Are Monetary Sovereignty and Cosmopolitan Democracy Compatible? Reconceptualizing Monetary Sovereignty for a Global Era.

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ABSTRACT

Although the post-Keynesian literature generally supports a cosmopolitan approach towards macroeconomic governance, its increasingly influential neochartalist branch comes with a nation-state-centric framing of politics. The neochartalists argue that many alleged globalization-related constraints on state macroeconomic capacity are illusory or at least seriously overstated. In their view, monetarily sovereign states enjoy substantial autonomy over their fiscal and monetary policy decisions, thanks to their privileges as currency issuers. This neochartalist diagnosis seems to undermine part of the rationale informing cosmopolitan calls for supranational forms of macroeconomic governance. However, this paper suggests that if we pay serious attention to the subtler constraints, obstacles, and strategic interests that apply especially to small and weak monetarily sovereign states, the cosmopolitan aspirations can be restated and defended. To this end, the implications of post-Keynesian analysis are reinterpreted and a perhaps surprising neochartalist case for supranational exercise of monetary sovereignty is put forward. The paper then develops further arguments to demonstrate how the standard nation-state-centric approach to monetary sovereignty can prove contra-final from the perspective of democratic governance. It is concluded that an updated conception of monetary sovereignty and a cosmopolitan account of legitimate exercise of macroeconomic policy are needed.

KEY WORDS: cosmopolitanism; democracy; neochartalism; monetary sovereignty; macroeconomic governance

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1. The Uneasy Relationship Between State Monetary Sovereignty and Cosmopolitan Democracy

As every student of democratic theory has come to realize, there is no straightforward way to assess which kind of institutional arrangements would best contribute to the realization of meaningful democratic politics. Among a host of controversial issues, the proper constitution of the *demos* has been hotly debated in both democratic theory and practice (Bohman, 2007; Näsström, 2011; Valentini, 2014). The unnerving observation that there is no simple means to determine who should have the right to decide about any given issue leads, for instance, to a dispute about the appropriate 'level' of decision-making. Should the issue at hand preferably be resolved by municipal, national or supranational bodies? [2]

These and related questions have been largely ignored in the fields of macroeconomic and monetary governance. While it is obvious that in these traditionally technocratic domains the groups of decision-makers and 'decision-takers' rarely coincide, it is hard to find much sustained discussion of this state of affairs in the literature. Consistent with a long tradition, the still influential (although now much less celebrated) pre-financial crisis 'new consensus' on monetary affairs – stressing the primacy of monetary policy and simultaneously insisting on the merits of central bank independence – views the democratic deficit in macroeconomic governance as essentially a virtue without any serious engagement with political theory (Goodfriend, 2007; Woodford, 2009).[3] Even if one concentrates on alternative approaches to macroeconomic governance sympathetic to democratic claims – as I will in this paper – it is not easy to find accounts that would build on both political and economic theory in a balanced and engaged way. One-sided approaches to political economy easily lead to unfortunate incompatibilities between views that seem promising in their own right. The task, then, is to cross-examine the views in order to find ways to save and synthesize what is valuable in them and disregard what is not.

There appears to be such incompatibility, or at least clear tensions, between the increasingly popular neochartalist view emphasizing macroeconomic policy autonomy of states, on the one hand, and the recent cosmopolitan calls for democratic economic governance, on the other. While both accounts share the general idea that *democratic* macroeconomic governance serving

[2] Many interesting issues, of course, go beyond this standard 'level' problematique (Bohman, 2007).

[3] Alan Blinder (1996) comments on the compatibility of democracy and independent central banking. However, even he merely touches on the issues of real interest for a democratic theorist.

the ‘public good’ (whatever exactly that is) should be the ideal, they seem to reach contradictory conclusions about *national self-determination* in economic affairs. The post-Keynesian neochartalists (Kelton, 2012; Mitchell, Wray, & Watts, 2016; Wray, 2012) draw attention to the capabilities of the contemporary democratic ‘monetarily sovereign’ states to pursue autonomous macroeconomic policies. They suggest that national control over currency relaxes the financial constraints of these states and allows them to eliminate unemployment and poverty by Keynesian measures. In contrast, cosmopolitans (Held, 2010; Patomäki & Teivainen, 2004; Went, 2004) are convinced that a global economic and monetary system organized exclusively around ‘sovereign’ nation-states and their unilateral policy decisions cannot deliver truly democratic outcomes because of the constraints imposed by the world economy. As many Global Political Economy scholars, cosmopolitans tend to doubt whether there even exist authentic monetary sovereigns in the contemporary globalized political economy.[4] These entangled factual and normative disagreements obviously raise some fundamental questions: Should the monetarily sovereign nation-states continue to be *primary* decision-makers in macroeconomic policy as the neochartalists argue? Or should the basic macroeconomic governance architecture be reorganized in a less state-centric fashion as the cosmopolitans suggest? What does it even *mean* to call a political entity ‘sovereign’ in the present circumstances?

In what follows, my goal is to examine and reconcile the *prima facie* plausible, but at face value contradictory, views of the cosmopolitans and the neochartalists on the preconditions of democratic macroeconomic governance. I will inquire whether we can find any common ground between their seemingly diametrically opposed perspectives. I will start by outlining the basic tenets of neochartalist economics and make explicit its underlying state-centric framing of politics (Section 2). I will then take steps to challenge that interpretation by developing a perhaps surprising neochartalist case for supranational exercise of monetary sovereignty (Section 3). After that, I will examine whether this seemingly available reinterpretation of neochartalism finds support in explicitly cosmopolitan considerations on the legitimate national exercise of monetary sovereignty (Section 4). I will then go on to discuss whether and how the concept of monetary sovereignty itself should be updated in order to take into account the realities of contemporary macroeconomic governance (Section 5). On this

[4] For such a view, see e.g., Cohen (2008a).

basis, I will draw lessons for both post-Keynesians and cosmopolitans (Section 6). I will conclude by summarizing my key claims (Section 7).

2. Neochartalism and Its Standard Nation-State-Centric Interpretation

The neochartalist 'Modern Monetary Theory' (MMT) is a branch of post-Keynesian economics that emerged during the 1990s and since then has been rapidly gaining attention in the crisis-prone environment of the early decades of the new millennium. The key theoretical concern of the neochartalists has been to develop Georg Friedrich Knapp's (1905) original 'state theory of money' which was a pioneering attempt to treat money as an institution established and operated by the state (in contrast to approaches that saw money as arising spontaneously from the voluntary transactions of private economic agents).[5] The neochartalists (Fullwiler, 2006; Kelton, 2012; Wray, 2012) have examined the macroeconomics of contemporary monetary systems, highlighting the role that state money (also known as 'fiat money') plays in capitalist economies. The approach has introduced important new elements to the broader post-Keynesian literature on monetary macroeconomics, which during the 1970s and 1980s focused more on the role of commercial banking institutions in shaping the dynamics of production, exchange and distribution of income. To their further merit, the neochartalists were also early to correctly identify major shortcomings of the European Economic and Monetary Union (EMU) that were to lead to the Eurozone crisis at the end of 2009 (Bell & Nell, 2003; Goodhart, 1998). The theoretical novelty combined with seeming explanatory and even predictive success are factors that account for the increasing popularity of the MMT in the blogosphere and slowly even in academia.

