Modern Monetary Theory and Morrison's cash splash

> Gladstone … observed that even love had not turned more men into fools than has meditation upon the nature of money.
> Marx, *A Contribution to the Critique of Political Economy* (1859)

Morrison's big spend is spawning all kinds of madness such as 'Morrison as Marx reborn'. More respectable around the Left is Modern Monetary Theory. There has been, however, some restraint from that corner with its advocates' admitting that MMT applies only to 'sovereign' nation-market-states.

<u>Sovereignty</u>

That qualification is useless unless MMT supporters can define 'sovereignty'.

In a world of competing imperia, 'sovereignty' is meaningful only as a relationship: from whom? against whom? That was as true for Sparta and Athens as it is for Australia and the U.S. A., although the intricacies of those connections could hardly be more different. The achievement - or loss - of 'sovereignty' is a multi-layered process. The larger context of sovereignty is in regard to foreign policy, intelligence agencies and military force. There, the scales all tip against Australia in favour of U.S. imperialism, as they used to do for its British rival.

At no point in the past 130 years has the U.S. of A. lost its 'sovereignty' despite its government's piling up debts in recent times. Washington can get away with this profligacy – hugely on weapons of mass destruction – because it controls such a share of world trade and financial flows, with international contracts denominated in U.S. dollars. Woven through those financial-economic strengths is its use of violence and spying. As Reagan's Secretary of State George Schultz spelt out in 1987: 'Negotiations are a euphemism for capitulation if the shadow of power is not cast across the bargaining table.' He had applied that rule as Secretary of Commerce; U.S. trade negotiators had done so before him and still do. [For a long view of U.S. sovereignty see the Appendix at the close of this piece.]

In addition, sovereignty is not always a zero-sum game as can be shown by contrasting the case of Korea under Japanese rule between 1910 and 1944-5 with Japan from the 1850s to the 1920s. The Japanese invaders practiced cultural genocide on the Peninsula, enslaving its people. On the other hand, although Japan had to submit to Commodore Perry and the other Europeans from the 1850s, the Meiji oligarchs and their inheritors had the internal resources to reclaim sovereignty by the 1920s – only to lose it almost totally during 1945. During the 1950s, Tokyo rebuilt economic sovereignty on the backs of its working peoples, while accepting the U.S. military hegemon as guarantor of its sovereignty against the Reds at home and across the Sea of Japan, including from Koreans reasserting their independence against both Japan and the U.S.

The fiat and the foreign

In evaluating MMT, we also have to recognise two kinds of currency. The value of one is given in the foreign-exchange rate. The other is set by governments for domestic transactions, known as a fiat currency.

For as long as you have twenty dollars on your debit card you can go to JB Hi-Fi and exchange it for a dvd of *The Blob* (1958) priced at $A20. That is almost never the case if you order that horror from overseas, or buy it while you are abroad. In the UK, you'll need $A28 but in New Zealand around $A18.

Fiat currencies are set primarily by domestic factors. Exchange rates are decided by external factors, i.e. the components of the balance of payments. Notwithstanding that working rule, Michal Kalecki shows that government deficits 'could be regarded as "domestic exports" from the point of view of effective demand.'[1]

Let's hope no one is daffy enough to suggest that Australia can over-value our fiat currency and expect our trading partners to accept the dollars we send abroad at that inflated valuation. A nation-market-state which tries that on would be engaging in a version of forgery. As shown in the Appendix, not even the U.S. could get away with that scam after 1967.

Here, we encounter a further complication. Yes, there are fiat currencies, or there were. However, since handing financial regulation to speculating corporates ('de-regulation'), almost all exchange rates float to some degree, even the Japanese and Chinese; Germany and the U.S. of A. are special cases with impacts on many others.

What difference does it make if a government borrows domestically or overseas? Domestic loans will not get bigger even as the exchange rate falls. That is, in part, why Japan and China have not gone bust after decades of pump-priming. Their deficits are funded by fiat currencies.

