GUEST EDITORIAL

Modern money and the escape from austerity

Joe Guinan

Modern monetary theory destroys the intellectual basis for austerity but needs a more robust political economy.

On 2 January 1879 the United States returned to the gold standard. Specie payments had been quietly suspended in 1861 to meet the costs of the Civil War, with Congress authorising the issuance of $450 million in 'greenbacks' – legal tender treasury notes – that greatly increased commercial liquidity and triggered an economic boom. But with wartime exigencies over, banking interests demanded a return to financial propriety and redeemable hard money. 'Though the Civil War had been fought with fifty-cent dollars', historian Lawrence Goodwyn explained, 'the cost would be paid in one-hundred-cent dollars. The nation's taxpayers would pay the difference to the banking community holding the bonds' (Goodwyn, 1978, 11). What followed was one of the most extraordinary and creative episodes in the history of popular democratic understanding of money.

The constriction of the US money supply caused a deflationary spiral; as population and production increased but the availability of money was held constant, prices fell. Farmers were hit particularly hard. The narrow organisation of capital markets around an inflexible gold-based currency meant annual panics during the financial squeeze prompted by the autumn harvest. The brutal crop-lien system delivered increasing numbers over to the furnishing merchants and chattel mortgage companies, as farmers were forced to take on ever more debt that would have to be paid off in an appreciating currency.

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Their initial response was the creation of co-operatives through the Farmers' Alliance, so as to buy and sell collectively and obtain better prices on both ends. In Texas in 1887, cotton farmers embarked on the remarkable 'joint-note plan' by which they would all sink or swim together, buying supplies on credit and then marketing their crop in one giant transaction at year's end. New bonds of solidarity were fostered, including across racial lines (Zinn, 1995, 280-9).

Ultimately, however, the co-ops foundered due to inadequate credit, as banks refused to make loans against Alliance notes except at impossible discounts. Finance capital won out, but in so doing it provided its victims with a powerful education in the nature of the system. By 1892 the People's Party had been formed, bringing together the Farmers' Alliance, the Knights of Labor and others around a platform of unity between poor whites and blacks, public ownership of the railroads and other key infrastructure, abolition of the private banking system, and a radical land, loan and monetary system known as 'the sub-treasury plan'.

Broadened from co-operativism into a systemic critique, Populism swept like a prairie fire across the Great Plains and parts of the South and Southwest, electing forty-five members to Congress between 1891 and 1902, including six US senators. Although ultimately defeated – co-opted and drowned in the swamp of Democratic Party politics, leaving the South to fall back into reaction and racial terror – Populism briefly became the largest mass democratic movement in American history as well as 'the last substantial effort at structural alteration of hierarchical economic forms in modern America' (Goodwyn, 1978, 264).

Along the way, leading movement thinkers developed a profound understanding of soft money economics and the power of fiat currency, generating radical monetary proposals that went far beyond the Federal Reserve system eventually created in 1913 or later New Deal banking reforms. Their demand was for a flexible 'people's currency': cheap, elastic, expandable with the growth of population and commerce, and operating outside of East Coast banking establishment control. Looking back, the degree of sophistication with which a hardscrabble alliance of farmers and workers smashed through the imaginative limits set by financial orthodoxy and Gilded Age cultural assumptions to penetrate America's national consciousness is impressive. The representative fictional work of the period, *The Wonderful Wizard of Oz*, with its yellow brick road and emerald city, is often read as a Populist-inspired monetary allegory; in L. Frank Baum's original story Dorothy's ruby slippers were actually made of silver in a nod to bimetallism (Brown, 2012, 17).

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With the ebbing of the Populist tide, the 'money question' was to pass out of American politics – the last time it was effectively communicated to a mass popular movement anywhere. Given today's self-defeating austerity and rule by technocratic elites, we could use Populism's impulse to radical heterodoxy and imaginative audacity. And yet, in many ways we are already over the rainbow. Since 15 August 1971, when Richard Nixon unilaterally terminated the convertibility of the US dollar to gold, bringing to an end the Bretton Woods regime of fixed exchange rates, countries issuing their own sovereign currency have had in place something approximating to the democratic monetary system for which the nineteenth-century Populists struggled. The difficulty lies in the fact that we have yet to comprehend this fully – and to demand that it is used properly.

