Transcript: How MMT Explains the Price of Everything

Featuring: Warren Mosler and Michael Green

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Synopsis: Warren Mosler is a former hedge fund manager turned academic economist who's known as the father of Modern Monetary Theory. He'd like to remind us that "MMT is descriptive, not prescriptive." As he explains to Mike Green of Simplify Asset management in part one of a two-part conversation, the key to understanding MMT is the sequence of state imposition of a coercive tax rate, state spending, and the payment of taxes and purchase of state securities. The basic effect is the state currency becomes a public monopoly. Because the economy needs the state's currency, state spending determines terms of exchange. The bottom line is prices are a function of prices paid by the state when it spends. Mosler illustrates this general framework with reference to brief histories of fixed and floating exchange rate regimes. Of note, when it comes to labor, a "job guarantee" is a realistic policy choice in a state that uses a floating exchange rate. Mosler and Green also touch on policy choices that benefit exporters as well as mechanisms of real wealth creation. Read Mosler's "Framework for the Analysis of the Price Level and Inflation" here: https://rvtv.io/363Qjwm. To explore more of his work, visit www.moslereconomics.com. And be sure to tune in for part two of the interview tomorrow. Recorded on March 7, 2022.

Video Link:

https://www.realvision.com/rv/channel/realvision/videos/00ff5cf1ef0e45d3a4809b069ef28851

MIKE GREEN: All right, Mike Green. For a change of place, I'm working out of Simplify's offices in Los Angeles. And I'm getting to sit down with one of my long friends, Warren Mosler. Everybody knows Warren at this point. Warren is one of the fathers of MMT in the modern framework. He is regularly cited in the literature as one of the originators of the theories behind it in his book, Seven Deadly Sins of Central Banking.

And you've got a number of other papers that you've written on, you maintain Mosler Economics as a source for investors. But Warren, you and I actually first met in 2012 in the aftermath of the global financial crisis as I was searching for deeper insight in terms of what had transpired in the global financial crisis. You and Robert Murphy had a debate at Columbia University. This is actually one of the funnier things that's out there on YouTube, you can find a younger, better-looking Mike Green.

I think actually, I was wearing a purple shirt that that day as well, asking a question from the audience. And you and I have stayed in contact ever since. When you think about your background, which comes from the FX side, did you develop your theories in order to more effectively trade FX? Or did you have your theories in place before you began trading FX?

WARREN MOSLER: Personally, I don't consider them theories, I consider them understandings of monetary operations. And that was something that I just picked up along the way as a result of being in the middle of, I was on the desk at Bankers Trust back in the 1970s, a primary dealer. I was brought there to do sales and trading of Ginnie Mae securities and got to know the other guys on the desk, got to know the money traders and the others.

And it was just the natural curiosity of how these things actually worked where I developed the understanding of the banking system. It's not a lot more than an understanding of the banking system that's behind all these things that have since emerged.

MIKE GREEN: First of all, the question that I asked from the audience is trading FX, it is very straightforward and obvious that this is actually how the system works. The general idea behind MMT, if I were to ask you to summarize it, I'm going to give my quick summary then you can critique it, which is that ultimately, the money has to come from the government.

That very first dollar printed into existence, by definition, had to be created by the US government, and then sold into existence for some good service, etc. Now, the actual history of it in the United States is US dollars were printed and used to purchase gold. That became one of the very first components effectively, an IPO issuance in which gold stock was contributed, and the risk-taking members of the US economy, the economic elite at the time, effectively bought gold with those dollars at a fixed price.

And this is what actually gave rise to the price level, which sits at the core of your observations relative to traditional economics, which can give you a relative price level. Traditional economics can give you a relative price level, but it doesn't give you a place to start.

WARREN MOSLER: That's right. To that point, I'll start this story one step before that. I begin with a tax liability. What you do is establish a tax liability, which causes people to want to sell gold to get the dollars to pay the tax. And, of course, to your first point that those dollars originate only from the government inside the Fed, they say you can't do a reserve drain without a prior reserve add. It's just how it is.

It's nothing, when I talk to central bankers and monetary operations, there's nothing needed to talk about. It goes without saying that that's the sequence that they have to spend first before the dollars are there to pay taxes or to buy bonds. They call their job offsetting operating factors to make sure there's sufficient credit balances so that they can then debit that. Okay, and so we start with a tax liability, which creates sellers, so tax liabilities are critical.

And then the dollar itself is the tax credit that then satisfies the taxes. You start with a tax liability that defines the tax credit, you've got $10,000 tax on your house, for simple example. If tax credit is $1, it takes $10,000 to buy your house. And to get these dollars, we will pay $35 an ounce for gold, we will pay $40,000 for a soldier, whatever the government says you have to do to get their money to pay their tax to avoid their penalties which are high, of course. The IRS is the most course of force probably in the world. It has to be.

MIKE GREEN: They're certainly the one we would all be frightened of. As they call it, if you get a phone call from the IRS, you take that one very seriously.

WARREN MOSLER: And the strictest laws for noncompliance or for tax fraud and that type of thing. And that underpins the monetary system. What's come to be known as MMT has given the mainstream school of thought it's the proper sequence. Tax liability to create sellers of goods and services. At one point, gold was critical in that. Today, it of course creates sellers of labor, people looking for jobs to pay in dollars, because of the ultimate need to pay taxes of somebody in the society.

We can say that tax liabilities function first to create unemployment. Unemployment are people looking for paid work who can't find it. If you just put a tax liability in everybody's house and don't spend anything, you've created a lot of people looking for paid work who can't find it, but they don't want to lose their house. From there, you can now spend your otherwise worthless dollars to hire them.

From that point, they can pay the tax. And that is the MMT money story, the sequence, that's simple point of logic. Actually, there's no dispute once it's explained that way.

MIKE GREEN: Well, let's actually mechanically walk through the creation of that first dollar. It begins with this application of violence and this tax credit that you're referring to. Let's take ourselves back to the founding of the US Republic. We have the United States has now become the master of its own domain.

And I am a businessperson who is thinking about how do I participate in this? I'm Alexander Hamilton. What I do is I establish a tariff on the import of goods, or the manufacture of goods that can then be sold effectively, a stamp tax or an import/export excise tax. And if I want to bring goods into the United States and sell them to the colonists, I'm going to have to pay that tax.

That's a liability that has been created. And in exchange, the government says, we will accept gold as initial payment for the dollars that you then need to use to settle the liability. Correct?

WARREN MOSLER: Okay, I'm not a historian of that particular period of time.

MIKE GREEN: But that's a reasonable way to think through what actually happened, the tax liability came first and then here's a mechanism for solving it. When people think about the gold standard, they typically think about it in the opposite direction. They think that the value was created, because the US government was willing to sell you back the gold at a fixed price. Why do you see it differently? Or do you think that's effectively just a non-arbitraged condition that was ultimately created?

WARREN MOSLER: Yeah, the way-- if we can look at Massachusetts, they wanted to spend paper money and they approved $5 million issuance of paper money, and they put a $5 million tax in place to create a demand for it. There was a tax in place, and now people needed a paper money. They would sell things that Massachusetts could then buy to pay the tax.

