



Modern Monetary Theory: an explanation

Richard Murphy
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Funding the Future

Formerly Tax Research UK

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Modern monetary theory and the background to this explanation

Modern monetary theory (hereafter, MMT) is an explanation of the way in which money works in an economy. It also explains the consequent impact that the best use of money, using this understanding, might have on behaviour in that economy.

The core suggestion made by MMT is that a government is constrained by the real productive capacity of its economy and not by the availability of money, which it can always create.

Secondary insights are that money is created by government spending and is destroyed by taxation.

I developed this understanding independently, a fact I first mentioned in a blog post¹ in 2013, which was the sole reference I made to MMT on that site until 2015 when further comment was promoted by an invitation to debate with Bill Mitchell² on MMT and People's QE. That was immediately prior to publication of my book, *The Joy of Tax*, in which ideas that relate to MMT are discussed but the term is never used because I was still pretty unfamiliar with what it had to say.

As I now know, MMT is most identified with the work of Warren Mosler, Bill Mitchell, Randy Wray and, most especially, Stephanie Kelton, whose understanding differs from that of the other three to some degree, in my opinion. They built on the ideas of others like Abe Lerner, Hyman Minsky and Wynne Godley

What I offer here are my interpretation of what I think to be core MMT understanding. I suspect there is much common ground in that.

There will be much less common ground on my interpretation of what the understanding means and on the supposed (and very largely, in my opinion, unnecessary) theoretical justification for it. So be it: that is what political economy is about.

MMT as a theory

MMT developed because those creating it noted logical inconsistencies in the portrayal of the nature and role of money in neoclassical and neoliberal economics. Those inconsistencies are not new. As such MMT is only modern in the sense that it has only recently been discussed.

¹ <https://www.taxresearch.org.uk/Blog/modern-monetary-theory-means-we-need-never-tolerate-unemployment/>

² <https://www.taxresearch.org.uk/Blog/2015/08/20/is-pqe-fiscal-or-monetary-policy-or-a-crossover-between-the-two/>

Some commentators also like to suggest that because MMT relies on observed behaviour to provide evidence of its usefulness that it is not a theory. They suggest that it is only an explanation. Those supporting MMT disagree. It is, like all economic theory, a model of reality. Its usefulness is dependent, as are all economic theories, on the assumptions made by those proposing it and the way that they are interpreted. The way in which MMT differs from most economics is that much of what it says can be tested against observable behaviour. In economics that is rare.

MMT's economic model

MMT assumes that the economy is comprised of four parts, although one has an important subdivision within it.

Firstly, there are people and the mechanisms (such as companies) that they use to pursue productive economic activity from which consumption follows. This is the private sector within a jurisdiction, in all its forms.

Secondly, there is government. This is the organisation that has been granted exclusive power by the people living within a geographic area to establish law, maintain security and deliver services to meet need within that domain.

Thirdly, there are other countries with different currencies to those used within the jurisdiction where the use of MMT is being considered, with the exchange rate being the mechanism for reconciling the value of those differing currencies.

Fourthly, there are banks. These exist to:

- extend credit to those who wish to make use of it by way of loans;
- to take deposits; and
- to provide a mechanism for the settlement of debts owing by those to whom a bank provides services to others in the economy whether those other people bank with the same bank or with another one.

To make an income banks charge fees for arranging the settlement of debts whilst also charging more interest on loans advanced than they pay to those making deposits.

It is important to note that what is called investment banking, which is the speculative financial trading activity that now dominates the modern financial services industry, is not what is described as banking by MMT.

It is also important to note that one of the banks in a jurisdiction takes on a particular role. It is described as a central bank. In addition to the roles of a bank already noted it has a range of additional functions that are peculiar to it alone:

- It issues the currency of a jurisdiction.
- It acts as banker to the government of that jurisdiction.
- It acts as banker for all other banks that wish to trade in the currency issued by that jurisdiction, providing them with the means to settle their debts with each other.
- It acts as borrower of last resort i.e. the central bank arranges that there shall be means of safe deposit available to those who need them, most particularly within the banking sector.
- It acts as lender of last resort i.e. it will lend to its customers when others might not, including (most especially) to the banking sector.
- It regulates the banking sector of the jurisdiction in which it is located to ensure that the facilities of last resort that it makes available are not abused.
- It is often (but not necessarily) tasked with maintaining the value of the currency of a jurisdiction.

