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Payment vs. Funding: The Law of Reflux for Today

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The analytical tension in post-Keynesian thought between the theory of endogenous (credit) money and the theory of liquidity preference, brought to our attention by Dow and Dow (1989), can be viewed through the lens of the money view (Mehrling 2013) as a particular case of the balance between the elasticity of payment and the discipline of funding. Further, updating Fullarton's 1844 "law of reflux" for the modern condition of financial globalization and marketbased credit, the same money view lens offers a critical entry point into Tobin's fateful 1963 intervention "Commercial Banks as Creators of 'Money'" which established post-war orthodoxy, and also to the challenge offered by so-called Modern Money Theory.

Perry G. Mehrling, Institute for New Economic Thinking, Working Paper No. 113 (January 28, 2020), Available at: https://www.ineteconomics.org/uploads/papers/WP_113-Mehrling-Payment-vs-Funding.pdf

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