



Australian Community Futures Planning

What is functional finance?

Extracts from *The Public Interest Economy*
By Bronwyn Kelly

This document contains extracts from:

The Public Interest Economy: the path to wellbeing, security and sustainable consumption in a democratised Australian economy.

by ACFP's Founder, Bronwyn Kelly. The extracts provide details about functional finance, its origins in economics, and its usefulness for ensuring Australians can enjoy an economy in which there is full employment and stable prices.

Extracts in this document have been selected as introductory material on functional finance. For full details see Chapters 2 and 4 of *The Public Interest Economy* at <https://austcfp.com.au/publications#public-interest-economy>

Listen to the audio version of *The Public Interest Economy* on the Australia Together Podcast or on Substack at bronwynkelly.substack.com



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Introduction

The Public Interest Economy is a response to the disaster that is neoliberalism. It substantiates the case for reversing all the impetus of neoliberalism towards excessive consumption, inequality, poverty, imposed unemployment, low wage growth, environmental and ecological decimation, and exclusion from influence in democracy.

In particular, the book substantiates the case for abandoning the use of monetary policy to control inflation and proposes replacing the current arrangements for macroeconomic policy and governance with a new arrangement in which the federal Department of Treasury will take the lead on management of the macroeconomy by use [functional finance](#).



It is argued in *The Public Interest Economy* that in the age of Modern Money – where money is created by government fiat – a more effective macroeconomic policy will consist in:

- deprioritising the use of monetary policy as the primary tool for managing inflation;
- reorienting the use of monetary policy towards optimising investment
- abandoning the use of interest rate adjustments in efforts to control inflation; and
- elevating fiscal policy to the place of primacy in macroeconomic policy so as to achieve both full employment and stable prices.

This proposal runs directly counter to the preferences of the Reserve Bank of Australia. The RBA promotes the use of monetary policy for management of inflation and makes decisions on interest rates by favouring growth in unemployment. The bank's Monetary Policy Board inveighs against the use of fiscal policy and particularly against public spending, arguing that public spending should be constrained to prevent inflation.

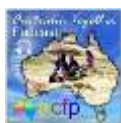
By contrast it is asserted in *The Public Interest Economy* that, in the age of Modern Money, austerity in public spending is not necessary in the fight against inflation because the government has the capacity to use taxation to rein in any excess in total demand (public and private) in the wider economy that cannot be met by local production and the available supply of essential imports.

Once this fact is acknowledged it is open to governments to use functional finance as a far more effective macroeconomic policy for management of inflation. This approach should be embraced because it does not rely on increasing unemployment.

The following extracts from Chapter 2 of *The Public Interest Economy* describe:

1. the necessity of prioritising the use of functional finance over neoclassical forms of macroeconomic management;
2. the origins of functional finance and how it works; and
3. how it should be deployed safely in Australia's economy in the age of natural resource scarcity and climate change.

Extracts from *The Public Interest Economy* relating to functional finance.



An audio version of the following extracts can be heard, read by the author, in [Episode 61 of the Australia Together Podcast](#).

Chapter 2, Part 3 – Prioritising functional finance

Chapter 1 of *The Public Interest Economy* referenced a remark by Adam Tooze about “the related schools of post-Keynesianism, functional finance and modern monetary theory.”¹ The remark was made in the context of Tooze’s rejection of the neoliberal argument that we can only do what we can afford and in support of the Keynesian view that anything we can actually do we can indeed afford.

Australia’s governments have not yet managed to develop the political courage to concede openly that Keynes was right, or at least they haven’t yet determined that it is a safe political strategy to outwardly reject those aspects of neoliberalism that prefer restrained government spending, low taxation and free markets. After brief periods of fiscal stimulus, their habit has been to revert to neoliberalism despite the fact that:

- it hasn’t worked for purposes of improving and sustaining our wellbeing; and
- it hasn’t worked to improve our prospects for survival in a world of now dangerous over-consumption of scarce natural resources.

Notably, by the 2025 Labor government’s own admission, it also hasn’t worked to eliminate economic insecurity or to create enough of the “economic resilience” considered necessary for Australia’s defence against global instability. As Jim Chalmers said in his first speech after re-election in 2025, our economy

is resilient, but not resilient enough – in the face of all this global economic volatility.²

Based on this, it would seem that Australians would be right to feel economically insecure.

However, the related schools of post-Keynesianism, functional finance and modern monetary theory open up the prospect that they need not feel that way. The members of these schools claim to offer something that we should not be denied – they offer Australians and their governments the potential to eliminate economic insecurity; so, they are presenting an attractive alternative that is worth a decent and proper trial, especially if global economic volatility is going to be as pervasive as Dr Chalmers said.

¹ Adam Tooze, [Chartbook on Shutdown: Keynes and why we can afford anything we can do](#), Chartbook, 2 September 2021. [Chartbook on Shutdown: Keynes and why we can afford anything we can do. \(substack.com\)](#)

² Jim Chalmers, [Address to the National Press Club, Canberra – Economic reform in our second term](#), 18 June 2025: “It [the economy] is resilient, but not resilient enough – in the face of all this global economic volatility.” Also Jim Chalmers, [National Press Club address, Q&A](#), 18 June 2025: “It’s no coincidence that I’ve tried to tell you that the next 3 years of my life are going to be about 3 things – productivity, budget sustainability and [economic] resilience in the face of global uncertainty.”

Members of these three modern schools are only theorising, of course, and as stated above their theories haven't been proven convincingly to work yet because, since the rise of neoliberalism, they haven't been fully tried (except during the GFC and Covid-19 when, as shown above, they were tried and they did work). But these alternative theories are neither more nor less theoretical than policies favoured by the neoliberal and mainstream neoclassical schools of economics, which *have* been tested in full and for decades, and have been proven *not* to work. So, notwithstanding the fact that there may be uncertainties in these alternative economic theories, it is worth going into some detail about these schools, and about functional finance in particular, to see what it can do for us that the neoliberal economic policies obviously can't.

Chapter 2, Part 4 – What is functional finance?

Functional finance operates in what we might call the engine room of an economy – the macroeconomic level where the levers of government spending, taxing, borrowing, lending, money creation and money destruction are pushed. As a school of thought, functional finance rejects the neoliberal fears about debt and deficits and takes it for granted that

deficit spending actually works.³

They also assert that it works not just to eliminate economic insecurity at a given moment in time but also to enable the “permanent maintenance of prosperity.”⁴

The idea that we can permanently maintain prosperity might sound like an impossible dream and, indeed, everything in neoliberal thinking finds it implausible and even objectionable, the more so because the preference in functional finance for deficit spending and a relegation of monetary policy to the background in our economic governance does not suit their vested interests. These are the interests of that class of people who have the luxury of being able to make money out of money rather than out of employment. Consequently, that class of people – those who already have income and wealth beyond their needs and don't need to make work their primary source of income – are instinctively drawn to economic theories which relegate full employment to the bottom of a hierarchy of a society's needs and financial returns on savings and investments to the top. They have a vested interest in high interest rates, those the RBA resorts to when it wants to lower inflation but which bear down disproportionately on those who don't have as much money as they need and especially on those who are unemployed.