And interestingly enough, 5 million wasn't enough to satisfy the 5 million tax liability, because people would lose some in the wash, or they'd want to save some in their pockets, or merchants wanted them to make change. They wound up spending more than they actually collected, which remained as part of the money supply in the economy. And that, of course, is a public debt of dollars spent that haven't yet been used to pay taxes.

When you do that, you don't have a fixed thing you're buying. You're buying all kinds of things at different prices. And that will result in a price level. The gold standard, the way I see it, wanted gold to be the numerator and everything else to reflect relative value. To do that, they had to restrict their non-gold spending to the point where people were willing to sell gold to the US government at $35 an ounce or whatever it was, went off the gold standard.

And at the same time, the government would be building its gold supply. If it was losing gold, then it's at risk of not being able to honor that obligation and default, which meant that the markets would no longer be reflecting prices as the relative value of gold. The relative value of those goods and services relative to gold, the value of those relative to gold. I didn't give you an entirely coherent answer there, but that's the way I would look at it through the money story.

MIKE GREEN: Well, I would argue that you actually-- yeah, I would argue that you actually did give an entirely coherent answer. But it's very difficult. It's a very difficult one to reconcile. Because there are a couple of things there that crossover into the Austrian world. And now this is almost like I'm trying to make peace between you and Robert Murphy going back to 2012.

WARREN MOSLER: The way I started off was I said, look, if you're an FX trader, like yourself, you know that if you short the yen-- I guess I'll start with the Hong Kong dollar. If you short the Hong Kong dollar, interest rates go up, the forwards go down, but the spot stays fixed.

And of course, there used to be that old trade where you'd go out and get short stocks in Hong Kong, and then you'd short Hong Kong dollars to drive interest rates up, which would drive the stocks down, and you'd cover your short there and take a smaller loss on the interest rate side. Okay, if you do the same thing in yen, which is a floating exchange rate, if you sell the yen, the yen goes down, but the interest rate stays the same.

And we saw the yen go from 80 to 120 a few years ago, and the rate stayed at zero, it didn't move. Something very different is going on between those two currencies. One is fixed exchange rate, one's floating exchange rate, the Hong Kong dollar is fixed, the yen is floating. You get a very different set of dynamics. And the Austrian analysis is entirely applicable to fixed exchange rates. It would be correct in Hong Kong or Bulgaria where the lever's fixed to the Euro, but it would not be correct, it'd be a hotter paradigm for Japan, the US, Europe, and all the floating exchange rate currencies.

I don't say the Austrian economics is wrong. It's just that its applicability is to fixed exchange rates. And that's true of a lot of mainstream economic thought and theories. They wind up being applicable to fixed exchange rate, the whole loanable funds idea, entirely applicable to fixed exchange rate but not applicable at all to the last 100 years or so to floating exchange rates.

MIKE GREEN: I think that's a really important thing to highlight which is-- and it goes back in part to when Austrian economics emerged, so Austrian economics emerged in the 1870s as an outcome from what's called the founder's crash, Austria in particular experienced a banking crisis following the unification of Germany and Austria into the Austro-Hungarian empire, in which there was an incredible amount of speculation that was unleashed because of effectively an excess of credit that was created.

A bank, I think it was Angola [?], collapsed. And the reaction to that effectively came up with the, well, the answer was that there was hard money and when we allowed excess credit creation, effectively, unbacked currency to be created through the banking sector, that that then led to the credit collapse. And we should avoid that in the future.

WARREN MOSLER: In a bank, if you take out a loan, they pay you with a deposit. Loan creates a deposit. In a fixed exchange rate system, like a gold standard, like what you're talking about back then, if you then want to take your money out, they have to give you convertible currency. They have to have reserves on hand that are convertible into gold, central bank reserves. And probably paper money, if there weren't gold certificates, they had to have those on hand.

If they didn't, then the bank would fail, because the depositors would want their convertible currency and the bank didn't have it. And that's where the whole idea of fractional reserve banking came. They would keep maybe 10% of their deposits or 15% in convertible currency. But if there was a run on the bank, people wanted their money, if they didn't have it, the system would fail. They all failed periodically for that reason.

And there's nothing much the central bank could do about it because there were more bank deposits than the central bank had gold reserves. And now with floating exchange rate, if you want to take your dollars out, it's not a problem. The Federal Reserve will give you all the Federal Reserve notes you want because they're not convertible into anything. That option to convert isn't there so once you remove the option to convert, you totally change the liquidity aspect of the system.

A floating exchange rate system is continuously liquidity constrained-- I'm sorry a fixed exchange rate system is continuously liquidity constrained. With floating exchange rates, it's never liquidity constrained. Fixed exchange rate, liquidity constrained. Floating exchange rate, it's a continuous liquidity trap. It's not when you hit the zero bound, it's always in a liquidity trap. There's always infinite liquidity available, and regulation comes through a whole different channel.

That's a fundamental difference between those two policies. And that entirely describes what happened during the period you're talking about versus what happened during recent bank crises.

MIKE GREEN: And we see that in history. If we go back in time, we look at periods like the colonial era in the United States, you had continual shortages of hard currency, you had continual shortages of species that prevented the expansion of credit, despite the extraordinary investment opportunities of being on a basically uninhabited continent with lots of opportunities to spend money.

That contributed to much of the behavior we saw in that time period and also contributed to the dynamic that you would broadly highlight that existed on the era, which is governments were forced to effectively compete for that capital, or more accurately, businesses, local capitalists were forced to compete for that capital. And there's tons of good associated with that competition.

The United States competing with Britain for British citizens' capital largely defines much of the 19th century, it's why we introduced things like ratings agencies for corporate bonds, to make foreign investors much more comfortable with the potential for investment in the United States. That describes that time period.

Even in that time period, as early as under Alexander Hamilton, there was always an excess of gold certificates relative to the quantity of gold that was actually held physically by the Bank of United States or by the US Treasury, the Fed didn't exist at that point. And that was fine, because exactly as you're describing, in a banking system, you're not going to have everybody withdraw all at once.

The holding of-- I believe the ratio under Alexander Hamilton was about 70 cents on the US dollar backing 100 cents of gold certificates outstanding that circulated in the system. That was fine, the fractional reserve for the overall system.

WARREN MOSLER: But the gold certificates were what percentage of the bank deposits outstanding, probably maybe 20%, 15%, something like that.

MIKE GREEN: In MMT, you would describe this as vertical versus horizontal money effectively. The government's money is the vertical money, the horizontal money is similar to a structured product like an RMBS, where you're effectively slicing and dicing it and stochastically saying, I think the risk of somebody coming up and asking me for the withdrawal of this deposit is relatively low. Therefore, I can run at a 10 to one ratio or a five to one ratio, or four to one ratio.

WARREN MOSLER: Yeah. The way I would put it is that concept of the hierarchy of money, that applies to fixed exchange rate policy for exactly that reason. The further you are from convertibility, the lower you are in the hierarchy. You have actual gold, which is on top, then you have gold certificates, which are stepped down because the government might not be able to honor them.

