



**Centre of Full Employment and Equity**

# Local Government Funding

## Challenging the Status Quo

Professor William Mitchell

University of Newcastle

Australia

<http://www.billmitchell.org>

## Two questions for Bill ...

- Central Government Grant – are there an economic reasons for these level of cuts?
- How can a government fund:
  - development of local infrastructure
  - enhance wellbeing of people
  - improve our environment

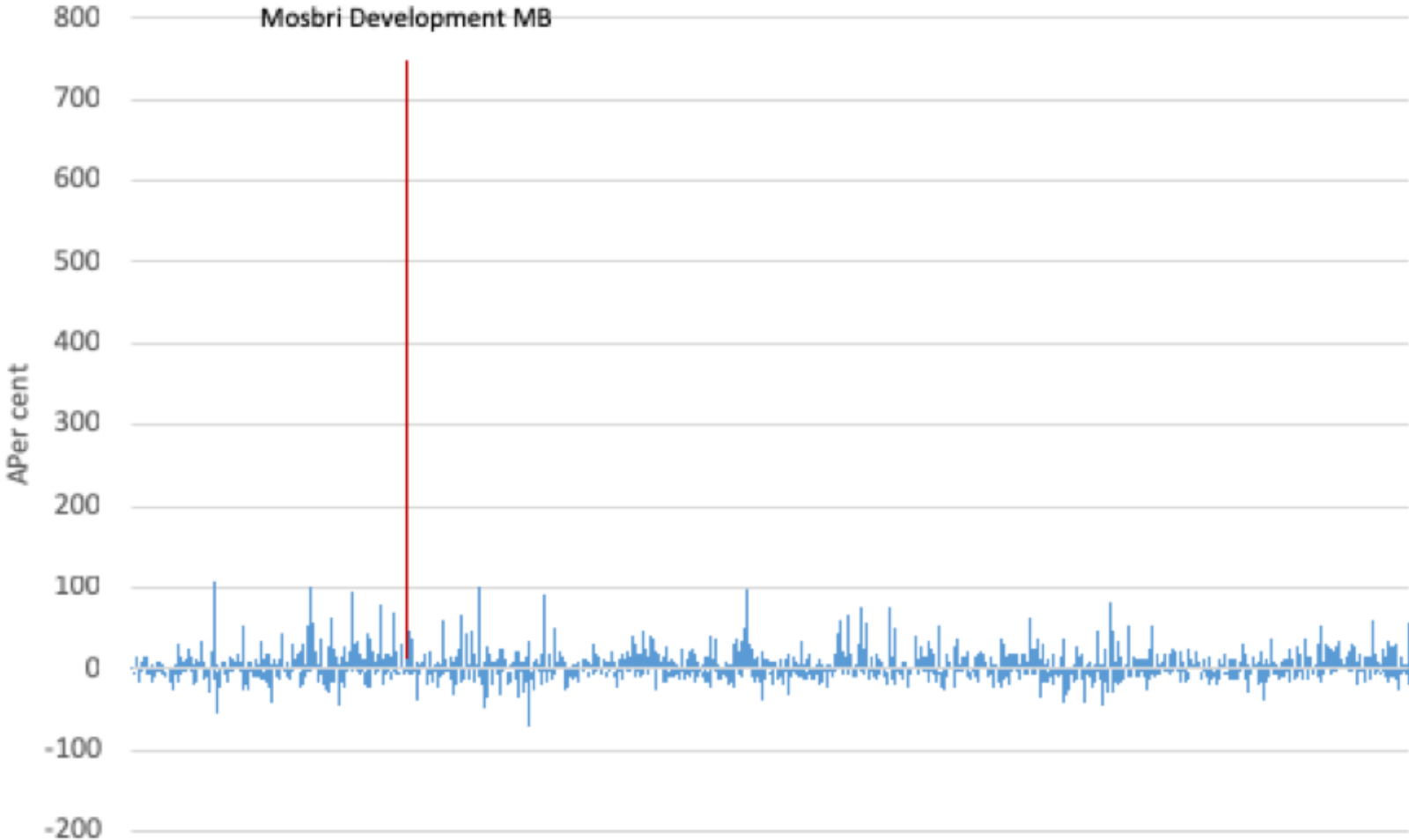
# The pathway

- Monetary ignorance.
- Manipulated by neoliberal government agendas.
- Creates a smokescreen - 'authority' for austerity.
- Reinforced by depoliticisation strategies.
- Compromises local government capacity.
- Progressive politics blind to what is going on.

# The solution

- Education.
- Grass roots activism.
- Party branch activism.
- Strategies to **reclaim the state**.

