



# The Gower Initiative for Modern Money Studies

## Origins of Modern Monetary Theory

Modern Monetary Theory (MMT) was independently developed by Warren Mosler and introduced to the wider world when Warren published, 'Soft Currency Economics' in 1993 and then introduced to the academic community in 1996 via the internet. As the MMT academic community grew, especially with the involvement of Professors Bill Mitchell, L Randall Wray, Mat Forstater, and Pavlina Tcherneva, closely followed by Stephanie Kelton and Scott Fullwiler, research into possible precursors and approaches with strong elements of consistency with MMT emerged, including the credit theory of money.

The thinking around money as credit (or debt) has been around for a very long time. In 1914, as the gold standard was starting to be abandoned by many major currency issuers, a British diplomat called Alfred Mitchell-Innes wrote two articles on money and credit for The Banking Law Journal. The first one, 'What is Money?' was well reviewed by Keynes and was followed by 'Credit theory of money'. Randall Wray, one of the first MMT academics, described them as "the best pair of articles on the nature of money written in the twentieth century". MMT is also consistent with the 'taxes drive money' approach described by Georg Friedrich Knapp in the State Theory Money, first published in Britain in 1924. While MMT has some significant elements of complementarity with the work of leading twentieth century economists such as John Maynard Keynes and Abba Lerner, we would stress that MMT should not be seen as development of them, but rather as a school of thought in its own right.

Coming from a long academic tradition, MMT is not something to 'aspire to' at some point in the future. It does what other mainstream economic theories do not do. It describes the reality of the modern monetary system as it has been since 1971 when the Bretton Woods system of fixed exchange rates was abandoned for a free-floating currency.

### MMT challenges the mainstream economic narrative

The mainstream economic narrative has its roots in neoclassical economics and the work of a small group of economists who formed the Mont Pelerin Society in Switzerland in 1947. Its founders include Friedrich Hayek, Karl Popper, Ludvig von Mises and Milton Friedman. They advocated individual freedom and free market economic policies and were wedded to an ideology of small government, low levels of social provision and regulation to enable the 'free market' to provide for the nation. Their ideology was guided by the notion that leaving the market to its own devices with minimal interference from Government would allow it to find its natural equilibrium and be positive for the economy and citizens alike.

The term neoliberalism was coined at a meeting in Paris in 1938 attended by Ludwig von Mises and Friedrich Hayek. They believed the gradual development of Britain's welfare state was the manifestation of a dangerous collectivism similar to Nazism or communism. They called themselves neoliberals (as opposed to neoclassicals) and the term was generally used to describe them up until the 1950s.

This ideology favours capital over labour. In its modern form it allows businesses to benefit from state funding for providing public services whilst socialising any losses that occur such as the Global Financial Crisis in 2008 when the banks were bailed out, or more recently with the collapse of Carillion. Over the last few decades it has served the interests of a very few powerful elites and global corporations who influence political circles and politicians who have gained wealth, power and influence with their financial backing.

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As George Monbiot wrote *'So pervasive has neoliberalism become that we seldom even recognise it as an ideology. We appear to accept the proposition that this utopian, millenarian faith describes a neutral force; a kind of biological law, like Darwin's theory of evolution. But the philosophy arose as a conscious attempt to reshape human life and shift the locus of power.'*

## Why isn't MMT talked about in the media and by politicians?

The linguist, George Lakoff describes how the right wing frames the debate in terms of simple metaphors which relate to our own experience and everyday lives. The idea that the government is like a household is propagated by messages such as *'we need to balance the books and tighten our belts'*, *'we must pay our way in the world'*, *'we must save for a rainy day'*, or *'we have maxed out our credit card.'*

Those on the left accept these assertions and unwittingly reinforce them. Rather than talk of increasing taxes on the rich and the corporations in pursuit of policies of equality and tax justice the rhetoric is always of *'having to'* get the money from the rich to pay for services for the poorest.

As one of the leading lights of MMT, Warren Mosler, notes:

*"Politicians believe it, because we believe it, they never fight the mind set because they just want to stay in office."*

But the belief that this is the way things work hasn't arisen accidentally. It has been the work of committed proponents of the free market who have lobbied to embed their ideas through an international network of academics, businessmen, journalists and activists. The movement has rich backers who fund think tanks on both sides of the Atlantic to promote their ideology. These include the Institute of Economic Affairs, the Centre for Policy Studies and the Adam Smith Institute which are all organisations whose voices are heard regularly on news and current affairs programmes commenting on the government and opposition parties' economic positions. They criticise the supposed profligacy, waste, cost and monolithic bureaucracies of the public sector compared with the efficiency, competitiveness and agility of the private sector. They portray the government as wholly dependent for funding on the private sector. This is a view that sees citizenship only in terms of people's ability to spend and consume and public provision as an unfair drain on entrepreneurs via taxation.

It is difficult to see how any lasting improvements for both people and the planet are to be achieved if this does not change. Against this entrenched background it is easy to see why politicians would not want to lift their heads above the parapet. A culture shift must start before they can do so.

As Warren Mosler also says:

*"You can be right, but you don't want to be right too soon."*

## References

A. Mitchell-Innes 'What is Money?' The Banking Law Journal, May 1913, pages 377-408

A. Mitchell-Innes 'Credit Theory of Money' The Banking Law Journal, Vol. 31 (1914), Dec./Jan., Pages 151-168.

Dr Steven Hail, economics lecturer at the University of Adelaide, briefly touches on why most politicians don't talk publicly about MMT - <https://youtu.be/iEqXtZKily0>

Professor Stephanie Kelton and Warren Mosler on why politicians don't embrace MMT - <https://youtu.be/UfW5o11DvVQ>

Professor L. Randall Wray discussing why what MMT has to say is more obvious to people than it is to economists - <https://youtu.be/ln3nsOygayg>

Professor Stephanie Kelton's lecture at The British Library on the lack of honesty from politicians on how our monetary system operates - <https://youtu.be/6IBEOwSiThc>

Professor of Cognitive Science and Linguistics, George Lakoff, explores how successful political debates are framed using language targeted to people's values - <https://youtu.be/5f9R9MtkpQM>

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