into the study.

But, for now, my working hypothesis is that, from the abstract alone, I deduce that, at best (or worse), the CF might allow something akin to a temporary overdraft. This can be construed as money creation in the way this practice was interpreted when it was pioneered by the Amsterdam Exchange Bank in the early 17th century by extending the privilege of overdraft to the City of Amsterdam and apparently also, but secretly, to the corporate behemoth the United East-Indian Company (or Verenigde Oostindische Companie [VOC] in Dutch; Zarlenga, 2002: 231f).

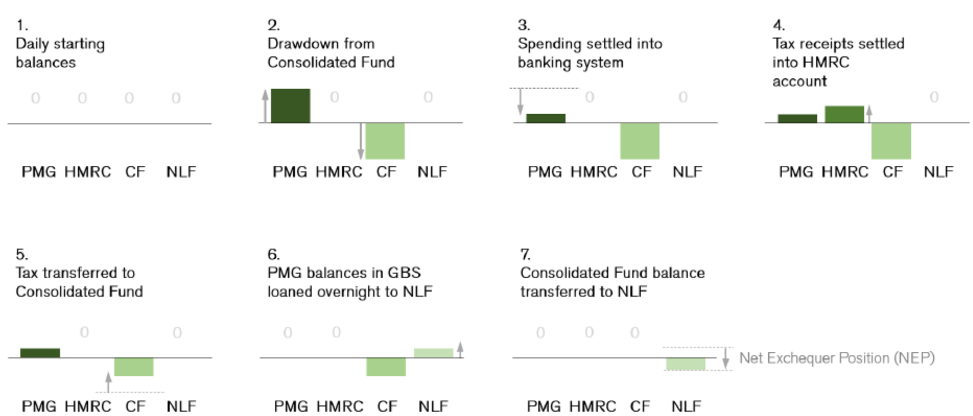
§3. The Paper

The crux of the paper lies in the relationship between the following entities, all part of the UK government: 1) The Consolidated Fund (CF); 2) government entities receiving funding (let's call it GOV); 3) the revenue office, her Majesty's Revenue Commissioner (HMRC); and 4) the National Loans Fund (NLF), which receives or provides the CFs daily surplus or deficit respectively. According to the paper, spending from the CF to GOV starts *before* receiving funds from HMRC, because tax receipts only come in at the end of the business day.

> Revenue collected through each day at Barclays is only guaranteed to be transferred to HMRC accounts at the BoE **by close of business** (HMRC 2021), after which it can be transferred to the CF. In step 5, **at the end of the day** the tax receipts are transferred to the CF as required by law and this has the effect of reducing the CF's debt to the BoE that has accumulated from the day's spending activities. (Page 14; bolding added)

Accompanying this explanation is this, for some, helpful figure.

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.

Fig. 1. "The Exchequer Sweep". From Ryan-Collins et al, 2022: 15.

To finish the relevant operations the Debt Management Account (DMA) will have to be added. Here I will merely reproduce their figure to indicate that the DMA starts and finishes the day with an ample supply of funds to help set both the NLF and, through it, the CF back to zero at the end of the day. My additional interpretation is that, because the size of the DMA is large enough to cover any deficits by the NLF, it could be argued that the *aggregate* position of the UK government at the BoE is always in the black, though getting the actual amounts involved would be helpful.

