A Cosmopolitan Reading of Modern Monetary Theory

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ABSTRACT

The increasingly influential neochartalist Modern Monetary Theory (MMT) comes with a nation-state-centric framing of politics. The neochartalists argue that many alleged globalisation-related constraints on national economic policy are illusory or seriously overstated. In their view, monetarily sovereign states enjoy substantial autonomy over their fiscal and monetary policy decisions. The neochartalist diagnosis thus seems to undermine cosmopolitan calls for supranational forms of macroeconomic governance. However, this paper argues that if we pay serious attention to a range of subtler obstacles and strategic incentives that apply especially to small currency-issuing states, cosmopolitan aspirations remain well-motivated. Accordingly, the political implications of MMT are reexamined and a case for supranational exercise of monetary sovereignty is made. The paper goes on to demonstrate how the standard state-centric approach to currency privileges can prove counterproductive from the perspective of democratic governance. It is concluded that neochartalism and cosmopolitanism can fruitfully both correct and enrich each other.

KEYWORDS

Cosmopolitanism; Modern Monetary Theory; global democracy; monetary sovereignty; macroeconomic governance

1. Introduction

Notwithstanding all our understanding about the general preconditions of democracy, it remains controversial which kinds of institutional arrangements would best contribute to its realisation. Among a host of issues, the proper boundaries of the demos are hotly debated in both democratic theory and practice (Bellamy 2019, 41–47; Bohman 2007; Näsström 2011; Valentini 2014; Wolkenstein 2018). The lack of an uncontested way to determine who should have the right to participate in deciding on any given issue is reflected, for instance, in the persistent dispute about the appropriate “level” of decision-making. Should the issue at hand preferably be resolved by a municipal, national or supranational body?

Much of the recent IPE literature on monetary issues has tended to ignore “big” socially burning questions that initially were in the field’s focus of attention (Cohen 2017, 675). Among such questions, the democratic legitimacy of monetary and macroeconomic governance is rarely explicitly tackled, even if the groups of decision-makers

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and “decision-takers” rarely coincide within these traditionally technocratic domains. More generally, there is little dialogue between empirical IPE research and normative democratic theory (Agné 2011).1

The normative aspects of global economic governance, less surprisingly, have been largely brushed aside also in macroeconomics. Economists’ accounts of democracy have traditionally remained implicit (Kurki 2013). The pre-2008 “new consensus” on the primacy of monetary policy and the merits of central bank independence took the democratic deficit in macroeconomic governance as essentially a virtue without engaging with political theory (for a partial exception, see Blinder 1996; on the new consensus, see e.g. Goodfriend 2007; Woodford 2009). The post-2008 worries about “secular stagnation”, economic inequalities, and the ongoing Covid-19 havoc, have drawn some of the average macroeconomist’s attention towards the fiscal capacities of the state,2 but no explicit normative discussion on the long-term objectives or institutional basis of fiscal policy involvement has yet emerged within the mainstream of the profession.

Even if one focuses on critical approaches to macroeconomic governance that are broadly sympathetic to strong democratic claims – as I will in this paper – it is difficult to find accounts that would build on normative political theory and economic inquiry in a balanced and engaged way (for one exception, see Patomäki and Teivainen 2004). One-sided perspectives to political economy easily result in unfortunate incompatibilities between views that seem promising in their own right. An important task, then, is to cross-examine such views in order to find ways to save and synthesise what is valuable in them and disregard what is not.

There appears to be such an incompatibility between the increasingly influential neochartalist Modern Monetary Theory (MMT) emphasising the macroeconomic role of the nation-state, on the one hand, and cosmopolitan calls for supranational democratic economic governance, on the other. While both accounts endorse the general idea that democratic macroeconomic governance in service of the “public purpose” should be the objective, their proponents reach conflicting conclusions about the desirability of national self-determination in economic affairs. MMT is primarily an economic theory and cosmopolitanism an ethico-political theory, but their concerns overlap to such an extent that clear mutual tensions can emerge.

The neochartalists (Kelton 2011; Mitchell, Wray, and Watts 2019; Wray 2012) argue that the contemporary “monetarily sovereign” states3 are far more able to pursue autonomous macroeconomic policies than what is commonly believed. According to the neochartalists, a national control over currency allows these states to pursue independent monetary and fiscal policies. In case a sovereign state also happens to be democratic, its substantial autonomy, in effect, opens up room for democratic governance.

In contrast, cosmopolitans and global democrats4 (see e.g. Hale, Held, and Young 2013, 113–188; Hale and Held 2017; Held 2010, 107–110; Patomäki and Teivainen 2004; Scholte, Fioramonti, and Nhema 2016) are convinced that an economic governance

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1The novel interdependence approaches in IPE (Farrell and Newman 2016; Oatley 2019) pay attention to issues of power and hegemony, but interaction with normative political theory remains scarce.

2https://www.economist.com/briefing/2020/07/25/the-covid-19-pandemic-is-forcing-a-rethink-in-macroeconomics, (25 July, 2020).

3In a typical neochartalist definition, a monetarily sovereign state (i) is the monopoly issuer of its own currency, (ii) finances its expenses primarily in this currency (i.e. avoids foreign currency debt), and (iii) operates with flexible exchange rates (i.e. “floats” its currency). This definition is somewhat idiosyncratic (cf. Zimmermann 2013, 8–16).
framework organised largely around sovereign nation-states and their unilateral policy decisions cannot deliver truly democratic outcomes. Many IPE and legal scholars doubt whether there even exists genuinely monetarily sovereign states in the globalised political economy (Cohen 2008, 205–310; Zimmermann 2013, 5). Cosmopolitans raise further questions about whether any category of states enjoys much substantial autonomy to resist global economic imperatives. And to the extent that such autonomy exists, cosmopolitans argue that it should be exercised only within certain ethical bounds that take the cross-border ramifications of national policies into account (Held 2010, 107–110, 167).

These entangled factual and normative disagreements raise consequential questions for the future of macroeconomic governance: Should sovereign nation-states continue to be the primary decision-makers in matters of economic policy, as the neochartalists argue? Or should the governance architecture be reorganised in a less state-centric fashion, as the cosmopolitans propose?

In what follows, my goal is to examine and reconcile the prima facie individually plausible, but at face value mutually contradictory, views of the neochartalists and the cosmopolitans on the preconditions of democratic macroeconomic governance. I will inquire whether we can find any common ground between their seemingly diametrically opposed perspectives on national self-determination. I will start by introducing MMT and explicating its advocates’ nation-state-centric framing of politics (Section 2). I will then challenge that framing by developing an MMT-inspired case for supranational exercise of monetary sovereignty (Section 3). Finally, I will examine whether this arguably preferable reading of neochartalism finds support in explicitly cosmopolitan considerations on legitimate national exercise of monetary sovereignty (Section 4). I will conclude by summarising my key propositions (Section 5). The paper engages in the assessment, (re)interpretation, and harmonisation of neochartalist and cosmopolitan arguments. It seeks to provide a theoretical basis for concrete institutional design – a task that is largely left for future research.

