Funding the Future

Why MMT? A discussion with Warren Mosler

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This post was first published in February 2018 on this blog and I confess I had forgotten about it. It seems worth republishing now.

A few weeks ago I mentioned on the blog that *Warren Mosler had agreed to answer some questions on Modern Monetary Theory (MMT), of which school of thought he is one of the founders. Well over 200 questions came in as a result.*

I tried to summarise these and have sent some to Warren now. This Q & A is meant to be an overview of MMT. I am playing the role of sceptical enquirer: the questions I ask have to be viewed in that light. Warren has given short answers but has suggested he is open to answering responses. (NB: See the original post for these)

R: What is MMT?

W: A description of monetary systems.

R: What does MMT say money is?

W: Today's currencies like the $, yen, euro, etc. are simply tax credits- the thing needed to pay taxes.

R: But it’s now widely though that banks make our money?

W: Bank loans create bank deposits, under charter, regulation, and supervision of the govt.

R: Can we trust them to do that?

W: Only to the extent you trust govt. regulation and supervision.

R: What, then is the role of central bankers?

W: Setting the policy rates.

R: And what is the role government come to that? And how do we stop there being too much money?

W: Depends on the definition of 'money'. I suspect it's more about too much spending? That can be addressed by cutting govt. spending or cutting private sector spending by various means including govt. spending cuts, tax increases, increased lending standards, etc. etc.

R: If tax is to stop inflation why do we get so worked up about it and what it does?

W: Tax increases will reduce aggregate demand and inflation to the extent the inflation is being caused by excess demand. If that's not the cause- and it generally isn't- there are other tools for addressing price increases from those other sources. And it seems people dislike inflation more than they dislike unemployment?

R: It’s widely thought that interest rates are meant to be used stop inflation? What does interest do if tax stops inflation? Is there a good rate of inflation?

W: Not that I know of. There can be a good economy in the context of both low and high rates of inflation.

R: What does full employment really mean?

W: For me the best we can do is offer a transition job to anyone willing and able to work to both promote the transition from unemployment to private sector employment, and to act as a more effective buffer stock for the price level than unemployment. At that point we are continuously at a form of full employment.

R: What is the Jobs Guarantee?

W: Another name for the above described transition job.

R: Isn’t that the same as `Universal Basic Income?

W: No, with the transition job you have to at least 'sell your time' to get paid.

R: But isn’t that just a money hand out?

W: As above. The value of the currency is a function of what you have to do to get it from the govt. It's a simple case of monopoly pricing.

R: Surely what you’re really saying is we’re just going to pile debt on debt at cost to future generations?

W: The public debt is the amount spent by the government .that has not yet been used to pay taxes, and remains outstanding until used to pay taxes in the form of cash, reserves, and securities. Treasury securities are nothing more than time deposits of the currency at the central bank.

R: If we don’t need debt do we need money markets?

W: Not for public debt or interbank lending.

R: But aren’t you ignoring the international dimension here?

W: No.

R: You say we don’t need debt but we need the rest of the world. Won’t they just trash our currency instead?

W: What does that mean? Exports are real costs, imports real benefits. Real wealth is about optimizing real terms of trade. Currency fluctuations per se don't alter real wealth.

R: I’m still not convinced. What about the Weimar Republic, Zimbabwe and even Venezuela. Money printing didn’t work so well there, did it?

W: There problems varied. Weimar was about deficit spending for war reparations of approximately 5% of GDP per month and a massive loss of productive capacity. Zimbabwe lost it's productive capacity, kept govt. spending as before, and the banking system was an open channel for corruption.

R: And what happens to countries that don’t have their own currencies? What does MMT say about them?

W: They are disadvantaged.

R: what about countries who cannot borrow in their own currencies, as many cannot?

W: Example?

R: Given all this, is MMT just some special case with no real use or does it really change the way we should think about the world of economics?

W: It's the general case and will change how you think only if you don't already understand MMT.

R: Convince me: what would a world where the economy was managed as MMT suggests look like? Could I spot the difference, and how?

W: A form of continuous full employment is the likely outcome of understanding the monetary system.