We pay for it by spending the money

A short introduction to Modern Monetary Theory

Notes to support the Politics in the Pub talk given by Alan Hutchison, 19 October 2016.

This is a brief primer on Modern Monetary Theory (hereafter just MMT). It is aimed at non-economists who struggle to counter the dominant economic narrative.[1]

MMT describes how the economy actually works, which is very different to how we are led to believe it works. It supplies all the **macroeconomic** arguments – those that concern the economy as a whole – for the progressive Left to take full control of the discourse.[2] That's something the Left hasn't been able to do since the 1940s.

We all have some idea of how the economy works and lots of opinions about how it should work. I'm going to ask you to temporarily suspend those ideas and opinions while you read this, because MMT turns many of them upside down. The Financial Times journalist Izabella Kaminska has a good way of describing the process of getting to grips with MMT. She compares it to viewing an autostereogram – those pictures that appear to be nothing more than a random collection of coloured dots, but when you stare at them in just the right way a hidden three-dimensional image appears. Even with only a basic understanding of MMT, you will find that *everything* looks different – you start to see what's hidden inside all the random noise that accompanies talk about the economy.

So, how does MMT help our understanding of the economy? How does it help us build a better society? I am going to cover the two most important aspects:

- Firstly, MMT neuters the standard capitalist retort: 'How are you going to pay for it?' In the new paradigm the question is rendered meaningless because *we pay for it by spending the money* – it's as simple as that. Understanding this seemingly nonsensical statement involves exposing the great lie that the government 'budget' is constrained in the same way as a household budget. Most people on the Left know that there is a difference between government and household budgets, but few can explain why. MMT helps you do the explaining.
- Secondly, MMT shows that unemployment is a choice made entirely and exclusively by the government.

Once these two points are understood by a *truly* progressive UK government it can then set about implementing a radical economic plan, built around first class public services and a Job Guarantee programme. The Job Guarantee is at the heart of MMT because it does two things: it provides a meaningful job and a true living income, to anyone who wants one *and* it controls inflation.

In a nutshell then, MMT swipes away all the nonsense about there not being enough money and all the nonsense about having to tolerate unemployment in order to keep inflation down. What's more, it's all perfectly feasible and can be put in place tomorrow.

Much of MMT is descriptive. It details how the economy of a nation like the UK has worked since 1971, when the post-war monetary system collapsed and the last vestiges of the gold standard were abandoned. You need a little bit of history to properly understand MMT.[3]

Prior to 1971, the UK government's policy options were constrained by the **gold standard**. Sterling wasn't directly convertible into gold, but the value of the pound was fixed against the US dollar and that *was* convertible. Having to defend the pound in a fixed exchange rate system forced the UK government to adopt policies that were not in the best interests of UK citizens. In simple terms, the number of pounds in circulation was restricted by the amount of gold and dollar stocks held by the government. The money supply had to be more or less static – if the government spent £100 into the economy, it had to remove £100 through tax or otherwise drain it by issuing bonds. The government appeared to be **revenue constrained** – and an *illusion* was created that it could only ever get its money from taxes, with any shortfall covered by borrowing.

After 1971, the pound was no longer pegged to the dollar and we entered the current era of **free-floating currencies**, where the value of the pound is decided on the international markets. Sterling became a **fiat currency**, one that is not backed by a commodity or tied to a foreign currency.[4] The policy limitations that resulted from the gold standard and fixed exchange rates no longer applied.[5] Moreover, the claim that the government was revenue constrained – that taxes pay for spending – no longer made any sense. From the government's perspective, the age of money scarcity was over and it's been like that ever since.

Unfortunately, the illusion of revenue constraint is still with us today and that's because gold standard thinking suits the agenda of the rich and powerful.[6] The economic elite – the section of society that we now call the 1% – set and control the dominant narrative in economics, so almost everyone still believes that government can only spend what it taxes or borrows.[7] It's a nonsense that bolsters the Right and severely restricts the Left.[8]

Before I go any further, I must stress that although MMT assists us in understanding *any* economy, the policy prescriptions we come to later only apply to countries that are sovereign in their currency. There are three criteria that define a country with a **sovereign currency**:

- it issues its own currency;
- its currency floats free on the international markets – so no peg to another currency;
- and it does not have debts in a foreign currency – so no borrowing from other countries or from the IMF.

MMT policies apply to the UK, the United States, Japan and many other countries.[9] They don't apply to Eurozone countries because they all use a foreign currency – the euro. Sadly, then, MMT doesn't provide any hope for Greece.[10]

The textbook way to further explain MMT usually involves an analysis of the flow of money between different sectors of the economy. The trouble with this route into MMT, the 'sectoral balances' approach, is that it requires an understanding of double-entry bookkeeping, and most people don't have that.

Here's another way to get you started which requires no prior knowledge – all you need is an opinion about other peoples' opinions. Suppose a poll is carried out tomorrow, with a large and representative sample of the electorate. There are just three questions, the first two of which are very simple. Here's the first question:

- Do you believe that the government deficit should be cleared within the next twenty years?

Given the current hysteria about deficits, I don't think the answer is in doubt – most people are going to answer 'yes'.

The thing I find worrying about this question is that a lot of people will answer 'yes' when they don't really know what the deficit is. Moreover, I'm surprised by some of the people who struggle to provide a definition. I know quite a few academics who, with no hint of shame, admit that they don't know what the deficit is – yet they still hold an opinion about it. The standard definition of the **deficit** is the difference, over a given period, between what the government spends and what it gets back in tax.

The second question is:

- Do you believe that everyone should have the opportunity to save a small amount from their income?

Saving is usually seen as a good thing, so they are probably going to say 'yes'.

These two answers demonstrate that most people don't understand how the economy works and that they have the ability to hold two contradictory beliefs at the same time. It is *impossible* in the UK to eliminate the deficit and still have net **aggregate savings** – by which I mean the population as a whole is saving more than it is borrowing.

Believing that the deficit can be cleared while we are still saving is just Orwellian doublethink. This is explained by the third question, which is a bit more complicated:

- Suppose the government pays two people £100 each for some work. One is a window cleaner who is paid £7.20 an hour. The other is a PR consultant whose salary is £150,000. Now, a proportion of each £100 is going to go back to the government in the form of tax. Does the government get more back in tax from the £100 it paid to the window cleaner or the £100 it paid to the PR consultant?

How are people going to answer this one? It's certainly a lot less clear-cut than the first two questions. I find that people answer depending on where they are on the left-right/poor-rich/north-south socio-politico-economic scales. Those at the left/poor/northern end of society will say that highly paid consultants, being part of the 1%, will pay less tax because they can afford fancy accountants. At the other end of society is the argument that window cleaners, being members of the devious lower orders, will avoid paying tax altogether by insisting on being paid cash-in-hand.

