Rethinking Public Finance

10 Principles of MMT

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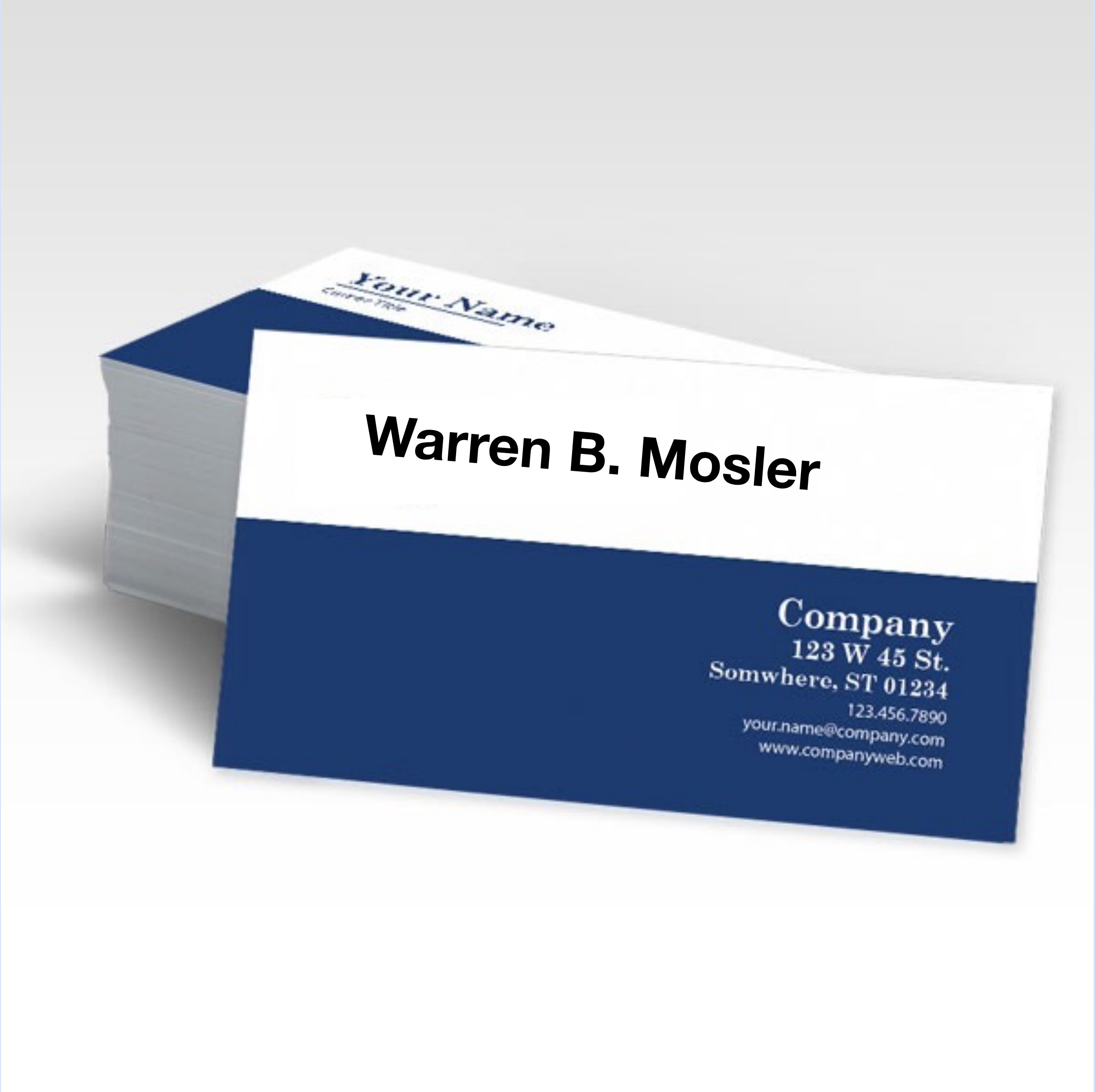
1) The Business Card Model

- **Mosler** cards
- It's about **provisioning**
- Why **collect** them back?
- **Spending** comes **first**

