s 22

From: s 22 @pmc.gov.au>
Sent: Tuesday, 19 March 2019 5:10 PM
To: s 22
Subject: FW: Lecture and Q&A on MMT and functional finance [SEC=UNCLASSIFIED]

UNCLASSIFIED

Hi s 22

Hope you're well! Hope you're enjoying Treasury. We're holding a lecture and Q&A with a modern monetary theorist from the University of Adelaide on 8 April at ONC. Would be good to have you there. Please feel free to forward to any colleagues in Treasury, particularly in Macro Group and Fiscal and Revenue Groups. The lecture is on macroeconomics and fiscal policy. Interested colleagues can pass on their RSVP through you or to me directly and I'll organise passes and sign-ins at 1 National Circuit.

Kind regards

s 22

From: s 22
Sent: Tuesday, 19 March 2019 4:13 PM
To: Economic Division ; s 22
Subject: Lecture and Q&A on MMT and functional finance [SEC=UNCLASSIFIED]

UNCLASSIFIED

Dear colleagues

Economic Policy Branch staff invite you to a seminar and Q&A by academic macroeconomist Dr Steven Hail on **Monday 8 April, from 2PM to 4PM** in the Ground Floor Training Rooms at One National Circuit.

Dr Hail is a lecturer in macroeconomics, international finance and financial economics at the University of Adelaide, having previously served as College Director at Kaplan Business School and taught at the University of South Australia and Flinders University.

The topic of his lecture is "*Is Macroeconomics Due For a Second Keynesian Revolution? Modern Functional Finance and Fiscal Policy*":

> The stock-flow consistent approach to Post-Keynesian monetary analysis, pioneered by the late Professor Wynne Godley and Professor Marc Lavoie, successfully anticipated both the Global Financial Crisis and the Eurozone crisis, well in advance of the occurrence of those events.
>
> A prediction of these models is that functional finance is a more effective mechanism for economic stabilisation than monetary policy, particularly in the long run, and that in almost all countries governments should run fiscal deficits most of the time.
>
> On a more fundamental level, economists like Marc Lavoie and former Chief Economist on the US Senate Budget Committee, Professor Stephanie Kelton, argue that the economic orthodoxy of the past 30 years has been based on a flawed and misleading model, and that the discipline of macroeconomics is due for a second Keynesian revolution.

Dr Hail received his MSc and BSc in Economics from the London School of Economics and his PhD from Flinders University. His doctoral dissertation was entitled “Behavioural and Post-Keynesian Foundations for a New Macroeconomics”. Palgrave recently published his debut text *Economics for Sustainable Prosperity*, and he currently serves as a Research Scholar at the Global Institute for Sustainable Prosperity in the United States.

Please feel free to invite colleagues from Treasury and the Department of Jobs and Small Business, however please ask them to contact me at s 22 @pmc.gov.au to organise RSVPs and guest passes.

We have set aside an hour for Dr Hail’s presentation and 45 minutes to an hour for Q&As.

Kind regards

s 22 | Economic Adviser
Microeconomic Reform | Economic Policy and G20 Branch
Economic Division | Department of the Prime Minister and Cabinet
(02 s 22
: s @pmc.gov.au | www.dpmc.gov.au
* One National Circuit ACT 2600 | PO Box 6500 CANBERRA ACT 2600

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---

s 22 [redacted]

From: s 22 [redacted]
Sent: Friday, 22 March 2019 11:15 AM
To: MEG Macroeconomic Modelling & Policy Division
Subject: RE: Invite from PM&C - Lecture and Q&A with Dr Steven Hail [SEC=UNCLASSIFIED]
Attachments: Seminar and Q&A on MMT and functional finance SEC UNCLASSIFIED .ics

Hi all,

I have a bit more information on this from PM&C. Also, a bit of a change to the RSVP process — if you would like to attend, can you please open and then accept the attached calendar invitation? This is so that s 22 [redacted] at PM&C can arrange for sign-in/guest passes on the day.

And here's the additional information:

> If interested MEG staff could please accept the Calendar attachment by 11am on Monday the 8th that will ensure we can track attendance and pass on a list to PM&C Security so they can arrange passes for everybody in advance. We will ask attendees to arrive 10 minutes early to facilitate a smooth start time; we will have tea and coffee set up for attendees to mingle before we start at 2.
>
> Please note although the lecture itself is designed to be accessible to a broad audience (i.e. including non-economists), we have a number of macroeconomists and technical experts attending from ANU, Treasury and other departments, so we anticipate the Q&A portion will be fairly technical and advanced in content.
>
> Given time constraints we also encourage staff who cannot stay for the second hour (the Q&A) to come for the first hour only (the lecture) and email any questions to Dr Hail afterwards. We will have a short 5-minute 'coffee break' interval in the middle to allow particularly busy staff, particularly SES, to make their apologies and depart if required.

Thanks,
s 22 [redacted]

Manager
Macroeconomic Modelling and Policy Division | Macroeconomic Group
The Treasury, Langton Crescent, Parkes ACT 2600
Phone: s 22 [redacted]

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From: s 22 [redacted]
Sent: Thursday, 21 March 2019 11:12 AM
To: MEG Macroeconomic Modelling & Policy Division
Subject: RE: Invite from PM&C - Lecture and Q&A with Dr Steven Hail [SEC=UNCLASSIFIED]

(further to my earlier email — please RSVP by next Friday 29/3).

From: s 22 [redacted]
Sent: Thursday, 21 March 2019 11:08 AM

To: MEG Macroeconomic Modelling & Policy Division
Subject: Invite from PM&C - Lecture and Q&A with Dr Steven Hail [SEC=UNCLASSIFIED]

Hello,

Please see below invitation from PM&C. If you are interested in attending, can you please let me know? I will coordinate RSVPs back to PM&C.

s 22 [redacted]
Manager
Macroeconomic Modelling and Policy Division | Macroeconomic Group
The Treasury, Langton Crescent, Parkes ACT 2600
Phone: s 22 [redacted]

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From: s 22 [redacted]
Sent: Thursday, 21 March 2019 10:59 AM
To: Beckett, Ian
Subject: FW: Invite from PM&C - Lecture and Q&A with Dr Steven Hail [SEC=UNCLASSIFIED]

Hi Ian

PM&C have invited us to send interested staff to a lecture on 'Is Macroeconomics Due for a Second Keynesian Revolution? Modern Functional Finance and Fiscal Policy'.

This looks most relevant to MMPD. Would be great if someone can coordinate RSVPs from any interested staff in the division and get back to s 22 [redacted]

Cheers
s 22 [redacted]

From s 22 [redacted]
Sent: Wednesday, 20 March 2019 10:16 AM
To: s 22 [redacted]
Cc: s 22 [redacted]@pmc.gov.au'
Subject: Invite from PM&C - Lecture and Q&A with Dr Steven Hail [SEC=UNCLASSIFIED]

Hi s 22 [redacted]

I received the following invite from PM&C this morning. PM&C advised that this may be of interest to staff in Macroeconomic Group, Fiscal Group and Revenue Group. Details for the event are listed below. The contact person for RSVPs is s 22 [redacted] details listed below). If possible, please send a coordinated RSVP list from your Group to s 22 [redacted]

Date: Monday 8 April 2019
Time: 2pm to 4pm
Location: Department of the Prime Minister & Cabinet, 1 National Cct, Barton ACT

Is Macroeconomics Due for a Second Keynesian Revolution? Modern Functional Finance and Fiscal Policy
Economic Policy Branch staff invite you to a lecture and Q&A by academic economist Dr Steven Hail on a topical debate in contemporary macroeconomics.

> The stock-flow consistent approach to Post-Keynesian monetary analysis, pioneered by the late Professor Wynne Godley and Professor Marc Lavoie, successfully anticipated both the Global Financial Crisis and the Eurozone crisis, well in advance of the occurrence of those events. A prediction of these models is that functional finance is a more effective mechanism for economic stabilisation than monetary policy, particularly in the long run, and that in almost all countries governments should run fiscal deficits most of the time. On a more fundamental level, economists like Marc Lavoie and former Chief Economist on the US Senate Budget Committee, Professor Stephanie Kelton, argue that the economic orthodoxy of the past 30 years has been based on a flawed and misleading model, and that the discipline of macroeconomics is due for a second Keynesian revolution.

Dr Hail is a lecturer in macroeconomics, international finance and financial economics at the University of Adelaide, having previously served as College Director at Kaplan Business School and taught at the University of South Australia and Flinders University. He received his MSc and BSc in Economics from the London School of Economics and his PhD from Flinders University. His doctoral dissertation was entitled "Behavioural and Post-Keynesian Foundations for a New Macroeconomics". Palgrave recently published his debut text *Economics for Sustainable Prosperity*, and he currently serves as a Research Scholar at the Global Institute for Sustainable Prosperity in the United States.

If you would like to attend please contact s 22 [redacted]@pmc.gov.au s 22 [redacted] is coordinating RSVPs and will arrange guest passes for external attendees.

An hour has been set aside for Dr Hail's presentation and 45 minutes to an hour for Q&As.