As I see it, the primary contribution of neochartalism to the literature on macroeconomic policy and governance is to point out that 'monetary sovereigns' – the majority of states that issue their own currency and operate with a flexible exchange rate – in principle enjoy substantial monetary and fiscal policy autonomy. [6] Because they do not have to worry about a peg, these states are free, first, to pursue their domestic monetary policy goals. In other words, they are able to 'set the rate of interest (e.g. the interbank rate) as an exogenous policy datum' (Juniper,

[5] Keynes, in his classic *Treatise on Money* (1930), arguably embraced Knapp's chartalist account of the history of money. However, see Shaikh (2016, pp. 685–686) for a competing interpretation of Keynes's view.

[6] I will discuss this somewhat idiosyncratic neochartalist definition of monetary sovereignty in Section 5. I argue that the concept should be redefined.

Sharpe, & Watts., 2014, p. 289; see also Moore, 1988). Secondly, and even more crucially, the ability of these states to conduct autonomous fiscal policy has in principle greatly increased under the current exchange rate system. To the horror of fiscal conservatives, the neochartalists argue that monetary sovereigns do not in fact face a strict budget constraint when they spend in their own currencies. Moreover, they are in a position to decide how much interest they pay to the holders of their bonds. (Kelton, 2011; Parguez, 2002; Wray, 2012) Because monetarily sovereign states are arguably not even balance-of-payments constrained (Mitchell & Fazi, 2017, pp. 202–214), in any straightforward sense at least, the neochartalists maintain that financial constraints on their spending are ultimately negligible.

The neochartalist insights go against a number of 'commonsensical' economic doctrines standardly taken for granted without argument.[7] 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 primary focus on the budget balance, Lerner and the neochartalists argue, leads to sub-optimal real outcomes that can ultimately cause financial problems – 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 the policies on employment, inflation and other broader economic and social factors regarded as vital. Probably the most important neochartalist policy proposal, the job guarantee or 'employer of last resort' (ELR) program, discards the idea that there is a 'natural' rate of unemployment, set by the underlying 'structural fundamentals', below which inflation would necessarily accelerate. In short, this program, originally proposed by Hyman P. Minsky (see e.g. 1973), would guarantee public work for anyone who is unable to find a job in the private sector. It is designed to provide a 'buffer stock' of labor, expanding in economic downturns (when the public sector is hiring unemployed people), and contrasting in upturns (when people are moving back to the private sector). (Mitchell, 2001)

Although the neochartalists are clearly often too hasty to generalize their conclusions over different institutional contexts (Lavoie, 2013), their core operational insights on the functioning of contemporary monetary systems have not been fundamentally challenged.[8] Whereas the

[7] As 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' (p. 11).

[8] Even Shaikh (2016, pp. 688–690) who rejects both the neochartalists' account of the history of money and their approach to macroeconomic policy, agrees with the neochartalists about the basic nature of the contemporary fiat money systems.

MMT analysis of the operational realities of macroeconomic policymaking seems largely accurate, the broader causal and normative judgments of the neochartalists are open to criticism from a number of perspectives.

Although causal and normative judgments are intimately linked, in this paper I will pay special attention to the normative political vision defended by the neochartalists. Given its heavy emphasis on state authority and the might of the monetary sovereigns, neochartalist theory, despite its potentially radical implications in other respects, appears hopelessly outdated from a cosmopolitan point of view. Whereas post-Keynesian theory generally is open to cosmopolitan interpretation, neochartalism appears outright anti-cosmopolitan. There are at least three reasons for this impression. First, the neochartalists, following the original chartalists such as Georg Friedrich Knapp and Alfred Mitchell-Innes, take the 'modern' state and its monetary system as their analytic focus.[9] Effectively, their project is an effort to update the classic 'state theory of money' (Knapp, 1905) to the contemporary era and to draw macroeconomic implications out of it. Second, most neochartalists share a firm belief in the inherent capability of monetarily sovereign states to shape their own economic destinies, and consequently concentrate almost exclusively on the economic and social policies available to these states. Monetarily sovereign states, the neochartalists suggest, both can and should reclaim control of their economic affairs; supranational alternatives are ignored or downplayed (Mitchell & Fazi, 2017).[10] Third, many neochartalists regularly emphasize (and occasionally come close to celebrating) the historical continuity of monetary sovereignty from the ancient temples and empires to the modern-day nation-states (Hudson, 2004, pp. 99–127; Wray, 1998).[11]

Mitchell and Fazi (2017) have recently put forward an explicit broader political vision based on the neochartalist theory of monetary macroeconomics. In their view, the standard

[9] The characterization of the neochartalist monetary theory as 'modern' could be analysed as a strategic or rhetorical move that attempts to highlight that MMT has rejected the falsehoods of earlier economic theories and arrived at a correct understanding of how things stand. Because the use of this term suggests an indefensible view of science as cumulative and linear accumulation of knowledge, I prefer not to employ it.

[10] The neochartalists have paid some attention to municipal governments and subnational monetary systems, but the assessment of supranational political institutions seems to be largely negative (Mitchell & Fazi, 2017). In expressing this pessimistic judgment, the neochartalists sometimes bring to mind neorealist arguments in the International Relations literature. Also, Hirst and Thompson's classic *Globalization in Question* (1996) downplays the need for global reforms in a similar spirit, even if not (entirely) for the same reasons, as the neochartalists do. The objective of both lines of argument is to show that national social democracy is still possible and that the globalization-related constraints on state policy have been drastically exaggerated.

[11] How relevant is the experience of these empires to the contemporary world, one might justifiably ask. Here I tend to agree with Shaikh (2016, pp. 685–688) who argues that the neochartalists should not tie their macroeconomic case to the correctness of their view on monetary history. One can coherently reject the historical analysis of the neochartalists, but support their macroeconomics, and vice versa.

progressive analyses of the effects of globalization on macroeconomic policy autonomy of contemporary states have failed to see the importance of state monetary sovereignty. They 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 several false assumptions of the standard macroeconomic theory. These assumptions include the conservative fiscal premises (discussed above) that for Mitchell and Fazi do not apply to the post-Bretton Woods era of macroeconomic governance. This ill-founded analysis, they argue, has led the progressive left to vastly exaggerate the constraints that globalization imposes on states' ability to conduct macroeconomic policy. What they view as a fundamentally wrong policy conclusion of the 'supranationalist left' – the view that political authority should be allocated away from nation-states to supranational institutions – follows from this analysis.[12]

