"THERE'S MUCH RUIN IN A NATION: AN ANALYSIS OF MODERN MONETARY THEORY"

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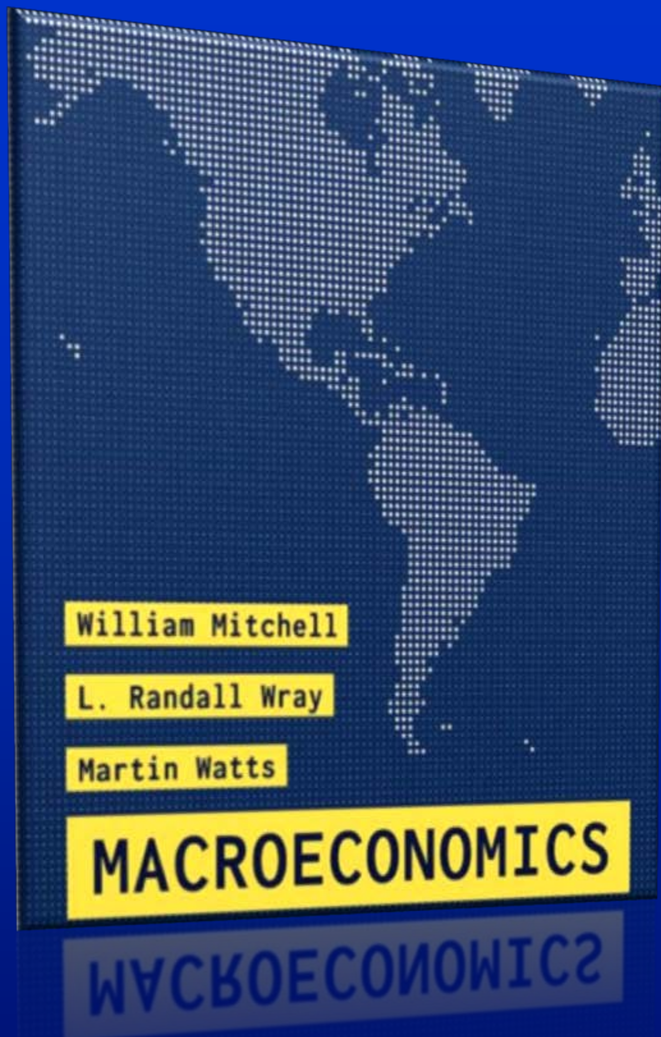
"Today, as in the past, a sound money system is the condition of man's freedom and the key to his future."

– Jacques Rueff



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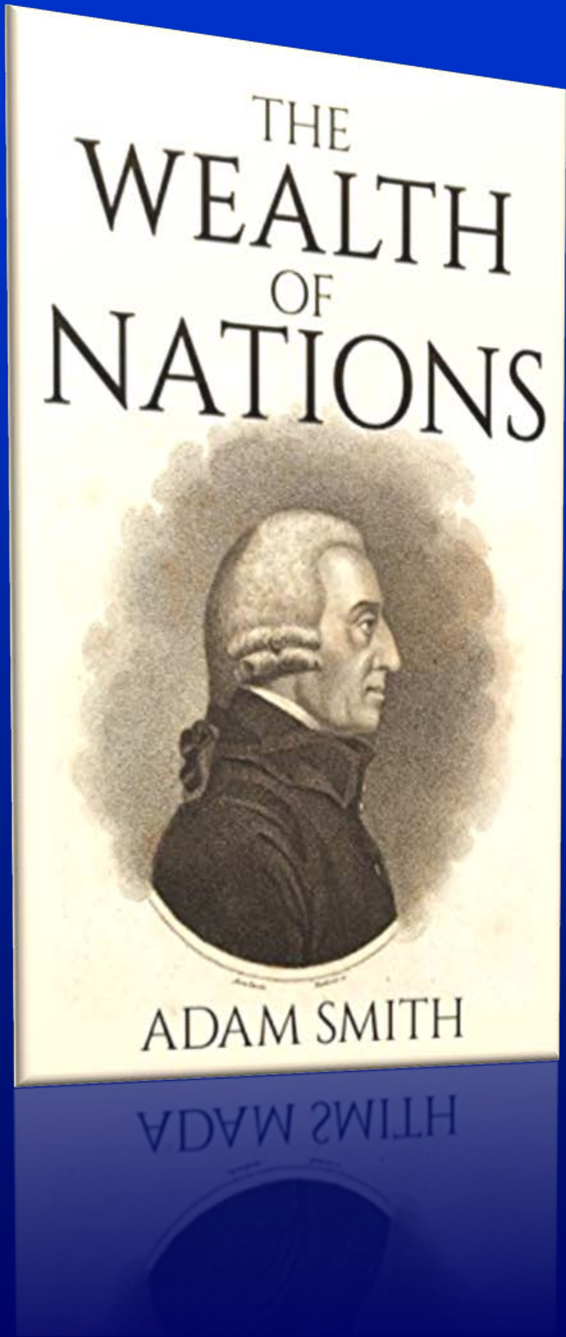
"A comprehensive, university level study course in Macroeconomics from a Modern Monetary Theory (MMT) perspective…grounded in real world institutions…and starts by putting the currency-issuing government at the forefront."