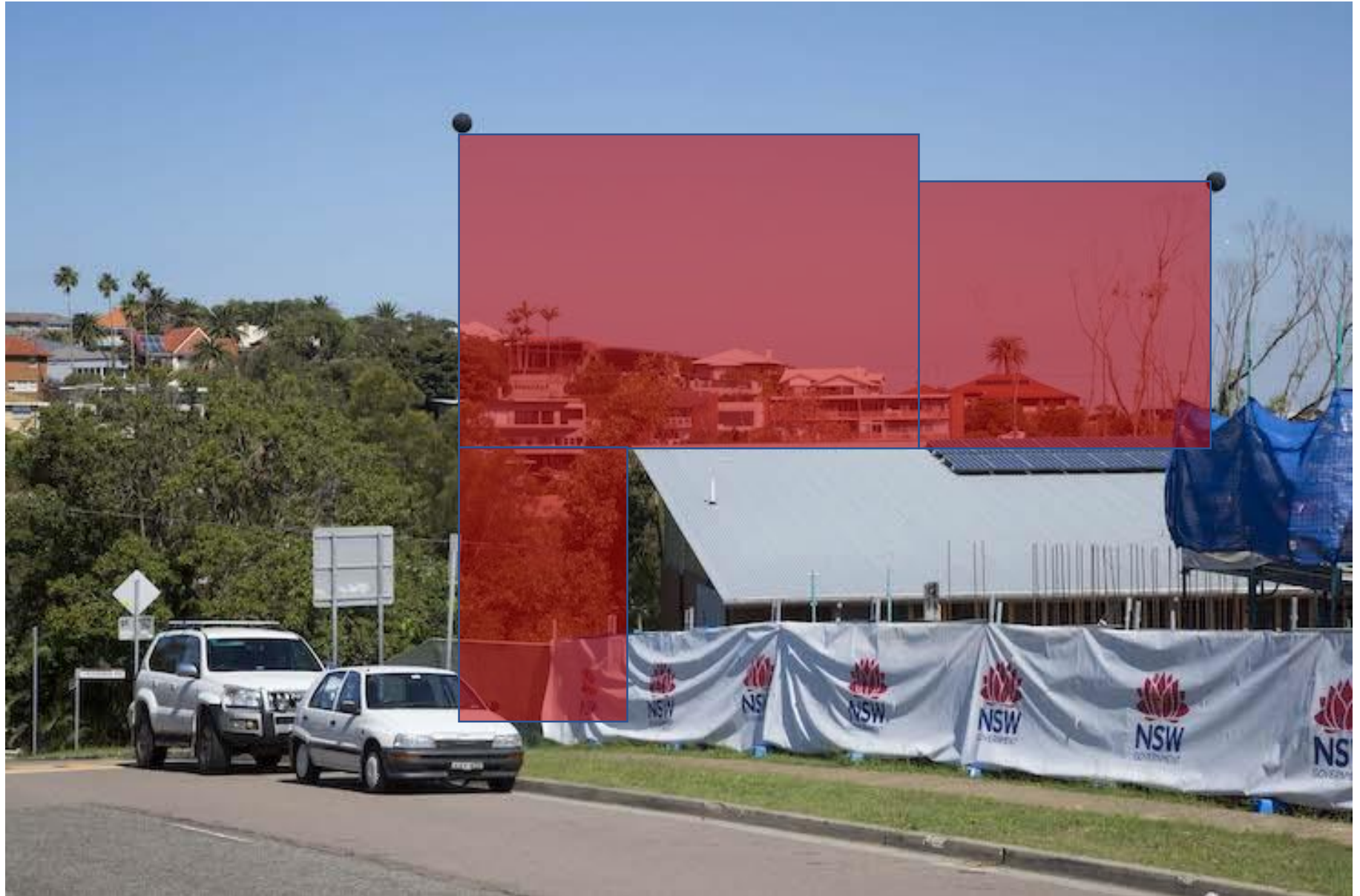
# Infill development!!



