Public knowledge and financial regulation: two post crisis periods

Gregorio Vidal
Wesley C. Marshall

Abstract

Since at least the days of Adam Smith there has been the recognition of essentially two forms of capitalism, in their theoretical extremes one in which private companies determine the conditions of the social provisioning of credit and money, and one in which the State representing the general interest does. As we argue, the zeitgeist of the 1930s was a high water mark in the popular understanding of money and banking and its relationship with society. In contrast, today the general population is woefully ignorant on these points. As we argue, the relationship between financial governance and those governed hinges on the knowledge of the latter. Today's public discourse reveals a widespread ignorance over financial matters that must accompany a likewise extreme moment of private control over nations' money and credit. As we argue, the first steps towards a capitalism at the service of humanity and under public control, the first priority is publicly diffused knowledge.

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Gregorio Vidal and Wesley C. Marshall are both professors - researchers at the Universidad Autónoma Metropolitana - Iztapalapa.

Introduction

Throughout the history of capitalism there exists a perennial underlying conflict centered around the social provisioning of money: which agents should create and distribute money in a society: the state or private banks. In *The Wealth of Nations*, Adam smiths argues in favor of the latter, yet admits that the former is also possible: "in the payment of the interest of the public debt, it has been said, it is the right hand which pays the left. The money does not go out of the country. It is only a part of the revenue of one set of the inhabitants which is transferred to another; and the nation is not a farthing the poorer"(Smith, 2010: Book 5, Ch. 3, P. 2).

While this conflict is perpetual, it has never fully become public policy debate. Indeed, as long as private banks maintain a system of relative stable social provisioning of money, the issue is rarely pondered. It is only in times of financial disorder that it comes to the fore. The two most recent historical examples of private banks failing in the social provisioning of stable finance for both commerce and consumption were during the crashes of 1929-1932 and 2007-2009.

In the wake of the first crisis, national governments around the world were able to roll out counter cyclical public policies in various forms and to differing degrees. Perhaps the largest and most successful example was in the US, with the New Deal's job and infrastructure creation coupled with the transformation of the country's banking sector. However, for the ends of this paper, the creation of the Bretton Woods financial system is the most significant example of innovation in theory leading to a new path to escape the crisis. Today, there have been no similar changes in the realm of public policy, and while there would not appear to be a new Keynes on the horizon, several recent advances in economic theory offer hope.

Escaping the shackles of mainstream economic thinking

By the time of the 1929-1932 great market crisis, JM Keynes was already a well known critic of the market logic that dominated public policy. Although writing with a vitriol that could appear unseemly today, he was surely much more measured than many critiques of capitalism in an era market by armed socialist revolution in Europe. In the midst of the crisis, Keynes took it upon himself to save capitalism from within, while very much conscious of its outside threats, as best described by New Deal central banker Merriner Eccles: "we shall either adopt a plan which will meet the problem of unemployment under capitalism or a plan will be adopted for us which will operate without capitalism" (Grieder, 1987: 309).

Keynes's most forceful criticisms of the *haute finance* led order focus on its logic: “Just as wars have been the only form of large-scale loan expenditure which statesmen have thought justifiable, so gold-mining is the only pretext for digging holes in the ground which has recommended itself to bankers of sound finance" (Keynes, 1936: 130). Sending workers to toil in the mines or die on the battlefield instead of gainfully employing them could only be possible in a world in which "the principles of classic economics stands in the way of anything better" (Keynes, 1936: 129).

Today like yesterday, almost entire populations have internalized the logic of "sound finance", be it under the sway of "classic economics" of Keynes's times or neoliberalism today, or even the Marxisms of yesterday. Speaking to those unemployed, Keynes states that "we are so sensible, have schooled ourselves to so close a semblance of prudent financiers, taking careful thought before we add to the 'financial' burdens of posterity by building them houses to live in, that we have no such easy escape from the sufferings of unemployment" (Keynes, 1936: 131).

The dominance of the notion that money is scarce means that once there is a crisis in the banking system that destroys wealth and cripples the system, there is no logical escape, as all possibilities require funding that is non-existent. An escape from such a crisis, therefore, depends first upon escaping from the false notion that funding is scarce.