“There are no financial constraints”

“The most important conclusion reached by MMT is that the issuer of a currency faces no financial constraints. Put simply, a country that issues its own currency can never run out and can never become insolvent in its own currency. It can make all payments as they come due. For this reason, it makes no sense to compare a sovereign government’s finances with those of a household or firm” (p. 14).



Rejects Adam Smith

"What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom."

– Adam Smith,

"The Wealth of Nation" (1776)

"The household budget analogy is false" (p. 124). Unlike households and businesses, government has the power to tax and to print money (p. 318).

The Principal Policy Goal of MMT: Full Employment

Fiscal policy should aim for full employment of labor and resources and guarantee everyone a job, either in the private or public sector. They call it a Job Guarantee (JB) program, the “right to work” at a “living wage” (pp. 292, 295, 302).

If there is chronic unemployment, “the government [can] always put them to productive use…to hire them to perform useful work in the public interest” (16), involving “direct job creation by government” (p. 295).

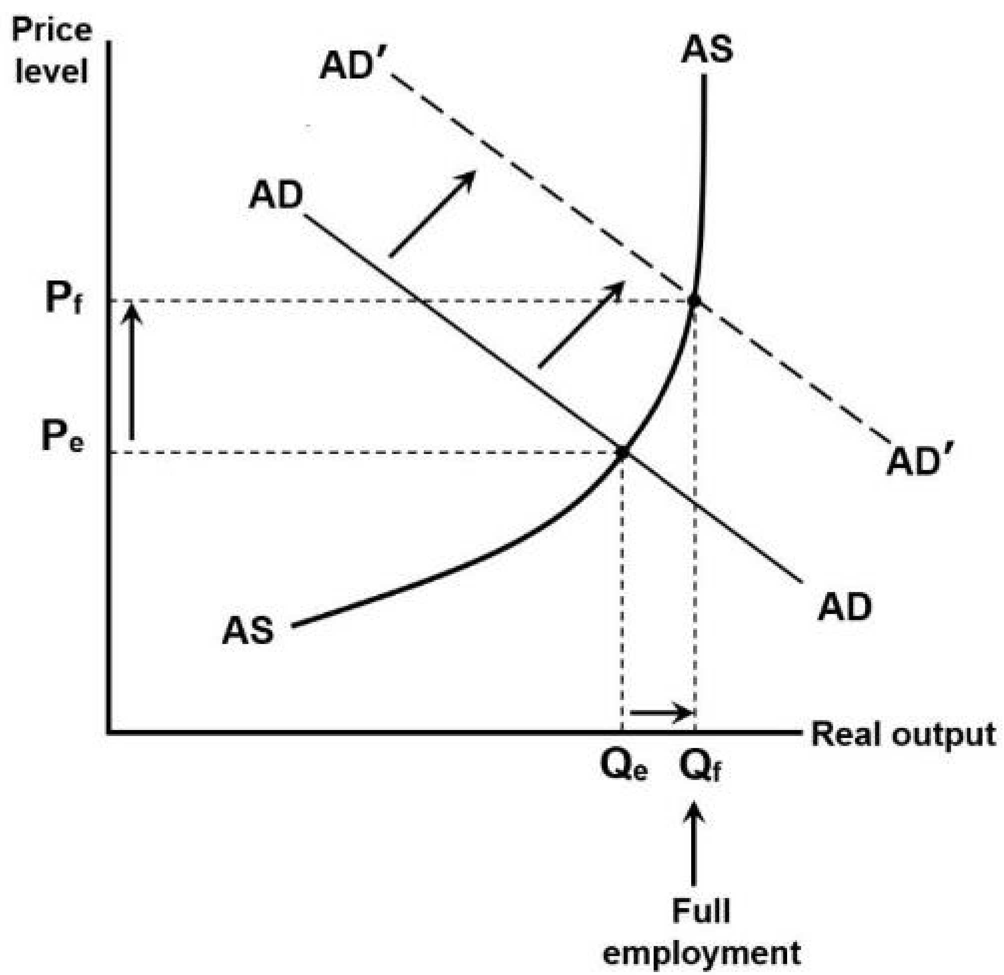
“There is no financial constraints to stop a currency-issuing government providing first class healthcare and/or pensions in the future” (p. 127).

