

Warren Mosler talks with Grupo Bolivar in Argentina (English Parts Only)

Introduction

Ok, so what I've done is come up with 12 proposals.

And I thought it best if I just make the proposals, and then if you don't have any questions we can obviously leave after about 10 minutes.

If you do have questions, we can stay all day, and I'll answer them.

Ok, so let me go through them quickly.

Ok, look, I have limited knowledge of Argentina so if I make a mistake just let me know.

Proposals

1 - Permanent Zero Interest Policy Rate

Number 1: A zero percent permanent peso policy rate.

That's the rate the central bank sets as the cost of funds for the banking system.

The central bank sets the policy rate at zero and leaves it there permanently. It's now 30%, 35%?

So the policy rate is best thought of as welfare for people who already have money.

It's interest paid by the public sector on the outstanding public debt.

And I think it's made clear now something that I've been saying for 30 years.

A zero percent policy rate does not cause inflation.

It does not cause the currency to go down.

It does not cause runaway asset prices.

And I look to Japan after 30 years of zero rates.

They've had a strong currency, no inflation, and a moderately growing economy.

And if you look at their asset prices. Bonds, the stock market. It's been reasonably boring the whole time.

And the same is true for Europe for the last 10 years.

And even in the US, it's been largely true.

We have had a stock market going up, but I would argue it's for other reasons, not the interest rate policy.

2 - Permanent Floating Exchange Rate

Second is a permanent floating exchange rate policy.

There might be reasons for central bank intervention from time to time.

I can't imagine any, but it's possible, but the general background should be floating exchange rates.

3 - Limit Government Borrowing to 3 Month Bonds

When the central government engages in deficit spending in pesos, I would limit the sale of bonds, bills and securities to 3 month bills only.

That's my third proposal, to limit to unindexed peso 3 month bills.

What that does is the 3 month bills will always trade at the policy rate, which will be zero.

Plus or minus a tenth of a percent, it's not going to fluctuate.

And that eliminates the entire industry of trading the treasury securities, which is a drain on the real economy. All those people making millions and millions of pesos buying and selling government bonds to banks and institutions. That all goes away.

4 - Transition Jobs

My next proposal: state funded transition jobs for anyone willing and able to work.

There's a couple of purposes for that.

One is that it offers a better protection against inflation than allowing people to be simply unemployed.

One of the causes of inflation can be the cost of labor going up. Wages rising quickly can be a cause of inflation, even with very high unemployment

And that's because the private sector doesn't like to hire people who are unemployed.

Many studies have been done on that.

But when people are in this state funded transition job they become attractive to the private sector for private sector employment.

You might recall the Jefe Program from 20 years ago, where a job was offered to any head of household.

Over the next few years something like 2 million people entered that program.

People who had never worked in the private sector and who were never expected to get a private sector job.

And approximately 1 million of those people were hired by the private sector over the next few years.

And it made a major contribution to the prosperity of Argentina during those years.

So my fourth proposal is there should be an ongoing program.

5 - Minimize Transition Jobs with Fiscal Balance

Number five: I'd adjust the fiscal balance to minimize the number of transition job workers.

If the government doesn't hire them because the government doesn't need those people, you must sustain sufficient aggregate demand for the private sector to hire them.

6 - Ban US Dollar Bank Loans

Now some more technical proposals

I would ban banks that accept government insured deposits from making loans in US dollars.

I don't see how it serves public purpose, and the banking system is there to serve public purpose.

7 - Ban US Dollar Denominated Borrowing

I would ban government borrowing of US dollars by government and state owned enterprises.

Again, it doesn't serve any public purpose for Argentina to borrow dollars like that from dollar denominated external debt.

8 - Refinance Indexed Debt

I would refinance the indexed peso debt to just 3-month bills.

9 - Sell Foreign Assets

I would sell Argentina's foreign assets that are abroad.

I don't see any profit in owning those, and they provide an avenue of vulnerability to the government.

It's a vulnerability that doesn't need to exist.

10 - Stop Foreign Debt Payments

Ok, now a little bit more radical, we'll move down to the last two.

I would cease payments on US dollar denominated debt.

There could be some prior negotiation before this is done, but that would be the ultimate goal.

The debt is unsecured, non-recourse, and with no foreign assets it's not collectable by any foreign agency.

