



The Gower Initiative for Modern Money Studies

**Modern Monetary Theory and Post-Covid
Economics**

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Introduction 1: MMT versus the Mainstream

- ▶ First, I consider the failure of mainstream economics.
- ▶ Second, I introduce Modern Monetary Theory (MMT).
- ▶ Third, I show how the insights it provides help us to understand the options we have as a society in the post-Covid economy.

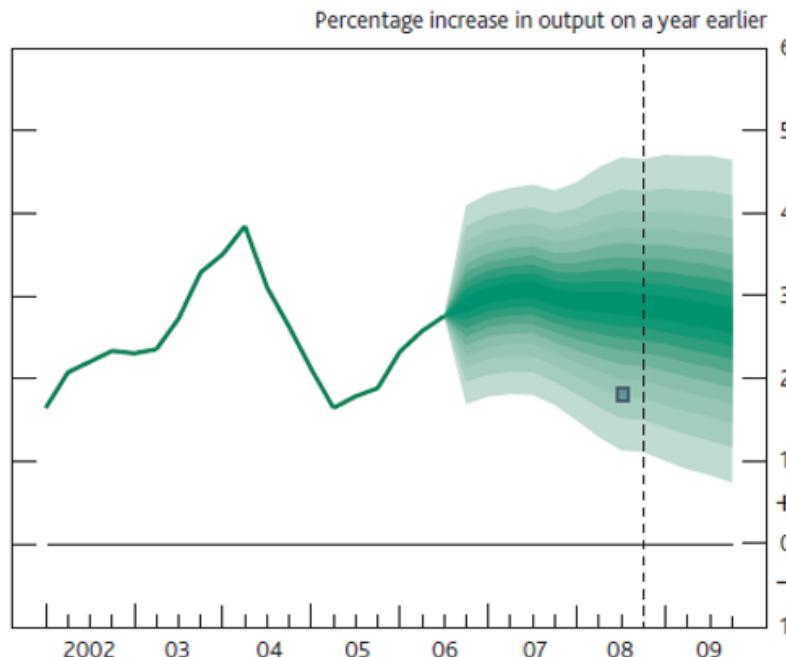
Introduction 2: Background

- ▶ ‘In the neoliberal period (from around 1980 to the present day) the primacy of markets has been supported, indeed preached, by mainstream economics, and defined by a deep-seated mistrust of the economic competence of the state and the lauding of market forces including privatisation, outsourcing, and ever-lengthening global supply chains. In this paper we consider how economic theory can help us understand the Covid-19 crisis and - if important lessons are learned - what this might lead to with respect to policy; we argue that *it is time for informed change*’ (*Potts and Armstrong, forthcoming*).

Mainstream Economics; a failed approach

The Bank of England prediction in 2006....

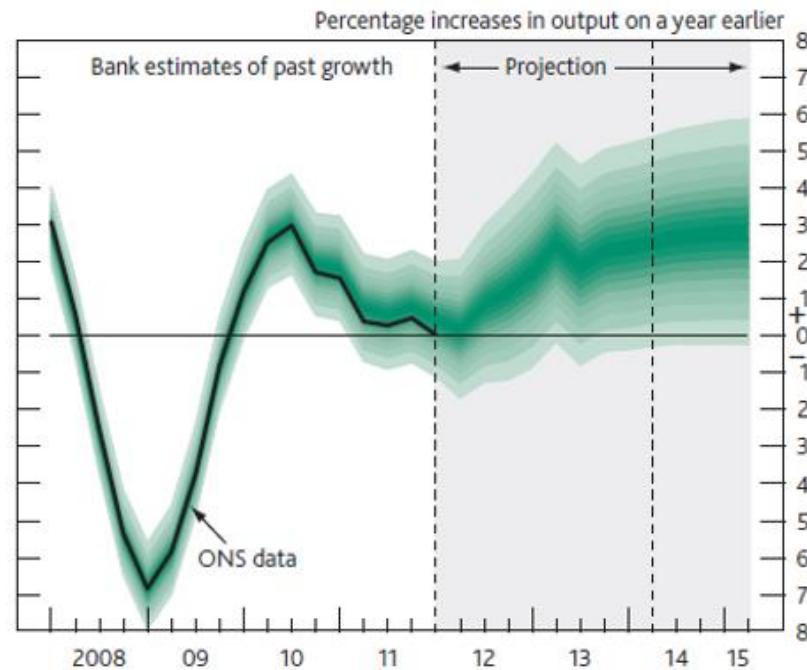
Chart 1 Current GDP projection based on market interest rate expectations



Mainstream Economics; a failed approach

What happened 2007-11....

