Hi Tom,

Many thanks for the invitation to comment. Firstly, I must say that that I come to the task both as a strong advocate of MMT and someone who finds himself in agreement with the essential message I have picked up in your work and that of Marc Lavoie.

Moving on to the specifics of the text;

Part I Introduction

On page 2, you mention that '(t)here is nothing new in MMT's construction of monetary macroeconomics that warrants the distinct nomenclature of MMT.' My feeling is that the advocates of MMT would not claim 'newness' as such and would readily admit that their analysis is a development upon earlier work, in particular, that of Abba Lerner. I understand the word 'Modern' in the title refers to the fact that since Nixon closed the gold window the nature of money has changed. The non-convertibility of currencies means countries that have their own fiat currencies far greater scope for the pursuit of full employment. I think MMT provides a coherent structure for thinking rather than being 'a collection a thoughts'.

Part II

In terms of the origins of money, I think Wray would acknowledge the importance of credit money as well as state money in explaining the origins of money. However, it is the state or authority which has the power to decide on the unit of account in which all debt is denominated.

Part III

I think the way that MMT economists analyse the institutional arrangements existing between the fiscal authorities and the central bank is a crucial issue and one which distinguishes their view from alternative visions. I consider that the key difference relates to 'socioeconomic reality'; MMT economists consider and analyse an 'operational reality'. In this reality, countries with their own fiat, non-convertible currency are never revenue constrained. Government spending or lending always precedes taxation or bond sales. The central bank cannot carry out a 'reserve drain' before a 'reserve add'. This is argument seems irrefutable on logical grounds. In this real world, requirements such as debt ceilings, prohibitions of direct debt sales to the central bank and the illegality of treasury overdrafts at the central bank are seen merely as voluntary constraints - they are not part of the true operational reality.

However, other groups consider these features as part of the fabric of socio-political reality and indispensable to the way capitalism operates in the real world. They consider them to be part of an unwritten social compact in which taxation must be seen as 'financing' public spending (the tax-paying public accepts its tax obligation because this money is 'needed' to pay for public services) and bond sales providing interest rates are the reward to the *rentier* class. In this view, they are not 'voluntary' additions to the system but an intrinsic part of its social reality.

MMT rightly differentiates between countries with their own currencies (USA, UK etc.) and those without (euro-using nations) and contends that in the case of the latter taxes and bond sales do fund public spending in an operational sense and are no longer considered to be voluntary constraints. So, in a way, I think that MMT economists and others are really talking at cross-purposes and are discussing different socio-economic views of what really counts as 'reality' in a capitalist system.

Their differences might be considered as ontological rather epistemological (depending on how the terms are defined!) On a personal note, I fully agree with the MMT 'view of reality' and their differentiation between currency-issuing and currency-using nations. I have learnt a huge amount about monetary economics from MMT economists such as Mosler and Wray and I find MMT to have impressive explanatory and predictive power.

Part IV

(p17) I would consider the money supply as endogenous* and expansions in the money supply would be associated with economic growth. As such, expansion of the money supply would not be seen as a cause of inflation but as an effect of inflation. Increases in bank reserves per se are not inflationary, even at or near full employment (I don't think they are some sort of 'monetary time bomb' waiting to be activated!) Banks are not constrained by their reserves (but by capital) – if they find a credit worthy customer they will make a loan and find the reserves later. However, if agents believe the build- up reserves to be inflationary there may be speculative buying of commodities and other assets fuelling inflation; thus inflationary expectations have an impact but I think this effect will be short-lived.

*I must confess I am not overly familiar with the developments of ISLM you discuss. However, I remember that the original model assumed the money supply to be exogenous thus its validity must be suspect to any economist who considers the money supply to be endogenous.

Part V

I think MMT economists would consider interest rate changes as an ineffective way to influence the rate of inflation. A change in the interest rate would alter the distribution of income between 'borrowers' and 'savers' and therefore the impact on inflation would be determined by the relative size of the mpc of these two groups (which is largely unpredictable). I think MMT economists would see the ELR as providing a superior anchor to prices and as a more effective means of controlling inflation than today's policy of using unemployment for that purpose.

I think there is a clear requirement for deep and critical questioning of ideas within heterodox economic groups - vital if ideas are to be fully developed in mutually respectful environment- and you certainly pose some very interesting questions. I certainly wouldn't pretend to be able to answer them all. However, I am rather an idealist, I suppose, and my general feeling is that as far as is possible, the 'good guys' ought to find as much common ground as possible in order to mount as credible an attack on neo-liberalism as is possible!