



Centre of Full Employment and Equity

MMTed

Perspectives on Modern Monetary Theory

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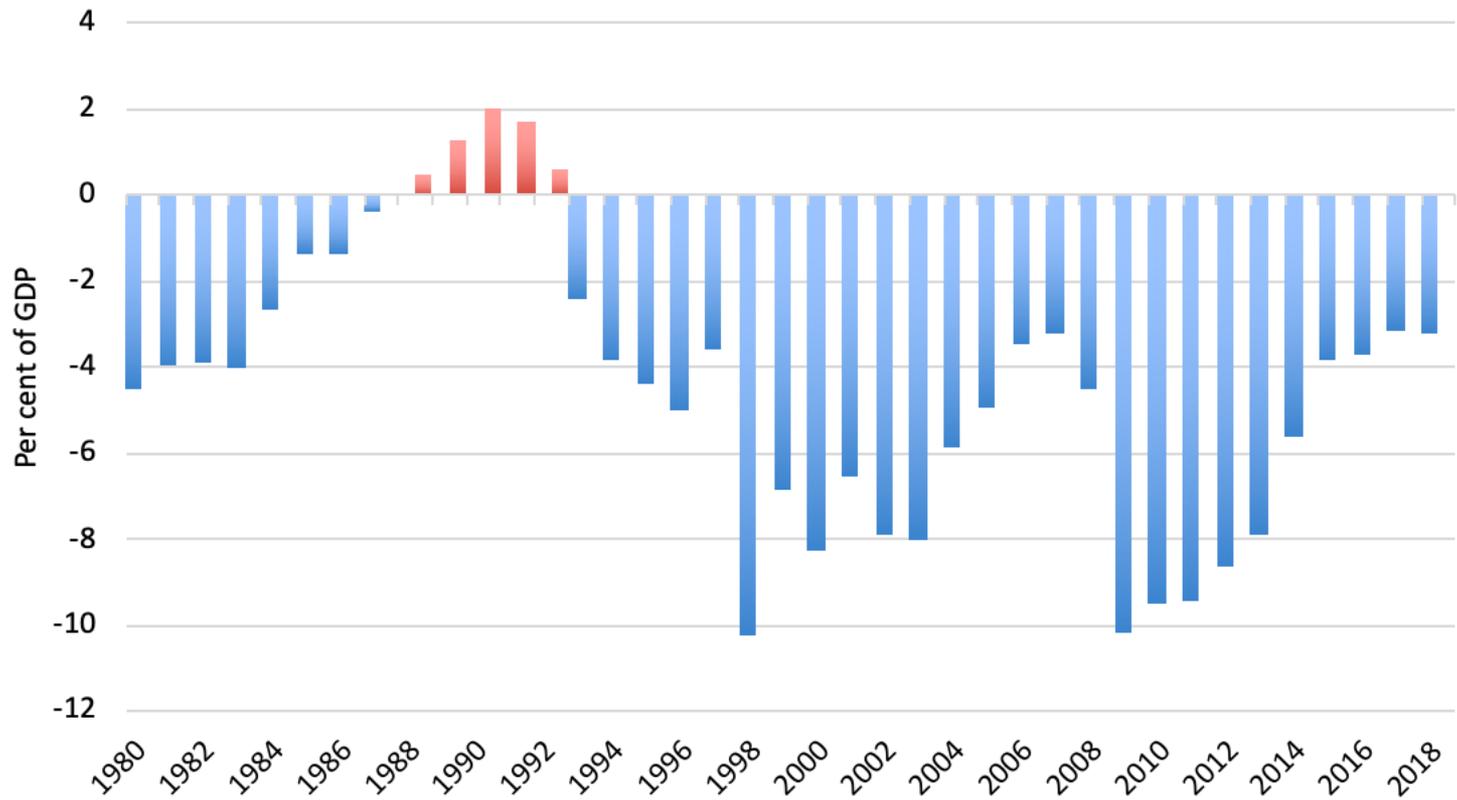
<http://www.billmitchell.org>

Overview

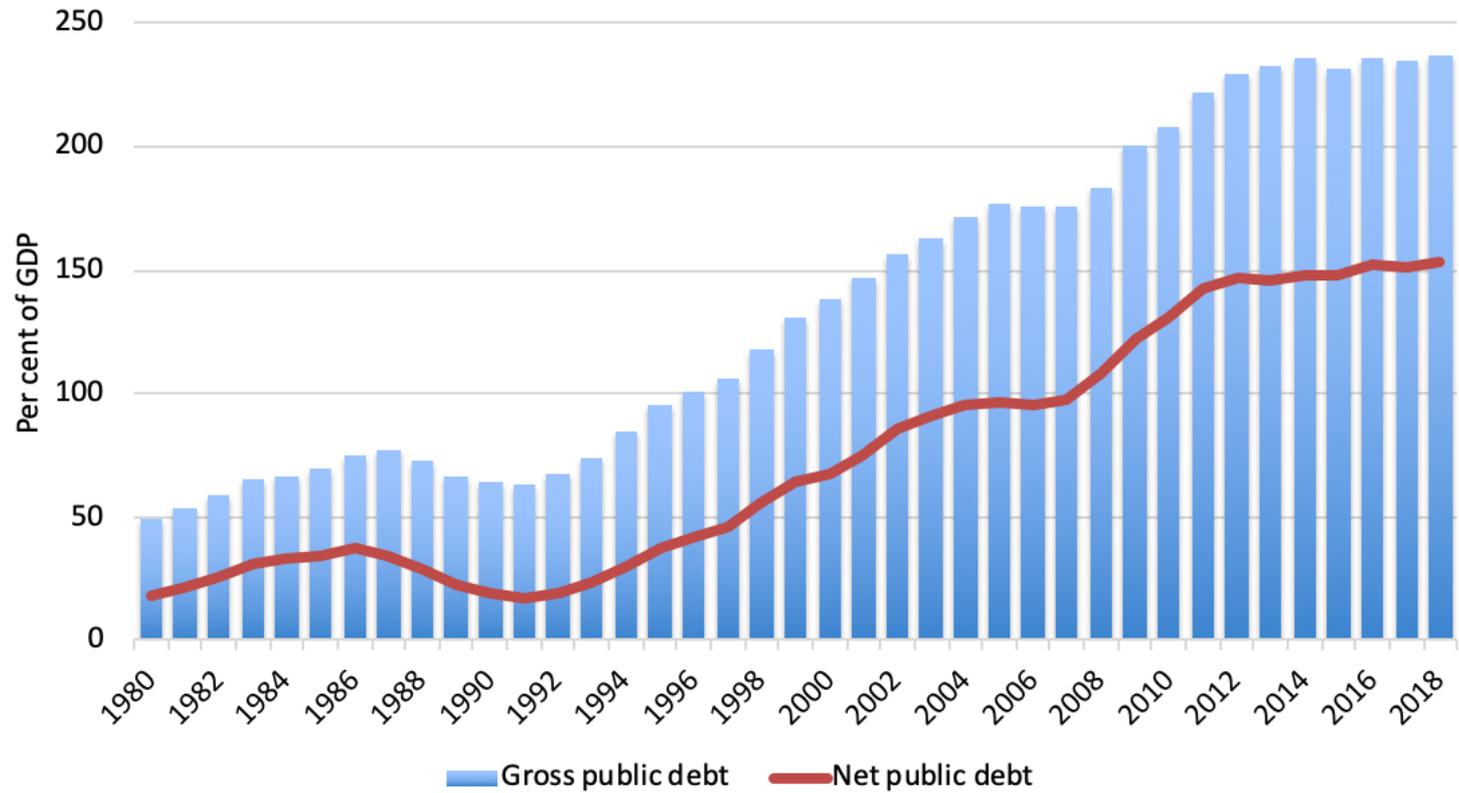
- Modern Monetary Theory (MMT) is now a conversation in academic, government, and activist circles.
- We think it provides a superior lens for understanding how the monetary system operates and the capacities of currency-issuing governments.
- It is ground in institutional reality.
- It has provided a very accurate predictive framework on macroeconomic aggregates for 25 years now.

A peek at the real world ...