Those who can afford to make money out of money, more so than by employment, might be expected to fall into that class of people mentioned above that tend not to believe that everyone can be made safe. They tend more to believe that that is a fairy tale, and that some level of unemployment, while perhaps regrettable, is also inevitable. The unemployed are expendable in a financialised economy – that is, one where markets are more heavily weighted in favour of those who make money out of money rather than out of production by the employed. And Australia's economy is tending more towards financialisation; so it is tending more towards relying on the occasional sacrifices – or perhaps even the permanent sacrifice – of those dependent on employment.

³ Abba P. Lerner, Roosevelt College, [Functional Finance and the Federal Debt](#), Social Research, February 1943, reprinted in 1955 by the American Economic Association.

⁴ Abba P. Lerner, Roosevelt College, [Functional Finance and the Federal Debt](#), Social Research, February 1943, reprinted in 1955 by the American Economic Association.

Proponents of functional finance, however, assert that the permanent maintenance of prosperity is not a fairy tale; instead they hold that it is a fairy tale to say, as neoliberals do, that we will all be ruined if governments spend enough money on people to keep them employed. As Abba P. Lerner, who is considered to be the father of functional finance, once said:

Many of our publicly minded men [sic.] who have come to see that deficit spending actually works still oppose the permanent maintenance of prosperity because in their failure to see *how* it all works they are easily frightened by fairy tales of terrible consequences. [Emphasis in the original.]⁵

In particular, the terrible consequences the publicly minded men feared were those that suggest we will all be ruined if the government takes on debt or spends more than it raises in revenue.

Regardless of which camp has correctly identified the true story here of how economies with fiat currencies really work and what the risks are, an understanding by Australians of functional finance opens up the opportunity, in the midst of all our uncertainties, to choose which tale we would rather be frightened by:

- the one which says unemployment is unavoidable and that our prosperity can never be maintained; or
- the one which says achieving full employment is the paramount consideration and that without it our prosperity cannot be maintained.

If we have to be frightened at all, a preference to be frightened by the latter tale has a lot going for it because, apart from anything else, an experiment with it would disadvantage no-one. Functional finance as an alternative method of economic governance would not disadvantage those who currently enjoy higher incomes and wealth and who make their money out of money. On the contrary, its advocates are simply suggesting that there is a way to organise economic governance, at least in the macroeconomic engine room, so that we can maintain the level of prosperity that everyone needs. This is not to suggest that there is nothing we need to do outside that engine room to secure ongoing prosperity, but it is a very good place to start.

Functional finance is a proposal to use the government's unique financial capacity in such a way as to make the economy function as well as we need it to for everyone that lives within it, regardless of how they make money – and that simply means making it function to maintain full employment with stable prices. So it is essentially a system which seeks to stabilise prices and maximise our ability to derive income from *both* employment and savings. It aims to secure the incomes of both the poor who have to work and the rich who don't, as well as everyone in between who needs to work and earn money from savings, such as in their superannuation, at the same time. Neoliberal policies pit the poorest and the richest of these classes against each other, but with functional finance that becomes unnecessary, and implementation of it is one of the surest paths we can take towards reduction of income and wealth inequality.

Australia's economic governance arrangements at the macroeconomic level are not set up properly for the purpose of maintaining full employment with stable prices. But functional finance shows how they could be. So how does it work?

⁵ Abba P. Lerner, Roosevelt College, [Functional Finance and the Federal Debt](#), Social Research, February 1943, reprinted in 1955 by the American Economic Association.

Chapter 2, Part 5 – How does functional finance work?

The first principle of functional finance is that if economic insecurity is to be eliminated, there is, as Abba Lerner has written, a constant need to

keep the total rate of spending in the country on goods and services neither greater nor less than that rate which at the current prices would buy all the goods that it is possible to produce. If total spending is allowed to go above this there will be inflation, and if it is allowed to go below this there will be unemployment.⁶

An important observation here is that functional finance concentrates on regulating spending rather than regulating price fluctuations. Put another way, it prioritises the management of demand and orients it so as not to *cause* either inflation or unemployment. In this regard, the focus in functional finance differs from that of most other mainstream economic frameworks that have prevailed in Australia in the 21st century, which prioritise managing inflation for its own sake regardless of the effect on demand and unemployment. An understanding of this difference in policy focus goes a long way towards explaining why Australia's economic governance arrangements in the 21st century have not led to improved wellbeing. Looked at from the alternative school's point of view, the **mainstream schools – and indeed, our governments – are focusing on the wrong thing if they want to achieve an economy that works for people. They should be focusing on how best to stabilise and distribute total spending so that shares of national wealth are as fair as they need to be and the capacity of everyone to withstand the effects of shocks (including price shocks) is as strong as it needs to be. If they focus on that, then when inflation does occur – and particularly when it is caused by some external shock like the oil shock of 1973⁷ or a pandemic – people are better able to deal with it. We can see here that a key difference between the mainstream and alternative schools in economics is that the former tends to favour making the economy “resilient” (despite the effect on people), whereas the latter favours enabling people to safely ride out economic fluctuations.**

Building on that point, the next important thing to understand is that in functional finance the focus is on stabilising the *total* spending within the economy, rather than the spending of one sector or the other. Functional finance is generally agnostic on the extent to which the private and public sectors should be able to spend (because they both should) and it concentrates instead on how spending may best be balanced across the two sectors – and indeed switched backwards and forwards between the two as often as needs be – to achieve and maintain full employment with stable prices.

This is one of the places where neoliberals and proponents of functional finance part company. Neoliberals prefer suppression of public spending (and of course, low taxation).⁸ They also prefer

⁶ Abba P. Lerner, Roosevelt College, [Functional Finance and the Federal Debt](#), Social Research, February 1943, reprinted in 1955 by the American Economic Association.

⁷ In 1973 an oil embargo by Arab producers against the U.S. dramatically increased prices for oil by ceasing production and largely disallowing imports by certain countries. In the US alone, the embargo nearly quadrupled the price of oil from \$2.90 a barrel before the embargo to \$11.65 a barrel in January 1974. United States Federal Reserve History, [Oil Shock of 1973-74](#), last accessed 22 July 2025. See also Gareth Hutchens, [Petrol prices are at record highs and a decision made in the 1970s begins the story](#), ABC News, 29 October 2021: “In Australia, the first major global oil price shock of the era resulted in fuel prices jumping by 25 per cent in 1975. It contributed to inflation hitting 17.7 per cent that year. Then, a second oil price shock in 1979 saw fuel prices jump by nearly 50 per cent, which further fed into inflation.”

⁸ The Business Council of Australia, for instance, as a devotee of neoliberalism and fiscal sustainability, favours capping the government's real expenditure growth at an annual rate of 2% and capping tax-to-GDP at 23.9%,

some level of inflation – and, indeed, if they own a business they actually *want* price increases and a pool of unemployed people (because it suppresses wages); whereas in functional finance the preference is for price *stability* or as little inflation as possible once full employment has been reached. This difference between these opponents is a subtle one, particularly in relation to what might be acceptable in levels of inflation and unemployment; but it is important to comprehend the difference in focus because, as this book will endeavour to show, the neoliberal preference that priority should be given to managing inflation *before* achieving full employment is a significant disruption to the stability and sustainability of both wellbeing and the economy.

