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NOVEMBER 2019

THOUGHT LEADERSHIP: MODERN MONETARY THEORY – MONEY FOR NOTHING

INTRODUCTION

The world feels a little broken right now. Leaders are acting differently. The climate is changing. People are angry, disenfranchised, frustrated, and taking to the streets to protest. The global economy is behaving unusually too. Inflation has all but disappeared in the major developed economies. Interest rates are at 5000 year lows and likely to stay lower for longer.

Low interest rates have been driven by central banks with unconventional quantitative easing. Global debt is considerably higher now than in the financial crisis and government debt levels of major economies grow to levels that have historically been very difficult, if not impossible, to recover from. But all this bad news is good news for investors (today, not going forward) as central banks promise to keep supporting markets and as such have created an enormous asset price bubble.

Left wing political candidates with sweeping social agendas and expensive climate change policies are gaining traction with voters who object to the political status quo. Voters who do not want to live in Trump's America, who want real action on climate change, who want to stop growing inequality and who no longer trust the governing elite.

Think Alexandra Ocasio-Cortez, Elizabeth Warren and Bernie Sanders in the US and Jeremy Corbyn in the UK. These politicians have big social and climate agendas including the provision of universal health care, the implementation of a universal basic income, government led action on climate change and the nationalisation of entire industries.

If we overlay ugly demographics, declining productivity, enormous wealth inequality, a global population of eight billion people and the potential for automation to wipe out close to one billion jobs over the next several decades, there is a lot to worry about. Central banks are saying loud and clear to governments that they need to borrow and spend on infrastructure to increase productivity and create jobs while interest rates are so low.

MMT to many, and us, is a somewhat crazy, fringe economic framework. Its main premise is that governments can never default on debt denominated in their local currency because they are always able to print enough money to meet the debt servicing requirements. And that governments should seek to target an economic growth outcome and borrow whatever they require to achieve this outcome. The central banks will purchase whatever amount of debt is required to keep interest rates at zero, or close to zero, so governments can afford to borrow such huge amounts of money. In other words, fiscal responsibility goes out the window!

This theory seeks to change the way budget deficit and government debt is thought about, and at its core, says that there is no such thing as too much.

But how crazy is this idea, really, in this wild world we find ourselves in?

This feature article looks at the world and the global economy, discussing MMT and exploring whether it could really ever become mainstream economic policy. And while we do not for a moment think MMT is inevitable, we recognise the current system is close to being broken and perhaps a new model is required. We have written before about Japan's liquidity trap and the way central bank actions in other developed economies are leading other economies down a similar path.

But what happens when monetary policy doesn't work anymore? MMT is one possibility. And, importantly, it answers the question of how a newly elected progressive government with a political mandate for sweeping social and climate reform could pay for its political promises.

WHAT IS MODERN MONETARY THEORY?

Modern Monetary Theory (MMT) argues that governments can never default on debt denominated in their local currency, because they can always print more money to service that debt. For this reason, MMT proponents believe governments should use fiscal policy to achieve full employment in an economy. Inflation will emerge when full employment is achieved, and the government can then use taxation and debt issuance to regulate the money supply and so control this inflation.

More generally, MMT says that the level of government deficit and debt matters less and so fiscal restraint is less important. This is because a government's budget deficit is a financial surplus to private domestic and foreign investors – for every borrower, there must be a lender. So, one mechanism for increasing private sector saving (or reducing private sector leverage) is for the government to run budget deficits. MMT challenges the idea that a good government must limit its budget deficit and public debt levels, paving the way for higher government spending to lift employment, inflation and economic activity.

Modern monetary theorists argue that printing money does not cause inflation because, if it did, inflation would have re-appeared over the last decade following the quantitative easing policies implemented following the global financial crisis. Instead, they argue, inflation will emerge once an economy has no more spare capacity.

So, in a period of low inflation, governments should spend, for example by building infrastructure, and pay these employees the minimum wage. This will ensure that private companies can still access labour by paying higher wages. Once full employment is reached, the government should stop its non-inflationary spending and use taxation levers or issue bonds to take spare money out of the economy.

MMT makes fiscal policy the more flexible policy instrument, replacing monetary policy which has historically been used to control interest rates and in turn money supply and demand. And it replaces inflation as the key metric to be targeted, instead focussing on full employment, or potentially even an economic growth outcome.

But herein lies one of the most controversial elements of MMT – that decisions around money supply, and in turn, inflation and employment, would be made by elected politicians rather than an independent central bank (with central banks becoming more of an administrative arm that issues the bonds and keeps markets functioning and critically, interest rates at very low levels).

Essentially this monetising of debt has no bounds and the central bank balance sheet can grow as large as it needs to. There is a clear conflict of interest here, with politicians having an incentive to change these settings for political benefit, rather than macroeconomic objectives. For instance, in the scenario outlined above, it is questionable whether an elected government would increase taxes during a period of rising inflation, (deliberately reducing demand).