Kind regards,

s 22 [redacted]
Learning and Development Coordinator
Organisational Capability | People and Organisational Strategy Division
Corporate Services and Business Strategy Group
The Treasury, Langton Crescent, Parkes ACT 2600
s 22 [redacted] | People Help x2222
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UNCLASSIFIED
Classified by s 22 [redacted]@treasury.gov.au on 20/03/2019 10:15:38 AM

s 22 [redacted]

Subject:	FW: Seminar and Q&A on MMT and functional finance [SEC=UNCLASSIFIED]
Location:	MR-ONC-GFE-Training Room 1; MR-ONC-GFE-Training Room 2
Start:	Mon 8/04/2019 2:00 PM
End:	Mon 8/04/2019 4:00 PM
Show Time As:	Tentative
Recurrence:	(none)
Meeting Status:	Not yet responded
Organizer:	s 22 [redacted]

-----Original Appointment-----
From: s 22 [redacted]@pmc.gov.au]
Sent: Friday, 22 March 2019 11:13 AM
To: s 22 [redacted]
Cc: Economic Division; s 22 [redacted]
Subject: Seminar and Q&A on MMT and functional finance [SEC=UNCLASSIFIED]
When: Monday, 8 April 2019 2:00 PM-4:00 PM (UTC+10:00) Canberra, Melbourne, Sydney.
Where: MR-ONC-GFE-Training Room 1; MR-ONC-GFE-Training Room 2

UNCLASSIFIED
Dear colleagues

Thank you for your interest in this seminar. As some staff are unable to attend for the full two hours, there will be a five-minute interval at 3PM between the lecture and the Q&A session, to allow busy staff to attend only the lecture before making their apologies and departing. Our guest speaker is happy to receive any questions you may have via email.

To assist in centralising our attendance list please RSVP by accepting the calendar item attached if you have not already done so. For background to the debate we have also included a few introductory articles, including by our guest speaker, as well as comprehensive critiques of our guest's position by Rogoff and Krugman:

- Hail 2017, 'Explainer: what is modern monetary theory?'
- Coy, Dmitrieva and Boesler 2019, 'A Beginner's Guide to Modern Monetary Theory'

- Rogoff 2019, ‘Modern Monetary Nonsense’

The more technical debate in recent weeks can be found at:

- Krugman 2019a, ‘What’s Wrong with Functional Finance?’
- Kelton 2019, ‘There are no inherent tradeoffs between fiscal and monetary policy’
- Krugman 2019b, ‘Running on MMT’

Colleagues attending from other agencies are encouraged to arrive 10 minutes early to ensure guests are signed in and proceedings commence on time.

Kind regards

s 22 | Adviser
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Economic Division | Department of the Prime Minister and Cabinet
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Seminar and QA on MMT and fu...

FOI 2559
Document 4

s 22

From: s 22
Sent: Monday, 8 April 2019 5:29 PM
To: MG FSD Capital and Payments Unit
Cc: s 22
Subject: MMT Presentation [SEC=UNCLASSIFIED]

Hi All,

I attended a presentation on Modern Monetary Theory (MMT) at PM&C this afternoon. s 47F

Points of Difference with the Orthodoxy

- MMT challenges the orthodox conception of government spending. According to standard economic theory the government has to *receive money* (either through issuing securities or raising taxes) in order to spend it.
- However, on the presumption that the government is a 'monetary sovereign' (in control of the supply of its own currency), according to MMT theorists, this cannot be true. This is because the government can literally create the means of financing its own liabilities by printing money.
- This means that monetary sovereigns face no financial constraints, only real constraints (at a full-employment level of output, increased spending will create inflation).
- If one accepts the above, the question we often hear in the popular media of 'how will the government pay for this' is devoid of meaning (a monetary sovereign will always be able to fund its own liabilities).

Description of how the Macroeconomy System Works

- MMT Theorists conceive of the macroeconomy as a series of inter-linking balance sheets belonging to three sectors: households; government; and the private sector.
- This means that, all being equal, one sector's *surplus* often corresponds to another sector's *deficit*.
- So to see how this works, it is useful to think about an example on the micro level: an increase in government spending on an infrastructure project will result in increased savings for the firm it hires to undertake the project (private sector) and the workers employed to execute it (households).
- If the government is in deficit (undertaking lots of spending projects) this will correspond to a surplus in savings for households and business.
- If the government is in surplus (cutting back on spending projects), this will correspond to deficits, and expanding balance sheets in the household and private sector.
- This means that a long period of government surplus is likely, according to MMT theorists, to result in expanding household debt (unless there is a corresponding increase in private investment).

If you're interested, we were pointed to some articles that provide a much better explanation of the above which I can send you links to.

Happy to discuss.

s 22

s 22

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FOI 2559
Document 5

From:	s 22 [redacted]
To:	s 22 [redacted]
Subject:	RE: Notes from today"s MMT session [SEC=UNCLASSIFIED]
Date:	Thursday, 2 May 2019 3:14:53 PM
Attachments:	MMT.rtf

---

s 47F [redacted]

From: s 22 [redacted] @TREASURY.GOV.AU>
Sent: Monday, 8 April 2019 6:26 PM
To: RG TAD Model Development Practice <RGTADModelDevelopmentPractice@TREASURY.GOV.AU>; RG TAD Retirement Income Modelling Unit <RGTADRetirementIncomeModellingUnit@TREASURY.GOV.AU>
Subject: Notes from today's MMT session [SEC=UNCLASSIFIED]

As promised, here are some notes.

s 47F [redacted]

He summarised MMT as two axioms and an identity:
1. All economies face real constraints
2. Monetary sovereigns face no ‘purely financial constraints’.
3. Sectoral balances sum to zero.

Expanding on the second point:

- Monetary sovereigns are governments that issue their own currency, have a floating exchange rate and have no significant foreign currency debt.

- They do not face financial constraints in that they can borrow in local currency without facing any solvency constraints – a monetary sovereign can never default in its own currency.
- That said, government spending can create inflation. This comes back to the first point above – overspending can create capacity constraints in the economy.

Given these points, the role of taxation is *not* to fund government spending. At a fundamental level, taxation can only occur because government spends first (he used an example of colonialism to illustrate this; I can expand in person). Instead, taxation acts as a means by which monetary sovereigns can address inflation/capacity constraints in the economy – by draining excess money from the economy.

That said, MMT does not claim that fiscal deficits don't matter *per se*, but that they don't matter when a monetary sovereign's economy is not at capacity. This means that, in many countries (including Australia), deficits should be higher.

He used the MMT framework to explain how fiscal surpluses <u>cause</u> private sector deficits (and vice versa), and showed several time series graphs (of Australia and other countries) to illustrate his point. My understanding of his explanation was along the lines of: the domestic private sector holds government debt (assuming stable foreign inflows); by definition, private sector savings rise when government issues more debt to fund its deficits; and vice versa for government surpluses.

He argued that this mechanism is important because: government surpluses drive domestic private sector debt; if that debt is not funding business investment, then it is funding asset bubbles; asset bubbles are bad for financial stability (*a la* Minsky).

s 47F

s 22 – what were your thoughts?

Cheers,
s 22

s 22
Analyst | Model Development Practice
Tax Analysis Division
The Treasury, Langton Crescent, Parkes ACT 2600
p: 02 s 22
e s 22 @treasury.gov.au

FOI 2559
Document 5 - attachment

The following is my thumbnail sketch of Modern Monetary Theory, based mainly on *Modern Monetary Theory* by L Randall Wray, and William Mitchell's (the Newcastle professor) blog. I had not heard of Stephen Hail before so I am not sure how much they will have in common.

The popular (Twitter/blog comments) version usually boils down to "governments don't need to worry about how to pay for their spending".

Normative (policy) content

1. Job Guarantee: the government should become an employer of last resort for any citizen who wants a job, at the minimum wage.
2. Functional finance: the government deficit/surplus should be whatever it needs to be to achieve full employment. Fiscal policy in Australia, the US, and Eurozone has been far too tight.
3. Sovereign currency: national governments should (almost) always have their own currency and a floating exchange rate. Strongly anti-Euro.
4. Monetary policy: unimportant. I have read suggestions that all deficits should be funded by money creation (like Milton Friedman in his youth), but also that governments should sell bonds to the public to control the interest rate (i.e. as a monetary rather than fiscal policy operation).
5. Government debt: also unimportant (a sovereign government can always control the interest rate so that $r < g$ and existing debt will shrink relative to the economy over time).

Positive (how things work) content

1. National accounting: a government surplus (T>G) implies either a private sector deficit (S<I) or a current account surplus (EX + NFI > IM).
2. Chickens and eggs: bank loans come before deposits, and government spending (assuming a fiat currency) before taxes.
3. Taxation: necessary to make people use government money (to pay their taxes) and control aggregate demand, not to pay for spending.
4. Paleo-Keynesian (pre-adaptive expectations let alone ratex) macroeconomics: higher aggregate demand will increase real output and employment without inflation until full employment (or at least significant "bottlenecks") are reached; investment is insensitive to interest rates.