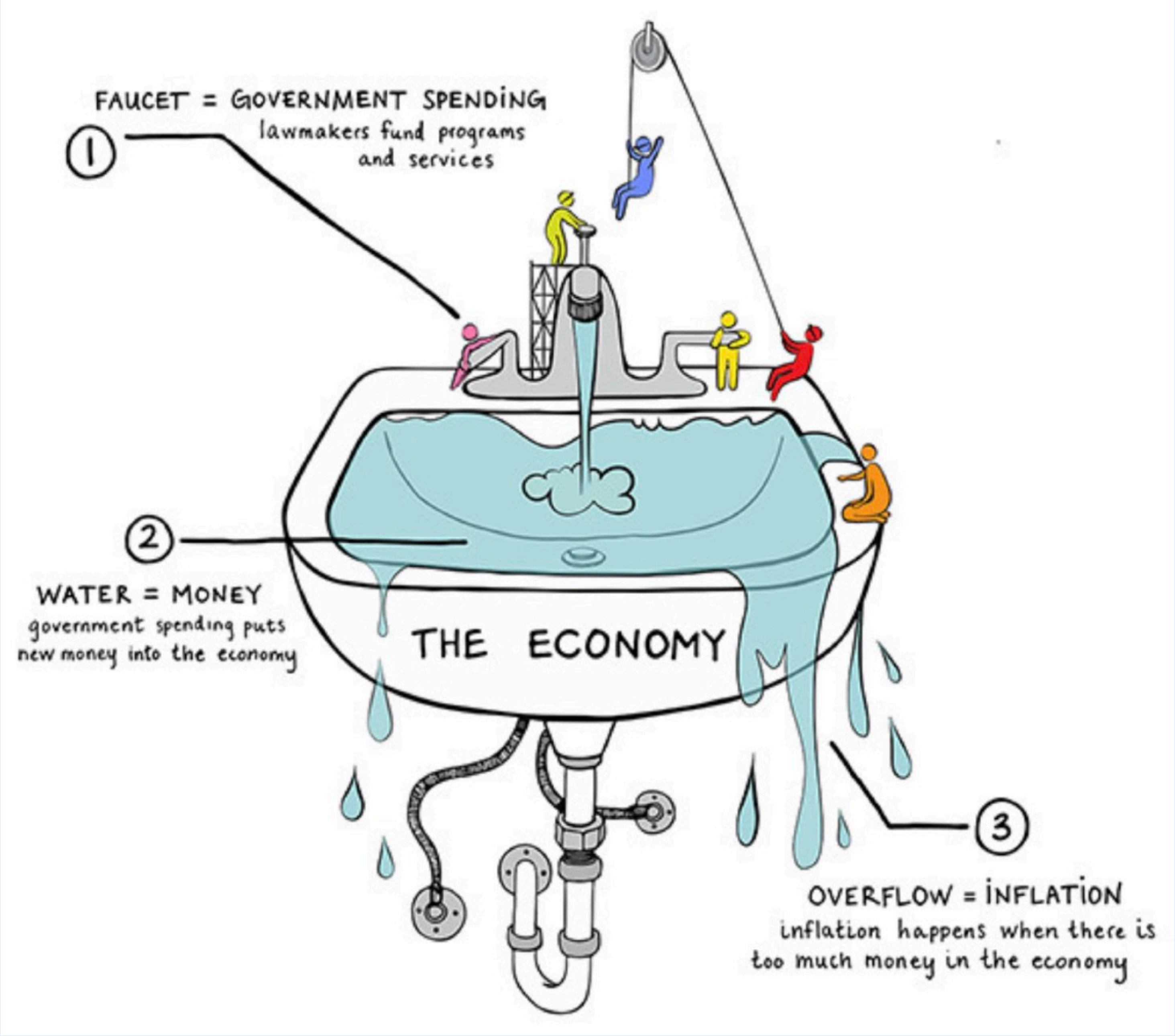


2) Money Is No Object

- The currency **issuer** faces no *financial* constraint
  - “We can never **run out** of money” (Mario Draghi)
  - “We simply use the **keyboard** to mark up the size of the account” (Ben Bernanke)
  - “Under a fiat money system like the one we have today, the government can produce such claims **without limit**” (Alan Greenspan)

