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White Paper: Modern Monetary Theory (MMT)

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

*What is MMT?

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.

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

https://www.scribd.com/document/35432615/Soft-Currency-Economics

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

http://moslereconomics.com/mandatory-readings/what-is-money/

*What is the Relevance of MMT Today?

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

*What's different about MMT:

SEQUENCE:

MMT alone recognizes that the US Government and its agents, including its regulated commercial banks, 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.
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) to be able to pay its taxes or purchase US Treasury securities.

Ramifications:

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.

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.***

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How are you going to pay for it?

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.>

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.

THE CAUSE OF UNEMPLOYMENT:

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

THE MMT 'MONEY STORY'- A STATE DESIRING TO PROVISION ITSELF:

1. The US Government by vote of Congress imposes tax obligations payable in US dollars.
2. Consequently goods, services and assets are offered for sale to get the US dollars required to pay the taxes.
3. The state can then buy those goods and services.
4. Taxes can then be paid.
5. If people, on average, want to earn more than what's required to pay taxes, goods, services and assets will be offered for sale in sufficient quantity to obtain those extra dollars.
6. State spending in excess of taxes- deficit spending- provides the dollars desired to be saved.
7. ***After*** the state has spent those extra dollars, Treasury bills, notes, and bonds can ***then*** be purchased, which depletes the accounts containing the dollars the state has already spent.

Note: The public debt equals the dollars spent by the state that haven't yet been used to pay taxes.

8. Payments by the US government are added to reserve accounts of Fed member banks.
9. When securities are purchased, the Fed debits reserve accounts and credits securities accounts which are also at the Fed.

INTEREST RATES:

MMT recognizes that a positive policy rate results in a payment of interest that can be understood as "basic income for those who already have money."

MMT recognizes that with the government a net payer of interest, higher interest rates can impart an expansionary, inflationary (and regressive) bias through two types of channels -- interest income channels and forward pricing channels. This means that what's called Fed "tightening" by increasing rates may increase total spending and foster price increases, contrary to the advertised intended effects of reducing demand and bringing down inflation.

Likewise, lowering rates removes interest income from the economy which works to reduce demand and bring down inflation, again contrary to advertised intended effects.

The higher the debt/gdp, the larger the fiscal impact of rate policy.

Furthermore, forward pricing is a direct function of the Fed's policy rate, and with a policy of a positive term structure of interest rates, the forward price level increases continuously at the policy rate, which is the academic definition of inflation.

MMT understands that a permanent 0% policy rate is the base case for analysis for a floating exchange rate policy.

MMT understands that with a permanent 0% policy rate asset prices reflect risk adjusted valuations, and do not "continuously accelerate" as presumed by the term "asset price inflation."

The MMT understanding of interest rates is at times in direct conflict with the understandings of central banks and the large majority of academics. We see those "mainstream" views as at best applicable to fixed exchange rate regimes, but in any case not applicable to today's floating exchange rate regimes.

http://moslereconomics.com/wp-content/graphs/2009/07/natural-rate-is-zero.PDF

http://moslereconomics.com/wp-content/uploads/2007/12/Exchange-Rate-Policy-and-Full-Employment.htm

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.

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.

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http://moslereconomics-kg5winhhtut.stackpathdns.com/wp-content/uploads/2018/04/Tcherneva_MonopolyMoney_2002.pdf

http://www.levyinstitute.org/pubs/wp_864.pdf

http://moslereconomics.com/wp-content/uploads/2020/11/Weimar-Republic-Hyperinflation-through-a-Modern-Monetary-Theory-Lens.pdf

https://docs.google.com/document/d/1sySbx6EHOAYpAjE4FGnYApdZNyY6rh79KzajZxSU884

The Job Guarantee

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.

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.

http://moslereconomics-kg5winhhtut.stackpathdns.com/wp-content/uploads/2019/02/Full-Employment-AND-Price-Stability.pdf

“The 7 Deadly Innocent Frauds of Economic Policy”
https://drive.google.com/file/d/0B_uw3TKux24yeDRqVmFjaTdodjFqcV9HTTkyRkZYb2JOa0d3/view