So, what is the real answer? Well, it's that there is no difference. The government gets *exactly* the same amount back in tax from the £100 paid to the window cleaner as it does from the £100 paid to the consultant. In fact, the government will get back £90 in tax for each £100. Moreover, it will *always* get £90 back for *every* £100 it spends, no matter where it spends it and *no matter what the tax rate is*.

Most people think this is just crazy talk. They think it's the ramblings of a loon because they have been conditioned to think of government spending in a way that supports a fundamentally neoliberal agenda. Specifically:

- they think that tax is a burden placed on the private sector to enable the government to get its spending money;
- they think that money is taxed only once, reinforcing the burden concept and leading them to focus entirely on the tax that they alone pay;
- they have no regard for what happens when they spend their income or where it came from in the first place;
- they don't realise that all government sector spending initiates a **spending chain** in the non-government sector;
- they don't realise that at each link in that chain some tax is likely to be paid – income tax, national insurance, corporation tax, VAT, stamp duty, import tariffs;
- and they can't see that this means that government will *always* get back almost all that it spends.

To see how this works, let's look at one of the payments and analyse the spending chain it creates. I am assuming a simple tax system where all transactions are taxed at 20%. Right, here we go:

- The government pays £100 to a window cleaner;
- She pays 20% income tax on the £100, so £20 goes straight back to government;
- She spends remaining £80 at Aldi for a week's worth of food and essentials for herself and her daughter;

- Aldi pays 20% VAT on the purchase – I know that's not how VAT works, but bear with me – and £16 goes back to the government;
- Aldi uses the remaining £64 to pay someone to run its tills for a day;
- He pays 20% income tax and government gets £13 back;
- He is left with £51, which he uses to buy a train ticket to go and see his mum – I'm going to come back to her later, so let's call her Brenda – to give her a couple of days' off from caring for her own mother;
- Virgin Trains pays 20% VAT on the ticket price and another £10 goes back to government;
- Virgin uses the remaining £41 to pay for a window cleaner to clean the windows at one of its stations.

And so it goes on – money moving along a spending chain.

It is just a simple arithmetic progression where government spending *causes* taxation – *not* the other way around. This is really what MMT is all about – the **spending comes first** and that *makes* the tax happen. Government spending bounces around the economy – generating income for households and firms – and a little bit goes back to government at each link in the chain. The money keeps going until there is none left – because it's eventually all taxed away.[11]

So far, our little model has shown that £100 spent by the government has spread out into the economy, creating £336 in personal and corporate income, and £59 has gone back in tax. Something else happened that didn't create any income or profit and won't show up in the GDP figures – Brenda got a bit of respite from her work as a carer. That respite was enabled, albeit indirectly, by government spending.

But we've only followed the spending chain for a few links. The process will continue until the government gets back £90 and income amounting to £450 has been generated. What's more, the government will still get £90 back if the tax rate is reduced to 5% – there will just have to be a few more links in the chain. In the long run, changing the tax rate has *virtually no effect* on the total tax take.[12]

For some people, this is where the cognitive dissonance kicks in and they start to feel uncomfortable with MMT. They start to feel a bit queasy as the truth materialises out of the background noise and they realise that everything they believed about the economy isn't true any more.[13]

But why only £90? What happened to the other ten quid? Well, the bit that the government doesn't get back is the bit that isn't spent. In other words, it's **savings** – twenty-pound notes hidden under a mattress, money in an ISA or retained corporate profits. Any money that is saved breaks the spending chain and can't cause any further tax.[14]

Therefore, the difference between the amount the government sector spends and the amount it gets back in tax is equal pound-for-pound, penny-for-penny to the total savings of the non-government sector.

Hang on a minute! Isn't the difference between what the government spends and what it receives in tax the definition of the *deficit*? Of course it is. The thing we call the 'deficit' (which is universally perceived as a Bad Thing) is nothing other than an accounting representation of aggregate savings (which are universally perceived as a Good Thing).

It's not accidental that the public suffer from deficit doublethink. Imagine you were a neoliberal strategist, hell-bent on reducing the size and reach of the state. Which term would you use to describe the difference between government spending and tax receipts? Deficit or savings? Terrifying black hole or national nest egg?[15]

MMT goes on to show that **net financial assets** – that's just a fancy name that economists use for 'savings' – cannot come from anywhere other than from government spending. That's because the *real* money in the system always comes from government.

So far, so straightforward. However, there may be a bit of a problem: some of the terminology may be confusing you. I've said that the government 'gets back' through tax almost all that it spends and this may cause you to think that the money it 'gets back' is somehow available to be spent again. It isn't, and this is where MMT provides a critical insight into the true nature of government spending. All government spending is newly *created* money which is eventually *destroyed* by taxation. The government doesn't really 'get back' the money it taxes out of the economy – it just ceases to exist. But as that money travelled along the spending chains it got lots and lots of useful things done.

I have also used the term 'non-government sector' rather than 'private sector'. This is deliberate and is essential for an understanding of savings. The thing that MMT calls the **non-government sector** is made up of the domestic private sector – firms and households here in the UK – together with the foreign sector.[16] When foreigners are paid for the things we import they accrue financial assets – there's that fancy name for savings again – denominated in Sterling. When we export things we get some of these assets back, but we export less than we import and there is an imbalance in favour of the rest of the world.

So, not only does the 'deficit' have to cover our desire to save, it also has to cover our desire to import and that is *always* balanced by the Chinese and German desire to hold Sterling savings. Most of the time the savings represented by the deficit are split fifty-fifty between us and the rest of the world. Of any £100 the government spends about £5 ends up as financial assets held by UK households and firms, and £5 ends up as financial assets held by foreigners.

Now, the operative word that I have just used is *desire* and it blows a big hole in the ideology of austerity. The government told us that the deficit is a Bad Thing and they claimed that they had the power to eliminate it. They told us that the form in which that power *must* be exercised is austerity. It certainly sounds plausible: if the government spends less then surely the deficit will be reduced, won't it?

But we now know that the deficit is actually a measure of our *desire* to save, our *desire* to import and the Chinese *desire* to save in pounds. The government certainly has some power to reduce some spending, but it doesn't really have power over desires.[17] The truth is that the government can *never* control the deficit – and any attempt to reduce it will only wreck the economy.[18]

We've pretty much arrived at the concept of sectoral balances without having to go into any accounting. The **sectoral balances** approach says that however we split the economy into chunks – sectors – all those chunks must balance each other. The whole *must* sum to zero. This is because, just like a company balance sheet, for every asset there is always a corresponding liability and for every borrower there is always a lender.[19]

Suppose we split the economy into government and non-government sectors, then if one sector is in surplus the other must be in deficit. The accounting tells us that it cannot be any other way. If the non-government sector is in surplus because of its desire to save, then the government sector *must* be in deficit. You can't get away from this fact and no economist or chancellor will dispute it.[20]

Just to make sure you are keeping up, here's a quick recap of the two main points so far:

- First, the 'deficit' is just another name for the amount of saving, both domestic and foreign, that takes place in the Sterling economy over a given period. Oh, and the thing we call the 'National Debt' is just an accumulation of previous deficits. The deficit and the national debt are not things that we – *or our grandchildren* – ever need to worry about.[21]
- Second, spending precedes taxation. At the risk of sounding like Doctor Who, we need to reverse the polarity to understand the economy. Government spends new money into the economy and it is gradually destroyed by tax. The spending effectively *pays for itself*, so the question 'How are you going to pay for it?' is meaningless. **We pay for it by spending the money**.

