



The Gower Initiative for
Modern Money Studies

Macroeconomics

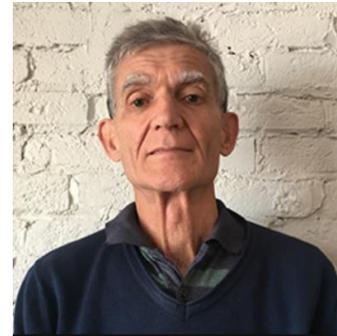
with guest speakers



Professor Bill Mitchell



Warren Mosler



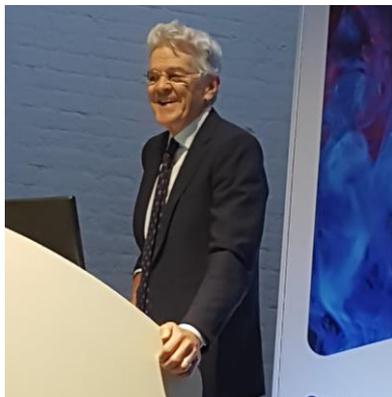
Professor Martin J Watts

gimms.org.uk



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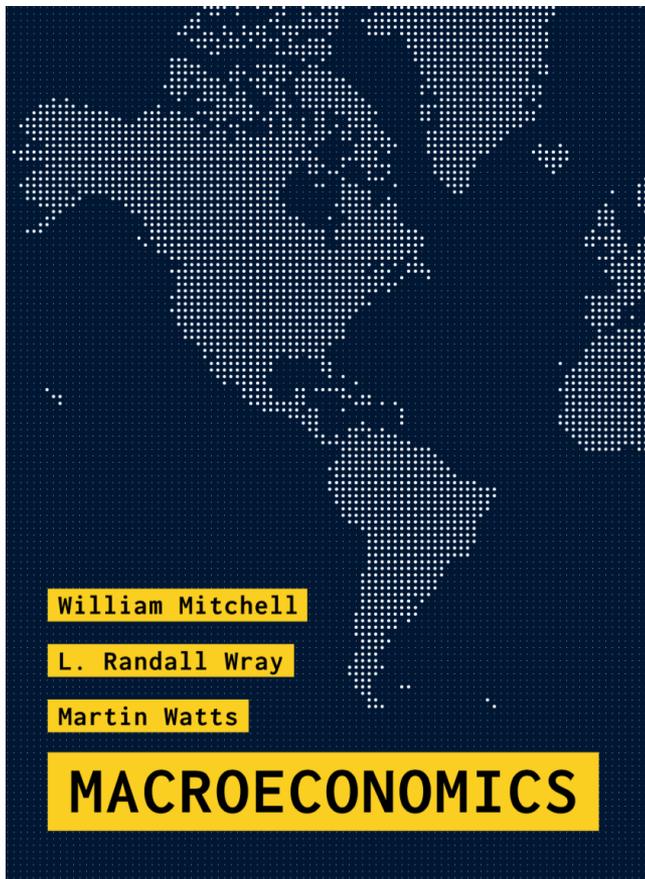


Centre of Full Employment and Equity

Introduction to Modern Monetary Theory

Professor William Mitchell
University of Newcastle
Australia

<http://www.billmitchell.org>



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Whereas noted economists from across the political spectrum have warned that the implementation of Modern Monetary Theory (referred to in this preamble as “MMT”) would pose a clear danger to the economy of the United States;

**Larry Summers:
Modern Monetary
Theory is
'grotesque'**

Politics

**Senate Has a Duty to Denounce MMT,
Republicans Say in Resolution**

Economics

**BlackRock CEO Larry Fink Says Modern
Monetary Theory Is 'Garbage'**

Modern Monetary Nonsense

Mar 4, 2019 | KENNETH ROGOFF

Fake knowledge ...

- Mainstream macroeconomists became very smug in the 1980s and 1990s.
- They were blithely unaware of reality:
 - ‘Efficient markets’.
 - Business cycle is dead.
 - The Great Moderation (Bernanke).
 - New Keynesian models - ‘money didn’t matter’.
- They failed to anticipate or predict the GFC.

Mainstream economics crippled by Groupthink

- Degenerative paradigm.
- Mob rule filters out dissent – graduate programs, publications, grant distribution, promotion, etc.
- Graduates with socio-pathological tendencies.
- Denial paramount.

Basic myths ...