In order to replace this 'supranationalist' approach, Mitchell and Fazi (2017, pp. 248–262) go on to articulate an unambiguous political vision the essence of which is to reinforce (central) planning at the *nation-state* level. Because private firms cannot lead the sort of large-scale transition that is required to counter the simultaneous financial, economic and ecological crises contemporary societies are facing, a 'progressive agenda for the twenty-first century must (…) necessarily include a broad renationalization of key sectors of the economy' (p. 252). Public ownership is superior for tackling these challenges to a large extent because of the capacities of the monetarily sovereign states: 'a currency-issuing government should not concern itself with the *monetary return* on its investments – given that it faces no financial constraints – but should rather focus first and foremost on the *social return*' (p. 253, emphases in the original). Specific reforms advocated by Mitchell and Fazi include a public employment guarantee, large-scale investments on infrastructure and economic modernization (as well as nationalization of banks and stabilization of the financial system by out-lawing purely speculative flows of finance). While they do include a brief discussion of the international framework (pp. 214–220), their core vision is essentially one of 'reclaiming the state', as the name of their book makes

[12] In addition to the belief that the nation-states are defunct, Mitchell and Fazi (2017, p. 10) suggests that another core reason for the failure of the contemporary left is its current emphasis on 'identity politics' that has directed critical attention away from the core dynamics of the capitalist political economy. I believe this part of their diagnosis, as far as it goes, is accurate. Clearly, political programmes that only directly appeal to minorities are hardly a recipe for electoral success. However, although the *priorities* of the contemporary left should be partially reordered, concerns with matters of 'identity' and political economy by no means have to exclude each other.

abundantly clear. It is suggested that the neochartalist account of state monetary sovereignty renders supranational reforms redundant.

Mitchell and Fazi take pains to emphasize that their approach to restoring 'state sovereignty' is quite distinct from the ongoing nationalist missions of the populist and extreme right. They condemn the xenophobic, sexist and traditionalist elements of the latter. Mitchell and Fazi invoke the electoral campaigns of Bernie Sanders, Jeremy Corbyn and Jean-Luc Mélenchon as promising recent examples of progressive politicians appealing to the continuing relevance of the state. None of these candidates, of course, has (yet) taken the office. However, the relative success of their campaigns leads Mitchell and Fazi to believe that the left would do considerably better if instead of appealing to the urbanite cosmopolitans, it reclaimed the state from the right. By means of central planning, it could then provide answers to the legitimate grievances of the unemployed and the working poor. As they put it, '[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' (p. 266).[13]

Mitchell and Fazi's nation-state-centric approach seems to confirm the anti-cosmopolitan impressions of neochartalism that are more implicitly present in other neochartalist works. Although I accept the neochartalist analysis of the basic operations of contemporary macroeconomic policy and central banking as largely correct, I hope to offer reasons to doubt the merits of its nation-state-centric political framing. Despite its popularity, combined with a certain lack of cosmopolitan awareness from the part of some of its advocates, I will now turn to argue that a coherent neochartalist case for supranational and 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 state-centric appearance, neochartalism *per se* is neither cosmopolitan nor anti-cosmopolitan. Instead, the core of MMT is fairly technical, based as it is on accounting considerations and 'operational analysis' (this point is emphasized by

[13] As for instance the last sentence of this citation makes clear, Mitchell's and Fazi's state-centric vision is not devoid of quite explicit nationalist elements either.

Wray, 2012). However, the neochartalists are in fact clearly committed to views that cannot be directly deduced from this analytical kernel.[14] First, virtually all neochartalists subscribe to a post-Keynesian view on macroeconomic dynamics.[15] Further, they tend to share a political orientation. There is no doubt that at least the most prominent contemporary neochartalists are committed democrats. They standardly emphasize that public policy should serve the 'public purpose' (Mitchell et al., 2016, pp. 15–19; Wray, 2012, pp. 190–193).[16] Moreover, they typically understand the latter more or less in the spirit of 'social democracy' of the broad type that a Heldian cosmopolitan (discussed below) would also find reasonable in terms of its basic principles, apart from the question of geographical scale. I will not attempt to defend these political commitments here. What is important for the purposes of this paper is that substantial conceptions of democracy with a strong social element provide a common starting point for both the neochartalists and cosmopolitans. But what about neochartalists' loyal commitment to a specific form of political organization, that is the contemporary nation-state? Is neochartalism bound to have anti-cosmopolitan implications?

I believe that despite its standard statist framing, the current 'Westphalian emphasis' of neochartalism is not essential to the theory, but merely a historical contingency. Moreover, this framing of the theory is probably not the most appropriate one, considering all the relevant theoretical and normative considerations. In other words, I will put forward a neochartalist case for supranational exercise of monetary sovereignty. I build this case on my observation that many supportive arguments for a supranational approach can in fact be derived from, or at least supported by, the neochartalist theory itself. Indeed, there are at least three broad sets of reasons to believe that the Keynesian policy measures proposed by the neochartalists would often work considerably *better* were they conducted at a supranational level. While the main features of my argument are indeed characteristically neochartalist, I also draw inspiration from the broader post-Keynesian and GPE literatures.

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[14] It might be useful to view macroeconomic theories as consisting of several layers (accounting relationships, behavioral stipulations, causal hypotheses and policy prescriptions). Understood as a heuristic, such a classification of statements does not assume any stark dichotomy between fact and value statements. Facts and values are mutually entangled (Putnam, 2002).

[15] The work of Abba Lerner (1943, 1947, 1951) significantly strengthened the connection between chartalism and Keynesian macroeconomics. Lerner provided a coherent view on the significance of state's fiscal and monetary policy operations for Keynesianian economic policy. Finally, the observation that the financial constraints on the implementation of Keynesian economic policies would be relaxed if something like the state theory of money were true probably has motivated many Keynesians to study the principles of chartalism.

[16] Wray (2012, p. 192) expresses a 'transformative' understanding of democracy: the public purpose is 'inherently "aspirational" in the sense that there is no endpoint as the frontiers of the public purpose will continually expand'. This idea is repeated in Mitchell and Wray (2016, pp. 15–19).

My first thoroughly neochartalist argument for supranational exercise of monetary sovereignty stems from the *relative inefficiency* of state-level exercise of this capacity. According to the neochartalist logic, especially small and peripheral states are often unable to draw the maximum benefits of their currency monopoly. Since their currencies are weak and not in high demand in global currency markets, these states must work hard to acquire sufficient foreign currency reserves in order to settle their payments and debts that are denominated in foreign currencies.[17] The way to acquire these reserves is to run external surpluses, which obviously is possible only if other countries run corresponding deficits. If too many countries chase external surpluses vis-à-vis each other, deflationary tendencies in the world economy are bound to become stronger. Indeed, it is generally quite well understood that these tendencies are an integral part of the current predicament of the world economy.[18]

While weak states can also benefit from their sovereign right to issue currency to some extent, states without a strong export sector easily become overly dependent on foreign currency borrowing and consequently fail to take the full advantages of their currency monopoly powers. These countries would benefit the most from less conditioned exercise of their monetary sovereignty.

A conceivable strategy for these states to alleviate such problems would be to substitute the reliance on foreign resources by employing domestic resources instead. This indeed is what the neochartalists suggest (Mitchell et al., 2016). Such a strategy of 'import substitution industrialization' is obviously only possible *if* real substitutes for most of the foreign resources are available. Unfortunately, especially for territorially small states this is not a small 'if'; it is extremely demanding for many of them to avoid making a substantial number of their essential purchases in foreign currencies (Handel, 2006). Many key resources are for sale only in major currencies (such as oil). Shortages in resources are therefore one key reason why one should not promise small and weak states – the great majority of states – enormous gains from monetary sovereignty. Within the present macroeconomic governance framework, such promises can hardly be kept.