Consistent with that preference for prioritising management of inflation over achieving full employment, neoliberals also prefer to restrict the government’s capacity to control – and thereby integrate – the use of *both* monetary and fiscal policy tools, essentially because they don’t want the government to be able to influence or control private sector spending, lending and investment decisions. Functional finance suggests, however, that the government should not be restricted in its use of any of those tools and that it is only when a government has full and politically unimpeded control of all the tools in both monetary and fiscal policy that they can be used to their greatest effect in managing inflation and sustaining full employment. Furthermore, implicit in functional finance is the belief that the most effective tools for that purpose are not those of monetary policy; they are those of fiscal policy where the government has powers to spend and tax. In functional finance, the monetary policy tools of government borrowing, lending (or repaying its debts) and creating and destroying money are of secondary importance in managing inflation and they help serve that purpose well only if they are deployed in combination with the primary tools of fiscal policy. Accordingly in functional finance, fiscal and monetary policy tools need to be deployed in a certain order or sequence if we are to ensure that

total spending [regardless of which sector spends] can be kept at a level where it will be enough to buy the goods and services that can be produced by all who want to work, and yet not enough to bring inflation by demanding (at current prices) more than can be produced.⁹

The appropriate order of policy implementation to achieve this is to prioritise the use of the government’s spending and taxing tools (fiscal policy) ahead of the use of the monetary tools, or at least to ensure that deployment of monetary policy does not interfere with fiscal policy so as to limit its potential to achieve full employment with stable prices.

Neoliberals by contrast prefer that monetary policy should take precedence in the fight against inflation and, as will be shown below, they have sought to dominate debate about the economic governance arrangements that are most appropriate for that purpose. Within that debate their preference has been that responsibility for controlling total spending, money supply and inflation should not be integrated; it should instead be split between the government and the reserve bank, with:

- the bank, on one side, having full independence in setting interest rates supposedly for the purpose of controlling inflation; and
- the government, on the other side, having control of its spending and taxing but supposedly so as not to cause inflation by increasing spending in the public sector.

regardless of the needs of Australians. Business Council of Australia, “[A credible plan for fiscal sustainability](#),” Pre-Budget Submission – 2023-24, January 2023.

⁹ Abba P. Lerner, Roosevelt College, [Functional Finance and the Federal Debt](#), Social Research, February 1943, reprinted in 1955 by the American Economic Association.

This split in responsibilities has had the very unfortunate effect of cramping the government's capacity to use all its fiscal tools (especially taxation) to the fullest extent necessary to *prevent* inflation rising in the first place and to strengthen the capacity of Australians to deal with it when it does. And to the extent that this increases the chance that the RBA will feel it must resort to dampening inflation whenever it does occur by the relatively ineffective and even harmful tool of raising interest rates, the split is not conducive to an economy that works for people, because it pressures the bank to discard its obligations to "contribute to the maintenance of full employment."

Australia's reserve bank has repeatedly succumbed to that pressure with devastating effects for millions of people over the years.¹⁰ Since the split was introduced, and particularly since the rise of neoliberalism, the RBA has developed a resistance to lowering interest rates if unemployment is low and sometimes even when inflation itself is low.¹¹ As will be explained below, it has displayed a preference for making interest rate relief dependent on an increase in unemployment. The perversity of this is that Australians can't have tolerable interest rates or stable prices unless lots of them give up their jobs.

In functional finance, however, the implicit assumption is that it is less painful to prevent inflation than to attempt to cure it – and especially by raising interest rates. Therefore, governments should be able to prioritise the use of fiscal tools so as to avoid the need to use ineffective monetary policy. Accordingly, later sections of this chapter will expand on why this split in economic governance arrangements should be abandoned and new arrangements made that better promote integration between fiscal and monetary policy so that the choice of which tools to use and when is more likely to be based on expert assessment of what will prevent both inflation and unemployment.

Options for new governance arrangements may include abandoning the split entirely and locating responsibility for both monetary and fiscal policy with the government – that is, with the Treasury (as indeed it once was¹²). An alternative option may be to establish a second or parallel board within the Treasury with an overarching responsibility for fiscal policy that matches the transparency and accountability obligations of the RBA's monetary policy board – the advantage being that every time one board makes a decision, the other can show that its own decisions will enhance the chance of success in managing inflation and achieving full employment. Either way, the objective of any new governance arrangement ought to be better integration of fiscal and monetary policy than can be achieved under the current arrangements. Governance reform via either of these options will need to be accompanied by a new decision framework for both monetary and fiscal policy with principles that increase the weight that has been given to achieving full employment. This is necessary to resolve problems arising from the fact that little if any weight has been given to achieving full employment since the early 1990s either by the RBA or the government. More on this point is explained later.

¹⁰ Matt Grudnoff, Senior Economist, The Australia Institute, [Another hold likely. So, what was the point of the RBA review?](#), 9 December 2024: "The RBA believes low unemployment leads to higher inflation ... The cost of this misjudgement is also high. People with a mortgage paying more than they have to. More people being unemployed."

¹¹ For example, in 2025 inflation was within the RBA's target band of 2-3% and yet the bank refused to lower interest rates. Greg Jericho, [No more excuses: the time has come for the RBA to cut interest rates](#), The Guardian, 29 January 2025. Also Stephanie Chalmers, [Reserve Bank defies expectations of interest rate cut, keeping cash rate on hold at 3.85pc in July](#), ABC News, 8 July 2025.

¹² Responsibility for monetary policy in Australia was formally given to the Reserve Bank of Australia (RBA) with the passage of the [Reserve Bank Act 1959](#).

But to revert to explaining the workings of functional finance, these were quite usefully outlined in 2009 by Australia's own Professor William Mitchell, as three "fundamental rules" – although it will be necessary to qualify this version of the rules somewhat if they are to work well in a world where natural resources are as limited as they now are:

- Rule 1 in Professor Mitchell's 2009 description – The government shall maintain a reasonable level of demand at all times. If there is too little spending and, thus, excessive unemployment, the government shall reduce taxes or increase its own spending. If there is too much spending, the government shall prevent inflation by reducing its own expenditures or by increasing taxes. [This description of Rule 1 will be qualified below to ensure its safe application in a resource-constrained world.]
- Rule 2 in Professor Mitchell's 2009 description – By borrowing money when it wishes to raise the rate of interest, and by lending money or repaying debt when it wishes to lower the rate of interest, the government shall maintain that rate of interest that induces the optimum amount of investment.
- Rule 3 in Professor Mitchell's 2009 description – If either of the first two rules conflicts with the principles of 'sound finance'¹³, [in other words, the neoliberal economic principles of] balancing the budget, or limiting the national debt, so much the worse for those principles. The government press shall print any money that may be needed to carry out rules 1 and 2.¹⁴

