The paradigm shift in economics and the future of progressive politics

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The euro was meant to be about convergence
And Japan for several decades ...
Bank of Japan holdings of Japanese Government Debt (%)
What did the mainstream economists predict?
Japan – basic central bank discount rate

Japan - the basic central bank discount rate
Global crisis report card ...

- Income and wealth inequality rising.
- Precarious work with flat wages growth.
- Elevated unemployment and underemployment.
- Private debt levels unsustainable.
- Education and training systems degraded.
- Public services and infrastructure degraded.
- Regions and communities are being left behind.
- Indigenous poverty is unresolved.
- Governments with ‘surplus’ obsessions.
- Low risk investment opportunities declining.
- Eurozone dysfunction.
- Social and environmental failure.
Mainstream economics has undermined profits.
Widow-maker trade.
GFC advice?
Negative or close to zero rates the norm.
Negative long-term bond yields common.
Think about this - the overall debt-servicing burden for Japan will soon be negative.
Maturity mismatch rising in major insurance and pension funds – higher risk of insolvency now present.
A paradigm shift in macroeconomics is underway ...

- Three disparate driving forces:
  - Anti-establishment revolt.
  - Policy dissonance – central bankers.
  - Financial markets.
- Mainstream macroeconomics is moribund.
- Heterodox or progressive economists have left the space uncontested.
A paradigm shift in macroeconomics is underway ...

- Only **Modern Monetary Theory (MMT)** has advocated the effectiveness of fiscal policy against massive mainstream opposition.
- MMT is now seen as the emerging paradigm in macroeconomics.
- It fills the gap in a progressive political economy that can enhance the narrative and dramatically change the questions that are asked.
MMT - Google Trends since 2004
BlackRock CEO Larry Fink Says Modern Monetary Theory Is ‘Garbage’

Modern Monetary Nonsense

Mar 4, 2019 | KENNETH ROGOFF
Larry Summers: Modern Monetary Theory is 'grotesque'

“So I believe MMT is very much misguided, the premise that somehow you can always print enough money to cover all of your debts.”
Politics

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

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;
Some of the mainstream are now trying to stay relevant
How America Learned to Stop Worrying and Love Deficits and Debt

The old rules are being rejected, among liberals and conservatives, politicians and economists.
Top economist says Japan should learn to love budget deficits

Olivier Blanchard urges Tokyo to scrap consumption tax in favour of fiscal stimulus

Olivier Blanchard argues that with interest rates below growth rates, deficits do not matter © Bloomberg

Robin Harding in Tokyo MAY 23 2019
Why America is learning to love budget deficits

The trend towards looser fiscal policy could mark the biggest shift in economic thinking in a generation

Sam Fleming and Chris Giles in Washington APRIL 25 2019
Economics

Congress Gets a Lesson in MMT Even as Deficit Nears $1 Trillion

By Katia Dmitrieva

November 20, 2019, 9:00 PM GMT+11  Updated on November 21, 2019, 5:35 AM GMT+11
Economics

Draghi Says ECB Should Examine New Ideas Like MMT

By Fergal O'Brien
September 24, 2019, 12:35 AM GMT+10
Why you need to know about modern monetary theory

Inexplicable problems require a whole new kind of economic thinking - and MMT is more logical than you probably think it is.

James Weir  Contributor

Conventional economics has struggled to explain much of what's happening in the world today. How can we have record low inflation and interest rates at the same time? How can some governments continue to increase their deficits and yet their bond yields go down and currencies go up? How on earth can you justify negative bond yields?
MMT - 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.
- And – **the consequences of not having your own currency.**
- It is not something you 'do' but something that **is!**
- Policy requires us to overlay our value judgements on this understanding.
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.
What is appropriate fiscal position?

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

\[[G - T(Y_f)] = S(Y_f) + M(Y_f) - I(Y_f) - X\]
Evaluating the constraints on government spending

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Not a relevant distinction
Summary learning points

- Taxes do not fund spending.
- Public debt does not fund spending.
- The government cannot run out of money.
- There is no ‘good’ or ‘bad’ deficit – context is crucial.
- Deficits generate income and saving in non-govt sector.
- Deficits do not drive up interest rates.
- Surpluses destroy our wealth.
- All spending carries an inflation risk.
The state of progressive politics ...

- In decline.
- Why? Distractions.
- Main game is macroeconomics.
- Fiscal rules – fear of global markets.
- NAIRU world versus Job Guarantee world.
- Brexit – fear of sovereignty.
- Construal – capacity to change.
- Credibility comes from education.
- Need to capture the paradigm shift anxiety.
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).
- Efficiency goal.