The Gower Initiative for Modern Money Studies

Macroeconomics

Macroeconomics is the study of the behaviour and performance of the economy as a whole. The word 'macro' comes from the Greek word 'makro' meaning large. It is talking about economics at the government level. Macroeconomics focuses on the aggregate or total changes in the economy such as unemployment, the growth rate, output and inflation. It considers the relationship between two economic sectors, the government and the non-government, and examines how the domestic economy interacts with the rest of the world.
Macroeconomics is not concerned with analysing the behaviour of each individual, person or firm. This is known as microeconomics.

Modern Monetary Theory

Modern Monetary Theory is a branch of macroeconomics which describes how money works in a modern economy. It starts with the simple recognition that in most countries the currency itself is a public monopoly – that means the currency is issued by the State. That's what is meant by a 'sovereign currency'. Because the State issues the currency it doesn't face the same constraints as households and businesses. This gives it a unique power to manage its budget because it can never run out of money and can never be forced into default.
Countries that operate their own sovereign currencies like the UK, US, Japan and Canada spend, tax and provide savings in a currency that it, and only it, can create. It uses a 'money thing', in our case the £, known as a fiat currency which is not converted into a physical thing. This means that within real resource constraints, a sovereign currency issuing government is free to determine its own key economic factors. These are employment, output and inflation.

Not all countries are sovereign currency issuers

Sovereign currency issuing powers do not apply to countries like those in the Eurozone or those pegged to another currency or using fixed exchange rates.
When countries like France, Spain, Italy and Greece joined the Eurozone they gave up control over their economy by abandoning their currency for what is essentially a foreign one, the Euro. In spending terms this makes them more like our own local authorities and regional councils which, except for a small amount of government sourced funding, have to tax or borrow in order to spend. For example, Greece has to borrow Euros or obtain them via trade. This is very different from the UK government which can create pounds and authorise payments.
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Other countries, often but not always developing economies, operate fixed exchange rate mechanisms . To manage them effectively and ensure that the fixed rate can be maintained a country needs access to a large pool of foreign currency reserves to enable it to keep its conversion promise (how much of its currency equals a fixed amount of another currency). To do this they run current account surpluses (exporting more goods and services than they import) or they borrow them. For such countries it may be possible to manage for a time with such limitations but many have defaulted when faced with an economic crisis. Having higher export than import levels is often portrayed to be a good thing, but in the case of developing economies it is highly damaging to sell the real resources and products of the country to foreign countries when they are badly needed by the people themselves.