Chart 1 GDP projection based on market interest rate expectations and £325 billion asset purchases



Understanding Fiscal Policy

- ▶ Fiscal policy is a term used to describe the government's approach to taxing and spending.
- ▶ All politicians, journalists and the great majority of economists think they understand the nature of fiscal policy... but they have it backwards.
- ▶ **'In economics, the majority are always wrong...'**

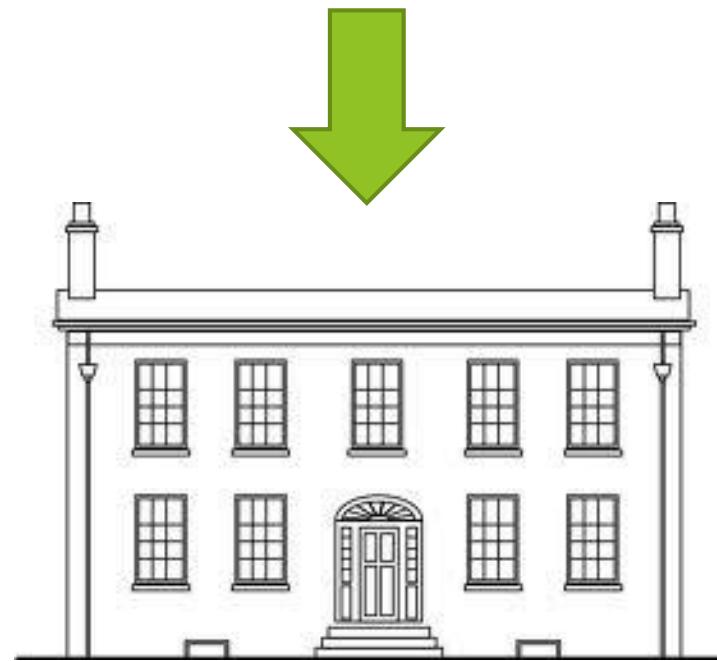
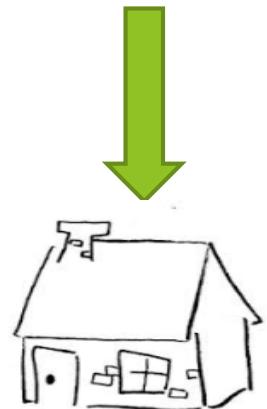
J. K. Galbraith

The Orthodox View

- ▶ Most people think that **before** the government spends money, it must collect money in the form of taxes.
- ▶ If it wants to spend more than it collects in taxes, it must borrow the difference.
- ▶ If it tries to borrow ‘too much’, it might not be able to find enough people to lend it money so it might ‘go bankrupt.’

The Orthodox View

- ▶ If this is right, the government is like a ‘giant household’. Before we can spend we must earn or borrow money and eventually our credit might run out and **so must the government.....or so the story goes!**
- ▶ Wages and credit (household) Taxes and borrowing (govt.)



The Key question

- ▶ Where does the private sector (viewed as a whole) get the money it needs to pay taxes?

The BIG Answer

- Before the government can tax it must either spend or lend the money!

Currency-issuer vs. currency-user

- ▶ The government is NOT like a ‘giant household’. Before it can tax, it must SPEND or LEND state money Why? The private sector cannot create money (they’d get arrested) so the government must spend or lend the money before the private sector can pay the taxes
- ▶ Why the confusion? **The standard view treats the household and government as currency users.**
- ▶ In reality, households are **currency users** and governments are **currency issuers** and different rules apply.
- ▶ At least if you are not in the Eurozone...but we will talk about that later.
- ▶ N.B. Banks in the UK can create money in the form of deposits (the majority of the money supply) but bank money cannot be used in **direct** settlement of a tax liability (Armstrong 2018).

What about Taxes?

1. Taxes give value to Government money. When the Government spends, we accept the money because we know it is accepted in taxes
2. Taxes ‘**MAKE ROOM**’ for Government spending. Imagine the economy was a giant department store. To give itself room to spend, the Government needs to destroy some of our spending power.
3. The fancy term for this is ‘**REGULATE AGGREGATE DEMAND**’. Taxes must reduce private sector spending just enough to allow the Government to buy what it needs without causing **INFLATION** .

Using the insights...

- ▶ What happens if the Government gets it WRONG?
- ▶ If the Government spends too little and/ or it taxes too much, total spending in the economy will be insufficient to fully use all the nation's precious resources such as land, machinery and labour. There will be **UNEMPLOYMENT**.
- ▶ If the Government spends too much and/ or it taxes too little, total spending in the economy will be too much for the nation to satisfy using all it's precious resources such as land, machinery and labour. This will cause prices to rise and there will be **INFLATION**.

Getting it right!

- ▶ So, the trick is getting your Fiscal Policy (balance between spending and taxes) just right so that you get **FULL EMPLOYMENT** without Inflation.
- ▶ Problem - it's not so easy in practice. The Government is never quite sure what the right level of spending and taxing is!
- ▶ Another problem - Inflation can occur even when demand or total spending is low. This might fool the Government if it's not careful. This type of Inflation is what economists call **COST-PUSH INFLATION** e.g. if the price of oil rises, the price of petrol will rise, pushing up the cost of transport. If the price of wheat rises, the cost of food rises, etc

Should we worry about the government's deficit and the national debt?

