Covid-19 Capitalism, Neoliberal Debt & the Need for Sovereign Money

Commentary[1]

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> This is a similar tale to the one experienced by British engineer Major C.H. Douglas just before the outbreak of World War I. Douglas was working on the London tube when his superiors announced that there was no more public money for any further construction. The budget had been reached and construction would have to halt. Douglas thought this strange since the materials, the know-how and the manpower were all present. The only thing lacking was money – but why? Then on the 28th of July, 1914, the Great War began and suddenly there was money available for everything the war effort required. This set the engineer on a quest to discover more about the nature of money and capitalist accounting. WWI was Douglas' 'teaching moment' just as COVID-19 is our teaching moment. It will teach us many things: about our friends, family, colleagues, neighbours and communities. It will have lessons to impart regarding the way we think about work, about our health, education and child care systems, and the very standards to which we hold our own governments to account. But it will also teach us about our money, who controls it and what we can do to promote healthy and prosperous communities in a time when our faith in our political leaders and financial systems is being urgently and critically tested.

As COVID-19 spreads around the world threatening the 'normal' operations of global capitalism, governments on the centre, left and right have been issuing large stimulus packages in efforts to stabilise the financial haemorrhaging as businesses shut and unemployment soars. This crisis is made worse by the mountains of corporate and consumer debt that have accumulated over time to keep businesses turning over and households afloat. As I argued with Richard H. Robbins in our *Debt as Power*, the world is indeed awash in debt.

Surprisingly for some, against all prior devout belief in 'fiscal discipline' and so-called balanced budgets, public officials all over the world have quickly and collectively announced spending in the trillions. When it comes to preserving and freezing in place the economic relations that structure our society - worker and employer, renter and landlord, debtor and creditor - it seems that money truly is no object. At present, no one knows the sum tally of the new spending, though it is certain to far exceed the bailouts witnessed during the Global Financial Crisis of 2007-8. Indeed, the *Financial Times* dubbed this extravagance 'the biggest borrowing spree in history' -

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and the party is just getting started. As the pandemic deepens and the economic turmoil continues to unravel, it is highly likely that we will continue to see such policy action over the weeks and months to come. As liberal economist and capitalist cheerleader Milton Friedman once reluctantly declared in the midst of an earlier economic crisis in the 1970s: 'we are all Keynesians now'. To recall, Keynes argued that government should spend in an economic downturn – particularly a depression – and increase taxes and build surpluses to service debt when the economy was heating up. This seemed to be the only solution to Keynes and his later acolytes. This thinking was based on the simple idea that businesses do not hire more workers, nor increase or expand production during a depression due to less market demand for goods and services. The only entity that can spend during a depression to get the economy going again and alleviate the misery of workers is the state itself. As we have found out in capitalist crisis after crisis, the government truly is the last resort.

Though it is too early to foresee an economic depression, we do know that the world has not witnessed such a level of government bailouts since the GFC of 2007-8. At that time, the lion's share of the spending went to businesses and the financial markets rather than to the working class who continued to struggle, often working two or more jobs and increasing their debt load to sustain a basic standard of living. Hence the arrested revolt of the 99% on the back of the GFC which fizzled out globally almost as quickly as it arrived on the scene. Around that time Naomi Klein (see her *The Shock Doctrine*) was fond of citing another one of Freidman's observations that: 'only a crisis - actual or perceived - produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable.' After the crisis of the 1970s in the very heartland of capitalism and the Third World debt crisis of the 1980s, governments eschewed Keynesianism for more neoliberal or market friendly policies as the global bond market and credit rating agencies feared excessive government deficits and rising national debt to GDP ratios. This became known as the *fiscal crisis of the state*.

Decades later, the global financial crisis bored a hole in the neoliberal fabric and corporate *laissez-faire* but it did not sufficiently discredit the neoliberal policy suite as many predicted. To be sure, governments continued to spend more than they took in as revenue, but all under the watchful and potentially punitive eye of the *credit rating agencies* and the bond market. Instead, using the excuse of the national debt as a weapon, populations fell victim to various policies of *neoliberal austerity*. Today, the huge challenges of COVID-19 offer us another teachable moment about progressive 'ideas that are lying around' and I believe it would be worthwhile to discuss them, however briefly, in a clear fashion in this short commentary.

