

The problems with Warren Mosler's description of modern monetary theory (MMT)

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Purpose of this note

This note reviews a note published by Warren Mosler on Twitter on 7 April 2023 in response to a comment from Richard Murphy.

TLDR (Too long: didn't read)

On 7 April Warren Mosler posted a paper on Twitter which he claimed presented the fundamentals of MMT. I disagreed with him on that issue on Twitter at that time and was challenged to provide a response.

In this note I argue that:

- Mosler did not present a coherent argument as to what MMT might be in his paper.
- He did, in my opinion, present an argument suggesting that a jurisdiction without a government might be better off than one with a government operating MMT.
- Mosler's description of an economy fails to take into account the existence of commercial banks and their capacity to create money.
- Mosler incorrectly represents that the primary purpose of taxation is to create unemployment when this is not the case.

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- To do so he and Bill Mitchell also appear to argue that MMT requires that a government tax before it spends and that tax revenues must equate to spending, both of which claims contradict usual understandings of MMT.
- Mosler also, in my opinion, misrepresents the cause of inflation by suggesting that it is always created by government action.
- The argument Mosler makes for a job guarantee are consequently based on what I think to be false premises.

An alternative view of MMT that does not rely on these arguments is presented.

The exchange that led to this note being written

The exchange was as follows:



Richard Murphy @RichardJMurphy · Apr 6

...

Replying to @MMTpodcast @BurtyBird and 3 others

I am sorry, but that is not in any way what MMT says. MMT requires tax to a) ratify the value of money b) reclaim money spent into the economy by the gov't to control inflation c) deliver economic and social policy. To pretend tax is not fundamental to MMT is wrong.

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Warren B. Mosler @wbmosler · Apr 7

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Replying to @RichardJMurphy @MMTpodcast and 4 others

...description of Federal Reserve Bank monetary operations and d
thought of as debts and credits to accounts as kept by banks, bus

Mosler independently originated what has been popularized as M
to the academic community through an internet discussion group.
search has revealed writings of authors who had similar thoughts o
ly understandings and insights, including Abba Lerner, George Knj
till, and former NY Fed chief Bearesley Ruml. MMT is unique in i
omes, and therefore best considered as its own school of thought.

docs.google.com/document/d/5432615/Soft-Currency-Economics
economics.com/mandatory-readings/a-general-analytical-framework-and-other-commodities/
economics.com/mandatory-readings/what-is-money/

Relevance of MMT Today?
standings put policy options on the table that were not previously

docs.google.com
MMT White Paper 7/26/2021
12/18/2022 White Paper: Modern Monetary Theory
(MMT) The purpose of this white paper is to ...

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Mosler's claims on the nature of MMT

Mosler says in the introduction to his note, originally published on 7/26/2021 but apparently republished on 12/18/2022, that:

The purpose of this white paper is to publicly present the fundamentals of MMT.

I take that to mean that this is the definitive statement of his views. It is certainly presented as such in the note, where he says:

In 1992 Warren Mosler independently originated what has been popularized as MMT. In 1996 he introduced it to the academic community through an internet discussion group, and while subsequent research has revealed writings of authors who had similar thoughts on some of MMT's monetary understandings and insights, including Abba Lerner, George Knapp, Mitchell Innes, Adam Smith, and former NY Fed chief Beardsley Ruml.

Mosler portrays his own role in MMT as pivotal.

Mosler's view of MMT appears to be summarised in this statement:

MMT is unique in its analysis of monetary economies, and therefore best considered as its own school of thought.

It is in that case unfortunate that it is hard to find out precisely what Mosler means from reading this paper.

For example, under the heading ***What is MMT?** he says:

MMT began as a description of Federal Reserve Bank monetary operations and accounting, which are best thought of as debits and credits to accounts as kept by banks, businesses, and individuals.

No further explanation is supplied. The reader is left wondering what Mosler is referring to as a result, even if they are aware of the significance of double entry accounting in banking and the money creation process, which few people are.

Mosler's next heading is ***What is the Relevance of MMT Today?** In response he says:

The MMT understandings put policy options on the table that were not previously considered viable.

Again, no further explanation is supplied, which once again leaves the question he has posed unanswered.