The hacks fail ask that nice Mr Frydenberg where he got the $750 he dropped into my bank passbook. As of Friday, 22nd, the media became fixated on his numerical error. Even journos can tell the difference between 70 and 130. Some have a firmer grip on how many noughts there are in a billion than

[1] Michal Kalecki, "On Foreign Trade and 'Domestic Exports'," *Collected Works of Michal Kalecki,* vol. I, *Capitalism Business Cycles and Full Employment*, Jerzy Osiatynski (ed.) (Oxford: Clarendon Press, 1990), 165-73; and "The Problem of Effective Demand with Tugan-Baranovsky and Rosa Luxemburg," vol. II, *Economic Dynamics* (1991), 451-8.

Barnaby Joyce. But they let Frydenburg get away with saying that all the money has to be paid back. They never ask: to whom? Neither does Chalmers or Leigh from the Anti-labour Party.

Surely the cash splash is being 'printed' by the Reserve Bank? If not, did the Commonwealth borrow it from the Big Four? Or if not, from whom overseas, and at what rate of interest? And why are we not being told? The AAA rating hasn't moved, as one would expect it to if we had plunged into debt to Wolf Street.

Turns out that Reserve Bank Governor, Phillip Lowe, doesn't think it has to be repaid. That's what he told the Senate Committee on Covid 19 on 28 May. He ought to know because he forked out the cash by buying Commonwealth government bonds. (State, Territory and local government splashes have been under Commonwealth control since 1928.)

Frydenberg will keep pushing his money-tree mendacity as propaganda to slash and burn even previous poor levels of welfare as soon as they feel game.

But what of Australia? In what senses is it sovereign today?

<u>Exchanging rates</u>

A Triple-A rating is not a God-given right, like bearing arms. From the 1880s, turmoil in the balance-of-payments meant that Australia was not sovereign on the financial front until the 1960s with its inflow of earnings from another minerals boom. Inevitably, not all the realised value came our way. Some ended up in Japan thanks to a monopsony patrolled by its Ministry of International Trade and Industry; some went as profits to Rio Tinto in London and some to Comalco and Utah in North America. To keep our foreign masters happy, between 1967-8 and 1972-3, the Australian government in effect paid the corporates $55m. to make off make the value added by labour in mining and shipping to the wealth of nature.

So, instead of jumping up and down with glee at boosts to government spending, should we not be pondering another scenario out of the virus – or out of any shock? How much would global trade have to shrink for our trade-exposed financial sovereignty to disappear? We might usefully disaggregate that prospect by export markets and products.

The mechanism through which that loss of financial sovereignty would manifest itself is the rate-of-exchange. Assume an overseas debt of 100 units with an exchange rate of A$0.75 to the US$1.00. The exchange rate is decided by the balance-of-payments, which involves more than physical trades. When we sold lots more dirt to China, the exchange rate for the A$ was over parity with the US dollar. Now, assume that the combined demand for dirt, tourism and education drops by a third before 2022. Down goes the rate-of-exchange for the $A. Import prices go up as do the cost of cruises. Tough for a slice of the population, but not the end of life as most workers know it.

BUT, and it is a big but, the total of the international debt goes up too. Let's put some numbers on that switch. It was 100. The dollar slumps by 25 percent. The overseas debt goes up by the same percentage. Instead of owing 100, Australia owes 125. Given the strength of our starting point, a 25 percent jump is not going to put out a call for an IMF-World Bank rescue. The worst result is that credit worthiness will fall from AAA to BBB. That will push up the cost of borrowing, but not disastrously. Of course, that increase will push up interest repayments and that pushes the exchange rate down a bit further as more repayments are sent abroad.

The worst case is that the terms of trade plunge so steeply that Canberra turns to the IMF-World Bank thugs for a lifeline. Sovereignty is surrendered. The printing of money has to stop. The IMF-World Bank impose its regular regime of deforms: sell off hospitals, schools, transport, the ABC-SBS, and anything left after the Grand ALP-LNP Coalition has sold us out to the global corporates.