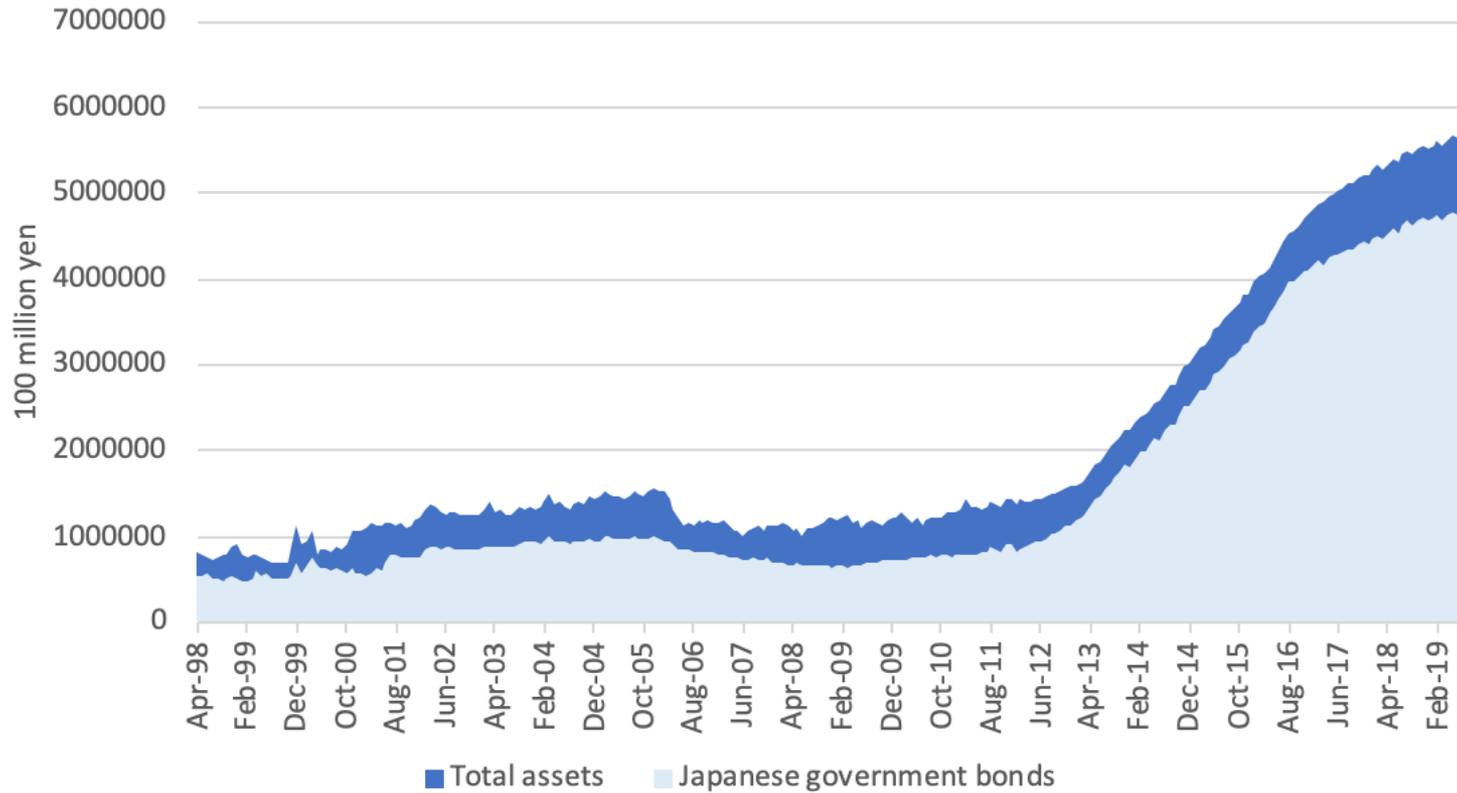
Japan - Fiscal Balance per cent of GDP



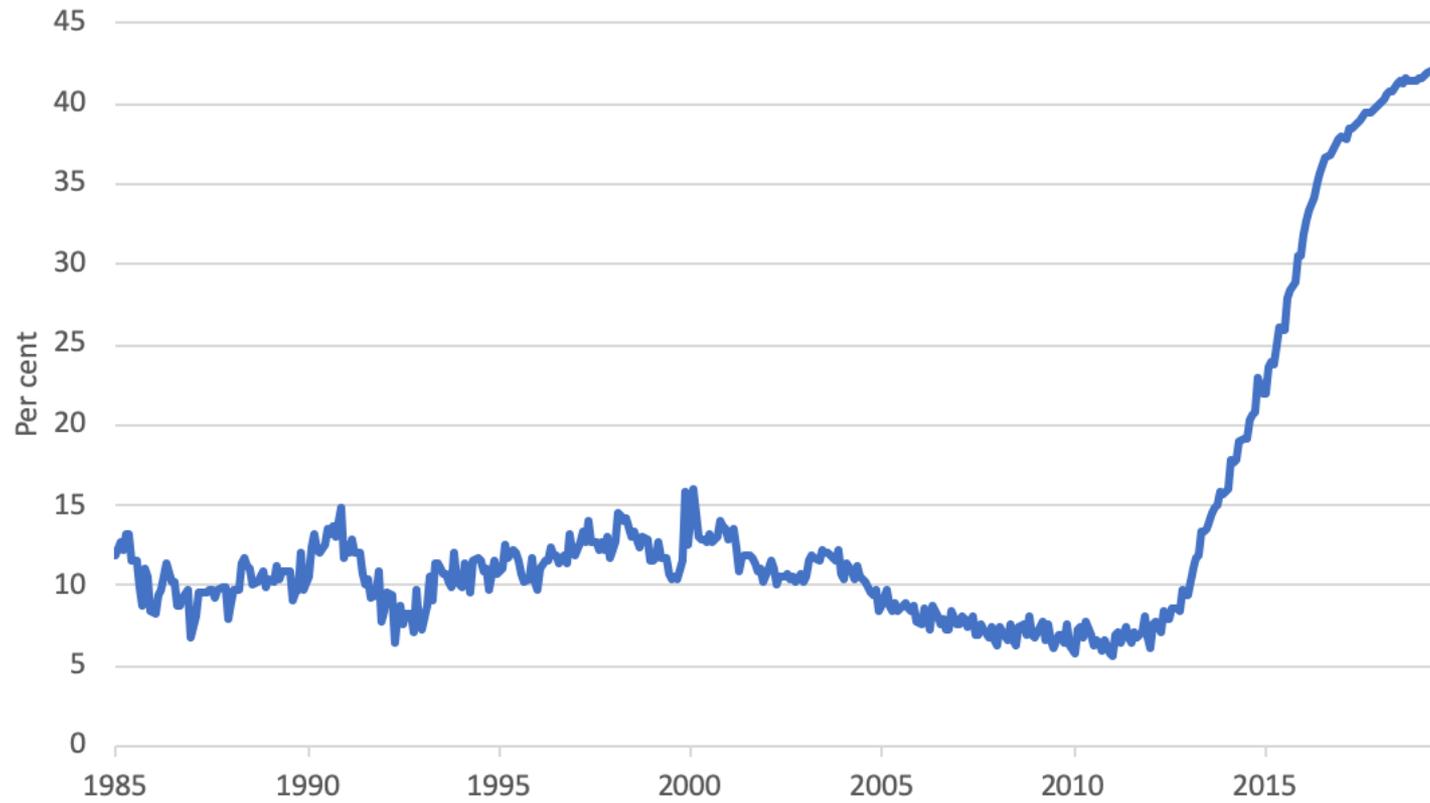
Japan - Gross and Net Government Debt % of GDP



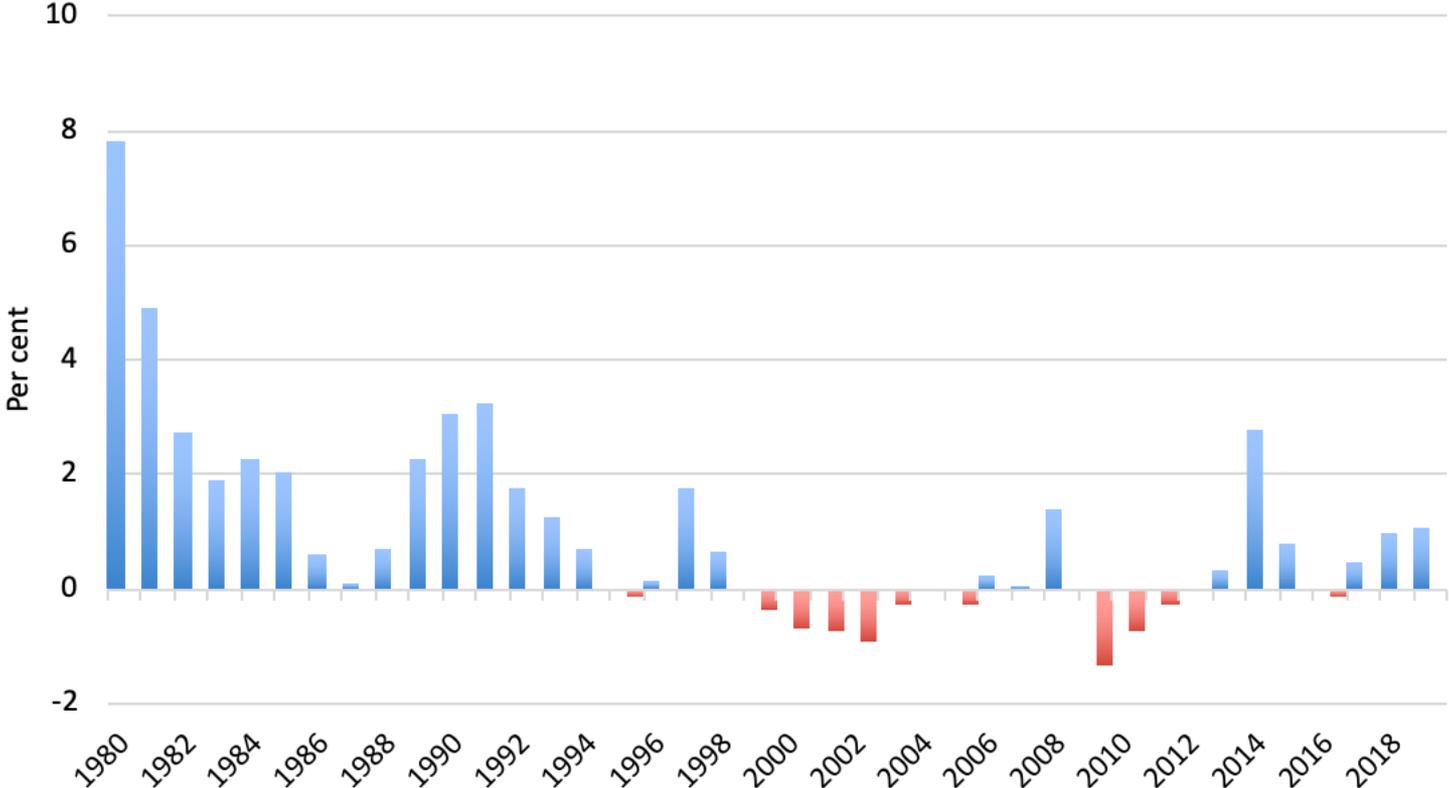
Bank of Japan - Total Assets and JGB holdings (100 million yen)