Newcastle, NSW 2019



# Newcastle, NSW 2019

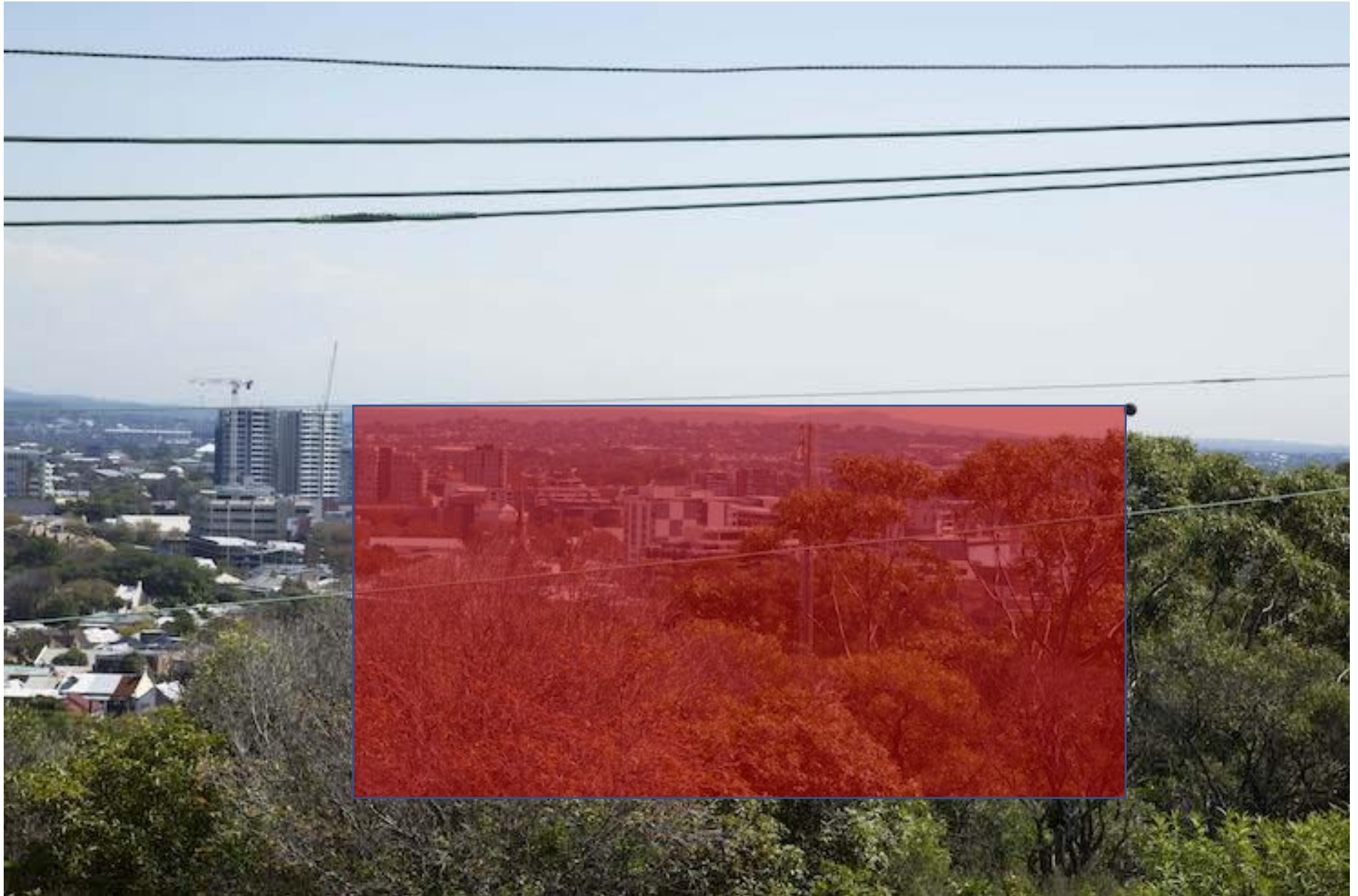


Newcastle, NSW 2019





# Newcastle, NSW 2019



Newcastle, NSW 2019



Manchester, UK 1983



## THE HOLE STORY THAT'S UNDER YOUR WHEELS

The crisis beneath our roads and streets is not just confined to major centres such as Manchester. Reports nationwide tell the same story.

● Traffic chaos as sewer collapses ran a headline in the *Wembley Observer*, last April, as part of the North London suburb was sealed off, creating huge traffic tail-backs in both directions.

● London Borough of Brent residents were surprised to find one of their street lamps reduced to pavement height as it sank into a 15 ft square hole last October. 'Collapses are getting more frequent as traffic weight increases and sewers begin to show their age' said director of development Charles Wood.

● In Swansea the main sewer system was considered a technical marvel when it was built, in the 1930s. Now it is collapsing. One major rebuild in mid 1981 disrupted the High Street for weeks.

● *The Birmingham Evening Mail*, in July last year, reported a major sewer collapse in Handsworth, Birmingham. 'It almost swallowed a passing lorry' said the report as the six-foot-wide chasm opened in Ninevers Road.

● In August last year engineers in Croydon spotted a major sewer breakdown in time to prevent what a

spokesman called a major health hazard and all sorts of other problems. 'It could have collapsed at any time.'

● Counsellor David Williams in a statement to Richmond (Surrey) council, in January this year, reported that the wasted man hours resulting from the massive collapse in Petersham Road had cost a total of £10 million. That's in addition to the actual cost of repairing the sewer, which caused the road to be closed for a year.

● Christmas trade in Oxford was badly hit in late 1981 when a sewer collapsed in the High Street, diverting traffic for five weeks. In January this year, urgent repairs to another sewer between Carfax and the covered market closed the roads again for three weeks.

● In Manchester, sewer deterioration resulted in the road between Piccadilly and St. Peter's being closed for six months, running right across the 1982 Christmas shopping season.

● Among 4030 sewer leaks recorded in 1981 was the collapse of a sewer under Torwood Street, Torquay. Local voices were raised against what they saw as local council apathy in allotting funds to prevent other collapses.

● *The Ashton under Lyne Reporter* headlined what it called 'a desperate fight to save one of Dukinfield's main sewers' in August last year. If it had collapsed — as it was about to do — it would have carried away a section of the local railway line and destroyed a factory.

# November 5, 2014

British National Audit Office – Strategic flood risk management  
- report:

- “current spending is insufficient to meet meet many flood defence maintenance needs”.
- “long-term investment” necessary just maintain “current overall level of risk ... would need to increase by an average of £20 million every year ... until 2035”.
- “between 2010 and 2013 ... funding was reduced by 18% and 10% respectively”.
- “The Agency anticipated it would achieve a programme benefit–cost ratio of at least 8:1 for its flood defence projects”.