The only purpose for servicing the existing debt is to be able to borrow more.

And there's no need to borrow more anymore. After these other steps, there's no longer a need to borrow more US dollars.

11 - Stabilize Food Price & Supply

The next one is a strategic policy, and there may already be a policy in place. I'm not clear on that.

Establish food price and supply stability policies.

Traditionally this has involved various kinds of buffer stock policies by the authorities.

And by ultimately stabilizing the food prices domestically, it takes away much of the risk of inflation that the lower income people experience.

Increasing food prices is just a large source of instability for a country like Argentina.

So it absolutely serves public purpose to stabilize supply and price.

12 - Import/Export Coordination Policy

I would, for the last one, enact proactive export and import coordination policy through optimized real terms of trade.

Let's think about what the real wealth of Argentina is.

The real wealth is everything you produce domestically increases your pile of stuff.. think of it as a pile.

Everything you import adds to the pile. That's more wealth that's inside the country.

And everything you export makes your pile smaller.

Exports are critical because that's ultimately what is traded to be able to get imports.

So whatever you're exporting, you want to make sure you're getting the most in return on the import side.

That's called your real terms of trade.

Now I know most people... I'm just going to add this one in here.

It's emphasized that exports are a benefit to the economy, but let's think of the extreme case where you export everything.

What happens?

Everybody dies. You have nothing left. You've sent everything to somebody else.

You've exported all your food, all your production, you've had a very good year for exports...

And you've been very good savers; you haven't imported anything. Haven't spent anything.

Everybody dies of starvation in the streets.

Let's look at the other extreme.

Let's say you can import everything and you don't have to export anything.

But what happens? You have everything, and you don't have to work.

Just to make the point that imports are the real benefits, and exports are the real costs

Ok, now if there are no questions, I'll just thank you very much and we can all go away.

We've solved all the problems of Argentina

QUESTIONS

#1

Question:

About the 1st proposal, the zero interest rate policy. Today Argentina borrows the equivalent of the entire monetary base. So how would the transition to a zero interest rate be done?

Answer:

Well, the same that it's done in Japan. The same that it's done in Europe. And the same as the United States.

Let me give you the details.

What MMT points out is the sequence of events.

First, let me tell you how they say it at the central bank, which is technical.

They say "you can't do a reserve drain without first doing a reserve add."

And what they're telling you is the money to buy bonds, the money to pay taxes, comes only from the government and its agents, or it's counterfeit and you go to jail.

So, the payment of taxes and the purchase of bonds consists of the central bank debiting reserve accounts and crediting securities accounts.

The only way pesos can get into reserve accounts is they're put there by the central bank.

So what this means is that from inception the government spends or lends first, and only after that can taxes be paid or bonds be purchased.

Think about the football stadium. Do they collect the ticket first and then sell? It's the same thing.

The government spends first by instructing the central bank to credit reserve accounts.

Or the central bank lends pesos to reserve account through [inaudible]

But either way a credit from the government to the reserve account comes first. The spending comes first.

After that they offer securities for sale, bonds or bills.

The holders of the pesos that are in those reserve accounts now have the option to buy the securities, which means they'll be shifted to securities accounts at the same central bank.

So the money to buy those securities comes from the government spending. It's the same pesos that are spent that are then used to buy the securities.

And they're sold at auction. They go to the buyer that accepts the lowest yield.

The credit quality is identical, they're both deposits at the same central bank.

It's like the checking account or the savings account at a normal commercial bank.

So there's virtually no limit to how many pesos the government can spend in excess of taxation.

And then have those pesos shifted from checking accounts to savings accounts at the central bank.

That's why no country in the history of the world has ever had a problem with the debt in its own currency with a floating exchange rate policy. Non-convertible currency.

So Turkey, for example, had quadrillions of lira in deficit spending.

They didn't even have calculators that went up that high.

Their currency depreciated at 50% every year. They had 100% inflation every year.

But they never had a problem selling securities denominated in lira.

So either they were the highest creditor in the world, or it works the way I just explained it.

Ok, so now that we've combined a permanent zero policy, there's no numerical limit to the amount of deficit spending.

That doesn't mean there should be unlimited deficit spending. I'm not saying that at all.

But what I am saying is that you don't have to worry about finance. You have to worry about other things.

I've talked to somebody at the Mexican central bank in the middle of their crisis in the mid 90's.

