Perspectives on Modern Monetary Theory

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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 grounded 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 – basic central bank discount rate

Japan - the basic central bank discount rate

Per cent

Question: Could a mainstream economist explain those graphs?

Answer: No!
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 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.
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

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MMT

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Mainstream Macro
Evaluating the constraints on government spending

Mainstream Macro

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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.
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 - Population (000s)
Japan’s rising dependency ratio
Japan’s rising dependency ratio and retirement age

Japan - Standard Dependency Ratio 1920-2018

Retirement age 65
Retirement age 70
Japan - workers per dependent persons

Japan - Inverse standard dependency ratio 1920-2018
Japan - workers per dependent persons

Japan - Inverse standard dependency ratio 1920-2018
Japan and Australia – participation rates

Participation rates total - Japan and Australia

- Japan males
- Australia males
- Japan females
- Australia females

Per cent

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 - Real GDP per person in working age population
Japan and USA – Real GDP per person of working age

Real GDP per person in working age population - Japan and the US

1990 = 100

Years:
- 1990
- 1992
- 1994
- 1996
- 1998
- 2000
- 2002
- 2004
- 2006
- 2008
- 2010
- 2012
- 2014
- 2016
- 2018

Lines:
- USA
- Japan

Values:
- 1990
- 1992
- 1994
- 1996
- 1998
- 2000
- 2002
- 2004
- 2006
- 2008
- 2010
- 2012
- 2014
- 2016
- 2018

Comparisons:
- USA vs Japan
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.
A cost sharing framework

Dealing with the winners and losers

Just Equitable Inclusive Transition

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
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More doughnuts needed
How are we going to pay for it?
END OF TALK