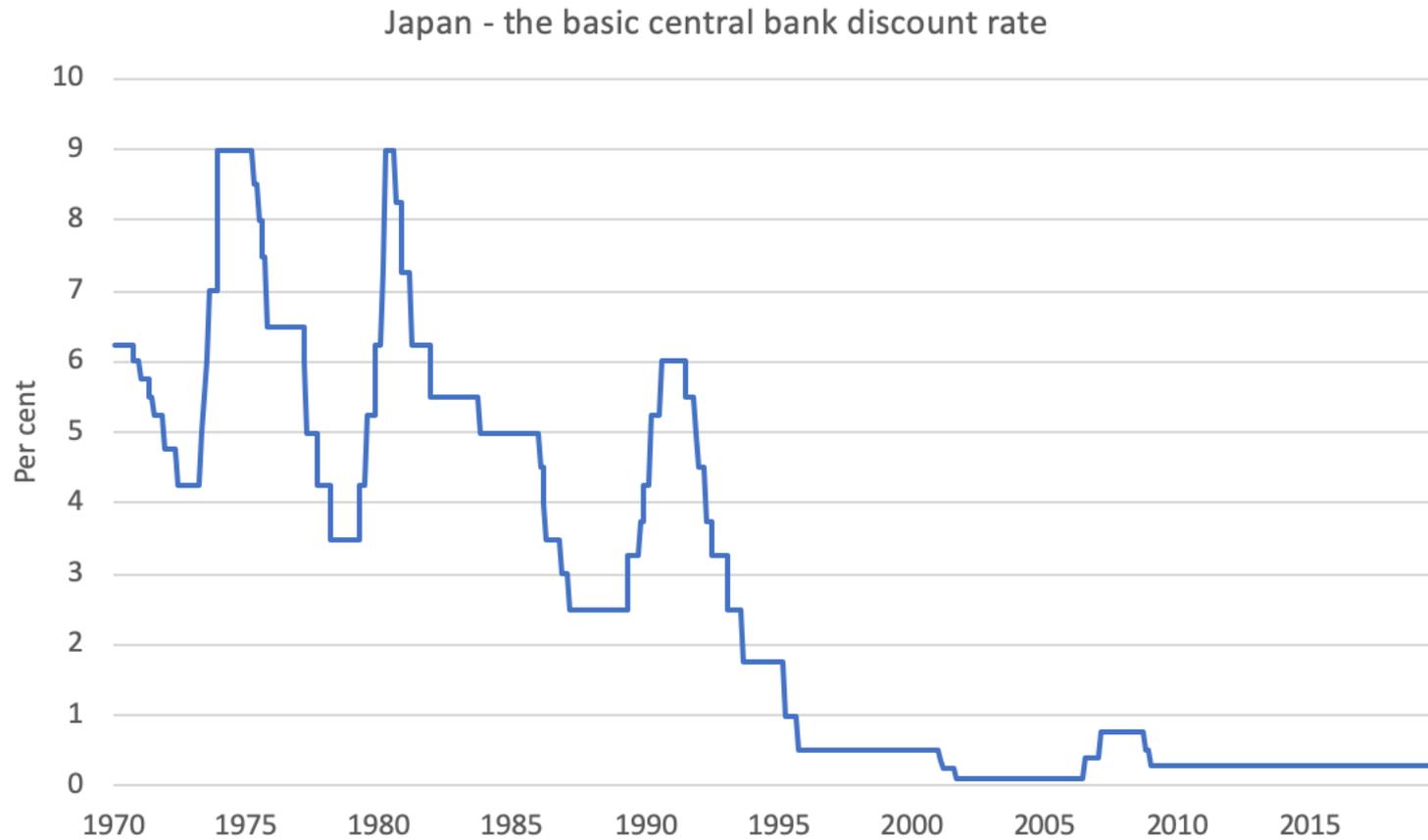
Bank of Japan holdings of Japanese Government Debt (%)



Japan - Annual inflation rate



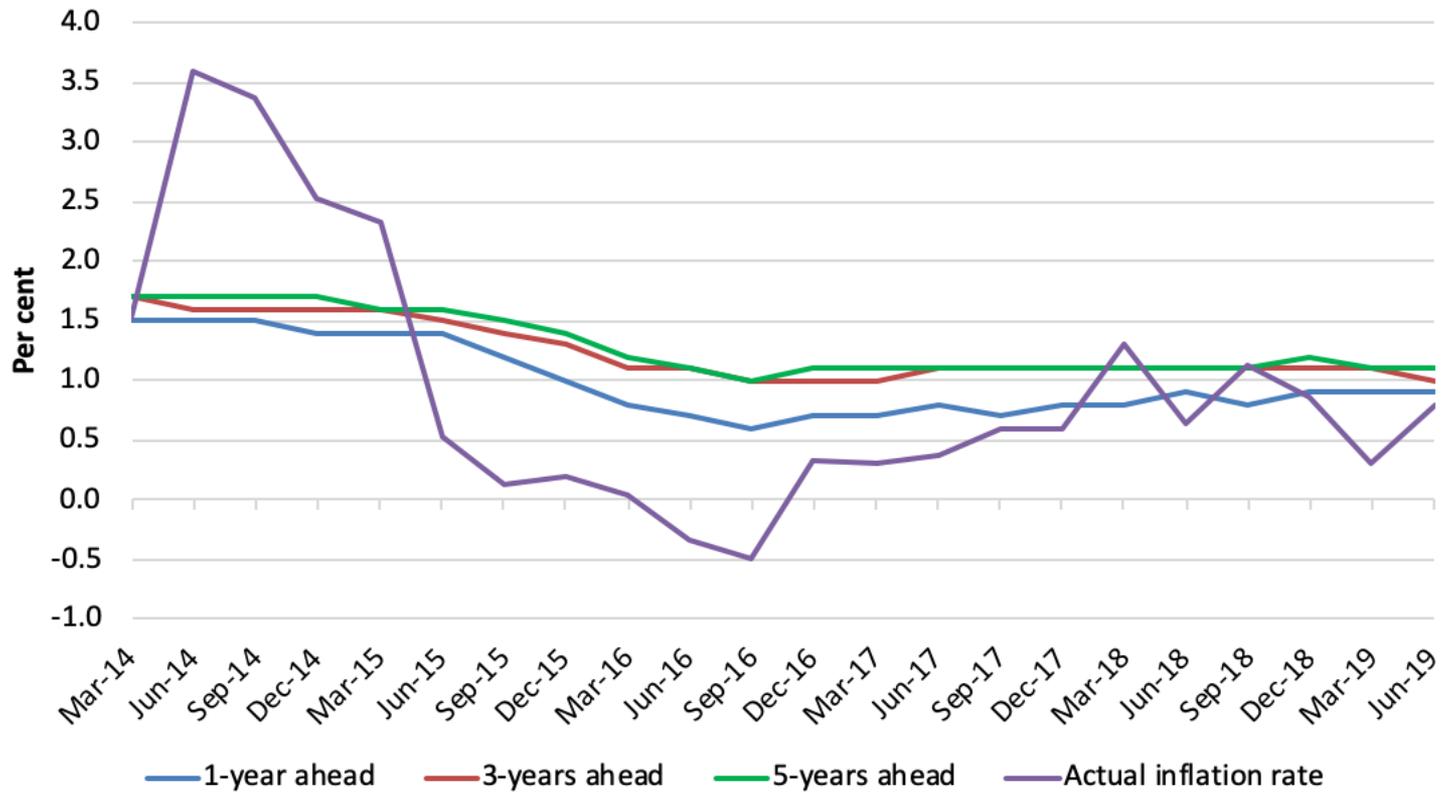
Japan – basic central bank discount rate