The secret temple

Few matters of economic importance are as woefully misunderstood as modern money. It can seem a fiendishly complicated subject, even to economists. Schumpeter confessed to never having understood money to his own satisfaction, while Keynes claimed to know of only three people who really grasped it: 'A Professor at another university; one of my students; and a rather junior clerk at the Bank of England' (Ingham, 2004, 5). If production is capitalism's 'hidden abode' (Marx, 1974, 172), then money is its secret temple. Shrouded in mystery and obfuscation, inscribed with arcane language and symbolism, its functions largely obscured from view, it is almost as if the public is not meant to understand money or the basic monetary operations of the economy. 'The study of money, above all other fields in economics', John Kenneth Galbraith wrote, 'is the one in which complexity is used to disguise truth or to evade truth, not to reveal it ... The process by which banks create money is so simple that the mind is repelled' (Galbraith, 1976, 15-29).

Orthodox neo-classical economics, as Geoffrey Ingham has noted, 'does not attach much theoretical importance to money', seeing it simultaneously as one more commodity subject to standard microeconomic analysis and as a pure medium of exchange, a 'neutral veil' (2004, 7). So complete is this discounting that the foundational models of neo-classical economics drop money altogether, replacing it with simple acts of barter (Keen, 2011, 357). Following the onset of the 'great inflation' in the 1970s, monetarism was to demonstrate an obsession with the money supply and price stability, but this can be traced back to the inadequacies of neo-classical macroeconomics and 'the idea that it is, in principle, possible, by means of an *a*political search for the most technically efficient means, to arrive at an *optimum*

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supply of *neutral* money – that is to say, a supply of money that does no more than express the values of the 'real' economy' (Ingham, 2004, 35-6).

While orthodox economics has struggled to account for monetary instability and disorder, dissenters are often to be found inhabiting the discipline's wilder shores; the 'money question' has long been a magnet for cranks and crackpots of every hue. Stray far, Dan Hind warns, and 'you will find yourself in a wilderness of goldbugs and Bitcoin enthusiasts' (Hind, 2014). However, money theory has also spawned a distinguished heterodox tradition, with a pedigree traceable back to Smith and Marx and continuing through the work of Knapp (*The State Theory of Money*), Schumpeter and the Keynes of the *Treatise on Money* to Abba Lerner's 'functional finance' and the 'endogenous money' of Hyman Minsky and the neo-chartalists (Wray, 1998, 18-37). For theorists in this tradition, money, while also a unit of account, a medium of exchange, and a means of payment, originates as debt and should thus be understood as a social relation, expressing the balance of power among contending social and political forces.

Money, it is argued, is by its very nature *political* – who has it, how much, and at what price. From this vantage point many of the issues quickly come into focus. The screamingly obvious problem in today's economy is not that most people have too much money to spend but that they have too little. And yet, all across the advanced industrial world, the prescription is the same: cuts, retrenchment, austerity. The crisis is being used to shrink the state, while virtually the entire mainstream left has been rendered powerless, caught in the grip of widely held but erroneous beliefs concerning money and finance. Armin Schäfer and Wolfgang Streeck evince a representatively bleak version of this *weltanschauung*:

> For almost three decades OECD countries have – in fits and starts – run deficits and accumulated debt. Rising interest payments and welfare state maturation have meant that an ever smaller part of government revenue is available today for discretionary spending and social investment. Whichever party comes into office will find its hands tied by past decisions. The current financial and fiscal crisis has only exacerbated the long-term shrinking of the room governments have to maneouvre. As a consequence, projects for policy change have lost credibility – at least if they imply the redistribution of resources from old purposes to new ones. (Schäfer and Streeck, 2013, 1)

The notion of a revenue-constrained government budget in a monetarily sovereign state may be a useful fiction for conservatives and rentier capitalists, but it should not have gone unchallenged by the left. As a result, any proposal for investing in

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social provision, or even in efforts to prevent climate change-driven civilisational collapse, runs immediately into the killer question: 'How are you going to pay for it?' (Mosler, 2010, 13). The lack of a convincing response has meant that once again, as in the 1930s, entire populations are being subjected needlessly to an agonising period of deflation and austerity.