To do so, we must begin by recognizing that governments are, to some extent, straightjacketed when it comes to producing new money because they do not exercise sovereignty over money creation. First, while governments have some control and benefit from the creation of notes and coins, they are not in charge of expanding the money supply. This role, by and large, belongs to commercial banks when they issue loans to willing borrowers. This is *the* primary source of new money in advanced economies and it is created as debt owed to commercial banks. This power to issue loans is capitalized with banks making their earnings from interest and fees on the money they lend. This ultimately benefits the owners of commercial banks who profit by rising share prices and dividends. As Motivaction International and the Sustainable Finance Lab have found in a study, most people are unaware of this fact. Here we have to recall that well over 90% of money in advanced capitalist economies is *digital,* – money existing as numbers on computer screens, and debt and credit are managed by the principles of double entry bookkeeping. Unlike Keynes and many others have suggested, no savings have to take place before loans are made. *Loans create deposits, not the other way around.* More borrowing by individuals, businesses and governments creates new money in the economy, and if not invested in the financial markets typically boosts nominal GDP from production and consumption. For instance, if the government of any country gave everyone a $1000 credit in their bank accounts and everyone went out and bought shares in companies this would inflate the value of financial assets while not contributing a single dime to GDP. Put simply, such actions would *not* increase production and consumption because no one is spending the money on production and consumption. *Modern Monetary Theory* explains this but as its proponents often take pains to point out, it is first and foremost a *descriptive* theory of money, and has less to say regarding the power processes (some might say class struggle) that have led to our fiscal-monetary arrangement, or better alternatives to the current system (see Huber's *Sovereign Money*). As a historical and human creation, not one handed down by an omniscient god with the public's best interest at heart, this is something we have the power to change. We will discuss this in more detail further down but for now:

Lesson 1

If no one borrowed, our capitalist economies would go into severe contraction because the vast majority of our money is created as debt. This is why financial elites were rattled during the global financial crisis: they feared credit would dry up and *credit is the lifeblood of global capitalism*. But the fact that our democratic governments are not in control of producing the vast majority of new money leads to perverse outcomes for the majority of society, an inherent contradiction brought in to stark relief during crises such as COVID-19. Suddenly, as if in a worldwide war, there is money for just about everything when just months before the pandemic our leaders bowed down to the gods of fiscal discipline and balanced budgets – or at least paid lip service to these concepts. The major problem with the current fiscal–monetary arrangement is that stimulus spending results in ballooning government deficits and mounting national debt, which is then used as a weapon to further neoliberalize the economy when the immediate crisis is over. This means a return to the mantra of fiscal discipline and balanced budgets and more privatizations of public assets and greater cuts to social spending among other potentially harmful social policies. Richard H. Robbins and I termed this the 'debt-neoliberalism nexus' in *Debt as Power*.

The adverse effects on society result because the present fiscal-monetary system dictates: if governments want to spend more money than is earned via revenue from taxes, fines, fees, and the privatization of public assets, they are *forced* to borrow from an outside source (typically the 1% - see the work of Sandy Hager as reported in the *Financial Times*).

So what are the outside sources?

There are three major sources but only two of these three options result in *new* money entering the economy as government debt. First, the government can borrow from commercial banks by offering securities (for instance, the United States finances its deficits through Treasury notes, bills and bonds) but this is limited by how much government debt a commercial bank wants to hold. Since these investments typically yield lower returns than alternative investments in normal times, bank chiefs limit the amount of government debt in their portfolios. So while loans to governments by commercial banks create new money (an asset for the bank and a debt for the government) there are limits to how much money can be created this way, since it depends upon how much government debt commercial banks agree to hold on their balance sheets and how creditworthy they deem the state.

Another way governments can borrow is to sell their securities to the capital markets or institutional investors like pension, hedge, sovereign and mutual funds. They can also sell to individuals and businesses (but these last two actors are generally less important). But while these institutional investors can buy government debt securities and this can swell government coffers this action *does not* create any new money, it merely redistributes it from people who have already saved to the government. The government can then spend this money into the economy in some way. The limitations of borrowing from commercial banks and institutional investors is why there is a third way new money can come into existence and this appears to be the major policy choice during severe financial and economic crises: the central bank can buy the government's debt.

