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Please, Self-Styled Progressives, Enough With The Rentier Economics

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It is striking how even self-styled ‘progressive’ economists sometimes traffic in a strange little vestige of *rentier* apologetics handed down from the 19th century. I refer to the vulgar ‘loanable funds’ understanding of banking and finance, which underwrites both the neo-classical notion of a ‘natural’ rate of interest and the neo-austerian notion that public investment ‘crowds-out’ private investment. (NB: I do not refer to the more nuanced Wicksellian account of loanable funds, which at least allows for endogenously generated ‘bank-money’ as discussed below.)

Blue graph and schematic Earth hologram over skyscrapers background. Concept of international trade and stock market. 3d rendering toned image double exposure GETTY

As we now contemplate pursuit of a seriously ambitious Green New Deal in the decade ahead, we should get clear on these phantoms and exorcise them.

Behind classical 'loanable funds' lurks a false but familiar picture that I call the '*intermediated scarce private capital myth*.' This is the hokey idea, unthinkingly still propagated by too many business school, economics, and even some law school texts, that banks and other financial institutions just 'intermediate' between virtuous private sector 'surplus units' on the one hand, and needy public and private sector 'deficit units' on the other hand.

'Makers' lending to 'takers,' as it were. The financial system as big private broker in the sky.

Were this picture actually to depict reality, every financial institution would effectively be a mutual fund – a mere go-between rather than *de facto* money-issuer. Credit-money would not be endogenously generated or dispensed. The most devastating debt-deflationary bubbles and busts would thus likely not happen. And our polity itself - that is, *we*, *the people*, in our most inclusive collective capacity - would have to dance on a string for Lloyd Blankfein like Lloyd Bentsen once said that we did… *whenever we wanted to act together, as a people*.

For 'skittish capitalists' and 'bond vigilantes' would hold both our fiscal and monetary destinies literally in their accounts, and we'd have to take care not to frighten or anger them.

But this is *not how things work*, as the inscriptions and signatures on any dollar bill will show you – and as any actual financier or lawyer with workaday knowledge of financial markets, financial institutions, and financial instruments will tell you.

Banks, re-hypothecated repo markets, and other forms of 'shadow banking' are *not merely brokers or mutual funds*. Nor are they Fisher-style '100% Money' entrepôts – which is precisely why Fisher and his brave 'narrow bank' descendants have long sought to *make* them so, in the name of direct public handling of all money-issuance, in turn in the name of financial stability that private issuers of inherently public money, thanks to that common market failure known as the 'collective action problem' – in this case, a self-augmenting *recursive* collective action problem – cannot assure.

This is precisely why contemporary polities institute central banks – the word 'central' here actually *means* something – to act as their collective agents. They do it to modulate credit-money issuance and contraction, which private lenders collectively over-issue in boom times and under-issue in bust times.

Financial institutions engage in credit-*generation* more than in *intermediation*, in other words, and the credit they're generating is *ours*. Thanks both to the Fed's role in administering the payments system, and of other public instrumentalities' roles in licensing and backstopping all consequential financial institutions and markets, it is the *monetized full faith and credit of the United States* that our system disseminates.

You don't have to take me on faith here. (It is 'in G-d,' not 'in me,' that our currency says that we trust.) Just look at that dollar bill - that Fed promissory note – in your pocket. Examine its signatures and inscriptions. That thing is *our – the sovereign public's – joint promissory note*, which borrowers just temporarily *swap their own several promissory notes* for when they *borrow*.

The only limits on the supply of the *former* are determined by (a) the opportunities for profitable investment made possible by public and private action alike under conditions of indefinitely extensible resource scarcity, and (b) our Fed itself, acting on its dual maximum employment and stable prices mandates. Even 'required reserves' are unnecessary for credit-generation against such an institutional backdrop. They are imposed by the Fed only for liquidity-regulatory purposes, *nothing more*. (The Bank of England doesn't bother with them at all.)