Another key criticism of MMT is the concept of full employment, a more complex concept to identify than what the description above suggests. MMT assumes full employment is a single point in the economy. However, in reality, full employment may differ across sectors and not converge.

However, despite such criticisms, MMT is an idea that is gaining momentum, particularly in socially progressive political circles. And this makes sense given the current economic and political landscape. Policymakers and politicians in the some of the world's major economies are wrestling with the question of what to do to reduce unemployment and increase inflation when monetary policy options have been exhausted.

At the same time, these decisionmakers are wrestling with growing inequality, too much debt and underemployment. And politicians are under increasing pressure to confront climate change and how to pay for the transition to a less carbon intensive future. For some, the answer to these questions is MMT.

MMT IS A NEW IDEA BASED ON OLD THEORIES

Bill Mitchell, an Australian economist from the University of Newcastle, first coined the term Modern Monetary Theory as a form of neo-chartalism. Amongst its other supporters is James Kenneth Galbraith (son of John Kenneth Galbraith, for those readers who have an economics qualification) and Bernie Sanders' chief economic adviser Professor Stephanie Kelton.

MMT has its roots in chartalism, an economic theory coined by Georg Friedrich Knapp more than one hundred years ago. Chartalism argues that money is the creation of the government and derives its value from its status as a legal tender – that is, the value of money does not have an intrinsic value but rather gets its value from the government[1]. This means that governments have the power to change the value of its currency.

In addition, some of MMT's core ideas can be traced back to John Maynard Keynes and his work 'A Treatise on Money'. In this book, Keynes argued that inflation stimulates spending in the short run because people and businesses will tend to bring forward spending and investment to beat the future price increases. However, the link to Keynesian is not fully accepted by MMTers, particularly because they have different definitions of full employment.

[1] https://www.investopedia.com/terms/c/chartalism.asp

MMT AROUND THE WORLD

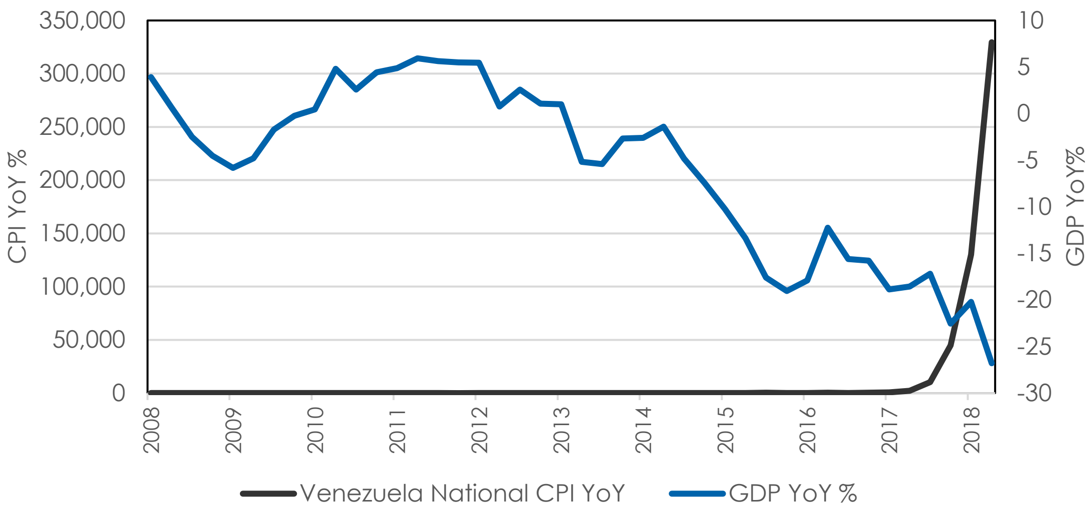
VENEZUELA

Venezuela has been used as a case study that shows the fundamental flaws in MMT and provide evidence as to why the theory fails. Hugo Chavez was elected president of Venezuela in 1998 and remained in power until his death in 2013. His successor was Nicolas Maduro, who remains in office today although his presidency is the subject of dispute from US-backed Juan Guaido. This political crisis is ongoing, and a deep analysis is beyond the scope of this article. However, we consider the story of Venezuela's descent from the beginnings of a socialist state to economic basket case to be relevant to this analysis of MMT.

Chavez saw himself as a democratic socialist and his policies focussed on the redistribution of wealth. In 2003, Chavez began implementing what became known as the Bolivarian missions, a set of over 30 social programs including publicly funded health care, housing subsidies, literacy improvements and subsidised food and basic goods. Following his 2006 re-election and under the banner of the new United Socialist Party of Venezuela, Chavez implemented a nationalisation agenda which included telephone companies, cement companies, supermarkets, banks and the steel industry.