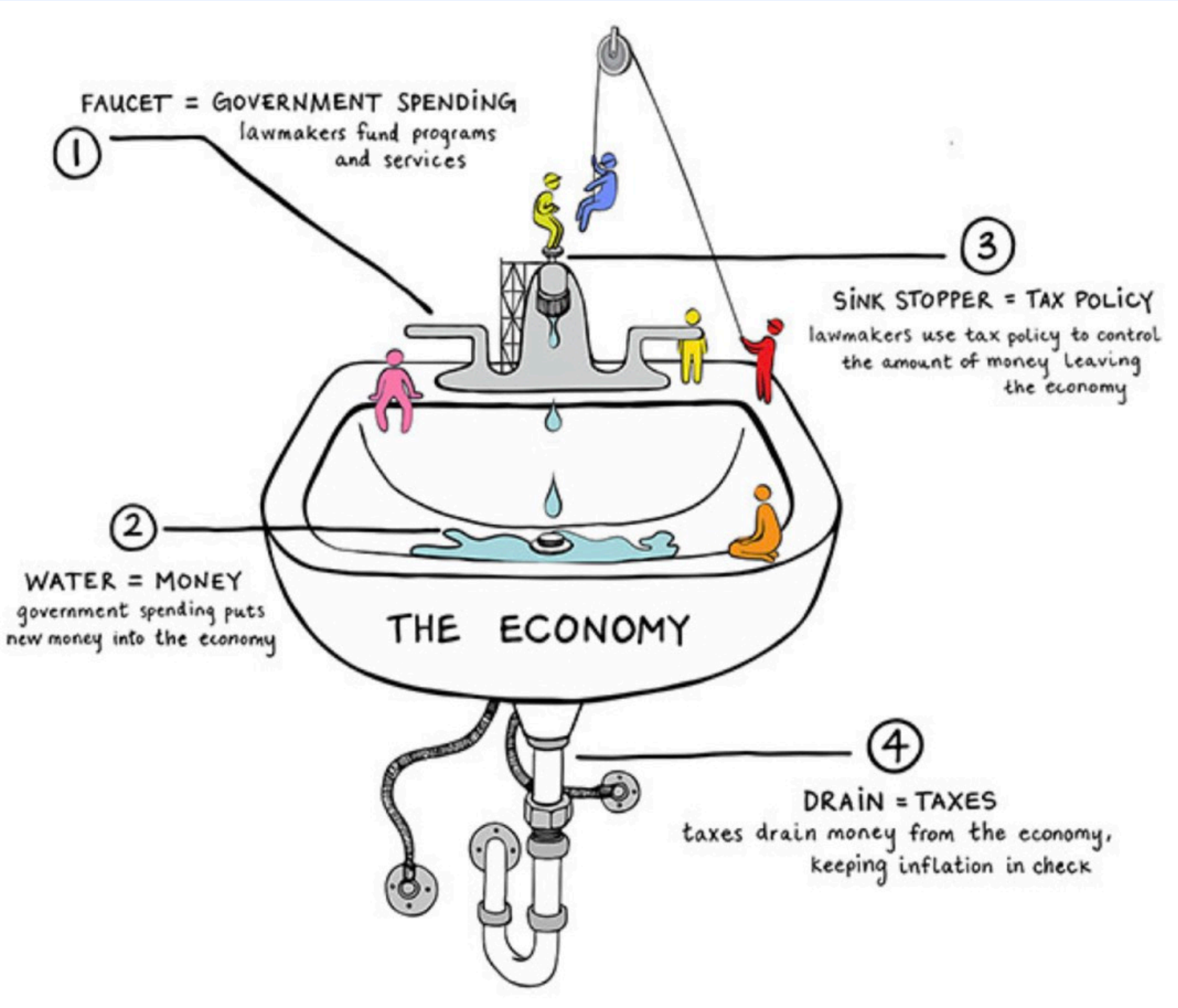
3) Inflation Is the Limit

- **Relevant** constraint is inflation, not solvency
- But we don't have a very good **understanding** of inflation
- Real **resource** constraints matter



4) Taxes Are For Subtraction

- Purpose is **not to finance** government
- But to **remove spending power** from economy
- Government **spending** is **addition**
- **Taxation** is **subtraction**
    - Consumption tax is not for revenue
- Well-understood in **1940s**