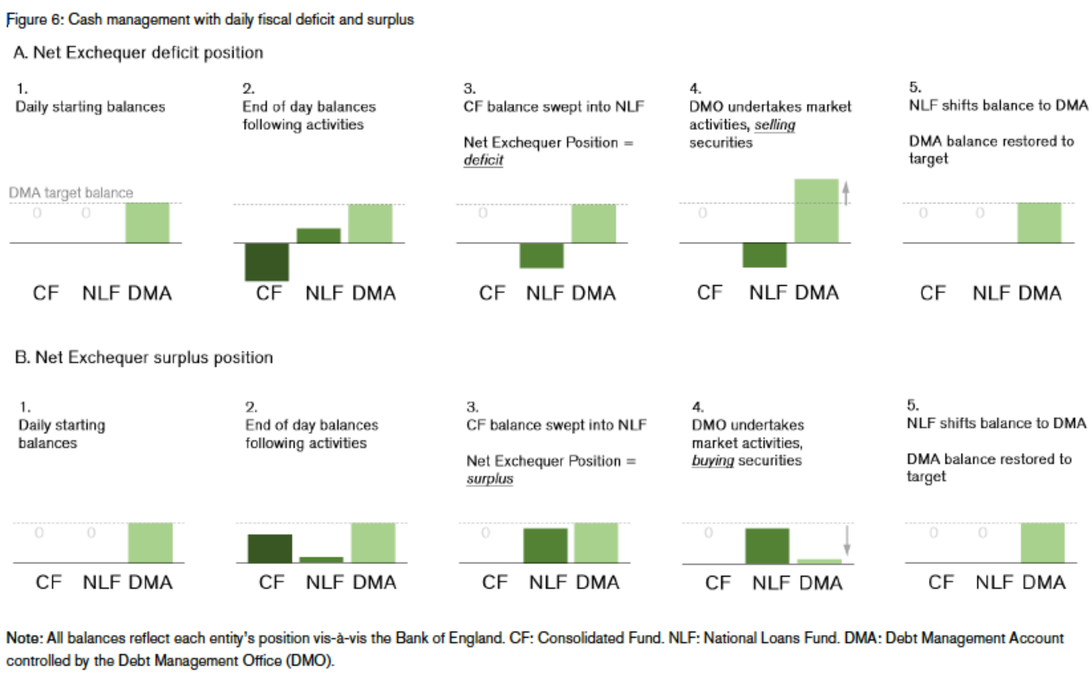


Fig. 2. “Cash management with daily fiscal deficit and surplus”.
From Ryan-Collins et al, 2022: 18.

The same narrative is caught in the following figure developed for an on-line presentation of this paper. The vertical arrows represent lines of authority and the horizontal arrows represent flows of money.

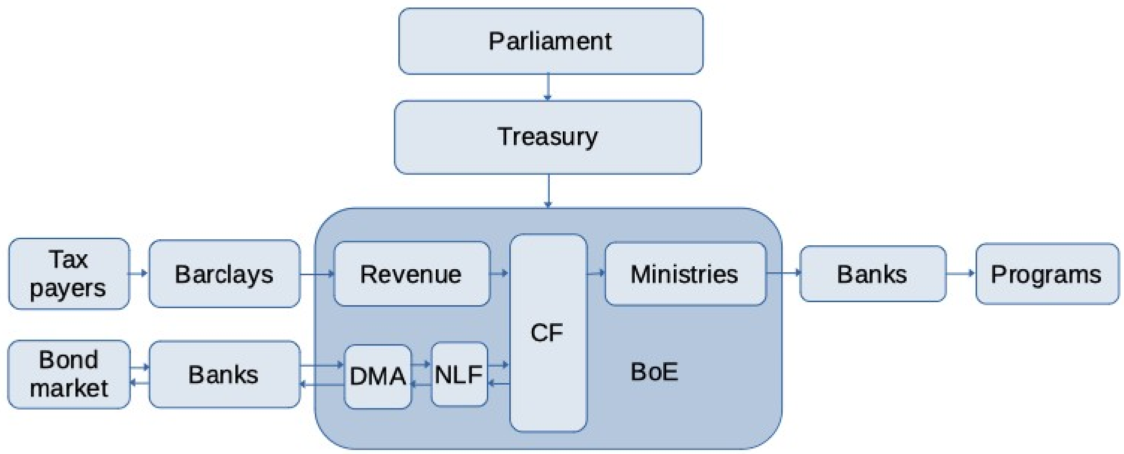


Fig. 2. The UK Spending and Taxing Mechanism

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

As the above claim was backed up in a reference to the following document, we intend to follow the evidentiary trail:

> HMRC (2021). Reply to the Freedom of Information Act 2000 request. Transfers from the General Account of the Commissioners of Inland Revenue to the Consolidated Fund at the Bank of England by Richard Tye.

This FOIA document was not linked to with an URL, but it was easy to find. It is short and to the point. The question by Richard Tye and the answer by HMRC were:

> “I would like to know how many times during a business day HMRC makes a transfer of revenue receipts from the General Account of the Commissioners of Inland Revenue to

> the Consolidated Fund, which are both government accounts held at the Bank of England."
>
> We can confirm we hold the information requested.
>
> HMRC holds a range of bank accounts that are used to transact HMRC's daily business activity including banking of revenue receipts. During the day balances are transferred from the lower level accounts to HMRC's General Account held at the Bank of England. The number of intraday movements varies depending on the account and the balance of receipts in the account. HMRC's end of day process ensures all available net balances are transferred to the HMRC General Account (HMRC, FOI Team, 2021).

This document does not necessarily nail the issue, but at least settles the point that the CF receives funds only at the end of the day.

While researching this, Jeff Eder of Progressive Money Canada (PMC) provided the 2021-2020 report from the UK Consolidated Fund in which its purposes and activities are clearly described. With this in hand the question of the inner funding mechanics of Her Majesty's Government of the United Kingdom became finally clear. The first three paragraphs read thus (with key passages bolded):

> **Purpose and activities of the Consolidated Fund Account**
>
> The Consolidated Fund (CF) was first set up in 1787 as '**one fund into which shall flow every stream of public revenue and from which shall come the supply for every service'**. The basis of the financial mechanism by which the CF is operated is governed by the Exchequer and Audit Departments Act 1866.
>
> 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. The accounts for the CF and NLF are now published separately. Both the CF and NLF are administered by HM Treasury (the Treasury), with the bank accounts maintained at the Bank of England. **The CF can therefore be regarded as central government's current account, whereas the NLF can be regarded as central government's main borrowing and lending account.** 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 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.** (HMT, 2021)

After letting this sink in it became quite clear that the CF runs every day a temporary overdraft, only to be settled at the end of the day.