Further reading

Quickly looking round the web these two pieces are reasonably succinct and consistent with the above:

https://mmtincanada.jimdo.com/intro-to-mmt/mmt-summary-in-plain-language/

https://theconversation.com/why-the-federal-budget-is-not-like-a-household-budget-35498

My main sources (very long winded):

https://link.springer.com/book/10.1057/9781137539922

http://bilbo.economicoutlook.net/blog/

s 22 [redacted]

From: s 22 [redacted]@pmc.gov.au>
Sent: Monday, 8 April 2019 6:41 PM
To: s 22 [redacted]
Subject: Thoughts on presentation today [SEC=UNCLASSIFIED]
Attachments: Canberra 2019 Talk Final.pptx

UNCLASSIFIED

Hi s 22 [redacted]

Thanks for coming today! Keen to hear your thoughts on the presentation, s 47F [redacted] At any rate, slides are attached, keen to hear your thoughts.

Kind regards

s 22 [redacted] | Adviser
Microeconomic Reform | Economic Policy and G20 Branch
Economic Division | Department of the Prime Minister and Cabinet
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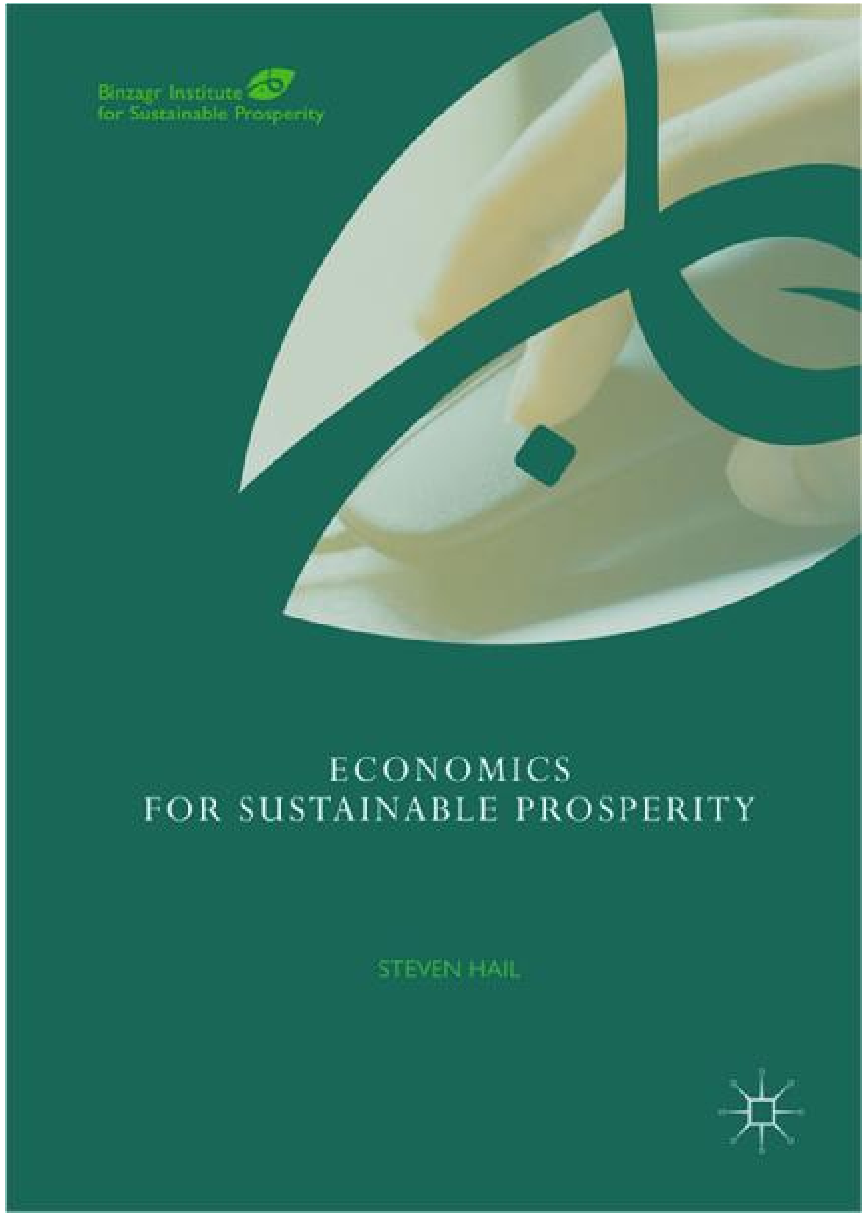
"Is Macroeconomics Due For a Second Keynesian Revolution? Modern Functional Finance and Fiscal Policy"

A (Non-Technical) Introduction to Modern Monetary Theory

Steven Hail
University of Adelaide



MMT?

- A frame for thinking about macroeconomics, which some of us find useful.

- Rooted in *Chartalism*, *Financial Keynesianism*, *Stock-Flow Consistent Monetary Analysis*, and *Functional Finance.*

- Based on a detailed study of the intrinsic realities of modern (fully fiat) monetary systems, and over 25 years of published research.

MMT and Wall Street

GMO, the strategist James Montier wrote: “For me an economic approach must help me understand the world, and provide me with some useful insights (preferably about my day job — investing). On those measures, let me assure you that M.M.T. thrashes neoclassical economics, hands down.”

“So now the truth is really out. More than a few Wall Street practitioners like myself have helped many institutional investors - like Allianz Global Investors, who I have advised for over two decades - make successful investment decisions with many of the analytical tools of MMT,” said Rob Parenteau.

M.M.T., Daniel Alpert, managing partner of the investment bank Westwood Capital said, “*successfully debunks 40 years of misassumptions of how markets and public credit work.*”

https://www.nytimes.com/2019/04/05/business/economy/mmt-wall-street.html?fbclid=IwAR3yrW-TW66ZVg2WxHu7SWcEPym9vzx6041fYr4fkbpue9V_M15Nh1bzywQ

Why I use MMT as a frame

- 1) They were right about the euro (in 1992).
- *2) They were right about US financial deregulation and the Clinton surpluses (in the late 1990s).*
- 3) They predicted a major global recession (in the early 2000s).
- *4) They explained that QE would have little impact and not be inflationary.*

Why I use MMT as a frame

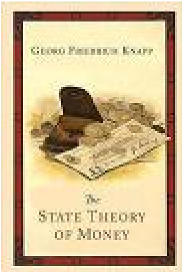
- 5) They explained that the US stimulus was too weak (in 2008/9) and that austerity would be destructive in Europe.

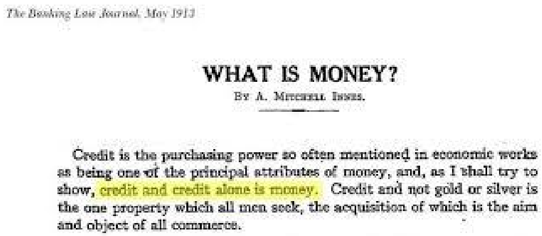
- *6) They predicted interest rates would not rise far in the recovery, and would be cut again.*

- 7) They knew the USA, Australia, etc. could not turn into Greece, Italy, etc.

- *8) They are, in my view, right about current Australian fiscal (and monetary) policy.*

Foundations of Modern Monetary Theory



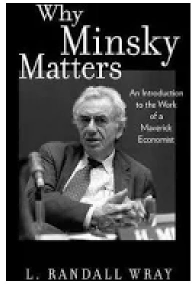

The Banking Law Journal, May 1913

WHAT IS MONEY?

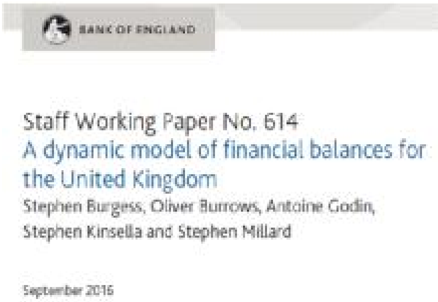
By A. Mitchell Innes.

Credit is the purchasing power so often mentioned in economic works as being one of the principal attributes of money, and, as I shall try to show, credit and credit alone is money. Credit and not gold or silver is the one property which all men seek, the acquisition of which is the aim and object of all commerce.