CHAPTER XVII

POSSIBILITIES OF POSTWAR INFLATION AND SUGGESTED TAX ACTION

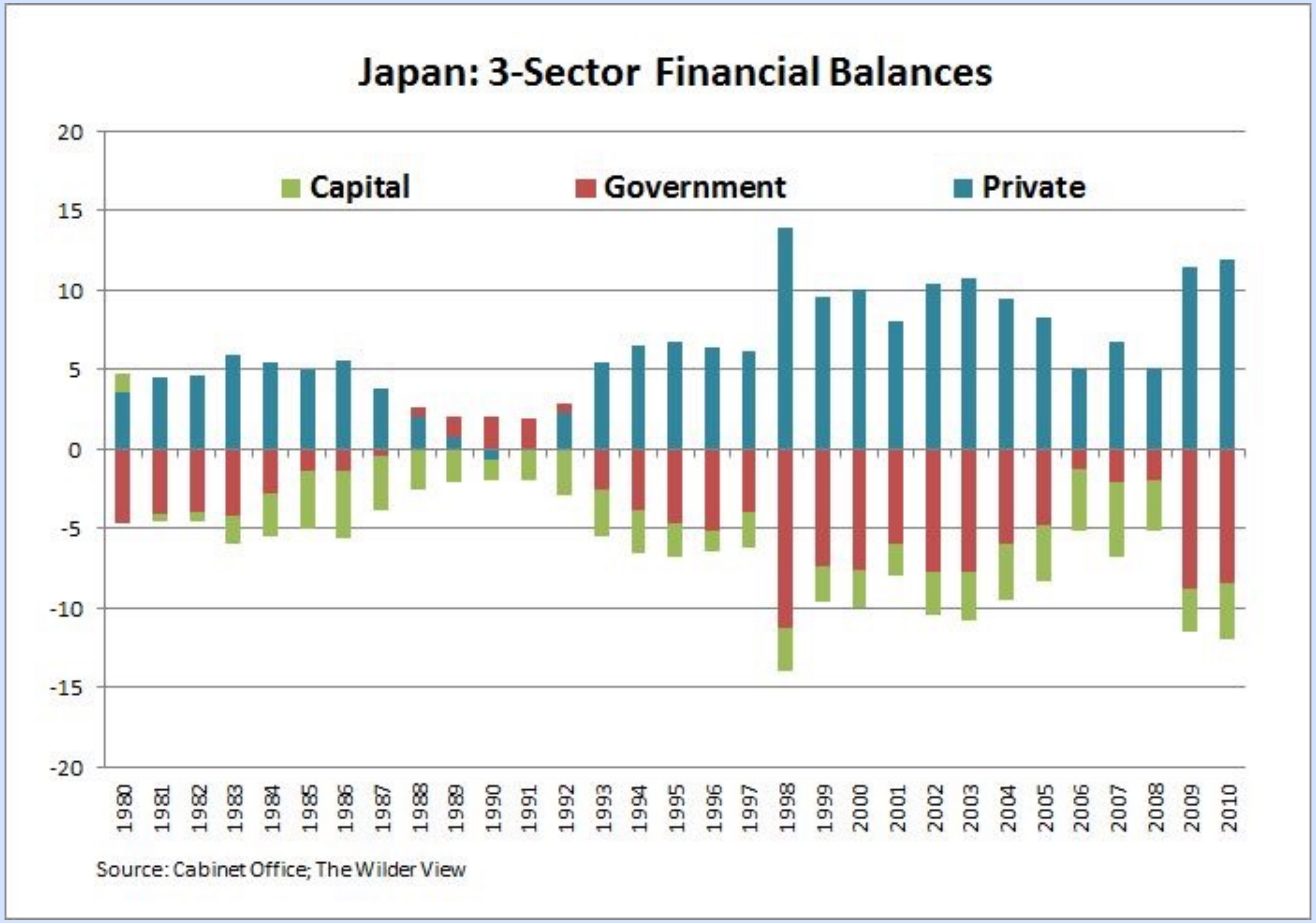
MARRINER S. ECCLES

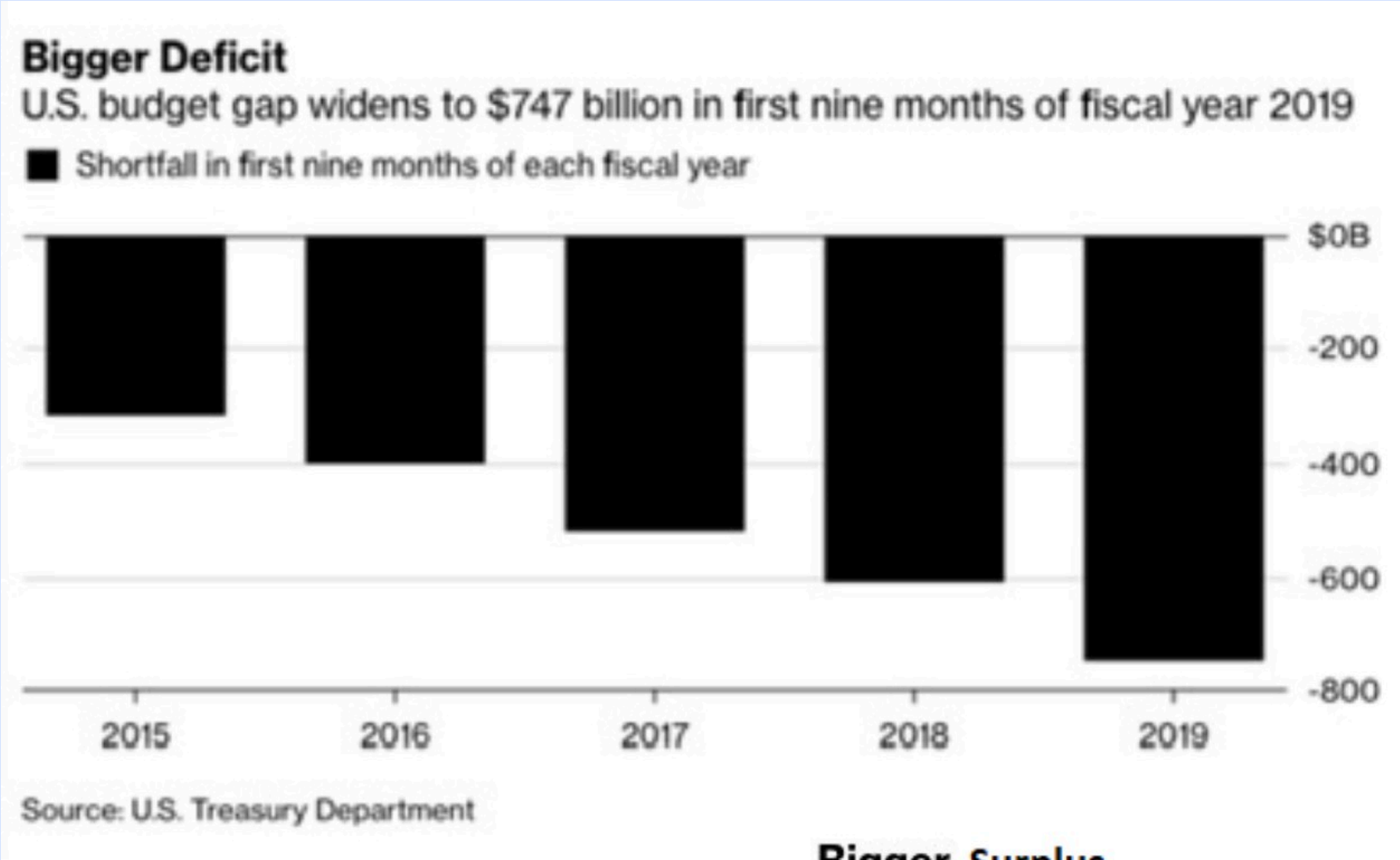
Chairman, Board of Governors, Federal Reserve System

The question is not so much one of incentives as of objectives. If we are to have a high level of national income, then, as I have indicated, we must have a high level of consumption outlays. The most important consideration, therefore, is that taxes should interfere as little as possible with the flow of consumer expenditures. The first step towards this end is to reduce indirect taxes on consumption and, if necessary, to substitute direct taxes on income. Indirect taxes are added to the price which the consumer must pay. The greater the sales tax, the fewer goods the customer can buy, and the less he can buy, the less the business man can sell. That, in turn, means less employment. At the same time, sales taxes penalize those who consume a large share of their income. There is thus a strong case for a drastic reduction in federal sales and excise taxes just as soon as the supply of consumer goods on the whole begins to exceed the demand. This condition is not likely to be reached until the backlog of deferred consumer demand has been met. The personal income tax should be the main source of federal revenue in the postwar period because it is the most flexible and equitable type of taxation, and because consumption is less affected by it.