That there was an alternative can be glimpsed in the operations of central bankers. Even as public budgets were being slashed, central banks were pumping staggering sums of *new* money – hundreds of billions in the UK alone – into the financial system to repair the balance sheets of commercial banks through bailouts and quantitative easing (QE). These central bank operations are not new, but their scale is unprecedented – central bank balance sheets are now three times their pre-crisis levels (Streeck, 2014, 39) – and not a penny had to be 'paid for' through taxes or borrowing. 'It's not tax money', former Federal Reserve Chairman Ben Bernanke explained in a TV interview: 'The banks have accounts with the Fed, much the same way that you have an account in a commercial bank. So, to lend to a bank, we simply use the computer to mark up the size of the account that they have with the Fed' (Pettifor, 2014, 24). Free money, in other words, was made available to those who caused the crisis in the first place, but not to the vast majority who continue to suffer its consequences. The only reason governments have been able to get away with this is because of public ignorance, fostered by politicians of all stripes, of the basics of banking and money creation. 'It is well enough that the people of the nation do not understand our banking and monetary system', Henry Ford once said, 'for, if they did, I believe there would be a revolution before tomorrow morning' (Greider, 1987, 55).

The immediate difficulty we face is the contradiction between our current economic problem, which is that deficits are too small, and political understanding of the problem, which is that deficits are too large (Mosler, 2012, 79). The deeper problem, however, is not a scarcity of money but 'a scarcity of general understanding of the social relationship that is money' (Pettifor, 2014, 52). Widespread economic illiteracy on these and related questions, together with deliberate obfuscation of the power that fiat money gives to governments, leaves politicians free to peddle tired homilies as looming deflation stands to boost the value of financial assets held by banks and creditors, while austerity bites ever deeper into the lives of ordinary people.

Down the rabbit hole

The body of work now being produced by one particular branch of post-Keynesian economics – modern monetary theory, or MMT – poses a devastating challenge to

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the reigning orthodoxies. Viewed through the lens of MMT, almost every popular assumption about money and public finances is misguided or outright mistaken – at least in those instances where governments retain a sovereign currency (1).

Among the chief proponents of this radical approach to macroeconomics are L. Randall Wray and Stephanie Kelton of the University of Missouri, Kansas City and Australian economist Bill Mitchell of the University of Newcastle in New South Wales. Another leading figure is Warren Mosler, a renowned US financier who in 1992 convinced Italian finance ministry officials that their government could never be forced to default on debt denominated in lira, allowing them to walk away from a pro-cyclical IMF austerity package with the statement 'No extraordinary measures will be taken. All payments will be made on time'. Mosler's hedge fund made $100 million betting against a default (Mosler, 2012, 4-10). MMT also enjoys qualified support from such post-Keynesian fellow travellers as Steve Keen and Ann Pettifor, and is developing a growing band of vocal advocates on social media and in the blogosphere.

To first encounter MMT is akin to falling down the rabbit hole and emerging into a looking glass world in which all hitherto seemingly settled opinion about money and banking turns out to be wrong and exactly the opposite holds true. The textbook explanation of banks, for instance, as 'intermediaries' between savers and borrowers is now redundant, a vestige of an earlier era of commodity money. Banks do *not* lend deposits; rather, they create deposits 'out of thin air' through the act of lending. Investment does *not* require savings; rather, savings are created by investment. Tax revenues are *not* needed to fund government spending; rather, such spending circulates the money required to pay taxes. In the absence of a foreign surplus, public sector deficits are actually *required* if there are to be private sector surpluses; they are simple accounting identities (Wray, 1998; Wray, 2012). Even the more sophisticated orthodox explanations, such as descriptions of so-called 'fractional reserve banking' and the limits reserve requirements supposedly place on lending, turn out to be wide of the mark: as central banker Alan Holmes has attested, the 'money multiplier' concept is backwards, and 'in the real world banks extend credit, creating deposits in the process, and look for the reserves later' (Henwood, 1997, 220).