Innes, Knapp: *Chartalism*



Minsky: *The Financial Instability Hypothesis*

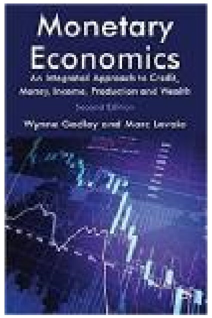

BANK OF ENGLAND

Staff Working Paper No. 614

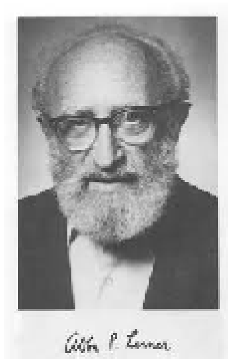
A dynamic model of financial balances for the United Kingdom

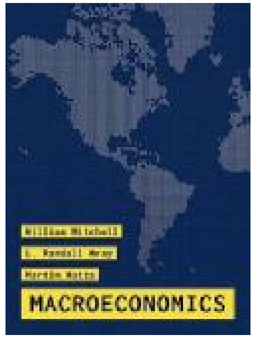
Stephen Burgess, Oliver Burrows, Antoine Godin, Stephen Kinsella and Stephen Millard

September 2016



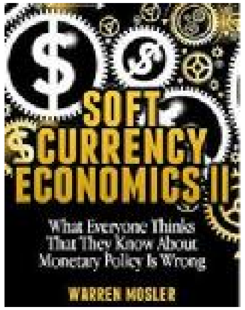
Godley: *Post-Keynesian SFC Modelling*





Lerner: *Functional Finance*

Builders of Modern Monetary Theory



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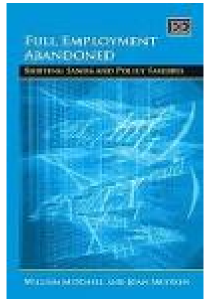
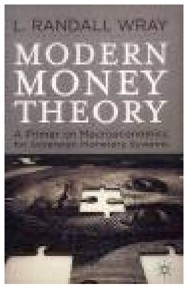


Mosler: *Monetary sovereignty and reserve accounting.*

Mitchell: *Job Guarantee as stabiliser and inflation anchor.*



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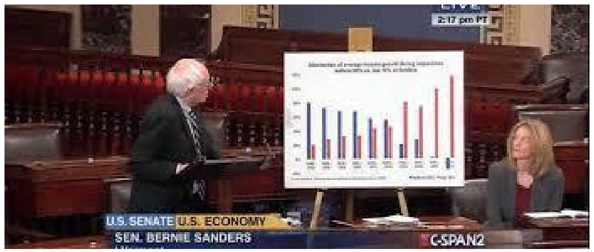


Wray: *Post-Keynesian roots and history and nature of money.*

Kelton: *Taking MMT to Washington.*

Adapted from *The Washington Post*

What MMT is, in a nutshell.

- Two axioms and one identity.

- *1) All economies face real constraints.*
- *2) Monetary sovereigns face no purely financial constraints.*
- *3) Sectoral balances sum to zero.*

- *“The ideas which are here expressed so laboriously are extremely simple and should be obvious.” (Keynes)*

What MMT isn't.

- MMT is not something you have to introduce.
- *MMT is not a policy experiment (with the exception of the Job Guarantee).*
- MMT is not a claim that real resources are limitless.
- *MMT is not a claim that fiscal deficits don't matter.*
- MMT is not a specific set of policy recommendations.

Spend and tax: not tax and spend

- Monetary sovereign governments issue their own currencies, use a floating exchange rate, and have no significant foreign currency debt.

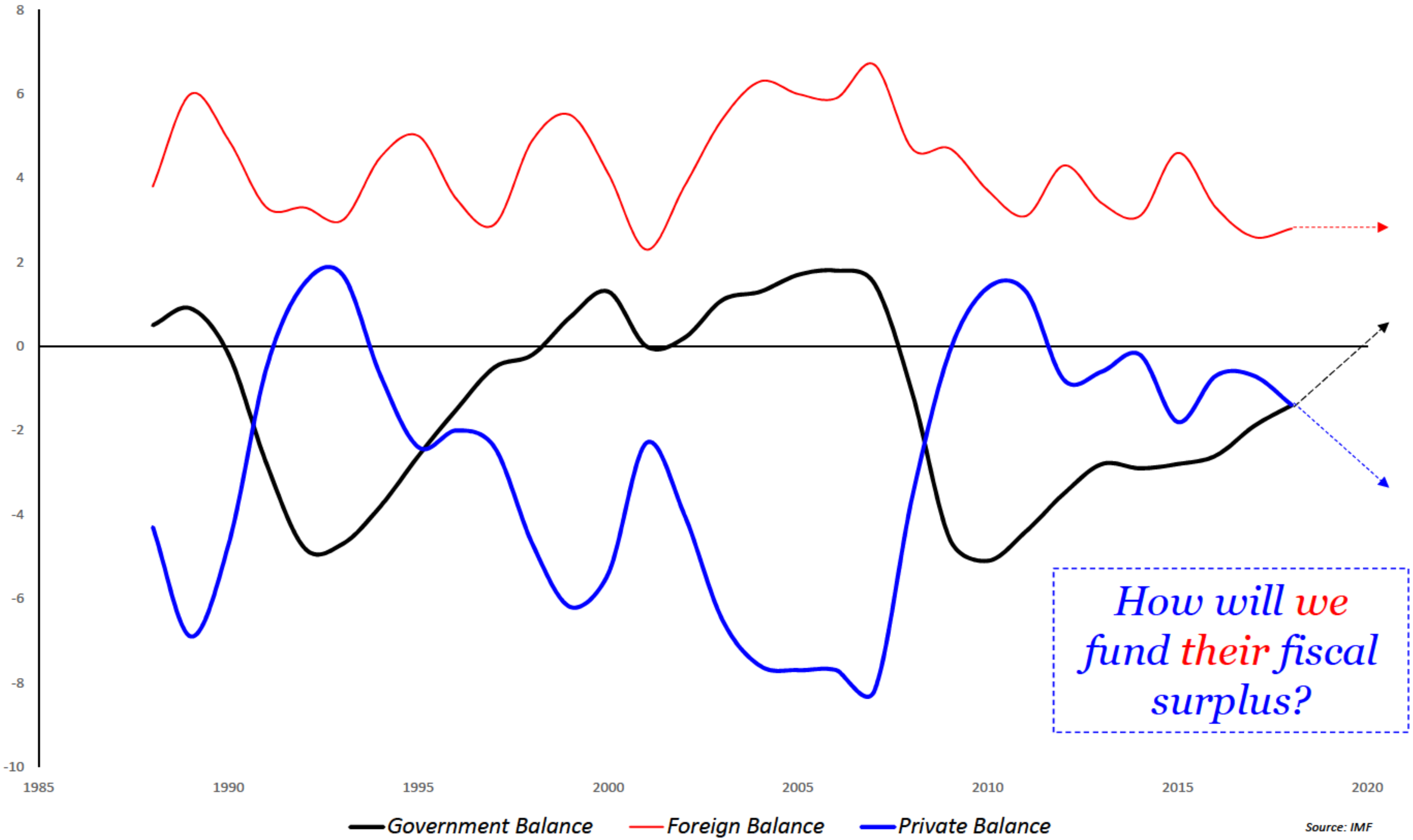
- *All others are currency users.*

- Currency users earn, borrow or dis-save in order to spend.

- *Currency issuers spend in order to tax or 'borrow'.*

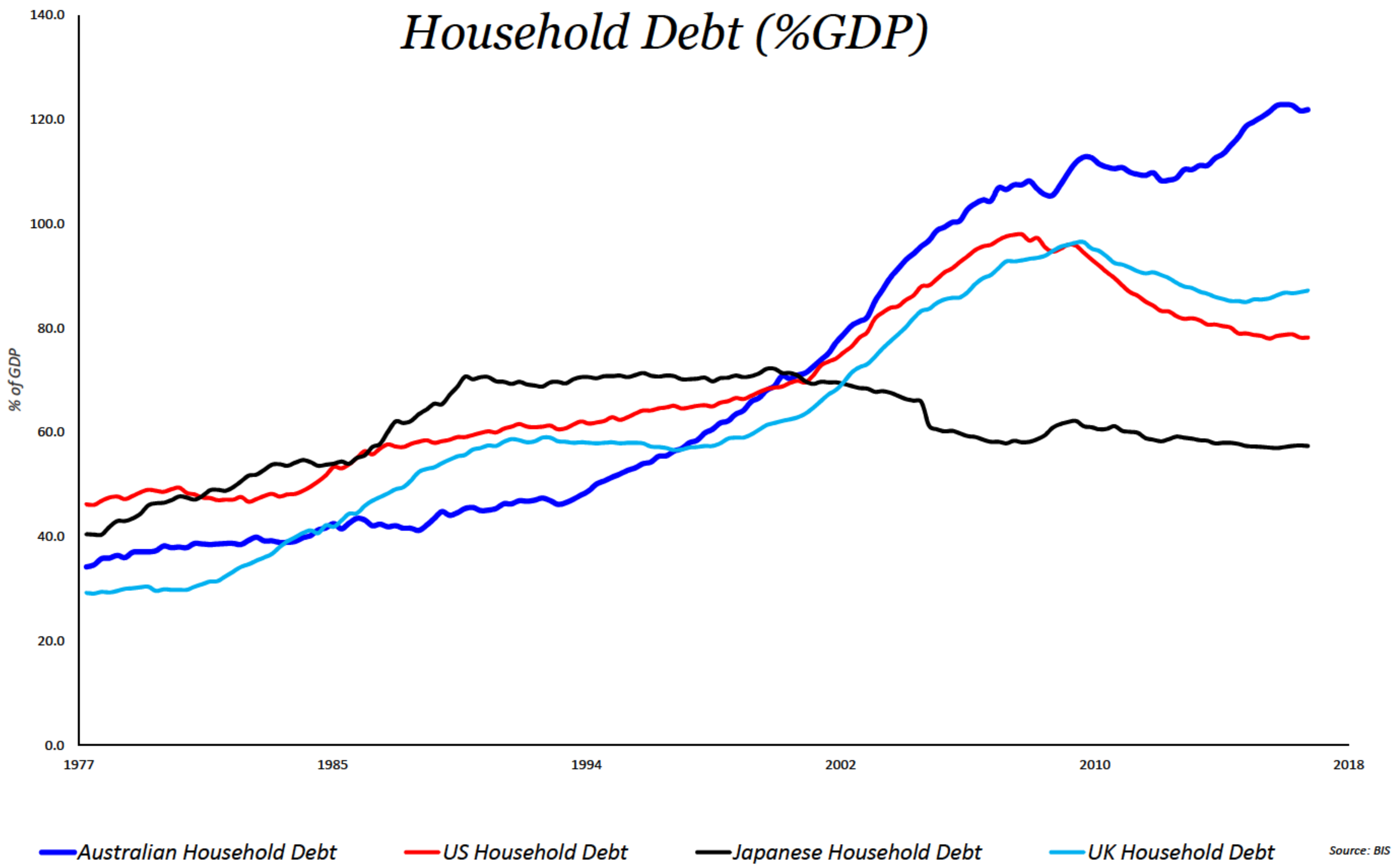
- *Spending by a currency issuer creates 'money'; taxes destroy 'money'; debt issuance changes the form of 'money'.*

