Modeling the Currency As a Public Monopoly

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“A Framework for Macroeconomic Analysis”

Mosler 1993, 1996

- “Are things really so difficult? Or is someone missing a trick? Do problems have to be solved by hard choices or can they be dissolved by better understanding of how monetary economics works?”

  - Bernard Connolly, author “The Rotten Heart of Europe”
  1996 Conference Historian, Bretton Woods, inaugural “MMT” conference

- Understanding of monetary operations in a fiat money system
- Endogenous nature of money and exogenous nature of interest rates
- Fiscal operations and the tax imperative behind the currency
- External vs internal debt, Maastricht criteria, the impending launch of the Euro
- The price level as a function of prices paid by government for g&s it buys
  - Mainstream research on currency monopoly?

Theorems in Purest Form (essential vs accidental)

- Compulsory obligations imposed by the state create the need to earn that which settles them

- All debts and payments are settled in state administered unit of account which is the state's currency
- The state's currency is a simple public monopoly

- By virtue of being currency monopolist, the state can set prices
  - *Own rate of money (interest rate): well understood and we used to have a buffer stock to do it*
  - *Commodity rate of money (what currency exchanges for): not understood or theorized*, so *which commodity?*

- Labor: since taxes create demand for state issued currency (b/c the state needs real resources) and inability to earn it is called unemployment, then it has to be labor.

- The very powers that the state uses to determine the money of account are the powers that create monetary unemployment (as defined)

- As monopoly issuer, only the state can choke off that demand. (Refusal to do so means refusal to solve the problem the state has created.) It can do it by stabilizing prices.

- There's no necessary trade-off. No NAIRU
- Job Guarantee

“Monopoly Money: The State as a Price Setter”

Tcherneva 1996

Implications of the state as a single supplier of tax credits

- Government buys 1 or 2 goods
- It sets one price, both prices, or neither
- It operates on fixed price/floating quantity rule or vice versa

"Monopoly Money: The State as a Price Setter"

Tcherneva 1996

RESULTS

- If the government buys 1 good (**labor**): the more it pays, the less labor it gets
  - redefines the value of the currency downward (question of real provisioning)
- If it buys 2 goods (**labor**, **equipment**), sets price for labor, pays market prices for equipment, floats its budget
  - classic buffer stock effect (inflationary environment and ELR shrinks, and vice versa)
- If the govt buys 2 goods, sets both prices and floats the spending, quantity it gets is indeterminate
  - Tax liability can be satisfied by any combo of the two goods that could be sold to the government
- If it sets neither price and floats its spending (i.e., it pays market prices and doesn't cap its budget): ultimate inflationary environment
- If it sets neither price but it constrains its spending, we have guaranteed unemployment
  - and we don't know how many real g&s the government will get
- If govt paid UI to unemployed workers and market prices for g&s, but constrained it spending, it cannot control either the price level or the unemployment level
  - "fighting inflation" by having a restrictive fiscal posture and guaranteed unemployment (status quo)

“Monopoly Money: The State as a Price Setter”

Tcherneva 1996

Takeaway

- Monopolist has different pricing options
  - some guarantee unemployment
  - one guarantees employment by anchoring the value of the currency in labor units and enhances price stability

- MMT has the only NAIRU alternative
  - Job Guarantee as a macro story (until I went to Argentina and saw its impact)
  - JG is anti-cyclical *because* the private sector is pro-cyclical
- Math model: the government as the only source of demand…
  - So let’s add other sources of demand
  - Working with Minsky/Kalecki model

Inflationary and Distributional Effects of Alternative Fiscal Policies

Tcherneva 2014

- **How** government spends: Keynes, Minsky

- Multiple sources of demand (“price level” and “relative prices”)

- Minsky/Kalecki markup model
- 3 different fiscal policies
  - 1) an income provider (transfer payments)
  - 2) a buyer of investment goods
  - 3) an Employer of Last Resort
- New markup model
  - Derives a fundamental price equation for a full-employment economy with government
  - Develops a “price rule” for government spending that ensures that the ELR is not a source of inflation.
    - fixed ELR wage - floating ELR budget rule
  - Illustrates that with such a price rile, at full employment, inflationary effects come from sources outside the ELR
- ELR is less inflationary than other policies and has superior price stabilization features

Fundamental Price Equation…

$W_I^G N_I^G$ > $W_{ELR} N_{ELR}$ so is the markup

➔ inflationary employment

TR_{UI} < $W_{ELR} N_{ELR}$ so is the markup

➔ unemployment

$$P_C = \frac{W_C N_C}{Q_C}\left[1 + \frac{W_I N_I'}{W_C N_C} + \frac{TR_{UI}}{W_C N_C}\right]$$

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$$P_C = \frac{W_C N_C}{Q_C}\left[1 + \frac{W_I N_I}{W_C N_C} + \frac{W_I^G N_I^G}{W_C N_C}\right]$$

We can reduce the markup if the ELR produces some consumption goods that absorb the ELR wage.

If $W_C = (1+\alpha)W_{ELR}$ *and* $W_I=(1+\beta)W_{ELR}$ where $\beta > \alpha$ we get

Fundamental Price Equation

$$\boxed{P_C = \frac{W_{ELR} N_C}{Q_C^C + Q_C^{ELR}} [(1+\alpha) + \frac{(1+\beta) N_I}{N_C} + \frac{N_{ELR}}{N_C}]}$$

Where full employment: $\boldsymbol{N_{ELR}+N_C+N_I=N_F}$

$$\boxed{P_C = \frac{W_C N_C}{Q_C} [1 + \frac{W_I N_I + Def - \pi_I^G - \pi_C^G - \pi_X + T_\pi - BT_{DEF} + C\pi^* - sW^*}{W_C N_C}]}$$

Price Stabilization Features of the JG

- Currency anchor
- Base wage anchored at a living wage level
- Counter-cyclical spending mechanism
- Spending on employment that is always at the ‘right level’: neither more nor less
- No reliance on general ‘stimulative’ aggregate demand policies (no bidding up the prices of already employed resources, including high wage workers)
- Increase in both demand (new purchasing power) and supply (public goods & services that absorb the wage)
- Targeted job creation in the most distressed areas
- Targeted projects in areas of social need (food, care)
- Reduction in existing social and financial costs of unemployment
- A method for building capacity that alleviates inflationary pressures across sectors
- Complements Keynes’s broader socialization of investment → greater economic stability

THANK YOU