Funding the Future

The worst attack on MMT, ever?

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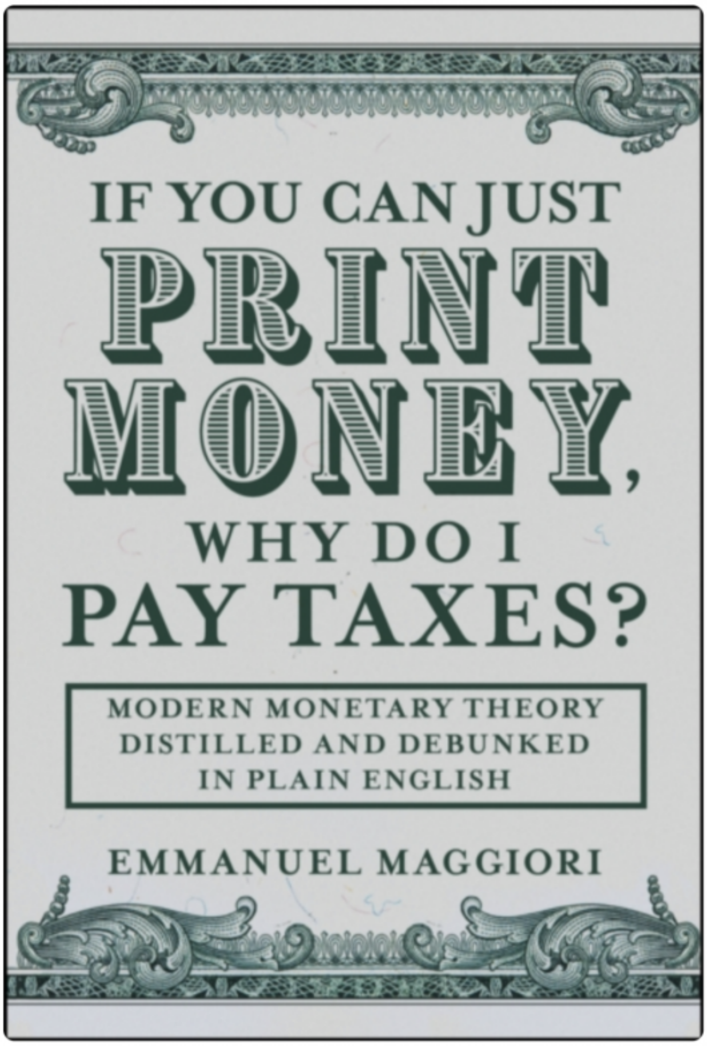
I spent too much of this weekend reading this book.



I did so in order that I might write this review, and trust me, you are now in my debt. That’s because this is easily the worst book on economics that I have ever read, and I come across some pretty terrible ones in my time.

Let me put this another way, using the words I used to summarise it for my wife, Jacqueline, who had to suffer my verbal abuse whilst reading one false claim after another. It is “a crock of shit”.

As you will note, the book claims to distil and debunk modern monetary theory in plain English. The straightforward fact is that it does nothing of the sort. Instead, it argues with a straw man version of MMT of the author’s own creation. In the process, it peddles a great many falsehoods.

In addition, it claims to prove its arguments without coming remotely close to doing so, whilst frequently contradicting itself.

But, before getting to any of that, let me stand back and explain what this book really does not do. This book does not, and I cannot list everything:

* Explain what money is.

* Explain how money is created, or by whom. It would seem that, in the author’s view, money just “is”; a mysterious exogenous phenomenon within the economy.

* Explain how money might be destroyed or taken out of circulation in plain English.

* Ever touch upon the role of commercial banks in the money management process or even mention their involvement in anything to do with money, including its creation and destruction.

All of that is quite bizarre.

The book does, however, claim, usually without explanation, that:

* Governments cannot create money before later acknowledging that they might have done so.

* Governments should not create money.

* A government has to replenish its bank account from external sources before it is able to make payments.

* Inflation is always, and forever, the consequence of a government creating too much money. No other alternative is ever considered.

* Governments never own their own debt, which might come as something of a surprise to the UK Treasury’s Debt Management Office, which regularly owns tens and even hundreds of millions of pounds’ worth.

It never explains:

* The interaction between money creation and taxation.

During his narrative, the author reveals a total lack of understanding of:

* Double-entry bookkeeping and its role in money creation.

* Central bank reserve accounts and their operation.

* Monetary policy, both conventional and unconventional.

* Sectoral balances and the accounting identities that underpin them.

* Fiscal policy, the mention of which is absent from the book.

* The dependency of financial markets on government debt.

* The nature of money as debt, which is inexcusable when this reality is printed on every UK banknote.

He does, however, either by implication or more directly, reveal a belief in:

* The gold standard.

* The quantity theory of money.

* Milton Friedman's original claim that inflation is always a monetary phenomenon, even though Friedman himself abandoned the idea.

* Government incompetence, and by implication, public choice theory.

* The inadvisability of permitting government control of the money supply, which, it is claimed, is a view shared by all economists except those promoting MMT.

He also makes some straightforwardly false claims, including:

* That central banks are always and completely independent of the governments that control them.

* That those central banks do not, and should not, ever take into account the wishes of those same governments when making their decisions.

* That single-entry accounting exists, this being the only basis on which the claimed need of governments to fund their spending can be made.

None of this is a good start when writing a book on MMT.

So what does the book say? The book seeks to demonstrate that what it calls the MMT world is a fantasy which does not withstand comparison with what it calls economic reality.