These costly policies, combined with other factors including a fall-off in agricultural production, cumbersome military costs and chronic corruption, resulted in inflation and then hyperinflation – as shown in Figure 1 below. The IMF project that inflation in Venezuela will increase by 10,000,000% in 2019. This is a very different trajectory from the one predicted by MMT advocates, where the government should step in at full employment to stop inflation escalating.

Figure 1: Venezuela Inflation and GDP growth 2008-2019



Source: Bloomberg, Whitehelm Advisers

However, MMT theorists vehemently refute the relevance of the Venezuelan experience, because government debt was not denominated in local currency, one of the key tenets of the theory. And for the same reason, MMT proponents refute that the experiences in Chile, Argentina, Ecuador, Nicaragua and Peru were also not a pure implementation for the same reason.

WHAT ABOUT JAPAN?

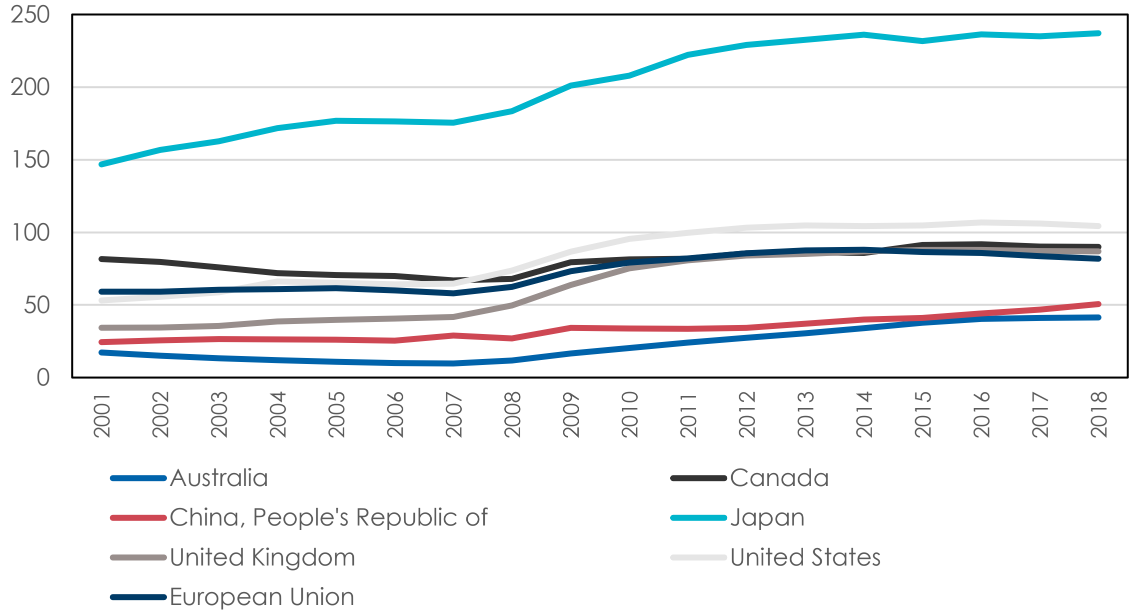
Japan is considered by some to have already gone down the MMT path, even if this was not the government's explicit intention. And what Japan has shown is that despite historically high level of public debt, its citizens continue to enjoy a high standard of living.

The Japanese economy has been stuck in a liquidity trap for decades, characterised by low economic growth, low inflation, low and then negative interest rates and large-scale asset purchasing programs by the central bank. This 'lower for longer' state, the subject of a Whitehelm feature article published in July this year, is known as Japanification. Figure 2 below shows that Japan's public debt as a percentage of GDP is significantly higher than other global economies, but also that since the Global Financial Crisis (GFC), this measure has increased for these other economies too.

Policymakers in Japan have been wrestling with the question of what to do when inflation goes missing since the 1990's. Japanese central bankers have pioneered unconventional monetary policy, and the size of their interventions into both debt and equity markets are now so big that any hint of a taper carries a huge destabilising risk for financial markets. In parallel, Japan's Prime Minister Shinzo Abe loosened fiscal policy from 2012 onwards, rolling out new government spending programs aimed at stimulating the economy.

However, the key difference between pure MMT and the Japanese Prime Minister's so-called 'Abenomics', is that Abenomics intends to reduce public debt over the long term. For this reason, Japan provides an additional case study of where some of the policy settings look like they are underpinned by MMT but it cannot be argued to be a full implementation.

Figure 2: Public debt by country (as a % of GDP) 2001-2018



Source: World Bank, Whitehelm Advisers

The emergence of Modern Monetary Theory now is very telling of where we are in history

MMT – in part at least - has been trialled and failed in smaller mostly Latin American countries. Japan is another example of its partial, but not complete, implementation. So why is this idea, an old idea dating back more than a century, increasingly being talked about? To understand this, we need to look at the world as it stands today.