# NEWS

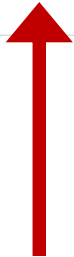
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## Storms Desmond and Eva flooded 16,000 homes in England

🕒 5 January 2016

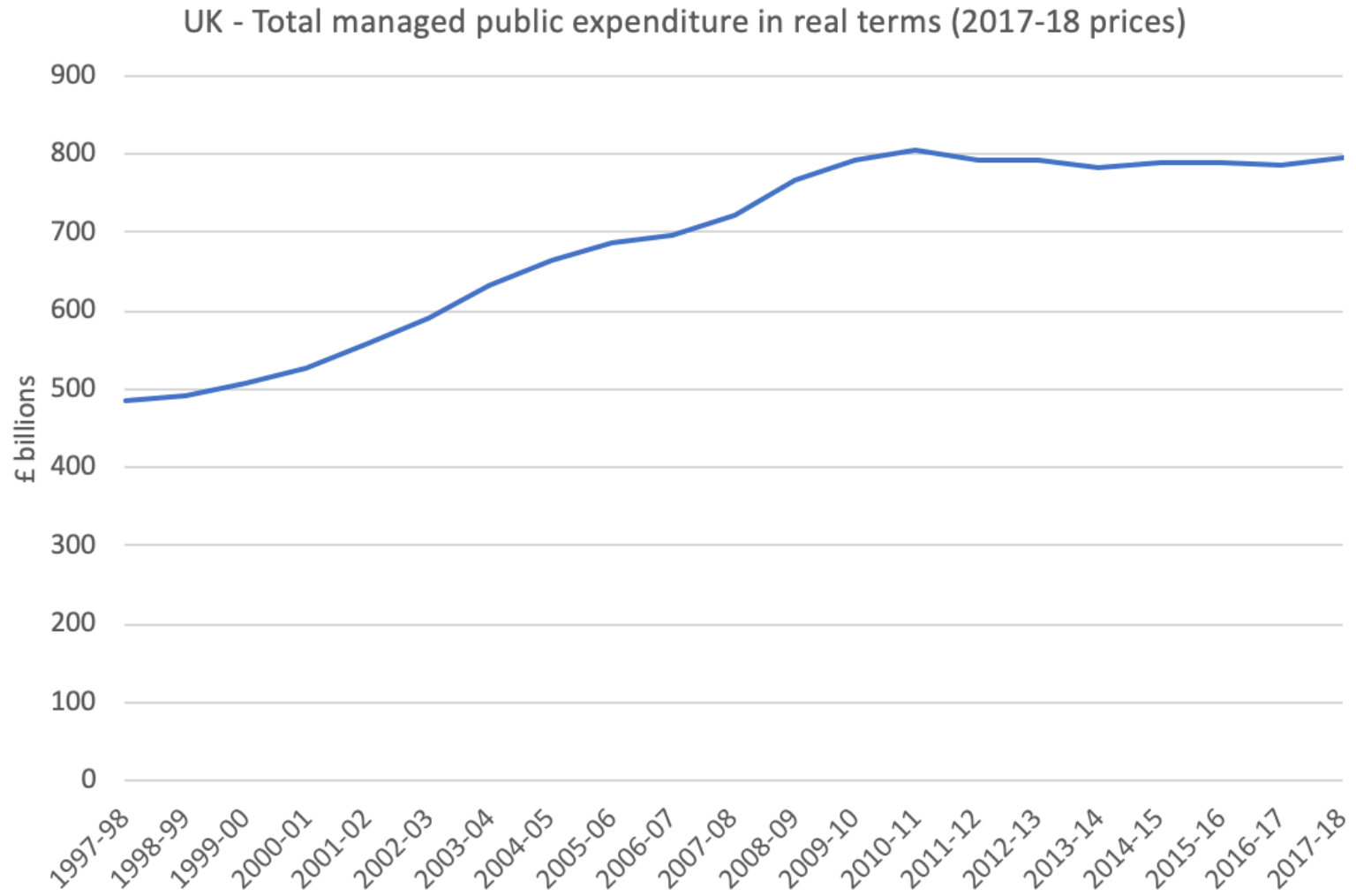


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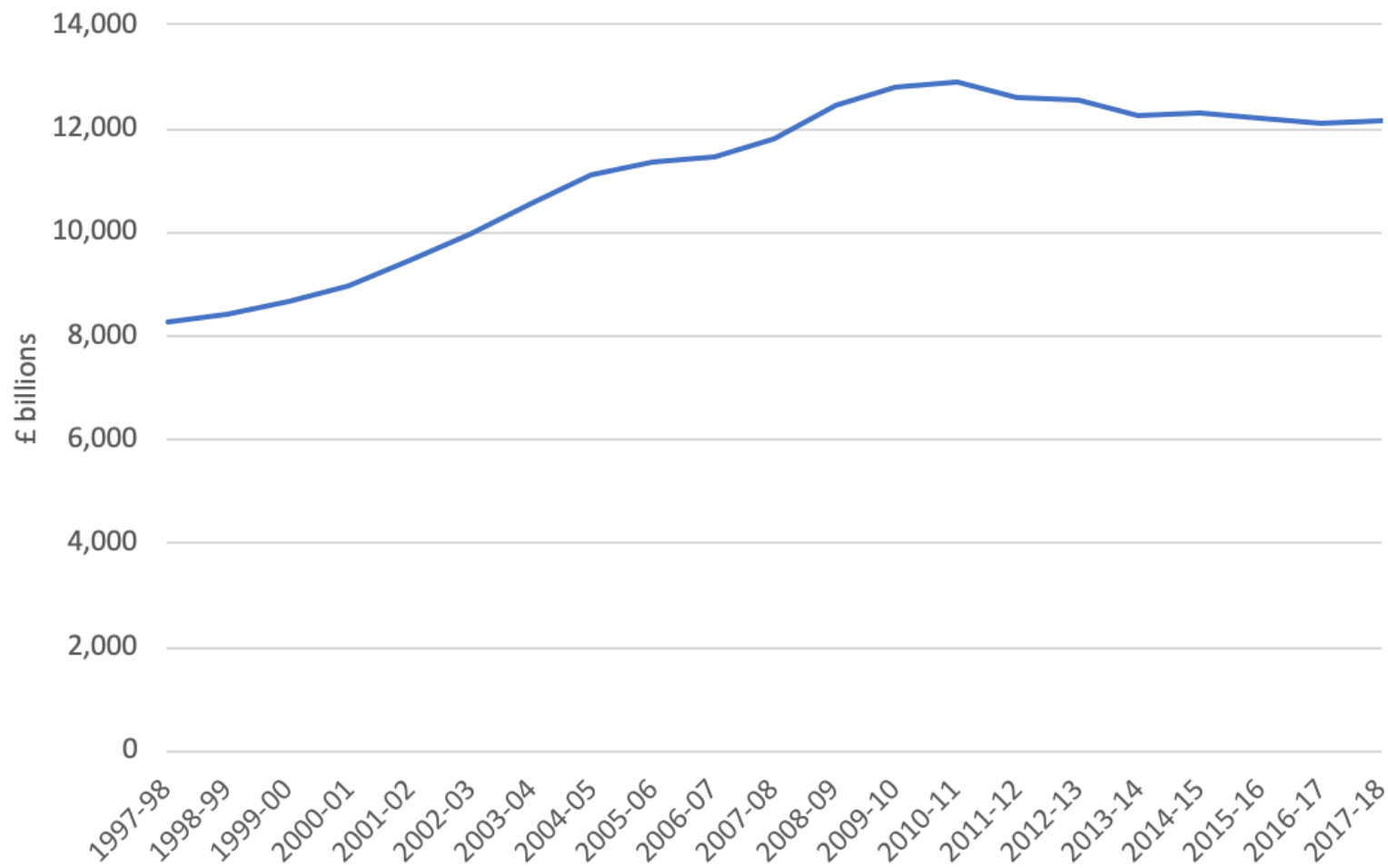