Instead Mosler moves on to suggest that ***What's different about MMT**. He is slightly more fulsome in response, saying:

SEQUENCE:

MMT alone recognizes that the US Government and its agents are the sole supplier of that which it demands for payment of taxes

That is, the currency itself is a simple public monopoly.

The US government levies taxes payable in US dollars.

The US dollars to pay those taxes or purchase US Treasury securities can only originate from

the US government and its agents. [Formatting from the original]

The economy has to sell goods, services or assets to the US government (or borrow from the US government, which is functionally a financial asset sale) or it will not be able to pay its taxes or purchase US Treasury securities.

This, it is stressed, is the first comment of substance Mosler makes with regard to MMT. The message appears to be, in my opinion, that:

- a. MMT is an issue that is only of concern in the USA. That is not true. MMT has a much broader and potentially universal application.
- b. Government is a malign force, demanding payment of tax in a currency that only it creates. This is not true.

In reality the US government only demands payment of tax because it has already, mainly benignly, spent money into existence in the economy. The demand for payment is not, as a result, malign.

In any case, this claim is wrong. The US government might create what are called base money dollars. But US commercial banks can and do also create dollars through their lending. As such tax is not only payable using the money created by

the US government; it can also be paid using dollars created by the US commercial banking system, which dollars are indistinguishable in use from those created by the US government.

- c. The US economy does not have to sell services or assets to the US government to pay taxes. If they refused to buy those goods and services the government has to sell, as is their collective right within that economy, then the tax liability to the US government would not exist.

The logic in the claim to the contrary by Mosler appears, in any case, to be confused. It necessarily assumes that the obligation to tax precedes expenditure by the US government, when the whole point of MMT is to explain that this is not the case.

It also assumes that the US government has the power in aggregate to impose tax when there is no justification, or the means, to do so. This is, again not true. US democracy has, to date, ensured that this does not happen. The claim would appear to be wrong in that case.

Mosler then claims that there are **Ramifications** of his claims on the nature of MMT the first of which he says is:

1. The US government and its agents, from inception, necessarily spend (or lend) first, and only then can taxes be paid or US Treasury securities purchased.

This is in direct contrast with mainstream economic models and the rhetoric that states the US government must tax to get US dollars to spend, and what it doesn't tax it must borrow from the likes of China and leave the debt to our grandchildren.

MMT therefore recognizes that it's not the US government that needs to get dollars to spend, but instead, the driving force is that taxpayers need the US government's dollars to be able to pay taxes and purchase US Treasury securities.

The highlighted section is indisputably what MMT says, but I do not think that it follows from the claim that Mosler made in the preceding section, for reasons already noted. I think that there is a logical error in the flow of the argument here.

This is compounded by a further error. The statement Mosler makes that the US government does not need to get dollars to spend is true, because it can create them. But it does not follow that taxpayers need to take specific action to secure dollars to pay taxes.

As a matter of fact, the dollars required to pay those taxes are already circulating in the US economy at the time that those taxes fall due for four reasons:

- a. They have been spent there before taxes fall due by the US government.
- b. The dollar is the only legal currency in the USA, meaning that it is the only currency used for other transactions, not involving the government. This is not the result of taxation law, but because of statute declaring the dollar to be legal tender.
- c. Because the dollar is the only legal tender in the USA that country's banks lend more of dollars into existence than the US government spends into existence.
- d. US taxpayers can make settlement of their tax liabilities using either US government created dollars or US bank created dollars, the two being inseparable in use.

In summary, because the US dollar is the legal tender of that country it is the only currency most US citizens will ever use, at least for their domestic transactions. Another practical option is not available to them. To suggest that dollars only exist for the payment of taxes or that there might be a shortage of them for this purpose does therefore, as a consequence, appear to be wrong. In fact, it is entirely plausible that US banks might loan dollars for this purpose, creating new currency as a consequence.

The implication within Mosler's statement that there is some difficulty in securing dollars to make tax payment does, therefore, appear to be wrong. The claim that follows from that assertion is, therefore, in my opinion also wrong.

