Student involvement in the community

A way to understand the MMT concept of sovereign currency

Notes to support a talk given by Alan Hutchison

Modern Monetary Theory is not something that a government can choose to adopt. MMT is not something that can be turned on or off. In and of itself MMT is not a policy, although there are policy prescriptions which flow from it. Modern Monetary Theory is simply a description of how things are right here, right now.

In providing that description, MMT lifts the veil on a carefully crafted fiction about spending and taxation. It is an illusion which provides the ideological backing for neoliberalism. Unfortunately, it's a nonsense that is accepted as a universal truth by most people in the UK, irrespective of their political affiliations.

Only after we have grasped the descriptive nature of MMT can look the implications it has for society and fully understand any MMT-aware policy prescriptions. The most important of these prescriptions is a mechanism that helps avoid the inflation which government spending may cause. That mechanism is the MMT Job Guarantee. I would love to give you a detailed, MMT-based description of the economy and the critical part that the MMT Job Guarantee would play in making the UK a better place, but there just isn't enough space in the 2,000 words allotted to this piece.[1] Instead, I am going to talk about universities and student involvement in the community. Bear with me, it is relevant.

The University of Missouri-Kansas City is one of number of academic institutions across the world which specialize in the development of MMT. For the last fifteen years or so the University administration has been running a scheme to encourage students to volunteer in the community.[2]

The University does this by issuing a local currency. But it's a local currency that is very different from those (such as the Bristol Pound) that some of you will be familiar with. The University currency has all the characteristics of a particular type of national currency, a **sovereign currency**.[3] Here's how it works.

The University creates a new currency and declares that its unit of account is the 'buckaroo'.[4] The University issues the buckaroos on demand to voluntary sector organisations in the wider community and students can earn buckaroos by working at those organisations. The University sets a going rate of one buckaroo for one hour's work.

The question you most likely want to ask at this point is: Why would a student give up perfectly good drinking time in order to earn a currency issued by the University? After all, this is a **paper currency** – it **has no intrinsic value**, it's not backed by gold, it's not backed by another currency (as is the Bristol Pound). Why would anyone want it?

The answer is tax. At the end of each term students are required to pay a certain amount of buckaroos to the University. It's a tax that can only be paid in buckaroos – there is no option to pay in any other currency. Students are required to pay the tax in order pass their courses and, ultimately, to get their degrees. So, there is strong incentive to acquire an apparently worthless paper currency. The **tax drives the currency**.

If the University taxes the students at the rate of 20 buckaroos per term then each student must undertake 20 hours of community work per term in order to get their grades. The ability to demand payment for taxes, in a currency that only it can issue, enables the University to **move resources from the private sector to the public sector**. The resources in the private sector comprise student labour and the currency system causes some of that labour to be deployed to **further the public purpose**. The University doesn't need any other currency (such a dollars) to achieve this. All it needs is the power to tax.

You will, no doubt, want to ask another question: Where do the buckaroos come from? Well, the University certainly doesn't have to tax the buckaroos out of the economy before it can spend them. It doesn't have to make spending decisions based on the amount of tax it receives. In other words, it is **not revenue constrained**.

The University simply creates buckaroos out of thin air and spends them into the economy. And when the University taxes the buckaroos out of the economy they cease to exist. The buckaroos come from nowhere when they are issued and they return to nowhere – to oblivion – when they are are used to pay taxes. This is the opposite to how most people think – most people think that taxation comes before spending. In fact, **spending precedes taxation**.

Now, to understand the University's role in providing jobs it's important to distinguish between *jobs* and *work*. The **amount of work to be done is limitless** because we are a long way off doing all the things that need to be done in our communities, but the **number of jobs is limited by demand** from students. The University always spends sufficient currency into this alternative economy to ensure that enough buckaroos can be earned for all students who want jobs. In other words, the University is running a **Job Guarantee** programme. The only limit on the amount of currency that the University can spend is the **availability of real resources** that can be bought with buckaroos and the limit is reached when all the available student-hours worth of labour have been used up. In other words, when there is **full employment**. If it spends beyond this point then there is the potential for inflation.

When we analyse what happens inside the buckaroo economy, between the time the currency enters it through University spending and the time it exits via taxation, we will see some developments which mirror behaviour in a real economy.

There are some students who enjoy community work and others who don't. Some students would rather do work that wasn't community related, while others are happy to do more than is necessary for them to obtain academic credits. This results is an exchange of labour facilitated by buckaroos. For instance, one student may offer to fix another's bike in return for a buckaroo or two. The bike fixer then uses the buckaroos to pay her tax.

Of course, there will be some students who can't be bothered with any sort of work, community or otherwise. Out of this difference in productivity between students emerges a form of foreign trade and a corresponding foreign exchange market. There will be students who don't want to do any work and who have savings denominated in ordinary US dollars. These dollars are a foreign currency in the buckaroo economy. The dollar-rich students will offer to buy, with their dollars, surplus buckaroos from the hard-working, community oriented students and a price – an exchange rate – will be negotiated that suits both parties. The net result is the export of services from one currency zone to another. The dollar zone is buying something that can only be produced in the buckaroo zone.