2. Neochartalism and its standard nation-state-centric interpretation

The neochartalist Modern Monetary Theory, arguably a branch of post-Keynesian economics, was developed during the 1990s. Among its early expressions were Warren Mosler’s Soft Currency Economics ([1993] 1995), Randall Wray’s Understanding Modern Money (1998), and Stephanie Bell’s (now Kelton) “Do Taxes and Bonds Finance Government Spending?” (2000). The theory reached its maturity in the crisis-prone environment of the early decades of the new millennium and has recently been gaining increasing recognition. The extensive economic and social consequences of the

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4In this paper, I draw no distinction between “cosmopolitans” and “global democrats”. Visions of post-national futures obviously come in many forms (see e.g. Scholte 2014).
5Post-Keynesians build on the work of John Maynard Keynes, Michal Kalecki, Piero Sraffa, Joan Robinson, Abba Lerner, Nicholas Kaldor, Hyman Minsky and their followers. Despite their shared opposition to neoclassical economics, already these founding figures had some interesting mutual disagreements (on post-Keynesian economics, see Lavoie 2014). Similarly, there is room for debate on whether MMT should be seen as part of this school (Lavoie 2019 argues for; Mitchell 2015b, 2016 raises substantial doubts). Regrettably, some post-Keynesians, such as Thomas Palley, have seemed hostile to MMT (for interesting interviews of many key neochartalists and post-Keynesians, see Armstrong 2020).
6Mosler’s role has been vital for the development of MMT. Another central figure is Bill Mitchell whose early work (see e.g. Mitchell 1998) shaped MMT’s approach to for instance employment policy.
Covid-19 pandemic have rapidly been drawing further attention to MMT, as states have been forced to employ their monetary capacities in a manner unseen since the Second World War.

The key early influences on MMT were Georg Friedrich Knapp’s ([1905] 2012) “state theory of money” and Alfred Mitchell Innes’s (1913, 1914) “credit theory of money”. Knapp’s original chartalism was a pioneering attempt to treat money as a state institution, while Mitchell Innes was among the first authors to highlight money’s credit nature (see also Wray 1998, 2004). The conclusions of both theories went against the contemporaneous “metallist” approaches that viewed money as a special kind of commodity serving as a medium of exchange (see e.g. Menger [1892] 2009).

The neochartalists (Fullwiler 2006; Kelton 2011; Mitchell, Wray, and Watts 2019; Wray 2012) have examined the macroeconomics of contemporary monetary systems, highlighting the role that state money (also known as “fiat” or “modern” money) plays in current capitalist economies. By clarifying the central bank-treasury nexus, the approach has introduced important new elements to the (post-Keynesian) literature on monetary macroeconomics (Lavoie 2014, 217). To their further merit, the neochartalists were also early to identify specific public finance-related shortcomings of the European Economic and Monetary Union (EMU) that were to contribute to the outbreak of the euro crisis at the end of 2009 (Bell and Nell 2003; see also Godley 1992; Goodhart 1998). The case of the heavily indebted Japan offers further evidence for core MMT propositions (see e.g. Forstater and Mosler 2005; Mitchell, Wray, and Watts 2019, 27–31). MMT’s theoretical novelty, explanatory successes, and straightforward policy implications account for its growing popularity. According to Louis-Philippe Rochon, its long-term critic, “MMT – represents the greatest threat to TINA [the ‘there is no alternative’ ideology]” (Rochon 2019, 163).

The neochartalist insights go against a large number of “commonsensical” economic doctrines that are standardly taken for granted. As Joe Guinan (2014) vividly puts it: “To first encounter MMT is akin to falling down the rabbit hole and emerging into a looking glass world in which all hitherto seemingly settled opinion about money and banking turns out to be wrong and exactly the opposite holds true”. Most importantly, following the lead of Abba Lerner (1943, 1951), the neochartalists reject the conventional principles of “sound finance” according to which the state budget should always be intentionally balanced regardless of the prevailing economic conjuncture. This obsessive focus on the budget balance, Lerner and the neochartalists argue, leads to sub-optimal real outcomes that can ultimately cause also financial worries – contrary to the original intention. Instead, macroeconomic policy should be conducted according to the principles of “functional finance” which concentrate on the real effects of state policies on employment, inflation, and other economic and social factors regarded as vital. As long as the

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7https://www.ft.com/content/4dd5ab36-831c-4970-92c8-e5c02a0ede9e, (22 October, 2020). https://www.economist.com/briefing/2020/07/25/the-covid-19-pandemic-is-forcing-a-rethink-in-macroeconomics, (25 July, 2020). https://www.nytimes.com/2020/04/15/business/coronavirus-stimulus-money.html, (15 April, 2020). https://www.theguardian.com/commentisfree/2020/apr/09/the-guardian-view-on-the-covid-19-fight-it-can-be-paid-for, (9 April, 2020). https://www.bloomberg.com/news/articles/2020-03-25/economies-already-look-totally-different-from-the-pre-virus-age, (26 March, 2020).

8https://www.wsj.com/articles/coronavirus-lifts-government-debt-to-wwii-levels-cutting-it-wont-be-easy-11598191201, (23 August 2020).
economy and society are healthy, even large funding deficits, should they result, are tolerable.

MMT’s primary contribution to the literature on macroeconomic governance has been to point out that so-called monetarily sovereign states – states that issue their own currency, avoid foreign currency debt, and operate with a flexible exchange rate – in principle enjoy substantial economic policy autonomy. First, their central banks are free to pursue domestic monetary policy objectives because they do not have to worry about defending a currency peg. National central banks are able to set the policy interest rate by their own independent choice (Mitchell, Wray, and Watts 2019, 315–317; see also Moore 1988).

Second, and more importantly, states’ ability to conduct fiscal policy, the neochartalist argument goes, has greatly increased under the post-Bretton Woods arrangement. To the dismay of fiscal conservatives, monetarily sovereign states do not in fact face a literal budget constraint, which potentially frees them to redesign their tax systems to address non-revenue related concerns (such as economic inequalities and environmental degradation). Moreover, these states can decide how much interest they pay to the holders of their bonds. (Bell 2000; Kelton 2011; Parguez 2002; Sardoni and Wray 2007; Wray 2012, 39–147.) Because currency-issuing states are arguably not even balance-of-payments constrained (Mitchell and Fazi 2017, 202–214), the neochartalists maintain that all alleged financial constraints on the ability of these states to deficit spend are ultimately negligible. The economic constraints that really do matter are inflation and the availability of resources.

Although the neochartalists are arguably sometimes too hasty to generalise their conclusions over different institutional contexts (Lavoie 2013), the core MMT analysis of the operational realities of state finance and policymaking seems largely accurate (on possible reservations, see Fiebiger 2016). Many broader ontological, historical, theoretical, and political views of the neochartalists remain open to debate, however (see e.g. Lawson 2019; Shaikh 2016, 677–723).

This article scrutinises the normative political vision defended by the neochartalists. Given MMT’s heavy emphasis on the might of the sovereign nation-state, the theory appears, despite its radical implications in other respects, regrettably outdated from a cosmopolitan perspective. Whereas post-Keynesian economics generally is very amiable to cosmopolitan interpretation, MMT easily appears outright anti-cosmopolitan.