And then below that, you might have bank deposits, where you have a fractional situation, and you can then maybe corporates [?] that. And when the government sold Treasury securities, it was so that you couldn't get your gold on demand. If they spent money more than they taxed that those dollars, you could cash them in for gold. But if they could entice you to buy government securities, then you have to wait until they mature.

The interest rates were market-determined under fixed exchange rate rather than today where they're set lower. They're market-determined as the Treasury competes with the option to convert. The holders of the dollars had convertible docs and options to convert. The Treasury have to compete with that. They offer Treasury securities, and so in times of stress, you'd see those rates go up when there was questionable, when the option to convert was questionable when it was at risk

During the Russian crisis, which was fixed exchange rate of 98, we saw the Treasury competing with 200% rates and they still could attract rubles, convertible rubles who wanted their dollars at 645 to one. That's something you don't see with floating exchange rates. It's not applicable because the Treasury is not competing with the option to convert. The Treasury rates are only competing with the rates and overnight deposits.

They're competing with anticipated Fed rate secs, but not with the right to convert. Again, it's an entirely different system. The interest rate can't give you the signals with floating exchange rate that it does under fixed exchange rate, and so again, the Austrian theories are entirely applicable with fixed but not floating exchange rates.

MIKE GREEN: Okay. Now, let's play this forward for a little bit. One of the things that I hope is very clear from this dialogue is that neither one of us is actually attaching morality to this discussion. The idea of fixed exchange rates as being inherently good or bad, or floating rates as being inherently good or bad is not something that either of us is entertaining as a discussion. I would go a step further and say that they function very differently at different points in time.

If I look at the primary asset that the US government had in 1770, 1783, to be more fair, it was ownership of extraordinary tracts of land, particularly under the Louisiana Purchase that ultimately, I understand that came later, but that ultimately, you could then sell to investors and offer them an asset that they had to pay gold to you for or tax liabilities that gold certificates had to be delivered to the government in exchange for that land.

But when you move to an environment in which that land is really no longer the primary asset, and the primary asset becomes the taxing capacity, that changes things quite substantively. How would you describe that transition? Or is there anything I said that you would disagree with?

WARREN MOSLER: No, not at all. That morality is an interesting point. I wrote a paper in 1997 called, Exchange Rate Policy and Full Employment, pointing out that if policy goal is full employment without putting any morality, then you can sustain it at all times indefinitely with floating exchange rate policy, but you can't necessarily sustain it with fixed exchange rate policy because it might compete with your desire to not run out of gold and default.

It's not parting morality, but it's giving you your policy options. And to the extent that people would put up moral value on full employment, then they can use that argument to the extent. Now I use that argument first to the extent that your real wealth is equal to your domestic output plus imports minus exports, so most of it is domestic output, particularly in the US.

To optimize your wealth and wellbeing, you want to keep full employment at all times to keep your real pile of stuff as large as possible. You also want to optimize your real terms of trade, imports minus exports, but the largest thing is domestic employment. The losses from allowing unemployment, the losses in real terms, how much output you're losing, when you're at 5%, 6%, 8%, 10% unemployment, I'm looking at U-6, or even deeper, are larger than the losses from all the wars in the history of that world combined, these staggering losses.

But I don't make that value judgment. I present those policy options. And then the policymakers put the value judgments on that and decide what to do. Yes, I agree with what you're saying but I want to add that aspect.

MIKE GREEN: Yeah, no, I appreciate that. And I think that's actually, again, a really important point, it's something that I describe effectively as MMT is descriptive of the system, but what you then choose to do with the insights associated with it are completely up to the policymakers.

WARREN MOSLER: Any description has a base case for purposes of analysis. I have that money story, I have tax, liability, you create unemployment, you hire the people in the public sector. And that's my base case to start the analysis of the system. That base case for the analysis has a permanent zero rate policy in it. I'm not saying you should have that, but if you'd like to change it, you start with zero and then change the model if you think you can improve it.

It starts off with the government putting out a tax and then hiring anybody who shows up for work, because that's indicative of how many dollars the economy needs to pay the tax. If there's too many people and you don't want them, you should lower the tax. You don't just leave them unemployed. That's my base case for analysis.

That gets confused with a policy description. And it gets confused with the description like you should have-- MMT says there's a policy description in zero-rate policy. It's not quite correct. I'm saying that's my base case for analysis. And from there, if you want to modify it, fine, but the burden of proof is on you.

That base case for analysis is what's called the job guarantee where you put a tax on and you hire any unemployed that you've created by your own tax and they say, okay, well, you have to get a prescription for policy. Well, I got to start somewhere. And that's the obvious base case, I create a tax for the purpose of provisioning the government to create unemployment so I can hire them, so I do it.

That's my base case. Tell me how you want to modify that. That's where that confusion comes from between where they start arguing whether MMT is prescriptive or descriptive. It's descriptive, which includes a base case for analysis, which is not per se, a policy recommendation. Although it could be, but it's the base case for analysis.

MIKE GREEN: Okay. Now, you've given another useful off-ramp for further discussion. And this goes back to this idea of setting an absolute price level versus a relative price level. If I think about the key insight that comes out of the Austrian School, it is this idea of utils, or marginal utility, that my desire for an orange versus an apple influences the relative pricing between the two, and that relative pricing can be determined effectively by how satiated I am in terms of the quantity of oranges, how much they're perfect substitutes.

If apples and oranges tasted exactly the same, then I would have to roughly treat them as identical, and their price level should be the same. If, because apples and oranges tastes different, we all know that apples tastes better than oranges-- that's a joke, I'm making no judgement about the relative value of apples versus oranges. But because they do have relative differentials, in particular, we can use that one and say Florida was not fully developed and so oranges were harder to obtain, we would expect the price of oranges to reflect that greater scarcity and the less likely scenario that you have saturated demand for oranges versus apples, etc.

What the fixed exchange rate under the gold standard did was it set gold as the one asset that the government said, we will absolutely pay this amount, originally $21, it's actually originally $18 and $21. And in 1933, it went to $35. When you think about that dynamic and your job guarantee, what you're actually saying is, instead of setting the base price level as gold, let's set a base price level for workers, or the numerator.

But let's make prices set in terms of human beings. The government is willing to pay X for an hour of service from human beings. That means nobody else can get away with paying less than that effectively, not meaningfully less.

WARREN MOSLER: Now, think about gold again. A bar of gold was never unemployed, you could always get a job of selling itself to the government at $35 an ounce. And the market could always buy gold from the government at $35 an ounce, so it was a fixed price, which is why we call a fixed exchange rate. In my base case for analysis, a person can always get a job at $10 an hour, whatever the numerator is, it could be anything, it doesn't matter, because everything else will reflect relative value.

And employers could always hire somebody out of this pool at $10 an hour plus some spread to entice them to move maybe $12 or something. You had a constant two-way market in labor, 10 bid, 12 offer or something like that. That became the-- so labor was always fully employed. The point is, whatever you want your numerator to be, your buffer stock, it's called buffer stock as Benjamin Graham used to describe, your buffer stock is always fully employed.