“An MMT frame considers the $x in the fiscal papers to be of little interest” (p. 130).

What about military expenditures?

The Classic Keynesian Case of Increasing Aggregate Demand (AD) to Achieve Full Employment

Figure 1. Shifting Aggregate Demand (AD) Toward Full Employment



“Eight Mainstream Fallacies”

A denial that fiscal deficits cause crowding out of private investments, higher taxes, inflation, or big government, or the need for a balanced budget rule or a “rainy day” fund

(pp. 124-128).

They go out of their way to belittle any government leaders who speak out against “living beyond our means”…. “spending like a drunken sailor”… “welfare dependency”… “burdening our grandchildren with the public debt”… or “national bankruptcy”

(p. 124).

Three Ways to Pay for Government Spending

$$G + iB = T + \Delta B + \Delta M$$

where:

G = government spending

iB = interest payments on public debt

T = tax revenue

ΔB = new borrowing selling government bonds

ΔM = new base money creation

Taxation

Best policy: "spend first, tax later" (323).

Taxation is necessary to enhance the power to borrow.

Progressive taxation is preferred to reduce inequality.

Taxation should be "countercyclical."

Deficit Financing and the National Debt: "We Owe It to Ourselves" Argument

"The government's deficit is always mirrored by an equivalent surplus in another part of the economy."

– Stephanie Kelton

(Stony Brook University)

Deficit Financing and the National Debt: "We Owe It to Ourselves" Argument

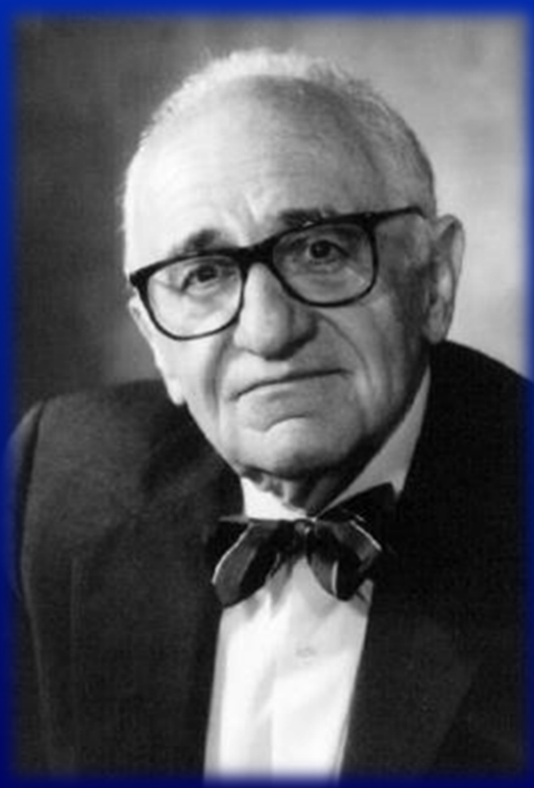
"It's a half truth. The claim would have been accurate only in an extreme, theoretical case: if everyone had identical bond holds and paid identical taxes to cover the interest and paid identical taxes to cover the interest and principal that were paying themselves. But we are never going to be in that situation in the real world."