There are at least three reasons for this impression. First, the neochartalists take the nation-state and its monetary system as their analytic focus and update the classic state theory of money to the contemporary era. Second, the (neo)chartalists regularly emphasise and occasionally come close to celebrating the historical continuity of state money from ancient temples and empires to the modern-day nation-states (Hudson 2004; Wray 2004).

9Lavoie (2013) argues that the consolidation of treasury and central bank into a single entity may be confusing given the institutional variation between countries. According to the neochartalists, consolidation does not affect the outcome of their analysis (see e.g. Mitchell, Wray, and Watts 2019, 314–328).

10Many in this tradition share Keynes’s cosmopolitan intuition that states should not adopt self-interested competitive strategies aggravating economic problems in other countries and, ultimately, harming the interests of the world population (see Markwell 2006 on Keynes’s views on international relations). For interesting political economy work on “Democratic Global Keynesianism”, see Patomäki 2013, 189–222.
Third, and most importantly, the neochartalists share a firm belief in the inherent ability and justification of the monetarily sovereign states to shape their economic destinies, and consequently concentrate almost exclusively on the opportunities available to them. Sovereign states, the neochartalists insist, both can and should reclaim control of their economic affairs; supranational alternatives are ignored, downplayed, or outright denounced. According to Bill Mitchell and Thomas Fazi (2017, 157), “it is patently obvious that virtually all the major social, economic and political advancements of the past centuries were achieved through the institutions of the democratic nation state, not through international, multilateral or supranational institutions, which in a number of ways have, in fact, been used to roll back those very achievements” (emphases in the original).

Mitchell and Fazi (2017, 2018, 2019) have recently articulated an explicit and rather comprehensive political vision building on MMT. In their view, most “progressive” analyses on the effects of globalisation on state autonomy have failed to see the importance of monetary sovereignty. Mitchell and Fazi argue that from James O’Connor’s Fiscal Crisis of the State (1973) to Susan Strange’s The Retreat of the State (1996) and Michael Hardt and Antonio Negri’s Empire (2000) even radical political economists have bought into conservative economic premises concerning, for instance, “sound” state finance. This ill-founded analysis, Mitchell and Fazi claim, has led the progressive left to vastly exaggerate globalisation-related constraints on states’ ability to conduct macroeconomic policy. What they view as a fundamentally wrongheaded policy conclusion of the “supranationalist left” – the proposition that political authority should be allocated away from nation-states to novel supranational institutions – follows from this analysis.

In order to replace the “supranationalist” approach, Mitchell and Fazi (2017, 248–262) go on to present an admirably unambiguous political vision the essence of which is to reinforce (central) planning at the national level. Because private companies cannot lead the large-scale transition that is required to counter the grand challenges contemporary societies are facing, a “progressive agenda for the twenty-first century must (...) necessarily include a broad renationalisation of key sectors of the economy” (252). A public job guarantee is one of the key policy proposals for fostering this state-led economic modernisation (221–247).

While Mitchell and Fazi (2017, 214–220) towards the end of their book qualify their argument for national sovereignty by providing a seven-page discussion on the broader international framework, their core vision remains quintessentially one of reclaiming the state. For them, MMT renders supranational institution-building redundant although some international reforms are still needed to assist the most vulnerable nations that cannot survive by themselves due to a lack of resources. In this spirit, Mitchell and Fazi (2017, 2018, 164–171) argue that the neoliberal EMU and perhaps even the European Union should be dismantled. For Mitchell and Fazi, who favour unilateral national decisions on exiting these institutions (168–170), the only worthy “European project” would consist of “multilateral cooperation between sovereign states” (170).

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11Hirst and Thompson (1996) display partially similar inclinations.
12In addition to supranationalism, Mitchell and Fazi (2017, 10) suggest that the failure of the contemporary left can be explained by its emphasis on “identity politics”.
Recently, Mitchell and Fazi (2017, 265–266) invoked Bernie Sanders, Jeremy Corbyn, and Jean-Luc Mélenchon as encouraging examples of progressive politicians appealing to the powers of the nation-state. The promise of success their electoral campaigns had led Mitchell and Fazi to suggest that the left would do considerably better if, instead of appealing to the “cosmopolitan urbanites”, it reclaimed the nation-state from the extreme right: “[b]eyond the centrality of the state from a political-economic point of view, the left has to come to terms with the fact that for the vast majority of people that don’t belong – and never will belong – to the globetrotting international elite, their sense of citizenship, collective identity and common good is intrinsically and intimately tied to nationhood” (266).

Mitchell and Fazi’s nation-state-centric approach is shared by other MMT works that address issues of policy and politics (see e.g. Sardoni and Wray 2007; Wray 2012, 211–220). Although I accept the neochartalist monetary analysis as largely correct, I hope to offer reasons to doubt the merits of MMT’s standard state-centric framing. As Mitchell and Fazi (2019) stress, MMT is a theoretical “lens” whose monetary insights can be harnessed for different purposes. I will now turn to argue that a coherent neochartalist case for supranational democratic exercise of monetary sovereignty can be articulated and defended.

3. A neochartalist case for supranational exercise of monetary sovereignty

In this section, I will argue that despite its nation-state-centric appearance, MMT per se is neither cosmopolitan nor anti-cosmopolitan. The core theory, based on accounting considerations and operational analysis, is fairly technical (as noted by Wray 2012, 258–260). However, all neochartalists are understandably committed also to views that cannot be directly deduced from MMT’s analytical kernel. First, most of them subscribe to a broadly post-Keynesian account of macroeconomic dynamics (Mitchell and Mosler are important exceptions here). Further, while MMT allows for different views on public affairs, the academic exponents of the theory have tended to share a political orientation. First, they have standardly emphasised that public policy should serve the “public purpose” (Mitchell, Wray, and Watts 2019, 9–12; Wray 2012, 190–193). Moreover, they have typically understood this concept more or less in the spirit of “social democracy” of the broad type that also many cosmopolitans endorse normatively. I will not attempt to defend these political commitments here. What is relevant for the purposes of this paper is that their emphases on democracy and social concerns constitute some common ground between the neochartalists and the cosmopolitans.

But what about the neochartalists’ seemingly loyal commitment to a specific form of political organisation, the contemporary nation-state? Are MMT’s policy implications

13Despite this promise, right-wing nationalists defeated all these candidates.

14Especially beyond academia, MMT is now being endorsed by people with very varied political views, however. In particular Mitchell, Kelton, and Mosler have successfully introduced MMT to policy and investment circles.

15See David Held (2010, 166–169) on “social democratic globalisation”. Wray (2012, 192) and Held (2006, 3) both embrace a transformative understanding of democratic public purpose. Moreover, both Mitchell, Wray, and Watts (2019, 9–12) and Held (2010, 54–55) cite approvingly the social commitments of the UN’s Universal Declaration of Human Rights (1948).
not bound to be anti-cosmopolitan? Does MMT not at least provide good reasons for such a stance?