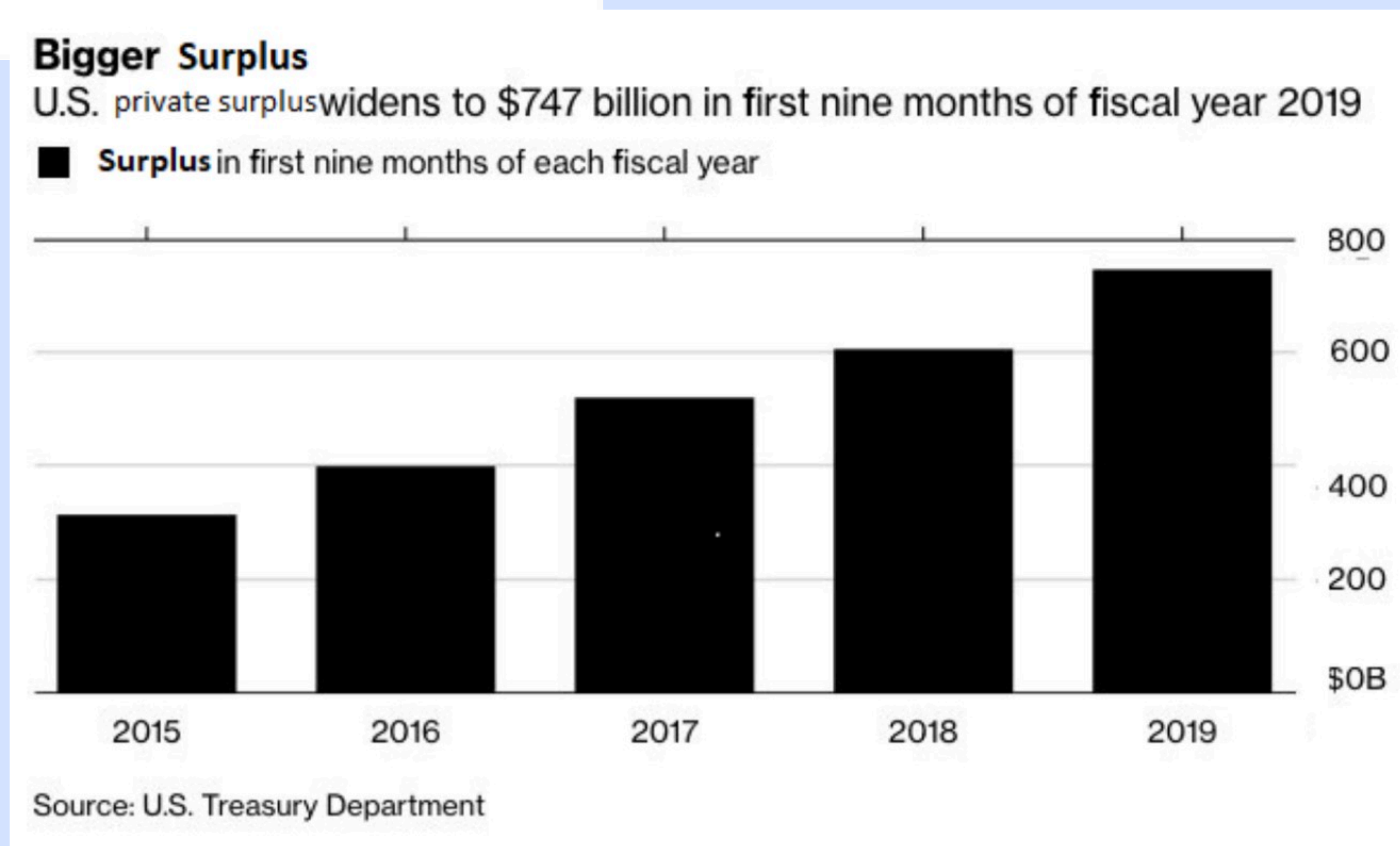
5) Deficits Are Neither Good/Bad

- G > T
- Adding > Subtracting
- Make financial contribution to rest of economy
- Can be too big or too small
- Government deficits always equal Non-government surpluses