While the first two options are limited, theoretically, relying on the central bank to purchase government debt is not. While most central banks are supposed to be independent from the government and tasked with setting interest rates and monitoring inflation, during periods of crisis such as our present one, the central bank can buy up as much government debt as is required to bolster the economy. This is essentially a *digital balance sheet operation*. We have an old idea that the central banks just 'print money' (and this can lead to considerable confusion among the public) but the vast majority of new money creation is digital - no printing press is required and we should cease all talk of 'turning on the printing press' – it is largely a vestige of the past. All the central bank has to do is accept the government's IOUs in return for depositing money in the government's account, typically held at the central bank because of the balance sheet operation that needs to take place. The central bank will of course want to continue to monitor inflation as governments spend the newly created money, while the strategy of distributing this fresh money is determined by the state's public policy.

But the two ways of new money creation – that of lending by commercial and central banks to governments and the redistributed money entering the economy in the case of institutional investors lead to mounting debt, virtually guaranteeing commensurate government austerity down the track: higher taxes, cuts in public spending, and the privatization of public assets, not to mention limited imaginations for how government can be an effective democratic force for good in the lives of its people. So:

Lesson 2

As stated above, the current way of organizing a government's finances is neither natural nor inevitable. During the course of nation-state formation, no wise Good Samaritan with the public interest at heart designed and imposed this fiscal-monetary system. It is the product of *historical power struggles* and therefore as a historical product, it can be changed – and this is lesson two – the present fiscal system was not handed down by god, there are real and practical alternatives to mounting fiscal deficits that will only contribute to further policies detrimental to the health of our economy and our society.

So what is the alternative?

If we want to avoid a return to neoliberal austerity after the crisis we must mobilize around a coherent idea. For all its benefits, the Occupy Wall Street movement failed to introduce any substantive change because it was, in essence, a cacophony of confused voices with no clear policy agenda. The movement asked – what is our one demand? A consensus for effective change was not forthcoming. Power loves oppositional fragmentation.

In our present crisis, I would argue that those of us who want to see a better world for our families and future generations should consult *the* most progressive idea 'lying around': sovereign money – an idea it should be said, that was never broached by Keynesians or free marketeers. Though the technicalities regarding how to achieve this project, as well as the institutional and accounting arrangements for establishing such a system can be debated, in general *sovereign money* is the idea that democratic governments should be in control of new money creation and that new money should be issued as a *public credit or dividend* based on the productivity of the economy. Outside of the environmental emergency and the COVID-19 pandemic, the biggest challenges of today are the dearth of public money, the creation of private money as debt, and the need to bring forth an economic system that works in the interests of all, not just the 1% and their obsession with their differential *rates of return*.

There are additional problems with capitalist accounting that must also be addressed but I've written about them elsewhere with Leonie Noble as *The Coming Revolution* and with Richard H. Robbins in *Debt as Power* and *An Anthropology of Money* (already hyperlinked in this commentary above).

It is also worth mentioning that there are many people debating the possibility of a Green New Deal. Now that we know that somehow new money can be found by the government during a major crisis (and we are in a climate emergency too – no doubt about it), the GND'ers should understand that spending on such a program within the current fiscal arrangement will lead us into more debt and therefore more future austerity. That is why all those who want to fight back against the climate emergency should also be advocates of sovereign money.

In the wake of the pandemic and the associated responses by governments, some commentators have suggested (with varying degrees of tongue in cheek) that "we're all MMTers now." Certainly the empirical evidence continues to mount in the theory's favour. However, just as Friedman's declaration of Keynesianism's victory preceded its hollowing out by neoliberalism, the current dominant paradigm, and those it benefits most, will not cede power just because its critics are "right". It is not enough to be momentarily vindicated by the actions of governments in the present if the end result is yet another spiral into the debt-neoliberalism nexus.

If we continue on the current path, we are likely to see an intensification of neoliberal austerity post-crisis with more needless suffering and social deprivation, particularly acute for the most vulnerable of our communities. I, for one, don't wish to live in such a world when there are feasible alternatives to the present fiscal-monetary system. The time for sovereign money is now and I will fight alongside anyone who is willing to 'take arms against a sea of troubles, and by opposing, end them.'

BIO

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