The bearing of this challenge is acknowledged by Mitchell and Fazi (2017) who note that 'if a country's resource base is very limited, there is relatively little that a country can do to pull

[17] For small, non-self-sufficient countries it is virtually impossible to avoid issuing debt in foreign currencies (as the neochartalists would suggest). Since key resources are not for sale in their own currencies, they have to make these purchases in foreign currencies (typically in US dollars).

[18] Even the G-20, the de facto governing body of the contemporary economic relations between the major states, in principle acknowledges the problem while it has proven unable to tackle it (Zimmermann, 2013).

itself out of poverty, even if the government productively deploys all the resources available to the nation' (p. 214). Displaying a healthy awareness of the fundamental contingencies of the contemporary state-centric governance architecture on this issue, they argue that these states face a '*real resource constraint* arising from the unequal distribution of resources across geographic space and the somewhat arbitrary lines that have been drawn across that space to delineate sovereign states' (p. 214, emphasis in the original). They even go on to conclude from the existence of this double contingency that '*the world must take responsibility* to ensure that it alleviates any real resource constraints that operate through the balance of payments' (p. 214, my emphasis). This, they believe, would require a new multilateral institution that should replace both the IMF and the World Bank (pp. 214-215). Mitchell and Fazi are therefore ultimately not ready to drop all cosmopolitan commitments despite their vision which is state-centric in other respects. This observation supports my immanent cosmopolitan reinterpretation of neochartalism.

While many territorially small states face fundamental resource constraints, the situation is very different for geographically extensive and economically prominent states – as well as for strong monetary unions. The currencies issued by these dominant political entities tend to be in high demand in the global currency markets. The US dollar is a case in point. Jonathan Kirshner (2008) goes so far as to claim that the United States has the ability to 'sustain deficits on its international accounts that others cannot, and the related and crucial ability to – – take risks and adopt economic policies that would, anywhere else, elicit a withering "disciplinary" response from international financial markets' (p. 424). While the neochartalists have rightly criticized views that tend to exaggerate the uniqueness of the US, when pressed, the neochartalists themselves admit that not all monetary sovereigns are created equal (see e.g. Mitchell & Fazi 2017, pp. 214–220). Indeed, the neochartalists are prepared to concede that the US is to some extent, a special case. They would probably agree that no other country has the power to connect the fate of the entire global economy to the 'twin deficits' that it generates, as Varoufakis (2013) suggests the US does. Moreover, Fields and Vernengo (2013) argue from neochartalist grounds that the dollar will remain the hegemonic global currency 'for a very long period' (p. 741). As Wray (2012) summarizes the standard neochartalist position on this issue, 'in principle the issuer of the reserve currency is not unique, although the external demand for the reserve currency is greater' (p. 138). It seems to me that the amount of external demand that a currency faces matters for many purposes.

The additional monetary and macroeconomic privileges enjoyed by the US as compared to the smaller and weaker monetary sovereigns, also apply to varying extents to other large currency areas. It is important to remember that the US Dollar, while it is easily the most widely circulating currency, is not the only currency with substantial external demand: 'To a lesser extent, the financial assets denominated in UK Pounds, Japanese Yen, European Euros, and Canadian and Australian Dollars are also highly desired' (Wray, 2012, p. 134).

The Eurozone is a prominent currency area which – were it equipped with functioning institutions – *could* benefit from powers linked to monetary sovereignty nearly as much as the US does. If the Eurozone eventually breaks down, the reincarnated European monetary sovereigns will be more strictly constrained than a democratic supranational federation of them would. While not as vulnerable as Third World countries, individual continental European nation-states (with the exception of Germany) cannot expect to benefit as much from their currency monopoly as large federal states which command significant resources and are not under pressure to borrow foreign currencies. It is very important to understand that monetary sovereignty powers come in degrees.

Because this theoretical lesson applies to small states quite generally, it seems to me that the neochartalists have here a strong reason to welcome the reorganization of the world economy into larger and more balanced political federations than the vast majority of contemporary nation-states. This sort of post-national development in many respects could often be the best solution in responding to the challenge of poor territories trapped by their geography. (I am aware that there are areas in the world in which there is hardly any immediate prospects for moving towards supranational forms of macroeconomic governance through the establishment of functioning economic unions. That said, plans to establish monetary unions have been developed in most parts of the world. Some of them have already materialized.)

My second neochartalist / Post-Keynesian argument for the non-optimality of state-centric exercise of monetary sovereignty is motivated by the recognition that in the current state-centric governance architecture, it is often *strategically rational* for many nation-states to pursue fiscal austerity, or to engage in other economic activities that harm the global population. Even if states are rarely straightforwardly forced onto the austerity path, they may often have economic incentives or other overwhelming reasons to stick to it. [19] The neochartalists and post-

[19] When actors have dominant strategies, their behavior might be almost as predictable as when their behavior is 'externally constrained' (see Lagerspetz, 1988). It is clear that in almost all cases, states have more than one course of action available to them. Thus, strictly speaking states are never *forced* to do anything. However, in

Keynesians in general are sometimes quite explicit that expansionary fiscal policy measures may turn out to be less effective in the case of small national economies open to global trade. This is because a large proportion of the new effective demand generated through their budget deficits is spent on foreign goods and services (i.e., the 'marginal propensity to import' is high). From a financial perspective, this flow represents a 'leak' from the national economy. Even monetarily sovereign 'small open economies' risk running into trouble if they attempt to expand domestic demand by running large budget deficits for extended periods. Accumulated public debt thereby tends to translate into an unfavorable current account balance. A currency depreciation increasing inflationary pressures may follow.

There is nothing inevitable in this and various steps to hinder the tendency towards an unsustainable external balance can be taken. The neochartalists even go on to doubt whether a negative current account balance is likely to prove unsustainable if the financial assets accumulated by the foreign sector are denominated in the domestic currency. It seems to me that their case is much stronger *if* they assume that the hypothetical state in question is an issuer of a widely-circulating currency. The possible problems brought about by a currency depreciation come in degrees – and the probability of a depreciation itself depends on many factors, as the neochartalists correctly note. The fundamental point is that some monetarily sovereign states may face significant problems while others face virtually none. This observation supports the case that on balance, the current nation-state-centric governance framework distributes policy space in a very unequal fashion.

Nothing above implies that resource-rich open economies could not conduct expansionary fiscal policy but the considerations do suggest that in a narrow sense, they often develop a strategic interest in austere macroeconomic policy.[20] Although often wrongly caricatured as advocating perpetual fiscal expansion and ever-higher wages in all possible circumstances, the post-Keynesian literature in fact provides plenty of grounds for the strategic rationality of such an austerity bias in some cases. First, it may not be in the interests of small and open economies to pursue wage-led growth nor to engage in much expansionary fiscal spending. For these

some cases only one course of action seems reasonable (if a gunman threatens to shoot you, you *feel* bound to follow his instructions). Even in far less dramatic cases, there may be overwhelming reasons to follow a particular course of action.

