Modern Monetary Theory (MMT) Explained

Transcript of a video recorded 10/17/19

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Let's define MMT: it's Modern Monetary Theory, and—if I were to boil it down to its simplest terms—it assumes that the Central Bank, instead of bailing out Wall Street as they were thought to do with quantitative easing, will create reserves that will go to the Treasury and will then be used to fund government social programs. If this turns out to be inflationary, in theory, they will then raise taxes high enough to offset the inflationary pressures.

So, the theory is fine. The problem is that in practice it gets very, very difficult. MMT is not that new. It's been tried in Zimbabwe, it's been tried in Argentina, it's really been tried in Venezuela. It's been tried, as you see, in socialist regimes beginning to fail; printing more, creating more reserves; funding their social agendas.

It's a slippery slope. It starts there, but then the practice falls apart, and taxes are never raised high enough to offset the inflationary impulse. The government is not as efficient in allocating capital as the private sector, and the inefficiencies in capital allocation and the lack of raising taxes cause a crisis in confidence. Once that happens things unwind very quickly.

So, it's not that modern—it's been tried many, many times before. The theory might be okay, but the practice isn't. But it may be unavoidable, at least in gentle terms, because again there's a host of initiatives—whether it's the Green New Deal, whether it's Healthcare for All, whether it's underfunded pensions—that are in desperate need of a new funding source.

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