I argue that nation-state centrism is neither an essential part of MMT nor even a clear-cut implication or recommendation that would flow from MMT’s core principles. Rather, it is a contingent political framing of the theory. It does make sense from the perspective of intellectual history, but in light of all the relevant theoretical and normative considerations, this framing is arguably not the best one imaginable. In order to challenge it, I will first put forward a neochartalist case for supranational exercise of monetary sovereignty. While the main ingredients of my argument are indeed characteristically neochartalist, I will draw also from broader post-Keynesian, and some IPE, considerations. There are at least three sets of reasons to believe that the type of policy measures proposed by the neochartalists would often work considerably better were they conducted, or at least tightly coordinated, by supranational institutions.

### 3.1. National exercise of monetary sovereignty is relatively inefficient

My first thoroughly neochartalist argument for supranational exercise of monetary sovereignty stems from the relative inefficiency of state-level exercise of this privilege. It follows from MMT’s emphasis on real resource constraints that especially territorially small and / or resource-poor nation-states are often unable to draw the full benefits of their currency monopolies. While they can almost always benefit from their currency-issuing capacities to some (varying) extent, they easily become overly dependent on foreign resources, and thereby also foreign currencies. Since their own currencies face little global demand, these states must work hard to acquire sufficient foreign currency reserves in order to settle their external payments and debts.

As the neochartalists correctly point out, states can potentially decrease their reliance on foreign resources by employing domestic resources instead (Mitchell and Fazi 2017, 209; Wray 2012, 216). A strategy of import substitution industrialisation may be feasible if decent substitutes for foreign resources are available. Unfortunately, this can be a big “if”. Many key resources are not found within most national territories and some are for sale only in major currencies (oil, for instance, is sold in US dollars). For non-self-sufficient states it may hence be virtually impossible to avoid issuing a substantial amount of foreign currency debt. Resource shortages are thus a key MMT-derived reason for why monetary sovereignty could be more effectively exercised in a post-national setting.

The bearing of this challenge is acknowledged by Mitchell and Fazi (2017, 214) who note that “if a country’s resource base is very limited, there is relatively little that a country can do to pull itself out of poverty, even if the government productively deploys all the resources available to the nation”. Displaying on this point a healthy awareness of the fundamental contingencies of the contemporary states system, they argue that states face a “real resource constraint arising from the unequal distribution

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16While in principle MMT offers a reason to welcome imports (see Section 3.2), for developing states the neochartalists often recommend (targeted) import substitution policies (Mitchell and Fazi 2019, 202–220; Wray 2012, 216–220).

17Even if national self-sufficiency were achievable, its desirability seems debatable on normative grounds.
of resources across geographic space and the somewhat arbitrary lines that have been drawn across that space to delineate sovereign states” (214, emphasis in the original).

Mitchell and Fazi even go on to conclude from the existence of this twin contingency that “the world must take responsibility to ensure that it alleviates any real resource constraints that operate through the balance of payments” (214, my emphasis). The fulfilment of this responsibility, they believe, would require the creation of a new multilateral institution “charged with the responsibility of ensuring that these highly disadvantaged nations can access essential real resources such as food” (214–215). Also Mitchell and Fazi thus recognise cosmopolitan ethical demands despite their general objection to supranational forms of macroeconomic governance.18

Whereas territorially small and peripheral states easily run into binding resource constraints, the position of geographically extensive and economically prominent states, as well as economic unions, is very different. The currencies issued by these dominant political entities, notably the US, tend to face high demand in the global currency markets, which translates into substantial macroeconomic autonomy and even monetary power over other states (Cohen 2019; Fields and Vernengo 2013; Kirshner 2008).

While the neochartalists have justifiably criticised views that tend to exaggerate the uniqueness of the US, they themselves acknowledge that “not all currencies are equal” (Mitchell and Fazi 2017, 214). As Wray (2012, 138) summarises the standard MMT position, “in principle the issuer of the reserve currency is not unique, although the external demand for the reserve currency is greater”. Importantly, some of the macroeconomic privileges enjoyed by the US are, to varying extents, available also to other prominent currency issuers. US Dollar, while clearly the most widely circulating currency, is not the only currency with substantial external demand: “UK Pounds, Japanese Yen, European Euros, and Canadian and Australian Dollars are also highly desired” (Wray 2012, 134).19

The Eurozone is an example of a currency area which – were it equipped with appropriate institutions and fiscal capacity – could benefit from its currency-issuing powers even to the same extent as the US does. If the EMU eventually breaks down, an outcome whose probability the largely nationalistic responses to the pandemic may have increased, the thereby reincarnating European monetarily sovereign nation-states will be more strictly constrained in their economic policy actions than a supranational democratic federation of them would be. A large monetary-fiscal union would issue a prominent currency and command considerable resources over a geographically extended area. Such a union would have little need for foreign currency borrowing whereas the separated nation-states would generally find it difficult to avoid such borrowing to some substantial, but varying, extent.20 (Figure 1; source Eurostat 2020).

But can the Eurozone be provided with appropriate institutions and fiscal capacity? For Mitchell and Fazi (2017, 140–145, 161–171; 2018), the EU and EMU are inherently neoliberal institutions (see also Lapavitsas 2018; Streeck 2014). Others have suggested

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18I fully agree with Mitchell and Fazi that the current institutions of global economic governance (notably IMF, World Bank, WTO, and OECD) are undemocratic and dysfunctional. They need to be thoroughly reformed (see also Patomäki and Teivainen 2004).

19Some neochartalists distinguish “degrees of monetary sovereignty” (see e.g. Tcherneva 2016). I find this terminology slightly confusing because sovereignty is generally not understood as a quality that could come in degrees (Philpott [2003] 2020). However, the extent of policy autonomy or “space” does vary along several dimensions.

20Even Sweden, a rich European nation-state with its own central bank, regularly resorts to foreign currency borrowing and has been hard-pressed to decrease the dollar dependency of its banking sector (see e.g. Nyberg 2011).
that they can be reformed through a constitutional and / or political struggle (Habermas 2015; Patomäki 2013, Chapter 6; Varoufakis, Holland, and Galbraith 2013; Wolkenstein 2018). My own sympathies lie with the latter camp. While EU and EMU are challenging institutions to reform on everyone’s account, it makes little sense to claim that this simply cannot be done.

In addition to being neoliberal in its prevailing form, the Eurozone is not a so-called Optimal Currency Area (OCA). For the OCA theorists in the tradition of Robert Mundell (1961), currency areas are economically optimal (“efficient”) to the extent that that the area’s locations share, for instance, (a) roughly similar profiles in terms business cycles; (b) a high degree of labour and capital mobility; (c) substantial wage and price flexibility; (d) a system of risk sharing (such as fiscal transfers between the locations). It was early on pointed out that the Eurozone does not fulfil such criteria (see e.g. Krugman 1992).