The world is a confusing place, always but especially now. The poster boy for this confusion is President Trump, now the subject of an impeachment inquiry into the possible abuse of power relating to his administration's dealings with the Ukraine. The Trump presidency has seen people take to the streets in numbers not seen since the Vietnam war, with young people protesting for gun law reform, women calling for gender equality as well as a whole raft of policy reform on social issues and school children marching for action on climate change.

Polarised Brits have also been congregating outside Westminster, draped in either the Union Jack or the European blue, as their elected representatives inside the home of democracy repeatedly fail to find any consensus out of the Brexit quagmire.

In Hong Kong, peaceful protests over local extradition laws have morphed into violent clashes with an increasingly draconian police force. Extinction Rebellion protesters stopped traffic in the streets of 60 cities across the globe in October as they sought to raise the temperature on climate change induced extinction and the ecological crisis. And there are people filling the streets in Chile, Spain and France too, in response to perceived local violations of human and workers rights.

The reasons people are protesting are different but there are commonalities. People, ordinary people, are being compelled to act because they believe their elected representatives are not doing enough. People have less trust in politicians and institutions, many are feeling left behind by the economic gains of globalisation that have favoured the already wealthy. Global citizens, particularly young people, feel betrayed by a lack of government action on climate change. And digital platforms like Facebook and Twitter make it easier to organise mass gatherings of these disaffected, angry, scared ordinary people.

Climate change is the thorniest of political issues, particularly in Australia where it has brought down successive Prime Ministers. The science is settled and the predictions of climate models are now playing out. Global insurance companies have fully incorporated climate risk in their models. But conservative governments across the globe seem to be in policy paralysis anD unable to navigate the inherent conflict between action on climate change and economic growth. Frustration with such inertia or slow progress has fuelled climate protesters such as Extinction Rebellion and the global climate strikes in September which saw school children take to the streets in more than 3,000 cities around the world.

MMT has been grabbed onto by left wing candidates with big social and climate related programs, because it offers a pathway to fund these expensive agendas. And the biggest one of all is the Green New Deal in the US and its high-profile proponent, first time Congresswoman Alexandria Ocasio-Cortez.

THE GREEN NEW DEAL

The Green New Deal is a non-binding resolution sponsored by Senator Edward Markey and Ocasio-Cortez aimed at cutting greenhouse gas emissions in the US economy and, at the same time, alleviating poverty by creating jobs to enable this transition. The resolution also includes calls for universal health care and an increase to the minimum wage. The ideas in the Green New Deal are broad and many details are yet to be defined, however its left wing agenda is sweeping and the cost of implementation is high. While the resolution did not pass through Congress, the ideas for transitioning to a low carbon economy and creating jobs are considered likely to shape the Democratic agenda if a Democratic president is elected in 2020.

Ocasio-Cortez has said the Green New Deal will be paid through deficit funding, linking this expansive and expensive climate and social package to MMT. An op-ed[2] written by three academics including an adviser to Ocasio-Cortez and a former adviser to Bernie Sanders argues that '*anything that is technically feasible is financially affordable*'. In fact, this piece goes on to say that *'instead of talking about a numerical budget deficit, we should be talking about the deficits that matter, like our deficits in biodiversity, fresh water and the capacity of our environment to absorb pollution. We should be sounding the alarm about our deficits in education, in time we spend with our families, in lifesaving medical care and access to mental health services and in life expectancy itself. And what about our deficit in freedom from the violence of unemployment and jobs that pay starvation wages'*. In arguing that '*the US government can never run out of dollars, but humanity can run out of limited global resources*', this reasoning dragged MMT out of academia and into the headlines.

[2] https://www.huffpost.com/entry/opinion-green-new-deal-cost_n_5c0042b2e4b027f1097bda5b

ARE THERE ALREADY SIGNS OF MMT IN THE US?