MMT, money and the economy

MMT has noted five essential aspects of the behaviour of money in the economy.

Firstly, for the currency of a jurisdiction to be effective in use there must be a monopoly over its creation. The government must ensure that this is the case by taking both legal and practical responsibility for the issue of its chosen currency via a central bank.

Secondly, it is the job of a government and the central bank that acts on its behalf to ensure that only the currency that it creates is predominantly in use in its jurisdiction. To ensure that this is the case it must take steps to ensure that the use of the currency of another jurisdiction is economically unattractive within its domain.

Thirdly, if a central government wishes that the currency that it creates to be the only currency in use in its jurisdiction then it must spend it into use. There is no other way that this currency can enter circulation. In practice governments spend the currency that they create into circulation through the routine operation of government activities. This is a four-part process.

- a. So long as a government has a budget passed with relevant authority (usually provided by a parliament) they can then legally instruct their central bank to make payment to whomsoever they wish to procure the goods and services that they require to fulfil their mandate.

- b. The government's central bank will then advance the government the funds required to make the payment whether or not there are funds in the government's account with that central bank. They will always do so in their role as lender of last resort. That obligation is usually imposed by law. De facto it happens because the government usually owns and always controls the central bank of its jurisdiction.
- c. Given that the currency in which the payment is made by the central bank is the legal tender of the jurisdiction the recipient of the payment will always accept it.
- d. The central bank that advances these funds to the government does so on the basis of the mutual promises to pay that underpin all currency creation in a fiat money economy³. The process involved requires the exchange of promises:
 - The government promises to make payment to its central bank.
 - The central bank presumes that the government will actually make that repayment, albeit at some unspecified date. In exchange it promises to make payment to whomsoever the government instructs.

This is the process behind all money creation the world over now. There is nothing more complicated to the process of money creation than the making of these promises.

The entry of a record of the promises made, and their amount, into the bank's ledgers is the only required evidence that new money exists. There is, as such no 'money in the bank' in the form of physical assets. Nor is any money belonging to anyone else involved in this process: banks do not lend depositor's money to those they lend money to. The activities of deposit taking and money lending are unrelated to each other. There is just double entry book-keeping to record the existence of mutually agreed promises to pay. All money is now just an entry on a bank statement (this being as true of funds deposited in a bank as it is of sums lent by a bank). There is nothing more to money and money creation in the modern economy than that.

Fourth, having spent money into the economy the government will tax it back from the economy into which it has been spent. It has two reasons for doing so:

- a. In the first instance this tax is intended to control the inflation that would otherwise result from excessive injections of money into the economy as a result of government spending

³ A fiat money economy is one where there is no asset backing for the currency in use in a jurisdiction: it has status as money because a government has said that it is so by declaration or decree, which declaration is what the term fiat means in this context.

being funded by new money creation. Tax removes that excess of money created by government spending from circulation in the economy. The amount to withdraw is, of course, a matter of judgement. This is referred to further, below, when discussing the policy decisions that flow from MMT.

- b. The other reason for taxing is to require that the currency that the government has created is routinely used for transacting within the economy for which that government is responsible. This is required to achieve control of its macroeconomy. Imposing taxes that are only legally capable of being paid using the currency that the government creates achieves this goal. That is because if the tax due on a transaction is only payable using the government created currency then those transacting are unlikely to take the currency risk arising from transacting in another currency. Charging taxes in this way does, therefore, impose the use of the state created currency onto a jurisdiction, assuming that its taxes are of sufficient amount. This then provides a government with the means to control the macroeconomy for which it is responsible.