# Central government austerity sets in ...

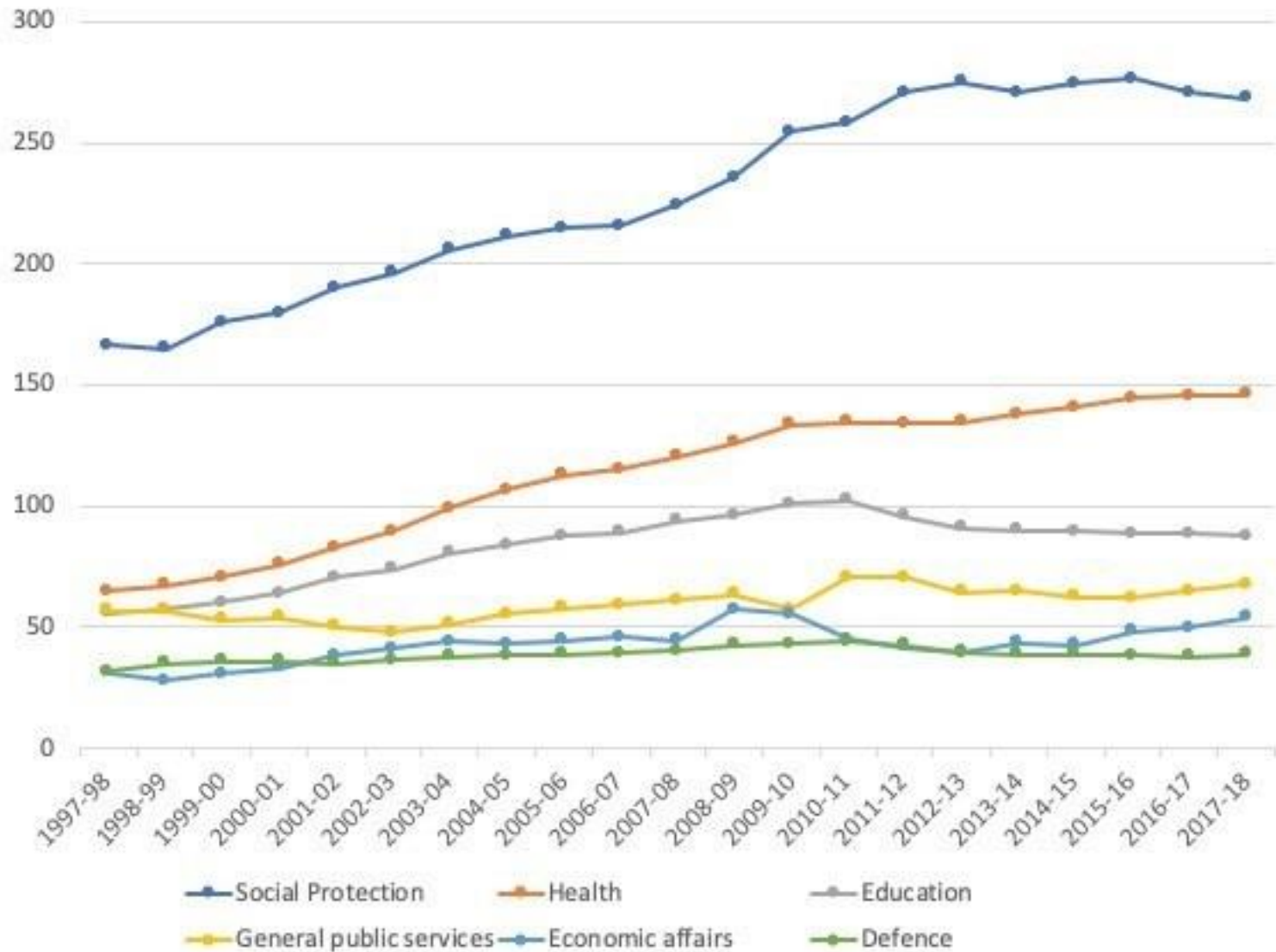




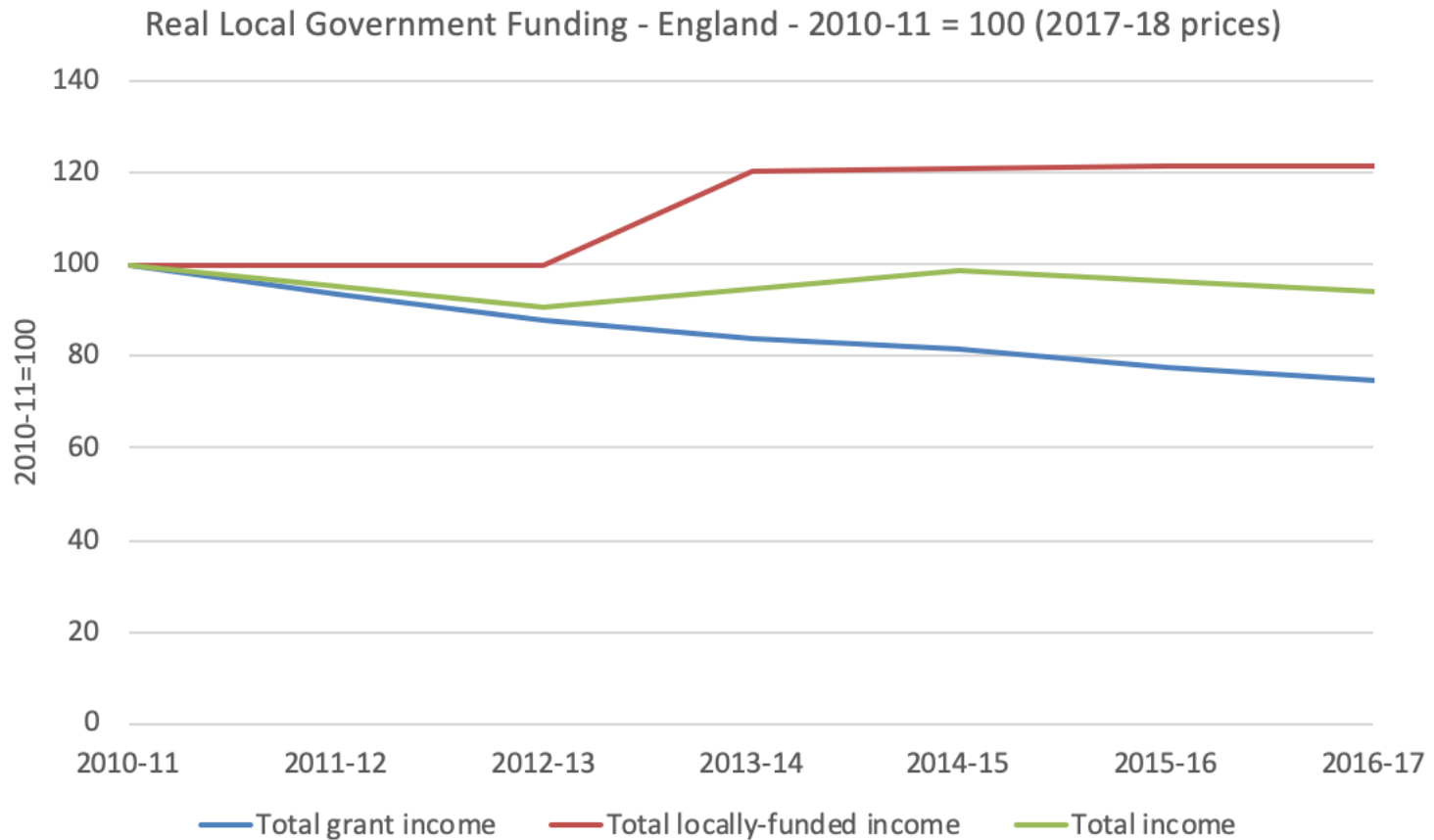
UK - Real total managed public expenditure per capita(2017-18 prices)



Britain - Trends in real government spending (2017 prices)



# Declining local authority income ...



## Change in real per capita local authority spending, England, 2010-11 to 2017-18

	Per cent
Education	-35.0
Highways and transport	-33.9
Social care	-0.8
Children's Social Care services	6.6
Adult Social Care services	-4.2
Housing (excluding Housing Revenue Account)	-45.1
Cultural, environmental and planning	-31.0
Cultural	-40.9
Environmental	-14.0
Planning and development	-56.6
Police	-17.6
Fire and rescue	-16.1
Central services	-26.8
Other services	-187.4
Total Service Expenditure	-29.1

# The agenda ...

“ These targeted cuts to local government are intended to move Britain towards a ‘small state’ by reducing local governments’ ability to provide services that make up the broad array of services under Britain’s welfare state.