- The government is like a household.
- ‘Printing’ money is inflationary.
- Deficits drive up interest rates – crowding out.
- Fiscal surpluses contribute to national saving.
- Fiscal space defined by financial ratios.
- QE increases capacity of banks to make loans.

Fiscal sustainability

- Fiscal sustainability cannot be defined in terms of some financial ratios and targets that the currency-issuing government cannot realistically achieve anyway.
- Fiscal sustainability is about context.

Depoliticisation ...

- Central bank independence myth.
- Local government austerity.
- IMF.

Funding non-government savings

- Government surpluses equal non-government deficits.
- Government deficits equal non-government surpluses.
- Concept of government 'saving' is nonsensical.

Lens versus values

- MMT is not a 'regime' that we can 'go to'.
- MMT is a lens for achieving a better understanding of how the monetary system operates and the capacities that a currency-issuing government has.
- It 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.

Having your own currency means ...

- That a currency-issuing government can, intrinsically, purchase anything that is for sale in that currency, including all idle labour.
- There is no financial constraint facing such a government.
- It means that 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.

- Job Guarantee versus UBI

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).

Unemployment buffer stocks

- Unemployment - a policy instrument rather than a policy target.
- Disciplines spending and/or distributional struggle.
- Extremely costly approach - huge net income losses.
- Huge social costs.
- Buffer stock deteriorates – lessens effective supply.
- Encore?

Benefits of full employment ...

- Income stability.
- Personal risk management.
- Psychological well-being (social inclusion, self esteem etc).
- Training and skill development in a paid-work context.
- Poverty alleviation.
- Community building.
- Intergenerational stability.

Employment buffer stocks ...

- Job Guarantee – an unconditional and universal offer of a public job at a socially inclusive minimum wage to anyone who wants to work.
- Represents the minimum government spending necessary to achieve “loose” full employment – hiring off the bottom.
- There is only one MMT Job Guarantee!

In-built inflation control ...

- The JG is more than a job creation scheme.
- Government buys 'off the bottom' when private sector is contracting.
- It is a high quality anchor – maintains an effective labour supply.

Some micro benefits...

- Reduces the hiring costs to private business.
- Reinforces intergenerational advantage.
- Can provide career and training paths.
- Has spatial advantages - can underpin community development.
- Can support environmental sustainability.
- **It is not the panacea to everything.**
- But it is better than the unemployment buffer stock option.

What is the real cost of the JG?

- How can government afford it?
- Nominal entries in fiscal statements ('budgets') are not costs.
- Whether it is 10 billion or 100 billion is not indicative.
- True costs are the real resources that are used in such a program – food, materials.

Other criticisms ...

- Workfare?
- Administratively impossible.
- Boondoggling – jobs are not real.

Radical nature of Job Guarantee ...

- Re-evaluating meaning of productivity.
- Allows a host of activities that do not support capitalist profit to be considered worthwhile and productive.
- Income guarantees are inferior solutions to mass unemployment.

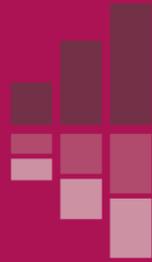
Why not a Basic Income Guarantee?

- Surrenders to the neoliberal myth that government can do nothing to create more employment.
- Individualistic rather than collective approach.
- No nominal anchor.
- Creation of passive consuming agents.
- More to work than income.

Lexit and the EU

- EU issues.

END OF TALK



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Warren Mosler

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Birmingham Presentation

May 11, 2019

Warren Mosler
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What does the UK Want?

- A comfortable standard of living?
- Economic opportunity?
- Full employment at reasonable wages?
- Social equity?
- Free public health and education?
- Retirement with dignity?
- The real resources are already there!
- That's why it can happen!

The Story of Pompeii



MMT Fundamentals

- Funds to pay taxes and buy bonds come only from the state.
- Therefore the state necessarily, from inception, spends or lends first and then taxes can be paid and bonds purchased
- Therefore state spending is not constrained by revenues

The MMT Money Story

- The state desires to provision itself.
- The state imposes tax liabilities payable in its currency as the tax credit
- This results in sellers of goods and services (unemployment) seeking state currency.
- The state then makes its desired purchases.
- Taxes are paid and bonds purchased.

What Happens to State Spending?