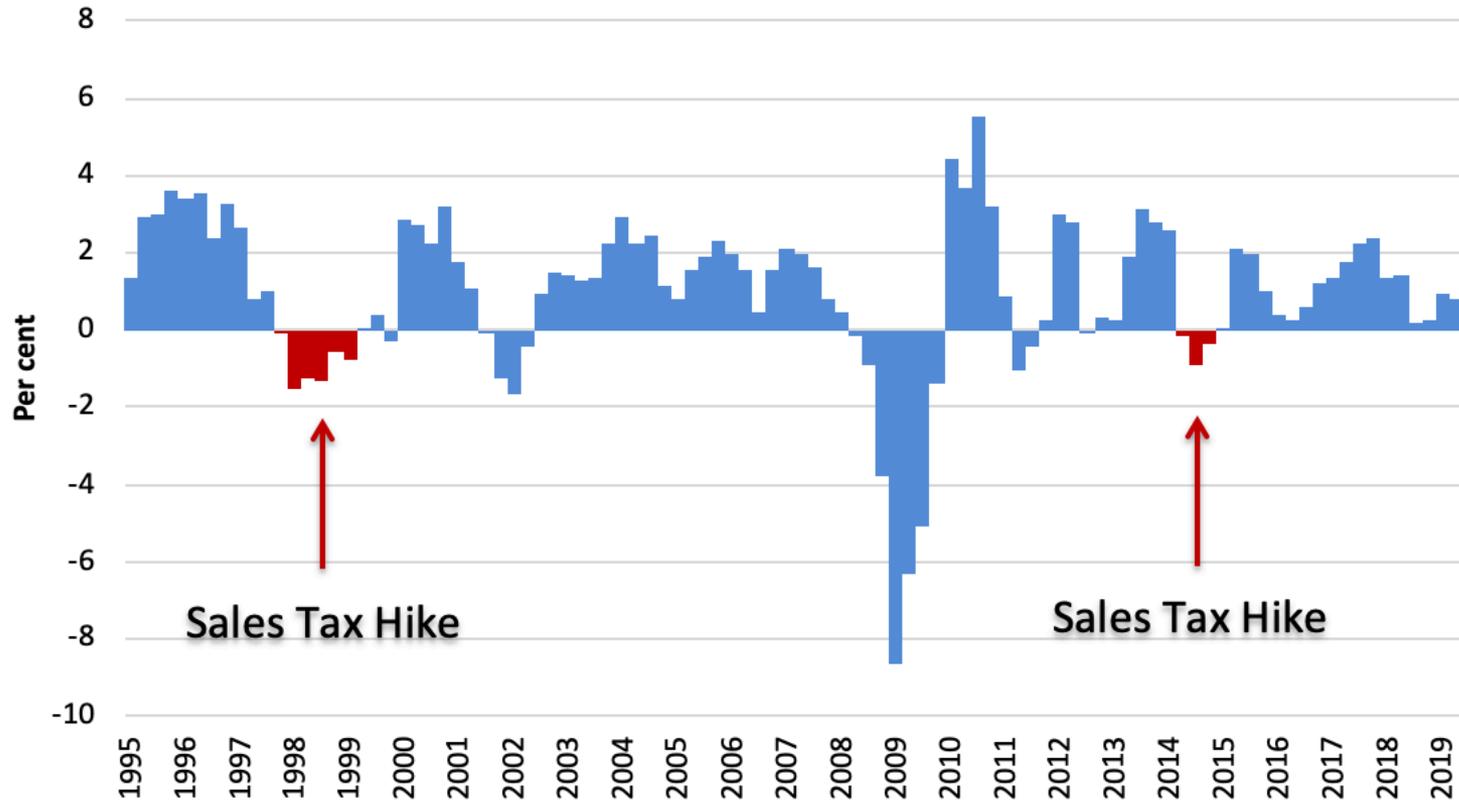
Japanese government 10-year bond yields



Japan - Inflation Outlook of Enterprises - Consumer Prices



Japan - Real GDP growth (% pa)



- Question: Could a mainstream economist explain those graphs?
- Answer: No!

GFC disaster – a long-time in the making ...

- Mainstream macroeconomists became very smug in the 1980s and 1990s.
- They were blithely unaware of reality and the standard ‘models’ which policy analysis was formulated considered ‘money didn’t matter’.
- GIGO - they failed to anticipate or predict the GFC.

Malpractice ...

- If engineers had have failed as badly as mainstream economists have they would be imprisoned for malpractice.
- Mainstream macro teaching and research programs have barely altered.

Basic mainstream myths ...

- The government is like a household.
- 'Printing' money is inflationary.
- Deficits drive up interest rates – crowding out.
- Fiscal surpluses necessary to pay for ageing population.
- Fiscal space defined by financial ratios.
- QE increases capacity of banks to make loans.
- And on ...

And the consequences ...

- Elevated resource wastage.
- Massive income losses.
- Increased income and wealth inequality.
- Rising poverty rates.
- Hollowing out of the middle class.
- Financial market errors – Widow maker trades, GFC, lost profits.
- Increasing recognition that monetary policy dominance is failing.
- Eurozone!

Modern Monetary Theory (MMT)

- MMT began its development around 25 years ago – standing on the shoulders of giants!
- It is now being subjected to increasingly hostile response from a range of quarters.

黒田日銀総裁、MMTには全く賛同できず

BOJ Governor Haruhiko Kuroda, July 19, 2019



“The government must refrain from making wasteful spending. We’re not carrying out MMT.”

Prime Minister Shinzo Abe, March 19, 2019

“I have no plans to make Japan a testing site (for MMT)”

Finance Minister Taro Aso, April 4, 2019



Lens versus values

- MMT is not a 'regime' that we can 'go to'.
- There is no sense in saying “MMT policies are ...”
- MMT is a lens – enhances understanding of the capacity of the currency-issuing government.
- Exposes myths that are used to suppress those capacities and options.
- Exposes the veil of ideology.
- Policy requires us to overlay our value judgements on this understanding.

Evaluating the constraints on government spending

MMT		Is the economy fully employed?	
		Yes	NO
Does the nation enjoy monetary sovereignty?	Yes	Real	None
	NO	Financial/Real	Financial

Evaluating the constraints on government spending

MMT

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Evaluating the constraints on government spending

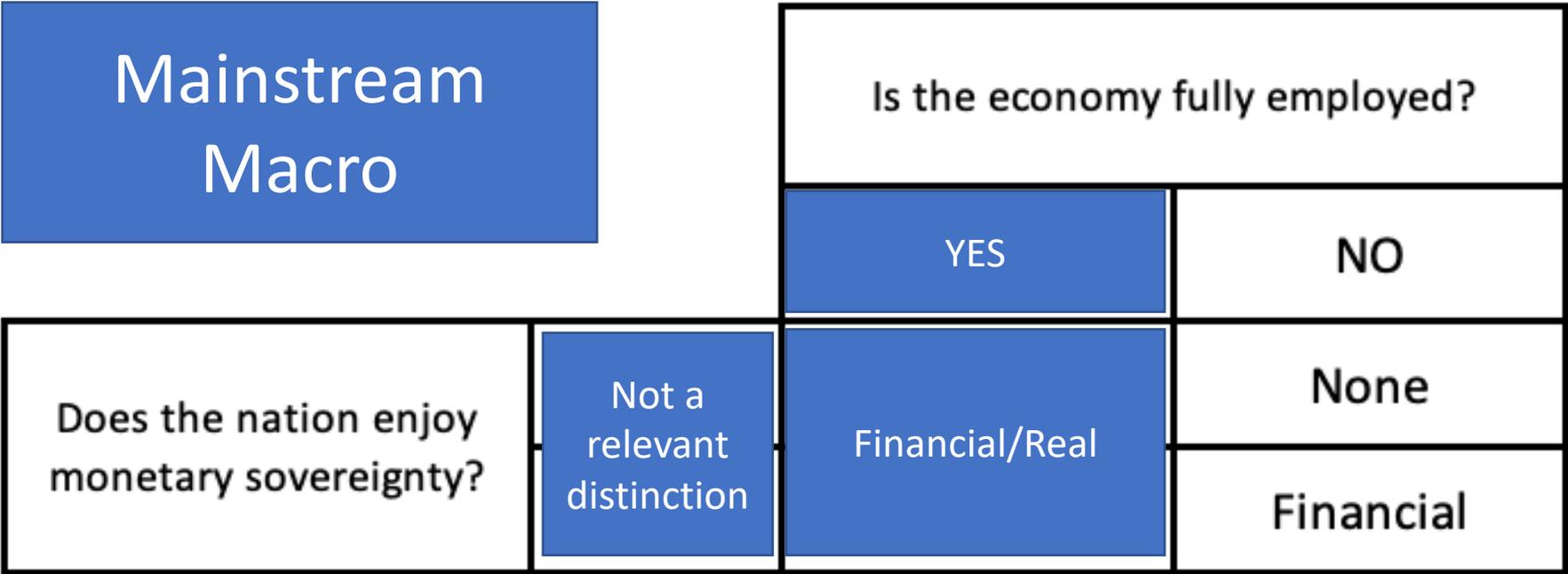
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Evaluating the constraints on government spending



Evaluating the constraints on government spending

Mainstream Macro		Is the economy fully employed?	
		YES	NO
Does the nation enjoy monetary sovereignty?	Not a relevant distinction	Real	Financial
		Financial/Real	

Having your own currency means ...

- There is no intrinsic financial constraint.
- Government can, intrinsically, purchase anything that is for sale in that currency, including all idle labour.
- The government chooses the unemployment rate.
- It doesn't mean that the government can purchase unlimited quantities of goods and services without consequence.

Having your own currency doesn't mean ...

- That the nation will be richer.
- Within the resources available, the government can ensure those resources are fully employed.
- The nation may remain poor if there are limited real resources.

Spending creates income and employment ...

- One sector's spending is another sector's income.
- There is one spending level commensurate with full employment.
- If one sector reduces its spending another has to increase spending to maintain full employment.
- Non-government saving desire creates need for fiscal deficits.

What is appropriate fiscal position?

- Context is crucial.
- Fiscal deficits are neither good nor bad.
- Full employment fiscal condition.

Inflation risk ...

- All spending carries an inflation risk.
- Debt-issuance doesn't reduce that risk.
- The 'printing money' myth – governments spend through digital credits.
- Creation of base money does not increase inflation risk.

Fiscal deficits and crowding out

- Erroneous supply-side view of banking.
- Saving is not finite and is positively related to deficits.
- Fiscal deficits add to reserves and create downward pressure on overnight rates.

Policy effectiveness ...