Fifth, money paid to the government by way of tax then ceases to exist. It is not used to fund spending. It simply ceases to exist.

There is nothing unusual about this. For example, a commercial bank loan is created in exactly the same way as a central bank creates a loan for the government that controls it. Mutual promises to pay between a commercial bank's customer and the bank itself create the double entry accounting records that are the only evidence that money exists. As the customer repays the loan its value is written down in those double entry records that evidence its existence until the point is reached where the balance has been cleared. At that point the money that was created by the commercial bank loan has ceased to exist. It is not now lent to someone else because there are no repaid funds left in the bank. Instead, the promises that made the money have been fulfilled and so the money that was created by those promises has, in turn, ceased to exist.

The spending that a government makes when it uses new money created for it by the central bank that it controls also has a promise to pay attached to it. In the UK that promise is even printed on banknotes. Archaically the promise made is to 'Pay the bearer on demand the sum of £X', where X is the value of the note in question. Pragmatically, this promise is fulfilled in the fiat currency era by the government agreeing to accept the money it has created in payment of tax and by refusing to accept any other currency for that purpose. This is how the requirement to ensure that only the currency that the government creates is used in its economy is pragmatically delivered.

What this does, however, mean is that that when tax is paid the money the government created by reason of its expenditure is cancelled. The promise implicit in it has been fulfilled. The money paid is cancelled. It does not fund anything. It simply ceases to be.

The theory – a summary

Importantly, the above points are all that MMT has to say on the theory of money. In summary, it says that state with its own currency and central bank can always spend when it wishes without having to either tax or borrow to do so. That is because the money that it can always command its central bank to create to fund that expenditure is readily accepted for use in the economy for which it is responsible.

This, however, does not mean that it will not tax. The control of inflation requires that it do so. A government's need to impose the use of the currency it creates on the economy for which it is responsible also requires that it demand that the taxes it requires be paid be settled using that currency. That payment of tax destroys the money that was created to pay for government spending, but it does not fund it.

There is one further thing to note. MMT makes clear that to achieve these goals the state creates an immensely powerful organisation called a central bank. Its activities are at the heart of macroeconomic control of the economy, not least as lender and borrower of last resort. This is why it must be under state control.

This is all that MMT theory says. It can be summarised by saying that MMT suggests that a government spends the currency that it wants to be used to make settlement of the taxes owing to it into the economy with the active assistance and support of its central bank when undertaking its routine spending, for the purposes of which expenditure the central bank provides all the money required by way of loans meaning that neither tax revenues or third party government borrowing are required to fund that spending.

MMT – the implications

Having noted the explanation that MMT supplies of how government money in the macroeconomy works the implications of MMT have to be noted. This is where more contentious issues are more likely to arise.

It is important to note that the issues that are discussed below are the logical consequences of a proper understanding of MMT. They flow from it but are not integral to it. The distinction is

important. MMT describes the role of government created money in an economy. What follows are notes on some of the political choices that this understanding permits.

A. The command of resources

A government that can decide when and in what amount it wishes to spend has, in principle, an unlimited ability to command resources within its economy. As the sole creator of the currency of that jurisdiction it, above all other economic agents within that economy, has the power to command that economy to suit its purposes.

That this is true is beyond reasonable dispute. The management of the wartime economies of the UK from 1939 to 1945 and the USA from 1941 to 1945 provide the clearest possible evidence of that. When it was required, the state took control of the economies of those countries for what their governments deemed to be a public purpose.

This was, however, an extreme circumstance. Few would want this situation to persist in peacetime. What this does mean in that case is that a government that understands MMT has to decide what is the right balance between the state and private sectors within the economy, whilst knowing that this is very largely a choice for it to make.