Now, this bit about the government getting back £90 for every £100 it spends sounds too good to be true, doesn't it? This seemingly magical rule doesn't apply to you or me, to the corner shop or to the trans-national corporation. It's one of two reasons why the government budget should never be compared to a **household budget**.

The other reason is that the UK government is the monopoly manufacturer of Sterling – government is the **currency issuer**. A household, like everything else in the non-government sector, is a **currency user**.

I am going to make a quick detour at this point and talk briefly about banking. Some people are concerned about the apparent power that banks have to create money. It's true that the banks create out of thin air an awful lot of stuff that people like to call 'money' and the economy would collapse without it.[22] However, what's always missing from these worrying analyses of bank lending is that all bank-created money sums to zero. Every asset created by the banks always has a corresponding liability and any money created when a loan is made is destroyed when the loan is paid off. This means that savings can *never* come from bank loans. If you believe that net financial assets can come from bank-created money then you believe that borrowing £100 from a bank at 6% and putting it in a building society account that pays 2% can be classed as 'saving'.[23]

Which brings us back to government being the only entity that can issue Sterling. To get savings in the system we have to have a special type of money – economists call it **high-powered money** – which is injected into the system from *outside* the system. All bank-created money is *inside* the system, but every penny of government spending is high-powered money.[24]

The upshot of all this is that the UK government never needs to 'borrow' and – here's the important bit – the government can *always* create as much currency as it needs. That means the **government can buy whatever it wants** that is for sale and priced in pounds.

At this point in the discussion the mainstream economists, locked into a world-view based on gold standard thinking, will jump in. 'See!', they say, 'These MMT crazies think the government can just keep on printing money until the cows come home. We'll be ruined by inflation! We'll end up like Weimar Germany or Zimbabwe! We'll be issuing trillion pound notes!'

Well, no we won't. All spending carries a risk of inflation, but money alone does not create inflation. The risk depends also on the availability in the economy of **real resources** – people and stuff. Sure, the UK government can *always* win a bidding contest with the private sector for any resources that can be bought with pounds, and this *may* force up the price if the resources are limited and there is significant private sector demand for them. So, yes, the government does need to be mindful of its unique power.

But what if the government allocated a lot of its spending to things that nobody else wants? It's difficult to force up the price of something if there is no demand for it. Unfortunately, there isn't enough unwanted stuff in the real economy on which the government can usefully spend its money. There are, however, lots of *people* who are classed as 'unwanted' – millions of them, in fact. By definition, the unemployed and the underemployed are unwanted – they don't attract a bid price from the private sector.

This is where the **Job Guarantee** comes into play. It is a core part of MMT – it's the prescriptive bit – and it's important because it maintains **price stability**. It controls inflation through a *real* constraint on government spending.

The dominant economic models tell us that there is an inverse relationship between inflation and unemployment.[25] Mainstream economists, including all those Nobel laureates, say that attempting to bring unemployment down will *always* put inflation up.[26] They say that, if we want to keep inflation at bay, it's necessary to have millions of people unemployed or underemployed or in all those insecure, low paid jobs. The Job Guarantee shows why this is nonsense.

The primary aim of the Job Guarantee is to provide useful and meaningful employment in the public, voluntary and non-profit sectors to anyone who wants a job and can't find one in the private sector – or, for that matter, doesn't *want* to work in the private sector.[27] It provides a living income of around £19,500 – that's £10 per hour for a 37½ hour week – along with comprehensive rights and benefits, including paid holidays, paid maternity or paternity leave, union membership and ongoing training. There is also the freedom to choose the number of hours worked each week, so people can allocate their time to other things too.[28]

The Job Guarantee is not workfare.[29] Nor is it a job creation scheme that the government turns on and off depending on how some committee interprets the 'health' of the economy.[30] The level at which the programme runs depends entirely on demand from the people. If you want a Job Guarantee job, then it's your right to have one and it's up to the administrators to find one that suits you.[31]

But, at the same time as providing work, the Job Guarantee acts as a balance to the ups and downs of the business cycle. The Job Guarantee is a public sector **auto-stabiliser**, a **counter-cyclical** mechanism that evens out boom and bust in the private sector and anchors inflation.

Here's how it works. When the private sector suffers a downturn there will be redundancies and anyone who loses their job can choose to take up a job offer from the Job Guarantee. This causes an *automatic* increase in government spending into the economy, ensuring that the spending chains and all the *other* incomes are maintained. The Job Guarantee keeps the economy going and stops a slide into recession. Just as important is the maintenance of our collective well-being by providing something useful to do for anyone who wants it.[32]

Conversely, when business is booming, the Job Guarantee programme contracts as people are attracted away from it and into private sector jobs.[33] As the programme scales down, government spending is *automatically* reduced, the economy doesn't overheat and the risk of inflation subsides.

It's a simple, elegant mechanism and because it's automatic there's no need for a bunch of technocrats to decide how much government spends into the economy. Moreover, it shows that recessions are effectively discretionary. Just like unemployment, going into recession is a choice – made entirely and exclusively by the government of the day. Remember, if the private sector is unable or unwilling to provide full employment, then there is still one sector left that is *always* able and *should* be willing.

There is much, much more to say about the Job Guarantee, but I need to bring this piece to a close. However, I urge you to keep thinking about it. Try to make a mental list of all the jobs that we don't do now, but which we could do under the Job Guarantee – all those nice-to-have jobs that would generally make the UK a better place.[34] Then there are all those unpaid jobs that we already do, work we take for granted which should be recognised. Brenda caring for her mother, for example.