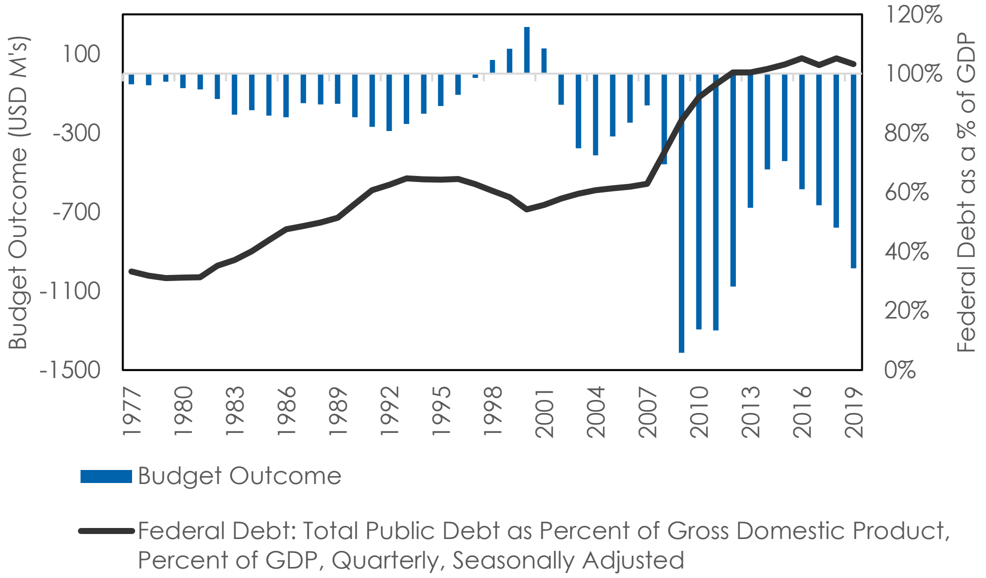
In the lead-up to the 2016 presidential election, then-candidate Donald Trump promised to eliminate US government debt 'over a period of eight years'[3]. At the time, the US government debt was around US$19 trillion. Three years later, this debt now stands at US$23 trillion.

A key driver for this increase in debt was the Tax Cuts and Jobs Act (TCJA). This legislation was passed in 2017, cutting the corporate tax rate to 21% (previously 35%), reducing personal income tax rates as well as a whole raft of other taxation reform measures. The upfront cost of around US$1.5 trillion was covered by deficit funding. At the time, Republican lawmakers argued that these tax cuts would pay for themselves over time - economic activity would increase, thereby increasing wages, incomes, investment returns and profits and as a result, taxation revenue would increase by at least the amount of the upfront cost.

However, this has not been the case. Recent analysis by the Brooking Institute[4] found that the TCJA actually reduced taxation revenue. And this finding was in line with analysis and modelling undertaken at the time the legislation was being debated – from government sources including the Congressional Budget Office and the Joint Committee on Taxation – that forecast a reduction in overall taxation revenue.

Fast forward two years and the US is facing a growing budget deficit as well as ballooning government debt, as shown in Figure 3 below. For the year to 30 September 2019, the US budget deficit was US$984 billion, the highest level since 2012. Lower taxation revenue, stemming from the TCJA as well as an increase in defence spending underpinned the most recent budget outcome.

Figure 3 – US Budget Outcome and Federal Debt as a % of GDP 1977-2019



Source: Federal Reserve Economic Data, Whitehelm Advisers

[3] https://www.washingtonpost.com/politics/in-turmoil-or-triumph-donald-trump-stands-alone/2016/04/02/8c0619b6-f8d6-11e5-a3ce-f06b5ba21f33_story.html

[4] https://www.brookings.edu/blog/up-front/2019/03/15/did-the-tax-cuts-and-jobs-act-pay-for-itself-in-2018/

A more general observation on Figure 3 is the growing magnitude and persistence of budget deficits since 2000 – and next year's deficit is expected to be bigger again following Congress's deal this August that approved new spending worth around US$320 billion over the next two fiscal periods. This increasing debt and deficit is out of step with the traditional Republican party orthodoxy of being fiscal conservatives, many of whom criticised the Obama Administration for its spending agenda. And this is happening in the context of continued economic growth, raising the question of how much 'dry powder' the US Government has in the event of an economic shock. MMT offers a solution to this, arguing that there is plenty of room to move in terms of fiscal stimulus.

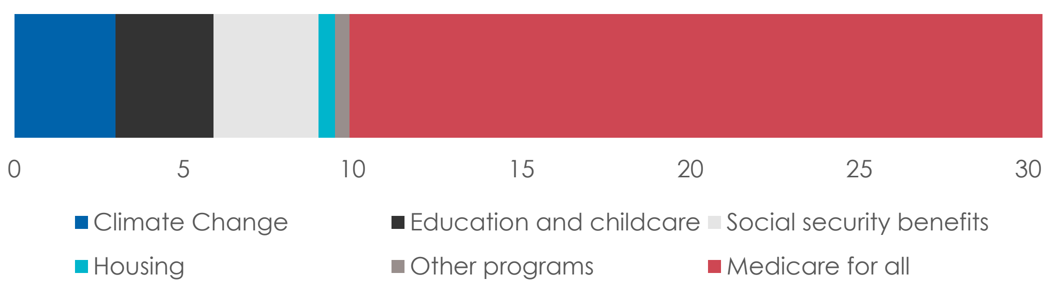
Elizabeth Warren

Elizabeth Warren is an interesting case study. She is emerging as a leading candidate in the race for the Democratic presidential nomination, with a left agenda but not quite as left as that of Bernie Sanders. She has a sweeping agenda for change, tapping into the mood of the people marching on the streets and promising an end to corruption. Warren's promises include 'Medicare for all', universal childcare, increases in public school funding, student debt cancellation, free college, a climate change response agenda including the reduction of carbon emissions and new clean energy technology, new affordable housing, and an increase in social security benefits. Added together, her policy agenda is estimated to cost more than US$30 billion over ten years[5], broken down in Figure 4 below.

