

**Stephen Zarlenga and Robert Poteat**

## **“The Nature of Money in Modern Economy – Implications and Consequences”**

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I applaud the authors' objective to “encourage economists to understand they have a most important part to play in solving this great problem for humanity”, (p. 71) which is, as the authors state in their opening paragraph, the “nature of money” (p.57). I applaud the authors for disseminating these views, as well as resuscitating debate on the Chicago Plan, which deserves serious debate. If economists are to understand our current problems, we must look to our history for policies and theories that for whatever reason were discarded or jettisoned. And at the very least, an emphasis on the history of economic thought (and economic theory) underscores that economics is by no means teleological (Dow, 2009, 48).

While the authors refer to economists as if they were a united and cohesive entity, economics is at present a highly contested discipline with a visceral call for greater pluralism and dialogue among all the schools within economics<sup>(1)</sup>, and between economics and the social sciences. Most of the criticism has been focused on neoclassical economics which has been most recalcitrant to acknowledge competing, dissenting views.

Most, but certainly not all other ideologies within economics accept the foundational aspects of this paper, especially the existence of power and the endogenous nature of money. Consider Hyman Minsky, for example, one of the most prominent heterodox economists, who has clearly and passionately underscored the role of finance in creating and exacerbating the instability of capitalism. In 1986 he wrote, “Money, banking and finance cannot be understood unless allowance is made for financial evolution and innovation: money in truth, is an endogenously determined variable – the supply is responsive to demand and not something mechanically controlled by the Federal Reserve” (Minsky, 1986 [2006], 253). But unfortunately, none of his ideas, or those of other dissenting economists for that matter, have appeared in principles of economics textbooks. There is a dearth of such topics in mainstream economics textbooks. And this is a problem. In mainstream textbooks (especially at the principles level), no mention is made of money as equity, the difference between credit, wealth, debt and money; and students are presented with the staid, misleading view that money is exogenous.

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(1) For a discussion of these different ideologies, please see  
Reardon, Cato, Madi (2016), chapter 1, pp. 12-22.

Take Mankiw's principles text for example, which at least here in the United States is one of the most popular and widely used introductory texts. Not only is Minsky not mentioned, nor the instability of capitalism, but he writes in complete ignorance of how money is actually created, "Because the quantity of money supplied is fixed by Fed policy, it does not depend on other economic variables" (Mankiw, 2015, 460).

So when the authors ask "Does this mean that the money multiplier is a 'myth' or 'fairy tale' that is still taught to economics students all over the world. Yes, in a sense"; (p. 65) I respond it is more than 'a sense': this is how economics is taught! There is no mention of an alternative view, especially the ideas contained in this paper. This is intellectual dishonesty, or what Edward Fullbrook refers to as "the bullying of naive students" (Fullbrook, 2009, 19). In addition, neoclassical economists have deliberately forgotten, and jettisoned important insights from fellow neoclassicals that challenge the edifice; this is not science but "pseudo science." (Keen 2012, *passim*).

Speaking of Minsky, and the Chicago Plan, I applaud the authors' discussion of this plan and I believe that it deserves serious dialogue, but at the same time, it is only one solution, and I feel the authors were remiss in not addressing the Plan's shortcomings especially in the context of Minsky's belief "that such a system could neither ensure the stability of the real economy nor assure stability of the capital financing institutions" (Kregel, 2012, 6).

I do not share the authors' optimism that once economists read their paper, they will readily change their ways – I wish it was that easy. The adamant refusal for neoclassical economists to change, modify and adapt is the preponderant reason that "economists today may be the main force preventing the introduction of countervailing measures to any future economic slump. Economics may make our recessions deeper, longer and more intractable, when the public is entitled to expect economics to have precisely the opposite effect" (Keen, 2012, 9). And very telling, Steve Keen writes,

Think of the many revolutions in our understanding of the physical world which have occurred in the twentieth century: from Newtonian to Einsteinian physics; from

Mendeelian genetics to DNA and the human genome; from determinism to chaos theory. Any scientist from the nineteenth century would be bewildered by what is commonplace in his (*sic*) discipline – save an economist. (Keen, 2012, 169)

Thus, it should be no surprise that Mankiw's text, certainly no different from other principle texts, continues to reach a dangerously simplistic and misleading explanation of the nature of money. One possible explanation for the persistent parrying of such realistic views in order to proselytize students with the staid multiplier approach is that an economic system, driven by the for-profit motive and gravitating toward equilibrium, comports with a carte blanche endorsement of laissez faire, which has long been both an explicit and implicit goal of neoclassical economics. As Dowd notes,

the relationships between capitalism and economics . . have rarely been at scientific arms length; they have always been incestuous to some degree, and most shamelessly as we approach the present. In consequence, the shared flaws of economics and capitalism have been aggravated and [have] now become downright lethal. (Dowd, 2004, xiii)

Fred Lee also meticulously documents the persistent effort of the business community in extirpating radical thinking and non-free market ideology within the discipline of economics (Lee, 2009, *passim*, especially pp. 35- 42).