The Job Guarantee will change the definition of 'work', so the jobs don't have to be profit-making or 'productive' in a private sector sense – anything that **furthers the public purpose** will do. Look closely at the apparent randomness around you and, just like an autostereogram, those jobs will snap into focus. You will realise that there is *always* plenty to do and that should make you suspicious of the claim that, in the future, there won't be enough work to go around.[35]

So, what's next? We need to start altering the discourse and the first candidate for change should be the word 'investment'. All the talk of 'investing' is a prime example of working within a neoliberal framing – trying to package up spending in a way that is supposed to look responsible.[36] We should be honest and tell everyone that the government just needs to start spending and when anyone says 'How are you going to pay for it?' we tell them.[37] That switches the debate from money to resources – people and stuff – and how these can be best deployed for the benefit of all.[38]

Then, armed with the knowledge that a fiat currency provides the government with the ability to provide jobs for all, we need to question capitalist power relations – all that conventional wisdom about relying on the rich for their tax money, pampering the corporations because they alone create jobs, regarding the financial sector as an engine of growth, and believing that national governments are constrained by globalisation. All that nonsense is just that: nonsense.[39]

I am going to finish with a little bit about socialism in the United States. Bernie Sanders is minority chair of the Senate Budget Committee and two years ago he appointed Stephanie Kelton to the post of Chief Economist to the committee. Stephanie Kelton is a professor of economics and a leading developer of Modern Monetary Theory.

That's what the progressives are doing in America – moving MMT into the mainstream. I would like to see the same thing happening here. ■

Notes

1 The words, phrases and names highlighted in bold are those that appear frequently in MMT literature. Where possible and appropriate, I have highlighted them at a point where they are defined. The remaining endnotes comprise material which may not have been covered in the talk.

2 Modern Monetary Theory is part of the **Post Keynesian** school of macroeconomics. MMT arose in the 1990s and drew together into one coherent whole the work of academic economists and, crucially, practitioners with an inside knowledge of central banking operations. The institutions at the forefront of its development are the University of Missouri at Kansas City and the Levy Institute, Bard College in the US, and the University of Newcastle in Australia. The academics who have done the most to bring MMT to a wider audience include **Stephanie Kelton**, **Randall Wray**, **Pavlina Tcherneva** and **Bill Mitchell**.

3 This was the end of the **Bretton Woods** system of international payments, originally set up in 1944.

4 The *fiat* bit is Latin for 'let it be done'. A fiat currency has no intrinsic value and is simply legislated into existence. The government says this is the currency and so it becomes the currency.

5 Having a non-convertible, fiat currency with floating exchange rates means that the UK government can never run out of money and can never be forced to default. It also means that imbalances that arise from trade deficits or surpluses are resolved automatically, i.e. balanced, by changes in the price of the domestic currency against other currencies.

With a fiat currency the idea of a 'run on the pound' is a meaningless concept and the government no longer has to contend with currency speculators or 'bond vigilantes'. Nor does it have to worry about 'propping up the pound' or, to a large extent, the fact that we import more than we export. All these worries belong to the 1960s and it's staggering how they are still indelibly imprinted on the collective mind.

Not having to deal with all these issues means that the government can use all the monetary and fiscal tools at its disposal to achieve *domestic* objectives – which should always include full employment.

It's worth noting that from 1990 to 1992 we returned to a pegged currency system when the UK became part of the European Exchange Rate Mechanism. The ERM was a precursor to the euro and required that the UK maintain the value of the pound within a narrow band. It didn't go at all well, created a recession, and ended in an ignominious and very costly exit from the ERM on 'Black Wednesday'. Still, a few speculators made billions out of it, so it wasn't all bad.

6 There are two reasons why it suits the rich to perpetuate the myth that taxes pay for spending. Firstly, it ensures that we remain beholden to them for the taxes they pay. You see this reasoning at work in the headlines in *The Telegraph*: 'Top 3,000 pay more tax than bottom 9 million'; and in *The Daily Mail*: 'Top 1% of earners contribute almost a third of all income tax'. What would we do without those 'top' people, eh?

Secondly, the rich know that we have to run deficits and make the claim that the government *must* borrow to make up the difference between spending and tax receipts (we'll see later why this claim is false). Where does government borrow the money from? From the rich, of course. So they get a nice safe place to stash their loot *and* we pay them interest. In reality, that interest is just a form of welfare for capitalists.

7 No mainstream economist would ever argue that the government *needs* to tax before it can spend, but they are terrified that our elected representatives might realise the truth. So they invent a thing they call the **Government Budget Constraint** to preserve the myth that taxes precede spending. The GBC is designed to make our politicians believe that government budgets are the same as household budgets.

8 The US linguist George Lakoff describes how the Right achieves this by **framing the debate** in terms of simple metaphors related to our everyday lives. The idea that the government is constrained like a household is propagated by messages like 'we need to balance the books and that will mean tightening our belts', 'we must pay our way in the world' and 'Labour maxed out on the credit card.' The Left accepts these assertions without challenge and unwittingly reinforces them with talk of increasing taxes on the rich and the corporations.

And if you are in any doubt that the Right are worried about MMT you just have to trawl through Hansard and see the increasing rate at which the metaphor 'Magic Money Tree' is used by Conservative politicians.

9 Don't pay any attention to anyone who says 'What about Argentina? They have their own currency and they went bankrupt, didn't they?' Argentina does have its own currency, but at the time of the crisis the peso was pegged to the dollar and they had lots of foreign debt.

10 That's because the Greek government budget, together with those of all other Eurozone countries, *does* have similarities with a household budget. However, by providing an understanding of the link between tax and currency, MMT provides a framework for Greece to abandon the euro and return to the drachma.

11 If you have difficulty with the concept of spending preceding taxation, just ask yourself this question: 'Where does the money to pay taxes come from in the first place?' Money in a modern economy is not something that pre-exists *within* the economy. It always comes from a higher source.

Even in economies where money was based on precious metals, it still came from a higher source. Consider the Robin Hood legend and money taxes (taxes paid in crops or labour are different). The king decreed that money taxes were to be paid in silver coins and used a Nottingham-based proxy to collect them. Where did those coins come from in the first place? What would happen if the king didn't tax back the coins?

12 You may ask why we don't reduce income tax to a flat 5% then. That's because tax has purposes other than

serving as a drain of government spending, the most important being that it allows the government to direct the use of resources – people and stuff – for the public purpose. Tax takes away some of our **purchasing power** and in doing so leaves resources unused. The state can then buy those resources and deploy them for the benefit of all. We will see later how the government could do much more to use those unused resources *without* the need to raise taxes. We can continue to enjoy the current low tax system *and* make the UK a much better place.

The real purposes of tax were explained in the 1940s by the US economist **Beardsley Ruml**. He saw tax as has having multiple uses, none of which had anything to do with funding spending: to stabilise the currency; to discourage bad practices and encourage good ones; to provide clarity about spending by appearing to allocate tax to specific things; and to 'express public policy in the distribution of wealth and of income'. His work led to the MMT concept that **taxes drive currency**. This answers the question 'Why would anyone accept money that is not backed by gold?' They accept it because it's the only thing with which they can pay their taxes.

13 Many on both the Left and the Right exhibit an initial scepticism about MMT because it contradicts everything they hold dear about tax.