Drawing upon a rich theoretical inheritance and on a detailed understanding of actual monetary operations, MMT proceeds step by step using the most basic national accounting to cut through the thicket of misleading metaphor and analogy and lay bare the foundations of the monetary system, denuded of confusing and unnecessary self-imposed political and institutional constraints. Take the notion of

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the balanced budget, currently deemed to yield economic benefits exceeded only by retirement of the national debt (Mosler, 2012, 12). Unlike real assets, financial assets must always net to zero, each asset being at the same time someone else's financial liability. At the level of the economy as a whole, every financial surplus means, pound for pound, a corresponding deficit somewhere else in the system, not as a matter of abstruse economic theory but because they are inescapable accounting identities.

In a simple three-sector model of the economy – government sector, domestic private sector (households and businesses), and foreign sector (rest of the world, including foreign governments, households and businesses) – a surplus in one sector must always be offset by an equal-sized deficit across the others. It is immediately obvious that the neo-liberal policy ideal of running three concurrent surpluses (fiscal surplus, domestic private surplus, and external surplus) is a logical impossibility for the global economic system as a whole and is only achievable in a given national economy to the extent that the foreign sector is willing to run a deficit. Absent an external surplus, in other words, *the public and private sectors cannot both be in surplus at the same time*. If one has a surplus the other must be in deficit (Tymoigne and Wray, 2013, 42).

Then there is the widespread belief that government must either tax or borrow to fund expenditures, a source of the ubiquitous household analogies for public finance. As Margaret Thatcher told the 1983 Conservative Party conference:

> The state has no source of money other than money which people earn themselves. If the state wishes to spend more, it can only do so by borrowing your savings, or by taxing you more. It is no good thinking that someone else will pay. That 'someone else' is you. There is no such thing as public money. There is only taxpayers' money. (Thatcher, 1989, 168)

On modern money, as on so many other things, Thatcher was precisely wrong. As Mosler points out, 'the funds to pay taxes, from inception, come from government spending (or lending). Where else can they come from?' (Mosler, 2010, 20). This is the crux of neo-chartalist theory: *taxes drive money*. For MMT, it is the levying by sovereign governments of taxes denominated in their own unit of account that provides the initial demand for a currency and allows it to become the medium of exchange throughout the economy. The logical sequence is important: 'those who have obligations to pay currency must obtain it before they can pay, and if government is the only supplier, then government must spend or lend the currency before

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taxes and other obligations can be paid' (Tymoigne and Wray, 2013, 8). Taxes, therefore, cannot be a funding source for government spending.

Why tax at all? For MMT, there are a number of reasons. There is the need to create demand for currency. There is the recurring need for destruction of some portion of the money supply as a means of regulating aggregate demand to maintain price stability. There is also the desire to express public policy preferences in the distribution of wealth and income and to penalise certain industries and practices. But while taxes may be important for other purposes, financing sovereign government spending is not one of them. Mosler makes the point with his usual aplomb, using the example of someone choosing to pay her US federal taxes in cash at an IRS office:

> First, you would hand over your pile of currency to the person on duty as payment. Next, he'd count it, give you a receipt and, hopefully, a thank you for helping to pay for social security, interest on the national debt, and the Iraq war. Then, after you, the tax payer, left the room, he'd take that hard-earned cash you just forked over and *throw it in a shredder* ... Why? There's no further use for it. Just like a ticket to the Super Bowl. (Mosler, 2010, 14)

Monetarily sovereign governments can never run out of their own money. Their total expense is whatever they choose it to be. Quite simply, there is 'no longer any balance sheet operation', as L. Randall Wray explains, 'in which government "spends" its tax revenues' (Wray, 2014).

This raises the related question of borrowing. If there is no need to borrow in order to spend in excess of tax receipts, why do governments borrow? This is especially important given the adverse power relationships involved. Clinton political adviser James Carville famously declared that if there was reincarnation he wanted to come back not as pope or president but 'as the bond market. You can intimidate everybody' (Greenwald, 1994). The threat of 'bond vigilantes' in global capital markets selling government bonds in order to protest fiscal or monetary policies, thereby increasing yields and driving up the cost of borrowing, is widely regarded as one of the most powerful restraints on governments' ability to overspend or -borrow.