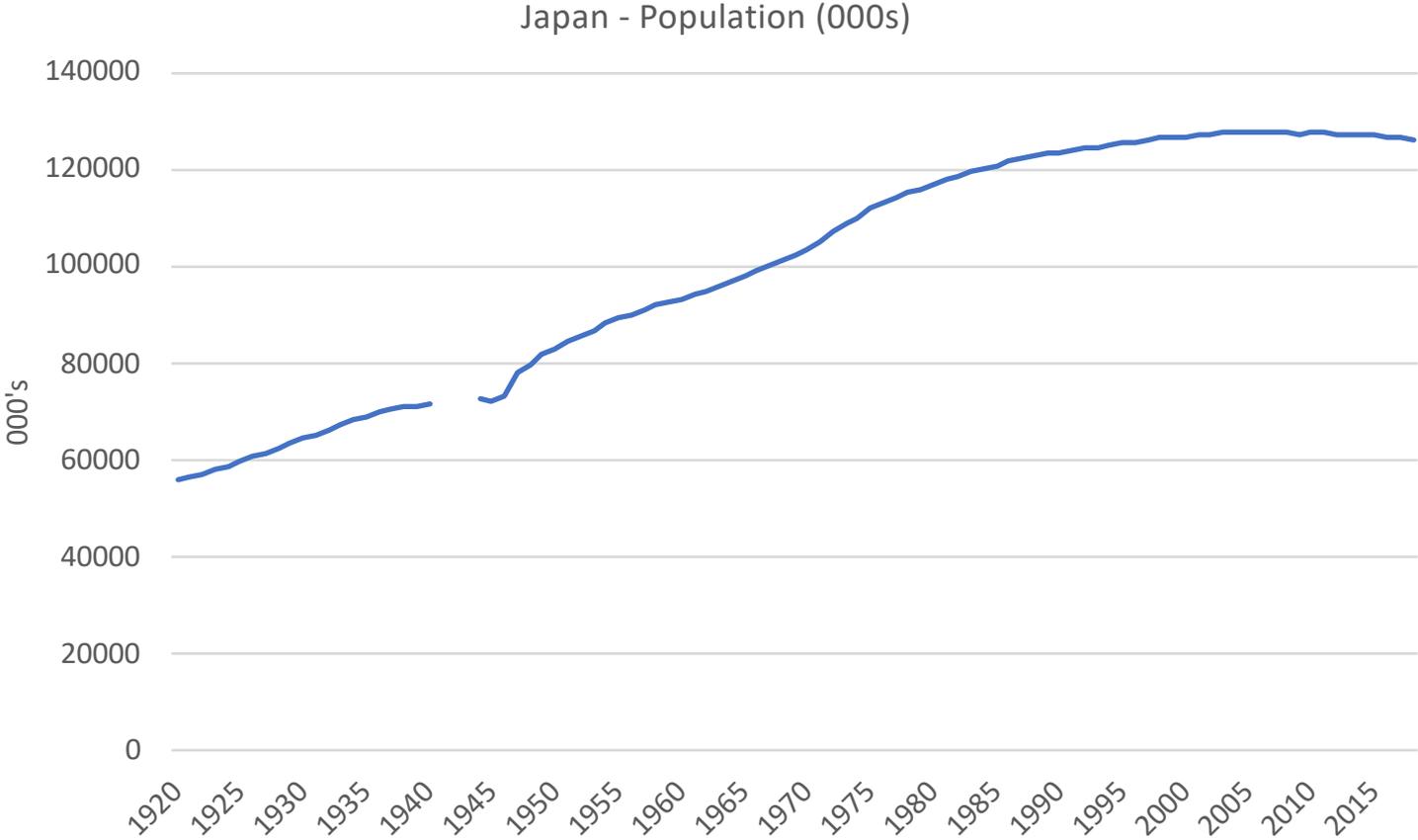
- Monetary policy is largely ineffective.
- Central banks have failed to create inflation.
- Fiscal policy is direct and more predictable.
- More consistent with concepts of accountability and democracy.
- We are entering a period of fiscal dominance.

Buffer stock options ...

- A currency-issuing government which aims to stabilise prices has two available buffer stock options:
 - Unemployment buffer stocks (NAIRU approach).
 - Employment buffer stocks (Job Guarantee approach).