I asked him if there was any issue with their peso debt at the pace they were selling.
He said no, not at all. They just went straight through at the policy rate.
The whole country was burning to the ground with the dollar debt and inflation, but peso finance was not a problem.
Does that answer the question?
(He's saying that Argentina has a long tradition of savers placing their deposits in US dollars as a way of protecting their assets, their savings, from inflation.)
Yes. I understand that, but it's not... financing the peso debt is not a problem. That's a different problem.

#2

Question:

One question is, what does MMT think about global value supply chains

Answer:

Well, personally I'm extremely concerned about it.
We have our tariff policy in place, and before the Covid crisis, that had already triggered a strong deceleration of the global economy.
And it's still in place. So the economy was already decelerating because of those fundamentals before Covid, so we're in serious trouble.
Now the problem is in the United States, both political parties have the trade policy backwards.
And the policies they're doing to, what I call "kill the goose that laid the golden eggs" for the United States are dragging down the US economy and the entire world.
And the Democrats are maybe more protectionist than the Republicans, so it's bad no matter where we go.
They don't understand that exports are the real cost and imports are the real benefit, so they've got it backwards.

#3

Question:

It's a shame we met Mr. Mosler so late. He would have been the perfect person to renegotiate our foreign debt. Yesterday Argentina through a decree has given up on its sovereign guarantee. You have a premise of negotiating on the domestic currency. Today our foreign debt is gonna condition our development. From this condition/analysis, with the additional conditions that are restrictions of the international situation. How would you propose defining a policy for the development of nations like Argentina that are in a similar situation?

Answer:

Well my last few proposals addressed that directly.
Does the name Paul Singer mean anything in Argentina?
He was my client for 20 years.
I was the last person he wanted to be negotiating for Argentina.
He would have had no chance. And he knew it.
What can be done? Well the leadership have to be educated on what your options are.
There are more options than they understand.
Let me put it another way.
What if the rest of the world just dropped dead and disappeared, and it was just Argentina?

What would you do?

Would everybody commit suicide? No.

You have food, you have manufacturing, you have science, you have everything.

Ok, so there'd be no Ferrari's, but that's ok, you could live.

So these dependencies on finance are what we call nominal and not real, and they can be worked.

You have options that you don't understand.

I think Argentina might be the richest country in the world with natural resources... with the requirements of life.

So it's just an absurdity that Argentina's in this position.

The only thing keeping you from prosperity, as I like to say, is the space between your ears.

#4

Question:

What do you think about [Ami Samir?]'s disconnection proposal? If you're familiar with that?

(No, what's that?)

So what [Samir Ami?] and Aldo Ferrera in Argentina are proposing is to disconnect completely from international financial markets and try to develop Argentina with our own resources.

Answer:

Right, that's exactly what my proposals do, but you don't have to tell anybody that. It just happens.

You just do it unilaterally, and you don't have to.. there's no negotiations necessary.

And any trade takes place on your terms.

But it's critical you understand the peso and how it works, or else if you try to balance the budget in pesos you're gonna be worse off.

#4

Question:

Another question is: what are the causes of inflation according to MMT? And, what is the combination of policies that should be followed to control inflation?

Answer:

First, MMT brings the only understanding of the price level: why are prices where they are? That comes from no other economic school of thought.

They will tell you why they think prices change from one level to another, but they don't know why they are where they are to begin with.

In their models they say, "it's historical."

Well it's not historical.

Ok, so think about it. The government imposes tax liabilities on the economy.

Now the economy has to get the pesos from the government to be able to pay its taxes.

Think about a real estate tax.

So the government imposes, let's say, a real estate tax on everyone's house. And now they need the pesos to pay the tax.

Now that the economy needs the government's money or it can't pay its taxes.