[20] The success of strategic austerity, of course, is contingent on the expansionary policies of other states: austere countries should hope their *trading partners* to provide a sufficient level of demand for their exports. Simultaneous austerity in all countries leads to deflation in all countries (a predicament were it to realize would serve the interests of only very small minorities *within* the countries). Strategically the situation is to some extent analogical to the prisoner's dilemma: individually optimal strategies lead to suboptimal social outcomes.

economies, profit-led growth strategies might well produce better outcomes than wage-led ones (see e.g. Lavoie & Stockhammer, 2012). Second, because the current global growth regime is clearly 'competitive' and not 'complementary', small open economies are rationally wary of balance-of-payments deficits in which large-scale public spending could result (McCombie & Thirwall, 1999). Third, Keynes already understood that *all* nations have to generate domestic full employment or otherwise export-led growth will be seen as strategically advantageous by *each* nation individually (Davidson 1999, p. 10).

The fact that most individual nation-states are currently strategically motivated to pursue restrictive fiscal policies and to combine them with various elements of competitive neomercantilism, is in many ways problematic from a holistic post-Keynesian point of view. It is cogently argued in this tradition that the growth of the world economy is limited by the growth of total effective demand (Lavoie & Stockhammer, 2012).[21] In addition to the serious macroeconomic problems (and the related social ills) it poses, the common strategic preference for domestic austerity is also detrimental from the point of view of global democracy in at least two ways. First, the constant neomercantilist competition between states for the most favorable current account balances (which by definition are not available to all of them) strengthens the anti-cosmopolitan idea that 'my own nation's advantage' – whatever the employment and other costs to foreigners – must take an exclusive focus. If this line of thinking remains dominant in economic affairs, it is bound to restrict political imagination more generally – and it will remain hard to imagine realistic cosmopolitan futures. While the capabilities associated with monetary sovereignty *can* of course be exercised for progressive purposes, in the wrong hands they can easily be used as an instrument accelerating isolationist tendencies in international relations. Indeed, it is not all surprising that right-wing nationalist politicians, such as Marine Le Pen, have long called for the restoration of France's monetary sovereignty.[22] Moreover, the strategic pursuit of austerity also has its adverse effects on democracy and social cohesion *within* each state engaged in it. Cuts in wages and social spending obviously harm and disempower the most vulnerable but because of the usefulness of these measures in the game of competitive neomercantilism, from which few states believe they can afford to abstain, the credibility of alternative economic paths appear to be low. Accordingly, those sectors of the population that

[21] In this age of overwhelming ecological crises, one ponders the extent to which the growth of the world economy, on average, is a desirable goal. Even if the objective of overall economic growth should be dropped, there should probably be opportunities for the poorest of the states to grow even in the traditional economic terms.

[22] Figures like Le Pen explicitly view monetary sovereignty as a key element in their broader idea of a sovereign state. Le Pen distinguishes 'monétaire, législative, territoriale, économique' aspects of state sovereignty.

benefit from the general bias towards austerity tend to gain political weight and influence on decision-making. In these circumstances, even the underprivileged people are vulnerable to the message that is also in their interest to intensify the price competition with other countries. These two adverse effects on democracy undoubtedly reinforce each other.

My third neochartalist-inspired argument against leaving the exercise of monetary sovereignty solely to the nation-states relates to the wider political economy of the contemporary predicament. Numerous institutional, judicial and ideological processes and factors, as distinct from purely 'economic' ones, undermine the ability of monetarily sovereign states to take full advantage of their powers. These constraining dynamics bring about an impoverished policy menu, which is a very unfortunate an effect from the point of view of cosmopolitan democratic desires. The state-centric macroeconomic governance order aggravates these difficulties. It seems that transnational capitalist elites greatly benefit from the political division of the world into multiple separate and mostly relatively weak nation-states. Gill and Law (1989) suspect the same: 'the structural aspect of [the power of internationally mobile capital] owes much to the division of the world into competing states' (p. 491). Economic elites seem to employ the age-old *divide et impera* tactic successfully by playing states against each other. As a result, nation-states barely collaborate in macroeconomic governance.

Contemporary nation-states are often not politically strong enough to coordinate sufficiently effective economic, social and regulatory policies despite their in principle significant capabilities as monetary sovereigns. Individual monetary sovereigns acting alone seem not fit to fight the global *institutional and ideological* forces that are undermining the exercise of their monetary sovereignty. While even the smallest and poorest of nation-states clearly are not always in principle incapable of benefitting from their sovereign powers to some extent, it is hard for them to act *alone* against the international consensus defined by the powerful states, international organizations and influential private actors on the scene. The diminishing inclination of states to exercise their monetary sovereignty for democratic ends tends to lead to politics of austerity, privatization waves, and regressive income distribution. These processes are not easily reversed by single states. As a case in point, the ongoing 'new constitutional' project (Gill, 2003; Hirschl, 2004), manifested in the evermore-stringent legal constraints on economic and social policies of nation-states, probably cannot be combatted effectively without a strong coalition of progressive forces pushing for cosmopolitan forms of democratic lawmaking.

Hence, there is a great risk that in the current global context most national governments will either face serious obstacles or lack sufficient motivation to adopt macroeconomic policies that would serve the democratic interests of their populations. It can be demanding for even monetarily sovereign states to practice experimental economic policies in a normatively hostile environment. The 'inherently progressive' nature of democracy and public purpose emphasized by Mitchell et al. (2016, p.19) will hardly be realized without aspirations to move beyond the state-centric framework of contemporary politics.

The neochartalists have devised ways in which even poor developing states could benefit from their monetary sovereignty. The general objective of such policies is to reorient state spending to employ domestic resources and labor. While the neochartalist policy recommendations would undoubtedly improve the situation of many countries relying excessively on foreign borrowing, the considerations offered in this section suggest that neochartalism implemented within individual states can only offer a 'second best' outcome. [23] The best option would be to move away from the state-centric architecture of macroeconomic governance in order to open up more space for active macroeconomic governance. There has been a tendency among the neochartalists to argue that if certain forms of policies are adopted, all states can gain from their monetary sovereignty to a similar extent. I have attempted to cast doubt over this view by arguing that the actual capabilities linked to monetary sovereignty come in degrees – and so do the benefits of their exercise.[24]

My goal in this section has been to provide an immanent critique of the statist / nationalist framing of the neochartalist theory. I have accepted the basic premises and logic of neochartalism and suggested that they in fact provide important reasons to doubt whether nation-states are very effective exercises of the capacities brought about by monetary sovereignty. In the next section, however, I will examine nation-state-centric macroeconomic governance from a Heldian cosmopolitan point of view in order to reinforce the neochartalist case for supranational exercise of monetary sovereignty and to build more common ground between the neochartalist and cosmopolitan approaches.

23 There are further problems with policy proposals that encourage states to move towards high levels of self-sufficiency. The pursuit of autarky tends to cause different forms of political, social and economic ills. Attempts to increase the level of self-sufficiency are certainly not bound to lead developing states to the development path of North Korea, but nevertheless there are real risks that should be taken into account.

