Article Title: [Modern Monetary Theory]
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Is Printing Money Actually Okay?

To cushion the blows of the coronavirus pandemic, many nations resorted to “printing money”, to stimulate the economy.

Printing Money: A more colloquial term for *expansionary monetary policy*, where central banks buy up *securities* (stocks, bonds) from the open market. When central banks do this, they inject more “money” into the economy, hence why it is referred to as printing money. Other terms may include *Quantitative Easing*.

Now conventional wisdom would tell you printing money is bad, and critics would ask you to look at countries like Zimbabwe or the Weimar Republic in 1923. This is not unwarranted, it is what scarcity (a key tenet of economics) dictates — having more of something deems it less valuable (see the paradox of water).

But what if printing money is looked at through a different lens? Could this potentially be a powerful economic tool to bolster our economy to greater heights? Primarily, by understanding how fiat currency operates in our modern economy, it shifts the debate from *how* to pay for it to *what* the people need.

Now, it is worth exploring the ideas of a new school of thought that has emerged: Modern Monetary Theory.

Modern Monetary Theory

The basic idea of MMT is, nations with the ability to produce their fiat currency can issue as much as they want, (theoretically an unlimited supply) to finance deficits (D'Souza, 2021).

Now, when we think about the Ringgit Malaysia, it is not backed by an underlying commodity like Gold, but its value is given as such because the government has deemed it so. Look at the banknotes and you shall see:

“Wang Kertas ini Sah Diperlakukan Dengan Nilai RM100” or
“This banknote is legally valued at RM100”

This matters because, unlike individuals or businesses, the government is a **Currency Issuer,** not a Currency User. This is important because unlike a user, an issuer could spend the money first and find it later. This is best illustrated in the following example from Kelton's ***The Deficit Myth*** on how the US government operates:

"In 2018, an additional 80 billion was authorised for military spending. There was no rise in taxation of 80 billion or borrowing, the U.S congress simply had to pass that legislation." (Kelton, 2019, pg.29)

Now, once the money is authorised, government bodies can start working with businesses to supply the goods. Once the agreements are in place and money is about to change hands, all that happens is the US treasury (the government body who manages the money) tells the Federal Reserve (Fed) to mark up the bank accounts, and voila, money is in. An analogy that Kelton proposes is to think of the Fed as a scorekeeper. Much like a football match, the scorekeeper does not need to find the points, the keeper just adds them to the scoreboard (Kelton, 2019, pg.30-31).

To assess this on a larger scale, take the controversial bailouts of 2008, post the financial crisis. The government assisted banks by buying "troubled companies' assets and stocks" (refresher: the crisis was brought out by a collapse on bad mortgages). Now, this came with a lot of backlash, as people saw it as bailing out the banks with taxpayers money, but the Fed Chairman will tell you:

"**It's not tax money. The banks have accounts with the Fed, much the same way that you have an account in a commercial bank. So, to lend to a bank, we simply use the computer to mark up the size of the account that they have with the Fed"**

This then begs the question of why taxation occurs. The first reason is perhaps to achieve a more equitable distribution of wealth to create a more just society. Another theory, proposed by Economist Warren Mosler, indicates that taxations are put in place for governments to "provision themselves".

As we have discussed, the government does not necessarily use or need our money to fund spending. Provisioning itself means society can run. If individuals are being taxed, this in turn creates demand for the currency . Mosler illustrates an example where:

- Mosler wanted his kids to do their chores, such as mowing the lawn, making the beds and washing the cars.
- In return, he would reward them with his business cards, and the tougher the chore, the more cards they would receive
- Long story short, the chores were not completed and when asked by the kids, they replied "Why would we work for your business cards? They're not worth anything"

- With that, the whole model was turned upside down. Instead of requiring them to do work instead, he required payment of 30 cards a month.
- If the payment was not made, they would lose their privileges; no TV, no pool, etc
- Long story short, the children got to work, to procure these business cards.

So, if governments as we have discussed do not technically *need* our taxes and can simply mark up the accounts, what is the consequence on the economy?

Inflation

Essentially, the constraints on any economy are the real resources, or it's productive capacity. When there is too much money chasing too few goods, the economy "overheats".

To control inflation there are various policies, including controlling the interest rate. But with the tools of MMT, inflation can be tackled head-on. If the issue is the real resources, why not expand the capacity of the economy? This means, using MMT to create an economy that works to increase the real resources. This can be done by spending on infrastructure, research and development, and investing in training a more skilled workforce to increase productivity (Mazzucato, 2021, pg. 148).