- After the state spends, the private sector has only two choices
- Use the money to pay taxes, in which case it's removed from the economy
- Don't use the money to pay taxes, in which case it remains in the economy until it is used to pay taxes

The Public Debt

- The public debt is the funds spent by the state that have not yet been used to pay taxes
- It constitutes what is best thought of as the net money supply of the economy
- A growing economy is expected to include a growing net money supply

Unemployment

- Taxation, by design, causes unemployment
- Unemployment is the evidence the state has not spent enough to cover the need to pay taxes and the desire to save
- If the state doesn't spend enough to cover the need to pay taxes and desire to save, the evidence is unemployment

Reversing Unemployment

- Unemployment is the evidence that the state's tax policy caused more unemployed than the state has hired
- The state has the option to reduce the tax liabilities or get the unemployed hired through increased public spending

The Job Guarantee

- Tax liabilities created more unemployed workers than the state wanted to hire
- Business resists hiring the unemployed and prefers hiring people already working
- The JG facilitates the transition from unemployment to private sector employment
- The JG is a superior price anchor vs unemployment

Proposals for the UK

- Increase the annual deficit by 5% of GDP
- Use fiscal policy to sustain full employment
- Implement a Job Guarantee
- Sustain a permanent 0% interest rate policy
- Adequately fund public services, investment, and research

Functions of the Bank of England

- Process payments and receipts
- 0% policy rate
- Provide unlimited bank deposit insurance
- Provide unlimited bank liquidity
- Regulate and supervise member banks
- Narrow banking

Monetary Policy

- Net government spending remains in member bank BOE accounts
- No government securities
- No interbank lending
- BOE funded Job Guarantee

Fiscal Policy

- Fiscal spending and taxing targets output and employment goals
- With a permanent 0% rate policy, there are no interest payments on the public debt

Trade

- Exports are real economic costs
- Imports are real economic benefits
- Imports minus exports are the real terms of trade

Real Wealth

- Real goods and services produced domestically
- Plus real imports
- Minus real exports
- Full employment and optimized real terms of trade optimize real wealth

Public Infrastructure for Public Purpose

- Banking/Payments system
- Public safety, health, and education
- Retirement income
- Support for those unable to work
- Job Guarantee for anyone willing to work



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Professor Martin J Watts

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Modern Monetary Theory: Retrospect and Prospect

Martin Watts

Centre of Full Employment & Equity (CofFEE)

The University of Newcastle

**To be presented at the Gower Initiative for Modern
Money Studies (GIMMS) Seminar in Birmingham
Saturday 11 May.**

- Mainstream (neoclassical) thinking has been dominant & remains so in the teaching of macroeconomics across most universities.
- The development of MMT concepts and principles began in the 1990s with exchanges between Randy, Bill and Warren via Post Keynesian Thought (PKT) – an email discussion list.
- Randy's book *Understanding Modern Money* (1998) was pivotal, as was the forming of CofFEE at Newcastle University (Australia!).
- A critical mass of MMT academics was established at UMKC & the PhD program attracted able & committed economists, who secured PhDs & went on to teach MMT principles at other universities & liberal arts colleges.
- Bill, James Juniper & I introduced MMT principles into teaching, research & graduate supervision at the University of Newcastle.

- Engagement with orthodox economists at conferences & seminars in Australia became largely unproductive. MMT ideas were treated with indifference, if not contempt. Dialogue largely ceased in the early 2000s, perhaps after Bill asked RBAs head research economist whether a RBA cheque had ever bounced!
- An uneasy relationship with PK economists developed, too, despite shared views on aspects of macroeconomics, in particular money and banking.
- PK economists worried about the exchange rate and inflationary ramifications of sustained full employment & they had a particular hostility to the Job Guarantee.
- Despite their rhetoric, it is unclear whether they think that full employment is sustainable.

- There was some concern that an ageing and diminishing group of MMT aficionados would meet merely to recycle their ideas.
- The GFC led to major Qs about mainstream economics, notably the belief that deregulated (financial) markets work for the betterment of all. Also reliance on monetary policy & fiscal austerity to address *The Great Recession* was widely challenged.
- Few concessions were made with respect to mainstream modelling (New Monetary Consensus), except for a limited role for fiscal policy.
- Mainstream introductory & intermediate texts tried to maintain their monetarist foundations but also incorporate insights about the operation of the monetary system, which led to incoherence.