[24] This is why a clear distinction between monetary sovereignty and macroeconomic policy autonomy of states is important (see Section 5).

4. Cosmopolitan Conditions on Legitimate National Exercise of Monetary Sovereignty

What David Held (2010) calls 'the paradox of our times' nicely captures some of the main motivations for the evermore frequent calls for a new global edition of politics: 'the collective issues we must grapple with are increasingly global and, yet, the means for addressing these are national and local, weak and incomplete' (p. 143). As a basic premise, most cosmopolitans share a version of the view that in many policy areas diverse processes related to contemporary 'globalization' have eroded the decision-making abilities of the contemporary nation-states to a significant extent. A cosmopolitan approach is therefore often defended, in part, on the grounds of policy efficiency.

Simultaneously, processes linked to globalization seem to have undermined the very basis of contemporary representative democratic 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 roughly coincide with the group of 'decision-takers', underlies this judgment and encourages calls for cosmopolitan democracy (Held, 2010, p. 173). Various versions of this principle find much support in democratic theory because it seems to capture something essential about democracy – the people should decide about precisely those affairs that affect *themselves* (and ideally to the *extent* that they are affected).[25] Because the contemporary organization of politics around nation-states often fails to serve all-inclusiveness, the cosmopolitans also call for supranational democratic governance structures, and often primarily for normative reasons.[26]

To restore the conditions of meaningful and well-functioning democracy in the current predicament, the cosmopolitans argue that various supranational, or truly global, reform efforts and novel institutions are urgently needed (Holden, 2000, pp. 1–13; Patomäki & Teivainen, 2004).[27] According to many authors, these institutions should be accompanied by a comprehensive legal framework, i.e. a cosmopolitan law (Held, 2010, pp. 93–116). Not all

[25] Despite its intuitiveness, this principle is open to many interpretations none of which is without problems (Lagerspetz, 2015; Näsström, 2011).

[26] Examples of large-scale environmental damage from global warming to biodiversity loss are some of the more obvious cases where the groups of primary culprits and patients do anything but coincide.

[27] Cosmopolitans are here understood to call for *supranational* or, perhaps only ideally, truly *global* democratic institutions and practices.

contemporary cosmopolitans argue for a centralized global government, however.[28] As Held emphasizes, the goal of securing all-inclusiveness often 'points to the necessity of both the decentralization and the centralization of political power' (p. 175). Despite their significant differences, even the most modest theories of supranational democracy come to question the contemporary relevance of what was traditionally (and rather naïvely) seen as the 'Westphalian model' of exclusive state sovereignty. [29] As Held (2010) 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' (p. 96).

What does this apparent transformation of sovereignty mean for *monetary* sovereignty? The proponents of cosmopolitan democracy have not tackled the implications of global democracy for the specifically monetary of aspects of sovereignty of nation-states 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, in this section I will draw on Held's normative framework of 'economic cosmopolitanism'. Since Held is one of the founders of contemporary cosmopolitan political theory, it seems appropriate to take his work as a starting point for the purposes of this paper. It is clear that Held's account of 'economic sovereignty' is underdeveloped and he does not discuss monetary sovereignty explicitly at all. But despite its vagueness on the subtleties of economic governance, his work nevertheless provides useful general outlines for cosmopolitan political theory, some of which can helpfully be applied to thinking about monetary sovereignty. [30] In this section, I examine the legitimacy conditions of national *exercise* of monetary sovereignty. In the next section, I ask whether and how monetary sovereignty itself should perhaps be redefined.

Held (2010, pp. 107–110) discusses economic cosmopolitanism as one aspect of his overall cosmopolitan vision (alongside legal, political and cultural aspects). He argues that there exists a cosmopolitan 'rationale for a politics of intervention in economic life' (p. 108). To justify this

[28] Some certainly do. For instance, Alexander Wendt argues that a Weberian / Schmittian world state is both democratically necessary and inevitable (Wendt, 2003; Wendt, 2015).

[29] The idealized of view of a 'Westphalian model' has been thoroughly criticized in the literature (Osiander, 2001; Teschke, 2003).

[30] Compared to Held, Patomäki and Teivainen (2004), for instance, are much more explicit about what democratic governance of the global political economy could mean at the institutional level. They propose a number of reforms of the existing institutions of global economic governance (e.g. IMF, World Bank and WTO) as well as advocate novel global governance institutions and mechanisms (which could enable for instance effective global taxation and debt arbitration). The theme of monetary sovereignty, however, is not explicitly examined in this work either.

rationale, he specifies 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' (p. 190). Essentially agreeing with the wide critical literature, Held accuses the Washington Consensus for undermining self-governance at all levels, including the general erosion of the communities' 'capacity to provide urgent public goods' (p. 154).

How could this cosmopolitan rationale for a politics of intervention in economic life be implemented? Held notes that cosmopolitanism does not necessarily imply the end of the contemporary states themselves but rather only the end of the *primacy* they have enjoyed in the Westphalian world order. In his conception of cosmopolitanism, states and local institutions are indeed likely to continue to play an important role in many areas of policy. As he puts it, 'recognizing 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' (p. 106).

Held's cosmopolitanism clearly does not imply that the exercise of monetary sovereignty by contemporary states would *necessarily* be incompatible with cosmopolitan economic policy. Quite on the contrary, if certain cosmopolitan qualifications are fulfilled, the state may be even the most appropriate body to exercise control in macroeconomic issues. In Held's (2010) vision of preferable economic and social policy, an updated cosmopolitan version of 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' (p. 167).

Held thus seems to embrace the autonomy of states in macroeconomic policy *with some crucial caveats*. Held insists on a sort of (what I call) *cosmopolitan condition* on the legitimate national exercise of monetary sovereignty. In order to meet this condition, the national issuance of currency and the conduct of macroeconomic policy have to be compatible with the general satisfaction of economic policy goals and strategies of the other states as well as with certain global standards.

To clarify this idea by elaborating it further, in a weak form, this condition would require each state to exercise its monetary sovereignty in a fashion that is *compatible* with the basic cosmopolitan values and does *not interfere with* the ability of other countries to conduct their

own preferred versions of progressive economic policies. Formulated more strongly, such a condition would call for the exercise of monetary sovereignty to positively *promote* cosmopolitan social democracy (and its underlying values) both at home and abroad.

Whether it is practically possible to fulfill this cosmopolitan condition – either in its weak or strong form – within the confines of the present macroeconomic governance framework, is an open question. It is evident that the way in which national monetary sovereignty is nowadays exercised often interferes with the ability of other countries to conduct progressive economic policies and blatantly fails to promote cosmopolitan social democracy. It is, of course, conceivable that even if the *current* policies adopted by states do not satisfy the cosmopolitan standards, mere changes in their policy approaches would allow them to meet them. However, the popularity of strategic austerity and neomercantilism in all parts of the world provides clear evidence that the national structure of policy-making at least strongly discourages other-regarding economic measures. This gives a reason to suspect that absent significant reforms in *the state-centric governance architecture itself*, the cosmopolitan condition is almost bound to be frequently grossly violated.