For my base case of analysis, I had the labor market, labor as a buffer stock, it was a labor buffer stock, so labor was always fully employed. And if you don't want that to be the case, and I can give you reasons why you would not want that to be the case, then you'd modify this base case in your actual operation.

MIKE GREEN: Let's extend that for a second. Because you and I have talked about this ad nauseum, but most people have not had the opportunity to hear directly from your mouth, what would be a reason why you wouldn't use labor? The stated goal of the Federal Reserve is full employment and price stability.

Full employment, to your definition, the only way we can guarantee that is effectively making sure that human beings are like a bar of gold and there is a fixed price at which they are always capable of exchanging their labor for dollars, regardless of search issues or anything else. Why would you not want that?

WARREN MOSLER: Well, if you're an exporter, then you have no interest in the domestic market except you want your cost as low as possible. If you start the company in the country for dollars domestically, you create a race to the bottom, high unemployment. And it allows you in real terms, exchange rate adjusted terms, to have lower labor costs, you're what's called more competitive than the rest of the world.

That works to the favor of the exporters who are large and politically powerful, because they're concentrated, and they have large numbers of money to influence politics. And you've got these export-driven models that have glorified the whole thing about whoever has the most exports wins. But if you think of real terms of trade, what you're doing is to the detriment of the macro economy. But politically, it's not seen that way.

When President Trump wanted tariffs to get rid of our trade deficits, there was this big evil because they've got our money. And he had 95% approval, including the Democrats. And when Biden came in, President Biden, he agreed and doubled down on them. President Trump was punishing Canada for not charging us enough for lumber with a 17% tariff. And President Biden wanted to punish them more, and he raised it to 34%.

We've got this whole thing backwards to the benefit of the exporter. And, again, I don't think they should even have a seat at the table, the domestic agenda, because they don't have the interests of the domestic economy of the electorate at heart. It's just not what they're supposed to be doing. I'm not demonizing them for that, but that's just not what their incentives are.

Now, the domestic manufacturers wouldn't care if everybody got a 10% raise, because everybody has 10% more money to buy their products. But they're not buying the exporters' products. He's selling them in another place. And he's being disadvantaged. Henry Ford famously said he has to pay his people enough to buy his cars. Now, it doesn't work on a micro corporate level, but across the board, it does hold true.

We had some of our strongest years when labor and management were in cahoots, they have a big shove and gave labor an increase to match productivity, and then they all raised prices, and everybody was happy, except the exporters. We wound up getting hurt by import, that whole system was undermined subsequently by the internationalism and import. And the response to that has been to shoot ourselves in the foot or maybe the head economically by trying to play the same game.

And President Obama made the statement that we need to consume less and export more, and it's wrong with the US because we had this trade deficit. And he puts Jeffrey [?] at the head of his economic policy, who is our largest exporter. It's insidious the way this happens, and it happens with universal support. The voters have supported this thing. They lent themselves to the slaughter, and they still do. They still support it. Anyway, I'd get off this [?].

MIKE GREEN: Part of the reason, though, that they support it is because the narrative has been so corrupted under the dynamic. If I think about the exporter-driven model, and I just want to emphasize it, it's actually, yes, it is exporters, but really, what you're actually talking about is the privileged capital owning class that wants to produce in excess of what the domestic economy is creating so that they can effectively capture a higher fraction of income than would otherwise be available to them in an economy that was largely determined by domestic dynamics.

WARREN MOSLER: Okay, there's lots of that, yeah.

MIKE GREEN: We describe that system as America competing for investment. Are things made here? Or are they produced externally? Are they made elsewhere and then imported in? What you're actually highlighting is that narrative, that effectively the jobs are scarce, and we need to compete for those jobs is a choice rather than a factual description of the system.

WARREN MOSLER: And it's an imperative with fixed exchange rates, like the gold standard. That's tailormade to support exporters, because your net exports are your increase in your gold supply, which they termed as national savings. Then they apply that word today, national savings, which has no applicability to floating exchange rate, it's your convertible currency that's held offshore is your loss of national savings.

MIKE GREEN: And there are wrinkles around that. We explicitly see this with managed currencies like the Chinese yuan where they recognize that they cannot actually buy enough stuff from the United States to not accumulate massive reserves of dollars that would if they were to spend them in the current period would cause supplies of materials from the rest of the world to flow into places like China. They choose to buy a financial substitute in the form of Treasurys that goes back to your observation, here's how we handle an excess of spending from the public sector.

WARREN MOSLER: Sure, but it also, look, if primarily though, it's keeping the currency weaken up because they want to keep real wages low to stay competitive. And you can trace the money. For every dollar they build in reserves, they're going to get a dollars' worth of exports, because that's the only way that domestic economy can bring in net financial assets in another currency, is to sell something on a net basis.

It's just simple accounting. The large exporters are all the ones that have large dollar reserves, because that's the channel by which they're generating net exports and suppressing domestic demand. Look at a colonial exploitation like Hong Kong, they established the currency board there and the British did it deliberately to ensure there would be net exports back to the UK, it was the UK then.

In return, Hong Kong would build reserves and [?] Hong Kong with its dollar reserves today. But those are built by net exports. You find your money supply, you fund your net financial assets through net exports. You can't do it through deficit spending when you have a fixed exchange rate policy, because you will lose your fixed exchange rate, you'll lose your reserves. It's just accounting, it's not even theory, it's just accounting.

MIKE GREEN: We've established that there are conditions under which you might not want to offer a job guarantee or link to labor if you have not yet acknowledged that you have broken from the fixed exchange rate system, and so there's not the need to accumulate gold or in the equivalent in the case of US Treasurys for somebody that is running a managed or somewhat fixed currency exchange against the US. But as a second part of that, what happens if the government sets the price of labor too high?

WARREN MOSLER: If the rest all else equal, which is not because the rest of the institutional structure set by government, by Congress acts on this stuff all the time to make that happen, then you get an increase in the price level, it'll be a onetime increase, it'll keep happening until you-- if you just set it too high at one time, you get a onetime increase. If you then set it higher, you get another one and then another one.

As we have government indexation, we have a continuous increase in the price level, and all Latin American inflations had been traced back to government indexation along those lines. Yeah, that can happen. Now, what's interesting is inflation does not affect the real wealth of the country. The real wealth is your pile of stuff, everything you produce domestically plus what you import minus what you export.

If your currency goes down, or it goes up, or something, as long as you're staying at full employment, it doesn't affect what your domestic production is, and it doesn't affect your real terms of trade. And when I was talking about this in Europe, I was in Italy, I said, look, you send a Ferrari to Berlin and at current market prices in Berlin, it'll exchange for four Mercedes or something like that. 200,000 Euro versus 50,000 Euro each.

And those are your real terms of trade, you produce one Ferrari, you get four Mercedes. They don't care if the lira goes up or down, or there is a layer or there isn't a layer, it doesn't matter. If you produce an ounce of gold in South Africa and go to London and exchange it for one man suit, they say, alright, well, that exchange doesn't care what the value of the rand is or whether it goes up or down or not.