That's what's called a monopoly, right? Same with the dollar. It's not a market situation. The government has to set the terms of exchange. It has to tell us what we have to do to get their money to be able to pay the tax. So the price level is always, and necessarily, a function of prices paid by the government when it spends. Whether it knows it or not. It's microeconomics 101. The first day of micro 101. They tell you how monopoly works. It takes 15 minutes. Monopolists set prices; they're price setters. There's no other way to do it. The currency is a public monopoly. They control supply and demand. The taxing sets the demand. The spending sets the supply. I remember reading about a famous economist named [Raúl] Prebisch. He connected all the inflation in Latin America to indexation. So, when the government pays more for the same thing, it's just redefining the value of its currency down. Now, it might be good policy to do that, but that's the source of inflation. Once you know that that is the cause of inflation, you don't fight inflation by raising unemployment... it doesn't connect; it doesn't make any sense. There are lots of countries, particularly Latin America, Turkey, that have very high unemployment and very high rates of inflation. So, fundamentally that's the cause of the price level changing, which is different from inflation. Inflation is defined as a continuous change in the price level faced by today's people. That's different from just the consumer price index, or the [CPI] price index. Sorry, I just want to make it clear the distinction.

#5

Question:

What is the influence of interest rates, since the rates are 30 some percent that Argentina is paying, on inflation?

Answer:

So, two things: Number one, the government is a net payer of interest to the economy. In the economy itself, for every loan there's a deposit. To the last peso. So when you change interest rates, all you're doing is shifting pesos from borrowers to savers, or savers to borrowers. What matters is what they call "the propensity to spend interest income" and how it differs between those two groups. So if you raise rates, for example, savers get that much more money; borrowers get that much less. Maybe the saver doesn't spend it all, and maybe the borrower.. maybe it hurts the borrower more than the saver. It's hard to say. The central bank does studies on that to see who gets helped and who gets hurt by how much. When I talk to the person at the Federal Reserve who does that, that was his job. He said they found very little difference. The increase in savings pretty much offsets the difficulty for the borrowers. The extra income for one pretty much offsets the reduction of income for the other and churns through the economy. They found a slight difference, but not much. But the government is a net payer of interest to the entire economy because the economy is a net saver. So, when interest rates go up, the interest the government pays on the public debt goes up. That all increases deficit spending into the economy. It's a fiscal transfer.

It's an expansionary bias, an inflationary bias.

It's all on the demand side, there's no supply side offsetting it.

I've been watching the markets for 45 years, and I remember when Alan Greenspan started to raise interest rates because he thought inflation might go up.

So I said, "there's no inflation now, but when he raises rate it's gonna cause inflation"

And then they will congratulate him on his foresight, on his ability to see inflation coming, and that he raised rates just in time.

In 2012 I was in Remini, Italy giving a talk, and Italian rates were very high. Mario Draghi made this statement, "We will do what it takes to prevent default."

And they asked me what will happen.

I said, "interest rates will come down, and that helps government finances. But the economy is going to suffer because all of that interest expense that gets cut out."

And inflation is gonna stay low and come down. For the same reason.

So, that's how I see interest rates affecting inflation, and that's why I propose a zero percent permanent rate policy.

There's also a massive distributional issue. Those higher interest payments go to people who already have money.

Ok, that helps the economy, but is that how you wanna help the economy? By giving people who already have money more money?

Personally, I could think of better ways to help the economy.

I call it basic income for people who already have money.

#6

Question:

Small businessmen in Argentina work as if they are clandestine, and, with their employees, are an important part of the population. The fiscal and tax system are organized for the benefit of the businesses of the government powers. (Who would have thought?) That's why the social function of the small businessmen is not clear. Which organizes the work and provides supplies, food and other goods for the general population. Those policies are gradually leading to an impoverishment of the population. And making people with money much wealthier. And these people, of course, take their money to tax havens and so forth. Also, foreign investment doesn't have a specific function in Argentina, and it's done to take advantage of a market and the huge profits which are then transferred out of the country. That was my comment.

Answer:

Yes, they generate huge profits, and then they buy things from Argentina. Those are your exports. Because they're exports, everyone thinks they're a good thing.

Ok, so I have a 13th proposal that's not on there. That we talked about, but I waited to see if it would come up.

I would replace all taxes in Argentina with a property tax.

Tax real estate and improvements based on a percentage of market value.

Now there would be little or no tax avoidance.

You save an enormous amount of real resources and [inaudible]

You no longer need to keep track of everybody's income and withholding and records.

That will free up all the legal expenses tied up in tax cases, all the record keeping, all the students in school learning tax law.

You might save 10-15% of your real GDP.

And all those people will have to be redeployed into the private sector or public sector doing something useful.

More public services, more private services.

And the gain in consumption, as a percentage of GDP, which is enormous, and that'll be mostly by lower income people.