Goodhart (1998) spelled out a (neo)chartalist alternative for the OCA framework. Once we shift attention from efficiency considerations to broader political economy factors, the key shortcoming in the Eurozone appears to be its strict separation between national fiscal authorities, on the one hand, and a legally “independent” supranational central bank in charge of currency creation and monetary policy, on the other. What is important for a balanced assessment of the Eurozone is that both types of theories yield a negative verdict on the question of whether the currency area, as it stands, is in any sense optimal. Again the key question is: can the EMU be reformed? Could it be transformed into a genuine fiscal union and could the Eurozone, thereby, perhaps also eventually develop into an OCA?21

Figure 1. Shows that within the EU, the six states that in 2019 held 100% of their debt in their “domestic” currency were all EMU states (Belgium, Estonia, Lithuania, Luxembourg, Portugal and Finland). The seven states that held more than 10% of their debt in a foreign currency were all non-EMU states (Bulgaria, Croatia, Romania, Poland, Sweden, Hungary, Czechia). Denmark was the only non-EMU state that held debt almost exclusively (99.9%) in a domestic currency (the country had become free of foreign debt obligations for the first time in 2017 since at least 1834. https://www.businessinsider.com/denmark-central-bank-says-country-has-no-foreign-debt-2017-3?r=US&IR=T).

21I agree with Goodhart (1998, 423–424) that political unification can drive a currency area’s development towards an OCA.
The July 2020 decisions on the European Covid-19 recovery plan (the Next Generation EU, €750 billion) and the long-term EU budget for 2021–2027 (the new Multiannual Financial Framework, €1074 billion) may turn out to be tentative steps in the direction of a fiscal union and thereby also functioning EMU (for contrasting prognoses, see Vallée [2020] and Varoufakis [2020]). The EU leaders agreed to a recovery plan within which the European Commission issues common debt on behalf of the EU member states and distributes the funds to individual states in the form of grants and loans (according to a set of criteria focused on the economic impact of the pandemic). The long-term EU budget is meant to support the recovery effort. Accompanying these agreements, the EU leaders also expressed their wish to introduce new EU-level taxes.

At this point it remains an entirely open question of whether the recovery package and the EU budget can be effectively harnessed for integrative purposes. This would seem to depend on whether the common debt and taxes will prove to be merely temporary fixes to the havoc caused by the pandemic (as demanded by the “frugal” North) or whether they could be institutionalised on a permanent basis and thereby potentially developed further (as often hoped in the South and increasingly also in Germany). For a fiscal union to work, the common funds should also be allocated through a routinised mechanism that does not create impressions of zero-sum dynamics between member states (as case-by-case discretion easily does). For European integration to deepen, also the recurrent austerity conditions – still looming over even the newest of agreements – should be dropped or at least considerably lightened.22 Despite the immediate political challenges faced by attempts to develop the new recovery instruments in a direction that could ultimately contribute to a creation of a genuine European society, the instruments certainly do have some substantial potential to be improved upon over time.

Against MMT’s core economic logic, Mitchell and Fazi (2017, 161–171) argue for the restoration of potentially vulnerable national monetary sovereigns instead of a supranational monetarily sovereign power – such as a thoroughly reformed EMU – that would be in a position to gain considerably more from its currency-issuing privileges than individual nation-states. Despite their cultural and political arguments (see also Mitchell 2015a, 340–341), it is not clear whether wholesale, but still somehow socially progressive, disintegration would be more or less realistic than a socially sustainable form of integration. The question of whether there is sufficient political will to actually implement progressive reforms applies equally in national and supranational contexts. By contrast, disintegration clearly seems less desirable than full integration from MMT’s economic perspective: a fully integrated Eurozone would provide more capacity to pursue meaningful economic and social reforms (and shape also global developments) than a disintegrated one.23 Curiously, Mitchell and Fazi’s preference for a national approach then seems to be based more on debatable cultural and political considerations than on MMT itself.24

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22The severe austerity measures that the “Troika” of IMF, ECB, and the European Commission imposed on in particular Greece during the Eurozone crisis showed that Europe has a long way to go in terms of developing a sense of community (see Mitchell 2015a, 257–271).

23As an anonymous reviewer correctly stressed, there is an important distinction between what might be beneficial from an economic theoretical perspective and what is feasible in practice. Unfortunately I cannot address the heavily debated question about the feasibility of supranational institutions within the constraints of this paper (on this issue, see e.g. Patomäki and Teivainen 2004).

24Mitchell and Fazi (2017, 266–267) seem inclined to accept the “no-demos thesis” challenged by Valentini (2014) and Wolkenstein (2018). For a defense of demoicracy, see Bellamy (2019).
Because most nation-states are not in a position to exercise monetary sovereignty as effectively as it could, from an economic point of view, be exercised by supranational entities, it seems to me that the neochartalists have here a strong MMT-based reason to call for the reorganisation of the world’s fragmented economic and political landscape into larger and geographically more balanced cosmopolitan federations. Such a post-national development could also effectively address the challenges faced by states with resource-deficient territories, trapped by morally arbitrary geographies and borders, as described by Mitchell and Fazi.

3.2. National exercise of monetary sovereignty is influenced by strategic considerations that harm the interests of non-nationals

My second argument for the non-optimality of national exercise of monetary sovereignty draws from both MMT and the broader (more disparate) post-Keynesian tradition. It is motivated by the observation that in the current state-centric governance architecture it often seems strategically rational for many nation-states to pursue austerity measures that generally have harmful consequences for non-nationals. Even if monetarily sovereign states are never forced into an austerity path because of financial constraints, they may often have strong economic incentives or other self-regarding reasons to nevertheless choose and stick to it. Whereas the first argument concerned resource deficits, the present argument deals with strategic motivations. If valid, it could apply also to states that do not suffer from any serious resource shortages.

Let us start with post-Keynesian considerations. Although sometimes caricatured as advocating perpetual fiscal expansion and ever-higher wages in all circumstances, the post-Keynesian literature suggests plenty of grounds for why an austerity bias can be strategically rational in some cases. First, for small open economies “profit-led” growth strategies might well produce better outcomes than “wage-led” ones (see e.g. Lavoie and Stockhammer 2012). Second, because the current global growth regime is “competitive” rather than “complementary”, small open economies may be rationally wary of policies that could lead to balance-of-payments deficits (McCombie and Thirwall 1999). Third, already Keynes understood that all nations have to seek domestic full employment or otherwise export-led growth will be seen as strategically advantageous by each nation individually (as stressed by for instance Davidson 1999, 10).

The more Keynesian-oriented neochartalists are probably prepared to accept that expansionary fiscal measures may turn out to be less effective in small national economies than in larger ones. In the former economies, a bigger proportion of the new private sector income generated through public deficit spending will tend to be spent on

\[25\]The actual effectiveness of supranational exercise of monetary sovereignty depends also on political and cultural issues (such as ones concerning collective identity). The point here is only that nation-state-centrism does not follow from MMT without separate political and cultural arguments. If anything, the core economic logic of the theory points in a supranational direction.

\[26\]Few regions have immediate prospects for moving towards supranational macroeconomic governance. That said, plans to establish economic unions have been developed widely (see e.g. Cohen 2008, 299–309).

\[27\]As noted earlier, it is important to keep in mind that some prominent MMT authors, notably Mitchell and Mosler, do not view themselves as post-Keynesians. The present argument may therefore be more interesting for those neochartalists who do identify as post-Keynesians. However, I discuss the views of Mitchell and Mosler within this context as well.

\[28\]When actors have dominant strategies, their decisions can be almost as predictable as when their choices are “externally constrained” (Lagerspetz 1988).
foreign goods and services (i.e. the economy’s “marginal propensity to import” is high). From a financial perspective, this spending flow represents a “leak” out of the national economy. If such leaks are extensive, a current account deficit results and a currency depreciation – potentially adding to inflationary pressures – may follow (Wray 2012, 138–139, 225–226). While various steps to hinder this process can be taken, even monetarily sovereign small open economies arguably take a non-negligible economic risk by running current account deficits for extended periods of time.