What the value of the rand does affect is who has to dig the gold and who gets to wear the suit. It's entirely distributional, and you don't want to address your distributional problem by reducing your real wealth. To me, that makes no sense at all. That's not rational policy. You adjust your distributional problem through internal means because you're already doing that. Every tax, every tax decision, every spending decision is a distributional issue, and you're affecting the distribution.

That's where it comes from to begin with, it's not coming out in nature. You can adjust those policies anytime you want, which we do continuously. Every year, there's a new tax for this or that or tax credit for this every year. The spending switches from this and that. You don't knock down your real wealth to address a distributional issue. To me, that completely misses the point.

MIKE GREEN: When you think about a retelling of the narrative of the 20th century, which saw the US first devalue its currency. And let's stick with the US for a second. Firstly, the US devalues its currency with a far less than one for one increase in the price level, by the way, which is, I think, an important component to it, and then in 1971 going off the gold standard.

When you think about the narrative that exists around the negative ramifications of that, your analysis would be that it's not that actually we started just printing money, and that was the problem. But effectively, that we decided we were going to buy as exporters over labor. We were going to buy as [?] over labor.

WARREN MOSLER: Up until then, the price of oil had been set by the Texas Railroad Commission, because we had an excess supply of oil in the US. And they would set quotas, limiting how much the oil producers could produce to support the price at $2.50 or $3, or something. And those were the golden years, where we had stable prices, because the stable base of energy costs that everything else was made out of.

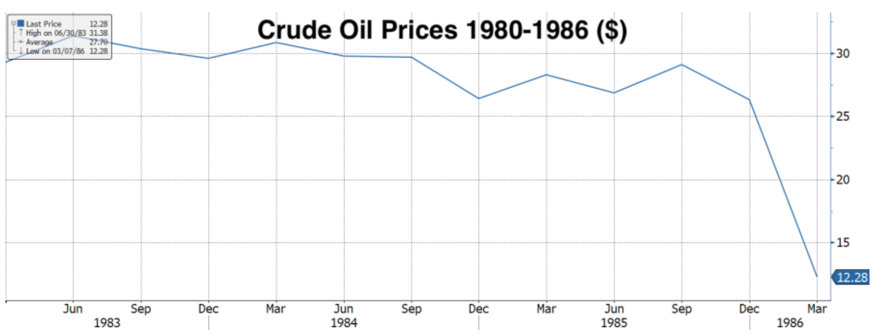
And then the demand grew domestically and internationally, and the quotas were moot because the demand was higher than what we could produce, so that was over. You weren't setting quotas because the price was going up and it wasn't about setting quotas to keep the price from falling, so the excess capacity shifted to Saudi Arabia, and Saudi Arabia became a swing producer. They had excess capacity, they would then, to keep the price higher than zero, would set price and let quantity adjust.

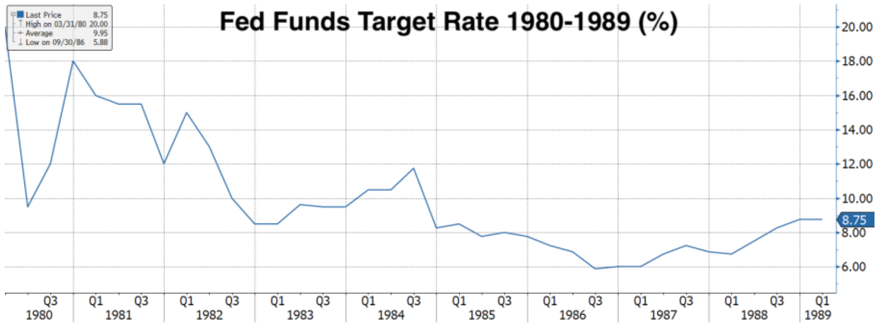
And they had a very different motive than the Texas Railroad Commission who was looking for long term stability. They wanted their real terms of trade to improve. They want to be able to buy more things with their oil, so they started raising the price. And it went from $3 to $40 over 10 years, which would be 10 times higher, that's like $50 now to $500 or $600 today. And as the price went up, we didn't realize it, but we had two choices.

If we kept all other prices constant, then Saudi's real purchasing power for their oil goes up 10 times and our real terms of trade deteriorates, and our real standard of living drops. If we just let our prices go up to match their price, we have what you call inflation, their real terms of trade stay the same, our real wealth stays where it was, but we have what we call inflation, which are these price increases that were caused by Saudis raising oil prices, and then us keeping up with increasing wages, government wages, private sector wages, which were a lot of times, oligopoly situations and letting everything else catch up.

Now, we didn't consciously have that debate. I did at the time, but nobody was listening to me. And I didn't hear that debate from anybody at all. But that's what, when you look back, happened. And as soon as oil prices stopped going up, the whole inflation stopped, because that was the source of oil prices.

They had nothing to do with Volker raising interest rates, that is not what broke the inflation. If anything, that prolonged inflation, because even when oil dropped from 40 to 10 after 1980 in a couple of years, today, that would be a tremendous deflationary force, it would bring the whole CPI [?]. Back then with interest rates at 12%, 14%, 16%, the inflation was sustained. It took 10 years for it to come down. But I'm sure you'll have questions on that, and I'll get back to that.





MIKE GREEN: Yeah. This is where viewers who have listened to me talk in the past should begin making the connection between your work and my work. My analysis of the inflation of the 1970s is that a rapid growth in the population and the number of households effectively pushed the aggregate demand out into the right, exceeding the Texas Railroad Commission's ability to service that and likewise, exceeding the ability to obtain housing units, the ability to obtain labor, to create new housing units, exceeding the capacity that existed in the auto sector, etc.

All of these experience, effective shortages that took the relative pricing or the absolute pricing away from the domestic market and forced us to begin importing so that we were effectively suddenly subject to the rest of the world. That creates that instability. Where I would disagree with you, to a certain extent, is in this idea that inflation doesn't lower wealth.

I agree with you that it doesn't lower it in real terms in aggregate, but it does hugely cause distributional challenges, and the uncertainty associated with the distributional challenges is the equivalent of raising volatility or raising your cost of capital and therefore ends up reducing wealth in aggregate. Inflation is not a good thing. You're not [?] with it.

WARREN MOSLER: Right, but that doesn't have to be. That's what happened, but it was because of the policy response. There are policy responses that don't-- that doesn't have to happen with the correct policy response.

MIKE GREEN: Well, and again, part of that is the dynamics of the policy, not necessarily seeing it in the same way. We're experiencing this very directly today, where in reaction to much higher gasoline prices, the outcry for the government to subsidize gasoline by removing gasoline tax, for example, has exploded. And that's effectively putting a short-term Band-Aid on the solution.

It's a tool that allows more wealth to be transferred to energy producers, whether they're importers or exporters or domestic producers, it doesn't matter. That's a relative shift that is created by what seems like a very benign policy choice. That creates volatility around that. Ultimately, that lowers the capacity of the market to rationally allocate capital for incremental production, rationally allocate labor, it advantages a certain subset of producers versus another subset of producers.

WARREN MOSLER: Right, but the government still retains control of how capital is allocated. They can give tax credits for anything they want to happen, and it will happen.