Australia, Financial Balances, 1988-2018 (%GDP)

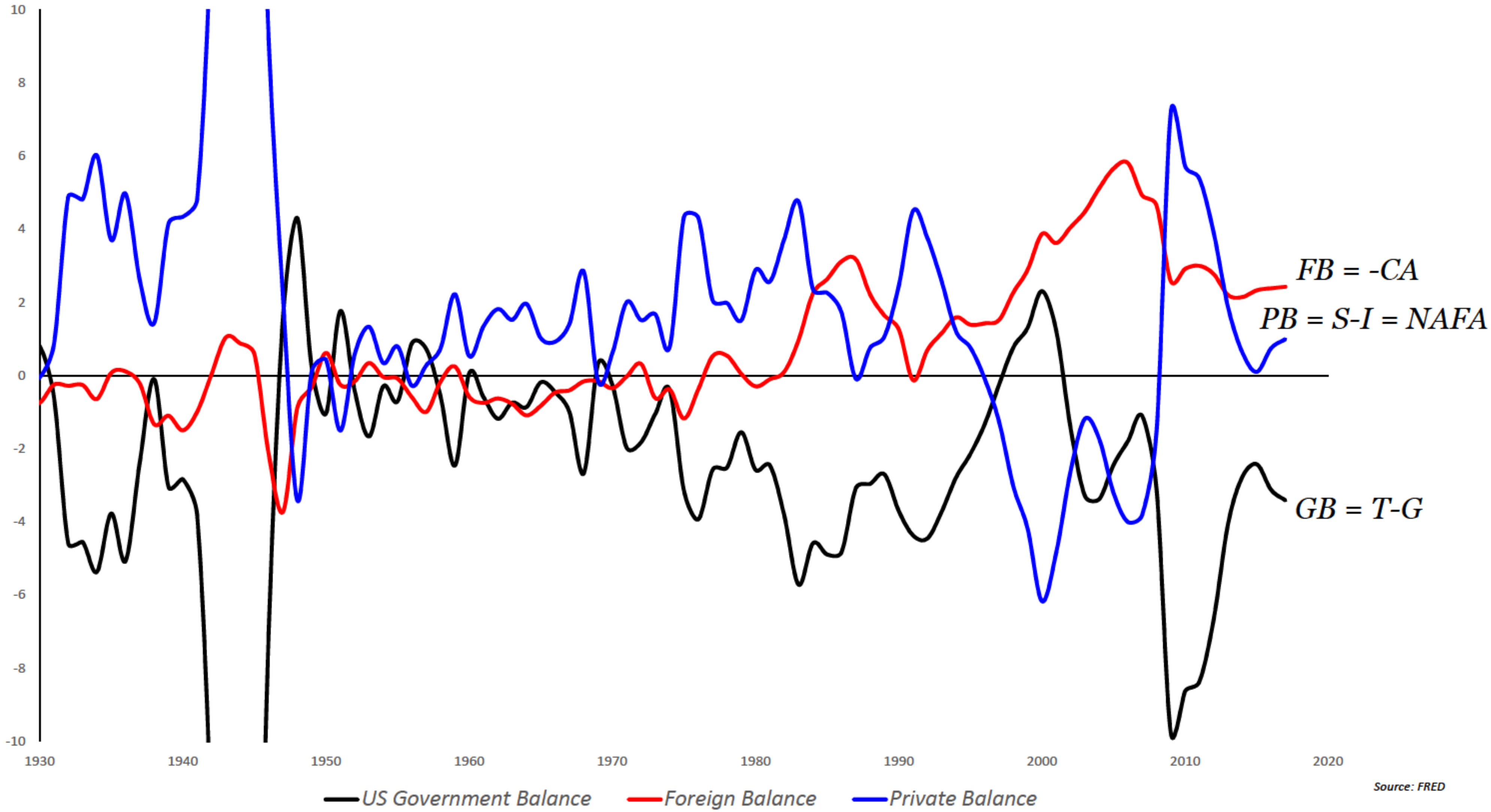


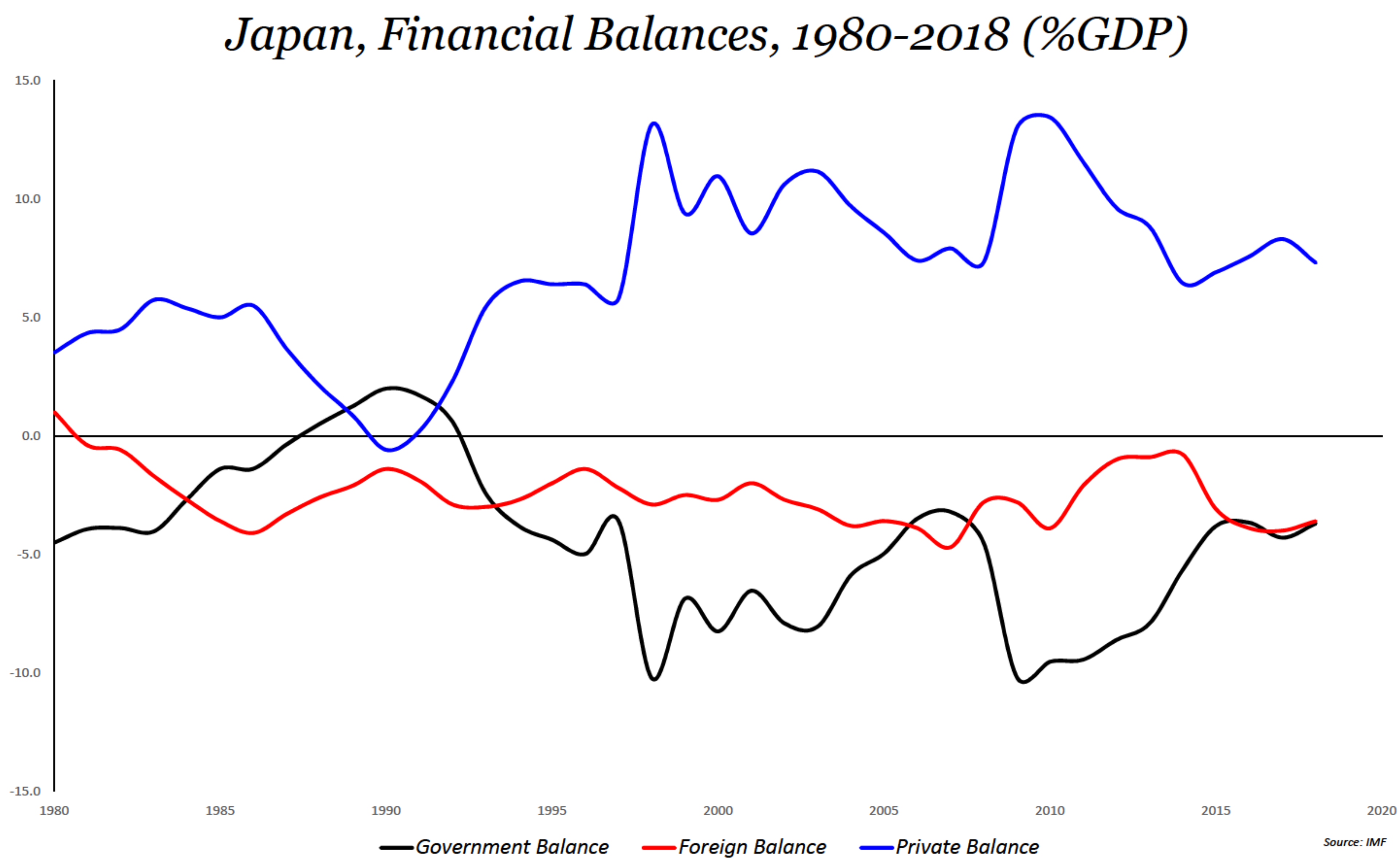
Australia – how will we pay for their surplus?