– Robert Shiller

(Yale University)

Deficit Financing and the National Debt: "We Owe It to Ourselves" Argument

"The crucial question is: Who is the 'we' and who are the 'ourselves'?" The bondholders (who tend to be wealthy individuals and institutions) are not the same as the taxpayers (who tend to be middle class)."



"For we might just as well say that taxes are unimportant for the same reason."

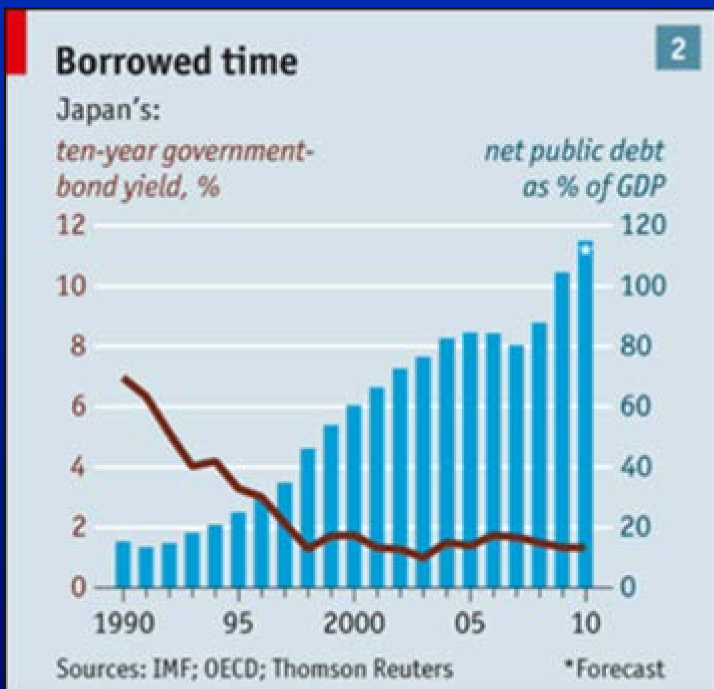
– Murray N. Rothbard (UNLV)

“Though increased spending on infra-structure, education, social welfare and the environment may be wise, and rising deficits may make sense some of the time, we really cannot borrow ceaselessly without risking real harm.”