This is not so stark a decision as many might think. There are many activities (health care, education, social care, and even parts of the judicial system) that can be managed within either the state or private sectors or in combination between them. Even so, a government has a significant decision to make as to what resources within the economy it wishes to command, and it is not one over which it has total control. The government can seek to, for example, buy the services of significant parts of the labour force within its jurisdiction but will, eventually, only be able to do so by pricing that labour out of use within the private sector economy. To compensate for that inflationary pressure it will have no choice but tax more. Experience around the world appears to suggest that there is a limit to what is acceptable as an overall tax rate. A great many of the wealthiest European countries have overall tax rates that exceed forty per cent of their GDPs. Many more come close to that figure. None exceed it. There must be some indication in this data that suggests that a trade-off between the state seeking to command resources, inflation and the ability to enforce taxation liabilities exists.

The state does then have a choice to make. What MMT makes clear is that it has to:

- a. Appraise what level of resources are available within an economy.
- b. Determine what needs of the population to whom it has responsibility are best met collectively.

- c. Determine the price it is willing to pay to command those resources required to deliver those collective services.
- d. Ensure that the remaining resources are sufficient to meet demand in the private sector economy so that inflation is not fuelled by excess demand from either sector.
- e. Deliver the required services.
- f. Tax sufficiently to prevent inflation whilst meeting the demand for the currency the government is responsible for.

There are considerable numbers of judgements required in this process. There can be no guarantee that a government exercising them will always get all those judgements right. However, the difference in approach between MMT and other economic philosophies (and most especially neoliberalism) when it comes to making these judgements is important. MMT permits management along the lines espoused by Lord Keynes when he said⁴ in 1942 that:

Let us not submit to the vile doctrine of the nineteenth century that every enterprise must justify itself in pounds, shillings and pence of cash income.

Why should we not add in every substantial city the dignity of an ancient university or a European capital ... an ample theatre, a concert hall, a dance hall, a gallery, cafes, and so forth. Assuredly we can afford this and so much more.

Anything we can actually do, we can afford.

The first and last paragraphs summarise the contrast between neoliberalism and MMT, even if Keynes could not have anticipated that. Neoliberalism claims that all government action is constrained by a lack of finance as a result of which desirable opportunities must be foregone. MMT agrees with Keynes in saying that if something can actually be done then it can be afforded because a government that can create its own financing is never constrained by a lack of money, although it can be by the availability of resources.

The MMT approach to the command of resources is the polar opposite of that in neoliberalism. MMT seeks to do what is possible. Neoliberalism seeks to constrain what is possible.

B. Taxation

Taxation, as has already been noted, is a vital component within MMT. The claim (sometimes made, usually by those who have no understanding of MMT and often to undermine it) that MMT negates the need for taxation is straightforwardly wrong. MMT and tax are inseparable.

⁴ J. M. Keynes (Collected Works XXVII). Quoted at <https://jwmason.org/slackwire/keynes-quote-of-day-2/>

That said, what a proper understanding of MMT makes clear is that tax never funds government spending. Instead, as previously noted but worth reiterating is that tax has six purposes when properly understood. They are:

- 1) To ratify the value of the currency: this means that by demanding payment of tax in the currency it has created a government effectively requires that the currency in question be used for almost all transactions in a jurisdiction.
- 2) To reclaim the money the government has spent into the economy in fulfilment of its democratic mandate as a means to control inflation.
- 3) To redistribute income and wealth.
- 4) To reprice goods and services such as alcohol, tobacco and carbon (where prices are increased) and food, medical care and education (where prices are effectively reduced by reducing indirect taxation charges).
- 5) To raise democratic representation because there is evidence that people who know they pay tax are more likely to vote because they are more likely to engage with the social contract that paying tax embodies.
- 6) To reorganise the economy i.e. through the operation of fiscal, economic and social policy.

As will be apparent, once the first two necessary conditions for MMT to functions are addressed what is left is that tax is a mechanism for delivering the government's social agenda. In 2015 I described this as 'The Joy of Tax' in a book of that name.

Tax, when it ceases to be a tool for revenue raising takes on a much more important role in an economy by then permitting a government to act in the best interest of the community it governs by ensuring that the resources within the economy it manages are used to best effect by those best able to use them.

