

To really 'take back control', democracies must reclaim power over the production of money

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Democracy has failed to protect society from the predatory behaviour of global financial markets, writes [Ann Pettifor](#). Drawing on her [new book](#), she explains why the monetary system has made society vulnerable, and how it needs to be transformed.



Ten years after the catastrophic failure of both the global banking system and the global economy, economic disorder is once again threatening a new dark age. Western democracy has failed to protect society from the predatory behaviour of global financial markets – mostly rent-seekers; and from the ideology and impacts of market fundamentalism. In the absence of organised labour unions, and with political parties hollowed out, compromised, and even corrupted by financialisation, those who largely live by hand and brain, and not from rent, have taken measures to protect themselves. And those measures are not always pretty.

High levels of unemployment or under-employment; falling incomes; housing crises and obscene levels of inequality have led, predictably, to the rise of counter-movements in all the leading economies, as foreseen by Karl Polanyi in the 1940s, in his book: *The Great Transformation*. These counter-movements threaten to further undermine an already enfeebled Western democracy. At the same time, the inability of democracy and our financial system to respond to the threat of climate change, imperils the very future of the ecosystem and therefore of humanity. Our world is dangerously disordered.

It is my view that current economic disorder is largely caused by the invisibility, the lack of transparency, and the intangibility of the international financial system – the cause of recurring global economic failure. The fact that the system cannot be seen or understood, that it is opaque to society, means that it cannot be changed or transformed by society. Widespread ignorance of the workings of the great public good that is our monetary system has made society vulnerable. Ignorance enables those financial interests that have wrested control of the system away from democracies, to continue to undermine the security of society.

If democracies are to once again subordinate the finance sector to the role of servant to the real economy, it is vital that the public gains greater understanding of the monetary system – which I believe to be a great public good. That is the ambition of my modest book, [The Production of Money](#).

Contradictions of the system

Mrs Theresa May pretends to offer to 'take back control' from those 'citizens of nowhere' that govern the global economy – and to do so by prioritising the domestic economy. At the same time, she stresses that Britain will remain a 'global Britain'.

The reality of life under a model that elevates the global over the domestic economy was starkly exposed recently by the fate of a small tea room based in Highcliffe Castle, Dorset. The tea-room had been owned and run by a local, Sean Kearney, for 17 years. It was put out to tender by the council. The company that won the tender was a global behemoth – the \$14bn Aramark corporation, that owns prisons and canteens worldwide and is headquartered in Philadelphia.

This 'storm in a tearoom' as *The Times* [dubbed it](#), was a classic example of how today's economic model fails the people of Britain. It pits the minnow of a locally-owned tea room against a globally powerful and financially mobile

shark. This is not free market competition. This is grossly unfair, economic slaughter of a viable business. As a result Sean Kearney may well now become one of those 'left behind' by British government policies.

Depressingly, our politicians – on both sides of the House – learn nothing from this. Despite all the nationalist rhetoric, we know that the dominant economic model that led to the populist uprising for Brexit has not been seriously challenged by the Conservative party, or any of our politicians. The government will continue to stand aside as footloose, mobile capital uses its absolute advantage to swallow up the enterprising minnows of the economy, and to wreak havoc on society's social, economic, and political goals.

How to subordinate bankers to the role of servants, not masters.

Today, the international monetary system is run by the equivalent of Goethe's Sorcerer's Apprentice. In the absence of the equivalent of the Sorcerer – regulatory democracy – financial risk-takers and fraudsters have, since 1971, periodically crashed the global economy and trashed the lives of millions of people. And let's be clear: there is no such thing as effective global regulation. Ask the Bitcoiners – that is why they operate in the 'dark web'.

The question is this: who should control our socially constructed, publicly-backed financial institutions and relationships? Private, unaccountable, rent-seeking authority? Or public, democratic, regulatory authority?

Policy and regulation requires boundaries. Pensions policy, criminal justice policies, taxation policies, policies for the protection of intellectual property – all require boundaries. Finance capital abhors boundaries. Like the Sorcerer's Apprentice, global financiers want to be free to use the magic of money creation to flood the global economy with 'easy' (if dear) money, and just as frequently to starve economies of any affordable finance. And they want to have 'the freedom' to do that in the absence of the Sorcerer – regulatory democracy.

If we want to strengthen democracy, then we must subordinate bankers to their role as servants of the economy. Capital control over both inflows and outflows, is, and will always be a vital tool for doing so. In other words, if we really want to 'take back control' we will have to bring offshore capital back onshore. That is the only way to restore order to the domestic economy, but also to the global economy.

Second, monetary relationships must be carefully managed – by public, not private authority. Loans must primarily be deployed for productive employment and income-generating activity. Speculation leads to capital gains that can rise exponentially. But speculation can also lead to catastrophic losses. Loans for rent-seeking and speculation, gambling or betting, must be made inadmissible.

Third, money lent must not be burdened by high, unpayable real rates of interest. Rates of interest for loans across the spectrum of lending – short- and long-term, in real terms, safe and risky – must, again, be managed by public, not private authority if they are to be sustainable and repayable, and if debt is not going to lead to systemic failure. Keynes explained how that could be done with his Liquidity Preference Theory, still profoundly relevant for policy-makers, & largely ignored by the economics profession.

Both the domestic and international system are socially constructed, man-made systems – and so just as they were built by society, so they can be transformed by society, as happened during the 'golden age' of economics from 1945 -71. The good news is that if transformed, if well-managed, a publicly-backed monetary system can provide for all of society's needs, including the very costly requirement to transform the economy away from fossil fuels. Under a sound monetary system there need never be a shortage of finance.

The very real possibility of using public awareness, understanding, and political will to restore such a system is why I see a 'horizon of hope' for a world that appears to be heading towards another dark age.

Note: the above is based on a lecture hosted by the LSE Department of Economics and the LSE Centre for

Macroeconomics (podcast available [here](#)). It draws on Ann Pettifor's new book, *The Production of Money: How to Break the Power of Bankers*.

About the Author

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