The Gower Initiative for Modern Money Studies

MMT and Public Policy

Modern Monetary Theory can help us to think differently about public policy

Modern Monetary Theory is not prescriptive. It describes how a post gold-standard, fiat money system operates and explains how currency is an economic tool. Sovereign currency issuing governments are not constrained in the same way as households or businesses. This takes the focus away from 'how will you pay for your services?' into looking at what policies can best serve the economy, the nation's well-being and raise living standards for all.

The question should not be 'how will the government raise the money' to pay for such services. The question should be whether we have sufficient resources to deliver those policies and how best to serve the interests of the nation as a whole. Decision-makers should consider the impact of government policies on the economy and citizens, not just the cost of its aspirations. It may seem extraordinary to suggest that they do not but working within the current orthodoxy, which puts achieving a balanced budget as the highest economic priority, means that financial constraints always take precedence over real consequences. As an example, welfare advisors and food bank workers were astonished to find the Department of Work and Pensions (DWP) were commissioning research on food bank use. Funding of £217,000 has been approved for the report. It aims to find out how many people are being forced to seek emergency food aid and why. As well as assessing the role of DWP policies, it says the research should look at "how far economic factors have influenced the use of food banks". Evidence of this link has been provided by campaign groups consistently as the use of food banks grow, but the DWP's position could be roughly construed as being that as that wasn't the policy intention, it therefore couldn't be the policy consequence.

Politicians often talk about being fiscally responsible and that means making sure they balance the budget just as one would do in a household. These arguments ignore the power that a sovereign currency issuing country has over its policy choices.

For many decades economists and politicians have conducted economic policy on the basis that unemployment is an economic stabiliser. This has been under the assumption that allowing just enough unemployment in the economy prevents inflation from rising above a target figure. The effects of sustained periods of involuntary unemployment have been widely documented. It imposes significant economic, personal and social costs that include:

- Loss of national output and income
- Social exclusion and loss of freedom
- Skill loss
- Psychological harm
- Ill health and reduced life expectancy
- Loss of motivation
- Erosion of human relationships and family life
- Racial and gender inequality
- Loss of social values and responsibility

The United Nations Universal Declaration of Human Rights includes the right to work. The Indian economist and philosopher, Amartya Sen, in his work 'Millennium Development Goals' (1997) advocates full, productive and decent employment to counter the social and economic costs of unemployment which go well beyond the loss of income.

When a government chooses to use unemployment to promote price stability it not only forces those who are already disadvantaged to bear most of the costs but it also impedes the development of social cohesion.

In real terms, then, looking at government economic policy through an MMT lens means assessing the impact of policy decisions on people and productive and raw resources. It does not mean that the government can or should spend unlimited amounts of money. It must measure the impact on choosing to use resources for public purpose on the non-government sector, as well as what it will achieve in public service provision. But it can fund public services, whether that is the NHS, education, courts and probation services or any other, to the limit of those resources to ensure they function properly. In practical terms that would mean that although it may not be possible to build a new hospital, because of a lack of skilled workers or bricks and mortar, a hospital which still serves a useful purpose to its community should never be shut down 'for lack of money'. Nor should school budgets or local authority budgets be reduced on those grounds.

If there is a need for the service and the resources to provide it there is no financial constraint. The government can also ensure employment at a living wage for those who find themselves, temporarily or permanently, unable to find work when they want it. Contrary to the image this conjures up for many people, this makes governance a very strict business. Over-committing funds where they are not needed or cannot be used effectively or efficiently would be as damaging in the long run as austerity.

We have to be clear that nothing in the above restricts any policy choices that any government may make. A party intent on low state intervention, allowing private sector providers to compete for public service contracts and a low tax regime has as much right to their political stance as a statist one or one which promotes subsidiarity or full public ownership. However, all should be obliged to argue their case on ideological grounds rather than 'affordability', 'sustainability' and 'how are you going to pay for it'.

The Job Guarantee – Nationally Funded, Locally Provided

A Job Guarantee (JG) is not workfare and there is no compulsion. A JG is a government funded employment programme creating jobs at a living wage for those who cannot otherwise find work. It is an essential part of the MMT policy approach. It is administered by local government and communities and provides useful, meaningful employment in the public, voluntary and non-profit sectors to anyone who wants a job and can't find one. It provides a living income along with training and comprehensive employment rights and benefits.

A JG offers employment when aggregate (total) demand falls below the level required to maintain full employment as a result of an economic downturn. It does not displace private sector jobs. Once private economic activity picks up again workers can then be hired by employers if the job guarantee employee chooses.

The JG works to smooth out the fluctuations that occur during the business cycle. It helps to stabilise aggregate wages which cannot fall below the JG wage and as such helps stabilise consumption.

References:

Professor Bill Mitchell of Newcastle University in Australia is one of the foremost exponents of Modern Monetary Theory (MMT). In his works and this interview Mitchell explains the role of the Job Guarantee in enabling currency issuing governments to maintain full employment - https://youtu.be/KSw0ROvM6QM

Economics Professor, Fadhel Kaboub from Denison University, USA makes his case for the Job Guarantee. A lecture given in London in April 2018 - https://youtu.be/h1Ux_JbHQVE