The second ramification of Mosler's claim that the US Government and its agents are the sole supplier of that which it demands for payment of taxes is, apparently:

2. Crowding out private spending or private borrowing, driving up interest rates, federal funding requirements and solvency issues are not applicable for a government that, like the US, from inception spends first, and then borrows.

<http://moslereconomics.com/mandatory-readings/a-general-analytical-framework-for-the-analysis-of-currencies-and-other-commodities/>

No further explanation is supplied. The paper referred to is old, badly formatted so that the tables no longer work. Oddly, it also concludes that money is a commodity just like any other once imbued with value from taxation. If, however, this was the case we would not

need to be discussing MMT because money would be of no special interest: any commodity might in that case be used in exchange. Nor would financial flows in dollars be of concern, let alone interest rates. I am sure that Mosler can see the link in his arguments: I admit that I cannot.

That is because I suggest that money is not like any other commodity. It may be that MMT says that “driving up interest rates, federal funding requirements and solvency issues are not applicable for a government that, like the US, from inception spends first, and then borrows” (saying which I make clear that I am not convinced about the claim on crowding out, for reasons already noted, above, and so have excluded it here) but that does at the very least require explanation, and Mosler does not provide one.

His claims on ‘How are you going to pay for it?’ are as unhelpful. Here he says:

The US government, for all practical purposes, spends as follows:

After spending is authorized by Congress, the Treasury instructs the Federal Reserve Bank to credit the recipient's bank account (change the number to a higher number) on the Fed's books. <Note: The accounts of Fed member banks are called reserve accounts and balances in those accounts are called reserves.>

As far as I can tell (and I may be wrong here because of the ambiguity in what Mosler says) the only answer required to ‘how are you going to pay for it?’ is, in Mosler’s opinion, to say ‘by crediting people’s bank accounts.’ That is true: mechanically it is, in fact, indisputable. It also fails to answer just about any of the questions that anyone might ask of MMT. Double entry records transactions. It does not explain their causes or consequences. For that reason Mosler does not answer the question he poses.

The same problem is found in Mosler’s next section, where he says:

How is the Public Debt Repaid?

When US Treasury securities mature, the Fed debits the securities accounts and credits the appropriate reserve accounts. Interest on the public debt accrues to the securities accounts and the Fed credits reserve accounts to pay that interest.

There are no taxpayers or grandchildren in sight when that happens.

Again, that is true: mechanically it is, in fact, indisputable. But once more this answer fails to answer the question that anyone might ask of MMT. Explaining double entry requires more

than an explanation as to what the debits and credits are. Knowing them is useful, but they do have consequences and Mosler goes nowhere near explaining what those consequences are. I presume Mosler knows, although the possibility that he does not is left on the table. Most particularly, what he never says is that the government did not have to borrow in the first place since it already had a loan in place from its central bank. Missing that fact out makes this a wholly unsatisfactory answer.

Mosler's claim on taxation

Providing an unsatisfactory answer is, however, different from providing what I think to be a wrong one, which Mosler does next when it comes to taxation. On this he says:

THE CAUSE OF UNEMPLOYMENT:

MMT recognizes that taxation, by design, is the cause of unemployment, defined as people seeking paid work, presumably for the further purpose of the US Government hiring those that its tax liabilities caused to become unemployed.

That is it. This is what Mosler has to say on tax. Its purpose is to, apparently, create unemployment. The reason for doing so is to ensure that those made redundant might be employed by the government. I have only one description for this explanation, and that is that it is in my opinion wrong.

Mosler says no more on this issue. His statement is, in itself, apparently sufficient explanation on this issue. I have therefore investigated the origin of this claim which is, I think, to be found in Prof Bill Mitchell's thinking. He said³ in 2016:

[O]ne of the activities of a currency-issuing government is to create idle real resources in the non-government sector there can be subsequently deployed by that government in pursuit of its electoral mandate.

Modern Monetary Theory (MMT) shows that this is one of the major roles of taxation – to create unemployed real resources that can then be used by the public sector.

The public sector then deploys these resources through spending. We should note that the need to deprive the non-government sector of spending capacity via

³ <https://billmitchell.org/blog/?p=33152>

taxation is to ensure that total spending is commensurate with the available real resources in the economy.

