



Australian Standfirst

April 2019 Edition

Modern Monetary Theory or MMT



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Within jurisprudence, a tradition persists that a court is not affected by the winds of the day, but will be by the climate of the era.

As the law is never finished and perennially continues as a work in progress, so too holds true for the science of economics, where cogent explanations and justifications of unconventional monetary policies, since 2008, have had less to do with the ebbs and current flows of global financial markets and more to do with the reassessment of the macroeconomic epoch in which we now live.

[Cite: Seismic Shifts In 2019, 16 January 2019](#)

While today's question has been how long does this current global bull cycle have to run, the question of this era has been what overall model addresses the needs of Governments, market investors plus participants and ultimately, those within the real underlying economies which bedrock all.

Unsurprisingly, this fracas has spilt into politics and manifested itself in US Presidential campaigning with a Neo-Socialist resurgence on the left with calls for nationalising American public healthcare, education and social services and an even greater tilt on the right advocating a rebuild of the US Federal Reserve system, retracement of Government altogether across public health and even inane calls to privatise National Defence.

In this climate, the macroeconomic framework of Modern Monetary Theory, or MMT is increasingly being revisited, which in its basic form proposes that monetarily sovereign countries – those that enjoy free-floating currencies unpegged to the US Dollar or are not formally curtailed by pecunious volatility bands, such as the case for the Chinese Renminbi or Singaporean Dollar – are operationally unhinged from the responsibility to balance government revenue (taxes, imposts, surtax and tariffs) against that of government spending.





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Put simply, under MMT, Governments needn’t tax nor borrow to support their spending given that they are the monopoly issuers of their own currencies and can add to their own broad monetary bases [M2, M3] by printing requisite liquidity whenever required.

[Cite: Bad New Days Of Big Government, 16 May 2015](#)

Heretical in the eyes of many (including this author’s), MMT is being propositioned as the next evolution across the unconventional monetary policy experiments of advanced economies including, The United States, the EU bloc, Japan, Canada and Australia; with US left-leaning advocates positing MMT in the support of universal healthcare, the equally radical (vis-à-vis MMT) concept of Universal Basic Income, or UBI and the retirement of the US Government ‘debt ceiling’, known in the vernacular as the Gephardt Rule and subsequently, the McConnell Rule, which led to the Budget Control Act of 2011.

Critics of economics like to say that its abstract theories lack real-world pay-offs but found in MMT lie immediate solutions or the beginnings of the capitalist’s worlds ends, depending on one’s perspective and for global investors, propositions advocating immediate and rapid liquidity (for good or ill) should always be taken seriously – case in point, those whom vexed Quantitate Easing or QE, only to see global listed bourses, OECD real estate markets and hard commodities balloon more so than any decadal window since the post recessionary recovery of 1954.

According to William Mitchell, Professor of Economics at The University of Newcastle, *“MMT recognises that a currency-issuing government such as Australia’s faces no financial constraints on its spending. This means that the government is not like a household, which uses the currency that the government issues. It also means that the government can purchase anything that is available for sale in that currency, including all idle labour.”*

Professor Mitchell further adds that MMT also sees the role of taxation as not to fund the government sector but to provide it with the real resource base in which it can spend in a non-inflationary manner to fulfil its political mandate.

By depriving the non-government sector of purchasing power, taxation frees resources that can be brought back into productive use by government.

[Cite: A German Rough Patch 2019, 10 April 2019](#)





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Through this lens, MMT emphasises that we should not judge the appropriateness of a particular fiscal position by the 'budget numbers' but rather by how effective the government sector is in promoting full employment, price stability, environmental sustainability and enhanced material well-being among the population.

Arguing against this macroeconomic framework, Nobel Laureate Paul Krugman believes the US would see hyperinflation if it was to implement MMT, leading institutional investors to abandon US Government bonds, which after all, bedrock the global economic capital stack and system at-large.

According to Dr Krugman, "Do the math and it becomes clear that any attempt to extract too much from seigniorage— more than a few percent of GDP, probably — leads to an infinite upward spiral in inflation."

Advocates of MMT argue that unconventional monetary experiments since 2008, across developed markets, have not led to inflationary pressures and all agree that if the government tries to push spending ahead of the capacity of the economy to respond by producing real goods and services then inflation will be the result; inflation is the risk of all spending, government or non-government.

[Cite: Cross Asset Inflation, 13 March 2019](#)

Supporters of MMT postulate that the framework in and of itself, provides a superior lens for understanding the operations of the monetary system and the capacities of the currency-issuing government within that system.

Detractors flag legitimate concerns about runaway inflation, misappropriations (as often is the case with government sector spending) and economically, the fact that further manipulating the broad monetary base adds little to nothing to productivity growth, which after all, is the only demonstrated catalyst of real and meaningful economic progress.

All considered, biases for or against MMT become moot points when it is becoming abundantly apparent that the climate of this era is turning to unhinged monetary mechanics at a national political level and as the 2020 US Presidential barnstorming begins, do not be surprised to hear the term MMT finishing the sentences of promises spruiking universal healthcare, free education and unequivocal US military hegemony across the South China Sea.

Yours,
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