- *The Government as household metaphor.*
- Current political consensus: private deficits ahead.
- *Record household debt.*
- Risks on the property market.
- *Flat wage growth.*
- Low growth.
- *High underutilisation rate and insecure employment.*
- Inflation below target.
- *Does this make any sense?*


Household Debt (%GDP)
140.0
120.0
100.0
80.0
60.0
40.0
20.0
0.0
% of GDP
1977
1985
1994
2002
2010
2018
Australian Household Debt
US Household Debt
Japanese Household Debt
UK Household Debt
Source: BIS

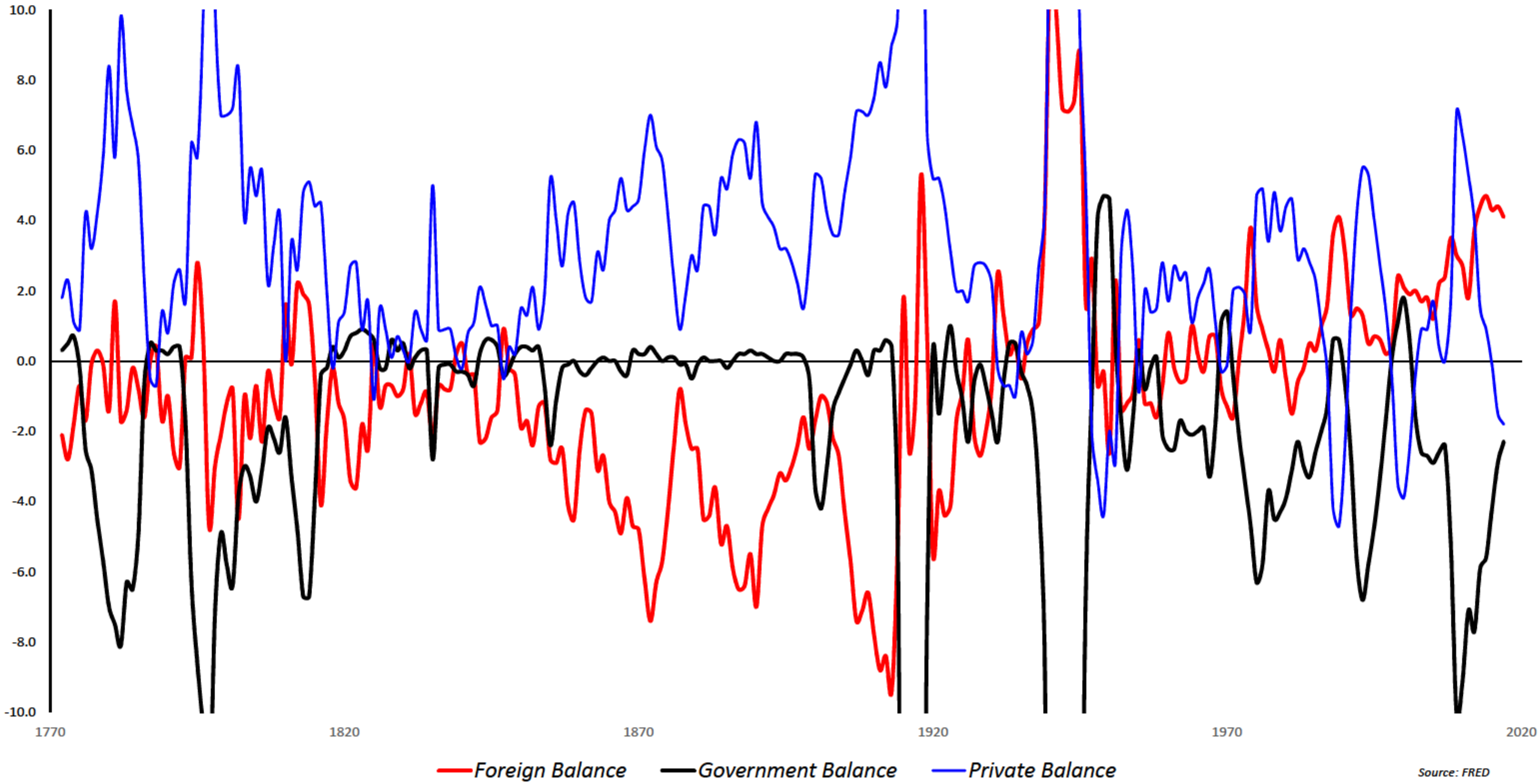
US Financial Balances, 1930-2017 (% GDP)





Japan, Financial Balances, 1980-2018 (%GDP)
15.0
10.0
5.0
0.0
-5.0
-10.0
-15.0
1980
1985
1990
1995
2000
2005
2010
2015
2020
Government Balance
Foreign Balance
Private Balance
Source: IMF

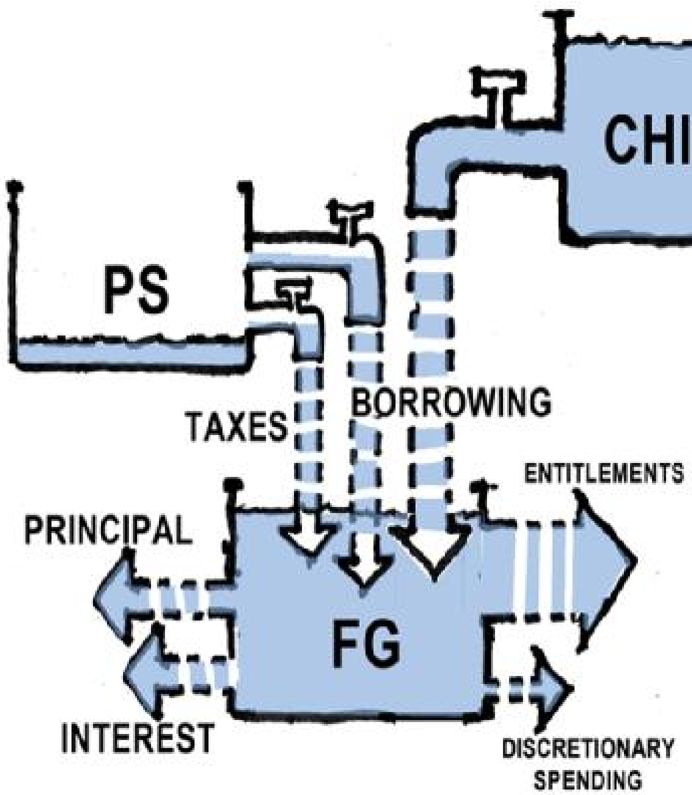
UK Financial Balances, 1772-2017 (%GDP)

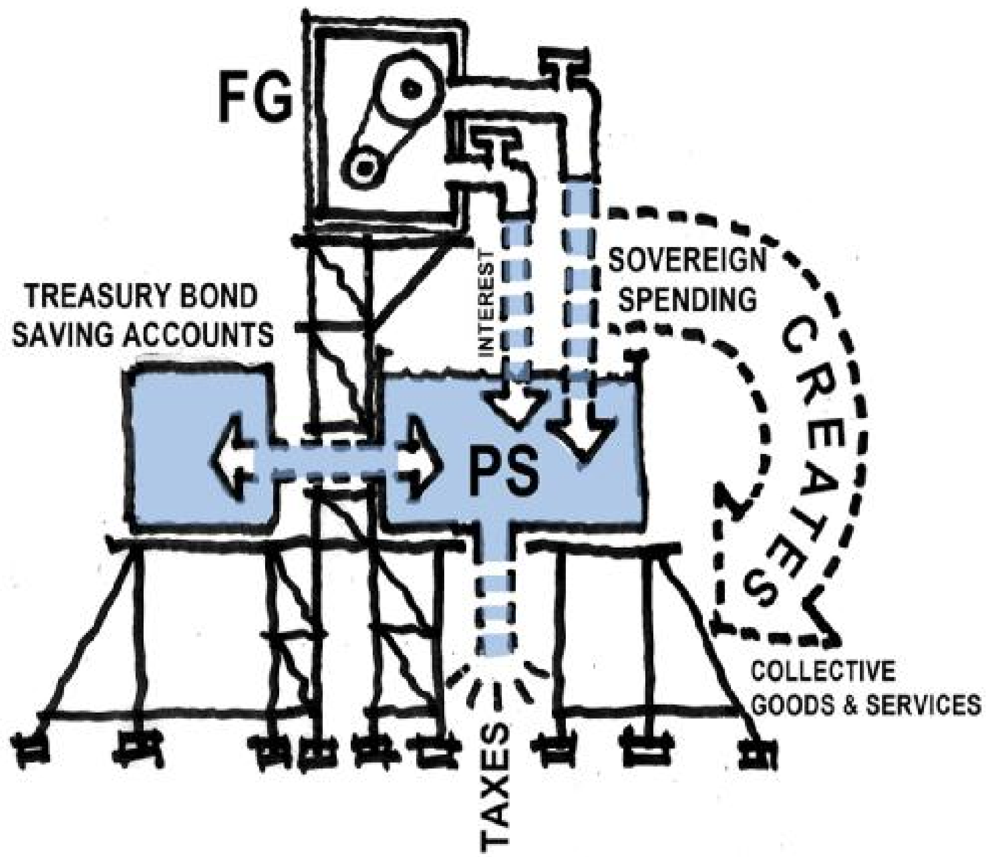


'The game of policy making is rigged. The Prince is constrained by the theory of his intellectuals'

'Lack of understanding of the monetary system has been the worst enemy of the progressive agenda'

Two views of the Monetary System (J.D.Alt)