On paper, these promises are funded by revenue from new policies and changes to existing ones, including employer taxes, additional revenues from existing taxes, a billionaire's tax, changes to corporate taxation, increased revenues relating to immigration law changes and cuts to military spending.

On this basis, her enormous social and climate agenda will be funded by changes on the revenue side of the ledger and not by increases in budget deficit and debt. But in reality, how feasible is this? While this research certainly does not assert that Warren is a proponent of MMT, if she is elected in a way that allows her to implement her full agenda, it is certainly possible that such a far-reaching social and climate reform package would result in further increases to the US's already high budget deficit and debt level.

Figure 4 – Estimated cost of Elizabeth Warrens policy agenda over 10 years (US$ trillions)



Source: The New York Times, Whitehelm Advisers

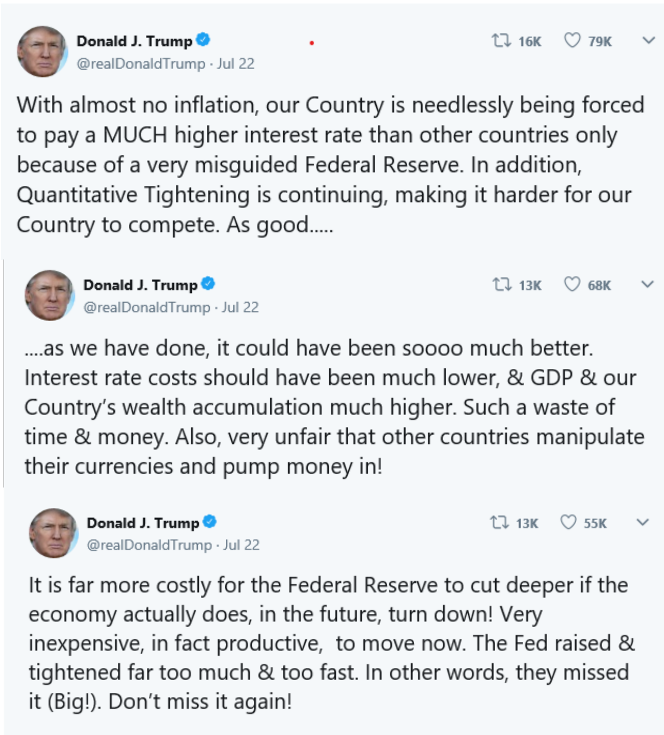
5 https://www.nytimes.com/interactive/2019/11/06/us/politics/elizabeth-warren-policies-taxes.html

PRESIDENT TRUMPS CRITICISM OF THE FED AND ITS GOVERNOR MAY ERODE THE BANKS REPUTATION

A key cornerstone of the global financial system is the independence of central banks from government. Whilst central banks must maintain a relationship with government, these institutions have long prided themselves on independent decision making in order to achieve their stated objectives. The key reasons this independence is important are *'the tendency for policy makers and politicians to push the economy to run faster and further than its capacity limits allow; and the temptation that governments have to incur budget deficits and fund these by borrowings from the central bank'*[6]. These words were written by then Reserve Bank of Australia Governor, Bernie Fraser in 1994 and remain relevant today.

In contrast to the notion of central bank independence, President Trump has publicly criticised the Federal Reserve, its Governor Jerome Powell and the decisions the Fed has made, beginning just months after the President appointed Powell. In the aftermath of the Fed's three interest rate increases in 2017 and 2018, President Trump has used various mediums including media interviews and his twitter account to voice his dissatisfaction with the Fed's policy direction. In fact, Bloomberg[7] reports more than 50 instances where the President has made negative public comments on central bank actions since 2017. Figure 5 is just one example of this criticism.

Figure 5 – Tweets from @realDonaldTrump



Source: Twitter.

[6] https://rba.gov.au/publications/bulletin/1994/dec/pdf/bu-1294-1.pdf

7 https://www.bloomberg.com/news/articles/2019-08-22/key-trump-quotes-on-powell-as-fed-remains-in-the-firing-line

If MMT became the dominant economic doctrine, the role of the central bank would change from independent decision maker to execution agent. Going back to the definition of MMT, fiscal policy would replace monetary policy as the primary mechanism for the determination of money supply - and therefore inflation and employment – and decisions would be made by politicians and not central bankers.