Panic stations are usually manned by neoliberals whenever mention is made of "printing" money. The spectre of the Weimar republic and its descent into crushing hyperinflation by printing money is often raised to stoke panic in the general populace that we'll all be ruined if the government "prints" money. However, as we have already seen, **economies with fiat currencies issue money all the time in response to our demand and need for it, and the reality is that they do so safely whenever they apply the three rules of functional finance in concert.** This practice of applying the rules in concert has long been embedded and is, in fact, routine in fiat currency economies and it shows us that sensible and balanced application of these rules will result in a stable economy as long as the sovereign government remains an issuer of fiat currency. If it does so, and applies the rules sensibly in the order suggested above with primacy being given to fiscal policy under Rule 1, it will not and, indeed, cannot send prices skyrocketing. Nor can it send the nation broke if it follows these rules as a fiat currency issuer. Instead, as functional finance advocates assert, it can deliver overall and permanent economic prosperity. It can stabilise the economy and the nation can be a wealthy one for as long as the government sticks to the rules. Of course, it will need to stick a few other rules too, such as those which protect the natural environment, but if we just dwell for the present on the tools available to the government in the macroeconomic engine room we can observe that Professor Mitchell's 2009 version of functional finance neutralises several (but not all) of the shortcomings of neoliberal policies:

- Rule 1 in Professor Mitchell's version removes most (although not all) of the artificial and harmful constraints that neoliberalism places on government spending and also sets a basis for policies that will allow economic growth to be driven by what the community needs and

¹³ In the Australian context, "sound finance" is interpreted as "sound fiscal management", the principles of which are set out in the [Charter of Budget Honesty Act 1998](#).

¹⁴ William Mitchell – Modern Monetary Theory, [Functional finance and modern monetary theory](#), 1 November 2009.

demands for its wellbeing, rather than by what private sector businesses prefer to supply in the economy. (More on this point will be explained later.)

- Rule 2 relieves the government from prioritising debt reduction over human wellbeing and shifts decisions about when government debt should be increased or repaid so that they are governed not by neoliberal notions of the desirability of “fiscal sustainability” but solely by the need to establish interest rates that will optimise investment. (Again, more on this point will be explained later.)
- Rule 3 establishes a decision framework for when the government can “print” money (that is, issue more currency) without having to worry that it will cause inflation.

It should be noted that when a fiat currency issuing government creates money, it is misleading to say that it is printing it. As we have already seen, money is created simply by entries in a ledger and this applies regardless of whether it is physically released into the economy in the form of paper money or coins (cash). The phrase “printing money” is merely a term applied by those economists who prefer to paint the government’s capacity to create money in a negative light and mainly to imply that money creation will cause severe inflation, *a la* the Weimar Republic. Printing money is something people should worry about if they live in a country with an economy that is not based on a fiat currency.¹⁵ But as we shall see, money creation in a fiat currency economy does not carry any intrinsic inflationary risk. Inflation risk only arises when the government lets total spending in the economy move out of equilibrium with the capacity for production.¹⁶

Chapter 2, Part 6 – An important qualifier about safely deploying functional finance

At this point in describing how functional finance works, it’s extremely important to note that if its rules are applied in disregard of a society’s desired outcomes for welfare and wellbeing and for access as equals to economic rights – as though an economy is a thing worth nothing more than the money in it – it is likely that governments will make choices about how to apply Rule 1 that will cause it to build an economy not worth having. Specifically, if when excessive spending is causing inflation the government chooses to cut its spending rather than raise taxes, the economy may (or may not) end up being worth more but access to that worth will be increasingly unfair. Inequality will grow. This may explain why in his 1943 essay on “Functional Finance and the Federal Debt,” Abba Lerner explained the first rule of functional finance somewhat differently to Professor Mitchell’s 2009 version, saying that it requires

the adjustment of total spending (by everybody in the economy, including the government) in order to eliminate both unemployment and inflation, using government spending when total spending is too low and taxation when total spending is too high.¹⁷

¹⁵ In 2025 it is likely that there is no country in the world that does not have a fiat currency. See Wikipedia, [Fiat Money](#), last accessed 14 September 2025: “Fiat money is a type of government-issued [currency](#), authorized by government regulation to be [legal tender](#). Typically, fiat currency is not backed by a precious metal, such as [gold](#) or [silver](#), nor by any other tangible asset or [commodity](#). Since the end of the [Bretton Woods system](#) in 1976 by the [Jamaica Accords](#), all the major currencies in the world are fiat money.”

¹⁶ For a fuller explanation of this see William Mitchell and Thomas Fazi, *Reclaiming the State: A Progressive Vision of Sovereignty for a Post-Neoliberal World*, Pluto Press, 2017, Chapter 8 – A Government is Not Like a Household: An Introduction to Modern Monetary Theory.

¹⁷ Abba P. Lerner, Roosevelt College, [Functional Finance and the Federal Debt](#), Social Research, February 1943, reprinted in 1955 by the American Economic Association.

This version of Rule 1 notably doesn't make mention of an option for a government to choose to reduce its spending when inflation is rising. Removal of that option is a good thing because it decreases the risk that a government fearful of political backlash from increasing total taxation will be tempted when using Rule 1 to choose austerity as a means of managing inflation. To the extent that this second version of the rule implies that it's preferable to use tax for that purpose rather than austerity, it distinctly improves the chance that money will be deployed in a manner that will make us safe, not unsafe, and also more equal, not less equal. It improves the chance that our wellbeing and our prospect of getting a job will not be sacrificed for the sake of balancing a government budget that, in any case, doesn't ever need to be balanced to stabilise the economy. In fact, balancing it can de-stabilise the economy. In functional finance, stabilisation of the economy and price stability are instead achieved by synchronous implementation of all three of its rules, with the qualifier that Rule 1 should not be used in such a way as to permit governments to reduce spending on the essentials for our wellbeing. Neither the economy nor those who live within it need that, and it's why Rule 3 is there. Rule 3 is a failsafe alleviating the government from ever having to resort to austerity. This is the great advantage of the Australian government's choice to become a sovereign fiat currency issuer. It is a gift that enables not just everyone's survival but their survival in a permanent state of prosperity. And there is no reason (even in politics) why, having granted us the gift, the government should take it back again by misapplying the three rules.

If functional finance is to assist a government to achieve an economy that supports people, then it must be implemented in such a way as to prevent governments resorting to spending cuts on the essentials of our wellbeing. Governments that can issue currency by fiat absolutely do not need to do that.

Beyond that though, there is another reason why functional finance should be implemented in a manner that prohibits cuts to expenditure on welfare and wellbeing. In an economy where natural resources are in such limited supply relative to the demands of the population – as they are in both the Australian¹⁸ and the global economy – it is essential that demand in the economy be for goods and services that can be supplied within those natural resource limits. This is not something that functional finance converts thought about in the mid-20th century. The prospect that we could demand more goods than could be supplied within the limits of human capacity was deeply contemplated; but the idea that we could over-consume natural resources was not high at all on the list of economic considerations. In 2025, however, the prospect of natural resource and biodiversity collapse is very real and this makes it all the more important that decisions made in the macroeconomic engine room do not result in generating the type of demand that is ecologically unsustainable. In the 21st century, responsible implementation of functional finance must recognise that there is good demand and bad demand – there is demand that the planet and the Australian continent can sustain and demand that they cannot. In the 21st century, nuance is required in the application of functional finance – at home and on a universal basis all over the planet.