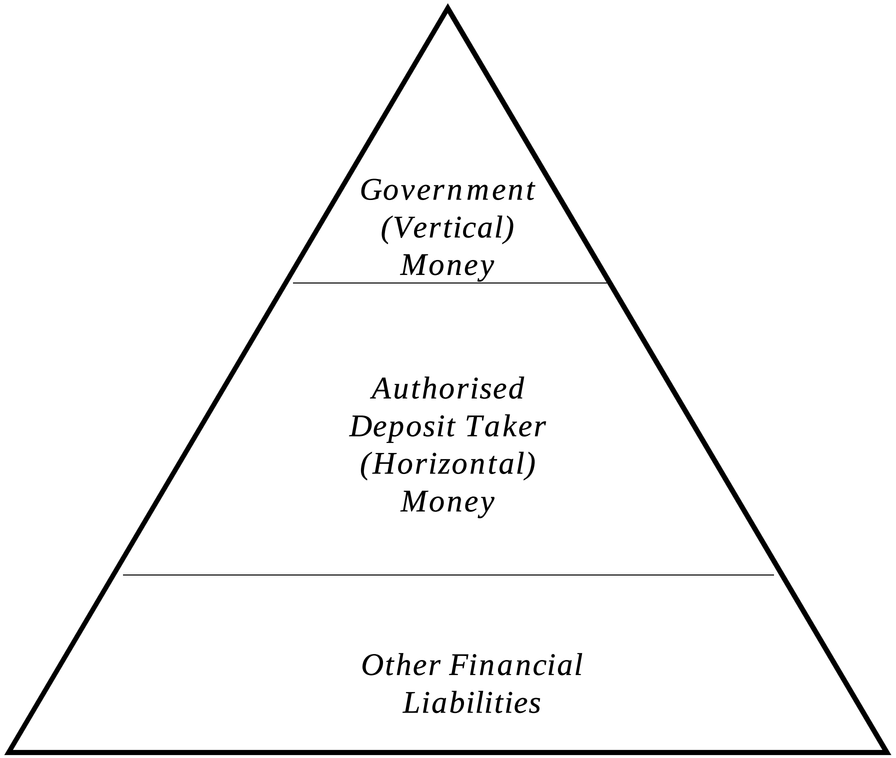
Deficit Financing and Interest Rates

- What is the macroeconomic purpose of taxation?
- *What happens if the tax take is too low? too high?*
- What is the macro purpose of government security issuance?
- *What happens if governments net spend without debt issuance?*
- *What about 'crowding out'?*

MMT

- Money is a creature of the state.
- *Taxes drive money.*
- All money takes the form of financial liabilities.
- *Anyone can issue money - the problem lies in getting it accepted.*
- Monetary sovereigns can never be forced into default.
- *Government net debt = dollars spent and not yet taxed.*
- Capitalism is naturally unstable and needs to be stabilised.
- *Only fiscal policy can perform this role reliably.*
- Monetary policy is always unreliable and in the long run becomes impotent.
- *A Job Guarantee is a superior, automatic fiscal stabiliser.*

Chartalism and Modern Money Theory



- *The State Theory of Money (Knapp* 1904)/ *The Credit Theory of Money (Mitchell-Innes* 1913/4)
- *There is a hierarchy of money. At the top sit government liabilities.*
- Taxes drive money.
- *“we can draw the line between ‘money’ and ‘debts’ at whatever point is most convenient for handling particular problems”*

And all this means?

- Government deficits are normal and necessary.
- *Decide what needs fixing: including inequality and unemployment.*
- If the real resources exist, you can pay for them.
- *Rich people's taxes don't 'pay for' them.*
- *There may be no absolute need to issue government securities.*
- *Taxes help limit total spending – they don't 'pay for' government spending.*
- In an uncertain economy, you need a superior tool of automatic stabilisation – a *Job Guarantee*.

Role of the MMT Job Guarantee

- Effective minimum wage and working conditions
- *Eliminate involuntary underemployment*
- Superior counter-cyclical stabiliser
- *At the margin, sets the fiscal balance*
- Replacing NAIRU with NAIBER
- *Establishing a labour standard approach to price stability*
- Taking workers as they are and offering an opportunity – not an obligation
- *Meeting local needs*
- Universal and permanent
- *Spending the right amount at the right time in the right places on the right people*

Australia 2019

- Economy growing below trend.
- *Risks to the property market and of household debt*
- Monetary policy sugar hits would add to private debt burden.
- *Private sector balance sheets need supporting, wages need to rise, demand needs to be supported.*
- Appropriate fiscal policy would be significant easing.
- *Why are people talking about 'fiscal discipline' and a 'return to surplus'?*
- *In our view, they should not be.*

Warren Mosler & Larry Summers

- I opened with a question: *"Larry, what's wrong with the budget deficit?"* He replied: *"It takes away savings that could be used for investment."* I then objected: *"No it doesn't, all Treasury securities do is offset operating factors at the Fed. It has nothing to do with savings and investment."* To which he retorted: *"Well, I really don't understand reserve accounting, so I can't discuss it at that level."*

- In https://moslereconomics.com/wp-content/powerpoints/7DIF.pdf ,page 41.

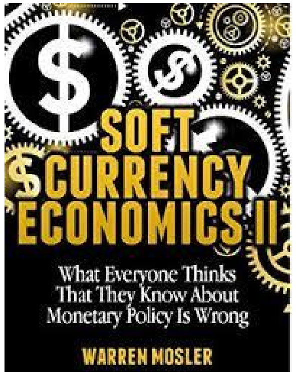
Warren Mosler & Robert Rubin

- *"Bob, does anyone in Washington realize that the budget surplus takes away savings from the non-government sectors?"* He replied, *"No, the surplus adds to savings. When the government runs a surplus, it buys Treasury securities in the market, and that adds to savings and investment."* To that I responded, *"No, when we run a surplus, we have to sell our securities to the Fed (cash in our savings accounts at the Fed) to get the money to pay our taxes, and our net financial assets and savings go down by the amount of the surplus."* Rubin stated, *"No, I think you're wrong."*

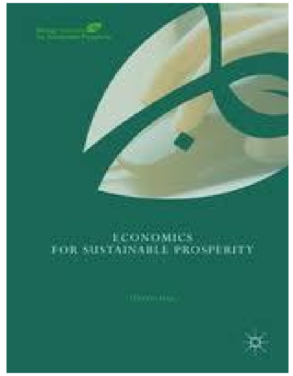
- In https://moslereconomics.com/wp-content/powerpoints/7DIF.pdf ,page 47.

Papers to read if MMT seems interesting

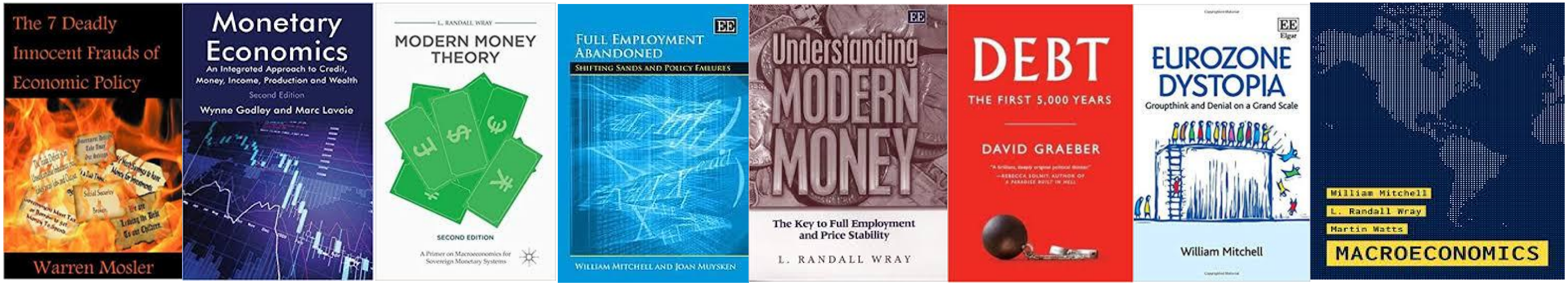
Connors, Louisa and William *Mitchell* 2017	'Framing Modern Monetary Theory.' *Journal of Post-Keynesian Economics* 40, Issue 2, 2017: 239-259.
Bell (*Kelton*), Stephanie. 2001.	'The Role of the State and the Hierarchy of Money.' *Cambridge Journal of Economics* 25, no. 2: 149–163.
Bell, Stephanie. 2000.	'Do taxes and bonds finance government spending?' *Journal of Economic Issues* 34, no. 3: 603-620.
Fullwiler, Scott. 2016.	'The Debt Ratio and Sustainable Macroeconomic Policy.' *World Economic Review* 7*: 12-42.*
Mitchell, William. 1998.	'The Buffer-Stock Employment Model and the NAIRU: The Path to Full Employment." *Journal of Economic Issues* 32, no. 2: 547-555.
Wray, L. R., F. Dantas, S. Fullwiler, P. Tcherneva and S. Kelton. 2018.	'Public Service Employment: A Path to Full Employment.' *Levy Institute Research Project Report*, 2018/4: New York.
Mosler, Warren and Damiano B. Silipo. 2017.	'Maximising Price Stability in a Monetary Economy.' *Journal of Policy Modelling* 39, Issue 2: 272-289.
Godley, Wynne and Marc Lavoie. 2007.	'A simple model of three economies with two currencies: the Eurozone and the USA.' *Cambridge Journal of Economics* 31, no. 1: 1-33
Minsky, Hyman. 1996.	'Uncertainty and the Institutional Structure of Capitalist Economies: Remarks Upon Receiving the Veblen-Commons Award'. *Journal of Economic Issues 30*, no. 2: 357-368.
Lerner, Abba. 1943.	'Functional Finance and the Federal Debt.' Social Research 10, no. 1: 38-51.