Other neochartalists, such as Mitchell and Mosler, have more substantial reservations about the above post-Keynesian claims. They point out, for instance, that the so-called pass-through effect from exchange rates to domestic prices tends to be small (Mitchell and Fazi 2017, 210–211; for empirical evidence, see e.g. Bailliu, Dong, and Murray 2010, 4). From an MMT perspective, the domestic price level is largely “a function of the prices paid by the government” (Armstrong and Mosler 2020, 19; see also Mitchell, Wray, and Watts 2019, 301–312).

Even more importantly, these neochartalists stress that in real economic terms imports are a gain and exports a loss (Mitchell and Fazi 2017, 206; Mosler 2010, 59–62). This proposition clashes with common (both neoclassical and post-Keynesian) assumptions about trade and potentially even reverses the logic behind strategic austerity: the best national strategy might in fact be to purchase as many foreign real goods and services that the state’s fiat money can buy. To the extent that this strategy is valid also for small monetarily sovereigns, even they should be motivated to run current account deficits and thereby also expansionary fiscal policies. Should the new imports lead to a rise in domestic unemployment, currency-issuers can simply run bigger budget deficits (Mosler 2010, 61).

This fresh approach to current accounts certainly provides an illuminating perspective on international trade (for further nuances, see Mitchell and Fazi 2017, 202–220). The US, in particular, receives huge amounts of foreign goods and services in exchange for the fiat money it issues. In principle, also all other countries with current account deficits benefit in real terms. As long as they are monetarily sovereign, (Thirlwallian) balance of payments constraints fail to apply (Mitchell and Fazi 2017, 202–214). In other words, there is nothing inherently problematic about either fiscal or current account deficits. If the financial assets accumulated by the foreigners are denominated in a floating domestic currency, even large current accounts deficits can be sustainable.

From this perspective, the crucial question becomes: which countries can run sustained current account deficits? After all, these deficits need to be matched with capital inflows from abroad (Mitchell and Fazi 2017, 203). Here again it seems that the larger and more prominent economies are in a better position to issue debt in their domestic currencies than the smaller and more peripheral ones. Whereas the financial assets denominated in dollars, euros, and a number of other currencies are highly demanded, the liabilities of less fortunate countries may find little or no demand (Wray 2012, 134–135). Occasionally, foreigners can even suddenly become unwilling to net save the assets issued by the latter (Mitchell and Fazi 2017, 211–214). Whereas the standard post-Keynesian view is that current account deficits may be harmful for small open economies, MMT rather suggests that some countries cannot run as large current account deficits as might be desirable. Either way, not all nations receive the same benefits from their currency-issuing capacities.
Even given the substantial neochartalist reservations on the post-Keynesian grounds for strategic austerity, it therefore seems fair to suggest that small (or otherwise “weak”) monetarily sovereign states are more likely to face genuine challenges as a result of deficit spending than large (or “strong”) ones. While even most small monetarily sovereign states can conduct expansionary fiscal policies (as long as they have domestic resources to employ, see the first argument), considerations of risk indicate that these states may often be inclined to develop strategic interests against it. Monetary sovereignty assists all states, but an important relative inequality between them persists: larger currency-issuers, including supranational ones, can more confidently reject austerity measures than small national sovereigns.

The fact that a large number of current nation-states seem strategically motivated to pursue policies of competitive austerity and “neomercantilism” (rationally or not) is problematic on both economic and political grounds. Current account surpluses, by definition, are not available to all nations simultaneously and deflationary biases limit the growth of the world economy (Wray 2012, 140, 218). Moreover, the zero-sum competition for trade surpluses exacerbates cultural “othering” and enemy images (Bui 2019). Trade wars and even military conflicts may result (Mitchell and Fazi 2017, 203). In these conditions, realistic cosmopolitan futures obviously become hard even to conceive of. While also national monetary sovereignty can in principle be exercised for enlightened purposes (see Section 4), if left unchecked, it is likely to contribute to excessively isolationist reactions against neoliberal globalisation. Indeed, it is not at all surprising that European right-wing populists, such as Marine Le Pen in France, have long called for the restoration of national monetary sovereignty.

This argument adds to the case that the post-Bretton Woods governance framework distributes macroeconomic policy autonomy between states in a very unequal fashion. This divergence easily leads to incompatible national (conceptions of) incentives and, thereby, to unilateral policy strategies that are far from optimal from any systemic point of view.

3.3. National exercise of monetary sovereignty for socially transformative purposes faces political and legal barriers of a supranational nature

My third MMT-inspired argument against leaving the exercise of monetary sovereignty solely to the nation-states relates to the wider political economy in which these states operate. As the neochartalists often stress, numerous institutional, judicial, and ideological factors, as distinct from “purely economic” ones, undermine the ability of monetarily sovereign states to take the full advantage of their currency privileges (Armstrong 2019; Sardoni and Wray 2007). Many such barriers are supranational by nature.

Contemporary nation-states are rarely politically strong enough to coordinate sufficiently effective economic, social, and regulatory policies despite their in principle considerable capacities as monetary sovereigns. Few individual states acting alone are fit to fight the global institutional and ideological forces that constrain their exercise of

29 Whether strategic austerity will be successful is contingent on the policies of other states. Strategically, the situation resembles the prisoner’s dilemma: export-boosting national policies lead to an insufficient global demand for exports. Everyone will be worse off than what they would be if policies were coordinated.
monetary sovereignty. While even the smallest and poorest of nation-states are not always incapable of benefitting from their sovereign privileges to some limited extent, it is especially hard for them to act alone against the prevailing global near-consensus on appropriate macroeconomic policy defined by the powerful states, governance organisations, and influential private actors on the scene.

As Gill and Law (1989, 491) argue, transnational capital greatly benefits from the political division of the world into separate, competing, and mostly relatively weak, nation-states. In playing states against each other, economic elites routinely employ the age-old divide et impera strategy. As a result, long-term trends in global political economy are not easily reversed by any single state even within its own territorial borders. For instance, “new constitutional” neoliberalism (Gill 2003, 116–142; Hirschl 2004), manifested in the evermore-stringent legal constraints on national policies from the 1990s onwards, probably cannot be effectively combatted without cross-border action for new, truly transformative forms of global constitutionalism (Kochi 2020).

The three sets of arguments concerning resource availability, strategic incentives, and hegemonic power structures offered in this section suggest that MMT within individual countries can offer at most a “second-best” option. The first-best option, even from the theory’s own economic perspective, would be to move beyond the nation-state-centric architecture of macroeconomic governance and, thereby, open up new space for MMT-style fiscal involvement. As most post-Keynesians, the neochartalists should favour cosmopolitan solutions (such as democratic fiscal unions).