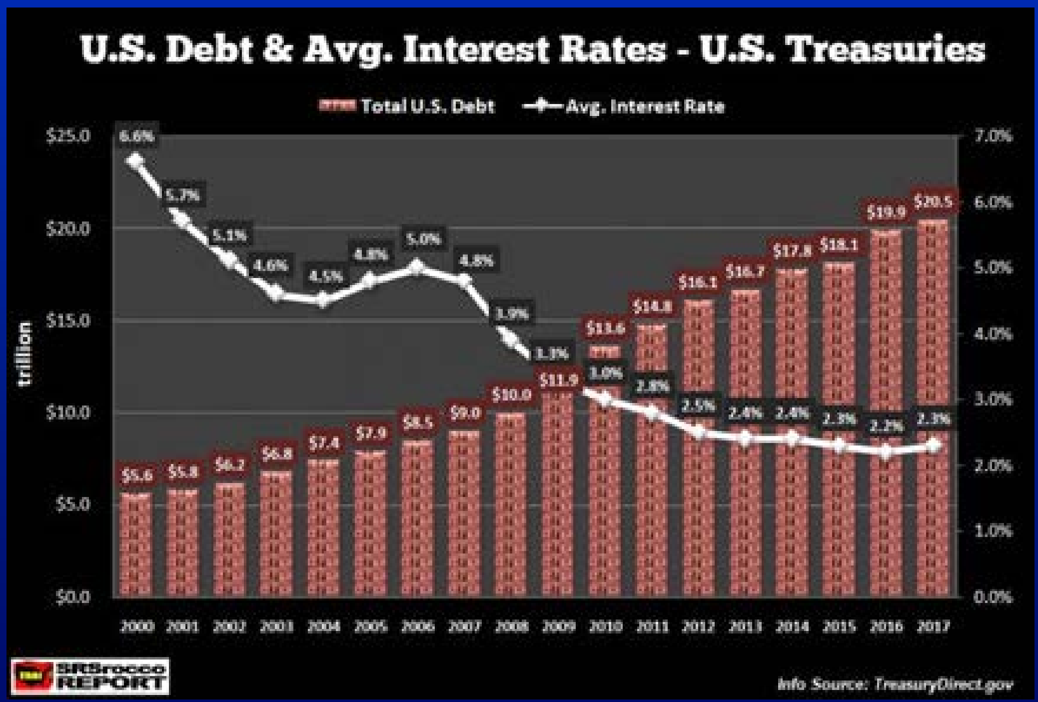
– Robert Shiller, New York Times (2019)

Chronic deficit spending does not lead to higher interest rates

Japan



United States



The Power to Print Money

"The government can consistently spend more than its revenue because it creates the currency" (p. 15).

Technically bankruptcy is impossible. "Treasury cheques never 'bounce' due to insufficient funds" (p. 327).

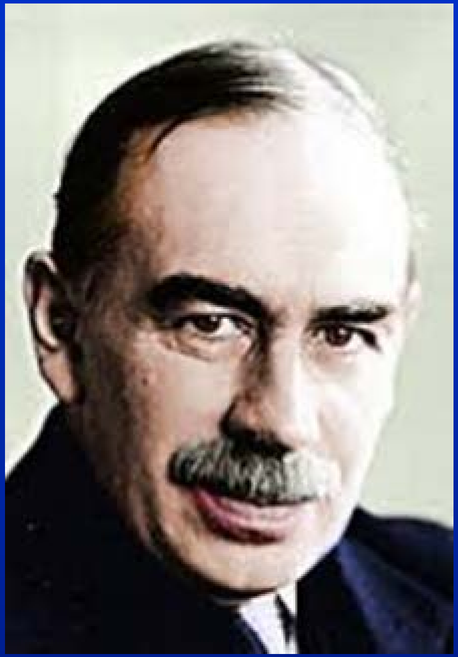
"Government deficits are normal, surpluses are atypical" (p. 130).

Countries with Budget Surpluses

Country	Surplus (% of GDP)
Macau	25.20%
Qatar	16.10%
Norway	9.10%
United Arab Emirates	5.00%
Singapore	1.30%
Denmark	1.30%
South Korea	0.90%
Hong Kong	0.80%
Sweden	0.30%