For the neochartalist and broader post-Keynesian reasons discussed in Section 3, it seems that the Heldian cosmopolitan condition on legitimate national exercise of monetary sovereignty is far from likely to be met *because of* the constraining dynamics and incentive structures that derive from the governance architecture. It is important to note that it is thus no mere coincide that the current policies of the states generally fail to fulfill the cosmopolitan condition. Moreover, it is clearly futile simply to wait for national policy approaches to change so as to bring about a state in which the condition is met. Even if such a day eventually came, nothing would guarantee that this would be a lasting state of affairs.

It therefore seems to me that there is considerable normative demand for supranational forms of macroeconomic governance, including proposals for cosmopolitan exercise of monetary sovereignty. Despite important qualifying considerations of subsidiarity, a strong case for supranational coordination of macroeconomic policy can often be made. Although the project of instituting cosmopolitan reforms undoubtedly faces significant political challenges, it is nevertheless wise not to ignore reasons why monetary sovereignty should optimally be exercised at a supranational rather than at the national level. A solution able to meet the minimum cosmopolitan requirements (let alone the optimal solution) may not be an easy solution, but whether or not one decides to take action to implement it in practice, it is useful to consider it carefully.

5. Rethinking Monetary Sovereignty for the Purposes of Contemporary Macroeconomic Governance

Thus far I have been examining the effectiveness, desirability and legitimacy of the nation-state-centric exercise of monetary sovereignty and conduct of macroeconomic policy. But if my cosmopolitan analysis of the current macroeconomic predicament of many 'sovereign states' is correct, are they any longer sovereign? Does any valid reasons remain to employ the terminology of 'monetary sovereignty' in contemporary accounts of macroeconomic governance in the first place? And if yes, how should the concept be defined for the purposes of the 21st century?

David Zimmermann (2013) observes that many political scientists and legal theorists who hold that given the overwhelming external constraints to the capacity of contemporary states to exercise their supreme authority on monetary affairs, monetary sovereignty itself 'should be regarded as no more than a myth' (p. 5). Based primarily on considerations of legal theory, he nevertheless concludes that when adequately conceptualized, monetary sovereignty is still a relevant 'legal concept that has major implications on how contemporary sovereign powers in the realm of money should be exercised' (p. 5). For me, the most powerful argument to the effect that monetary sovereignty remains a useful concept derives from the neochartalist monetary theory itself. The exclusive right to issue currency in principle matters greatly for the actual capacity of any macroeconomic governance institution to exercise independent fiscal, monetary and incomes policies.

The case for dropping the term from the lexicon altogether therefore does not seem to me to be compelling, but its analytical function certainly needs to be clarified.[31] The traditional state-centric understanding of monetary sovereignty – to which the neochartalists standardly subscribe to – is of limited help in trying to understand the key challenges of contemporary macroeconomic governance. I agree with Held (1995) that 'sovereignty can be stripped away from the idea of fixed borders and territories and thought of as, in principle, malleable time-space clusters' (pp. 234–235). Just as sovereign entities in general do not necessarily have to be territorial, I see no fundamental reason why we could not also redefine monetary sovereignty along these novel lines.

31 Jens Bartelson (1995, p. 13) takes a similar approach to the concept of sovereignty.

More generally, while neochartalism provides a coherent macroeconomic analysis of the relationship between state and its currency, it must be supplemented with a comprehensive understanding of the political and legal aspects of monetary sovereignty. Because the concept of 'sovereignty' has been examined more carefully in political and legal theory than in economics, these disciplines also need to be consulted in any serious attempt to account for monetary sovereignty.

The concept of sovereignty has a rich and interesting genealogy (see e.g. Bartelson, 1995). I do not have the space to examine it here, but it seems clear that the neochartalist idea of building a specific exchange requirement into the definition of monetary sovereignty is idiosyncratic. I am not aware of any other literature that would add such a condition, and the neochartalists do not offer any account of how sovereignty and a floating exchange rate arrangement would be linked. It seems that at this point, they simply fail to draw a clear distinction between 'monetary sovereignty' and 'macroeconomic policy autonomy'. A specific choice of the exchange rate arrangement can certainly be relevant in terms of the latter, but not, it seems, in terms of the former.

How should we draw this distinction? In my preferred definition, a political entity (or an overlapping cluster of them) is *monetarily sovereign* if it has the exclusive right to issue its own currency and the associated right to conduct its own macroeconomic policies (including monetary, fiscal, and exchange rates policies) in accordance with its interests and obligations. We can then define *macroeconomic policy autonomy* as the initial ability of a political entity in charge of (at least one aspect of) macroeconomic policy to implement specific policy measures, without running into immediate constraints (such as hard financial barriers). Or, more strongly, *macroeconomic policy autonomy* could be understood as the ultimate ability of a political entity in charge of (at least one aspect of) macroeconomic policy to achieve the objectives of its policies. While various definitions are possible, it seems important to ensure that monetary sovereignty does not guarantee macroeconomic policy autonomy by conceptual necessity. The neochartalist hypothesis that monetary sovereignty contributes to macroeconomic policy autonomy is only interesting if it is remains an *empirical* hypothesis about the relationship between monetary sovereignty and macroeconomic policy autonomy.[32] Here, as elsewhere, conceptual precision is a precondition of good empirical research.

32 The distinction between monetary sovereignty and macroeconomic policy autonomy applies irrespective of which entity exercises the powers associated with monetary sovereignty.

6. Towards a More Coherent Cosmopolitan Keynesianism

Post-Keynesian economics comes with multiple potential insights for monetary and macroeconomic governance. Unfortunately, some of these insights seem ambivalent or even contradictory. On the one hand, many post-Keynesians have proposed reforms to establish better functioning and fairer institutions of global macroeconomic governance (see e.g., Davidson, 2009) and a few political economists have even drawn on post-Keynesian ideas explicitly in their models of global democracy (see e.g., Patomäki, 2013). On the other hand, much of basic post-Keynesian theorizing has traditionally concentrated on national economies (resorting to the convenient 'closed economy' assumption[33]) and never spelled out the implications for global economic governance.[34] As I suggested above, the neochartalist theory may appear particularly suspicious from a cosmopolitan perspective because it seems positively to support a form of economic nationalism.

Despite this variation, a plausible case can be made that in general, post-Keynesian studies tend to have more cosmopolitan policy implications than perhaps any other work in current macroeconomics.[35] Although conventional international economics certainly implies that strict state borders separating national economies from each other should give way to more or less borderless global markets for *efficiency* reasons, little room is left for meaningful *democracy* in this framework. Obviously, advocacy of far-going undemocratic market globalization does not count as cosmopolitan – indeed calls for cosmopolitan governance are largely a reaction *against* developments that are viewed as real-world manifestations of market-driven globalization.[36] To turn to the alternative heterodox schools, the Austrians largely fail to see the graveness of the

33 This assumption is still standard in economic theory despite Immanuel Wallerstein's (1974) argument that for the last 500 years there has been a single capitalist world-economy instead of multiple separate national economies.