Half the economies in the world have been through that ringer and many are still having the lifeblood squeezed out of them, with no relief in sight. More are about to fall victim.

Can Australia turn into the Argentine of the South-west Pacific? The chances are not high but the economy has become so lopsided that it is more exposed than it was forty years against comparable economies.

What chance of turning back into Keating's Banana Republic? Not much. Tropical Race 4 fungus is killing off our bananas while the head-of-state is a remnant of the House of Saxe-Coburg-Gotha (aka Windsor). A 'lemon monarchy' looks like being our lot.

Bonded

Our prospects also need to be viewed against the decades when Australia was anything but sovereign. Going back before the First Great Slaughter, we find the London and Westminster Bank's Lord Glendyne deciding which Australian governments could sell bonds and on what terms. Will the Bank of England's Otto Neimeyer from 1930 be reincarnated as the IMF? There was the World Bank loan in 1950. Nor should we forget the call that Keating got from Salomon Brothers when he tried to impose a withholding tax in 1985. These expressions of life under the rule of capital can't be pushed aside as anecdotal. Recalling the past is one more reminder that new things happen, including the reappearance of old things in new garb.
[For a wider survey see www.surplusvalue.org.au/McQueen]

Odious comparisons

The advocates of balanced budgets keep telling us that governments are like households, if they borrow too much, they go bust.

From the other side, the advocates of piling on debt are half right to point up the differences between households and governments, sovereign or not. But the MMT-ites are also prone to distortion.

A household which borrows $400,000 to buy a dwelling is in a different position from one in hock each week to PayDay Lenders to put food on the table. Mortgagees get by for as long as they can meet the repayments – so long as the interest rate does not blow off their rooves. We might point out to the prophets of doom that they and their corporate sponsors keep urging families to take on more of these debts.

[Engels explains why widespread home ownership puts downward pressure on the socially necessary costs of reproducing labour-power – and on real wages; see his *On the Housing Question* and our trimmed version on www.**surplusvalue.org.au/marxism**]

The valid comparison is between a home-buyer's mortgage and a government project which makes capitalism more profitable such as smoothing freight movements. Borrowings for that purpose should pay off – all other things being equal – which they cannot always be in a capitalist system. (Had borrowers repaid all their debts in full, capitalism could never have come into being.)

Hence, the comparison is not between all governments at all times and every household but between a family in the grip of the pawnbroker and a government's having to borrow abroad to pay the wages of its employees.

Marx's commodity concept of money

These qualifications lead onto two conceptual doubts about MMT. How far can the value of even fiat money be detached from the values produced by labour-power? Hovering over that query is Marx's other insight which is lost on many advocates of MMT:

> It is only in the markets of the world that money acquires to the full extent the character of the commodity whose bodily form is also the immediate social incarnation of human labour in the abstract. Its real mode of existence in this sphere adequately corresponds to its ideal concept.
>
> (*Capital*, I, Moscow, 142, which here is a superior translation to the Penguin 240-1.)

How now fiat currencies?

We face a multi-headed task. Working backwards through the above we shall have to learn how to:

a. conceptualise money;

b. perform some thought experiments on global trade; and

c. background both a. and b. with how Australia fared between the 1890s crash and the boom of the sixties;

d. refine our definitions of sovereignty.

The effort needs to be a collective one. Moreover, any answers nutted out today are bound to be provisional.

Backing into the future

Of itself, the pandemic will alter nothing. Should it turn out to be 'a turning point', it will become so 'only in so far as it provides an occasion for a choice between the existing possibilities,' as Arnold Hauser said of the First Great Slaughter. (1962)

Whether the recent experience of certain degrees of Australian 'sovereignty' can survive the current slump will be decided by how the proposed 'thought experiments' (modeling?) shape up as actualities in the next couple of years. In pondering those prospects we have to be alert to inadequacies and absences from the preceding prognosis.