Source: *World Atlas*, 2019

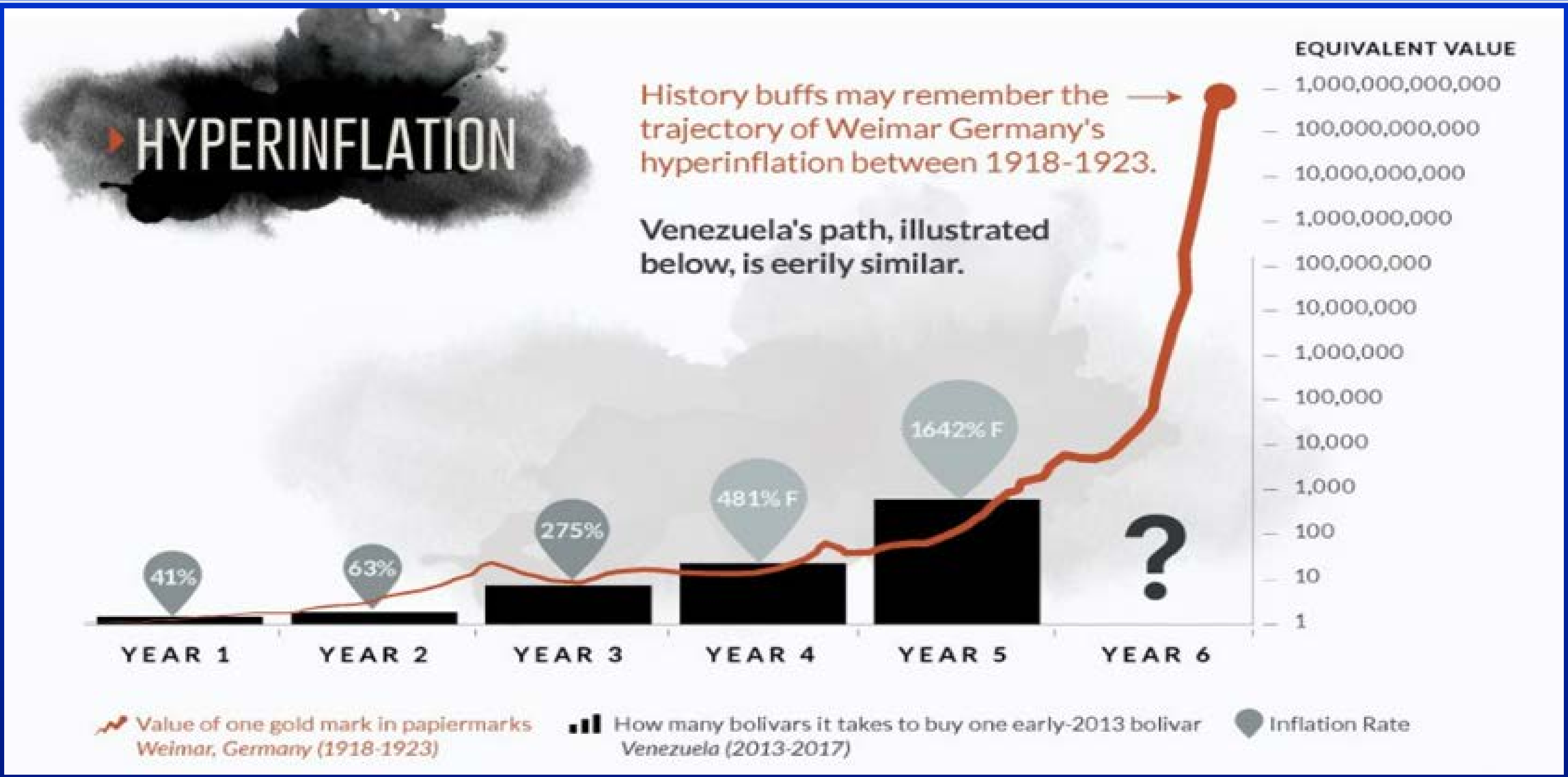
The Fear of Runaway Inflation under MMT



"Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."

– **John Maynard Keynes,** "The Economic Consequences of the Peace" (1919).

Hyperinflation: Can It Happen Again?