“ ... austerity at the local level is part of a longer-term political project to re-shape and redefine the welfare state at a national and local level; even if this is marked by complexity, fragmentation and incoherence.

Mia Gray and Anna Barford

## The smokescreen ...

- Mainstream macroeconomics is a fictional world which is used to provide 'authority' to the political agenda.
- Built on a series of interrelated myths about the way the monetary system operates and the capacities of the currency-issuing government within it.

## Basic myths ...

- The government is like a household.
- ‘Printing’ money is inflationary.
- Deficits drive up interest rates – crowding out.
- Deficits burden our grandkids.
- Fiscal rules establish credibility with bond markets.
- Unemployment is an optimal choice by individuals.

# Role of Groupthink

- Degenerative paradigm.
- Mob rule filters out dissent – graduate programs, publications, grant distribution, promotion, etc.
- Graduates with socio-pathological tendencies.
- Denial paramount.



# Metaphors and language reinforce ideological attack on government

Focus of attack	Metaphorical claim	Implied meaning
Government spending	The nation is living beyond its means	Excess spending requires sacrifice Cuts needed immediately
	Nation has maxed out its credit card	Run out of money due to irresponsible spending
	Spending like a drunken sailor	Wanton irresponsibility and delinquent behaviour
Fiscal balance	Budget black hole	Budget beyond human control like the collapse of massive star
	Deteriorating state of the budget	Budget is like a body and is in state of ill health requiring emergency surgery, TINA
	Mushrooming budget deficit	Budget is an organic entity that has grown out of control
	The nation has run out of money, it is broke	Government budget is like a household budget; the economy is like us
Public debt	The nation is bankrupt	Nation is a badly managed insolvent firm
	The public debt mountain	Debt is dangerous and insurmountable
	Burdening our grandchildren	Debt threatens fundamental unit of society (the family) and undermines future prosperity
	Mortgaging the future	Current government debt compromises future spending
Income support	Welfare dependency	Welfare net is like a drug for the populace, encouraging ill health and addiction
	Dole bludgers, Skivers	Unemployed people are lazy and undeserving

## Progressives duped ...

- Many progressives get locked into debating within this metaphorical space – cite “real politik” etc:
  - “balance the budget over the cycle”
  - “reduce government debt”
  - “tax the rich to pay for infrastructure”
  - “tax the rich to improve services for the poor”

# Construal

- Means that we have the capacity to construe the same information in different ways.

# Introducing Modern Monetary Theory ...

## Lens versus values

- MMT is not a 'regime' that we can 'go to'.
- MMT is a lens for achieving a better understanding of how the monetary system operates and the capacities that a currency-issuing government has.
- It exposes myths that are used to suppress those capacities and options.
- Exposes the veil of ideology
- Policy requires us to overlay our value judgements on this understanding.

## Having your own currency means ...

- A currency-issuing government can purchase anything that is for sale in that currency, including all idle labour.
- There is no financial constraint facing such a government.
- Government chooses the unemployment rate.
- Government is not like a household.
- Currency-issuing government can never run out of money.
- Government spending limited by real resource available for sale in that currency.

# Fiscal sustainability

- Fiscal sustainability cannot be defined in terms of some financial ratios and targets that the currency-issuing government cannot realistically achieve anyway.
- Role of fiscal policy.
- Functional finance.
- Fiscal surpluses destroy non-government wealth.
- Fiscal sustainability is about context.

## Role of taxes ...

- To create real resource space.
- Taxpayers do not fund government spending.
- Tax the rich to fund services narrative.



## The inflation ruse ...

- All spending carries an inflation risk.
- Continuous fiscal deficits are sustainable as long as there are available real resources that can be brought into productive use.

# The debt ruse and crowding out?

- Government doesn't need to issue debt.
- Inflation risk not altered.
- Central bank can control yields.
- Deficits create their own saving.
- Loans create deposits.

# Depoliticisation ...

- Local government austerity.

## Steps ...

- Decide what society wants and needs.
- Infrastructure.
- Social needs.
- Determine how to provision the needs – real resources?
- Design fiscal intervention.
- The fiscal outcome is irrelevant if strategy successful.

## Job Guarantee versus UBI

- A currency-issuing government which aims to stabilise prices has two available buffer stock options:
  - Unemployment buffer stocks (current orthodoxy).
  - Employment buffer stocks (Job Guarantee approach).

## Comparison ...

- Unemployment buffer stocks:
  - Unemployment tool rather than target.
  - Huge daily income losses.
  - Huge social costs.
- Job Guarantee:
  - Unconditional job offer at socially inclusive minimum wage.
  - Income stability.
  - Training and skills.
  - Community development.
  - Environmental stability.
  - Transition to new conceptions of productivity.