For the foregoing and other reasons, as I have recently noted in this forum, the financial system is best modeled as a public-private *franchise* arrangement. The sovereign public acting through its central bank is the franchisor, publicly licensed private financial institutions are the franchisees, and the good that's distributed is the monetized full faith and credit of the sovereign.

It is especially easy to show how the franchise works in connection with the *banking* sector. Just look at any loan transaction – the bank accepts *your* promissory note, then credits an account in your name with the keystroke-equivalent of *Fed* promissory notes. Loans 'make' far more deposits in this manner than deposits 'make' loans. But one also can show what amounts to the same process in connection with virtually every important subsector of the financial sector now, as the publicly underwritten ‘private’ financial system sprouts shadow bank after shadow bank like mushrooms.

Needless to say, the classical 'loanable funds' story, like the intermediated scarce private capital myth from which it stems, is just laughably out of date against the backdrop of these legal and institutional realities of our financial system. Economists who traffic in such nonsense are like chemists or physicists talking of ‘phlogiston’ or of planets ‘in the ether.’

The sooner we recognize that *we, the people* are the 'franchisor' in our finance franchise – that it is our monetized full faith and credit, that of the United States that our financial system disseminates – the sooner we see that we don't have to placate those 'bond vigilantes,' 'skittish investors,' and other 19th century mustachioed villains. We can do as we collectively will – as consistent with not over- or under-issuing our collectively issued promissory notes in relation to the stock of resources that those notes summon through investment or command through purchase.

And that is to say all we bother with are inflation and deflation – which are readily handled once we know what we’re actually doing.

In light of the foregoing it is striking, I think, that some self-styled progressives, when in the grip of the intermediated scarce private capital myth, don’t seem to appreciate the reactionary character of their commitments. The crude ‘loanable funds’ picture assumes as 'natural' a form of scarcity that is in fact only politically and legally contrived - contrived by (a) treating private parties as sole money-capital suppliers, while (b) legally recognizing an apparently non-overrideable 'right' on the part of these suppliers to dispose or withhold their supplies as they please.

And the same ‘nature’ to which they allude in this B-movie nightmare is the ‘nature’ we find in the ‘natural rate of interest’ and the ‘natural rate of unemployment’ (aka ‘r-star’ and ‘NAIRU,’ respectively, when they cover their tracks) tales that some tell.

In this sense, self-styled progressives who spin 'crowd-out' and 'loanable funds' yarns are, I presume unconsciously, closet austerians when push comes to shove. They valorize the role of the private accumulator, pretending that we are dependent upon him and his good graces, and that *his disposable stock of wealth, not society's expansible stock of resources*, is what 'naturally' constrains us.

They traffic, in other words, in a high-church rendition of what Lloyd Bentsen and Robert Rubin told William Clinton about the bond markets at the outset of his presidency, strangling in the crib what was meant to have been a munificent administration.

How can 'scarce private capital' progressives not see how reactionary their commitments are?

I entertain a conjecture about this. The whole intermediated scarce private capital picture trades, I suspect, on unclarity or outright equivocation over the word 'capital.' Too many seem to take the word somehow to refer both to physical capital and to financial or money-capital at the same time.

As soon as you prise these two things apart and track them both separately, you see at once that we can act collectively to unlock any horde of artificially 'scarce' capital simply by issuing more *claims* upon *physical* capital in the form of *financial* or *money*-capital. That dilutes the 'holdout' value of the horde, restores the circulation, and of course results in no 'general inflation' unless and until we outstrip our indefinitely extensible productive capacity.

And were that ever happen, we would know what to do. For we know this already. We can always complete the job - the 'de-distribution' job - begun by our earlier *dilution* of the non-investing (merely gambling) *rentier* by ... *taxing* the non-investing *rentier*, selling our collectively issued *bonds* to the non-investing *rentier*, or, better yet, reasserting our franchisor's prerogative by tightening up privately issued *credit* quality through better targeted *leverage and liquidity* regulation of the non-investing *rentier*.

That is what 'finreg' is for, after all.

Enough, then, with the 'scarce private capital' and 'skittish investor' apologetics. And on with the task of renewal and serious green public investment.

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