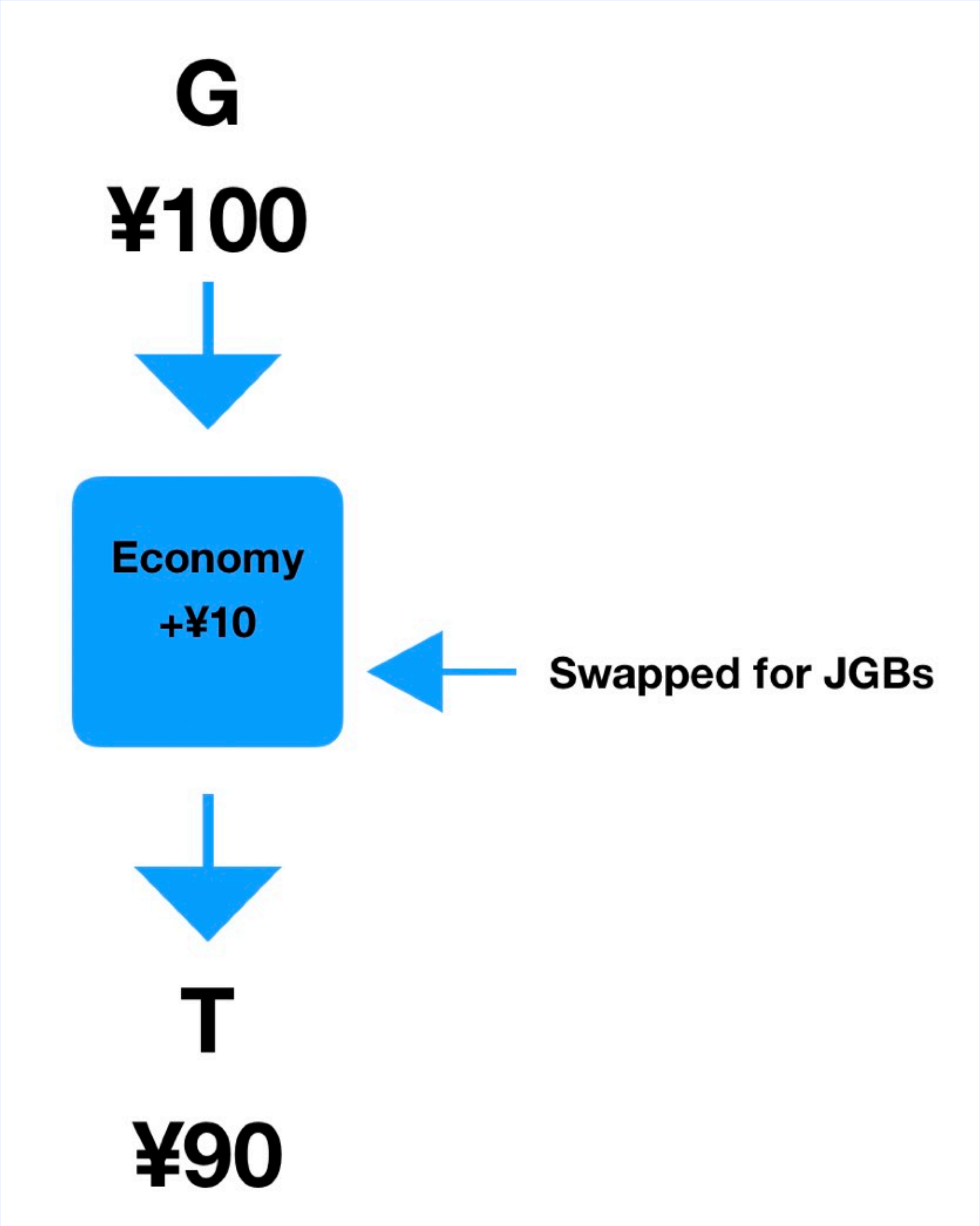

Bigger Deficit
U.S. budget gap widens to $747 billion in first nine months of fiscal year 2019
Shortfall in first nine months of each fiscal year
$0B
-200
-400
-600
-800
2015
2016
2017
2018
2019
Source: U.S. Treasury Department

BREAKING


Bigger Surplus
U.S. private surplus widens to $747 billion in first nine months of fiscal year 2019
Surplus in first nine months of each fiscal year
800
600
400
200
$0B
2015
2016
2017
2018
2019
Source: U.S. Treasury Department

6) Debt

- Just a **historical record** of the yen spent and not taxed back, currently being **saved** in the form of JGBs
- Not about “financing” spending
- The funds to buy JGBs comes from deficit spending
- Borrowing to support interest rates
- Supposed to be a **risk-free lunch** (UBI)