## In-built inflation control ...

- The JG is more than a job creation scheme.
- Government buys 'off the bottom' when private sector is contracting.
- It is a high quality anchor – maintains an effective labour supply.

## Why not a Basic Income Guarantee?

- Surrenders to the neoliberal myth that government can do nothing to create more employment.
- Individualistic rather than collective approach.
- No nominal anchor.
- Creation of passive consuming agents.
- More to work than income.



Focus of attention	Metaphorical claim	Implied meaning
Government spending	<p>Government spending puts money in our pockets.</p> <p>Government invests in the productive capacity of our nation.</p> <p>Government cannot run out of money; the true constraint is our nations' resources.</p>	<p>Government spending increases non-government's income.</p> <p>Government spending increases our capacity to provide for the needs of our population.</p> <p>There is no financial constraint although there could be a resource constraint.</p>
Fiscal balance	<p>Government deficits allow us to save.</p> <p>Government surpluses equal non-governmental deficits.</p> <p>The fiscal balance is largely determined by the economy's performance.</p> <p>The nation cannot run out of its own money.</p>	<p>Government deficits equal non-government surpluses.</p> <p>Government surpluses reduce non-government financial saving.</p> <p>Fiscal balance outcome is not discretionary.</p> <p>Government 'budget' is NOT like a household budget.</p>
Public debt	<p>The government's debt is our asset.</p>	<p>Government debt provides a risk-free financial asset to strengthen non-government portfolios.</p> <p>Government debt helps to stabilise the financial system.</p>
Income support	<p>We take care of our own.</p> <p>A good nation supports its people.</p> <p>A good nation helps to support those in other nations who need help.</p>	<p>As our government faces no financial constraints, it uses its fiscal capacity to ensure resources are mobilised to care for its population.</p> <p>Unemployment is always evidence of a policy failure, a failure to put resources to work.</p> <p>Rich nations help to mobilise resources needed by poorer nations.</p>

Whereas noted economists from across the political spectrum have warned that the implementation of Modern Monetary Theory (referred to in this preamble as “MMT”) would pose a clear danger to the economy of the United States;

**Larry Summers:  
Modern Monetary  
Theory is  
'grotesque'**

Politics

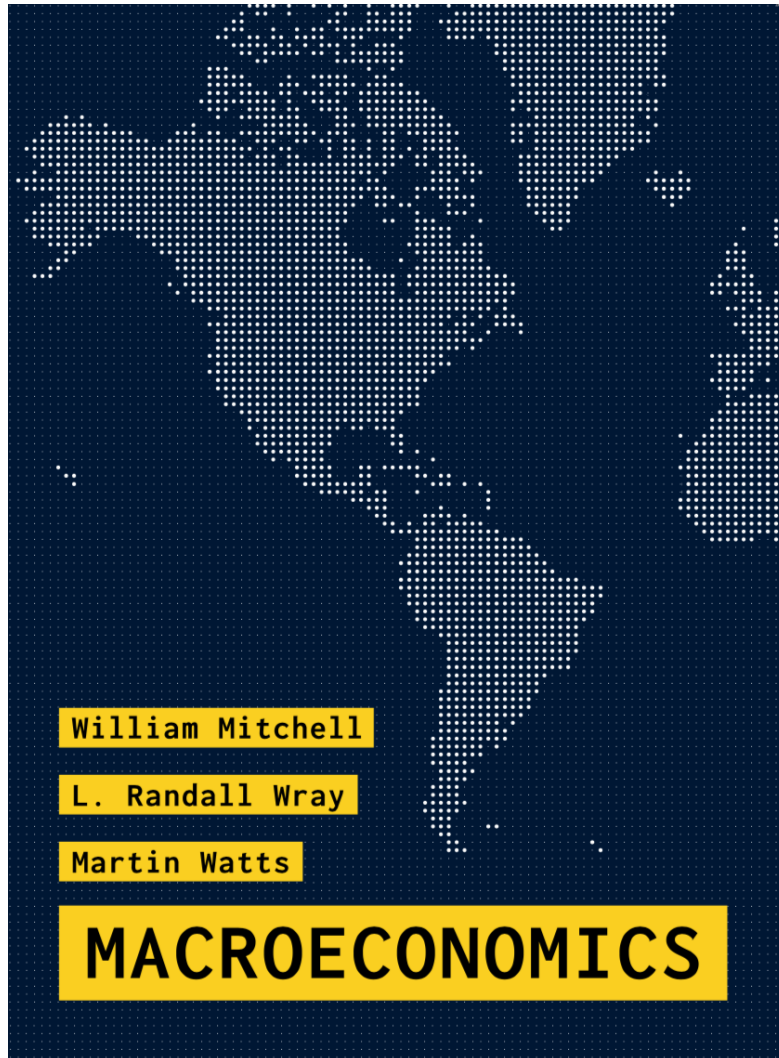
**Senate Has a Duty to Denounce MMT,  
Republicans Say in Resolution**

Economics

**BlackRock CEO Larry Fink Says Modern  
Monetary Theory Is 'Garbage'**

**Modern Monetary Nonsense**

*Mar 4, 2019* | KENNETH ROGOFF



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# End of Talk