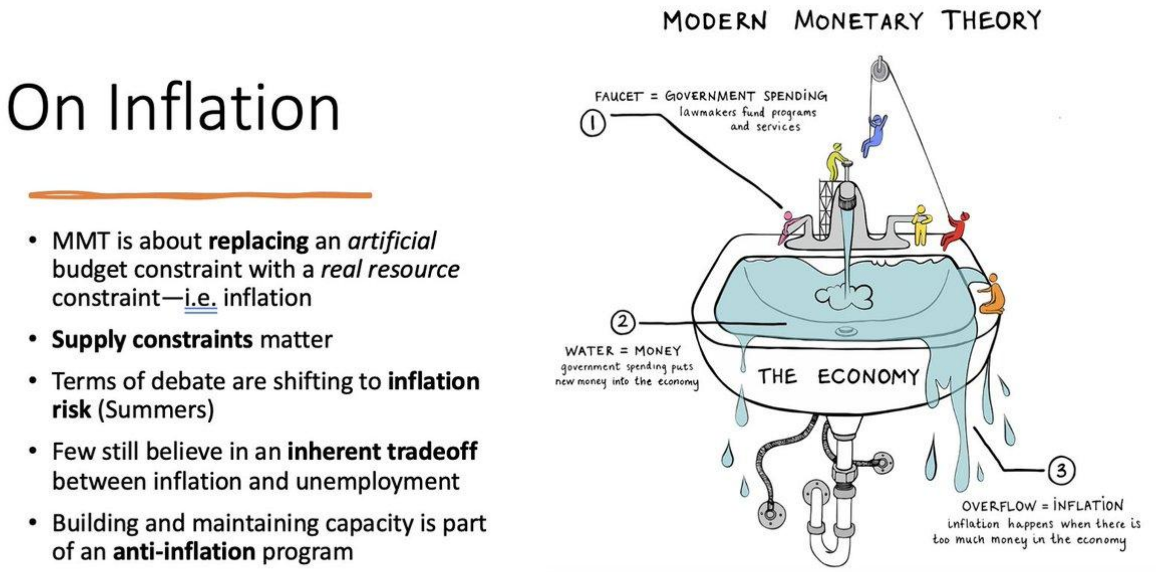
Now, in reality, all this is easier said than done, hence why it is a ***theory*****.** It is important to consider various drawbacks, namely, that this does not apply to all nations. Countries in the European Union use a shared currency and are thereby currency users, not issuers. This however does not mean that deficits do not matter, a miscalculation in spending could lead to rapid inflation. Furthermore, most nations probably have the best intention to expand their economies capacity, but unforeseen circumstances can occur. Spending on increasing the real resources will also take a while to materialise and to an extent, inflation is inevitable.

But changing our thinking of how the economy operates is about realising that governments have the power to do right by the people and serve society at large. An example is viewing the world through the lens of MMT, which could bring about a Federal Jobs Guarantee, where those who are looking for jobs can come to the government with a set minimum wage and ideally, these jobs would be productive for the economy at large.

It is also worth discussing the feasibility of MMT in Malaysia. The actual concern towards the economy is inflation, and if Malaysia were to embark on an unprecedented expansion of government spending, this may trigger fears of inflation from investors. A big contributing factor to inflation is future expectations. Therefore, if spending is not done with care and the economy fails to grow, it may bring about inflationary pressures instead. Moreover, inflationary pressures may be exacerbated if institutional reforms are not put in place to curb corruption. A study by The Institute for Democracy and Economic Affairs (IDEAS) and Coalition for Business Integrity Bhd. (CBI) found that corruption adds 14.8% to the cost of your property (MalaysiaKini, 2021). Again, any form of government spending will result in inflation so to put it simply, projects must be done as efficiently as possible to reduce inflationary pressures.

Furthermore, whether we have "complete monetary sovereignty" is debatable, as noted by an Edge Columnist (Yahya, 2020), Malaysia has perhaps curtailed it's monetary sovereignty due to its "exchange rate policies and debt ceilings".

However, this does not change the prospects of Modern Monetary Theory. Especially during the pandemic, we have heard that there is simply insufficient money to go around, hence the reduction in spending on essential services. By looking at the economy from a new perspective , perhaps we could start moving towards building a more socially beneficial economy by investing in the right kind of spending, be it in infrastructure, healthcare or research and development.



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