C. Borrowing, the national debt and government provided safe deposit facilities.

A state that understands MMT does not need to borrow from third parties to fund its activities. There are three reasons for saying this.

Firstly, a state that understands MMT will appreciate that it has already borrowed to fund its spending. The loan funds in question come from its central bank. It cannot borrow again to fund

what has already been paid for. All it can do is borrow again to refinance the borrowing it has already undertaken, which is a quite different activity.

Second, the suggestion that borrowing can take place to fund a deficit makes no sense when the currency to fund that borrowing has necessarily been spent into existence as a result of the deficit that the government has created through its central bank funded expenditure. This admittedly quite tortuous logic has to be true because all that a government deficit represents is money spent by a government into the economy (using funds provided to it by its central bank) that have yet to be recovered from that economy by way of tax. Those funds are therefore government created money left in the economy until such time as the government ever decides to reclaim them. Given that the government created this money it cannot then need to borrow it back, let alone to fund the expenditure that first created the money in question.

Importantly, this government created money left in the economy is all that the so-called national debt represents. It is simply then national money supply spent into existence by the government using funds supplied by its central bank.

As noted, government cannot fund its activities with money it has already spent into existence by funding those activities with money created for it by its central bank. All it can do is provide a safe place for deposit for those funds if their current owner wishes to make use of such a facility. Government borrowing is, as a consequence, a bank deposit taking activity. But it is not a government funding activity, a fact reinforced by the observation already made that banks do not use depositors' funds to finance loans: they simply provide them with a place of safe storage.

Third, even if the funds deposited with a government that voluntarily provides a banking service (as the UK does through the issue of gilts or bonds by HM Treasury and through what is now called NS&I and which used to be called National Savings and Investments) are used by that government to reduce the balance that it owes to its central bank (as is the case in the UK) this does not mean that the government has borrowed to fund its spending. All it does mean is that the loan to the government from its central bank has been refinanced by the government using funds provided to it by people who know that the government can always guarantee to repay the funds they have deposited in a way that no other bank can because it can always command the central bank to create new money to make that repayment, which no other bank can do.

D. Book balancing

There is a widespread political obsession with controlling the level of government debt within economies. Although asset-backed currencies effectively disappeared throughout the world after the USA abandoned the gold standard in 1971 there remains an apparent feeling that all government debt is created by borrowing and that the debt in question must be repaid because

it only exists by depriving the private sector economy of the capital that it needs to fund productive economic activity. MMT shatters the myths underpinning these claims in five ways.

Firstly, MMT makes clear, as the previous section explains, that the only borrowing that a government need undertake when financing its activities is from its central bank.

Second, as the previous section again explains, MMT makes clear that what is now called 'the national debt' is in fact the money supply created by the government.

Third, as again should be clear from the previous section, the supposed 'borrowing' by the government is no such thing: it is actually banking activity.

Fourth, and perhaps most importantly, what MMT makes clear is that 'balancing the books' makes no sense. In a growing economy with modest inflation there will be a need for a continually growing money supply. That means that not all the new money that the government creates through its spending into the economy needs to be, or should be, withdrawn from use in that economy. Growth will require that there be more money in use and it is the job of the government as curator of the currency to supply that money. The only way that it can do that is by running deficits i.e. by spending more than it taxes. There is, then, no need for tax revenues to match government spending. There is, instead, very good reason why they should not.

Fifth, and lastly, given that almost all private sector investment is financed by bank loans and as MMT makes clear all bank loans are created by commercial banks without the involvement of depositor funds, the idea that what is popularly called 'the national debt' (which term, as MMT demonstrates is incorrect) denies funding to private sector investment is wrong. The banking service that the government supplies to depositors seeking security for their funds cannot deny those funds to those seeking to make investments because the two activities are not related to each other. As a result book balancing to prevent this denial of funds to the private sector is not required.

E. Governments and money markets

If it is properly understood that the government does not have a national debt but does instead provide a voluntary safe deposit facility to those seeking to save in the most secure way four possible consequences follow.