This section has provided primarily an immanent critique of the national framing of MMT. I accepted the basic premises and reasoning of the theory and suggested that they in fact yield important reasons to doubt whether nation-states generally are effective exercises of monetary sovereignty. In an attempt to build further common ground between the neochartalist and cosmopolitan approaches, I will next examine nation-state-centric macroeconomic governance from an explicitly cosmopolitan point of view.

4. Cosmopolitan condition on legitimate national exercise of monetary sovereignty

What David Held (2010, 143) calls “the paradox of our times” nicely captures some of the main motivations for cosmopolitanism: “the collective issues we must grapple with are increasingly global and, yet, the means for addressing these are national and local, weak and incomplete”. As a basic premise, most cosmopolitans share a version of the view that diverse globalisation-related processes have eroded the policy capacity of contemporary nation-states in a wide range of important issues and / or that the range of intrinsically global challenges is widening. Cosmopolitanism is therefore often defended, in part, on the practical grounds of policy efficacy.

Simultaneously, globalisation seems to have undermined the legitimacy basis of national representative politics. The standard democratic all-affected principle (in Held’s terminology, the criterion of all-inclusiveness), according to which the group of decision-makers should coincide with the group of “decision-takers”, underlies this judgment and encourages calls for cosmopolitan democracy (Held 2010, 173; see also Lager-spetz 2015; Näsström 2011). The principle seems to capture a core motivation for democracy – people should be free to decide about precisely those affairs that affect
themselves (ideally to the extent that they are affected). Because the present organisation of politics around nation-states often fails to serve all-inclusiveness, the cosmopolitans call for supranational democratic governance structures also on the normative grounds of policy legitimacy (on legitimacy in global governance, see Tallberg, Bäckstrand, and Scholte 2018).

To recreate conditions for democratic politics, the cosmopolitans argue that numerous supranational, or truly global, reforms and institutions are urgently needed (Holden 2000, 1–13; Patomäki and Teivainen 2004). According to some authors, these institutions should be accompanied by a comprehensive legal framework, a cosmopolitan law (Held 2010, 93–116). Relatively few contemporary cosmopolitans argue for a centralised global government, however.30 As Held emphasises, the goal of securing all-inclusiveness often “points to the necessity of both the decentralisation and the centralisation of political power” (175).

Despite their differences, even the most modest proposals for supranational forms of democracy effectively question the merits of the traditional “Westphalian model” of exclusive state sovereignty.31 As Held (2010, 96) puts it, “any assumption that sovereignty is an indivisible, illimitable, exclusive and perpetual form of public power – entrenched within an individual state – is now defunct”.

What does this apparent transformation of sovereignty mean for a discussion on monetary sovereignty? The cosmopolitans have not addressed the implications of supranational democracy for the specifically monetary aspects of state sovereignty in much depth. This is a regrettable omission in the otherwise rich literature on global economic governance. For tentative guidance on how the issue of monetary sovereignty could be approached from a cosmopolitan angle, I will draw on Held’s (2010, 107–110) normative framework of “economic cosmopolitanism”. Held’s related account of economic governance is underdeveloped and it does not tackle monetary sovereignty explicitly.32 But despite their relative vagueness on economic subtleties, Held’s ideas can nevertheless be helpfully applied in this section’s examination of the legitimacy conditions of national exercise of monetary sovereignty.33 Also Andrew Linklater’s (2006, 2011) work on the global harm principle proves useful.

Held (2010, 107–110) discusses economic cosmopolitanism as one aspect of his overall vision, alongside legal, political, and cultural aspects. He argues that there exists a cosmopolitan “rationale for a politics of intervention in economic life” (108). In an attempt to justify this rationale, he states that “market economies can only function in a manner commensurate with self-determination and economic freedom if [the indeterminacy of the market system itself] is addressed systematically and if the conditions of the possibility of self-governance are met” (190). Largely concurring with a wide critical political economy literature, Held accuses Washington Consensus policies for undermining

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30 Some certainly do. Alexander Wendt (2003, 2015) argues that a world state is both “democratically necessary” and “inevitable”.

31 This model has been criticised also on historical grounds (Osiander 2001; Teschke 2003).

32 I agree with Held (1995, 234–235) that “sovereignty can be stripped away from the idea of fixed borders and territories and thought of as, in principle, malleable time-space clusters”. Monetary sovereignty can be understood as one domain of sovereignty, a part of a broader cluster.

33 Patomäki and Teivainen (2004) are more explicit about what cosmopolitan economic governance could mean institutionally. However, they do not address currency creation either.
democratic self-governance at all levels, including the general erosion of communities’ “capacity to provide urgent public goods” (154).

How should this cosmopolitan intervention in economic life be carried out? Held notes that cosmopolitanism does not necessarily imply the end of nation-states themselves but rather only the end of the primacy they have enjoyed in the present world order. In his conception of cosmopolitanism, states and local institutions can indeed continue to play an important role in many areas of policy. As Held (2010, 106) puts it, “recognising the complex structures of an interconnected world, political cosmopolitanism views certain issues as appropriate for delimited (spatially demarcated) political spheres (the city, state or region) while it sees others ... as needing new, more extensive institutions to address them”.

National exercise of monetary sovereignty is thus not necessarily incompatible with Held’s economic cosmopolitanism. If certain requirements are fulfilled, the state may be even the most appropriate body to exercise control in macroeconomic issues. In Held’s (2010, 167) vision, cosmopolitan social democratic policies should be pursued “while ensuring, on the one hand, that different countries have the freedom they need to experiment with their own investment strategies and resources and, on the other, that domestic policy choices uphold basic universal standards” (my emphasis).

Held thus seems to embrace the autonomy of states in macroeconomic policy with some crucial caveats – he insists on a sort of (what I call) cosmopolitan condition on legitimate national exercise of economic policy. In order to meet this condition specifically with respect to the rights and capacities associated with monetary sovereignty, the national issuance of currency and the related conduct of monetary and fiscal policy would have to be at least compatible with the policy goals and strategies of other states as well as with certain universal standards.

A cosmopolitan condition on legitimate national exercise of monetary sovereignty can be developed further by viewing it as an instance of a global harm principle (see Linklater 2006, 2011). In a weak form, this condition would require each state to exercise its monetary sovereignty in a fashion that is (merely) compatible with basic cosmopolitan values and does not harm (interfere with) the ability of other states to conduct their own preferred versions of (similarly cosmopolitan) economic policies. Formulated more strongly, this condition would call for the national exercise of monetary sovereignty to positively promote cosmopolitan social democracy both at home and abroad.

Whether this cosmopolitan condition, either in its weak or strong form, can in practice be fulfilled within the confines of the present macroeconomic governance framework is to some extent an open question. It is evident that the way in which national monetary sovereignty is currently exercised routinely interferes with the macroeconomic policy autonomy of other states and blatantly fails to promote cosmopolitan social democracy. It is nevertheless conceivable that even if their present (neoliberal) policies prevent states from satisfying the cosmopolitan condition, mere changes in policy approaches would allow them to meet it.