MMT cuts the bond vigilantes down to size. The reason for government borrowing is not to acquire funds to spend but to keep the reserve market in balance and support the overnight interest rate (deficit spending creates, as a matter of course, excess reserves in the banking system). It is thus a monetary rather than a fiscal

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operation (Mosler, 2012, 18). Borrowing provides an interest-bearing government security to the private sector as an alternative to non-interest-bearing government fiat money, which means that, by issuing debt, government is doing bondholders a favour and not vice versa: 'most of the pressures that governments currently believe arise from international markets are actually self-imposed constraints that arise from a misunderstanding of the nature of government deficits' (Wray, 1998, 85-9, 75).

Given all this, the radicals in MMT circles are coming to see government borrowing, and the frighteningly large numbers it produces in the public accounts, as an outdated practice that should be dispensed with entirely in favour of pure deficits and direct central bank crediting of treasury accounts:

> The chief remaining role of public borrowing in our time is to bamboozle the public, and to obscure the true nature and effects of government fiscal and monetary operations under a bewildering maze of bookkeeping ink and financial legerdemain. Eliminating public borrowing, and replacing it with operations that are simpler, more direct and more transparent, would advance the cause of informed democratic debate over public spending and taxation. Above all, the change would eliminate needless obscurity and confusion and help us all understand exactly whose bread is being buttered by the budgetary decisions made by politicians. (Kervick, 2012)

The overwhelming conclusion of modern monetary theory is that there is no inherent financial limit to the spending of a monetarily sovereign government. Of course, such spending has consequences in the real economy, impacting inflation, interest rates, capital formation, and so on, and sustained over-spending beyond full employment and real production capacity is a certain path to hyperinflation. But MMT follows Keynes in regarding 'true inflation' as being reached in 'the situation where additional spending must cause inflation because the elasticity of output has fallen to zero when all resources are fully employed' (Tymoigne and Wray, 2013, 18). Today, with 48 million people unemployed across the OECD and so much capital lying idle, we are very far indeed from such a situation (OECD, 2014, 11).

The last progressive left standing

Social relations, as Ann Pettifor insists, are not in short supply. Once money has been put back in its place as a mere accounting system, a matter of keystrokes and photons emitted by computer screens, the astounding truth emerges that, within

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the physical limits of nature and our own human resources, 'we can afford what we can do' (Pettifor, 2014, 13).

Nothing could be further from the guiding political assumptions that patrol the cramped and impoverished horizons of the present. Austerity, the proclaimed need to cut back government spending to balance the budget and pay down the debt – *expansion through contraction!* – remains the dominant frame of mainstream politics, exerting a powerful hold over social democrats as well as liberals and conservatives in the UK and around the world. Attempts to challenge this frame and to substitute an alternative (usually traditional neo-Keynesian 'pump-priming') approach aimed at stimulating growth have largely failed to register with the public. Their past policies and programmes laid waste, centre-left parties – the Labour Party included – are imprisoned within austerity economics, promising at best a kinder, gentler management of public retrenchment and downward mobility (Guinan, 2012).

Against this backdrop, MMT proclaims itself with some justice to be 'the last progressive left standing' (Mosler, 2011). However, for a theory that mostly operates in a descriptive rather than prescriptive mode, this sits a little oddly. The modern money theorists have only interpreted the monetary and banking system in various ways; the point, however, is to change it. What, then, are MMT's prescriptions?

As a branch of economic theory tracing its lineage to Keynes, MMT offers a policy framework largely oriented to the abolition of unemployment and the better management of instability in capitalist market economies. To this end, the principal MMT policy proposal, following Minsky, is the job guarantee, by which the government steps in to serve as employer of last resort (Minsky, 2013). The claim is made that, using MMT methods, full employment can be decoupled from economic growth and price instability (Wray, 1998, 122-48). A particularly appealing version of the MMT job guarantee would see, instead of direct government creation of jobs in the public sector, an application and grant process by which jobs would be allocated to the non-profit sector to provide environmental clean-up, public goods provisioning and community development, on the grounds that community organisations are 'better organised, more familiar with local needs and resources, and always in need of more helping hands' (Tcherneva, 2012, 5).