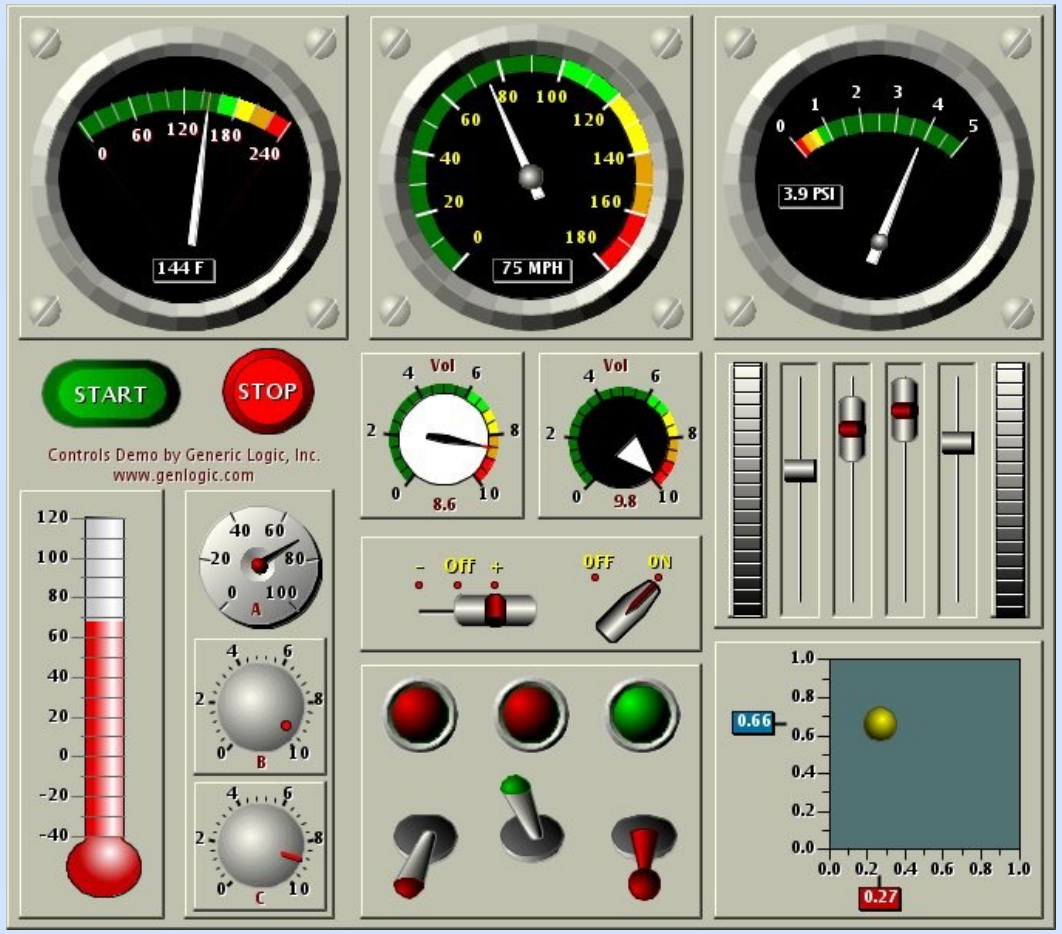


7) Trade

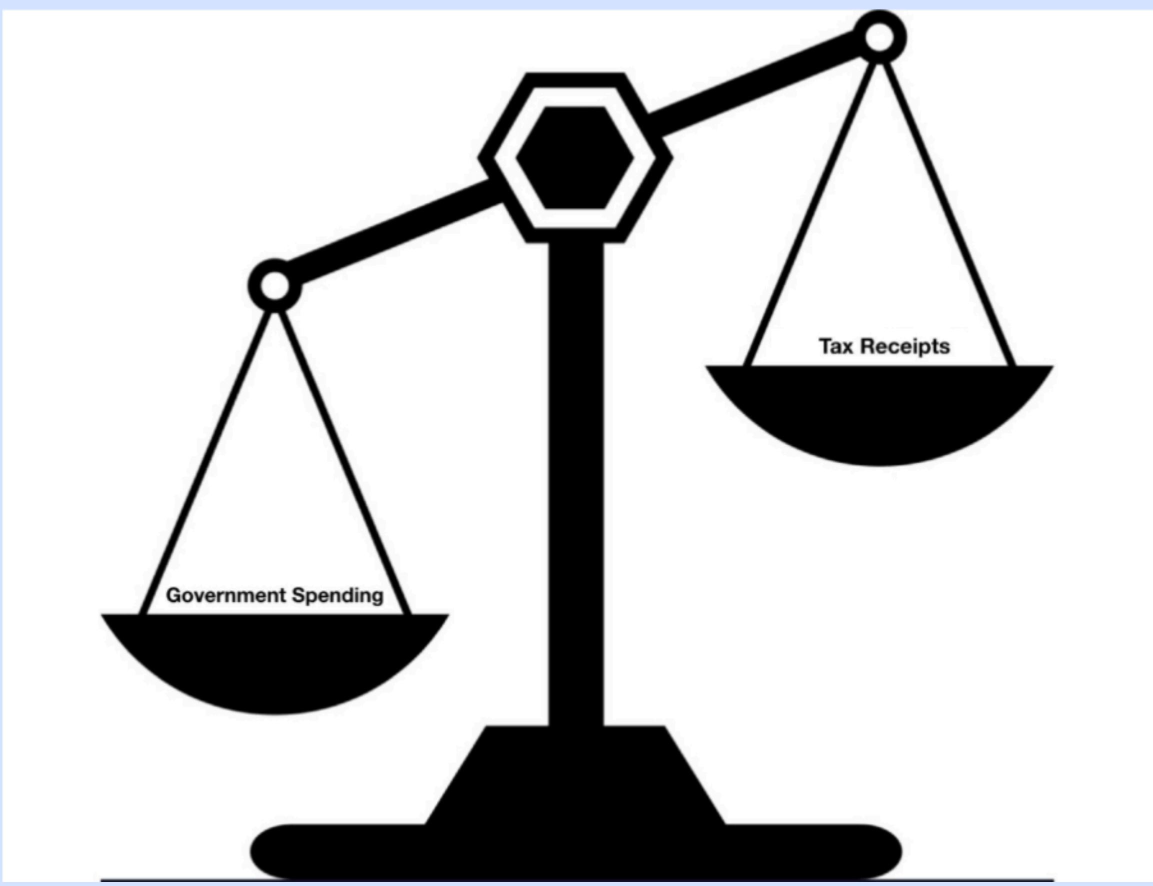
- Exports are a cost
- Imports are a benefit
- Trump doesn’t understand this
- ROW wants to net save US$