However, the popularity of strategic austerity and neomercantilism in all parts of the world suggests that the national incentive structure and constraining dynamics (discussed in Section 3) at least strongly discourage other-regarding economic measures, to some extent irrespective of which ideologies governments officially endorse. Since the present state-centric governance arrangement in this way feeds myopic and self-
regarding policies, there is a reason to suspect that absent considerable reforms in the governance architecture itself, the cosmopolitan condition is almost bound to be frequently violated.

Since it is no mere coincide that national policies generally fail to fulfil the cosmopolitan condition, it is probably futile to wait for them to change to a point where the condition would be met. Even if the perceived self-interests of state governments were to align temporarily, national policies would remain vulnerable to unilateral and therefore whimsical revisions. Should momentary alignments of national self-interests occur, they therefore ought to be harnessed for the purposes of cosmopolitan institutional design.

The genuinely global impacts of the Covid-19 havoc add to urgency of developing effective forms of cosmopolitan governance. The responses to both medical, social, and economic aspects of the crisis have been overwhelmingly national and, unsurprisingly, largely unilateral or only poorly coordinated. As in the other relevant spheres of governance, the macroeconomic response to the aftermath of the pandemic should involve global efforts at supporting individual economies varyingly impacted by the virus.\(^{34}\) It is hard to see how macroeconomic countermeasures to future pandemics, ecological emergencies, and other larger-scale (existential) risks associated with the Anthropocene could be effectively coordinated without moving towards a less state-centric exercise of monetary sovereignty. The call for cosmopolitan macroeconomic governance is thereby a key element of a much broader call for democratic global politics.

In sum, it seems to me that there is a strong case for a more supranational approach to monetary sovereignty.\(^{35}\) Despite its inbuilt considerations of subsidiarity, the all-affected principle seems to call for at least institutionalised cross-border coordination of macroeconomic policy strategies.\(^{36}\) Although the project of carrying out cosmopolitan reforms faces enormous political challenges (Hale, Held, and Young 2013), it is wise not to ignore reasons why monetary sovereignty should be exercised at a supranational or even global level.\(^{37}\) A solution able to live up to the cosmopolitan standards may not be an easy solution to implement, but whether or not one decides to push forward (some version of) supranational economic governance in practice, it is useful to consider the case for it carefully. Only a supranational approach, it seems, could have the potential to reliably satisfy the relevant cosmopolitan requirements.

### 5. Concluding remarks

In this article, I set out to examine the tensions between the recent neochartalist calls for an improved and more determined national exercise of monetary sovereignty, on the one

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\(^{34}\) [https://voxeu.org/article/economic-consequences-covid-19-multi-country-analysis](https://voxeu.org/article/economic-consequences-covid-19-multi-country-analysis), (19 October, 2020).

\(^{35}\) Meanwhile, the current monetarily sovereign states should take advantage of their relative policy autonomy as constructively as they can.

\(^{36}\) Simultaneously, the ability of (sub)national communities to decide independently on issues that do not have cross-border ramifications should be improved. Mitchell and Fazi’s (2017, 10–12) reasonable worry about public policies being driven by “cosmopolitan urbanites” needs to be dealt with new mechanisms that integrate the less educated and rural people in decision-making structures at all levels. Cosmopolitanism should not mean rule by “cosmopolitan” elites, but inclusive rule by the global citizenry as a whole. Civil society actors play a crucial role in ensuring that supranational arrangements remain de facto democratically accountable (Kalm, Strömbo, and Uhlin 2019).

\(^{37}\) As pointed out by an anonymous reviewer, the prospects of supranational exercise of monetary sovereignty depend on how widely MMT can reshape mainstream economic thought. Despite promising signs of growing interest, much remains to be done on this front.
hand, and cosmopolitan aspirations for supranational macroeconomic governance, on the other (Section 1). Having introduced MMT and its standard nation-state-centric framing (Section 2), I argued that the theory’s core logic in fact points in a cosmopolitan direction (Section 3). In order to supplement this immanent critique, I finally suggested that the relevant cosmopolitan condition on legitimate national exercise of monetary sovereignty is unlikely to be met within the prevailing governance architecture (Section 4).

Despite the immediate political challenges faced by attempts to introduce cosmopolitan forms of macroeconomic governance, it is nevertheless wise to pay close attention to the reasons why monetary sovereignty should optimally be exercised at a supranational level. Because of its very structure, the present nation-state-centric governance arrangement distributes the gains of this form of sovereignty highly unevenly. From a systemic point of view, many potential benefits of public currency-creation privileges are continuously missed – outcomes are not only unfair but also macroeconomically inefficient. While also state autonomy can be harnessed for the purposes of democratic autonomy, even the kind of post-neoliberal national exercise of monetary sovereignty that the neo-chartalists advocate would probably leave much to hope for from the point of view of the latter. Even if we were to assume that all states would on their own eventually develop into democracies (instead of their leaders solidifying an authoritarian path), the contingencies inherent in the state system itself would continue to constitute barriers to democratic governance also in monetary and fiscal matters – barriers that could be avoided only through a supranational approach.

From a cosmopolitan MMT perspective, the ideal long-term scenario would probably be a development towards a world currency accompanied by a global central bank and a federal fiscal union (I remain agnostic about the desirability of a full-blown world state). In this vision, the basic MMT logic would start to apply in its purest form and the caveats about its applicability in different national contexts could be forgotten. All the debates about policy constraints stemming from the varying levels of external demand for national currencies would cease. The real resource constraint would continue to exist, of course, but it would no longer bite unlucky peoples prematurely – the morally arbitrary effects of both geography and borders would be eliminated. With sufficient political support, active demand management policies could finally be pursued without worries that austerity might give some party a strategic advantage.

The question of whether this scenario is utopian is largely beside the point. In order to render the unlikely ideal a bit more likely or at least to contribute to a move towards it, MMT advocates should consider embracing cosmopolitan politics. Given the undeniable fact that the humankind is still far from political unification, different kinds of intermediate arrangements between national and truly global governance structures could and should be devised. As has been pointed out in this paper, MMT both offers latent support for fiscal unions and provides useful guidelines for designing well-functioning

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38 State autonomy is desirable to the extent it contributes to democratic autonomy. In Held’s (1995, 147) formulation, politics is characterised by democratic autonomy to the extent that persons are “free and equal in the determination of the conditions of their own lives” without deploying “this framework to negate the rights of others”. Democratic autonomy is “autonomy within the constraints of community” (156).

39 This scenario accommodates both the MMT insight about the need for unified monetary and fiscal policy as well as the relevant (neo)classical efficiency concerns (described by Goodhart 1998). It also resonates with James Tobin’s (1978) long-term ideal of global unification in monetary governance.
ones (often in the form of detailed critiques of EMU’s design flaws that, in effect, can be viewed as reform proposals even if their authors favour a national approach).

Conversely, then, by studying the MMT approach to monetary macroeconomics, the cosmopolitans would gain important insights that could help them to develop more substantial arguments and to design increasingly adequate institutional arrangements for supranational macroeconomic governance. The fusion of neochartalist and cosmopolitan ideas thereby provides one concrete illustration of how economic and political theory can fruitfully correct and enrich each other.

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