34 It is probable that the relative lack of attention to the world economy as a whole is to some extent a consequence of the formalistic modelling approach that still dominates economics. Mathematically, it is much easier to model isolated parts of a system than the complex system in its entirety. One way to keep the equations solvable is to introduce spatial simplifications (such as the 'closed economy' assumption).

35 With the exception of the notion of the fallacy of composition perhaps, post-Keynesian theory may not help much in formulating the fundamental philosophical principles of cosmopolitanism, but at the level of applied guidelines and institutional design, post-Keynesian literature could prove to be a rich resource for the global democrat. Post-Keynesian analysis is also helpful when there is a need for specific understanding of macroeconomic processes and institutions. Because economic assumptions underpin almost all theorizing in GPE in one way or another, such understanding should undoubtedly be built into any solid cosmopolitan vision of future economic governance.

36 Contemporary global capitalism is in many ways not a liberal market system, however. It is 'corporate-driven' rather 'market-driven' in that many developments in fact serve to undermine markets. Whatever their exact balance, cosmopolitans seek to bring both of these drivers under democratic control.

current global challenges and seem to be fixated by the idea that small-scale and decentralized solutions are for nearly all purposes ideal (for them, this translates to market-based solutions). From an opposing viewpoint, few Marxist economists have worked on cosmopolitan governance of global capitalism. Many Marxists would be in favor of cosmopolitan socialism of some sort, but that is another story.[37]

Many cosmopolitan elements in contemporary post-Keynesian theory can be traced back to John Maynard Keynes's own work that contains numerous important insights on international relations and global political economy (see e.g. Donald Markwell, 2006). At the most fundamental level, Keynes, the founder of macroeconomics as a separate subdiscipline, was oriented to conceiving the economic system as a *whole*. Consequently, he paid substantial attention to thinking how a theory of macroeconomy ought to differ from studying the economic behavior of individuals and firms at the microlevel.[38] Informed by his approach, post-Keynesians take great pains to avoid various versions of the so-called fallacy of composition (the general fallacy of inferring the properties of a whole from the properties of its component parts) underlying most famous 'paradoxes' of macroeconomics (see e.g. Lavoie, 2014).

For these fundamental theoretical reasons, post-Keynesians are generally reluctant to recommend economic policies that – while plausibly successful for the states implementing them – cause problems for the other economies. Moreover, they stress that these policies would be unsustainable and detrimental to *all* if adapted globally. For example, post-Keynesians criticize export-oriented policies as an element of 'beggar-thy-neighbor'-type of growth strategy, tantamount to exportation of unemployment to other countries. Many currently popular economic policies are also seen to ignore the basic accounting fact that (global) sectoral balances 'must sum to zero'.[39] These views provide strong evidence that the post-Keynesian approach is generally premised on the fundamentally cosmopolitan intuition that states should not adapt self-interested competitive strategies aggravating the economic and social problems of other states and, ultimately, harming the interests of the world population. Most post-Keynesians would consequently agree that in many macroeconomic issues, coordination of

[37] In this paper, I am preoccupied with the macroeconomic governance of the contemporary capitalist world-economy. Numerous broader questions about the prospects of economic democracy (socialism) are related to the topic but have not been directly tackled here.

[38] Despite his undoubtedly cosmopolitan orientation, Keynes, too, often resorted to the 'closed economy' assumption. In his classic *General Theory of Employment, Interest and Money*, this assumption was rarely relaxed.

[39] Post-Keynesian often criticize orthodox models (such as the still popular Dynamic Stochastic General Equilibrium models) as 'stock-flow inconsistent'. This insight, too, builds on the observation that these models seem to commit the fallacy of composition.

state policies (based on evidence and deliberation about their overall economic and social impacts) is in principle always preferable to unilateral state action.

As noted above, post-Keynesian economists have even developed (at least implicitly) cosmopolitan proposals for more effective governance of the global economy. In a probably more sustained fashion than anyone else, Paul Davidson has examined the pitfalls of the post-Bretton Woods global monetary economy and come up with a number of proposals to reform its basic structure. Davidson (2009) and Joseph Stiglitz (2006, pp. 245–268)) have developed updated versions of Keynes's original plan for an International Clearing Union. This Keynesian work has greatly influenced political economists studying the future likelihood of a global democratic institutional reform. Notably, Patomäki (2013, pp. 189–222) has suggested that such a reform should take the form of 'Democratic Global Keynesianism'.

In this paper, I have explained why neochartalism does not fit this generally cosmopolitan orientation of post-Keynesian thinking smoothly. However, instead of revealing anything about the basic monetary theory itself, I have suggested this impression can be explained by the standard nation-state-centric *framing* of theory. There seem to be no obstacles to reinterpret neochartalism from a cosmopolitan point of view. I believe that, if anything, the underlying logic of the theory would indeed favor such a framing.

My cosmopolitan reinterpretation of neochartalism simultaneously (i) suggests a way to move towards a coherent political theory underlying the post-Keynesian approach, and (ii) equips the global democrat with further, potentially useful, Keynesian tools. The observation that the post-Keynesian theory is most fruitfully understood in a cosmopolitan light should not be surprising given Keynes's own cosmopolitan mindset. However, some post-Keynesians have opted for a nation-state-centric (or communitarian) approach instead. While there are appealing reasons to take that route, some of which seem evermore appealing in our present political predicament, a decision to abandon cosmopolitan ambitions would be neither wise nor warranted.

7. Concluding Remarks

In this article, I set out to examine the tensions between the recent neochartalist calls for improved and more determined *national* exercise of monetary sovereignty on the one hand, and aspirations for cosmopolitan macroeconomic governance, on the other (Section 1). Having described the basic principles of neochartalism (Section 2), I argued that despite its standard

state-centric framing, the core logic of this monetary theory in fact points in a cosmopolitan direction (Section 3). To supplement this immanent critique, and to search for further common ground between these seemingly opposed perspectives, I argued that there are rather demanding cosmopolitan conditions on the national exercise of monetary sovereignty that are unlikely to be met within the current state-centric governance architecture (Section 4). Being fully aware of the immediate political challenges faced by attempts to introduce cosmopolitan forms of macroeconomic policy, I suggested that it is nevertheless wise to pay close attention to reasons why monetary sovereignty should optimally be exercised at a supranational rather than at the national level. I then moved to address the further conceptual question of how 'monetary sovereignty' should be defined for contemporary purposes (Section 5). Finally, I drew lessons for both the neochartalists and the cosmopolitans (Section 6). As post-Keynesians more generally, the neochartalists should in principle *favor* larger economic areas (including monetary unions) or at least substantial coordination in macroeconomic governance.[40] This, of course, does not mean that the current monetarily sovereign states should not also take advantage of their relative policy autonomy in a constructive fashion. By studying the neochartalist (and more generally post-Keynesian) approach to monetary macroeconomics, the cosmopolitans would gain essential tools that could help them to develop more substantial normative arguments and design better-functioning institutional arrangements.

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[40] However, it is not clear why monetarily sovereign states would sacrifice this much of their sovereignty voluntarily. This 'compliance puzzle' (Cohen 2008b, pp. 106–108) should be tackled in subsequent studies on the political economy of monetary sovereignty.

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