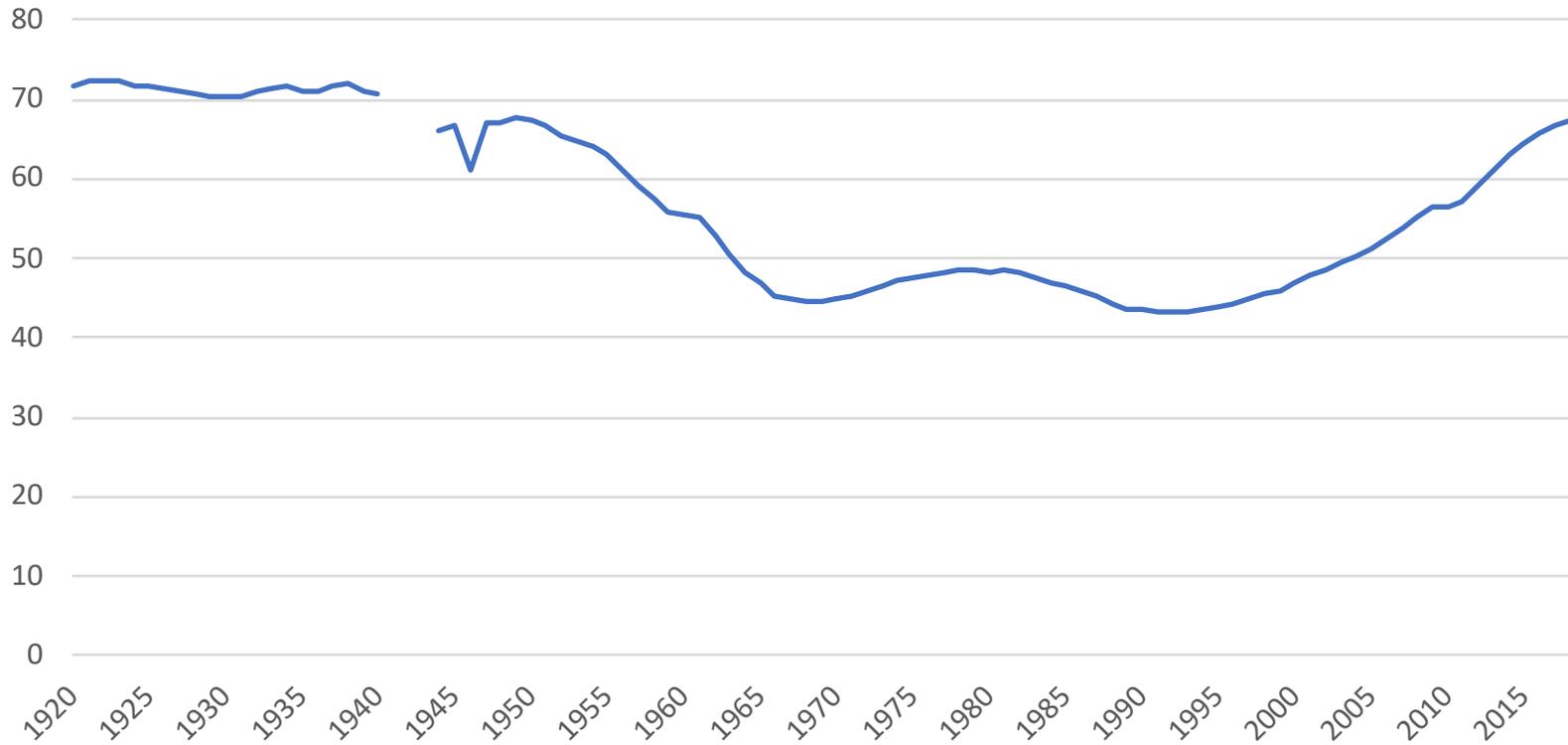
Policy Issue – The ageing population

Policy Issue – Japan’s ageing population



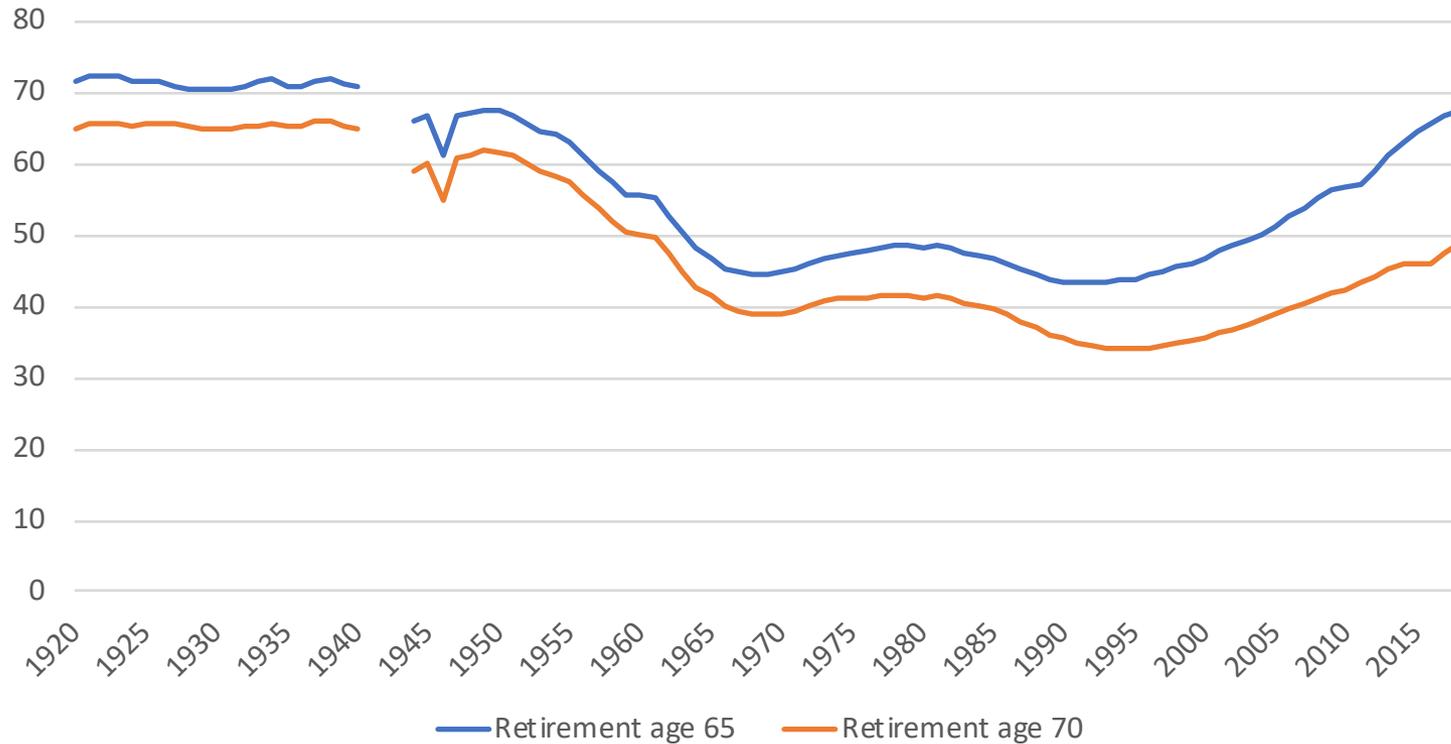
Japan's rising dependency ratio

Japan - Standard Dependency Ratio 1920-2018

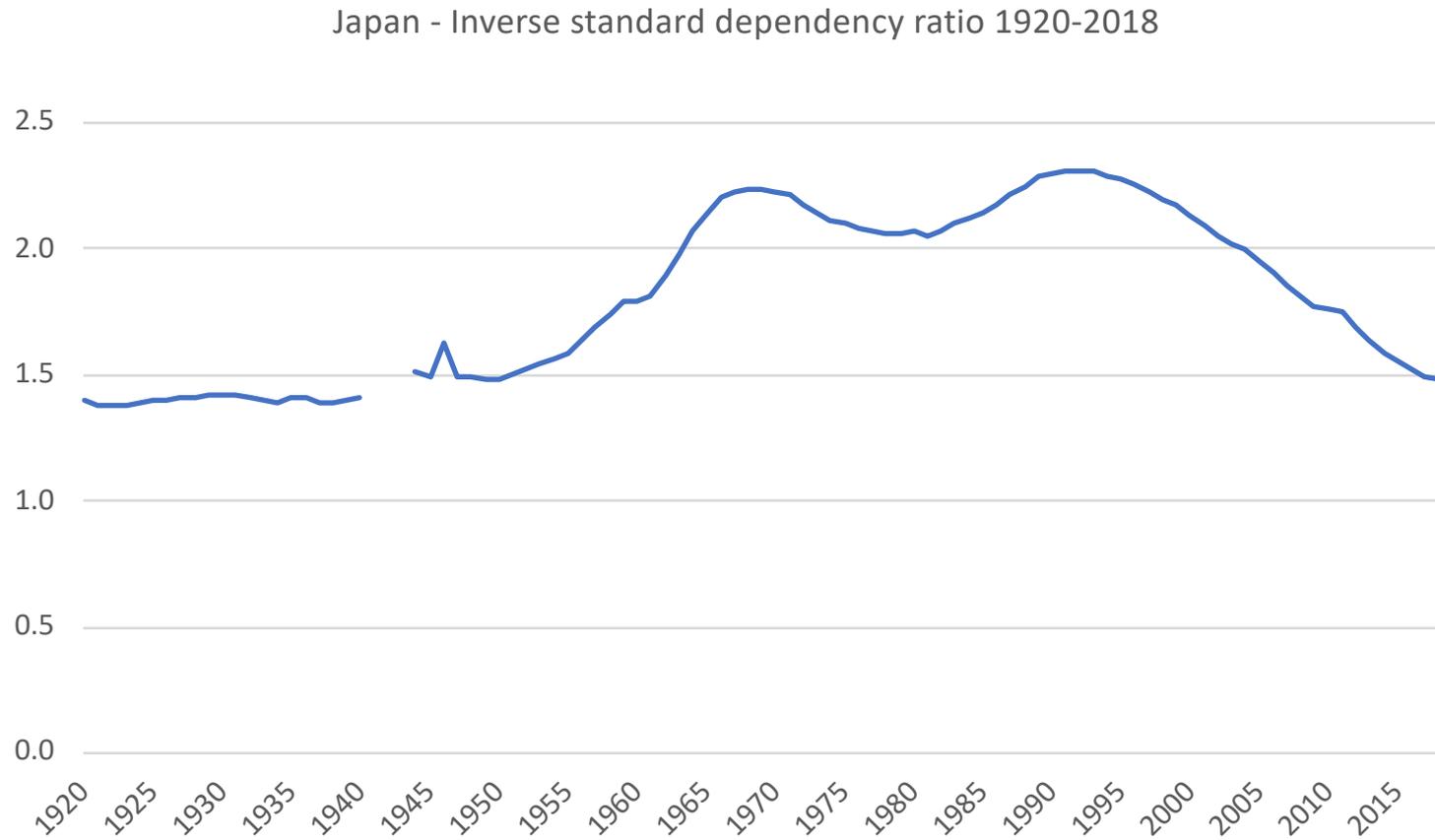


Japan's rising dependency ratio and retirement age

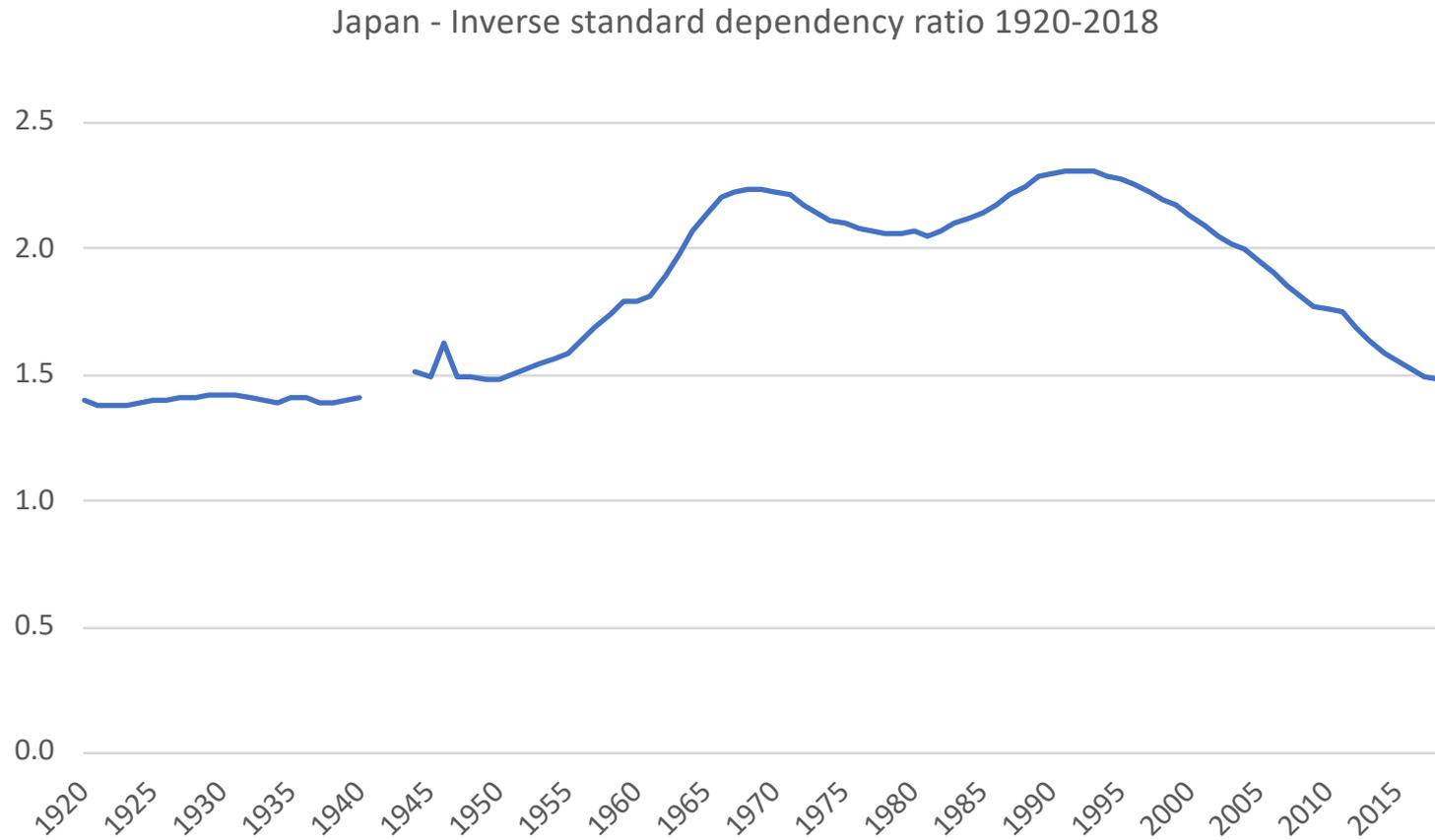
Japan - Standard Dependency Ratio 1920-2018