Therefore I accept as sufficiently proven the following sequence of 1) the CF starting with a ’nil balance’ (because the night before it finished with a ’nil balance’); 2) the CF spending into government accounts throughout the day 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 account back to the ’nil balance’. That’s it.

I find that interesting and would commend these authors for getting their teeth into this issue and going as far as possible. This does not mean that they draw the correct implications from this finding, nor that they did this work, as some might think, based on some bad faith. Most charitably it might be argued that different authors were responsible for different sections and there was insufficient coordination.

§4. Thinking Through the Implications

The next issue—admitting now that there occurs a temporary overdraft at the CF on a daily basis--would be to look into its implications. I don’t want to spell it out, but Ryan-Collins et al’s paper doesn’t seem to underpin some of MMT’s (or MMT-like) biggest claims, i.e. 1) that taxes do not fund spending; and 2) that the state is the ultimate monetary sovereign.

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.

Now, arguing on behalf of the devil, could one construe this mechanism such that it could create “new money and purchasing power” *ex nihilo*, for example, for a big spending ticket like a Green New Deal UK-style? How might that work? Let’s assume the program needs £10b a year, which computes to an average of about £42m every working day. If that is spent in a day and is not compensated for at the end by income, the CF will be in the red for that amount and will have to get to its targeted *nil* balance by getting £42m from the National Loans Fund (NLF). Or will it just stay in the red? Or the funds come miraculously from the BoE? What will it be? Anyway, it’s not my place to solve this riddle. It is for the authors to figure out how to reconcile their recommendable findings of the UK’s CF financing mechanism with their MMT-like claims that the UK government spends as if not funded by income.

On claim 2) that the state is the ultimate monetary sovereign and is therefore a ‘self-financing state’, I like to refer back to Dr. Ryan-Collins own co-authored and admirable 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, but that most of the money—actually a whopping 97%--which is circulating in all those government boxes in Figure 5 originated in the commercial banking system in the first place.[5] Most succinctly it is stated that “Government has no direct involvement in the money creation and allocation process” (Ryan-Collins et al, 2012: 9), and in a more sophisticated way we can read that:

> “ . . . 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” (Ryan-Collins et al, 2012: 7).

This point has since its publication in 2012 been driven home multiple times by central banks, commercial banks, economists and other academics, and especially in 2014 by the Monetary Analysis Directorate lodged in the Bank of England (McLeay, 2014a & 2014b).

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5. On early work on the credit creation theory see Werner, 1997, 2003 & 2005.

So, are we now (discoursing also on behalf of many others perplexed) to forget these highly relevant insights onto 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, remember, 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.

What are we missing, if anything? Or was there, as mentioned before, some confusion between the authors. Problems do arise in co-authored papers (Primack et al, 2014).

§5. View form Philosophy of Science

Another way to view this mismatch between research and conclusion is to dig deeply into contemporary, analytic philosophy of science, which is concerned about the phenomenon of lax epistemic standards in the reporting of findings by researchers. A recent study bluntly opens with the idea that "the main results of scientific papers may appropriately be published even if they are false, unjustified, and not believed to be true or justified by their author." How about that! The authors think "this is an acceptable part of the scientific process" and that "false public avowals are a necessary part of scientific progress, especially in areas of active inquiry."(Dang and Bright, 2021: 8196) This is not based on some post-modern skepticism about how propositions problematically connect with states of affairs, but is more a permissive and optimistic manner of viewing the process of sorting out truth from error in the scientific process. Maybe I should take their advise and not get too upset about the, in my view, false, unjustified belief that 'taxes do not fund spending', which belief is part and parcel of MMT, and just record and publish my own possibly erroneous findings, which I do sincerely think are true, justified beliefs, and let the process take its course.[6]

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6. The specific adjectives were made famous in the "Gettier Problem" paper (Gettier, 1963).

§6. Coda

Besides getting a clear view of the functioning of UK's CF, for which again I recommend the authors, I did get more clarity and sympathy for the idea that a government deficit which is funded with bonds would provide, through these bonds, a stable and trusted means for diverse investors to park their money and then use these bonds for other purposes as well. But it looks like that MMT and Ryan-Collins treat this mechanism as primarily created for the purpose of commercial demand rather than funding the government, which is putting the cart before the horse, i.e. confusing cause and effect. But I see this as a different question.

§7. Conclusion

Technically speaking, the authors of "The Self-funding State" are right that government expenses are initially not paid by existing funds. It is paid for by allowing the Consolidated Fund (CF) to go into overdraft. This appears as if expenses are funded with money out of nothing. But the CF does receive taxes and borrowings to plug the deficit at the end of the day. Tax proceeds will come from His Majesty's Revenue Commissioner (HMRC) and borrowings from the Debt Management Account (DMA). The authors' conclusion that the UK Government is therefore self-funding is unwarrented and certainly does not proof 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, as it promises a magical money tree, which does not exist.[7]

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7. As far as other countries are concerned Jeff Eder pointed out that "Money must be in the CRF before the federal government can spend" (Eder, 2021). The Consolidated Revenue Fund of Canada is the account into which taxes and revenue are rerceived, and from which public services are paid.

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