Books, etc…?



- Please contact me on steven.hail@adelaide.edu.au
- *I'll suggest sources/readings/websites/videos, depending on your interests*

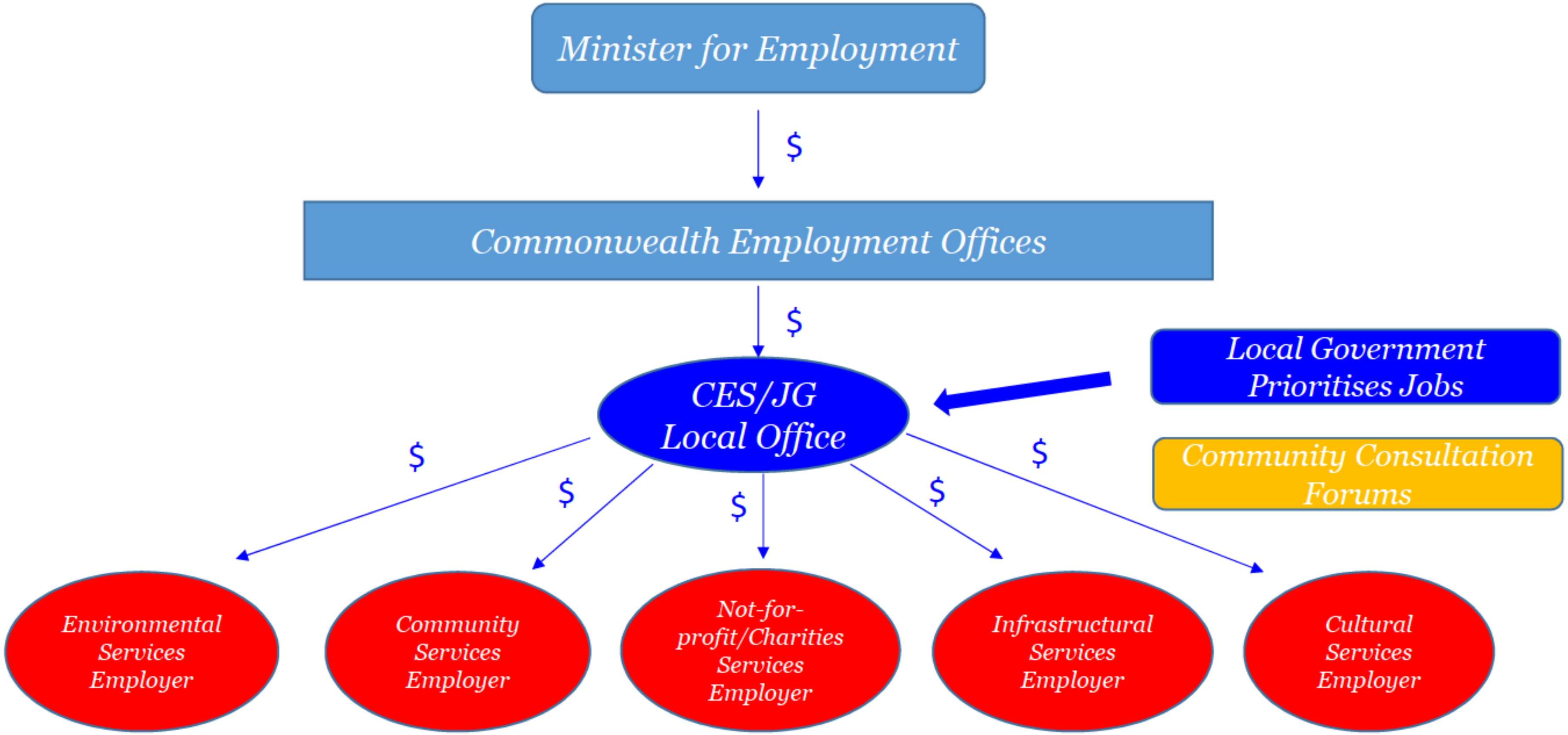


An identity: not a constraint

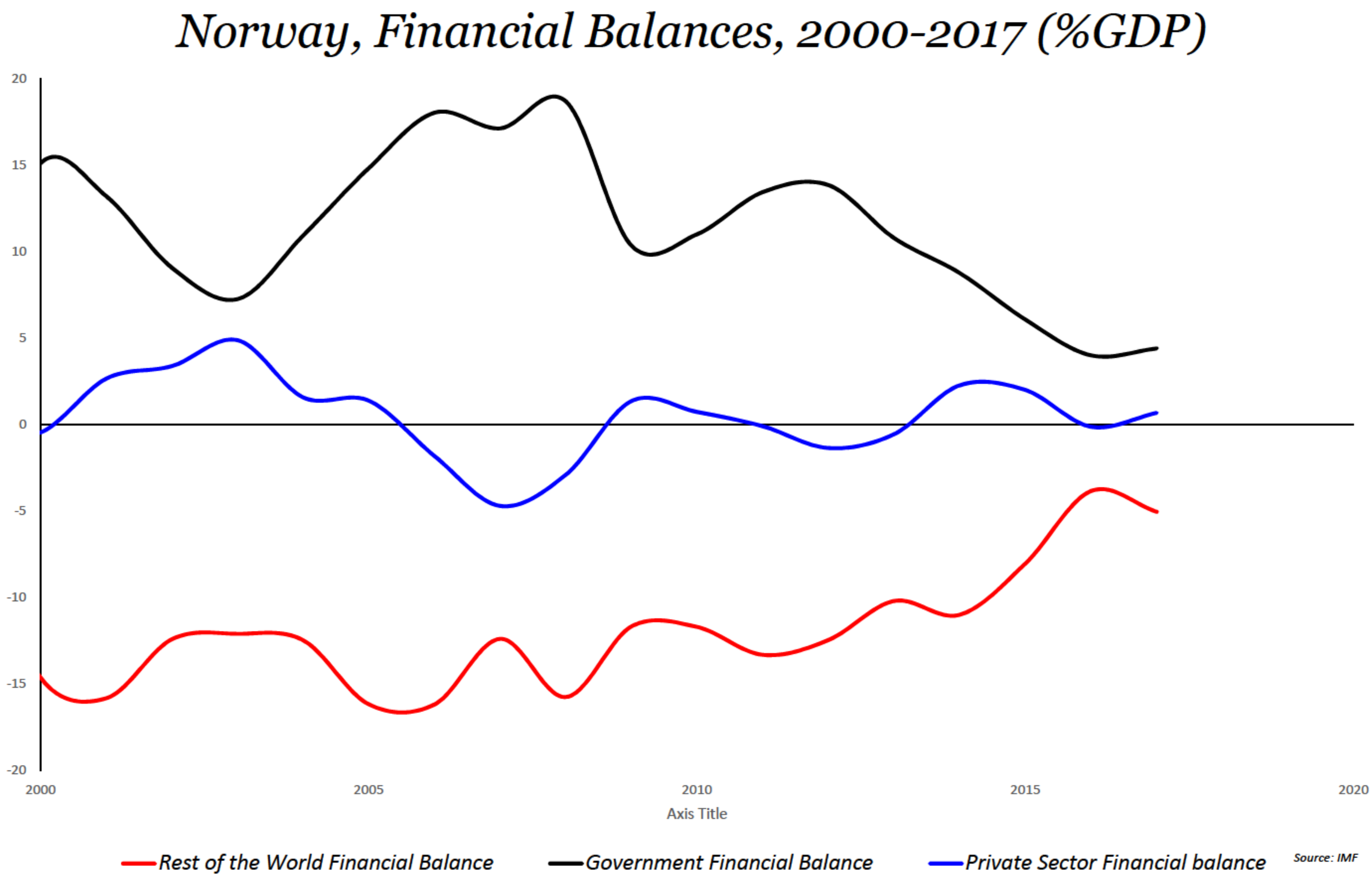
- $G_t + r_{Bt}B_{t-1} + (r_{Mt}M_{t-1}) = T_t + \Delta B_t + (\Delta M_t)$
- $F_t = \Delta B_t + \Delta M_t$
- $F_t = \Delta M_t$?
- *“we can draw the line between ‘money’ and ‘debts’ at whatever point is most convenient for handling particular problems”*

(Guess who)

p.s. How could it be organised?



Based on proposals from *CofFEE*



Norway, Financial Balances, 2000-2017 (%GDP)
20
15
10
5
0
-5
-10
-15
-20
2000
2005
2010
2015
2020
Axis Title
Rest of the World Financial Balance
Government Financial Balance
Private Sector Financial balance
Source: IMF