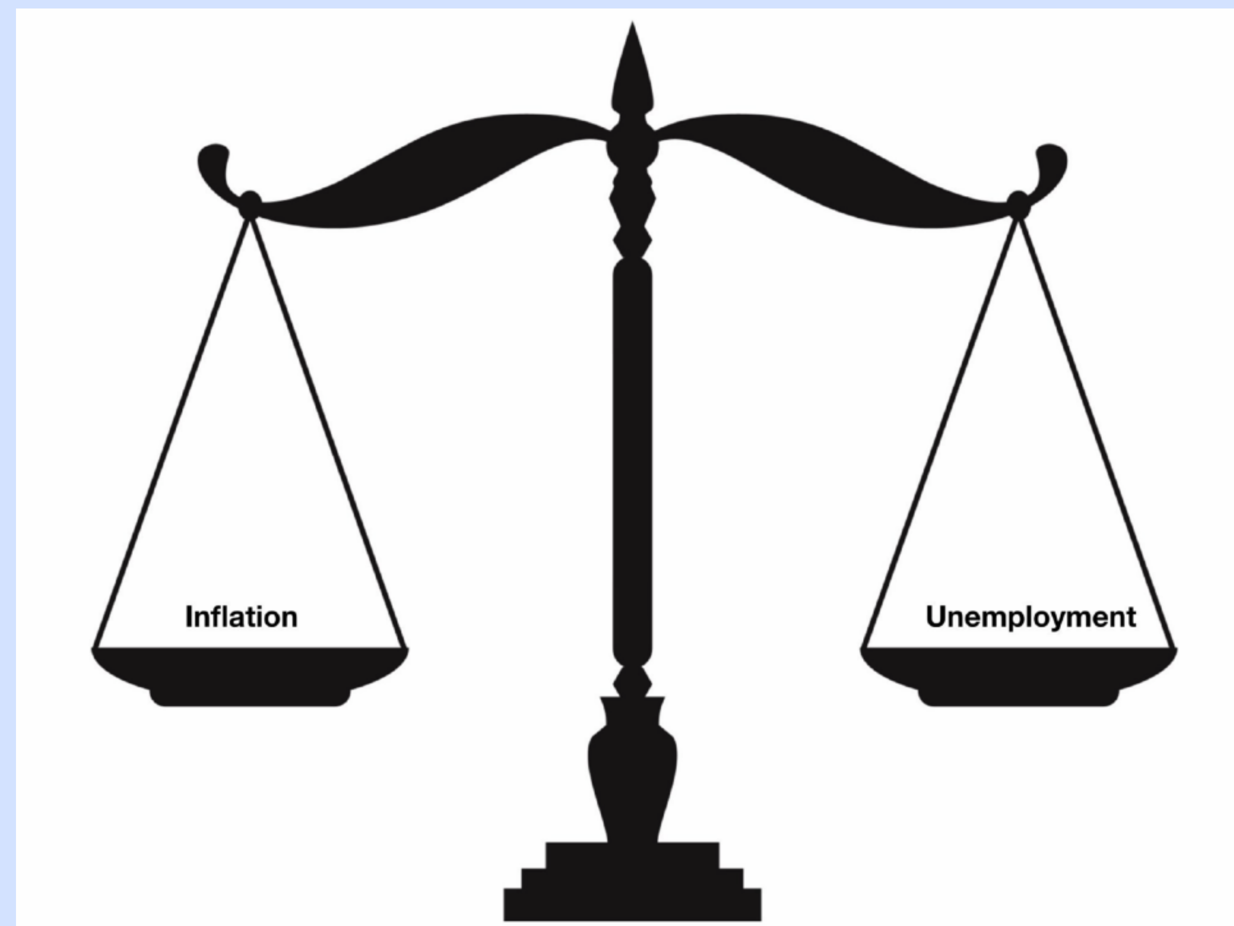
8) Functional Finance

- **Contra** “Sound Finance”
- **Two Principles** of FF:
- 1) Maintain aggregate **spending** to achieve full employment
- 2) Do that by:
  - Taxing to control **inflation**
  - “Borrowing” to control **interest rates**



Redefine "Balanced Budget"





9) The Job Guarantee

- Missing element in FF was a job guarantee
- Conventional macro stabilizers are too unreliable
- Reduces reliance on central bank
- Better price stabilizer
- Automatically adjusts fiscal policy
- Leaves central bank free to pursue other goals

PUBLIC SERVICE EMPLOYMENT: A PATH TO FULL EMPLOYMENT

L. Randall Wray, Flavia Dantas, Scott Fullwiler, Pavlina R. Tcherneva, and Stephanie A. Kelton

April 2018

10) Using the MMT Lens

- Social Security
- Tax Cuts
- Health care
- Tuition-free college
- Green New Deal
- Student debt
- Infrastructure