First of all, the government has an incentive to keep interest rates as low as possible, a fact that should be reinforced by its fiscal policy.

Second, the government is no longer beholden to money markets for funding. The power of those markets over the government dissipates. If those operating in those markets do not wish to deposit the sums to the value of the bonds that the government makes available to them at the interest rate that the government wishes to pay, then 'so be it' is the appropriate response. The government will continue to be funded by its central bank instead. No one is forced to deposit with the government. Equally, the government is not forced to offer an interest rate that it does not wish to pay.

Third, as a banker (which the government should now recognise itself to be) the government is now liberated to provide banking services to those previously denied such facilities by the market sector, bringing within the scope of banking services those previously 'unbanked' who are often on the margins of society.

Fourth, as a banker the government is also able to make good the deficiencies in the commercial financial services market, including the fact that very few banking or other savings relationships provide a link between a person's savings and the use of money to fund investment. As a broker between savers and investors (a role long ago abandoned by banking as it is not required within fiat currency banking) the government could, for example, offer hypothecated savings accounts to lure savers into saving for a purpose. This is not strictly necessary since the government can always fund any investment it wishes to make by asking its central bank to create new funds for it, but it may nonetheless wish to use this option because:

- It reduces the amount of tax it might need to withdraw from the economy as a result of that new spending, effectively matching savings and investment in the fiscal cycle rather than matching investment to a revenue cycle.
- There is social advantage to create this type of saving where association between the saver and an activity within their community is encouraged.

F. Quantitative easing

Quantitative easing (QE) is little understood.

It is important to note that quantitative easing does not fund government spending. That is because government spending is always funded by the central bank lending the government the money required to make the payments it wants to make. Quantitative easing does not change that.

What QE does do is change the way that a government refinances its loan relationship via its central bank.

As a matter of convention many governments (including that of the UK) have sought to clear the loan account they have with their central bank by securing deposits from private sector savers in the way noted in the previous section. Most commonly, those private sector savers have bought government bonds when making those deposits.

When using QE the government instructs its central bank to buy back some of those bonds that it has previously issued to savers. To do this the central bank creates new money but it does not do so for the government. Instead, it does so to make payment to the commercial banks through which the payment is then made to the persons owning the bonds that are being sold to the central bank.

QE does, therefore, result in an apparent asset swap. The government previously had a liability to repay a bondholder the deposit that they had made with the government. Now, instead, it has a liability via its central bank to the commercial bank that acted as the conduit to make the payment to the former bondholder when that bondholder sold their bond back to the government.

That liability to the commercial bank is on what is called its central bank reserve account, which is the account that the commercial bank will hold with the central bank so that it can both deposit funds with the central bank and use that deposit to make payments to other banks and receive funds from them, which is how inter-bank payments are made.

As a result of QE it would appear as though long term savings balances held by bondholders (often pension funds and other institutional savers) with the government have fallen and the short term savings of banks held with the government have increased, hence the suggestion that there is an asset swap.

The story is more complicated than this though. The asset swap arrangement ignores the fact that prior to that swap taking place (which was sometimes within days of bonds being issued in the period 2020/21) new government money would have been injected into the economy as a result of central bank funded government spending. If, instead of doing QE, the government had not issued bonds it would simply have left the money that the central bank had created for it in circulation in the economy. This does not change the fact that the new money created by the central bank would still have been injected into the economy via the central bank reserve accounts of commercial banks, because this is the only conduit that exists for central government created money to enter circulation in the economy (unless, and until, that is the central bank begins to provide personal banking services, which is the motivation for so-called central bank digital currencies) but what it does mean is that the pretence that an asset swap has taken place, leaving the central bank apparently owning a significant value of government bonds, could have

been avoided. Instead, the ability of the central bank to directly fund the government would have been recognised.

The whole of QE is a sham to disguise the fact that this direct funding of the government by its central bank is going on. A proper understanding of QE would render that sham irrelevant and expose it as the wholly pointless exercise that QE is in its current form.