For the Left, MMT destroys the argument that we just need to tax the rich more and everything can be sorted. Increasing the tax on any particular group isn't going to make the slightest bit of difference to the total tax take. It's fine to want to tax the rich more because you don't like them being rich and you want to reduce inequality, but it isn't going to raise any more revenue.

For the Right, MMT takes away their power because no group can claim that they are essential contributors to the exchequer. If the financial sector were to disappear overnight it would make no difference to total tax. The tax which would no longer be paid by the City will just end up being paid somewhere else along the spending chain. That's why you should treat any claim that a particular group is a 'net contributor' as nothing more than special pleading.

14 Try explaining spending chains in this way to a mainstream economist and you are likely to be told that there's nothing new here. These are indeed standard concepts – the **marginal propensity to save** and the **fiscal multiplier** – but the textbooks never go on to draw the obvious conclusions that MMT does about deficits. We'll come to those shortly.

15 Of course, you could just take a neutral stance and call it the **fiscal balance**, for that's what it is. It's the balance between the government sector and the non-government sector, and it's maintained by government spending.

16 A common and invalid criticism of MMT is that it only considers a closed domestic system, without regard for the rest of the world. Any confusion usually arises from a deliberate misinterpretation of the term 'non-government sector'.

17 MMT shows that that the government can never control the deficit and that's because of its defining characteristic: endogeneity. Economists like to class the factors that determine the operation of the economy as either **endogenous** or **exogenous**. The terms describe the amount of control that can be exercised over the factor. If the factor can be controlled directly, then it is classed as exogenous. Conversely, if there is very little that external influence can do to alter the factor then it is said to be endogenous. The deficit is endogenous because it is determined by our savings intentions, not by government spending decisions.

18 You will often find the phrase **deficits are neither good nor bad** in MMT literature. This is certainly true if the administration understands what the deficit is – the savings of the non-government sector – and directs policy based on that understanding. However, if the administration doesn't understand this, or chooses to conceal its understanding for ideological reasons, it is possible to have a bad deficit. If the government attempts to reduce the deficit because the dogma says it must then the result will always be a bigger deficit. It won't be a bad deficit because it's expressed as a bigger number, it will be a bad deficit because the country will be worse off in terms of employment, health, happiness and all the other things that make up our collective well-being.

19 The sectoral balances approach was developed by the British economist **Wynne Godley** in the 1970s. It models the **flow of funds** between different sectors of the economy and is usually expressed arithmetically as a three-sector model. It's here that you will encounter an equation which pops up a lot in MMT:

$$(I - S) + (G - T) + (X - M) \equiv 0$$

The variables are derived from the **National Accounts** – a double-entry bookkeeping view of the economy compiled by the government. The meaning and usual values of the bracketed groups are:

- **(I – S)** Investment minus Savings
Negative: Domestic private surplus
- **(G – T)** Government spending minus Taxation
Positive: Government deficit
- **(X – M)** Exports minus Imports
Negative: Foreign surplus

The three-bar equals sign indicates an **accounting identity** – a relationship that is true by definition. It may seem strange that a positive value for a group indicates a deficit and a negative value indicates a surplus. Just think of in terms of flows, where positive is a flow out and negative is a flow into a sector.

When added together the three sectors *must* always equal zero. If one sector is in surplus, then at least one of the other sectors *must* be in deficit.

20 It's just a shame that our shadow chancellor doesn't use the sectoral balances approach to his advantage. In the 2015 Autumn Statement, George Osborne announced that he would steer the government towards a fiscal surplus by 2019–2020. Osborne supported this silly goal using data from the Office for Budget Responsibility which was published on the day of the Statement.

The OBR knows that the deficit is savings. The OBR knows about sectoral balances. In its introduction to the data the OBR says 'In the National Accounts framework that we use for our economic forecast, the income and expenditure of the different sectors imply a path for each sector's net lending or borrowing from others. By identity, these must sum to zero – for each borrower, there must be a lender.'

The 'independent' OBR had to come up with figures which backed up Osborne and didn't violate the accounting of sectoral balances. So, the OBR dutifully *made up* the numbers. They showed that in order for the government sector to achieve a surplus of 1% of GDP in 2020 the domestic private sector would have to shoulder a deficit of 3% of GDP and the foreign sector would have to reduce its surplus from 5% to 2%. The balance was there, clear for all to see: we the people would have to be in debt amounting to 3% of GDP to make up for the other two surpluses (1% + 2%).

How did John McDonnell address these numbers on the day, numbers which were clearly a fantasy and would require an unsustainable level of private debt? He didn't address them at all. But he did provide us with some amusing theatre involving a little red book.

Just to keep you up to date, in the year since Osborne's 2015 Autumn Statement the foreign sector surplus has *increased* from 5% to 7%.

21 The 'national debt' only exists because of the mistaken belief that government must borrow back its own money to match the deficit.

22 Banks don't create *real* money; they extend *credit* to people and businesses. But we don't notice that the ability to extend credit is a power that we all have and we use it all the time. When people work they are extending credit to their employer – it's a loan that is paid off at the end of the month. All those invoices that say 'payment due within 30 days' are credit and every company has a legal right to charge you interest if you don't pay on time – currently 8% on top of the base rate. When you can't afford to pay for your boiler to be fixed and the plumber says 'Don't worry, pay me when you can' that's credit and shows that someone thinks you are creditworthy. It's just like relying on Wonga to pay for your new boiler, only a lot less exploitative.

We all have the power to create 'money', but we tend to obsess about bank-created money. We get all hot and bothered about misleading claims that banks create 97% of all our money. In theory, you could produce a similar meaningless statistic based on all the other 'credit' – it's just a bit difficult totting up all the times someone has said 'It's all right, I'll get this round. You can buy me a pint next week.' And when you have finally struggled to add up all the informal credit you will realise the futility of the exercise, because it *all adds up to zero*. Just like bank lending does.

A number of campaign groups have highlighted that a significant proportion of bank lending is not socially useful – notably banks lending money to themselves to gamble on the markets – and banks rarely share any of the risks when they make loans. There's an easy way to deal with these problems: better regulation. All government needs to do is issue the banks with a list of acceptable loan types and the problem goes away. It's much easier than some of the solutions that are currently doing the rounds, especially those that favour stripping the banks *and government* of their ability to create money and transferring that power to an 'independent' committee of former bankers.

Sure, there is much else wrong with banking and finance, not least the disproportionate power that it wields over society – especially its political lobbying power and its maintenance of a compliant media. But government cannot overcome that power until it has reasserted its own power. MMT shows how to do that.

23 Strictly speaking, it is possible to get net saving between different entities within the non-government sector using bank-created money, but it's not possible either at the individual level or at the aggregate level.