Central banks are still trusted institutions, in an age where people are tending to trust politicians and institutions less. However, President Trump's derision of the Fed over the past two years may (or perhaps already has, in some circles) erode the reputation of the central bank and therefore smooth the way for this transition to occur. This may seem like a long bow to draw, but the President's incendiary language and prolonged public campaign against the Fed must be doing damage in some voting pockets, and this damage may translate to less friction for future MMT proponents seeking to change the mandate of central banks.

ECHOES OF MMT IN THE UK WITH 'PEOPLES QE'

Peoples QE – Peoples Quantitative Easing – is a term pioneered by the leader of the UK Labour Party Jeremy Corbyn during his party leadership bid in 2015. Corbyn proposed that the Bank of England should print money in order to fund social housing and public transport. But the policy's chief architect, Richard Murphy, went further arguing that it '*would stimulate the economy, boost employment and tackle climate change*[8]. Sound familiar? Yep, we thought so too.

The UK Labour Party has not yet published its 2019 manifesto, but policies announced so far are radical and expensive. These include the nationalisation of rail, mail and electricity distribution industries and infrastructure spending funding requiring additional government borrowing in the order of £250 billion. More broadly, the economic ideology of the Corbyn Labour Party purportedly includes initiatives including a universal basic income and the construction of new social housing. Wrapped up together, 'Corbynism' is another example of a far-reaching, left-wing political agenda aimed at reducing income inequality with significant implications for the future government debt levels.

WHAT ABOUT AUSTRALIA?

It could be argued that the first phase of MMT is about to play out in Australia. Speaking at the Jackson Hole Symposium[9] in August this year, the Reserve Bank Governor Phillip Lowe was very clear on the limitations of monetary policy in current economic conditions, saying 'monetary policy is just one of the levers that are potentially available for managing the economy. And arguably, given the challenges we face at the moment, it is not the best lever[10]'.

Lowe went on to describe the three main policy options available, which were to reduce political shocks, use fiscal policy including through extra spending on quality infrastructure and structural reform to encourage businesses to expand and invest. He finished up by cautioning that monetary policy cannot do all the heavy lifting, for reasons including its limitations in driving long term growth, the risks of fuelling asset prices in slowing economic conditions and risks to the reputation of central banks if monetary policy levers prove ineffective.

What all this boils down to is that Governor Lowe is of the mind that fiscal policy – specifically infrastructure spending – should play a greater role in delivering Australians economic growth. He has delivered this same message repeatedly throughout the year, an unusual move for an RBA Governor to be publicly asking the Government to start spending. The Morrison Governments however is less interested in short term fiscal stimulus and more interested in proving its economic credentials by delivering its much talked about budget surplus, no matter the cost.

[8] http://www.taxresearch.org.uk/Blog/2015/03/12/how-green-infrastructure-quantitative-easing-would-work/

[9] The Jackson Hole Symposium is an annual gathering of the world's central bankers and finance ministers, as well as academics and financial market participants.

10 https://www.rba.gov.au/speeches/2019/sp-gov-2019-08-25.html

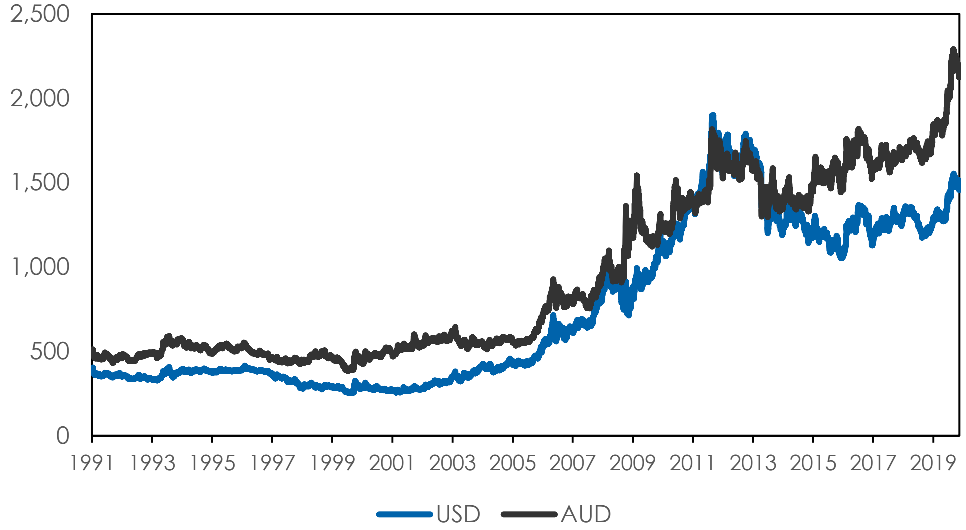
IMPLICATIONS OF MMT FOR FINANCIAL MARKETS

There is currently a disconnect in financial markets between asset prices and economic fundamentals, and this divide is bridged by the promise of central banks - most notably the US Federal Reserve, the Bank of Japan and the European Central Bank - to continue to provide support through conventional and now unconventional monetary policy. The more support signalled by central bankers, the higher markets move, no matter what is happening in the global economy.

