

# Perspectives on Modern Monetary Theory (MMT)

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# MMT and the Story of Pompeii

## Sequence

- Public purpose
- Tax liabilities
- Unemployment
- Employment
- Tax payments

# MMT and the Monetization of Africa

- British and French colonialism
- Provisioning of coffee plantations with labor
- Hut tax
- Unemployment
- Employment in plantations
- Payment of taxes

## Lessons from Pompeii and Africa

- There is no solvency issue
- Deficit spending is the norm
- The public debt is the funds spent by the state that have not yet been used to pay taxes
- Paying back the debt isn't applicable
- Prices and inflation
- Interest rates

# Unemployment

- Unemployment is the evidence the gov's tax liabilities have caused more people to become unemployed than the government hired
- Unemployment is the evidence that gov spending is insufficient to cover the need to pay taxes and the desire to save
- Unemployment is an unspent income story
- Unemployment is not a productivity story

# Underconsumption Theory

- Ex poste, if any agent spend less than his income, another must have spent more than his income, or the output would not have been sold.
- Spending more than one's income is deficit spending
- Deficit spending, public + private, 'offsets' unspent income.

# The Job Guarantee Proposal

- The government funds a job for anyone willing and able to work
- This promotes the transition from unemployment to private sector employment
- The JG wage is the defacto minimum wage in the economy
- An employed buffer stock is a superior price anchor vs unemployment

# Interest Rate Policy- The Fed has it Backwards

- The state is a net payer of interest to the economy
- Interest payments are basic income for people who already have money
- Rate hikes impart an inflationary and expansionary bias
- Interest income channels
- Forward pricing channels



# Review of MMT Contributions

- Fiscal Sequence
  1. Tax liabilities
  2. State spending
  3. Payment of taxes
- Tax liabilities are the cause of unemployment
- Interest rate policy- rate hikes cause inflation

# The Role of Banking

- Banking is public infrastructure for public purpose
- Payments system
- Lending that serves public purpose
- Banks compete for deposits and loans
- Interest

# Banking Infrastructure

- Banks are agents of Congress
- Banks are chartered, regulated and supervised
- CAMELS- Capital, Assets, Management, Earnings, Liquidity, Sensitivity to interest rates
- Central Banks facilitate member bank clearing
- An overdraft at the CB is, functionally, a deposit
- Bank purchases create client bank deposits
- Bank lending is the purchase of promissory notes

# Bank Liabilities

- The liability side is not the place for market discipline
- Unlimited deposit insurance
- Unlimited overdrafts at the policy rate

# Bank Regulation

- Tell banks what they can do
- Do not include financial assets as eligible collateral
- Credit analysis: Mark to model vs mark to market
- Retain all loans
- Do not allow financial assets as eligible collateral
- Do not allow proprietary trading