Functional finance in its original conception was based on Keynesian and post-Keynesian theories that aggregate demand – composed of consumer spending, investment, government spending and net exports – is the primary driver of economic activity; and consistent with this, functional finance is today as agnostic about the *type* of demand that may be safely created as it is about whether the private or public sectors should be able to spend. In an age of resource scarcity, however, governments need to be very choosy about investments and they should stimulate investment patterns in both the public and private sectors that contain natural resource consumption to levels

¹⁸ Australia's most famous natural resource shortage is water. Biodiversity extinctions also constitute a natural resource shortage in Australia. Australia is not short of other natural resources such as sunlight and wind but it is not utilising these enough to offset pressure on water and biodiversity.

that can be sustained within the planetary boundaries. This is among the most important things governments can do to ensure our survival in safety.

As it so happens, it is the public sector that offers the range of investments that are likely to be more ecologically sustainable. This is another reason why Rule 1 in functional finance should not be implemented by imposing austerity in government spending. Austerity will only result in a contraction of expenditure on the sorts of activities that create the more sustainable types of demand – such as for:

- health,
- education,
- housing and infrastructure construction,
- pollution control,
- safe food and clean water,
- childcare,
- aged care,
- disability services,
- family services and child protection,
- women’s and gender-diverse wellbeing, safety and equality,
- Indigenous wellbeing, safety and equality,
- multicultural community cohesion and safety,
- employment placement and social security services,
- public transport,
- biodiversity protection, natural resource conservation and landcare,
- climate change mitigation and adaptation,
- arts and recreation,
- renewable energy,
- emergency services, and
- services for justice, peace and ethical democratic governance.

These activities – all of which we might call *industries of wellbeing* – are among the most sustainable economic opportunities we can pursue because:

- on one hand, they obviously kill less of our biodiversity and create less greenhouse gases¹⁹ than mining, forestry, gas and coal extraction, non-renewable energy production and defence industries; and
- on the other, they provide far greater employment opportunities.

These industries of wellbeing are the colossus of employment in a way that mining industries and others with high environmental impact have never been and can never be. In fact in 2025, almost 60% of the Australian workforce was employed in what could be classed as wellbeing industries. 25%

¹⁹ For examples of industries with the greatest capacity to reduce greenhouse gas emissions – with “low-carbon jobs” – see Anna Coote, [Universal Basic Services: Provisioning for our needs within a fair consumption space](#), New Economics Foundation, Think Piece series, Hot or Cool Institute, Berlin, 2023: “As the IPCC confirms, there is a high level of agreement that “development targeted to basic needs and well-being for all entails less carbon-intensity than GDP-focused growth” (IPCC, 2022).” Also, IPCC [Climate Change 2022, Mitigation of Climate Change](#), Working Group III Contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, Geneva, Chapter 5: Demand, services and social aspects of mitigation, page 512.
https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_FullReport.pdf.

were employed in health, social assistance and education. Mining by contrast employed only 2% of the workforce²⁰ and defence industries employed less than 0.5%.²¹

The net benefit of public investment in wellbeing is also evident from the fact that it increases domestic spending – the money spent stays in this economy and because there is a multiplier effect that arises from domestic spending, this endogenously increases the supply of money available for creation of more jobs (and at the same time relieves the government from the trouble of having to issue more for currency for that purpose). This gives wellbeing industries a distinct advantage over extractive industries like mining and fossil fuels where:

- the vast majority of profits are offshored;
- little if any tax is paid;²²
- growth in capital investment tends to be negative;²³ and
- the community is left with the bills for restoration of the damage these industries do to the environment – or worse, it is left with the permanent loss of natural resources if the damage is irreparable.

In the 21st century, Australia's economy has been afflicted with too much growth in these extractive industries, with the result that ecological wellbeing has declined and human wellbeing with it. There has also been too much growth in defence industries which, like extractive industries, also transfer profits offshore and contribute significantly to increases in greenhouse gas emissions²⁴ and in the process produce nothing that Australians need to buy. The output is mostly exported to aid the killing of people in other countries. As ACFP reported in *The State of Australia 2025*:

²⁰ Almost 60% of the Australian workforce is employed in what could be classed as wellbeing industries, including: health care and social assistance (16%); professional, scientific and technical (9%); construction (9%); education and training (9%); public administration and safety (7%); transport, postal and warehousing (5%); arts and recreation (2%); electricity, water and waste (1%). Mining employs only 2% of the workforce. Australian Bureau of Statistics, [Labour Force, Australia, Detailed](#), 6291.0.55.001 Labour Force, Australia, Detailed, Table 4. Last accessed, 29 July 2025.

²¹ Australian Bureau of Statistics, [Australian Defence Industry Account, experimental estimates](#), 16 April 2025, last accessed 26 July 2025.

²² See Callum Foote and Michael West, [Top 40 tax dodgers of 2023](#), Michael West Media, 29 November 2023.

²³ Between September 2013 and September 2024, average growth per annum in private new capital expenditure was negative – averaging -0.5%. Total private new capital expenditure fell in an many years as it rose. In the same period growth in new private capital investment by the mining sector was heavily negative – averaging -2.0% per quarter. The mining sector derives huge profits from Australia but has not reinvested those profits in Australia. Australian Bureau of Statistics, [Private New Capital Expenditure and Expected Expenditure, Australia](#), 29 May 2025, last accessed 18 July 2025.

²⁴ Climate Change Performance Index, [CCPI x Military Emissions Gap – How Military Emissions Impact Global Warming](#), 14 November 2024: “Militaries are huge energy users whose greenhouse gas emissions (GHG) make a significant contribution to the climate crisis. However, countries do not systematically record and report their military missions, so the real share of this type of emissions remains unclear – this is known as the military emissions gap. The Conflict and Environment Observatory (CEOBS) and the Scientists for Global Responsibility estimate that everyday military activity could be responsible for around 5.5% of global emissions, meaning that if the world's militaries were a country, they would be the fourth largest emitter in the world.”

Between 2016 and 2023/24 the value of weapons exports from Australia increased almost 100-fold from \$1.5 billion to more than \$100 billion. It was an obscene increase in making money from selling killing machines.²⁵

To the extent that the government's manner of implementing macroeconomic policies has favoured extractive industries over wellbeing industries, it has also led directly to reduced growth in productivity – a metric of economic performance which has been declining in Australia²⁶ and which the Labor government of 2025 cited as a trend that it will be essential to reverse. On coming to office in 2025, however, it was made quickly clear that neither the government nor its advisors in the Treasury held the view that poor trends of productivity growth would be reversed by increasing public spending on services for wellbeing. They did express a preference for public investment in education, but only so that the skills of workers will be “abundant enough and matched well enough to business needs”²⁷ rather than to human or environmental needs.²⁸ This might imply that in a world where natural resources are limited, it was Treasury's view in 2025 that Australia can afford to persist in favouring environmentally destructive businesses and that productivity growth can be achieved by continuing to favour those businesses despite the limits of the planet. If that was indeed Treasury's view, then we might hope the department took note of the remarks of a former Secretary of the Treasury, Dr Ken Henry, who had the good sense to point out at the time that

The biggest threat to future productivity growth comes from nature itself; [or] more particularly, from its destruction. Gradually, economic policy minds around the world have woken up to the fact that time is fast running out for the natural world, the foundation of all life on earth. It is now well accepted that a degraded natural world poses myriad threats to food systems, the provision of clean air and water, and the continuing supply of other ecosystem services critical to production. And it is well accepted that things are getting worse, much worse, not better.²⁹

Given the limits of the natural world and how close we are to breaching them, it is obvious that Australians no longer have the luxury of being able to choose to reduce government spending as a means of boosting productivity. In fact, that way lies disaster. If in this resource-constrained world the objective is to increase productivity, reduced government spending is not the answer.

