

# Where we were, where we are, where we are going

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## Slide 0 - Introduction

- Where we were.
  - Political economy started with a message based on hope
  - Where we are.
    - Despite Gorton and Denton we are in a might mess
    - 45 years of the politics of destruction
    - The reality of the economics of failure
    - The rise of the politics of hate
    - It's never been as bad as this
  - Where we are going
    - We're heading for chaos
    - Or we could head for a politics of care, an economics of hope and politics for people
    - Gorton and Denton showed us we are right to dream
    - Today is about what is possible
    - What can be done
    - And shows it is now wild to believe in this
    - We can fund the future
    - We can live together sustainably, in mutual prosperity
  - But to show how, let's go back to the beginning and talk through how we got here.
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## Slide 1 – Where we were

- Let's start at the very beginning
- Adam Smith – *The Theory of Moral Sentiments* (1759)

- Adam Smith – *The Wealth of Nations* (1776)
  - *The Wealth of Nations* is a footnote to *The Theory of Moral Sentiments*
  - So the question is:
    - What is a moral sentiment?
  - Is that enough to define the whole of political economy?
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### Slide 2 – What is a moral sentiment?

- Smith defines sympathy as our ability to feel compassion for another
  - Determined by Impartial Spectator: an imagined, unbiased judge
  - Smith says we regulate our behaviour to conform to social standards.
  - We seek that approval exercising moral judgments, not cold, logical analysis.
  - Moral sentiments are empathy with others
  - We manage our passions to fit within a moral community.
  - Adam Smith began with the politics of care: empathy before calculation.
  - This is where we were.
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### Slide 3 – What we got

- We got an economics that:
  - Focused on labour value – long before Marx wrote about it as a theory of exploitation
  - That condemned rentiers – especially landlords
  - And market abuse by monopolists, limited companies and big corporations
  - A surprisingly compassionate economics that served moral purpose, education and the public good.
  - Although let's also not forget this was also the era of peak slavery and colonialism – it was not all good news.
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### Slide 4 – 100 years on all that was history

- A century later – the 1870's – economics becomes "shut up and calculate"
  - Rise of utility theory, marginal mathematical analysis
    - Jevons and Walras
  - And then the neoclassicists:
    - Marshall and Pareto
  - The aim was "rationality"
  - And mathematical modelling
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## Slide 5 – And we got one Pernicious Law

- Jean-Baptiste Say argued in the 19<sup>th</sup> century:
    - producing goods creates income equal to their value,
    - so supply generates the purchasing power needed to buy output.
  - So, he said, there can be no persistent overproduction or glut
  - And markets should clear if prices and wages adjust
  - He assumed:
    - Everything markets make is always what people want
    - Nothing made ever goes unsold, and it always goes for full price.
    - This is total nonsense, of course
  - But this nonsense has implications. It was claimed that:
    - unemployment or stagnation must come from rigidities or policy errors,
    - not a lack of demand
  - The result? The rise of
    - “the market is always right”, and
    - “government must not interfere” ideology
  - Neoliberalism has deep roots. It’s really 150 years old now.
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## Slide 6 – 60 years later – 1936

- The world in crisis – depression and mass unemployment
  - One man realised Say’s Law failed – Keynes, in 1936
    - The General Theory of Employment, Interest and Money
  - He said:
    - Investment depends on expectations and uncertainty,
    - Savings do not automatically turn into spending, and
    - markets do not reliably self-correct.
  - So, government’s must act
  - Keynes wrote for a humanitarian crisis – and the world listened.
  - He said (near enough) “Whatever we can do, we can afford.”
  - Money is not an issue
  - And he proved it by funding World War II and the fight with fascism.
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## Slide 7 – And then the world forgot

- When the war was won the world forgot Keynes
- It went back to “shut up and calculate” – or neo-Keynesianism

- John Hicks – IS/LM
    - IS = Investment equals Saving
    - LM = Liquidity equals Money
    - Mathematical models based on fantasy
  - And Paul Samuelson's textbook turned macro becomes glorified micro
    - Markets work long-term; government fixes short-term glitches.
    - Neo-Keynesianism denied the true role of government.
    - It said never interfere in the long term
  - Of course, neo-Keynesianism died – it was total CRAP – a completely rubbish approximation to the truth
  - It forgot what Keynes knew: probability is not the same as uncertainty
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### Slide 8 – 1979 and all that