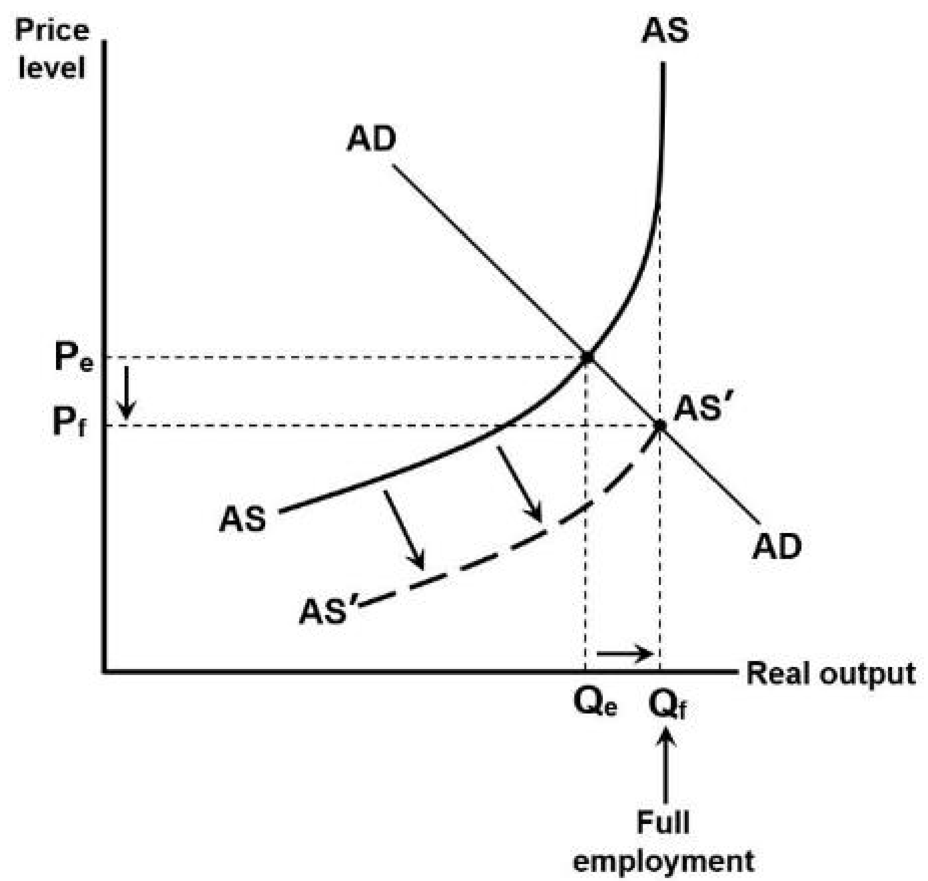


"We acknowledge that the in the absence of appropriate oversight, a government can maintain an excessive rate of expenditure which leads to rising inflation. But we show that the two popular examples of hyperinflation – the Weimar Republic and Zimbabwe – were the result of increasing aggregate supply constraints rather than being driving by excessive fiscal deficits" (p. 333).

An Alternative Route to Full Employment

Figure 2 demonstrates how the supply-side stimulus (AS) can achieve full employment with less inflation.

Figure 2. Shifting Aggregate Supply (AS) Toward Full Employment



Four Countries Adopt Alternative "Supply Side" Means to Prosperity

<u>Sweden, post-1992 monetary crisis:</u>

- Reduced size of government
- Privatized government programs
- Converted state pension to defined-benefit plan.
- Adopted school choice.
- Running a budget surplus.
- Average real growth, nearly 3%
- Price inflation low (under 2%)
- Unemployment rate of 6.7%, largely due to immigration policy
- Economic Freedom Index: #19 in world

Canada, post 1995 economic crisis:

Overcame budget deficit, bloated government, and weak currency:

- Balanced budget in two years, Canadian dollar recovered.
- Supply side tax cuts; corporate rate now 15%.
- Economic growth over 3% a year
- Inflation less than 2%.
- Unemployment rate at 6.7%, largely due to commodity sector.
- Budget deficit manageable.
- Canada #8 in Economic Freedom Index (ahead of US).

Singapore:

– Economic growth has averaged 3.5% in the past five years.

– Inflation is less than 1%

– Unemployment rate is 2%.

– Budget surpluses of $17.9 billion over the past three years, although it will run a deficit this year.

– The world's best medical care system (healthcare represents only 4.5% of GDP).

– Maximum tax rate of 22% for individuals and 17% for businesses.

– Free-trade zone

– Though it is not a democracy, ranked #2 in the world's Economic Freedom Index (behind Hong Kong).