²⁵ Australian Community Futures Planning (ACFP), [The State of Australia 2025](#): Chapters 6 and 10, Governance 12 – Peace & security.

²⁶ From 1976 to 2001 annual labour productivity growth in Australia averaged 1.9%. From 2002 to 2014 it fell to an annual average of 1.5%. Between June 2015 and June 2019 labour productivity growth averaged 0.7%. Between June 2020 and June 2024, average productivity growth fell further to 0.3% per annum. Australian Bureau of Statistics [5204.0 Australian System of National Accounts](#), 25 October 2024, last accessed 18 July 2025.

²⁷ Jim Chalmers, [Address to the National Press Club, Canberra – Economic reform in our second term](#), 18 June 2025: “Skills aren't abundant enough or matched well enough to business needs.”

²⁸ A briefing prepared by Treasury for the incoming Labor government in 2025 provided insights into Treasury's policy position in favour of reduced government spending if the government is intent on balancing the budget. Daniel Ziffer, [Fearless and free Treasury isn't holding back — and that's good for everyone](#), ABC News, 14 July 2025: “At first glance, they don't look like much — succinct headlines prepared for Jim Chalmers by Treasury following Labor's May election win. We haven't been given access to the full text of each chapter, but the headlines alone give a rare insight into what Treasury thinks are the big economic challenges facing Australia. They are there in black and white — raising broad and important issues. You want the budget to be sustainable? Let's look at lifting taxes. There's a need to cut spending.”

²⁹ Dr Ken Henry, [Address to the National Press Club](#), 16 July 2025, transcript printed in John Menadue's Pearls and Irritations on 17 July 2025: [Our last, best chance – national environment laws that protect nature and power the net zero economy](#).

Nor is it the answer if the objective is to control inflation and achieve full employment. In 2025, these are the stated objectives of the Reserve Bank Act but, as will be shown below, they cannot be met by use of the tool favoured by the bank – interest rate adjustments. If we are to meet the objectives of full employment with stable prices the government will need full latitude to use its own spending and taxation as the levers most likely to bring demand and supply into equilibrium in the wider economy and prevent them slipping back again into disequilibrium.

Productivity growth is a second order issue compared to this. It may be important for growth in wages in the private sector of the economy; but if full employment is not established first, then whatever gains are made in productivity will not be distributed fairly across the population. Wage rises are unavailable to people who don't have a job. Moreover, it should be acknowledged that businesses don't voluntarily share productivity gains with employees. This is proven by the fact that between 1975 and 2025, the shares of national income going to Australians in wages dropped from 62.1% to 53.7% and the shares that went to corporate profits rose from 17.2% to 27.4%.³⁰ Also, in the ten years to June 2025, total corporate profits in Australia rose by 97.9% or an average of 8.7% annually (year on year) while the total paid in wages rose by only 60.2% or an average of 4.8% annually (year on year). Although these trends began to improve after the election of the Labor government in 2022, over the ten years to 2025, corporate profits rose at 1.8 times the rate of wages paid.³¹ Profits from the labour of Australians are not being returned to them and private sector employers need to be much more strongly prodded by the government into sharing productivity gains with Australians in wages. This is another reason to prioritise full employment. Full employment is required to incentivise businesses to share productivity gains with employees in wage rises and to invest in things that will enhance productivity itself, such as research, on-the-job training and development, and up-to-date equipment and technology.

It should be noted here that if this investment is to be facilitated, business needs low interest rates, not the higher rates favoured by the RBA whenever it wants to reduce inflation. High interest rates disincentivise business investment. This points to the need to elevate full employment to the top of the agendas of both the RBA and the government, otherwise businesses will not be incentivised to employ people and pay them well enough when it does.

Prioritisation of the objective of achieving full employment and elevation of it to a level at least on a plane with managing inflation – or better still, above it – will require a two-fold shift in the minds of the economists in both the Treasury and the RBA:

1. It will require them to shift away from prioritising inflation management by interest rate adjustments and focus more on maximising the capacity to keep *total* spending (demand) in line with the nation's capacity for production from sustainable industries. Industries of wellbeing offer the most advantages here. Later chapters will expand on how this can be arranged but in macroeconomics it will require the government to abandon neoliberalism and neoclassical economics and adopt and exploit the advantages offered by functional finance, particularly the advantage of being able to use spending and taxation as the more effective and far fairer means of controlling inflation.

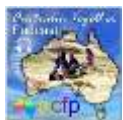
³⁰ Australian Bureau of Statistics, [Australian National Accounts: National Income, Expenditure and Product](#), Table 34, 3 December 2025, last accessed 8 December 2025.

³¹ Australian Bureau of Statistics, [Business Indicators, Australia](#), Tables 11 and 17, 1 December 2025, last accessed 8 December 2025.

2. It will also require the policy makers in Treasury and the RBA to acknowledge that the objective of any decent government is or, at least, ought to be to eliminate unemployment, not just to tolerate and even stoke some level of it in order to achieve a desired inflation rate. For the sake of the safety and wellbeing of Australians they will need to abandon this defeatist approach and also acknowledge that by splitting responsibilities for monetary and fiscal policy between the reserve bank and the government they have been unnecessarily locking the economy into a pattern of growth that is environmentally disastrous, less productive, and highly inequitable in distribution of income, wealth, welfare, wellbeing, and opportunities for employment in industries of wellbeing – those industries that do not threaten our safety by instilling patterns of consumption that cannot be sustained within human and natural resource limits.

A transition to a governance arrangement that facilitates integration of responsibilities for fiscal and monetary policy may require the sort of courage Australians might not expect from many of their politicians. But functional finance offers governments all the support they need to make choices that will supply benefits in wellbeing that can be apparent to the Australian electorate in a very short period of time. There is a political reward waiting for the party of government that has the courage to promote its use and to desist, in particular, from the use of the neoliberal policy favourite of raising interest rates to fight inflation. That favourite has failed in terms of delivering economic prosperity, wellbeing, and full employment. And it will continue to fail in controlling inflation, as will be shown below.

De-prioritising monetary policy and re-integration of it with fiscal policy is a good first step towards safe use of functional finance. The next sections expand on why that should occur and how it can be easily implemented. There are also other steps that must be taken to establish what we can call *effective* functional finance and these will be discussed later in Chapter 4.



An audio version of the following extracts can be heard, read by the author, in [Episode 64 of the Australia Together Podcast](#). [Listen from 20 minutes and 57 seconds through to 37 minutes and 36 seconds.]