- That opened the door for the market fundamentalists:
    - Hayek, Friedman, Mont Pelerin Society
  - Reagan and Thatcher delivered their neoliberalism
  - The politics of destruction
  - Keynes and Beveridge – with the welfare state - saw a role for government
  - Neoliberals saw none – and tried to dismantle it
  - Result: inequality, insecurity, anger, the demise of functioning democracy – and the rise of fascism.
  - And all the time they assumed risk = uncertainty, and it does not
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### Slide 9 – Risk v Uncertainty

- Probability: known outcomes + measurable risk
  - Uncertainty: unknown outcomes + no calculable odds
  - Treating uncertainty as probability gives us CRAP economics:
    - failed forecasts, and
    - policies that ignore social security, public investment, and capital maintenance
  - Real lesson: design economies for uncertainty, embracing the ideas of the second law of thermodynamics:
    - resilience,
    - sustainable public institutions, proper accounting, and
    - a politics of care that protects people and all five forms of capital
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### Slide 10 – So where do we go?

- To that politics of care
  - And the economics of hope
  - As well as politics for people
  - That's what today is about.
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### Slide 11 – Let's come full circle

- **If there is an argument in what I am saying today it is this:**
  - I started with Adam Smith and his theory of moral sentiments:
  - A political economy based on empathy
  - Where cold calculation did not matter
  - And moral judgement did
  - And that is where we need to get back to for the world we now live in
  - A world where we should manage our passions to fit within a moral community.
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### Slide 12 – Funding the Future

- We need the answer to the ultimate question.
  - It is not 42.
  - It is: "How are we going to pay for it?"
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### Slide 13 – The myths we must lay aside (1)

- The household budget analogy
  - The government is not like a household
  - It is madness to say it is
  - Or it is a deliberate ploy to undermine government
- Governments:
  - Can create law, change markets and the terms of trade
  - Can create money
  - Can tax
- Households:
  - Can't do any of those things
- Households are constrained in ways governments aren't
- To pretend governments are constrained is to make diminish them

- This myth is a lie
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### Slide 14 – The myths we must lay aside (2)

- “There is no money”
  - This assumes the government is constrained by its capacity to:
    - Tax
    - Borrow
  - Neither is true
  - Tax and borrowing are only possible because the government has made the money then taxed or borrowed
  - That means tax and borrowing can’t constrain government
  - They’re made possible because government spent in the first place
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### Slide 15 – The myths we lay aside (3)

- If the government creates money we’ll get inflation like the Weimar Republic, Zimbabwe or Venezuela
  - Not true:
    - They were all failed states
    - They did not have functioning tax systems
    - They had to borrow in foreign currencies
    - They faced war, sanctions, land seizures or loss of exports
    - Money printing followed economic collapse – it did not cause it
  - In a stable country with real resources, taxation and democratic control, public money creation funds investment, jobs and social security – it does not cause hyperinflation
  - And we’ve been doing just that for 160 years now to prove the point
  - So long as we recognise the real constraints, we will not get inflation. They are having available:
    - People
    - Skills
    - Material resources
    - Energy
    - Sustainable capital
  - Those are what we must create.
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### Slide 16 – So how are we going to pay for what we want?

- By doing it.
    - Households pay for what they want by working.
    - Businesses pay by producing goods and services.
    - Governments pay by meeting needs.
  - “We can afford whatever we can do.” – Lord Keynes
  - If there is need to meet and resources that let us do so then we can afford to meet that need
  - And if resources exist but are used for “shit” jobs we have to tax so the private sector reallocates resources to the state
  - This is a totally acceptable use for tax
  - The State and meeting needs is not an afterthought – meeting needs has to come first
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### Slide 17 – Where does the money come from?

- Government passes a legal budget.
  - Government instructs the Bank of England to pay.
  - Bank of England makes the payment.
  - Government account is marked up.
  - That is how government spending happens.
  - We can always find the money – saying anything else is wrong
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### Slide 18 – The magic money tree

- Ministers say there is no magic money tree.
  - Yet governments create money every day.
  - The myth exists to support the household analogy.
  - We have to consign it to history
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### Slide 19 – Real constraints

- So, again, Keynes said we can afford whatever we can do.
- What are the real limits on what we can do?
  - Skilled labour
  - Materials
  - Energy

- Investment capacity
  - Time
  - Inflation control
  - Money is not the constraint. Planning is.
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### Slide 20 – Planning in the real world

- No business plan starts with a spreadsheet.
    - It starts with a vision.
    - Then it assesses resources.
    - It plans finance around reality.
    - And then tests plausibility.
  - I have done this hundreds of times as an accountant.
  - Government should know it too.
  - We have to start with reality
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### Slide 21 – Planning – Treasury style