- Mainstream economists started writing about MMT in particular Krugman in a New York Times op ed piece (March 2011) & subsequent articles through to this year.
- Both Billy Blog (Bill Mitchell) & New Economic Perspectives have been particularly prominent in disseminating MMT ideas.
- There has been a sequence of responses to MM theory & policy:
 - i. **largely ignored**, prior to the GFC;
 - ii. **acknowledged, but ridiculed**, since what's old is correct & what's new is wrong (e.g Palley & Wren-Lewis) & recently a specific claim that higher government spending to achieve full employment causes hyperinflation & dangerous debt exposure; &
 - iii. **measured and thoughtful** responses from bloggers & others who have actually read & absorbed a range of MMT literature.

- The defining moment in respect of ii) was when MMT started being discussed by Democrat House of Reps member Alexandria Ocasio-Cortez (AOC), which has led to condemnation from the Bank of Japan, Japanese President, Fed Reserve Bankers, Lawrence Summers (former Secretary to the US Treasury).
- These ‘contributions’ recently culminated in the US Senate motion: ‘Recognizing the duty of the Senate to condemn Modern Monetary Theory & recognizing that the implementation of Modern Monetary Theory would lead to higher deficits and higher inflation.’ - supported by Summers, Janet Yellen & members of a number of right-wing Think Tanks.
- Also support for MMT from a wide range of individuals, including James Montier *‘Why Does Everyone Hate MMT’!!*

In the remainder of the talk I will address the following:

- The Dominance of Mainstream Economics
- Raising the Public Profile of MMT
- Dissemination of MMT principles...
- The Function of the 'Macroeconomics' text
- The Content of 'Macroeconomics'
- Teaching MMT
- Final Comments

The Dominance of Mainstream Economics



- Why hasn't the momentum for change in macro theory & policy originated in universities – allegedly the bastions of the frank & fearless exchange of ideas and high-level learning?
- Getting a position, obtaining tenure & promotion in most economics departments is based on 'high level' teaching & research drawing on mainstream principles. This may also lead to lucrative consulting jobs with big business and a media profile.
- Surely after Kuhn (1970) *The Structure of Scientific Revolutions*, contradictions emerging in the dominant paradigm lead to their replacement by a paradigm which better explains the evidence?
- In other words don't researchers stand on the shoulders of the discipline giants of the past with progress being made through this resolution of anomaly & the adoption of a new paradigm?

The Dominance of Mainstream Economics



- No! The policy responses to the GFC suggests that many economists & policy makers have not learned any lessons from the policy debates surrounding the Great Depression.
- There are methodological debates in the 'philosophy of science' about whether theories are just tested on the basis of the empirical 'validity' of their predictions or whether the realism of their assumptions (GIGO?) should also be considered.
- Milton Friedman favoured reliance on 'empirical validity', but seems unaware of the problem of 'observational equivalence'.
- Also vested interests prevail, &, as noted, there has been a lack of engagement between academics from different schools of thought, reflected in separate conferences & few so-called leading journals, hosting debates between schools of thought.

Raising the Public Profile of MMT



- The dynamics of the introduction of new ideas/policies into the political domain are interesting.
- Do interest groups & public opinion drive the agenda & then politicians follow or the reverse? (The same sex marriage debate in Australia is perhaps an example, of when grass roots activism was the main driving force).
- The role of politicians is more crucial in highlighting MMT principles & influencing economic thinking & policy, because they can easily choose to ignore these principles which are somewhat intangible & cannot be articulated in a 20 second sound bite.
- Also most politicians are careerist & lack vision. Thus they are unwilling to bite the bullet & articulate counter-intuitive ideas, when they think there may be a high political cost of doing so.

- Thus AOC has played a very important role in the USA.
- Political recognition of MMT, at least in the USA, is just the start.
- Other politicians are more likely to engage with the debates, when activists engage directly with them, but they (activists) must also mobilise a significant segment of the population.
- As an academic, I would not presume to provide advice on activist strategies!
- I'll leave that to some of those present.
- However, the form of the MMT message that is disseminated is crucially important.....

Dissemination of MMT Principles...



- Some of the mainstream media in the USA, UK and Australia have been more prepared to give a better researched and even-handed account of MMT principles.
- At present, the UK debate, like in the US (e.g. Palley), is fairly superficial with no real attempt to engage with the current body of MMT work.
- While some UK criticism has been via blogs, (e.g. Portes; Mainly Macro: Wren-Lewis), there has been significant Twitter activity.
- I do not subscribe to Twitter – life is too short. Also it is a totally inappropriate medium for conveying quite complex ideas, despite the more generous limit of 280 characters!
- The Mainly Macro blog has not engaged with MMT this year, which is interesting.