24 The difference between the money created by government and credit issued by banks becomes apparent if we think of government spending as an interest-free 'loan' into the economy. It's a loan that's gradually 'paid off' by the taxes that are raised at each link in the resulting spending chains – except that it's never quite paid off because we *choose to save* some of it. Try that with a bank loan and see how far you get. You have to pay off a bank loan in full *and* you have to pay interest. Wouldn't you rather see poverty reduction enabled by government 'loans' than by payday loans?

25 This is the **Phillips curve** and its cruel companion the Non-Accelerating Inflation Rate of Unemployment (**NAIRU**), theories which lead to the claim that there is a **natural rate of unemployment** at which the economy is somehow 'optimised'. They are nothing more than ways to explain away failed models and ineffective policies.

26 Here's an interesting fact that is rarely mentioned in the media: there is no such thing as a Nobel Prize in Economics. The Nobel Foundation, set up by the will of Alfred Nobel, awards prizes in Chemistry, Physics, Medicine, Literature and Peace. There isn't one for Economics.

There is, however, the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel. The Sveriges Riksbank is the Swedish Central Bank, so the 'Nobel' prize for economics is one awarded by bankers and is naturally biased towards mainstream ideas. That's why it's given to the likes of Milton Friedman, the US economist who supported and advised the Pinochet regime in Chile.

Friedrich Hayek, the Austrian free-market economist who was awarded the prize in 1974, argued that 'the Nobel Prize confers on an individual an authority which in economics no man ought to possess.' He went on to say 'this does not matter in the natural sciences. Here the influence exercised by an individual is chiefly an influence on his fellow experts; and they will soon cut him down to size if he exceeds his competence. But the influence of the economist that mainly matters is an influence over laymen: politicians, journalists, civil servants and the public generally.'

He was certainly right about that last point. Friedrich Hayek was Thatcher's favourite economist and his claim that the free market was more important than democracy did much to alter Conservative ideology in the 1980s. That change also had something to do with Thatcher's other favourite economist: Milton Friedman.

Anyway, I'm thinking of setting up a Prize in Pigeon Fancying in Memory of Alfred Nobel.

27 The MMT Job Guarantee is based on a model proposed by **Hyman Minsky** in 1965. He said 'Work should be made available for all able and willing to work at the national minimum wage. This is a wage support law, analogous to the price supports for agricultural products…The basic approach is straight forward – accept the poor as they are and tailor make jobs to fit their capabilities. After this is done, programs to improve the capabilities of low income workers are in order.'

28 The Job Guarantee is the ultimate zero-hours contract, only in this instance the number of hours is decided solely by the worker. If anyone wants to work fewer hours (and doesn't mind having less money) in order to devote more time to their stamp collection, they are free to do so. Similarly, if anyone wants to work two days a week in Starbucks then they are entitled to three days' work under the Job Guarantee.

Some people may think that the freedom to choose their hours will also mean that they can spend time on their volunteer community project. They certainly can, but if that community project furthers the public purpose there's every chance that it could be included in the Job Guarantee programme. Then they get paid for their 'volunteering' too.

29 The ultimate aim of the Job Guarantee is for it to be at the centre of a new social security settlement – one that replaces a benefits regime that is no longer fit for purpose. The goal is that everyone, regardless of age or ability, should have a living income.

The Job Guarantee is not about providing cheap labour for Poundland by insisting that claimants work there in return for their miserly benefits. Job Guarantee jobs are public sector jobs and have exactly the same status as all other public sector jobs, with the only proviso being that all Job Guarantee jobs pay the same living income. There will be comprehensive safeguards to ensure that anyone of working age who cannot work – owing to illness or disability – will receive the same living income *plus* all the extra support they need (but that doesn't mean that ATOS will still be in business).

There will always be difficult cases and no one is saying it's going to be easy. MMT does not prescribe what level of social security should be available to people who don't take up a guaranteed job and cannot otherwise support themselves – that is up for discussion within the democratic process. One result of that debate will be a realisation that the current system fails some of the most vulnerable and that the Job Guarantee provides a mechanism for addressing those failures.

The Job Guarantee can also be merged into pensions provision. The current system assumes that when anyone reaches pensionable age they are by some miracle able to subsist on considerably less than a living income and cope with the sudden loss of something to do with their day. The retirement can age be lowered and coupled with a phased out entitlement to work under the Job Guarantee. So, just as an example, reduce the retirement age to 60 with the option to work up to five days a week under the Job Guarantee until 65, when the number of days is reduced to four, and then reduce it by a further day every five years.

Pensions will become a living income rather than a stipend, so there will be less need to save for retirement – and the deficit will be reduced by an amount exactly equal to the reduction in savings. Of course, the government needs to ensure that the *real resources* will be available to be bought by pensioners in the future and we'll need to start planning for that now.

30 We need to counter the idea that the economy is some sort of deity, one whose state of mind can be divined by a priestly class of economic experts. However complex the economy becomes, it is always nothing more than a social construct. The MMT view is that modelling the complexity of the system and the resulting uncertainty is beyond our current capabilities and probably always will be. That is why MMT economists, unlike those in the mainstream, don't waste their time developing ever more complicated mathematical frameworks, none of which stand up to empirical scrutiny. However, that doesn't mean that the economy cannot be stabilised and made to work for the benefit of all by an automatic, system-balancing mechanism. The Job Guarantee is the foundation on which that approach is based.

31 We already have most of the administrators in place – there are 85,000 of them currently working for the Department for Work and Pensions. So, rather than Job Centre staff being bullied into meeting inhumane targets for the sanctioning of claimants, they can get on with the job of getting people into jobs.

Over time the administration of the programme will move to local authorities, restoring the power they once had and allowing them deal with regional disparity at the local level – the jobs will move to the people, rather than the people to the jobs. That's something the big infrastructure projects can never achieve – HS2 isn't going to provide jobs in Lancaster.

Once it's all in place, the UK can finally claim that it has met its obligations under Article 23.1 of the UN Universal Declaration of Human Rights, which states 'Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.'

32 MMT is not just a dry theory. Its starting point is the need to build a better society and well-being is at the core of the Job Guarantee proposals. MMT recognises the problems created by unemployment – depression, family breakdown, loss of confidence and self-esteem, substance abuse, crime – and offers a workable solution.

The Job Guarantee also provides for the well-being of the people who are already in work. It deals with the feelings of resentment they can suffer when it appears to them that others are 'getting something for nothing' or are somehow 'undeserving'. These are natural reactions that are ruthlessly exploited by the Right, as evidenced by the loathsome 'strivers v. shirkers' and 'hard-working families' messages, and the removal of Child Benefit and other once universal payments from the middle classes.

