WORDS BEYOND THE PANDEMIC:
A HUNDRED-SIDED CRISIS

Coord.: **José Reis**
A collective work by CES

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The shock of the COVID-19 pandemic and the need to stabilise national economies have forced governments around the world to take extraordinary measures and therefore to incur in deficits with precedents only in times of war. Public debts reached new historic highs.

In a context in which the International Monetary Fund predicts that the public debt of the most advanced economies will reach 120 percent of Gross Domestic Product by 2021, the debate on the sustainability of this indebtedness has become unavoidable. And there is no shortage of those who argue that penniless States will inevitably be confronted by private financial markets that will not fail to demand higher pay for financing this additional parcel of debt, which will result in the need for imposing austerity measures on the private sector. Will this be the case?

For a monetarily sovereign State, which issues its own currency, money is not a scarce resource. The main constraint on budget deficits is inflation, but in a historical situation like this, where the danger is deflation, that concern is extemporaneous.

One of the distinguishing features of a neo-liberal monetary regime – perhaps the most important of all – is the politically and institutionally constructed self-imposition of the sovereign State's credit subordination. A state that grants the monopoly of monetary issuance, now entirely fiduciary and dependent on its legal force, to a central bank, while simultaneously excluding itself from the possibility of being directly financed by it, thus placing itself, by choice, in the dependence of private financial markets.

This dystopian monetary regime has benefited from a laboriously produced opacity, based on mechanisms that are complex only in appearance, to manufacture the subordination of the State to private interests and to allow them an unjustified extraction of value.

However, society can always pay for what it can produce. As long as there is unemployment, the State can and must guarantee work. The value of what is produced by those who have access to a new job is the guarantee that it is possible to pay them for it.

It has recently become public knowledge that the Bank of England will directly finance UK's fiscal policy. Nothing new. It is merely the umpteenth demonstration that a monetarily sovereign State does not need private markets to finance itself in a currency it issues.

We cannot forget this in the difficult times ahead.

The taboo of monetary policy independence must give way to the articulated action of national treasuries and central banks mandated with the dual objective of full employment and price stability. And the Treasury must at all times be able to decide whether to finance itself in the private financial markets or directly in the central bank and, thus, whether or not this financing entails public debt. And governments must be made accountable for these options in the electoral process.