MIKE GREEN: I'm trying to make you friends here, Warren. When you say that, you're introducing the idea that the government should make those choices. And I think this is actually again, that's really important. You're not saying they should make those choices, but they always have the capability to do so. And your point is almost the exact same as the Austrians, the temptation is irresistible.

WARREN MOSLER: Well, there's not a lot of choice, because when you have the currency itself as a public monopoly, you have now obviated any notion of neutrality, any notion of what information markets are going to give you, because you've begun the currency itself as a noncompetitive situation. Of course, a noncompetitive monopoly. You've already made that choice once you levy course of taxes.

And that's what we're dealing with, like Don Rumsfeld used to say, you got to fight with the army you got. We don't have any other way to provision the government except course of taxes. And when we do that, we've obviated all these market forces that exist without that in exchange for that system of provisioning the government. Recognizing that, it's a monopoly to begin with. A monopolist can't see pricing power to the market. It's not a sound market, it's entirely one-sided.

MIKE GREEN: Well, what it can do is it can choose not to invest. It can create disincentives for investment, so the domestic producers are not capable of servicing domestic demand forcing the need to go external.

WARREN MOSLER: Military spending creates investment in military spending, infrastructure spending creates investment there. If you look at it closely enough, you'll see that that's where it all comes from, paying people to do certain jobs creates a demand for what they want to buy. And the investment comes from there, so directly or indirectly, aggregate demand comes from the government. You can't do a reserve drain without a prior reserve add.

They're the source of the initial aggregate demand and it's priced and it's directional. They hire people to do certain things, they buy a certain brand of toothpaste for the army. They're creating these investments setups from the beginning. Now, some of it's indirect, some of it, they will pay people who then do things that they don't directly control.

But a large part of it is more direct than we're willing to admit. While I don't particularly like it, and I see the horrible mistakes they make all the time, that's what we got, that's the reality. And until you come up with an alternative monetary system, we've got to make the best of it, understand it, and do the best we can to make it work in our favor.

MIKE GREEN: If I'm thinking about what you're arguing on that side, and your job's guarantee is simply a mechanism for saying the real wealth of the country is not how much gold it has accumulated. It is what is the potential output from all the workers that exist or all the potential workers that exists in our economy?

WARREN MOSLER: Yeah, I have to add some first. The government puts a tax on it, creates 10 million unemployed, it only hires 5 million people. Like why would you do that? You've obviously overtaxed. What you want to do is get those people back into the private sector.

You got to create enough aggregate demand in the private sector by lowering taxes because that's why they're there, you overtaxed them, or if you want them in the public sector, you could hire more people. But presumably, the public sector is where you want it to be already. Well, you've damaged those people, the private sector doesn't want to hire them because it only wants to hire people already working.

To help lubricate that channel from unemployment back to the private sector, you have a job guarantee where now they can show up for work, they have an employment record, they don't get into-- they have a supervisor who vouched for them that they don't get into fights, that they come in clean or whatever, just simple things to reduce the risk of employing them, and then the private sector will employ them, and the amount of people in that job guarantee will fall to a minimum.

The success of the job guarantee is how few people are in it, not how many. It's how few people because that means you've successfully transitioned your mistake, you created excess unemployment back to the private sector. That is what the job guarantee is about. It's a transition job designed to promote the transition from unemployment, which was created by overtaxation, back to private sector employment.

MIKE GREEN: Okay. Now, let's play that out. The way I would describe that, as you're saying, the least distortive thing that you can do is to offer a minimum price for the general-purpose technology that actually underpins a swan solo type framework, an economy that is a function of labor and capital, you're arguing effectively, the least corrosive thing to do would be to establish a minimum price that the government will clear labor at.

And if employers are willing or unwilling to hire those laborers, theoretically, the government could subsidize that employment by saying you pay us a discount to what we're paying.

WARREN MOSLER: Well, it can create enough aggregate demand either through increase public services or decreased taxes so that the private sector will hire those people. Because before the government impose a tax, and you had a non-monetary economy, there was no unemployment. Unemployment is always a monetary phenomenon. It's a phenomenon of the demand for the tax credit created by the tax.

And there's no way around it. It's a simple point of logic. And, again, it's something where if you think through it, there's no dispute. It's not a theory, it's just a matter of accounting.

MIKE GREEN: When you say there's no matter of dispute, the question then becomes, are there people who are going to abuse the system? Because part of, and this is where I think you and I both struggle, and people can hear this a little bit in our voices, which tend to lack a degree of emotion. This is not an emotional conversation, you and I are not discussing whether families are going to starve and whether that's terrible or a good thing.

WARREN MOSLER: Yeah, I call it it's not a bleeding-heart argument.

MIKE GREEN: But what you are saying is, again, just to emphasize, that if you're going to correctly define the wealth of a country as its stock of human capital, because that's really the core source of innovation and everything.

WARREN MOSLER: Well, it's the output. The output of the human capital.

MIKE GREEN: But we can raise that output by investing in human capital. One of the things that we do for example is governments subsidize the education and skill raising of the future employees, what we call children and so we subsidize the skill level improvement in that. Now, we're doing a terrible job there like we're doing in many other areas. Because we've allowed capture, etc.

But I just hope everybody who's listening to this understands that, but again, this is not a moral statement. This is not a statement saying, your neighbor should be receiving X dollars, even as they sit on their sofa, and you work your fingers to the bone for X plus a tiny amount more. How would you deal in that system with the abuse that could potentially come from my neighbor saying, isn't this awesome? I get a job subsidized by the government, and I'm just not going to show up, and I'm guaranteed-- that use of the phrase guaranteed is dangerous.

WARREN MOSLER: For one thing, you have to show up. You have to at least sell your time. And for another thing, the government will either be lowering taxes or increasing public services until those people are hired by the private sector. Now, there'll be a spread that develops that establishes fair value between those two. It might be $10--

I guess today, it's higher with the inflation, might be a $15 an hour job guarantee, but the private sector might be paying $25 due to the aggregate demand, and so the people working are not getting $1 higher, they're getting $10 higher, and the market forces will set that spread where people will feel it's worthwhile to jump to that $25 job from the $15 job, or $30 job, or whatever it is, but that'll stabilize.

Market forces will stabilize that there'll be a natural spread between the two, and the government is setting that spread to minimize the number of people in the public sector, the job guarantee, get it down to 1% or 2%. And then all the rest will be in the private sector doing what people would consider useful work, otherwise, presumably, the private sector is not hiring them at $30 an hour, unless it's useful, profitable work.

You don't have inflation if that spread stabilizes. It's only if it continuously increases. And I'll say it won't. If it does, there's things you can do. But it's not in any model that that would happen. And there's no evidence that that would happen.

MIKE GREEN: In your model, inflation would occur if the government were overpaying?

WARREN MOSLER: Well, let's say it's paying $15 an hour, and the spread doubles, so the private sector is paying $30. And we're at some equilibrium, there's 1% or 2% there, the private sector is paying $30, and those people can't get jobs or not good enough, but the government doesn't want to widen it some more, because there's only 1% or 2%.