MMT is built on the understanding that **mutual obligations** are hard-wired into society. Research with apes and toddlers shows that it's probably hard-wired into our brains too. Much of what we do we do because we know that someone else will reciprocate. The window cleaner we talked about earlier doesn't know it, but one of the reasons she goes to work is to set in train a series of reciprocal arrangements which results in a bus driver at the other end of the country taking some children to school. Facilitating those arrangements is the true purpose of money and you can think of the economy as one big **reciprocity** engine, a machine that drives a complex system of interdependencies. Any economic model that doesn't recognise this is bound for failure.

33 The Job Guarantee sets minimum acceptable pay and conditions and eliminates the need to police them. Employers will be forced to offer a better deal if they want to attract workers. It will destroy what is fast becoming the dominant business model: lots of profits being made out of crap jobs paying crap wages – a model that relies on working tax credits, which are effectively subsidies to business, and results in ever-decreasing productivity.

With a Job Guarantee in place the private sector will be forced to demonstrate qualities that it claims it alone has: ingenuity, innovation and efficiency. Business will be disciplined, not pampered and not pandered to. This is in stark contrast to the current system where it's the workers who get disciplined by job scarcity.

34 A significant number of Job Guarantee jobs will fall into the **nice-to-have** category because we have to accept that people will move from the Job Guarantee to elsewhere in the public sector or in the private sector, often for better pay. The have-to-have jobs – doctors and street cleaners – are not right for the Job Guarantee. We will need to pay people more in these jobs to retain them.

Nor are the big infrastructure projects likely to provide Job Guarantee jobs because they need a stable workforce and will also have to pay more to secure it. However, those improvements which are going to take a long time to roll out across the country – upgrading all our homes to high energy efficiency or installing lots of small-scale sustainable energy systems – are just right.

There will be nice-to-have jobs for all skill levels and talents. Some will be low-skilled manual jobs, but they certainly don't all have to be. A good precedent was set by the New Deal in the 1930s when the US government took thousands of unemployed writers, artists and musicians and employed them as writers, artists and musicians. Nice-to-have jobs can also include:

- Starting a business. The Job Guarantee can help you with the plan and, if it looks viable, give you all the support and advice you need and pay you for the first three years to help you get it off the ground.
- Getting trained. If you fancy a change of career and need vocational training or you want to study for a degree then the Job Guarantee can provide income for the hours spent learning.
- Caring and parenting: Carers and single parents will be considered to be in work and will receive a living income, weighted in the case of parents to the number of children in their care. And couples will be able to use the Job Guarantee to balance work and parenting responsibilities.
- Looking for work. If it's appropriate and there's a realistic prospect of success then you can be paid, for a limited period, to find work.

Best of all, the Job Guarantee deals with the private sector **matching problem** – where people have to fit the available vacancies – by reversing it. And if the match doesn't work out you can always try another Job Guarantee job until you find one that does.

35 There's a lot of talk at these days about how **automation** will largely do away with the need to work and, consequently, reduce the availability of jobs. While there is some truth in this view, you need to be careful that it doesn't lead you into a neoliberal trap.

The MMT view is that the private sector should always be trying to cut down the number of jobs it provides. After all, reducing costs is an essential part of private enterprise and labour is a significant cost. Businesses should be reducing their headcount by way of the increased productivity brought on by training and automation – although many employers choose not to because of the plentiful availability of cheap labour. So, yes, there should be fewer jobs in the *private sector*.

However, the much-hyped robot revolution doesn't mean there won't be plenty of jobs still to do in the *public sector* – jobs that can't be automated (or shouldn't be), further the public purpose and are ideally suited to the Job Guarantee. Many of these are jobs that we don't do now and, despite the claims of idealists on both the Left and the Right, they are not going to get done in the future by some utopian army of committed volunteers.

It's the job of the private sector to be efficient, whereas it's the job of the public sector to be effective. Once that's understood, there will be a strong case for bringing a lot of privatised services back under public control. Only then will we get decent and *effective* bus services in rural areas, which then creates a market for the private sector where they can demonstrate ingenuity, innovation and *efficiency* – the things they claim to be good at – designing and building better buses.

36 I am at slight variance with Bill Mitchell here, as he prefers the word 'investment' over 'spending' when discussing MMT. His argument that 'spending' has negative connotations of money being 'used up' is correct, but in the context of the current debate in the UK I think we have to distance ourselves from the obsession, on both Left and Right, with 'investment' so that we can explain the true nature of spending.

To see how the concept of 'investment' has been subverted and infected debate on the Left, you just have to look at the success that the Schumpeterian economist Mariana Mazzucato, who is on Labour's Economic Advisory Council, has had with her proposals for an 'entrepreneurial state'. Her arguments are based on Schumpeter's basic principle that the public sector is useless and that 'progress' can only come from the private sector – by way of the talents unique to the entrepreneurs. Schumpeter believed that the corporations are the only entities that have the power to raise our living standards, primarily by providing us with cheaper consumption goods.

Mazzucato argues that the state should provide the research funding to develop technologies that, as she sees it, will boost the economy and lead to greater tax receipts. For her it's a win-win situation – government provides the money for the basic research, Apple uses the technologies resulting from that research to develop consumer products and we benefit from increased tax revenue on sales of those products. It's all based on the false premises that government needs those tax receipts and that they can only be generated by the entrepreneurs, for they are the true 'wealth creators'. Moreover, it leads to the belief that the only role of universities is to provision the private sector.

Mazzucato goes on to argue that the state should benefit more from royalties. She cites the example of a cancer drug originally developed by a US government agency and now sold by a US pharmaceutical firm. She complains that the state only receives $100 royalty on the $20,000 charged for an annual course of the drug and believes that the state should be getting a bigger cut. Given that a year's course costs $1,000 to manufacture, can you see a problem with her argument? Are you happy that this is the sort advice that the Left is getting?

Bob Jessop at Lancaster University sums it up when he says we are experiencing 'a tendential shift to a Schumpeterian Post-Nation Workfare Regime' – a state that is 'hollowed out' by globalisation and which is only 'concerned to provide welfare services that benefit business with the result that individual needs take second place.' If you are in any doubt that the Left has been captured by Schumpeterian ideas then you just have to count up the number of times you see a politician or an economist from the Left hold up an iPhone and claim that it only exists because of government 'investment'.

37 We have to explain the difference between 'sound' finance and functional finance. **Sound finance** is the myth that government budgets are the same as household budgets or, if you are a mainstream economist, that there exists a Government Budget Constraint. **Functional finance** acknowledges the power of sovereign currency and stresses that it is the job of government to use that power for the good of the people, particularly by ensuring full employment. It's an idea that was posited by the Russian-born British economist **Abba Lerner** in the 1943. Unfortunately, at the Bretton Woods conference in the following year the US 'encouraged' us to return to the gold standard.

38 Let's look at two current debates – student loans and the NHS – and see how they pan out when we change the focus from money to resources.