He has also said⁴:

MMT shows that taxation functions to promote offers from private individuals to government of goods and services in return for the necessary funds to extinguish the tax liabilities.

So taxation is a way that the government can elicit resources from the non-government sector because the latter have to get \$s to pay their tax bills. Where else can they get the \$s unless the government spends them on goods and services provided by the non-government sector?

He repeats the claim here⁵:

Another way of seeing that is to understand that given that the non-government sector requires the government's fiat currency to pay its taxation liabilities, the imposition of a tax liability (without a concomitant injection of spending) by design creates unemployment (people seeking paid work) in the non-government sector.

I offer three versions of this narrative from Bill Mitchell just to make clear that I have not misinterpreted this claim: it is what Mitchell and Mosler are saying.

Each of these claims by Mitchell, and the one that Mosler makes based on them, has to be wrong if the essential claim that MMT makes, which is that government spending precedes taxation, is to be true.

Mosler and Mitchell contradict that claim by saying that unless taxation first of all forced resources in the private sector into unemployment then government spending to acquire those resources would not be possible. What they are necessarily saying as a result is that tax must precede spending. If it did not then, in their very clear opinion, there would be no resource for the state to acquire. Their claims do, in that case, appear to flatly contradict the observed fact that MMT exists to promote, and which Mosler claims is its unique proposition, which is that government spending precedes taxation.

⁴ <https://billmitchell.org/blog/?p=7261>

⁵ <https://billmitchell.org/blog/?p=50005>

As a matter of fact, logically Mosler and Mitchell's claims must, in my opinion, be wrong. The reality is that a state can, using money it has created, act as a purchaser in the market within a jurisdiction, just like anyone else. Just as other market participants secure the goods and services that they require by paying the going rate for them in currently prevailing market conditions, so too does the government. If the price that the government offers for whatever it seeks to buy is sufficient to attract sellers then those sellers voluntarily make a sale to the government, whether of goods or their labour. The state then taxes to withdraw the excess money supply it has created when making this purchase to control the resulting risk of inflation which would otherwise arise. If it gets the judgement on the amount of money to withdraw from the market right then there will be no resulting inflation and the combined market and state sectors will, together, deliver full employment.

This is what MMT actually seems to say when describing the operation of a government in a market economy. It describes how a government behaves in a mixed market-based economy. I cannot reconcile that with the Mosler and Mitchell view. That is because Mosler and Mitchell say something very different. As Mitchell noted in the first paragraph of his 2016 article, the assumption that they make is that if resources were not used by the state they would be used by the private sector. In other words, both he and Mosler appear to assume that there exists a parallel world in which all resources available within an economy in which there was no state are the same as those available when there is a state. In addition, they appear to assume that those resources could be utilised without the existence of the state and full employment would follow in its absence.

Extraordinarily, what this means is that they appear to assume that Say's Law applies. What Jean-Baptiste Say said in 1803 was that the production of a good creates the demand for it. He did, therefore, argue that markets will always 'clear' i.e. they will create the demand for all the goods that can be supplied resulting in an optimal economic outcome. Mitchell and Mosler appear to assume that such a state exists and that functions as Say suggests it would, delivering economic equilibrium without government interference.

It would appear that this must be the case because of another claim made by Mosler. He says when discussing the job guarantee, later in his document, that:

Residual unemployment is caused by the government not hiring all of those that its tax liabilities have caused to become unemployed.

Mosler repeated this in slightly different form in Twitter exchanges with me on April 8, saying:



Warren B. Mosler @wbmosler · Apr 8

...

Full employment is my base case for purposes of analysis- the initial, default condition, and unemployment is a deliberate policy to not spend enough to cover the need to pay taxes and savings desires created by the tax liability.

The implication could not be clearer: unemployment is in Mosler's view the deliberate creation of a government. The market – the creator of Mosler's default assumed state of full employment - does not create unemployment; it is the state that he says does so, and he says that it does so by choice.

