

Neisser's Unorthodox Quantity Theory of Money

In: *Reinventing Functional Finance*

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Abstract

This ambitious book seeks both to revive and revise the idea of 'functional finance'. Followers of this doctrine believe that government budgets should concentrate solely on their macroeconomic impact on the economy, rather than reflecting a concern for sound finance and budgetary discipline. Reinventing Functional Finance examines the origins of this idea and then considers it in a modern context. The authors explore the concept of NAIRU and argue that modern economies can operate at the level of full employment without provoking unmanageable inflation. They also contend that budget deficits do not have the deleterious effects commonly ascribed to them; the belief that they do rests on a misunderstanding of modern money. In this context, they highlight the relevance of Abba Lerner's famous dictum, 'money is a creature of the State'. The authors also debate the merits of various proposals for 'Employer of Last Resort' programs, which combine automatic stabilizers with the buffer stock principle.

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