Dissemination of MMT Principles...



- Macro is difficult. Like most academic disciplines, it is informed by numerous concepts and principles. The fallacy of composition is challenging. Theoretical models, via algebra or words, are central, since they draw on these concepts & convey insights about causal relationships. But models do not achieve credibility, just from being expressed in algebra terms (e.g. Palley!).
- The body of MMT literature in conference & working papers, journal articles, books & commissioned reports is the culmination of 20 years of careful research, mainly undertaken by academics & students at or associated with UMKC & Newcastle University.
- MMT incorporates the principles of **Chartalism & Functional Finance** & is grounded in **Institutional Practice**. **Currency sovereignty** is also of central importance.

- **Chartalism** is based on the view that money has its origins in the desire of states to affect economic activity. A fiat currency issued by the state is a unit of account that has value because the state can levy taxes payable in that currency – ‘taxes drive money’. Fiat money is currency that a government has declared to be legal tender but has no intrinsic value, per se, since it is not backed by a precious commodity, such as gold.
- **Functional Finance** is based on the premise that fiscal policy should be used to counteract economic fluctuations & to secure full employment and price stability, without consideration of the impact on fiscal deficits or the accumulated debt (Lerner, 1943).
- **Institutional Practice (IP)** refers to how key economic institutions (Central Bank (CB), Treasury & private banks) *actually* operate.

- Given that IP is based on how these institutions say they operate, it is not theory, so *MM Theory* is, to some degree, a misnomer.
- But, the IP notion is necessarily nuanced, since these institutions operate under voluntary and involuntary constraints, where the distinction is context specific & based on the insights of MMT.
- Thus, for example, major purchases of G debt on the primary market by the CB are either outlawed or are not common practice in many countries. This is a voluntary constraint (VC).
- Some MMT advocates have been unclear as to whether they are analysing actual IP in say the UK (which is subject to VCs) or that of an unconstrained **currency sovereign** economy, where the ideological veil has been lifted to expose the true macro relationships operating in a modern monetary economy.

Dissemination of MMT Principles...



- Here **currency sovereignty** (CS) refers to an economy with its own currency, operating with a freely floating exchange rate.
- In a CS economy, which is not over-exposed to foreign currency denominated debt, which is true of advanced developed economies, monetary & fiscal policy are independent in that they can target domestic macroeconomic policy objectives.
- The principles of **Chartalism, Functional Finance, Institutional** (or Operational) **Practice & Currency Sovereignty** are the key building blocks of MMT.
- Any macroeconomic analysis that does not define concepts clearly and engage with these principles is deficient.
- Much, if not all, of the recent hostile commentary on MMT fails to do this.

- These MMT inspired statements invite a similar glib response from our opponents and the careful conceptual & theoretical development of MMT becomes redundant in an increasingly simplistic debate, as reflected in the recent US Senate Resolution.

The Function of the MMT Textbook



- Our textbook 'Macroeconomics' joins an illustrious Palgrave Macmillan stable of macroeconomics textbooks, which includes Mankiw & Krugman!
- The textbook represents the consolidation of MMT principles (grounded in IP) over the last 20 years.
- Our hope is that, through its careful & systematic development of concepts, principles & models, the textbook can play an important role in informing readers about the capacity of a modern monetary economy to meet economic and social needs.
- Readers will (I hope!) recognise that the need for choice by an informed electorate between different government taxing & spending options are not a result of the inability of the Treasury to finance its expenditure.

The Function of the MMT Textbook



- Rather real resource constraints (not the Treasury running out of money) which operate in a fully employed economy mean that choices have to be made by an informed electorate.
- Engagement with the public debate about macroeconomic theory and policy by MMT activists must be informed by the principles articulated in the textbook and the extant academic literature.
- Misrepresentation of MMT principles in the public sphere will severely undermine their acceptance by the public and politicians/policy makers & make MMT an easy target for hostile criticism.