Here are three threats for consideration:
i. a nuclear exchange - late last year the Bulletin of Atomic Scientists moved the hands of its clock closer to midnight than ever;
ii. since economic factors are more multi-faceted than indicated above, their compounding could make the outcome far worse;
iii. have we under-estimated the condition of the patient when overtaken?
Let's consider how some combinations of *ii.* and *iii.* could unravel.

Excess capacities and huge corporate debts blew out during in the era of near-zero interest rates following the 2006- implosion. Unlike sovereign governments, the corporates do have to repay - or go bust, or get taken over. Some concentration of capitals happens in every crisis.

Ex-head of the US Federal Reserve Janet Yelland (March 30) considered that the banks were in a stronger position than they were in 2006-8. The risk is - as it was then - that their balance sheets are heavy with loans to over-extended corporates. If a run of multi-nationals goes down, they can take the financial sector with them – and we are back to September 2008: Doomsday. Or a rush of government spending to pump up the Very Big End of Town.

A similar flow-on is possible here if enough corporates have been borrowing offshore. The Big Four Banks here to do that all the time. We need to be told: how much and to whom? Bugger commercial-in-confidence.

Another dark alley is that corporates borrow offshore from a financial subsidiary or affiliate at way above market rates of interest. They do so as the latest form of transfer pricing to reduce tax liabilities.

The farce of a Foreign Investment Review Board (FIRB) makes no attempt to find out. In the 2008-10 collapse, three Trust Funds raided 134 local firms, for a total of $600 billion. That sum was half of the market capitalisation of $1.25 trillion for all shares of all 2050 ASX companies in mid-2010.

None of those purchases registered with the FIRB because none of them sought a controlling interest in any one firm. That a trio of pirates captured a controlling stake in the entire stock market is nobody's business.

(see analysis from David Peetz and Georgina Murray in *JAPE*, Winter 2013) www.surplusvalue.org.au

'They mean well'

The implosion of 2006- was going to see an end to neo-Liberalism 'as a failed policy'. It continues to fail working people because most of the time it succeeds for the dominant sectors of capital. We are being served similar pieties today: the pandemic is going to change everything – and so were the New Year fires.

For the time being, Neo-Liberalism remains a very good agenda of the needs of global corporates. The bottom-line is not what the boss-class 'wants' but what capital needs to survive. How to meet those needs differs in each period.

A forthcoming issue of *Journal of Australian Political Economy* will be devoted to the virus and its impacts. How many contributors will be able to extract their heads from the fog of 'neo-Liberalism' as the explanation for all the nasties in the universe? It was and is a very good idea for the global corporates.

Despite stacks of doctoral thesis to the contrary, Neo-Liberalism was never just a 'bad idea'. Every line of attack on working people needs some ideological stiffening to urge on the agents of capital and to disable us as their victims. 'Neo-Liberalism' is working a treat for the corporates on both those fronts.

However long the big spend lasts, only the class struggle will decide who benefits. The Quantitative Easings in the U.S. landed in the lap of Wall Street – which is happening again now.

The relative strengths of the contending classes have not run in our favour for forty years. If our class is on its knees, it is not because we are about to rip the crutch out of the capitalist class, still less sink our fangs into the belly of the corporate-warfare beast.

The weakness of our class is also why the hope that any level of a Universal Basic Income will become a norm is phantasmagorical. We know how reluctant capital is to pay us wage-slaves even the full cost of reproducing our labour-power when we are adding value for them. What chance is there that the personifications of capital will succumb to a pandemic of philanthropy and go on paying us forever when we aren't adding value for them to expropriate? The likelihood is on a par with Albanese's calling for a Universal *Maximum* Income.