The logical flow through this argument must be as follows, in my opinion:

- a. Before the intervention of a government there is a market that is in equilibrium, i.e. it delivers full employment without state intervention.
- b. That market leaves no spare resources unused.
- c. If the state wishes to spend it does as a result have to tax to force resources in that market economy out of use.
- d. How that tax is paid when there has been no government currency spent into existence is not clear: there must be an alternative currency in use, but that is not made clear.
- e. The value of the tax charged is the value of the resources forced out of use.
- f. If the government does not spend the amount it has taxed then not all those resources that it has made unemployed by imposing taxation will be put back into use.
- g. Tax must then always equal the amount that the government spends if unemployment is to be avoided: balanced budgets are required by Mitchell and Mosler's thinking.
- h. If the amount that the government does spend is less than the amount taxed then unemployment will result at the sole choice of the government.

The following are also implied:

- i. The market clears by itself until there is government intervention.

- j. That market can function without government currency.
- k. The state creates imperfect markets.
- l. One logical consequence of that imperfection is unemployment, which would not otherwise happen.
- m. This unemployment results from the state not supplying sufficient money supply to the economy, in which it is the only creator of that currency, having forced the previously efficient market created currency out of use.
- n. All economic imbalance is, therefore, the consequence of government intervention in the market.

It is obvious to what conclusions these thoughts lead, which I suggest are as follows:

- o. The government should not intervene in the market.
- p. The government should either not tax, or do so as little as possible.
- q. The government should not seek to impose the use of its self-declared legal currency on the market because the economy behaved optimally without it.

It is exceptionally difficult for me to see what else the argument Mitchell and Mosler make implies.

To be candid, it would be hard to find an Austrian economist – which school of thought most despises government intervention in markets – who could come up with an argument quite as anti-government as this, and yet this argument is apparently at the core of MMT if my interpretation of what Mitchell and Mosler say is to be believed.

However, I think that Mosler and Mitchell are wrong for these reasons:

- a) There is no parallel economy that exists in the form that Mosler and Mitchell assume.
- b) No one has to force economic resources out of use in the economy so that they might buy them: instead, the usual rules of market exchange apply.

- c) People work for the government and goods and services are sold to it voluntarily: except in those states where conscription still applies no one has to work for a government. To claim that offering such employment is the only way to solve unemployment created by taxation is simply not true.
- d) Nor is it true to say that taxation is raised for the purposes of creating unemployment. This is never the case. There are six reasons to tax:
 - 1) To ratify the value of the currency: this means that the payment of tax in the currency that a government has created provides that currency with a value in exchange in a jurisdiction;
 - 2) To reclaim the money the government has spent into the economy in fulfilment of its democratic mandate in order to prevent inflation;
 - 3) To redistribute income and wealth;
 - 4) To reprice goods and services whether upward as in the case of carbon or downward as in the case of education and medical services;
 - 5) To raise democratic representation because people who pay tax vote;
 - 6) To reorganise the economy i.e. through the support tax supplies to fiscal, economic and social policy.

As is apparent, the creation of unemployment is not in that list.

- e) There is no parallel currency which could be used in the absence of a government created currency.
- f) Markets do not clear at full employment, whether with or without government intervention. The claim that this might happen was debunked by Lord Keynes and nothing since he wrote has suggested that he was wrong. Say's Law is wrong.
- g) Governments are not the sole creator of money, although they are the sole creator of a currency and the sole curator of the value of that currency.
- h) That means that tax need not only be paid using the currency injected by a government into an economy as a consequence of it spending: it can also be paid using money created by a commercial bank.
- i) Governments do not deliberately create unemployment, although they can tolerate a level of unemployment created as a consequence of the inefficiencies found within any economy because of failures to communicate and consequent timing differences in required actions arising between the state and private sectors, both of

which sectors can as a consequence contribute to the creation of that unemployment as a result of the inevitably imperfect actions of each of them.

- j) There is no requirement that a government tax the amount that it has spent, as implied by Mosler and Mitchell. In fact the opposite is most likely to be true.
- k) The likelihood that full employment will be the same with or without the action of a government is remote in the extreme. The evidence that government has a benign effect is to be found in data suggesting that those governments that are more effective in upholding the rule of law and which have better designed programmes of intervention in their market economies deliver overall higher levels of income for the people in the jurisdictions for which they are responsible than those governments that refrain from active engagement in their societies and economies for whatever reason. The implication of Mosler and Mitchell's reasoning, that governments should not intervene in their economies is, therefore, inappropriate.
- l) As a matter of fact, governments do spend before they tax: the logic, implicit in Mosler and Mitchell's claims that government's tax first is, therefore, factually wrong and contrary to what they themselves say of MMT.