In a world where MMT was the embraced policy settings, and no additional regulations were imposed on financial markets participants, we expect that asset prices would keep going up, at least in the short term. Investors would not allocate funds into cash or bonds because of the low (or negative) returns of these asset classes. In fact, MMT prefers that there would be no debt issued to the non-government sector and so the government debt market may even dry up. Instead, funds would flow to risk assets in a bid to maximise return. It could be that investors look back wistfully on today markets and wonder why they didn't buy at prevailing prices that through the lens of the future look ridiculously cheap. This is a very scary thought.

Similarly, gold prices would be expected to skyrocket under an MMT scenario, a continuation of the current price trajectory as shown in Figure 6 below. This is because gold has an intrinsic value and a finite supply. Gold is also a hedge against silly policy settings as its physical constraint on further rapid supply and a store of value would like it see a very strong bid. In a scenario where money supply was increasing profoundly, these characteristics would result in a significant appreciation in the price of gold.

Figure 6 – Gold prices 1991-2019 (AUD and USD)



Source: Bloomberg, Whitehelm Advisers

For a pure implementation of MMT – not the less than 100% approach seen in the case studies described earlier in Venezuela, Japan and that which is perhaps creeping in the US, Europe, UK and potentially even Australia – governments (and central banks as execution agents) would have to enter into a so-called 'club-deal' whereby the currency implications of MMT are negated by some kind of exchange rate parity mechanism.

This implementation would be required to avoid enormous currency movements and extreme volatility in financial markets. We acknowledge that this is another wild idea but then look at what has happened in Japanese asset markets, where volatility has virtually disappeared. And who would have thought that the Japanese central bank would be one of the larger holders of the Japanese share market?

One footnote to this is commentary by Mitchell, the father of MMT referenced earlier in this article. Mitchell has argued that in an MMT scenario, governments would also have to impose new regulation on financial markets. In fact, he suggests that the '*obvious preferred model is to bring all risk and stability requirements wholly within the public sector – that is, nationalise (sic) the retail banking system*[11]' and that other reforms that should be considered are a ban on speculative trading in any food products, and the use of capital controls on across border transactions. Under such draconian regulation, financial markets would become unrecognisable and it seems pointless to speculate in the face of high uncertainty.

[11] http://bilbo.economicoutlook.net/blog/?p=43081

CONCLUSION

MMT is not a mainstream economic theory, but something being propagated by a small number of economists and socially progressive politicians. It gained headlines in the financial press this year after it was referred to by US Congresswomen Alexandria Ocasio-Cortez as a way of funding the Green New Deal.

However, it is certainly not an idea being seriously entertained by mainstream economists or central bankers. In fact, in February this year, US Federal Reserve Chair saying '*the idea that deficits don't matter for countries that can borrow in their own currency I think is just wrong…We're going to have either spend less or raise more revenue*[12]'.

Throughout this article, we have looked around the world to look for MMT in any iteration and found examples in Venezuela and Japan, but also a creeping in of changing norms around debt and deficit in major economies such as the US, UK and Australia.

We still consider MMT to be an extreme idea. But we also recognise that extreme ideas have a habit lately of being implemented. There is currently more than US$15 trillion of government bonds trading at negative yields. During the period from March 2015 to December 2018, the European Central Bank bought close to EUR2.6 trillion in debt. The Bank of Japan features as a top five shareholder in 43% of Topix-500 Japanese companies.

These facts would have seemed beyond comprehension 15 years ago. For this reason, we are not willing to rule anything out, particularly because MMT has huge appeal to politicians, especially those wanting to pay for expensive social programs and climate packages like the Green New Deal and Medicare for all.

12 https://www.federalreserve.gov/newsevents/testimony/powell20190226a.htm. Note: Powell made these comments in the question and answer section of his testimony.

We do know that the current model isn't working well and is causing considerable perverse outcomes and problems that are unsustainable. That said, facing into these problems would cause enormous damage to economies and financial markets.

Given this dilemma, the future of monetary policy will be questioned and challenged more over coming years and a change in the framework has potential to cause enormous ramifications for asset prices and financial markets. However, what seems more likely in a lower for longer world, is an increasing role for fiscal policy in achieving macroeconomic objectives.

The coordination of monetary and fiscal policy levers, potentially under a regime of nominal income targeting (replacing the current regime of inflation targeting), may be a more effective policy setting. This combination would maintain central bank independence, accommodate partial implementation of social and climate policy (or partially fund these policies through a combination of tax reform and increased debt) against a backdrop of less dramatic increases – but still increases – in budget deficit and government debt.

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