Because the highest income people can't consume anymore, they're already at their limit.

And, I could go into a lot more advantages on that, particularly on the investment side.

(If we could do that you're gonna be renamed Warren Mosler Guevara)

#7

Question:

He's asking to imagine a situation where there's a single currency and a single central bank. That would disclose what the real inflation rate and what the real trade imbalances of the advanced economies are, because he's assuming that those deficits are really being transferred to periphery countries rather than actually being recognized in the more developed countries.

Answer:

I don't think that ties down to the actual debits and credits in what's going on.

I understand the narrative, but I don't think that it's based on actual monetary operations. I don't think that's what's happening.

(He doesn't agree)

You have to remember, when they talk about trade imbalances, they're implying that trade deficits are bad and that surpluses are good. They've got it backwards.

If they had it the right way around, they would stop talking about it.

(So when Argentina had 2-3 years of fiscal surplus and trade surplus, and still they had inflation)

Yes, and that's what I was saying before. If people think... that changes demand, but it doesn't necessarily change inflation. Because inflation is not always about demand.

#8

Question:

Would it be appropriate to reenact a sort of Glass-Steagal act now that we are suffering the pandemic and the situation created by the pandemic.

Answer:

So, that's about allowing banks to do corporate finance.

It doesn't seem to me it makes any difference if finance is done by a central bank member bank or a private company.

It's the same corporate finance. It's just about who gets the profit.

And if it's done by the commercial banks they're wholly regulated by the legislature.

So, it's all a question of how you want the government to regulate that type of thing.

Our problem is the president is dismantling our regulation [inaudible]

You wind up with unregulated monopolies. It's pretty bad.

#9

Question:

The current hot topic in Argentina is the renegotiation with the IMF and the international creditors of Argentina, and basically asking if then your proposal is just to stop making payments to those creditors?

Answer:

Right now you've got an army of diplomats that have lunch with these people and spend \$500 a meal. And money traveling, and \$1000 a night hotels. They can keep those negotiations going a long time. They're in no rush. It's all about the lifestyle.

#10

Question:

How does MMT apply to small countries whose currencies are not world reserve currencies, or the dollar?

Answer:

So the policies apply to any nation with its own currency. It's all about what your policy options are. The reserve currency thing is of no consequence. That's just, uh.. I don't know what it is. Yah, it's of no consequence one way or the other.

#11

Question:

What measures would you take to adjust fiscal balance, and what measures to minimize the number of transition workers?

Answer:

So let's say initially you have too many transition workers. First you look at do you want them in the private sector or the public sector. And that's an important question. If you put everyone in the public sector, there's nobody growing food and cattle, and you starve. So you decide how many police you need, how many teachers in the classrooms, that type of thing. If you start spending money that way, without raising taxes, if you spend money that way, you're increasing the deficit until you have the right size public sector. Not too large, and not too small. Personally, I think there are a large portion of the public sector that's not necessary, but I think the real public sector needs that are not being met are just as large. We say, "too many chiefs, and not enough Indians"

So you want to balance your public sector, and make it what's best for public purpose.
And then if you still have too many people in the transition jobs...
Because don't forget that hiring those extra public service workers, even though you're not hiring transition workers, you're hiring other people, it's going to add aggregate demand spending to the economy.
Businesses will then hire transition workers to those jobs.
And then you can adjust your tax policy and your institutional structure to create more private sector activity.
So you have to decide what consumption you want in the private sector to increase. More housing for example.
Maybe you want incentives to invest, to reduce energy consumption. You can do that.
Maintenance on existing infrastructure.
And then you adjust the tax policy to encourage the kind of private sector work load you want to see there.
You want more restaurants, more theaters, whatever... these are all political fixes.
Remember the government is a monopoly, it's coercive taxation.
The market only works in the institutional structures of the state.
There's no choice when you have monopoly. It's not an option.

#12

Question:

Could you give more details about the last point. Export/import coordination?