Having dealt with this issue and having demonstrated that the basis of the claims that Mosler has made in his paper on tax appear to be wrong, the other issues to which he refers within it can be dismissed fairly quickly.

Mosler's claims on inflation

On inflation, Mosler says:

INFLATION:

Only MMT recognizes the source of the price level: the currency itself is a public monopoly and monopolists are necessarily "price setters."

Market forces determine relative prices. Their only information with regard to the absolute value of the currency comes from the state through its policies and institutional structure.

Therefore:

The price level is necessarily a function of prices paid by the government's agents when it spends, or collateral demanded when it lends.

Mosler argues that this is the case because:

In what's called a market economy, the government need only set only one price, as market forces continuously determine all other prices as expressions of relative value, as further influenced by institutional structure.

As with Mosler's arguments on taxation, this argument appears to have implicit within it Mosler's apparent belief that an economy would, without government, intervention act optimally, using resources to the best effect, at full employment, and with stable prices. In my opinion that argument is wrong.

Markets are entirely capable of creating inflationary pressure without any involvement of government, whether due to price speculation, excessive profit taking, the exploitation of monopoly power, deliberate disruption of supply chains, or imbalances of power within the marketplace, e.g. between monopsonist⁶ employers and employees denied union representation. To ignore all these possibilities and to suggest that the only cause of inflationary pressure is the prices paid by the government when it spends pushes the boundaries of credibility beyond any reasonable limits, in my opinion. It does also, once again, imply that it is Mosler's belief that society would be better off without government. Very few of those who appear to support MMT seem to share that view.

Mosler on the Job Guarantee

Finally, Mosler turns to what MMT describes as the Job Guarantee. On this he says:

Residual unemployment is caused by the government not hiring all of those that its tax liabilities have caused to become unemployed. That is, it's a case of a monopolist- the government- restricting supply, which in this case refers to net government spending.

Current policy is to utilize unemployment as a counter-cyclical buffer stock to promote price stability. Another policy option is for the government to use an employed buffer stock, rather than an unemployed buffer stock, to promote price stability.

⁶ A monopsonist is a single buyer for a product or service of which there are many sellers.

The Job Guarantee is a proposal for the US Government to use an employed buffer stock policy by funding a full time job for anyone willing and able to work at a fixed rate of pay. A \$15 per hour wage has currently been proposed. This wage becomes the numeraire for the currency- the price set by the monopolist that defines the value of the currency while allowing other prices to express relative value as further influenced by the institutional structure.

The Job Guarantee works to promote price stability more effectively than the current policy of using unemployment, by better facilitating the transition from unemployment to private sector employment, as private employers don't like to hire the unemployed.

It also provides for a form of full employment, and at the same time is a means to introduce minimum compensation and benefits "from the bottom up," as private sector employers compete for Job Guarantee workers.

There are good reasons to think that a government should proactively support employment through the provision of a job guarantee at a minimum wage. Those good reasons do not include those noted by Mosler because, for reasons, already noted, the underlying assumptions in his first two paragraphs appear in my opinion to be wrong and, as a consequence it has to be assumed that the other claims that follow are unsupported.

Summary

In his paper Mosler claimed to set out the fundamentals of MMT. My argument is that he failed to do so.

Those fundamentals are, in my opinion:

1. That a government that has its own central bank and currency, which currency is internationally acceptable, need neither tax nor borrow before spending because its entire government expenditure can be funded by new money creation by its central bank acting on its behalf, with the government then being indebted to its central bank for the sum expended.
2. A government that borrows in this way from its own central bank need never repay the debt it owes to its central bank because that debt represents the money supply

of the jurisdiction for which it is responsible and that money supply must, therefore, be maintained if the level of economic activity in that jurisdiction is to be sustained.