And those young people who are working are saying, oh, that guy's loafing and he's making $15. And I'm working, I'm making $30, he's happy. It's a spread where he's happy. If the government double that $15 an hour for the transition job to $30, then the spread would double, and these other guys would be getting $60. And they'd be in the same position. Because it's just a numeraire. Market forces would cause that to happen.

By government paying more, the government creates the inflation by paying more. The markets that determine relative value can't do that.

MIKE GREEN: I agree with you in the long run. But again, the process of the government changing that price is going to cause short term disruptions and that volatility is not free. That's an important component to it.

WARREN MOSLER: Let me add what I think that volatility will do, I think it'll reduce people's propensity to consume, they'll spend less of their money and save more. Unspent income means less output, which means the pool of transition job workers grows, JT workers grows, which means taxes get lowered. The idea of people volatility would be offset by lowering taxes.

Most voters wouldn't think that's a bad thing. You've got to give them the means. You got to keep a financial issue from spilling over to the real economy. And that's how you do it.

MIKE GREEN: Again, and it's so hard for people to escape the morality dynamic. You very briefly, and I use that term intentionally say, if I'm getting $30 for working and my neighbor is getting $15 an hour for showing up at a teacher rubber room and not actually doing anything of value because nobody can find any utility for him, within the American puritanical system, our puritanical heritage, there is a component of saying, that's not fair that he's getting $15.

WARREN MOSLER: Well, what would be fair? What wouldn't be fair? If he was getting 10$? Or dying in the street? The market will determine what's fair. What I'm doing is leaving everything to market forces.

MIKE GREEN: Right. This is exactly why I'm highlighting this point, though, because people talk about wanting the market to set it, but what they're actually saying is, I want him to get nothing. He's not working, he's not contributing positively. Be on whether it's his fault or not, he's a slacker, and he's no good. I want him to get nothing. And there's a certain component associated with our puritanical heritage that really like that.

WARREN MOSLER: Market theory will tell you a small percent of that bell curve at the end is going to say that, and a small percentage at the other end wants the guy to get more but markets are markets, not everybody's happy with market outcomes. You don't get universal support, but you do get majority. It is a consensus. It doesn't mean everybody agrees, but it is where supply and demand intersects.

And where the feeling that okay, I could stay home and earn $15, but I won't. If that guy wants to do it, that's his problem. At $30, I'm plenty happy doing this. It's market force theory tells you that's where people are satisfied at that spread. It doesn't mean everybody will be.

MIKE GREEN: And I do think that this is important though. That's why I highlight that. That there is a component of morality, there's a component of people still trapped in a scarlet letter type framework saying that's not okay. You should get nothing, or you should be far worse.

WARREN MOSLER: Yeah, that's my mother. My mother was like that.

MIKE GREEN: Yeah, exactly. I would say, by the way, I have relatives that are like that as well. Hi, mother-in-law. You can't disassociate us as a social species from that a much higher fraction of the population than you and I would probably like to acknowledge. The fact that we both have direct relationships with people who believe that suggests that that fraction is far higher.

And I do think that's a really, really critical point. Emphasis on the fact that people seem very comfortable with a fixed price being paid for gold, but super uncomfortable with the idea that we could do the same thing with labor.

WARREN MOSLER: Right. Now, remember, during one of the debates, I think it was the Republicans, somebody said something about health care. And they said, well what, do you want to let him die in the street? And it was a big round of applause from the audience. There's plenty of people on all ends of the spectrum.

MIKE GREEN: Yeah. But I do think that is one of the things to really kick out. Now, we've talked an awful lot about how things are done. We don't have that much time left, we always run into these conversations. You and I could talk for hours, but our listener don't want to hear that. What's gone wrong this time around?

Why are we seeing the inflation and scarcity and price levels that we're seeing today immediately after-- and I believe it's coincidental to a certain extent. But why did it emerge immediately in the aftermath of the broad discussion around MMT? Is MMT to blame for the price level increase that we've seen? Or is it the Fed and money printing? What do you think is going on?

WARREN MOSLER: Okay, so MMT, I say like the New York Times, gets full credit for turning the debate. Back under Obama, when we're faced with deficit spending, you had Paul Ryan saying we're going to be the next Greece, you have Paul Krugman saying interest rates are going to go up. All the economists with huge stacks of paper. You had President Obama with Secretary Clinton going to China to make sure they would lend us some money.

They were all worried about where the money was going to come from. That debate shifted to what we've been trying to get the debate to shift to, which was solvency is not the issue, that's not going to happen, rates are not going to go up unless the Fed raises them. Government checks aren't going to bounce, interest rates are set by the Fed. What is the issue is whether or not this spending is going to cause inflation?

And you saw that in the COVID debate, 2.2 trillion. To check, nobody discussed solvency. They didn't say we're going to turn into Greece, or where's the dollar is going to come from or where they'll drive up interest rates. It wasn't any of that discussion. The discussion was to a small extent, will it cause inflation? And will the inflation caused the Fed to raise rates, which is why they're worried?

By the way, they 're worried more about inflation, because they're worried that's going to cause the Fed to raise rates than you're worried about the actual inflation, and so that debate change. MMT gets credit for that debate. And to me, that is a success. That's what we've been trying to do for 30 years, to change that debate away from solvency towards inflation.

They were making these decisions based on what they thought would happen with inflation. Did they, the Biden administration, miscalculate? Maybe, but that's not MMT miscalculating. MMT said, look, now your risk is inflation. They said, great. We want to spend 2.2 trillion, we've made that calculation, or we don't care or whatever. But it wasn't like MMT calculated and said, oh, it's got to be 2.2 trillion and not 2.8 and not 1.2.

They did that. They had their own econometrics, they got 500 PhD economists. They're figuring this stuff out. And now your question is, did the administration miscalculate? Not is MMT wrong. MMT is correct. It's about inflation. It's not about solvency.

MIKE GREEN: Again, this is where you and I fall, or fail in the communication dynamic. Because when you say it's about inflation and they were more concerned about the Fed hiking interest rates, again, there's a sizable fraction of the population that actually very much cares about inflation. Ironically, it tends to be that exporter class that you're referring to, at least initially, and those who are at the very low end of the spectrum who cannot afford the relative redistribution that that inflation creates, that lowers their real purchasing power dramatically.

WARREN MOSLER: Yeah. Look, it's critically important for all those distributional reasons and when the Biden administration decided on 2.2 trillion, it was bipartisan, they made that calculation. It wasn't me. They never asked me what it should be. I just told them, you're not going to bounce checks, but you've got to watch inflation. And in fact, I had proposals out there that I would not have drawn the criticism for excess demand that are now out there.

Now, I can also make the case that there's not excess demand. The personal consumption expenditures, they didn't go up. In fact, they were cumulatively than they would have been otherwise. But that just happened to happen. That wasn't because I agree with what they were doing or didn't agree.

All my suggestions were countercyclical, much like their unemployment. They did a lot of things that weren't countercyclical, and the countercyclical ones were mainly countercyclical, but I'm not going to argue with their calculations, because I didn't do the calculation. I don't have those kinds of resources.