Would any additional real resources – people and stuff – be required if the government were to reduce university fees to zero and provide a student maintenance grant? No. Would spending into the economy increase (thereby risking inflation because more money is being spent on the same amount of resources)? No. So, the government could, *if it wanted to*, do away with future student loans and cancel all existing debts. The only question is one of ideology – whether university students pay for their education.

The NHS is more complicated. The debate – whether it's about seven-day working or just keeping the service going through the next winter – is almost always about money. We now know that the government has as much money as it needs, so we need to frame the issue in terms of resources.

If the government increased NHS spending to the level needed to sort out the winter problems and provide a seven-day service, would there be enough of the necessary additional resources available for the government to buy? There probably isn't a shortage of medicines or equipment, but there certainly aren't enough qualified people – clinicians and support staff – available to be bought with the extra money. Most people think, and the politicians promise, that the extra money will cause the missing resources – in this case, people – to pop into existence. The trouble is that most doctors are already working as doctors.

Now that we've moved beyond the money bit, we are forced to think about where we are going to get the missing people from. Notwithstanding the pledges made at the recent Conservative conference, getting them locally is going to take time, and for doctors and nurses it's a 30-year project. That's because we have to start persuading today's children that being a clinician – a nurse or a doctor – is a worthwhile and rewarding career (how is Jeremy Hunt doing with that?) and when they grow up we need to train them.

Well, as we have always done, we will just have to get them from abroad, won't we? We've got all the money we need, haven't we? That could certainly work reasonably well for us. However, now that we have started thinking about resources rather than money, we need to consider the resource effects in the nation from which we take the trained workers.

There are 4,500 clinicians from Zimbabwe working in the NHS. That's OK, isn't it? After all, Zimbabwe has one of the best healthcare systems in the world. They clearly have too many unused resources – thousands of fully trained medical staff – and don't know what to do with them. We're probably doing Zimbabwe a favour – if we didn't take them, all those jobless doctors would be begging on the streets of Harare.

Notice how changing the focus to resources, even when it's done sarcastically, has clarified the issue. If we had talked about money we would have just ended up with competing opinions: 'We shouldn't be relying on the Zimbabwe government to pay for training our doctors and nurses' and 'Ah, but think of the money those people are making over here – considerably more than they could earn in Zimbabwe. And they will probably send a lot of that money back home. So, on balance, Zimbabwe is probably better off.'

Even if that last statement were true (it isn't), any money that goes to Zimbabwe won't be translated into more midwives in rural clinics – the resources we commandeer won't be replaced at the other end – so it won't repair the damage done to poor peoples' lives.

Of course, there is a morally acceptable mechanism by which Zimbabwean clinicians could work in the NHS: one in, one out. For every doctor that comes here from Zimbabwe for three years, we send a British doctor there for three years. It's a fair and reciprocal system that would probably benefit both countries.

What started off as a debate about NHS funding has morphed into one about resource extraction and that's a process which has been going on for hundreds of years. The fine Georgian buildings here in Lancaster owe their existence to a related form of resource extraction – it also involved taking people from Africa – and it's only recently that we have come to accept the damage it did.

The rich in the eighteenth century seemed not to notice the effects of appropriating humans for their own benefit, just like our rich don't when they claim that their preference for private healthcare is saving the NHS money. It's just queue jumping and resource extraction – because a clinician working in a private hospital is one who isn't working in an NHS hospital.

You can see why the discussion is always steered towards one about the availability of money – because it makes solving the problems seem so much easier. And if the problem turns out to be a bit too hard to fix, then there's also a ready-made excuse: 'I'm sorry, but there's no money left'. MMT shows that lack of money is never an issue, but that doesn't necessarily solve all our problems. An MMT-aware approach does, however, help us identify structural difficulties and shows us that we need to start planning now for the country we want to have in 30 years' time.

39 And it's here that we get to the real problem with the Left in the UK. **Neil Wilson** encapsulates it when he says 'the Left is always playing away at Neoliberal United'. The Left needs to start playing at home and it can only do that if it rewrites the rulebook. Antonio Gramsci put it another way: if you engage your opponents militarily you are attacking at their weakest point; you need to target their ideology so that you take them on at their strongest.

To see how the little skirmishes achieve nothing, look at how Labour goes on about being anti-austerity and says that it will build 100,000 houses a year. When the new Conservative administration announces that it has dropped austerity and will build 200,000 houses what can Labour do? Attacking their outer defences gets you nowhere because, ultimately, they are expendable.

We now know that we don't need their money, that we don't need them to create jobs for us, that there's no need for our brightest to work in the city, and that there's no reason why the state should abdicate its responsibilities. And wealth is not something that can be quantified in money terms, for true wealth can only ever be the development of human capabilities.

Modern Monetary Theory lifts the veil on neoliberal power and reveals that it depends on an ideological illusion, a carefully constructed fiction about spending and tax that we have all come to accept as 'common sense'. It's time we challenged that ideology.

Learn more about MMT

This is a brief reading/viewing list, ordered roughly according to level.

Type	Description	Link
Video	A short interview with Bill Mitchell of the University of Newcastle in Australia is a good starting point. It also explains why the UK is very different to Eurozone countries. [0:16]	aluta.uk/xaj
Video	Stephanie Kelton from the University of Missouri at Kansas City (UMKC) has a simple introduction for non-economists. This lecture is aimed at a US audience, so she has to be careful that it doesn't come across as too communist, particularly in relation to the Job Guarantee. [1:18]	aluta.uk/akh
Website	Modern Money Matters – a collection of material on Medium curated and mostly written by Neil Wilson, a non-economist focusing on MMT in the UK.	aluta.uk/epy
Website	You would have thought *The Guardian* would be pushing MMT, but it hasn't caught up yet. One notable exception is David Graeber's stab at getting across the concept of sectoral balances.	aluta.uk/dmx
Book	*Diagrams and Dollars* by JD Alt is a short introduction to the sovereign currency aspect of MMT. A US publication, but applies just as well to the UK. eBook only £1.09 from Amazon.	aluta.uk/jvo
Website	Bill Mitchell has probably done the most to spread MMT to wider audiences. Try his blog, where he publishes frequent, lengthy and topical articles. He is particularly interested in UK issues, especially the role that the Labour Party played in the rise of monetarism in the 1970s.	aluta.uk/ufb
Book	*Modern Money Theory* is the standard primer by Randall Wray from UKMC and is now in its second edition. Paperback for £23 or eBook for £18 from Palgrave.	aluta.uk/kkc
Website	For a completely different take, try Scott Ferguson from the University of South Florida with 'Critique after MMT'. Here's the opening sentence: 'After MMT nothing looks the same: not political economy; not everyday caretaking; not paintings, pop songs, or porn sites'.	aluta.uk/hhf

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