Know your enemy

One obstacle to the Left's gaining clarity on any of the above is that thought experiments depend first of all on a willingness to think and not to sprout synapse-clogging clichés. For instance, at the political level, the Left needs to stop denouncing every 'bad' move as 'fascism'. That response makes matters more dangerous for working people. For a start, the bombast denies that we have always lived under the covert dictatorship of the bourgeoisie, and thereby forgets that the state is not our friend. State apparatuses are more sites in which class struggles are waged, and their outcomes gain the force of law. (see my 'If it's not fascism – what is it?' (www.surplusvalue.org.au/mcqueen **????)**

The end to histrionics will be a step towards a class analysis of power in its several manifestations. From there we will be able to grapple with the science of *Capital* and thereby grasp the il-logic of capitalist exploitation, accumulation and expansion.

APPENDIX

How 'sovereign' is the United Mistakes?

Some North American colonists won a war against Britain in 1783 after seven years of fighting. One hundred years later, Marx and then Engels pointed out that the United States of America, although constitutionally independent, remained an economic colony of Britain. In the 1950s, Egypt's Nasser and Indonesia's Sukarno used 'Neo-Colonial' for such relations.

How did the U.S. of A. get out from under its neo-colonial status? The economic standing of the U.S. of A. changed from the 1880s. Here, we can do no more than list six of the factors leading to that reversal of fortune:

first, Britain's dominance of global trade - its 'free-trade' empire – faded with the loss of preeminence by its processors as large-scale industry entered the era of petro-chemicals (Standard Oil), electrical (Edison and Bell) and other innovations, notably the internal combustion engine (GM and Ford);

secondly, companies, backed up by the cavalry, completed of the physical infrastructure for a continental market with networks of canals, railroads and ports, on top of the defeat of the slaveholders' revolt in 1865 which secured the Mississippi as a trade route from the mid-west to the sea;

thirdly, the restructuring of 'the firm' to expedite concentrations of capital in its three forms of money, production goods and vendibles once the Supreme Court in 1886 decided that the unchartered corporation was not unconstitutional – Henri B. du Pont thought it the greatest invention of all time;

fourthly, the move away from bi-metallism towards a gold standard in Fort Knox; the rise of financial houses such as J.P. Morgan and, in 1913, the establishment of the Federal Reserve to serve ;

fifthly, in 1890, President McKinley imposed tariffs to shield infant industries;

sixthly, the U.S. extended its genocidal land grabs off shore into the Caribbean (Cuba and Puerto Rico) and across the Pacific to seize Hawaii and the Philippines, using them as bases to secure its slice of the Chinese melon through the U.S. 'Open Door' policy. Its anti-colonialism has been a cover for its drive to dislodge European powers, whether from Latin America in the 1800s, or the Middle-East by the 1950s.

The complexity of how the U.S. was transformed at the dawn of monopolising capitals is a further caution against today's loose talk of 'sovereignty'.

The U.S. imperium won the wars of 1939 to 1945, not only on all the battlefields but in the post-war settlements with rival imperialists. Keynes was defeated at Bretton Woods. Washington ran the IMF, the World Bank, the General Agreement of Tariffs and Trade, and manipulated the U.N. General Assembly.

Allowing for bumps and jerks, the post-1945 architecture secured U.S. interests until 1967. That year saw the globe in the Oval Office go pear-shaped. As the costs from waging war against the peoples of Indo-China increased, the U.S. sought to shift that burden onto its allies. As the *Wall Street Journal* warned: Germany is now strong enough to insist on getting the full value of its exports and not be paid in wads of U.S. dollars which could no longer be backed by all the gold in Fort Knox.

To redeem the power of the Greenback, Nixon broke ranks and declared a trade war on Japan. Tokyo politely but firmly declined to revalue the Yen. By 1971, Nixon had to abandon Bretton Woods and the fib that a thirty-two dollars were as a good as an ounce of gold

These brawls were not lost on oil producers who were being paid in devalued dollars more than anybody. The members of the Organisation of Oil Producing Countries (OPEC) saw that they would never get value for money if they waited for Washington to pay up. Their solution was to bump up the price of oil. The first oil shock in 1973 brought on a global recession, an end to the long trough in unemployment. Four-cylinders in place of V-8s meant game if not match to the European and Japanese automotive firms.