And the other thing is we had supply side problems long before COVID. They started with these tariffs. Tariffs are government policy to make things cost more because that's supposed to help American business. It is supposed to, okay, so you've got a government policy to tax lumber coming in at 17%, then the price of lumber goes up, and they go, what happened? Oh, MMT is wrong.

It's like, what are talking about? This is a direct policy to raise the price of lumber. They've got policies where Medicare has to pay subscription drugs at retail prices. It's a long story but that came out of my meeting with the Bush administration back in 2003, I don't know if about that. It wasn't my intention for that to happen, but that was what they concluded to do.

Anyway, we have 300 billion in tariffs now that are all out there designed to raise prices, and they all disrupt supply chains. Remember all the things got disrupted from China to Vietnam, it was all before COVID. That was just starting. And you know from, we had a history of Smoot-Hawley tariffs doing the same thing a long time ago, it takes a while for this to happen. Well, it's still happening.

Then on top of that, we had COVID for the disrupt in supply chains and causing shipping issues and this type of thing. We're fighting a combination of both of those. And at the end of the day, we sustained incomes, we didn't have any widespread deprivation due even with a 10% jump in unemployment overnight, or maybe higher, and with GDP dropping 10% a couple of quarters.

And it's sustained reasonable standard of living through this thing. And at the end of the day, the price level went up 10%. Therefore, that whole policy is a failure. Now, could I have done it without that, maybe, but is that policy failure? I don't think so. Look, we won World War II, or did we? There's an asterisk, one year, we had 20% inflation, prices went up.

In another year, we had more, we have maybe 50% higher prices, I don't know what it was from the beginning to the end, maybe more. We didn't really win World War II because the price level shifted. Those are like consequences of what, at the time, seemed more important decisions. Sustaining the wellbeing of people at the lowest levels. We made a huge reduction in child poverty in that type of thing. Okay, so prices went up 10%.

Is that worthwhile? Well, for some people, it wasn't. If you're on fixed income, did it affect you? It was a bad decision. For somebody else, it was a good decision. Again, it comes down to federal policy because there's a monopoly at the beginning. There's always winners and losers.

They're picking winners and losers from the tax established to their spending, but they decide to spend that. They make us all short-term money through taxes, create unemployment, and then they spend it and create further distributional issues. And that's what we have to live with. And I'm trying to come up with ways to make the best of it, show you what the real policy options are to make the best of it.

MIKE GREEN: And again, I would just reiterate, really, what you're saying is given the complexity of an economy, and you just did a brilliant job in highlighting that we raise the price of lumber, any business on the planet knows that if the government has effectively forced an increase in the price of lumber, that's going to all else being equal, lower the demand of lumber and it's going to be much more true if you are doing it specifically in that type of framework.

I've raised the relative price of lumber. The demand to invest in lumber producing facilities, therefore, is going to be lower than it would have been in the absence, certainly on a global basis, in the absence of that government interference, which then raises the probability of the type of supply shock that you're saying that we've experienced.

WARREN MOSLER: Among other things, yes, that was one factor. There are a lot of factors from tariffs. Tariffs have a lot of negative externalities that it's caught.

MIKE GREEN: Right, they absolutely do. Again, I think this is the hardest thing in the MMT framework for people to fully, truly understand. And the use of the language jobs guarantee mortally offends some people, because people really get tied up in this idea.

WARREN MOSLER: I don't like it either. I don't like it either. I don't call it that.

MIKE GREEN: Yeah. But there is no other language to say, we are going to set a minimum price for labor in the same way that we did for gold.

WARREN MOSLER: There are all these MMT proponents out there that have their own way of saying things. I have no control of them. It's like herding calves. I've almost called it golden calf economics. You come down from the mountain with the 10 commandments, and they're doing all this stuff.

But they are also entirely responsible for the success in terms of promoting the awareness and understanding. Using the word job guarantee, which I don't use, because I think it's for other reasons as you say, has caused it to rise to national prominence. The idea that taxes don't fund spending, it's entirely ambiguous and not true, to the extent that tax liabilities are absolutely essential. And taxes is short for whatever, excusing casual words to create drama.

And that's caused all kinds of awareness to come up through the thing. I have to give the MMT proponents all the credit for having promoted this to national awareness, global awareness. Every central bank is talking about it. It wouldn't be happening if it wasn't for the MMT proponents saying it in a way that I never say. There's a paradox here of some kind for me. And I'm glad they did it, but it's nothing I could have ever done. I don't do that.

MIKE GREEN: Well, it is remarkable how the language has changed. And again, we're going to wrap this up here, but I do want to emphasize that the core message that you're bringing with the approach that you're trying to highlight is twofold. One is, you're saying the Earth is not flat. The Earth is round, it revolves around the sun, these are statements of fact. People were furious and killed people, legitimately, over the revelations associated with that.

It makes people very angry, to think about the implications of that radical change. Very similar to the discussion around the morality of should my neighbor have a guaranteed source of income? Otherwise, this is a system that is innately set up to benefit a capital class as compared to a labor class.

And that type of inequality creates many of the challenges that people argue is associated with inflation. Your point is, no, that's a choice that we made. We chose to benefit the exporters, underprice the labor component.

The second thing that I would highlight under this framework is it's not going away anytime soon if ever, and so attempts to deny that the Earth is round, and rotates around the sun and transits through the Milky Way, etc. They can be fun flights of fancy and we can write science fiction novels around them, but they're not true.

You could choose to reorganize yourself around the gold component, you could choose to say that the frictions that are introduced under the current system in which special interests can effectively gain favor for particular levels of production, in particular industries or sectors by buying senators and Congress, people who come relatively cheaply to put special interests in there, you're effectively just saying, hey, let's clean all that out, similar to a flat tax type dynamic, and let's focus it on the labor components. And then we can start thinking a little bit more clearly.

WARREN MOSLER: You've got the last word. That's it. Excellent.

MIKE GREEN: That is the last word. This was a wonderful introduction to a wrinkle around how MMT should be thought of. It is an uncomfortable situation and an uncomfortable conversation. I've come to realize that it's more difficult for us because we lack a little bit of the emotional content that I think people bring to it. But hopefully, this was a good introduction to allow people to understand we're not actually making a statement about morality.

What we're saying is, these are facts. This is the way the system works. And if you want to minimize the distortion, the highest probability outcome is actually to focus on the unit of labor as effectively the numeraire in the process. That feels like a reasonable place for us to let people marinate and stew and decide that they want to scream at us from various platforms.

WARREN MOSLER: Yeah, I couldn't have said it better, and I thank you for having me on.

MIKE GREEN: Warren, thank you as always. I really hope people will take the time to go to Mosler Economics. Read some of Warren's writings. Feel free to reach out and scream at me on Twitter, or anywhere else. But the simple reality is this is a really, really important message that people understand. And it is very easy for those of us with a quantitative bent to not recognize the morality component to it. Hopefully, we did a good job here. Thank you again, Warren. I really appreciate the opportunity to have you on.

WARREN MOSLER: Thank you, sir. Good luck.