Chapter 2, Part 13 – The ease and simplicity of functional finance

Re-organising the distribution of responsibilities in macroeconomic management along the lines suggested above is essential if money is to be deployed in the economy to make Australians safe. Under the economic governance arrangements preferred by neoliberals over thirty years in Australia, money has been deployed in favour of those who benefit from a financialised economy, not those who must rely on employment. In the process, neither the government nor the reserve bank has been able to achieve “the economic prosperity and welfare of the people of Australia.” And so far from achieving the permanent maintenance of prosperity and making Australians safe, the evidence is that they have brought the country’s natural resources to the brink of destruction and threatened our economic prospects and wellbeing.

Nevertheless, the shares of benefit in the total wealth available in Australia’s economy can at the very least be distributed more fairly if the government shifts its focus more intensely onto designing an economy where priority is given first and foremost to establishing the essentials of survival in safety. Functional finance is the most effective means by which money can be deployed in the total economy for that purpose, so it is essential that its rules be understood. These rules are very simple and they bear repeating here:

Rule 1 – prescribes the adjustment of total spending (by everybody in the economy, including the government) in order to eliminate both unemployment and inflation, using government spending when total spending is too low and taxation when total spending is too high.

Rule 2 – prescribes the adjustment of public holdings of money and of government bonds, by government borrowing or debt repayment, in order to achieve the rate of interest which results in the most desirable level of investment.

Rule 3 – prescribes the printing, hoarding or destruction of money as needed for carrying out the first two parts of the program.³²

Any competent government can easily master the use of these rules. To refuse to use them is to deny Australians the possibility of safety. It is to deny the legitimacy of the public interest. More than that, it is to deny reality. It is to deny the fact that we live in an economy where money is not a limited commodity and the fact that anything we can actually do we can indeed afford. It is a fact that Australia's government issues money by fiat and is unlimited in that capacity in its use of macroeconomic policy if it applies the rules of functional finance competently. A government's ability to create money safely may be limited by scarcity of human or natural resources, but not otherwise. It is certainly not constrained by considerations of rising national debt and it need not prioritise "fiscal sustainability". In fact, that is possibly one of the worst things a government can do in a fiat currency economy. It does nothing more than constrain the spending that is necessary and easily affordable by this generation to release itself from unemployment and "inflation that is too high or too low" and to release future generations from the burden of delayed investment.

As already stated, though, applying the rules of functional finance does require competence, and that requires an economic governance arrangement that suits a financial system based on issues of currency by government fiat. So, as long as Australia's government continues to be a fiat currency issuer it will make no sense whatsoever to make the job of workers in the macroeconomic engine room harder by assigning a responsibility to the RBA that it can't meet – because it doesn't have the most effective tools – and simultaneously cramping the workers in Treasury in the use of the more effective tools.

In summary, the most effective application of functional finance in Australia's economic governance arrangements would therefore:

1. give the Treasury full use and control of Rule 1 to achieve full employment and thereby manage inflation; and
2. oblige the Treasury and the RBA to act in a fully integrated economic governance system in applying Rules 2 and 3, with the provisos that
 - none of the rules can be used in such a way as to permit austerity (ever), and
 - decisions on monetary policy, including cash rates, be driven not by reference to a target inflation band but by the need to achieve the rate of interest which results in the most desirable level of investment within the whole economy.

³² Abba P. Lerner, Roosevelt College, [Functional Finance and the Federal Debt](#), Social Research, February 1943, reprinted in 1955 by the American Economic Association.

The most desirable level of investment within the economy will be the level that results in full employment. Full employment in this arrangement is more likely to equate to an unemployment rate of between 0.5% and 1%, as pertained in the post-war boom period. It will not equate to the reserve bank's preferred NAIRU which is usually above 4%.

Technocrats and politicians accustomed to thinking along neoliberal lines will doubtless protest that stabilising Australia's economy can surely not be as simple as applying the rules of functional finance and stabilising cash rates in a low band so that those in charge of fiscal policy can be properly supported in their efforts to achieve ongoing full employment. Indeed, ever since it was first developed, many mainstream economists have protested that functional finance is just too simple to be true. As Abba Lerner observed in 1943:

Fundamentally the new theory, like almost every important discovery, is extremely simple. Indeed it is this simplicity which makes the public suspect it as too slick. Even learned professors who find it hard to abandon ingrained habits of thought have complained that it is "merely logical" when they could find no flaw in it.³³

But while in the early post-war years of the 20th century orthodox economists may have rejected functional finance by suggesting that it's too simple, that is not why it has been kept off the table since the 1980s as an option for effective arrangement of governance in the macroeconomic engine room. Functional finance has been pushed aside by governments and banks in Australia because it does not suit those who prefer a financialised economy, low wages, and neoliberal inequality in access to national wealth and resources. That neoliberal preference is inimical to full employment and the wellbeing of Australians and therefore it is demonstrably contrary to the public interest. For that reason alone, democratic governments should be pressed to justify why they should not "abandon their ingrained habits of thought" and re-arrange economic governance in the public interest, especially when there is a ready solution to the woes of neoliberalism. This ready solution is what those economists in the second camp spoken of at the start of this chapter have been offering to Australians and those in other developed countries for decades. And since no argument has been advanced by those in the first camp to suggest that functional finance would either fail outright in terms of delivering the permanent maintenance of prosperity or that it would be less useful in that quest than neoliberalism, there can be no justification for any government to refuse to consider the above suggested economic reforms.

Neoliberals have spent decades coming up with all sorts of myths about why those living in wealthy advanced economies like Australia's cannot be accorded fair shares of the national wealth and cannot enjoy rights as equals in access to welfare and wellbeing. But it is time to put those myths aside and recognise that no government can be justified in persisting with neoliberal economic policies and the governance arrangements that support them contrary to the public interest. The abstemiousness of neoliberalism is simply not necessary in an economy where the currency is issued by government fiat. In light of this, anyone privileged to be elected to the Australian parliament should have regard to John Maynard Keynes if they wish to be accorded credit for acting in the public interest. Keynes spelled out a wonderful vision about the sort of society and standard of living

³³ Abba P. Lerner, Roosevelt College, [Functional Finance and the Federal Debt](#), Social Research, February 1943, reprinted in 1955 by the American Economic Association.

that is possible if modern governments shuffle off the mind-forged manacle of austerity. In 1942 he said:

Let us not submit to the vile doctrine of the nineteenth century that every enterprise must justify itself in pounds, shillings and pence of cash income ... Why should we not add in every substantial city the dignity of an ancient university, ... an ample theater, a concert hall, a dance hall, a gallery, cafes, and so forth. Assuredly we can afford this and so much more. Anything we can actually do, we can afford. ... We are immeasurably richer than our predecessors. Is it not evident that some sophistry, some fallacy, governs our collective action if we are forced to be so much meaner than they in the embellishments of life?³⁴