- Right now, the Treasury starts with cash flow, not any plan to meet need.
  - It ignores the economic impact of spending.
  - And it treats borrowing as failure, not policy.
  - This is how you design decline.
  - So, if we want to plan for care, and hope we have to do something different
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### Slide 22 – First step to heaven – planning

- Let's start with planning. We need a planned state. And why not?
  - The old maxim is: failing to plan is planning to fail.
  - We have not planned.
  - The government must plan for:
    - housing,
    - energy,
    - health,
    - education,
    - poverty eradication
    - climate transition.
  - Planning is democracy in action.
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### Slide 23 – Second step – understanding money

- Governments create money.
  - Central bankers all know this.
  
  - Money creation is a keyboard entry.
  - The question is what we do with it.
  
  - We need to plan the economy recognising this.
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### Slide 24 – Third step – understanding tax

- Tax does not fund spending. Tax:
    - Creates demand for currency
    - Reclaims money
    - Reduces inequality
    - Corrects market failure
    - Delivers fiscal policy
  
  - Tax is about justice and stability.
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### Slide 25 – Fourth step – controlling inflation

- Inflation is not “too much money.”
  - It is too few goods and services.
  
  - Control inflation by:
    - Planning production
    - Investing in capacity
    - Using tax quickly when needed
  
  - Interest rates are blunt tools for controlling inflation:
    - Bring monetary policy back under government control
    - End Bank of England independence
    - Deliver a low interest rate policy
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### Slide 26 – Fifth step - ask the real questions about the state we're in

- Why are people sick?
    - Poor housing, bad work, pollution, stress and inequality
  - Why is the web toxic?
    - Monopoly power, surveillance capitalism and weak regulation
  - Why are interest rates high?
    - Policy designed to protect rentiers, not people
  - Why is growth failing?
    - We are consuming capital instead of maintaining it
  - Why are inequality and poverty rates so high?
    - Politicians will not tackle what they say are market outcomes
  - These are political choices
  - And we can choose instead a politics of care that restores all five forms of capital
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### Slide 27 – What is capital maintenance?

- This concept is vital to a politics of care
  - Most economists know nothing about it because it is accounting and not economic theory
  - Income is what we can spend **after** maintaining capital
  - So, we must maintain five forms of capital:
    - Financial
    - Physical
    - Human
    - Social
    - Environmental
  - We are running all five down
  - So our “growth” is an illusion
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### Slide 28 – Why GDP misleads

- GDP ignores capital destruction
  - That’s why the world is falling apart all around us
- GDP ignores inequality
- GDP ignores unpaid care
- GDP ignores environmental collapse
- So, GDP says we are richer when we are poorer
- The consequence:
  - We need new national accounts

- But that means we need goals other than growth to deliver:
    - Wellness
    - Sustainability
    - Training for life
    - Sufficiency for all
    - Equality
  - A very different economy
  - And different goals will radically change policy
  - And we can afford to do that
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### Slide 29 – What a politics of care means

- But this is what a politics of care means
  - Public investment in housing, health, education and climate
  - Strong social security, not punitive welfare
  - Properly funded local government
  - Fair tax on wealth, rent and monopoly power
  - Democratic control of finance
  - A state that plans for well-being
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### Slide 30 – The role of taxation

- And we need to reclaim tax (and benefits)
  - Tax reclaims money to control inflation
  - Tax reduces inequality
  - Tax limits rentier power
  - Tax reshapes markets
  - Tax funds social justice indirectly
  - Tax is about fairness and stability
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### Slide 31 – What happens if we do nothing

- We must do this.
- The alternative is
  - Falling living standards
  - More inequality
  - Public service collapse

- Rising authoritarian politics
  - Climate catastrophe
  - Loss of democracy itself
  - This gives urgency.
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### Slide 32 – What we can do now

- Change the narrative
  - Talk about these ideas
  - Tell politicians about them
  - Share them on social media
  - Create a tipping point
  - We can do this
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### Slide 33 – Coming full circle

- But let me summarise
  - Adam Smith began with moral sentiments
  - Keynes reminded us economics is a moral science
  - Neoliberalism forgot both
  - We must rediscover empathy before calculation
  - That is the economics of hope
  - That is Funding the Future
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### Slide 34 – Closing slide

- We know what we need
- We know we can afford it
- We know how to do it
- The only question is political will
- So let's build an economy that works for people
- A politics of care
- A future worth funding