Beyond the jobs guarantee, the policy aspects of MMT essentially come down to the removal of unnecessary self-imposed institutional constraints (whether stemming from regulation or neo-classical theory) on monetary and fiscal policy and a whole-

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hearted embrace of Abba Lerner's 'functional finance' approach. Functional finance advocates the use of monetary and fiscal policy based on the observable needs of the real economy, rejecting the idea that the fiscal position of the government as such is a relevant policy objective: 'Price and financial stability, moderate growth of living standards, and full employment are the relevant macroeconomic objectives, and the fiscal position of government has to be judged relative to these goals' (Tymoigne and Wray, 2013, 19).

Although individual MMT thinkers express their views on a range of other economic issues, MMT per se often tends toward agnosticism. Given present circumstances, the adoption of even the limited MMT programme indicated above would amount to something of a revolution in economic and political affairs. Still, MMT as a theory has relatively little to say on a number of critical questions – not least among them the matter of what to do about the private banking sector. With only around three per cent of all money taking the physical form of banknotes and coins, the commercial banks currently create the overwhelming preponderance of money in the system 'out of thin air' through the act of making loans. It is this production of bank credit-money that sociologists of finance like Ingham see as giving capitalism its distinctive structural character: 'This did not occur in the so-called banks of the ancient and classical worlds' (Ingham, 2004, 13).

Agnosticism on private banking, given the role it played in the recent financial meltdown, seems like a huge lacuna, especially at a time when the crisis is leading many to take a new interest in financial affairs. Other thinkers from left and right who share MMT's analysis of *ex nihilo* credit-money creation by banks are stepping in to fill this gap, converging on proposals for what is variously known as full or 100 per cent reserve banking (Phillips, 1994), limited purpose banking (Kotlikoff, 2010), or positive money (Ryan-Collins et al., 2011; Jackson and Dyson, 2012). Recently endorsed by Martin Wolf in the *Financial Times* (Wolf, 2014), the idea of restricting private lending to pre-existing money can be traced back to Irving Fisher and the 'Chicago Plan' of the 1930s, which later won the support of, among others, Milton Friedman (Phillips, 1994). On the left, full reserve banking is seen to reduce the dominant power of financial institutions in the system while preventing unproductive speculation and the creation of asset bubbles. On the right, it answers the problem that creating money out of nothing is inflationary and destroys the value of savings, offering the additional benefit that it would also eject the state from private banking.

What all these variants on the same proposal have in common is the desire to reduce risk by effectively returning the banks to their position as the true intermedi-

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aries of orthodox neo-classical theory. For this reason, such proposals are treated with suspicion by many post-Keynesians, who worry that they would serve to overly restrict credit and, much like the gold standard, institutionalise a deflationary bias. Given that lending would be restricted to savings, there is also the problem that this reinstates the 'despotic power' of the rentier (Pettifor, 2014). Far more promising, perhaps, is the prospect of combining MMT with proposals for public banking, which would preserve credit creation by banks but ensure the socialisation of investment. There is a rich vein of new thinking in this direction (Brown, 2012; Brown, 2013).

Democratic money

At a deeper level, modern monetary theory has a political economy problem. It is a somewhat technocratic theory, implying that if only the monetary and fiscal policy space open to monetarily sovereign governments can be properly grasped by policy-makers and the public then the means to bring about change will be readily available. This is a bit thin. The MMT approach to money, as Ingham points out, appears to have missed 'the significance of the *political* nature of both the *origins* and *functions* of the linkage between state spending, taxes and bonds in the capitalist system … a matter of an implicit settlement between the state, capitalist "rentiers" and the tax-paying capitalist producers and workers' (Ingham, 2004, 143).