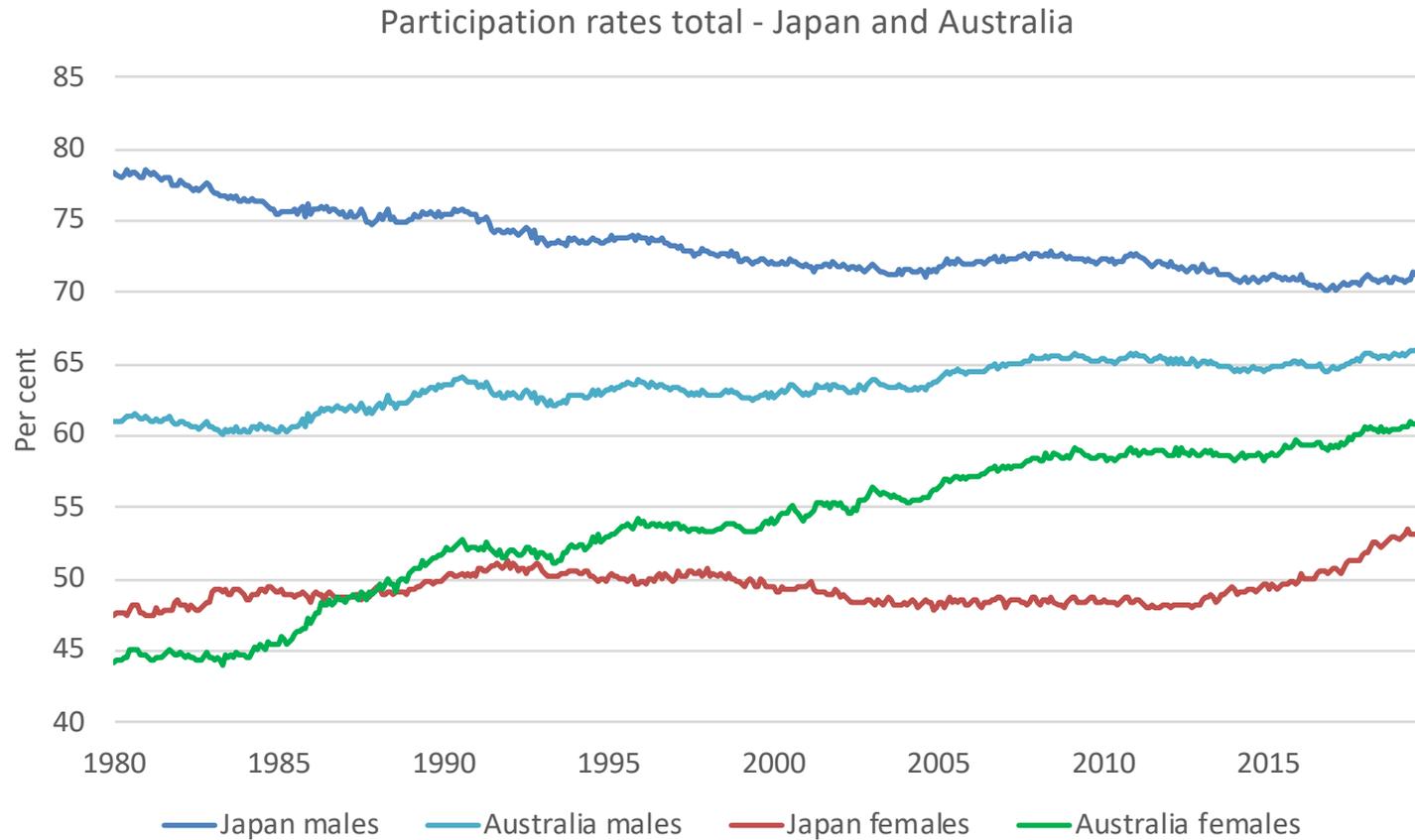
Japan - workers per dependent persons



Japan - workers per dependent persons



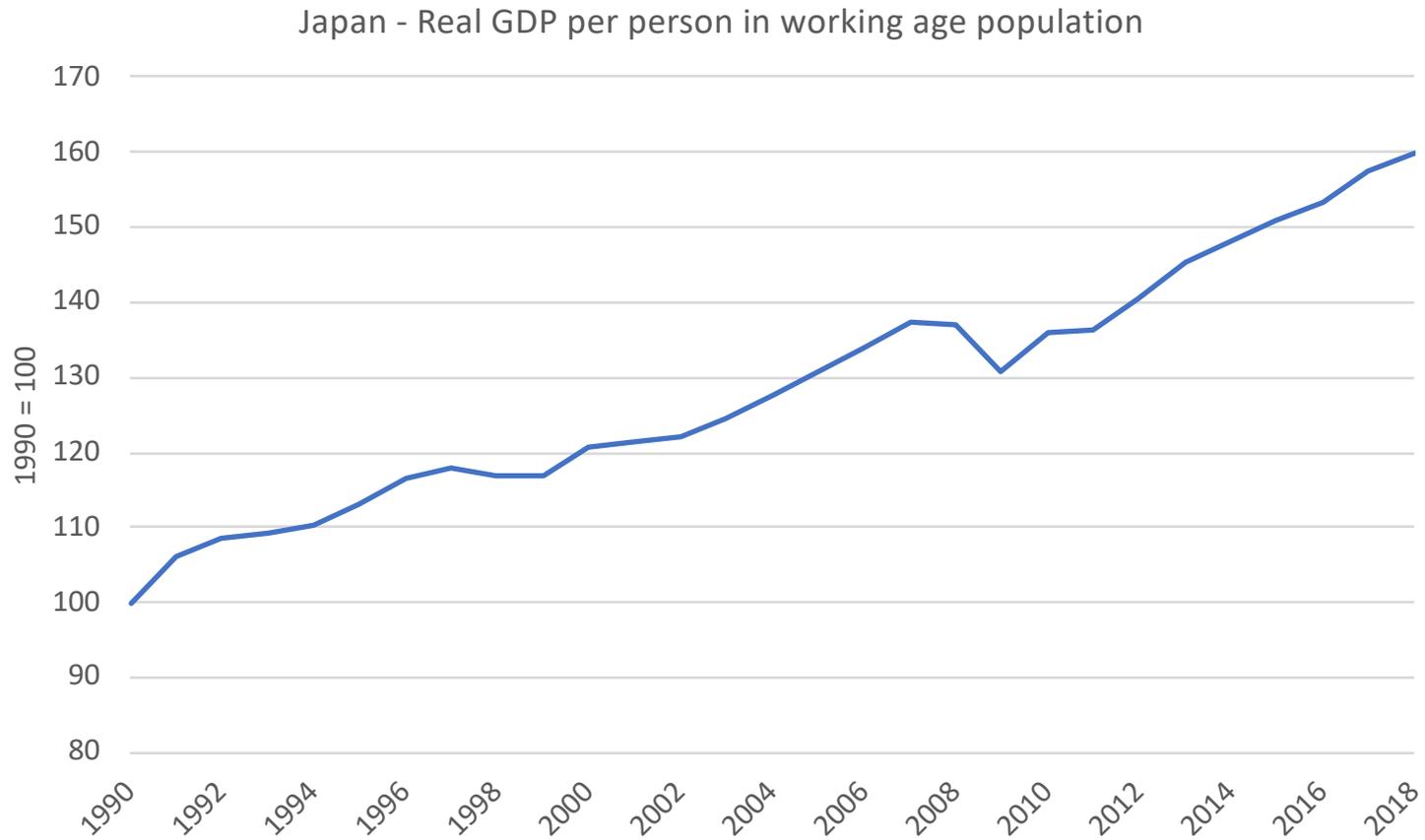
Japan and Australia – participation rates



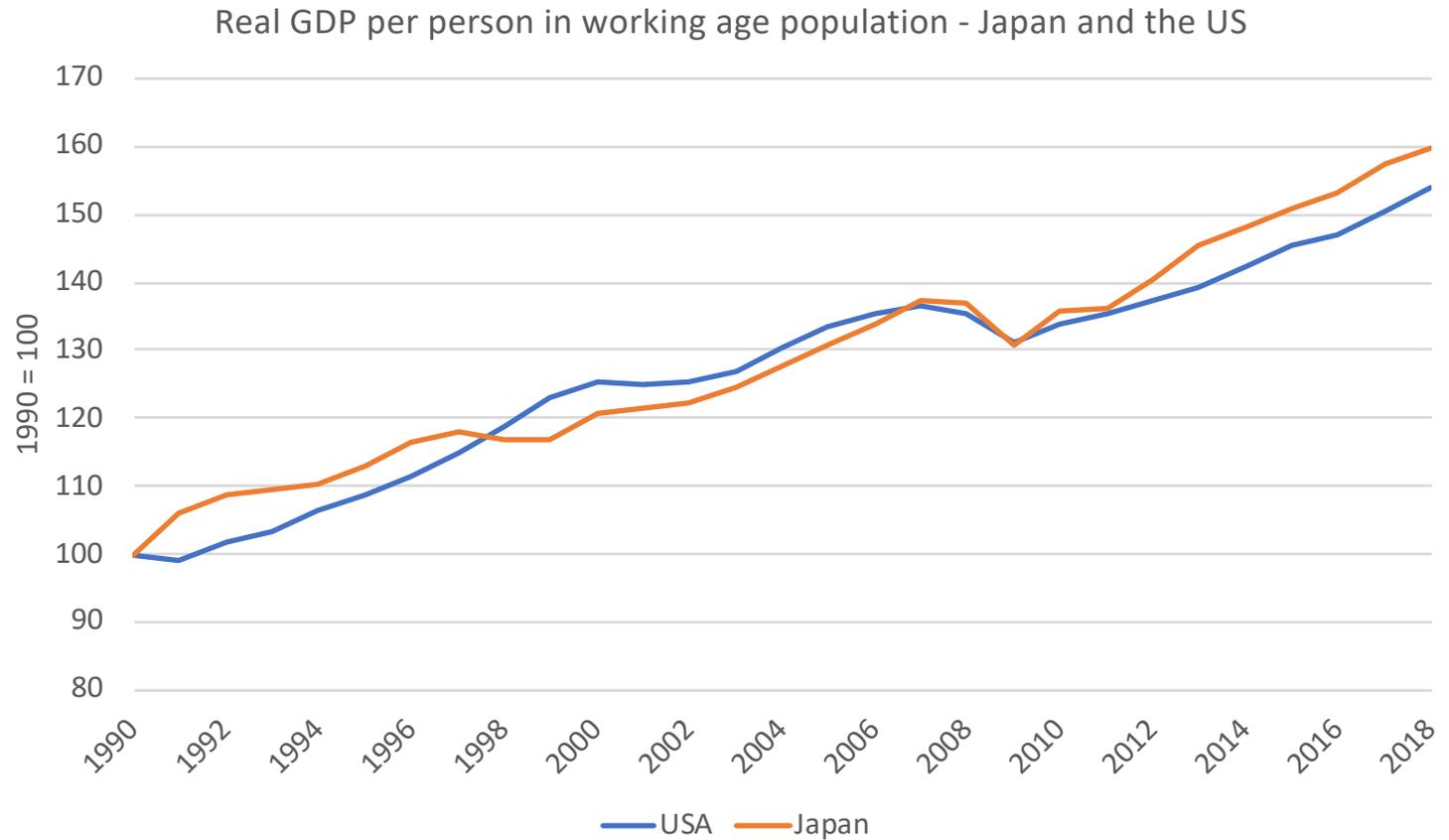
What is the issue?