- ▶ We don't need to worry about the deficit now, it is simply the untaxed Government spending which remains as net saving in the system. It is only a problem when it is so large that it causes inflation from excess spending (we are nowhere near that point).
- ▶ No need to worry about the national debt now, either - we are NOT passing on debts to our grandchildren - we are actually passing on ASSETS.
- ▶ Think about it - if you give your grandchild a £100,000 Government bond, they are going to be very happy.
- ▶ **Summary:** The deficit is only a problem at full employment. If it is too large when the economy is operating at full capacity there may be inflation. The trick is getting it at the right level - *Full Employment but No Inflation* (Mosler 2012).

What do the government know....?

- ▶ So then, we know the Government CANNOT run out of money. You can't run out of something that you issue in the first place!!
- ▶ Why do they say they can? Possibilities...
 1. They don't understand monetary operations!?
 2. They're stuck in fixed exchange rate or gold standard logic (which ended in 1971!!). Under a fixed exchange rate, the government's money could be exchanged for another asset at a fixed rate?
 3. They believe that democracy needs to be subjugated to markets?
 4. They understand the system but choose to employ 'a useful fiction'?

It's all about REAL constraints

- ▶ MMT is not a conspiracy theory. **Politicians do not understand how the monetary system works.**
- ▶ **Governments face real not monetary constraints**
- ▶ Education about MMT is the most important issue
- ▶ Governments need to know that they control the sovereign currency, can never go bankrupt and can set interest rates at whatever level they choose to across the whole spectrum.
- ▶ This is not true of Eurozone member govts. who effectively act as currency users and are subject to default

MMT and the Post-Covid world

- ▶ MMT shows us that it is **real** resources that matter; people and their skills and motivation, technology and natural resources.
- ▶ We can use the Covid crisis to argue for a better economy, one that is more effectively managed by governments who are aware of the fiscal space that exists when they operate under floating exchange rates
- ▶ We should avoid protecting elite interests by the indiscriminate saving of existing capitalists and wealth holders. We should aim to reduce inequality and environmental damage.
- ▶ The Covid crisis showed us that the money is available to do what we want to do!
- ▶ **If we have the resources - as a community - and we use them wisely we can create a better world.**

MMT and the Post-Covid world

The Job Guarantee and ending Poverty

- ▶ Every person who is willing able to contribute should have the right to access worthwhile well-paid employment.
- ▶ Employment does not have to be environmentally damaging - we need to redefine work, especially to include care.
- ▶ We need a Job Guarantee (JG) scheme which gives the opportunity for every individual ready and willing to work who is not employed in the public or private sector a range of worthwhile jobs options to choose from.
- ▶ A JG is NOT compulsory.
- ▶ Firms must compete for workers not the reverse. This puts a floor on pay and conditions.
- ▶ Those who are not willing or able to work receive a basic income according to need so they can live a full and dignified life.
- ▶ Poverty becomes a thing of the past for nations that have sufficient real resources. Poorer nations require real resource transfers from rich nations.

MMT and the Post-Covid world

A Green New Deal

- ▶ A climate crisis is facing us all. **Conventional framing puts a prohibitive cost on any significant ‘Green New Deal’.**
- ▶ With the correct MMT-based framing, we see that it **is real resource availability** that matters. If the UK has the real resources - the skilled people, the technology - required **we can implement a GND**.
- ▶ We need a JG for the workers transitioning from environmentally-damaging occupations.

Recognising the opportunities and the limits we face in the post-Covid world

- ▶ **We have the opportunity to better use our limited real resources, post-Covid.**
We should not support capitalist businesses which are unethically operated or environmentally damaging.
- ▶ **The public sector's role should be seen as providing the crucial services we all need,** health, education, transport and energy, for example. The government's ability to provide these things - and more - is determined by real resource availability not tax revenue.
- ▶ **We should encourage innovation in the private sector especially when this leads to superior outcomes for society as a whole.**
- ▶ *'MMT should have a crucial role to play in the future practice of economics. We argue for an economics that focuses upon explaining economic aspects of the social world, in turn allowing economists to contribute - along with other social scientists - to a deep understanding of human behaviour and the reasons behind economic outcomes within an explicitly socially-influenced environment'*
(Armstrong, Jackson-Prior, Holland and Plumridge 2020).

Over to you: Questions?

References

- ▶ Armstrong. P. (2018), ‘Where does the Magic Money Tree Grow’, *The Gower Initiative of Modern Money Studies*, <https://gimms.org.uk/2018/12/28/magic-money-tree/>
- ▶ Armstrong. P., Jackson-Prior, C., Holland, S. and Plumridge. P (2020), ‘Economics and the political and social environment; lessons for MMT advocates’, *The Gower Initiative of Modern Money Studies*, <https://gimms.org.uk/2020/04/05/lessons-for-mmt-advocates/>
- ▶ Mosler, W. (2012), *Soft Currency Economics II*, St. Croix, US VI: Valance
- ▶ Potts, N. and Armstrong. P. (forthcoming), ‘Post Covid-19 Economics: Time for Informed Change’, Publisher TBC.