It was every player for itself. One might say that all the ups and downs since 1973-4 have flowed directly or indirectly from the 1967 recognition of the cracks in Bretton Woods.

In 1979, Carter's Chairman of the Federal Reserve, Paul Volker, faced facts and set about slashing and burning to get U.S. capitals competitive internationally. He drove up interest rates until the pips squeeze. Rust-buck industries closed. What is attacked as Reaganomics began under the Democrats. Compounding the recession powered the devalorisation of plants which had been operating below global average levels of productivity.

With much of the world economy in the doldrums, anyone with a spare quid sent it to the U.S. to earn interest rates above the high inflation.

This effect was what Volker wanted because the influx of funds made more U.S. processors even less competitive by pushing up the exchange value of the U.S. dollar.

Five years of Volker's driving up the US rate of exchange flowed back through the other two centers of capital, Europe and Japan. In 1983, France attempted to protect the Franc by forbidding its citizens to take more than $US 200 on their summer vacations. *Merde*!

Relief came with the Plaza Accord of 1985. The Big Seven agreed to adjust their currencies. One effect was a decline in the value of the Greenback. Japanese investors lost big time. As the dollar continued to drift downwards, more foreign investors headed for the exit. Those withdrawals became a stampede as more got out before they lost their kimono. A Reverse Plaza came in 1987 as did the October stock-market crash. Share prices plunged by a third.

The Japanese then put their savings into the Tokyo stock-exchange and real estate – the collapse of both from 1990 putting an end to alarms about Japan Inc.'s taking over the world. Thanks to a high domestic savings and the integration of zaibatsu and the bureaucracy, Japan retained its non-military sovereignty during the next two decades of relative stagnation.

From 1991, the U.S. imperium got the free gift of the collapse of the Soviet Bloc. No foreign power could challenge its sovereignty in any of its forms. That also happened to be when Deng set up the first of the Economic Zones that would burgeon into the Chinese economy which has taken the place of Japan Inc. as the latest confected threat to U.S. sovereignty - world domination. China has one element self-denied to Japan: a capacity to project its naval and air power more than 200 kms off shore. The Belt and Road is Beijing's equivalent of Washington's Open Door. What Chinese capitalism lacks is a financial network spanning the planet in the way of The City or Wall Street. Its Big Four Banks are huge but they are mostly domestic.

The Hunger Games

Trade wars between the U.S. of A. and the PRC offer a further vantage point on why sovereignty is rarely a zero-sum game.

China has invested a trillion dollars in the USA. One set of panic merchants voices alarm at this loss of sovereignty: what if Zi pulls it all out? The first response is that to do so would be a home goal. Where else could the Peoples' Bank invest it?

Not even Trump re-tweets calls by Republicans to confiscate that trillion to compensate U.S. capitals for the harm 'the China virus' is inflicting on them. Washington could do that. A further penalty is that two can play at that game. Beijing could nationalize all the U.S. firms in China – such as the Apple plant in Shenzhen, which employs 220,000 to get 14m. i-phones ready by release date of the new generation. Another obstacle is that to cancel one tranche of the U.S. debt would destabilise the value on all its bonds, including Japan's $1.3 trillion investment.

You don't have to be a Keynes or a von Hayek to realise that such a ping and a pong would spell The End Time for global capital. From the perspective of workers and peasants, that collapse would be a disaster of a magnitude in excess of the Black Death which was the nail in the coffin of Feudalism in Western Europe. There would be no way back. Despite the last lines of *The Red Flag*, we cannot 'build a new world on the ashes of the old,' or expect to 'unite the human race' when every community is being torn apart. Any choice between socialism or barbarism will have been decided against us.

Humphrey McQueen, Canberra   23 May 2020