It's important to note that the exchange rate between buckaroos and dollars is not set by any authority. Unlike the Bristol Pound, the buckaroo is **not pegged to the value of any other currency**. Furthermore, the University does not make any promise to exchange buckaroos for anything other than an equivalent amount of buckaroos. The only obligation the University has is to exchange, for example, a ten buckaroo note for two fivers.

The buckaroo is a **free-floating currency** whose external value is determined entirely by demand and, interestingly, that value exhibits a clearly discernible cyclical behaviour. The buckaroo appreciates against the dollar towards the end of each academic period as the idle rich scrabble to acquire sufficient currency to pay their taxes and pass their courses. The value drops again once the closing date for tax payments has passed. However, what is in effect a **business cycle makes no difference** to the University's ability to spend and further the public purpose.

Over a longer time-scale the buckaroo has shown a consistent rise in dollar value. At the start of the scheme the going rate for the buckaroo was around $10 and it's now about $25. The increase is due in part to the buckaroo becoming acceptable to people who have no obligation to pay taxes denominated in buckaroos. Café owners, for example, will be willing to accept buckaroos in payment for cappuccinos because they know that they can always spend the currency to hire a student barrista. The dollar value of the buckaroo is influenced by the average dollar wage a student can expect to command for one hour of part-time employment.

It gets a even more interesting when we look at the potential for a dynamic relationship to develop between the buckaroo and dollar wages. As I said earlier, the University uses its currency issuing power to move resources from the private sector to the public sector. That means there is less labour available, expressed in student-hours, for café owners to buy. Furthermore, students may prefer community work over café work because it is more rewarding in ways other than financial and the buckaroos they earn can always be exchanged for dollars. So, in order to attract student workers the café owners will either have to increase their wage offers or improve their working conditions. The University's **Job Guarantee leads to better private sector jobs**.

I could go on. I could talk about how the buckaroo economy could develop with the introduction of commercial banks and a central bank, or how the University could issue bonds to encourage saving. There's much more I could cover, but there isn't time.

However, there is one aspect I want to discuss and that's deficits. On a cursory examination it would appear that the University's tax receipts exactly match its expenditure and, consequently, it has achieved the nirvana sought by all mainstream economists: a balanced budget. In fact, the University runs a **continuous deficit**.

Why so? Well, it's obviously nothing to do with the University spending more than it should. Remember, the taxes don't pay for the spending; all University **spending is newly created money** and taxes simply remove money from the economy.

Naturally, a few buckaroos don't find their way back because they are lost. These are students we're dealing with here and they are going to lose things. But, the real reason for the deficit is that some buckaroos are hoarded. Some people hoard buckaroos rather than spend them or use them to pay taxes. Hoarding is more commonly known as saving.

Some students will do a lot more community work than they need to in their first and second years so that they can devote more time to academic work in their final year. They save the excess buckaroos and use them to pay the tax due at the end of their studies. And some students keep any leftover buckaroos as souvenirs, effectively removing them from the system forever.

For every one hundred buckaroos it spends into the economy the University finds that only ninety are returned as tax. So, the deficit is running at ten percent.

Should this be a cause for concern? Is the University living beyond its means? Will it have to borrow buckaroos from somewhere else in order to finance the next round of spending? Or will it have to cut its spending? Is austerity called for? Should the University reduce the amount of community work that it supports? Should the University **create unemployment**? The answer to all these questions is obvious: No!

It's here that we arrive at one of the core tenets of Modern Monetary Theory. The thing we call the 'UK government deficit' is nothing other than an accounting representation of the Sterling savings that take place, both here and abroad, during any given accounting period. The thing we call the 'UK government debt' is nothing other than an accumulation of previous deficits and represents the total amount of savings in the Sterling economy.

Most people think that the deficit and the debt represents money that we, the people, somehow 'owe'. It isn't. It's the exact opposite. **The deficit and the debt are savings**.

The deficit and the debt are not things that we, or future generations, have to worry about. Anyone who says otherwise either doesn't understand how a modern economy works or is hiding their understanding for ideological reasons. And that includes anyone who says that we need 'sound finance' and claims that we must clear the deficit over the next five years, ten years or twenty years.

In summary, just like the University of Missouri-Kansas City, the UK government:

- Can move resources from the private sector to the public sector (because of the power to tax in its own currency).
- Always spends first (taxation is a secondary action).
- Doesn't need to borrow to cover the deficit (the deficit is just our savings).[5]
- Is not constrained by external factors (such as the business cycle or globalisation).
- Is only ever constrained by the availability of real resources (money is never an issue).

Which brings me to my final point. There are an awful lot of unused resources in the UK, including millions of unemployed and underemployed people. It's time we gave them all a decent job. **It's time for a Job Guarantee**. ■

1 There is a much more detailed account in my paper entitled *We pay for it by spending the money* [see aluta.uk/alc]

2 The following is based on an article by Randall Wray, Professor of Economics at the University of Missouri-Kansas City [see aluta.uk/mkc].

3 Everything in this paper only applies to a sovereign currency such as Sterling or the US dollar. Countries in the Eurozone are not sovereign in their currency – they all use a foreign currency.

4 The word is a portmanteau of dollar and kangaroo, which is the University's mascot.

5 The government may have other reasons for issuing government bonds, but we should never call this act 'borrowing'.