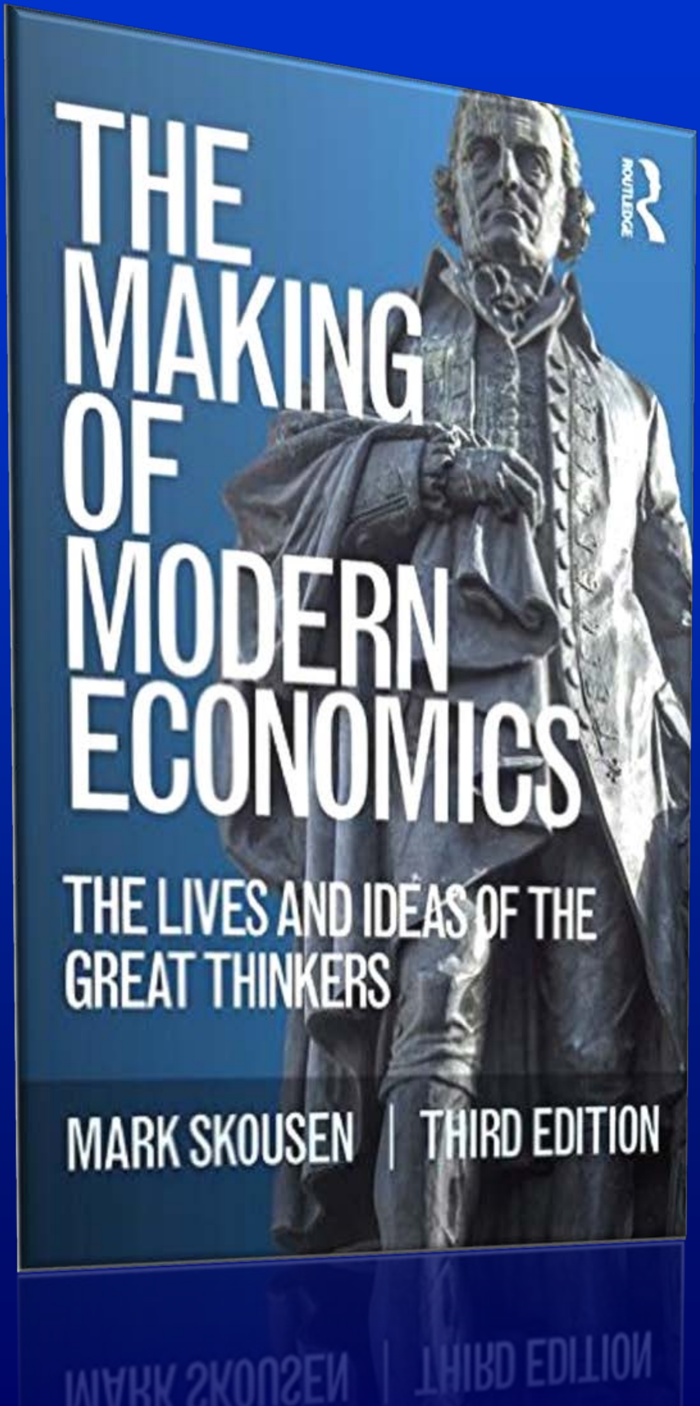
Chile, post dictatorship in 1990:

- Real economic growth is 2.2% over the past five years.
- Inflation declining to 2.2% a year.
- Unemployment rate is 7%, largely due to the slump in copper and commodity prices.
- After running a surplus budget in 2011-12, the deficit returned but is a manageable 2.5% of GDP.
- Maximum tax rate is 44% on individuals and 25% on businesses.
- Highest rated country in Latin America in the Economic Freedom Index (#19 in the world).

MMT Rejected by all establishment economists, including Paul Krugman, Robert Shiller, all University of Chicago and Harvard economists, Kenneth Rogoff, Larry Summers, Steve Hanke and Robert Murphy.

"No religion spread as fast as the belief in full employment, and in this roundabout way, allowed governments that had exhausted their tax and borrowing resources to resort to the phony delights of monetary inflation."

– Jacques Rueff



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