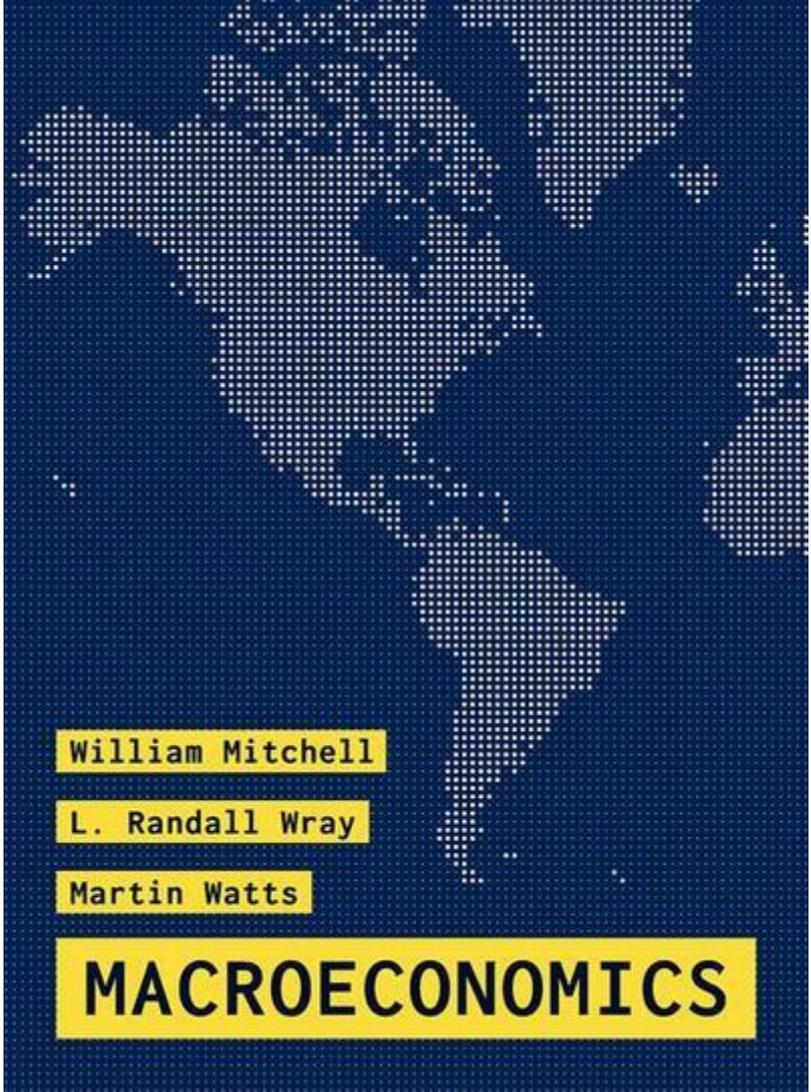
The Content of 'Macroeconomics'



- The conceptual & theoretical basis of MMT is carefully outlined.
- Rigorous stock flow consistent modelling is adopted & illustrated via the use of balance sheets.
- The breadth and depth of analysis of competing perspectives in 'Macroeconomics' exceeds that in any other textbook, yet 'Macroeconomics' does not pretend to be pluralist.
- There is frequent reference to empirical evidence. For example, 3 major currency crises are analysed.
- The history of economic thought, in particular Marx, Keynes and Minsky, receives extensive attention.
- Contemporary policy topics are analysed, including the Intergenerational Debate, Twin Deficits, Secular Stagnation, Environmental Sustainability & Economic Growth.

- I first taught an MMT based introductory macroeconomics course in 2012 with a colleague at Newcastle University.
- Most students were poor & lacked commitment to learning. Also they thought that rote learning of concepts and theories was OK, rather than understanding & reasoning. Thus they were unable to communicate in the rather dry language of economics
- Many thought that generalising from their own experience, without reference to a conceptual/theoretical framework, would suffice, when answering questions. They were victims of the *fallacy of composition*, which bedevils many macroeconomists!
- However, engagement with good students was very rewarding, because they were excited by the subject matter & understood how economic principles should be articulated.

- Modern Monetary Theory is finally gaining some traction in the public theory and policy debate.
- However this progress will be stymied by enthusiastic advocates inadvertently misrepresenting the principles of MMT, which are the outcome of over 20 years of careful work by academics.
- We all hope that the textbook can be an important vehicle for the transmission of the MMT framework to both students and an interested public (activists).
- Certainly from our experience over many years, carefully presented MMT principles do engage and intrigue readers who are prepared to suspend their initial disbelief!
- You all can assist in this process by both reading and recommending the book!



William Mitchell

L. Randall Wray

Martin Watts

MACROECONOMICS