Doing so, Maggiori suggests there are only three principles underlying all we need to know about MMT. These MMT principles, he suggests, are:

* The government can always pay for whatever it desires because it can always create new money, in which case MMT says we need never worry about money or the consequences of its use.

* The government creates new money every day. As a result, the government can never run out of money, and it can always afford whatever it wishes to do.

* If we loosen budgetary limits, debt ceilings and so on, we could let the government spend more and create money as required, and there will be no adverse consequences as a result. There are free lunches that the government can exploit.

This is, of course, total nonsense. MMT says nothing like this. It sets out very precise conditions under which a government can create money, and they are not universal. Some governments, and all subnational governments, cannot do so. The universality of Maggiori's claim is just wrong.

It is also fundamentally wrong to suggest that a government can create money without consequence. MMT makes it very clear that this is not the case. MMT makes clear that the capacity to spend is strictly limited by the availability of labour, resources and the constraints imposed by climate change. Breach those constraints and inflation follows.

It is, however, true to suggest that a government can never run out of money and can always settle its debts. That is the case. It cannot be otherwise in a fiat money system, and it is hard for anyone to deny that this is what we have, however much wishful thinking an author undertakes.

However, let me ignore all these false arguments about MMT, because they do not affect the substance of the argument within the book. Although Maggiori claims that what he describes as the MMT world does not exist, if you read the whole book (and I cannot recommend doing so), what you discover is the shock of his realisation that, in practice:

* Governments can, in fact, create money,

* They do not necessarily create inflation by doing so, and

* Central banks do coordinate with governments in the delivery of policy,

all of which he thinks is a shocking discovery, but which just suggests the degree of his naïvete.

Saying so, let me stress that the appearance of naïve belief in an ideal form of economic management in the real world is essential to his argument within the book.

This is apparent from the following quote from page 41 within it, which is the opening section of chapter 2, which he describes as being about the "real world" that he thinks exists. It says:

It is now time to travel back to the real world, where there are rules that limit the government's power to create money. I'm sorry to be such a killjoy.

In the real world, restrictions are imposed to make the government run like a household. The central bank is usually set up as an independent organisation whose daily operations cannot be controlled by the ruling government. For example, the Treasury, which is the department in charge of government finances, cannot force the central bank to create new money to cover its spending. This tends to turn the government into just another client of the central bank and a user rather than issuer of the national currency.

He adds:

From now on, for simplicity, whenever I speak of "the government", I will assume the central bank is not part of it but a separate public-purpose organisation.

In addition, the central bank is granted political independence. This means it is given certain goals, such as controlling inflation, and it can choose the best tools to do so.

Where does one begin when assessing the nonsense implicit in this series of claims?

The first, and most obvious, thing to say is that in this so-called "real world" there are economists and politicians who have decided that they will force the government to act as if it is a household even though it is not. As a consequence, this "reality" is not real, but is instead based upon a fantasy, whereas MMT is not. In that case, and as is usual with many arguments put forward by those on the right wing, a falsehood is represented as the truth, and the truth is represented as a falsehood. Everything is inverted, and this whole book is based upon that logic.

Secondly, if only Maggiori understood how governments worked, he would, for example, have come across the Exchequer and Audit Departments Act 1866 in the United Kingdom, last updated in the year 2000, which means that the Treasury can, day in and day out, instruct the Bank of England to make payments on its behalf without the Bank of England ever being required to enquire whether resources are available to meet the obligation being settled.

What is more, because, as a matter of convention, the government's cash position is balanced at the end of the day, this task is not fulfilled by the Bank of England, but is instead managed inside the Treasury. This does not, then, turn the government into just another client of the central bank, it turns it into its master, a fact confirmed by the Bank of England Act 1998, under the terms of which the Governor of the Bank of

England is appointed by the government, and all its board members are subject to government approval, which is unsurprising as the government is its sole shareholder.

And then, far from being independent as Maggiori claims, the Bank of England's accounts are consolidated into the UK government Whole of Government Accounts, providing the clearest indication that it is under central government direction and control in the opinion of independent auditors.

In addition, the Bank of England is not given a choice of instruments that it may use to control inflation, but is in fact only provided with the opportunity to control the interest rate within parameters set by the Treasury, and if it wishes to use other instruments, such as quantitative easing and quantitative tightening, it can only do so with the explicit consent and prior approval of the Treasury, as indicated by publicly published letters.

Taking all this evidence together, what we in fact discover is that the supposed reality that it is said disproves MMT is, in fact, the fantasy, and, as Maggiori keeps recognising as he progresses through the book, the real world behaves as MMT suggests, not least when it comes to the management of economic crises, but also with regard to day-to-day matters as well.

Conclusion

Let me, therefore, conclude this overly long review of this truly worthless book. What the author has presented is a form of fairytale in which good is bad and bad is good, and facts are false, and falsehoods are true.

Simultaneously, reality is ignored, and the economic assumptions long associated with neoliberalism are promoted, whilst, very oddly, the cast of characters that you would expect to find in a book like this, including money, banks and debt, are almost notable by their absence.

To describe this book as being partial in its selection of evidence, in its appraisal of data, and in its basis for argument is, therefore, to be generous to it. Frankly, it does not provide evidence, it does not appraise data, and there are no arguments contained of worth within its pages.

I was left with one overwhelming question as a result, which is why a supposedly reputable publisher like Wiley decided to publish such an utterly meaningless pile of nonsense with no academic credibility whatsoever. Only they can answer that, because I most certainly cannot.

Please, don't waste your time with this book, let alone your money. Almost any other use of your time and money that you can imagine will be better spent.