This leads to a certain naivety. For example, the flagship MMT policy prescription – the job guarantee – is likely to encounter stiff opposition for reasons other than the theoretical; for it to be enacted would require more than just winning the argument. There has been a deep-seated resistance throughout much of the recent history of capitalism, from business leaders and their political representatives, to policies and programmes that aim to secure full employment, even though higher output and employment would lead to higher profits. Michał Kalecki, in his classic 1943 essay *Political Aspects of Full Employment*, outlined the social and political changes that flow from the maintenance of full employment in a capitalist economy:

> It is true that profits would be higher under a regime of full employment than they are on the average under *laissez-faire*; and even the rise in wage rates resulting from the stronger bargaining power of the workers is less likely to reduce profits than to increase prices, and thus affects adversely only the rentier interests. But "discipline in the factories" and "political stability" are more appreciated by the business leaders than are profits. Their class instinct tells them that lasting full employment is unsound from their point of view

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> and that unemployment is an integral part of the normal capitalist system. (Kalecki, 2009, 78)

Since Kalecki's day, of course, there has also been a major rebalancing of power away from industrial capitalism and toward rentier interests; Ingham suggests that the long crisis that began in the 1970s should be read as a 'revenge of the rentier' (Ingham, 2004, 156). It is this successful reassertion of the dominance of the money power that is behind the restoration in recent decades of Thomas Piketty's ascendant 'patrimonial capitalism' (Piketty, 2014).

MMT is in need of a more robust political economy. At the same time, if it is to become more than a counterintuitive abstract theory that can be safely ignored by the powers that be, MMT will need to be articulated to a much broader political audience. There is little point, at present, in a UK context, in looking to the Labour Party for this. The parlous state of macroeconomic thinking on Labour's frontbench renders them worse than useless. Liam Byrne's infamous note to his successor as Chief Secretary to the Treasury – 'I'm afraid to tell you there's no money left' – was not only unwise politically, handing a propaganda gift to his opponents, but is also, by the lights of MMT, completely unintelligible. Ed Balls is, if anything, still worse – more interested in sniffing around Bilderberg Group meetings than in thinking through a coherent alternative to austerity. His 'binding commitment' that a Labour government will be running a fiscal surplus by the end of the next parliament, if enacted, would be suicide under present economic conditions. Given that the UK hasn't run a current account surplus since 1998, Balls ought to be asked where the off-setting deficit can be expected to appear.

Labour did recently embrace the job guarantee, but – with characteristic lack of surefootedness – the policy as adopted represents an incredibly weak version of the scheme: only for the young (18- to 24-year-olds), only for a short duration (six months), and – lacking MMT's understanding of sovereign finance – accompanied by a scramble to say how a Labour government would 'pay for' it. The Bank of England, by contrast, is way ahead, having recently issued a widely-noticed paper endorsing the MMT view of money creation (McLeay et al., 2014).

In all this there is something more at work than mere ignorance. In a 1995 interview, Paul Samuelson, the Nobel Prize-winning father of modern economics, argued for the utility of 'myths' in keeping the public in line:

> There is an element of truth in the view that the superstition that the budget must be balanced at all times [is necessary]. Once it is debunked [that] takes

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> away one of the bulwarks that every society must have against expenditure out of control. (Wray, 2012, 200)

It is a shockingly anti-democratic admission. But there is little reason to suppose that the *bien pensant* social liberals of the Labour right, with their mini-manifestos for fiscal conservatism, have any more interest than the economics establishment in promoting greater public knowledge of the true state of monetary affairs. While there are valid criticisms of modern monetary theory, including its reliance on taxation for macroeconomic regulation (far more cumbersome than the traditional Keynesian use of interest rates) and the strange things it does to the progressive tax code, too many centre-left dismissals are from those who simply find it inconvenient for their politics.

It will fall to the rest of us to figure out how to swim against the current of deeply-held cultural assumptions and sharply opposing interests to engage in the kind of massive movement-building and educational effort necessary to bring about a popular democratic understanding of money. It can be disheartening to recall that the last time this was accomplished was by nineteenth-century American Populism. But only if the precepts of modern money are more widely understood and given articulation through a radical programme of deep financial and monetary reform will it be possible to escape the grip of austerity economics in which, to coin a phrase, it remains easier to imagine the end of the world than the end of a monetary and banking system run in the interests of rentier capitalism.

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Note

1. A country can be said to be monetarily sovereign when it has independent political power over its own monetary system and currency. While this is true in the case of the British pound, US dollar and Japanese yen, it is not true in the case of the European euro, where the traditional bonds between sovereignty and money creation have been broken, rendering many aspects of modern money theory inapplicable.

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