While on the academic front, Keynes championed fiscal over monetary policy, and the exercise of fiscal expenditures in order to increase employment, on the practical front, FDR's New Deal proved the theory viable. Years later, Keynes's trade theory was most widely and prominently enacted in the form of the Bretton Woods system, creating the conditions for capitalism's golden age.

Under today's limiting neoliberal thinking and global programs of austerity, humanity's rapidly intensifying existential threats likewise find "no such easy escape". Yet if there is an escape, it will certainly be different from that of Keynes's times, as today's world is radically different than his. However, it will most certainly depend on once again escaping from the mental shackles that today's neoliberalism has placed on the majority of policy makers and national populations in most countries.

As long as there are no credible alternatives to current public policy discourse centered around the scarcity of funding, then national political debate can can be fairly safely sanitized. When all believe that governments cannot create money *ex-nihilo*, then the fundamental decision of which groups should receive more is comfortably hidden behind the myth of a market order that is based on each person receiving what they earn through their work or prowess, and that the great or poor fortune that may befall an individual is simply of their own making.

However, when all believe that money is not scarce and that any state can fund its own projects free of fear of inflation or running out of money, the fundamental decision of which groups should receive more is forced out into the open unsterile space of true public debate. No longer able to credibly state that the state has no money to pay for demands of individuals or groups (a greater share of the profits) or society as a whole (environment, peace, infrastructure, etc.), the great question would have to shift from "how can we afford it" to "how should we spend it", and most importantly, on "who and what should we spend it".

Today's diminished public debate

To a greater extent than in Keynes's times, today's public policy debate is dominated by an ignorance of economics as a social science - and systemic deception as to how public funds are allocated - that allows a passive acceptance of unlimited spending for the worst purposes (bank bail outs for corporations that have criminally rigged all major markets, and endless wars) while disregarding finance for the most urgent purposes (poverty and overpopulation; energy and environment; and scarcity and warfare). While such issues are certainly more pressing today than a century ago, as shown by the previous quotes from Keynes, the essence is similar: the accepted wisdom of "sound finance" prevails.

The fact that Keynes's global financial architecture was divested from the authority of national states by its historical rival - *haute finance* - is testimony to the defeat of Keynesianism as a public policy at a national and international level:

> The scale of the inflows and the broadening of market access provide evidence for the hypothesis that the 1990s represent a restoration of the trend toward global financial market integration that had been evident in the gold standard period and the 1920s but was disrupted by the Great Depression, World War II, and the capital controls systems of the postwar period (IMF, 1997:27).

While the battle was not lost on the intellectual terrain or on the merits of Keynes's ideas, it is worth mentioning that while he rightly and correctly critiqued the logic of "sound finance", Keynes never fully escaped its grasp in theory. While offering many hints at the non-scarcity of money, he never constructed an integral alternative theory of monetary abundance in theory and practice. However, even within the current vanguard of critical thinking on money, there is still no consensus regarding the core of monetary theory: understanding and identifying both money's nature (non-scarce) and its current reality (scarce).

Indeed, understanding the nature and reality of money has been one of the greatest challenges to economics as a social science, and no school of thinking has offered sufficient answers to escape from an ideological battle based on a misunderstood object of study. A century and a half ago, the nature of money was at the heart of the harsh acrimony between Marx and Proudhon that divided the European left. If similarly destructive debates are to be avoided today, we must first fully understand the object of study, and only then can we have a truly informed ideological debate, in which the battle of what an economy *should be* is firmly grounded in what an economy *is*.

To insist, there still exists nothing like a consensus around the ontology of money. However, as Mirowski (2013) highlights, the current dominant thinking muddies the already opaque waters through its active agenda of agnotology. It is therefore fitting that if neoliberalism uses opacity in order to create confusion, then the opposite side of the ideological battle must offer clarity in order to make sense of society and the role of money within it.