3. The primary role of taxation in the funding cycle of such a government is to control the inflation that might be caused by the excessive creation of new money by that government when fulfilling its expenditure plans.
4. The secondary role of tax in the government's funding cycle is to provide the government created currency of a jurisdiction with value in exchange. That happens because if the tax owing to a government can only be settled using the currency that government creates those transacting in that economy who are likely to have tax liabilities arising as a result will not be able to afford the exchange risk arising from trading in any other currency.
5. Once these roles of taxation have been fulfilled the additional role of taxation for a government is as a tool for the delivery of its economic, social, regulatory and inequality agendas. The design of taxes for this purpose is, however, never intended to have a revenue raising function to enable government expenditure to take place, that expenditure having already been funded by the central bank of the jurisdiction on the government's behalf.
6. A government in the situation described need not balance its expenditure and taxation income. In most situations that balance would, in fact, be undesirable. If the government has a growing economy and modest, but controlled inflation within that economy, then the expansion of its money supply is essential, and that expansion of the money supply is best delivered by the running of government deficits. Such deficits represent a shortfall of tax receipts compared to government expenditure. This policy should be preferred to increasing the scale of private sector borrowing within the economy, which is the alternative source of new money creation.
7. A government in the situation described need never borrow from financial markets. That is because the government can always borrow instead from its own central bank. It has no dependency on financial markets as a consequence.
8. A government in the situation described may, however, wish to offer a savings banking facility to those in the jurisdiction for which it is responsible who wish to save in the currency that the government in question has created. It does so in its capacity as a borrower of last resort. This deposit taking does not represent government borrowing: it is a banking arrangement. Even if the funds deposited with the government are then used to clear the apparent overdraft advanced by the

central bank to the government the status of these deposits as a third-party bank or savings facility is not changed: the central bank can always guarantee the repayment of the deposits in question by the creation of new money, which is precisely why the government is able to offer this borrower of last resort facility.

9. A government in this position does not need to use interest rates to control inflation. It can instead use the following mechanisms to control:
 - a. Varying tax rates over one or more taxes to tackle the cause of the inflation being suffered. New taxes may be required to assist this process.
 - b. Varying the scale of the deficit.
 - c. Credit controls to limit commercial bank lending.
10. A government in this position would seek to run a low effective interest rate policy within its economy to firstly minimise interest obligations to those to whom it provides banking facilities; secondly to provide the best possible environment for investment by lowering the cost of capital; and thirdly to minimise the upward reallocation of resources within the society for which it is responsible as a result of interest paid, thereby reducing inequality, which goals in combination have the best chance of delivering overall economic prosperity.
11. A government in this position can have a policy of full employment, knowing that until that point is reached, there will be under-used resources within that economy for which they are responsible, meaning that inflation will not be stimulated as a result so long as the resources put to use are those currently unemployed, whether they be people, physical assets, or intellectual property. This policy could include the provision of a job guarantee for all those seeking work within the economy who are unable to secure it, but any such policy must reflect the individual circumstances of the job seeker and be consistent with the overall delivery of social security within the jurisdiction for which the government is responsible, and cannot as such be a critical component within the economic policy of the government in question.

In contrast Mosler appears to suggest that:

- Economies would be better off without governments.
- Governments act with malign intent to impose their wills on society.

- They do so by taxing before spending.
- Having imposed that taxation they then deliberately create unemployment by refusing to spend the revenues they raise, which he (along with Bill Mitchell) suggests must equal the tax raised if unemployment is to be avoided.

At the same time Mosler provides no explanation as to what MMT really is, how it might work, what the broader role of tax is within it (in the process most especially ignoring its role in controlling inflation, which phenomenon he incorrectly explains, in my opinion), whilst promoting a job guarantee on the basis of what I think to be false premises.

I am, of course, aware that there are others (most especially, but not only, Stephanie Kelton) who have made good these deficiencies and who have presented coherent and logical arguments for MMT, as I also think I do. As a result, I stress that in writing this note I am not suggesting that MMT is not credible. I believe that it is. What I am saying is that significant parts of the arguments promoted by Warren Mosler and Bill Mitchell appear to me to directly contradict many of MMT's commonly understood fundamental tenets. They also appear to promote arguments hostile to the existence and benevolence of government that would appear directly contrary to the views that many of MMT's advocates would appear to support.