The above history of the development of Australia's economic governance arrangements would tend strongly to support Keynes' assertion that a fallacy has governed our collective action. He would not have called that fallacy "neoliberalism", having died more than thirty years before the emergence of the term. But what he would not have disputed is that in an economy where money is created and destroyed by government fiat, there is no need for governments to be mean. And in modern, wealthy Australia there is certainly no need for the inequality and outright cruelty of neoliberalism. Nor would Keynes have underestimated the benefits on offer in functional finance, as we can see from his remarks expanding on the "embellishments of life." In addition to universities, cafes, theatres, galleries and concert halls, we could enjoy so much more. Indeed as he said,

these must be only the trimmings on the more solid, urgent and necessary outgoings on housing the people, on reconstructing industry and transport and on replanning the environment of our daily life. Not only shall we come to possess these excellent things. With a big programme carried out at a regulated pace we can hope to keep employment good for many years to come. We shall, in fact, have built our New Jerusalem out of the labour which in our former vain folly we were keeping unused and unhappy in enforced idleness.³⁵

Keynes painted a picture here of a better world than can ever be obtainable under neoliberalism. And we might say that his contemporaries, including Abba Lerner, in their discovery of functional finance offered the world a marvellously efficient system in macroeconomics for making a better life a reality. It is at least as safe a system as has yet been offered to Australians and for this reason, Australia's reserve bank and its governments should be able to dispense with any fears about economic instability that may arise from the above recommended reforms, competently implemented. Any politician interested in re-election would do well to inspire Australians by showing how their world can be a much happier place with governments prepared to embrace these reforms, particularly to spend what we need to spend to ensure everyone is safe.

Having said that, it has to be acknowledged that the Australian people will need to be assured that they can safely dispense with *their* fears. In a deployment of functional finance these fears are likely to arise because the government will be required to use taxation instead of interest rate adjustments to control inflation. Quite rightly, Australians do not trust governments to apply taxation fairly for that purpose – or for any other purpose. However, Australian governments

³⁴ John Maynard Keynes, Address to the BBC, 1942, [Anything We Can Do, We Can Afford](http://www.jwmason.org), J. W. Mason (jwmason.org)

³⁵ John Maynard Keynes, Address to the BBC, 1942, [Anything We Can Do, We Can Afford](http://www.jwmason.org), J. W. Mason (jwmason.org)

routinely use taxation to control inflation and have always done so, even though they have not explained that to the Australian community. Instead, for purely political reasons, they have relied on a fiction that taxation is necessary to fund services. As stated above, however, taxation is not required as a source of funds for services and the reality is that taxes cannot even be imposed until the government has first spent enough money into the economy to create employment and essential services.³⁶ In the main, governments do this every day by employing people direct in wellbeing industries, and by ensuring that the private sector also has access to liquidity. Nevertheless, many Australians may be concerned that a larger public services sector will increase their tax burden; so despite the fact that taxation is not actually necessary to fund services, it will be essential to build the community's confidence that a transition to functional finance will not leave them worse off. The good news here is that it can leave them much better off, depending on how competently it is implemented. Showing people how they will be better off is the key to success. The remaining chapters of this book will provide governments with the technical assistance they need in this regard. That assistance is available in the form of processes which will draw the community into collaborative long term, integrated planning of the nation's future and its finances. Those processes have been developed and tested by Australian Community Futures Planning under the title of National Integrated Planning & Reporting or National IP&R.³⁷ Chapter 3 provides an introduction to National IP&R and Chapter 4 expands on its use in democracy.

Appendix 1, Table 4 – Beliefs of opposing camps in economics

| Table 4 Beliefs of opposing camps in economics | |
|--|--|
| Camp 1 – Neoliberal and neoclassical economics | Camp 2 – Post Keynesian schools of modern monetary theory (MMT) and functional finance |
| <ul style="list-style-type: none"> • Money is a physically limited and scarce commodity. | <ul style="list-style-type: none"> • Money is not a limited or scarce commodity if a sovereign government can create it by fiat (which Australia's government does). • Money is not limited by reference to a physical resource such as gold. Australia's currency is not tied to the gold standard or any other fixed and limited quantity. |
| <ul style="list-style-type: none"> • Access to money is originated through work. | <ul style="list-style-type: none"> • Money originates from the government's creation of it and from the permission they give to banks to lend new money into the economy. • Money is created by entries in the reserve banks ledgers and where the government licences private banks to issue credit by entries in their ledgers. In all instances, money in a fiat currency economy is created by the stroke of a pen or the tapping of a keyboard. |
| <ul style="list-style-type: none"> • If we spend more than we earn, either as an individual, a family, or as a nation, we will be ruined by debt. | <ul style="list-style-type: none"> • Individuals and private entities can be ruined by debt because they cannot create currency to pay their debts. |

³⁶ For an expansive explanation of the function of taxation in a fiat currency economy, see Emeritus Professor Richard J Murphy, [Why modern monetary theory fails without tax](https://www.taxresearch.org.uk/Blog/2025/09/07/why-modern-monetary-theory-fails-without-tax/), Funding the Future, 7 September 2025, <https://www.taxresearch.org.uk/Blog/2025/09/07/why-modern-monetary-theory-fails-without-tax/>

³⁷ Australian Community Futures Planning, <https://www.austcfdp.com.au/national-integrated-planning-and-reporting>

| Table 4 Beliefs of opposing camps in economics | |
|--|--|
| Camp 1 – Neoliberal and neoclassical economics | Camp 2 – Post Keynesian schools of modern monetary theory (MMT) and functional finance |
| | <ul style="list-style-type: none"> • Governments can always pay their debts by creating currency. Fiat currency issuing governments cannot go broke. |
| <ul style="list-style-type: none"> • A government must tax or borrow before it can spend. | <ul style="list-style-type: none"> • A government needs to spend before it can tax. • Nor need a government borrow in order to spend. • A government may choose to offer bonds to banks and financial institutions that may wish to save with the government (because it is the safest place to put money – a government can and will always give them their money back). But this is not borrowing and no bonds need be issued in order to fund government spending. |
| <ul style="list-style-type: none"> • The purpose of tax is to fund government spending. | <ul style="list-style-type: none"> • Tax is not needed to fund government spending. • The primary purpose of tax is to control inflation. • A secondary purpose of tax is to discourage over-consumption of scarce resources, and still another is to prevent or correct the market failures to which the private sector is inherently inclined by its taste for monopolisation or its distaste for competition. • Tax is one of the tools the government can use to help it prevent the price increases that arise from the private sector’s instinctive anti-competitive behaviours. |
| <ul style="list-style-type: none"> • Monetary policy – that is, interest rate (cash rate) adjustments – controls inflation. | <ul style="list-style-type: none"> • Fiscal policy – that is, government spending and taxing – controls inflation. |
| <ul style="list-style-type: none"> • Access to services essential for wellbeing is limited by the finance available to governments. | <ul style="list-style-type: none"> • Where a government issues money by fiat, access to services essential for wellbeing is not limited by finance. It is only limited by the availability of human and natural resources. |
| <ul style="list-style-type: none"> • A government that wants to spend more must tax more. | <ul style="list-style-type: none"> • The more governments spend on non-inflationary industries, the less they will need to tax. • There is an inverse relationship between public spending and taxing – a government can tax less if it spends more, as long as it spends on non-inflationary industries of wellbeing. |

Further questions may be forwarded to ACFP at info@austcfp.com.au

**If you would like to become involved in building a plan for a better Australia, visit the Australian Community Futures Planning website at www.austcfp.com.au
Everyone is welcome to participate.**