Social provisioning and social ontology

In recent decades, several authors have documented the process of neoliberal purges of universities (Lee, 2002) as well as the growth of the "imperial science" and its creep into other disciplines (Stigler, 1984). Yet even after the decades-long dismantling of predominantly heterodox economics departments and the sterilization and purging of Keynes from university economics departments, since the beginning of the century heterodox economics has seen a notable resurgence. The academic comeback has been grass roots, with many diverging minority positions coming together in associations, and sharing the academic spaces of conferences and publications. What has been grouped together as heterodox economics has now gained an academic space that has never before been afforded in countries like the US. However, heterodox economics has had little impact outside of its own confines.

The recently published *Routledge International Handbook of Heterodox Economics* brings together a diversity of heterodox thinkers and ideas, and two relatively novel methodological approaches, social ontology and social provisioning, are weaved throughout the book. The first is best described by Morgan and Embery:

> social ontology can then be deployed within schools and theories as well as between - and so provides one (not the only) potential resource through which each can develop - including in terms of a focus on what it means to be real world relevant. Considered in this way social ontology does not create an immediate dichotomy, where the particulars of schools and theories and the internal tradition of development of critique - methodologically and philosophically situated - are opposed to generality. Rather, the general provides a domain of argument in regard of which constructive questions can be posed both within and beyond schools and theories (Morgan and Embery: 524)

Such proposals of social ontology are useful in advancing economic thinking in general, and are particularly helpful in combatting two key tools of neoliberalism's agnotology: omission and distortion. Also arguing for a greater emphasis on social ontology, Smithin for years has correctly highlighted how mainstream economics has focused on the theory surrounding how markets work, but almost never places attention on exactly what the component parts of the system are, or how they interact. Smithin correctly identifies the ontology of money and banking as two key areas that are unattended by mainstream thinking (Smithin, 2016). This can be seen as as the omission element of neoliberal agnotology, of which Von Hayek was a great contributor, arguing for example in *The road to Serfdom* that "there are fields where this craving for intelligibility cannot be fully satisfied and where at the same time a refusal to submit to anything we cannot understand must lead to the destruction of our civilisation" (1944: 208). By pushing the debate towards the "real world relevant" functioning of money, neoliberalism would hopefully be pushed into an area this it has long intentionally avoided.

Alongside outright omission, another tool of neoliberal ontology has been to mix economic normativity and positivity. For example, when explaining why public spending should be curtailed, neoliberalism has two familiar arguments: government cannot spend because it does not have the money, and that government should not spend because it will be inflationary or will lead to overindebtedness. However, "should not" and "can not" are separate and contradictory arguments, hiding the evident fact that money is not scarce, pointed out by Adam Smith and proven many time over in real world experience, from the mentioned New Deal to the current multiple rounds of Quantitative Easing undertaken by most of the world's largest central banks.

When insisting upon "real world" relevance, social ontology offers a useful antidote to neoliberalism's omission and deception. Likewise, an insistence upon a "domain of argument" could go far to combat neoliberalism's tactic of claiming ignorance on relevant subjects (although why claiming ignorance could ever be accepted as academic methodology is a bit of a mystery). Bob Lucas sums up the position well: "We are storytellers, operating much of the time in worlds of make believe. We do not find that the realm of imagination and ideas is an alternative to, or retreat from, practical reality. On the contrary, it is the only way we have found to think seriously about reality" (Lucas, 1988).

The neoliberal fantasy social ontology rests on axioms or tenets of belief that rarely coincide with real world conditions, such as monetary scarcity and neutrality. As opposed to real science, that builds theories from commonly accepted facts in an attempt to understand this object of study, neoliberalism is based upon patently false assumptions.

Conclusions

The bookending of this article with Adam Smith is with all intended irony. Neoliberalism claims him as one of their own, yet Smith's thinking is deeply antithetical to neoliberalism's intellectual core. The contradiction opened by Smith - that a state can finance itself, but generally does so through private banks - is the same one that neoliberalism has employed so many diversionary tactics to keep dormant.

Von Hayek argued that a popular understanding of money would lead to the destruction of civilization. However, as civilization today faces numerous and unprecedented existential threats, and money is still not widely understood - either by peoples in general or policymakers, the opposite proposition gains ever more strength. Any advance in economic theory that could pull human civilization from the brink of destruction will have to be based on an understanding of both the nature and the reality of money.

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