- Mainstream use it as a basis for austerity.
- Erroneous but also likely to exacerbate the true problem.
- An MMT understanding tells us that the true problem is two-fold.
- First, a nation has to ensure its productive resources are fully utilized – full employment.
- Second, the next generation will have to be more productive than the last.
- Austerity undermines both aspects.

Japan – Real GDP per person of working age



Japan and USA – Real GDP per person of working age



Other issues ...

- Mandatory retirement age.
- Dualism in labour market – precarious work, undermines incentives for training and education.
- Gender biases.
- Child-care.

Policy Issue – Climate change

MMT and the Green New Deal

- FDR New Deal was a cyclical program designed to deal with a collapse in non-government spending.
- It was not a structural revolution.
- GND is a structural program designed to significantly change the patterns of industry output, employment and the consumption patterns of households and firms.
- Will fundamentally alter the line between government and market responsibility for resource allocation.
- Will require a fundamental reconfiguration of the concept of government.

Central role of government

- The government will thus have to play a central role.
- This is appropriate because it brings the responsibility for action and the currency-issuing capacity together.

Why not rely on the market?



Neo-liberal reliance on market-based solutions.

Emission trading schemes amount to privatisation of the commons asset which we call the atmosphere.

Offset credits have disastrous effects in poor countries and regions.

Market-based systems are insensitive to equity issues.

Markets are insensitive to biological systems.

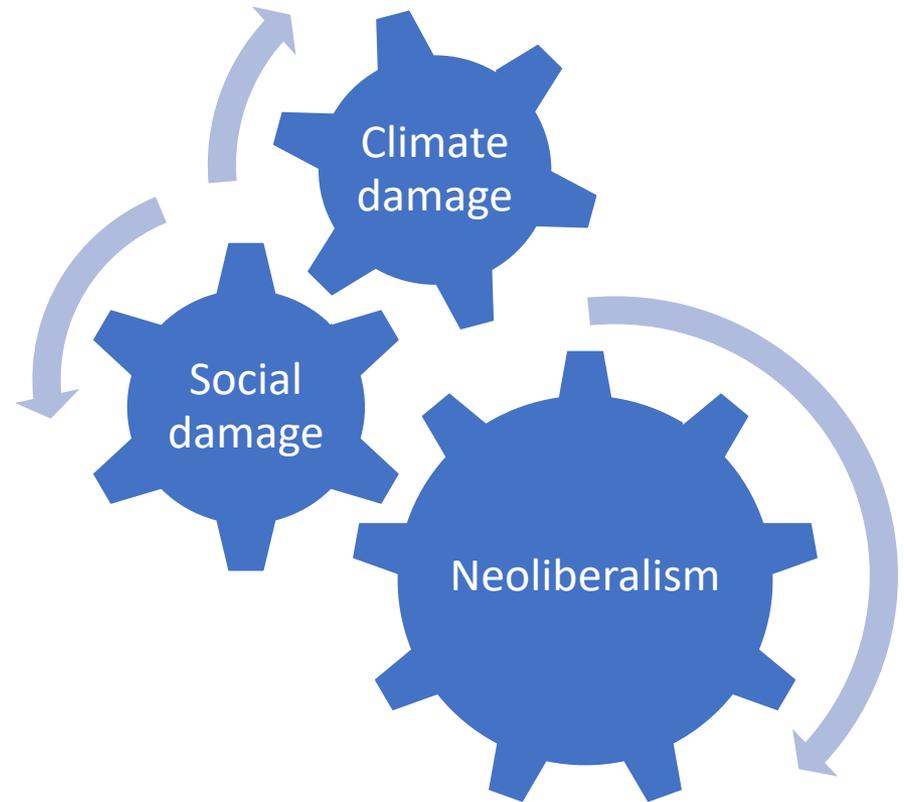
If the science is right major changes are required now and thus require a regulative, rules-based approach.

Governments should impose sunset conditions – industry closure regulation on polluting industries.



Cannot construct the climate and social damage separately from neoliberalism

Identifying failure of neoliberalism helps to define the scope of the initiative



GND Elements ...

- Social and economic equity.
- Well-paying and secure jobs for everyone who wants to work.
- First-class education and training, health and aged care.
- Government take back control of natural monopolies, strategic public assets etc.
- Community resilience and well-being for all regions.
- Stable and ethical financial system.
- 1st-class public infrastructure – transport, communications, utilities, etc.
- Sustainable energy security.
- Meaningful and sustainable climate action.

Just
Transition

Climate
Action

Save the
World!

Just Equitable Inclusive Transition

Dealing with the winners
and losers

A cost sharing framework

Need to ensure that costs do not fall on
workers in targeted industries and their
communities.

Genesis of Just Transition

Brian Kohler (Communications, Energy and Paperworkers Union of Canada)



The real choice is not jobs or environment. It is both or neither.

December 5, 1996

The Just Transition architecture

1. Transparency and Planning



2. Funding & logistic support



3. Redressing Financial Barriers



4. Public banks & pensions



5. Removing price distortions



6. R&D



7. Redeployment, Relocation



8. Skill development



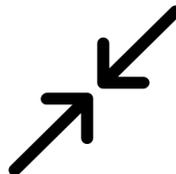
9. Public infrastructure development



10. Public sector job creation

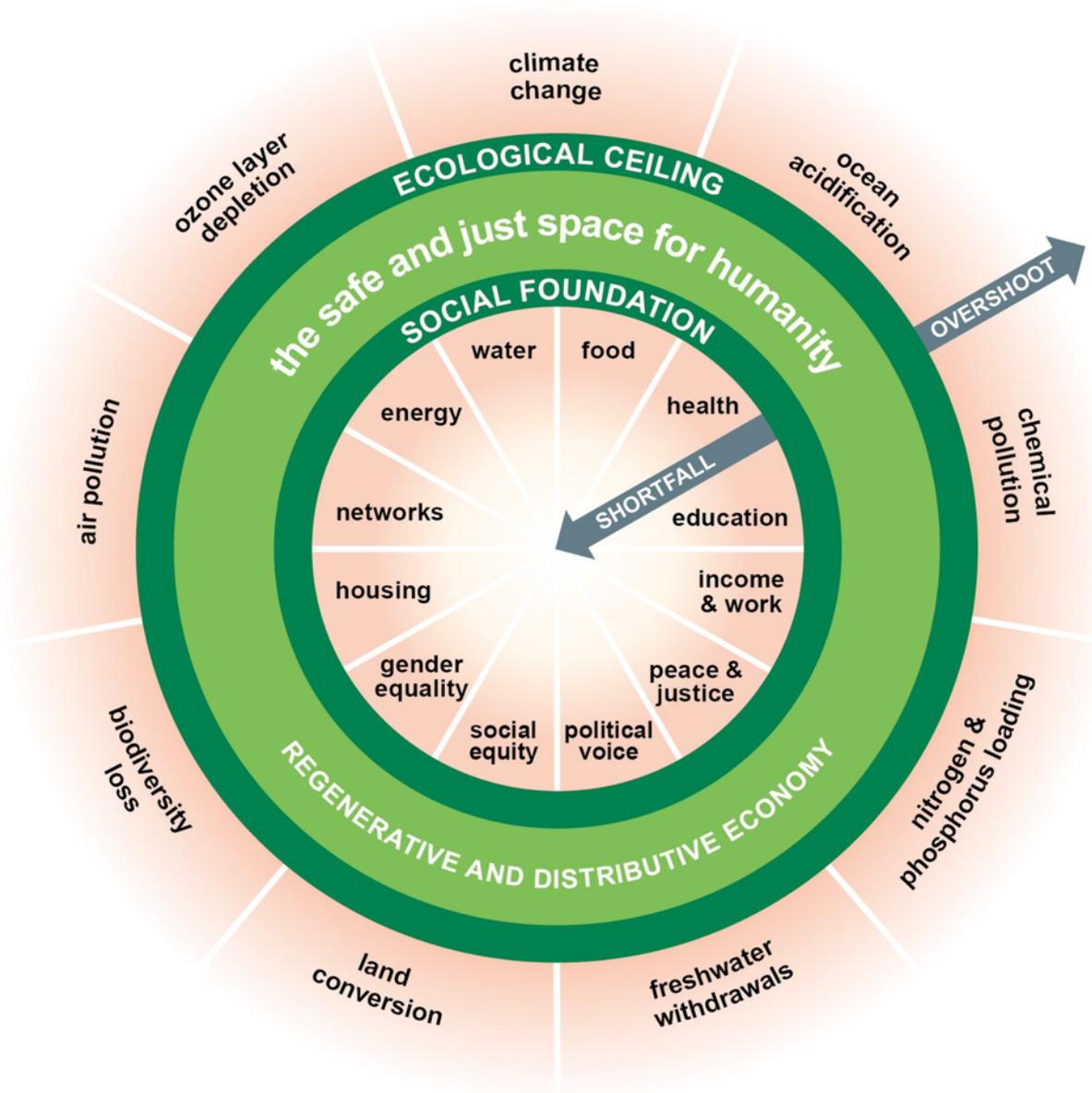


11. Public sector partnerships



12. Job Guarantee





More doughnuts needed

How are we going to pay for it?



MMT

END OF TALK