So where is the outrage? Imagine, as Fullbrook writes,

If universities continued to use for nuclear engineering a textbook by an engineer who had headed a team managing a nuclear power plant that without external causes exploded creating huge devastation, there would be a public outcry. There should be a similar outcry if Mankiw-type textbooks continue to be foisted on the world's million or so young people who every year in good faith take up the study of economics. Because of human error propagated by a virulent ideology skillfully camouflaged as science, millions of American families are losing their homes, 100 million people in the world stand to lose their jobs and a generation has been deprived of the hope it deserves. (Fullbrook, 2009, 22)

The authors optimistically hope to “Realize though that the religious leaders and their advisors, as well as economists, need education on the monetary reports this article has linked to, to avoid repeating the economics errors that have been spread over the centuries” (p. 71). But it isn’t enough to ask them to read dissenting views (they won’t, and if they will peremptorily dismiss, disparage, and excoriate those who do). Thus, what is most important is re-conceptualizing the education of economists, so that they are willing to discuss and dialogue opposing views.

While I agree with the authors that “perhaps no subject as important to mankind as the nature of money has been so neglected” (p. 57); I feel a problem just as urgent, if not more so, is the pressing issue of climate change and how we can live sustainably. In September 2015, the United Nations issued 17 sustainable developments goals. At the very least, we must dialogue how best to incorporate these into policy and pedagogy.

While sustainability is a contested term meaning different things to different people, a popular definition is proffered by the Brundtland Commission,

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts: the concept of 'needs', in particular the essential needs of the world's poor, to which overriding priority should be given; and the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs. (<http://www.un-documents.net/our-common-future.pdf>, 41.)

Clearly, from this definition sustainability isn’t just about the environment, but it also entails how we provision and how we relate to one another. Sustainability, to be efficacious, must equally emphasize the environmental, social and economic aspects of how we live. It should not be surprising that sustainability is palpably absent from most economics textbooks. We must discuss how we structure our economies so that the poor are

ethically provided for, and of which, the discussion of who controls the money supply is crucial.

In my principles of economics textbook, which is both pluralist and sustainable, we explore the nexus between money, power, justice, ethics, and sustainability. Perhaps as one suggestive linkage: the authors mention that money issued as equity by the government can be used to build much-needed infrastructure, so it can also be used to develop renewable energy and the requisite infrastructure, thus promoting one developmental goal of sustainable energy; and how can money be issued so that it enables all human beings to develop their capabilities (Sen, 1999).

An important definitional concept not addressed by the authors is at what level of the government should the money be issued: national, supranational, or local. Many people have argued that a movement toward sustainability must be a movement toward local economic decision-making and local government, yet the authors do not address this. And at the same time, many green economists “in an international context have criticized the money system for its role in stimulating conflict and creating massive inequality between nations” (Cato, 2009, 74). Curious by the absence in the authors’ paper were local currencies and Bitcoin, which many have argued are essentially more democratic than traditional money issued by national governments.

I fully agree with the authors’ statement “Any proposed reform must take morality seriously”, but this is a problem for neoclassical economics since it has long advocated separating the normative from the positive, thus abnegating any concern for morality and/or relegating it to the beneficent workings of the market. This is 19<sup>th</sup> century thinking in which it is blithely assumed that the unbiased researcher can disassociate his/her passions from the subject under study, forgetting of course, that it is the same passions that bring the person to study the phenomenon in question in the first place.

Morality, justice, power and passion are intricately intertwined and need to be brought back into the modus operandi of economics. As Joan Robinson exhorted, “Independent economists ought to be speaking up on the side of humanity” (Robinson, 1981, xiii). Neoclassical economics does not have the intellectual capacity to understand and

engage in such debate. This is why economics education is important, and why its reform is crucial. But such reformation is too important to leave to economists, “just as politics is too important to leave to the politicians, economics is too important to leave to the economists. The revolt against neoclassical economics has to go beyond the academic profession itself” (Keen, 2012, 24).

Thus, the authors’ optimistic hope that educated economists will make the right choice is seriously misplaced.

We understand the difficulty for younger good economists making their way in the working world to promote reforms which criticize the most powerful and perhaps the nastiest in the monetary/banking world – those on whom future employment, promotions or professorships might depend. But they must make the moral choice – and the sooner the better. (p. 68).

I disagree with the authors’ statement that “Such concentrated financial wealth will gravitate to financial centers. It will foster developments requiring greater capital amounts and lead to a financialization of the economy” only because the causation is reversed. It is the financialization of the economy that has attenuated regulation, while increasing favorable legislation, and redirected the flow of resources away from productive sectors, increased inequality and increased the size and clout of financial firms (Phillips, 2002, 138 -147). Given this formidable power structure, while convinced of the need for change, I am less sanguine about our ability to change the system – any change must be long-term and focused on education.

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