G. Interest on the 'national debt'

If the supposed 'national debt' is simply the balance of funds deposited with a banking activity provided by the government with the interest paid being suffered by the public purse then the only obvious interest rate policy for a government to pursue is the lowest possible rate that it can get away with. After all, the main attraction of the banking service that the government provides is not the interest rate paid but the security that is supplied on the deposits made.

There are four other reasons for also making this observation.

One is that if interest is paid on the central bank reserve accounts that commercial banks maintain with a central bank then keeping interest rates as low as possible also minimises this cost.

A second is that low interest rates encourage investment in the economy by reducing the cost of capital. This is true whether investment is made by the state or private sectors.

Third, low interest rates also reduce the upward redistribution of wealth from borrowers to lenders within an economy, which is a social goal of most governments.

And, fourth, low interest rates should reduce the cost of housing for most people in an economy as both rent and mortgage costs tend to be related to the prevailing interest rate.

MMT enables and justifies this low interest rate policy.

H. The control of inflation

What MMT makes clear is that this policy of low interest rates is possible because fiscal policy, or the variation in tax rates, is MMT's preferred mechanism for controlling inflation. That is because removing money from circulation within the economy is the most direct method of reducing demand within an economy when that is required to control inflation (which may not always be the case, as was true in 2022/23).

The correct tax changes required to control inflation will require judgement, it being necessary to tailor the tax adjustment to the part of the economy where inflation arises or the group most impacted. For example, capital asset inflation might require adjustment to capital gains tax rates.

What is true is that the most effective tax to use for this purpose would usually be an indirect tax, such as value added tax (VAT). However, since such taxes are regressive in their impact benefit changes might be required in parallel with their use. The creation of new indirect taxes, such as financial transaction taxes on personal financial flows through bank accounts, may be required by a government using tax to control inflation. This way carefully graded changes could be made to tackle the issue. Such taxes might also be used to dispense with 20th century tax anachronisms such as national insurance or social security contributions.

I. Full employment

Some exponents of MMT place particular emphasis on what they call the 'job guarantee' when explaining the merits of their thinking.

The job guarantee that they describe is intended to control inflation by providing employment to anyone who is willing to work and who cannot otherwise secure it. The intention is to replace unemployment as a mechanism for stabilising demand, which is how monetary policy works. Instead, the job guarantee suggests that anyone involuntarily unemployed should be paid a living wage to work on programmes agreed to be appropriate locally even though the scheme would have to be funded centrally as it would be a part of macroeconomy policy. Unemployment would, as a result, cease to be a tool for the control of inflation and taxation would have to be used for this purpose. Unacceptable low paid work would also cease to be a tool of economic power for employers.

The policy is consistent with Keynes' maxim that whatever is possible can be afforded. If people wish to work it is possible to employ them. That makes sense.

However, this paper does not accept that this idea is a core tool in MMT that will remove inflationary pressure. The academic thinking that suggests it misunderstands the relationship between work and taxation. That same thinking also fails to understand the causes of inflation, by suggesting that it can only be caused by a government refusing to spend enough into the economy to employ all those that the proponents of the job guarantee suggest are made unemployed solely because of the imposition of taxes. There is no economic logic to this claim. There are many causes of unemployment, but imposing taxes is not one of them.

As a result, the job guarantee is made possible by MMT, but cannot be core to its thinking when inflation can arise for a wide range of reasons and needs a broad range of possible responses.

Richard Murphy

Professor Richard Murphy is Professor of Accounting Practice, Sheffield University Management School. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the Academy of Social Sciences.. He co-founded the Tax Justice Network, the Fair Tax Mark and Finance for the Future. He founded and still directs Tax Research UK. He co-created the Green New Deal and remains an active member of the Green New Deal Group. He is founder-director of the Corporate Accountability Network.

Richard created the concept of country-by-country reporting, which is now in use in more than 90 countries around the world to identify tax abuse by multinational corporations as a result of backing for it provided by the Organisation for Economic Cooperation and Development. Richard has created the concept of sustainable cost accounting.

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