Answer:

I'll give you an example just to make the point.
Let's say I'm importing automobiles.
Right now people have choices with all the automobile companies.
However, if they were willing to give up some choice, the government could award contracts to individual auto companies to export to Argentina.
So, for an extreme example, they could go to the top 5 or 6 auto companies, and say whoever gives us the best price and best service gets exclusive export rights to Argentina.
You might save 25% on the price of a car.
They don't need advertising, they're not competing with other dealers, and they have efficiencies as their volume goes up. They sell 5 times as many cars.
You just increased the standard of living by a lot.
Same thing on the import side.
You organize the importing entities who need products.
You don't let them compete with each other.
It's like having a cooperative, right?
It's well documented how much you save on that, and how you increase your standard of living.
It's using collective action to get a better price in exchange for choice.
And I think most people would like that in many many areas. It would greatly enhance the real standard of living.

#13

Question:

What would the appropriate tax rate be for Argentinians who have their assets in foreign currency?

Answer:

I would only tax the real estate. I wouldn't tax the assets.

(What would be the appropriate tax rate for the real estate; for the real assets?)

I think it would probably be 10%.

Don't forget that at the same time we have a guaranteed job for anybody who wants to work.

So nobody's going to lose their house because of unemployment.

#14

Comment:

The fiscal evaluations of real estate in Argentina are very low. Not the market price.. definitely below the market level.

So to go towards your proposal, which he thinks would be very progressive, the first step would be to mark those assets to the market level.

Response:

Yah, you need to reappraise your real estate. Or you could tax by square foot.

You could come up with something equitable.. an asset tax.

(Or by cubic meter... rich people like to have high roofs, you know)

But with no income tax, no sales tax, no value added tax. All those little pieces of paper for receipts. All those trees getting cut down.... Computers... all the time that people spend on their taxes.

The anxiety, the diseases, the mental illness. It all goes away.

#15

Question:

Do you think this Covid crisis will mean the end of fiat currency? And is this going to be the beginning of the turn towards a Chinese hegemony?

Answer:

No, I think it ensures fiat currency, because without it the currency wouldn't have lasted.

I think it's demonstrated the imperative of fiat currency.

And as far as China's concerned, the biggest threat I see from China is the military.

#16

Question:

What do you think about the pressures that President Trump is putting on US companies to bring production back to America from China?

Answer:

I think it's a big mistake, but he didn't ask me about it.

#17

Question:

One peculiar thing about Argentina is that real assets, real estate, houses, etc. are denominated in dollars. This was a measure that was imposed by the military dictatorship in association with a newspaper, [La Nacion?]

Answer:

With that, you just reduce the exchange rate by 10% or something like that. It's just a numerator.

(There's this peculiar situation where Argentinians get paid in pesos and have to buy their houses in dollars, which makes access to housing more complicated.)

The people who sell the houses won't accept pesos?

(Yes, but in general they are valued in dollars. They're priced in dollars.)

Yes, well they could price it in yen, they could price it in anything, you're still paying for it in pesos.

#18

Question:

What features would transition jobs have? What would they do, or what kind of jobs.

Answer:

There are a lot of choices. The important thing is that the purpose is that they transition to the private sector.

So it's less important what they do than the fact that they transition.

So when I explain the success of Jefes, for example, I say that of 2 million people, 1 million transitioned to the private sector.

What also happened is they built lots of local infrastructure. They took care of children so the parents could go to work. They did a lot of good community service.

Some people look at that community service, and they use that to show how good the program was, but I don't do that.

If I want good community services, I would just hire people to do that directly. I wouldn't use the transition jobs.

So, yes, all these useful things were done, but that wasn't the main purpose.

The main purpose was to increase private sector employment, and it did that beautifully.

The reason for bringing people into the transition job is so that they transition out.

Yes, in the meantime they get a lot of useful work done, but that's secondary.

You can get that useful work done without a transition job, by just hiring people to do it.

Do you see the difference in what I'm talking about?

#19

Question:

Have you heard of Silvio Gesell, the Swiss Argentinian who proposed this currency that would lose value if it wasn't spent, and that was an experiment?

Answer:

Yes

#20

Question:

When oligopolies and monopolies hoard all the money, what can we do to get that money back into circulation?

Answer:

Why is that a problem? It's not a real problem.

(The problem is that the currency has been issued, and it's being hoarded by the supermarkets and other companies, and a lot of that money goes abroad or is just hoarded.)

The problem is there's not enough spending in the economy? Is that the problem?

(Exactly)

In that case, you can have more public services or lower taxes.

Both of those are good things. So therefore we should have more hoarding. Hoarding is a good thing, because it means lower taxes and better public services.