

Privatized Gains and Socialized Losses

Adam: **00:00:00** I've never really dealt with the demons of privatized gains and socialized losses that was so explicit and egregious in that 08, 09 time frame and my observation during every crisis period since then was that this phenomenon and policy stance has gotten bigger and badder, and there's no end in sight, this pandemic experience, all of the world's governments and central banks have doubled down and so I thought it was a really good opportunity to check in with you. What was your experience with the 2007-8 financial crisis did you perceive it the same way? Do you perceive the policy response since then in the same way? What positive things am I missing and where can somebody who has had my experience and is angry and disenfranchised go with this perception given current policy discussion?

Mike Green: **00:01:18** Well, first of all, thank you for sharing that. I think your experience is not unique unfortunately. I think there's a lot of people who feel a genuine frustration at how the system has behaved and more importantly how there has been this dynamic of privatized gains and socialized losses. The way I would resolve it is that you know that's wrong, and yet it seems that the models or the tools that are being used give us no option to that. At the core what that's telling you is that the models that are being used by the regulators, that are being used by the Fed, the way they're thinking about markets is unfortunately a mistake and the consequences that we're going to reap from that, they're well underway, are a byproduct of the John Maynard Keynes quote, "rational men who think themselves set apart are ultimately the slave of some defunct economist". We are being ruled by a series of theories on markets in terms of what they represent, that are not what markets are supposed to do in the simplest form. There's a deep misunderstanding. I would encourage, and you've heard me say this over and over and over again, but I cannot encourage people enough to go read the work of Ole Peters. Ole Peters' work on ergodicity and non-ergodic systems sits fundamentally at the center of what we are experiencing.

We have a theory of economics and a theory of how markets work that is fundamentally flawed. The idea that we can model things or we can think about risk in a framework in which we run a thousand simulations and we say "here are the potential outcomes based on the historical distribution". A Monte Carlo type simulation. That's how we think about risk, that's what keeps leading us down this path. We basically throw up our hands and we say, well, who could have foreseen that? Most listeners will be familiar with the principles of having Hyman Minsky's approach, that stability begets instability. That's another way of saying that there is no way of empirically testing something in the past if you rely on the insights from the past to create your structures today. So, what we

keep doing is we keep looking to the past, we keep saying, what has happened before and then let's make increasingly levered bets that that's going to continue in the future. It's an inherently short volatility approach that is being reinforced by regulators who say, well, we couldn't possibly have foreseen how that could go as badly as it did but we have to keep the system going because people ultimately depend upon it, and there's truth to that. At the end of the day particularly in the United States which love it or hate it is the world's dominant economy, and by and large sets the tone for everything else that's going on. We've created conditions under which the social safety net is largely a function of employment.

If you have a job then you have health care, if you have a job then you have cash flow coming in to pay your rent, to pay your mortgage, to pay your credit card bills, to pay for your children's education et cetera. We have made individuals completely dependent upon the corporate sector and as a result, the socializing loss of this dynamic is focused around preserving those institutions. We don't want corporations to go bankrupt because that means that the individuals that work for those corporations are then going to be left dependent on a very weak social safety net outside of the corporate sector. That is just a fundamental choice in how you organize society. Do you choose to put the social safety net in the hands of corporations and then increasingly give those corporations the flexibility under the idea of corporate efficiency, to fire people at will? Do you put people out onto the streets to effectively create the conditions that I would argue that most Americans, and it's not just the United States, although I think it's extreme in the United States, are terrified of losing their jobs? That's really the condition and as a 50-year-old man nobody feels it more intently than somebody like myself, or somebody like yourself a little younger and better looking, but we're in a situation where candidly if our careers go away there's not that much left for us, and many people feel that particularly at this age. This is the age my father was when he lost his job, last real job and that's a terrifying prospect for a lot of people, you feel that stress, you see it in the suicide statistics et cetera.

If you look at the data behind it, a staggering statistic that I would share with people is when you look at the GI Bill, and the soldiers that came back from World War II, the rates of entrepreneurship, the rates of new business formation in that cohort was nearly 50 percent. Forty five percent of all GIs who came back and took advantage of the GI bill started their own companies. Think about the dynamism that that releases in an economy. Today 95% of all employment goes through the payroll sector, whether it's government employment or whether it's the corporate payroll employment. We've lost our rates of entrepreneurship, we've lost our rates of risk-taking and we have to ask ourselves why that is? We have all sorts of Gig economy-type jobs where people fancy themselves as running their own business, you're an Uber driver or you're renting a seat in a

salon and cutting hair, but you're not really running your own business, you haven't gone through the process of licensing, you haven't gone through the process of new business formation, you haven't created an employment identification number, you don't have a license from the state of Delaware that incorporates you in a variety of ways.

The reason why is because we don't want that. What we want is we want the corporate sector to provide that social safety net replacing these quote-unquote burdens on the corporate sector and simultaneously empowering them, giving them a claim over our lives, that makes people very unhappy and very uncomfortable and results in the regulatory capture that you're reacting to.

MMT and the Deficit Myth

Adam: 00:07:56

The subtext of this conversation about MMT being sort of the deficit myth and the idea that the government is responsible for providing the opportunity for full employment. Therefore, I guess if you are content to continue to tie basic human needs to employment then at least you can ensure that anyone who wants to be employed is employed and therefore has access to basic human needs. But what I struggle with because at root, I'm very progressive, I believe in a strong social safety net and I believe in taxes and I believe in progressive taxes. But my sense is that this idea of providing everybody work, first of all the production function then falls to a centralized body where there is virtually no example in the history of the world where a centralized body was able to efficiently distribute or manage the means of production.

And at the other end you're now fire hosing money into the system, but many progressives believe that if you give money to the less fortunate, that the less fortunate will be able to build wealth and security with those funds. But the reality is that those less fortunate have a much higher marginal propensity to spend, and every dollar that they spend ends up as margin on a corporate balance sheet that ends up accruing to the capital classes. My understanding is that this is described technically through the Kalecki Equation and so even if you distribute funds, and really however you distribute funds. just the expansion of the government balance sheet using deficits via the Kalecki Equation, the vast majority of those funds will eventually accrue to the private sector and eventually to the capital class. So you do end up providing maybe more of a safety net to those at the bottom but you also end up exacerbating the wealth gap. I think that that is an underappreciated dimension of expansionary fiscal policy. I covered a lot of ground there, feel free to start wherever you like.

Mike Green: 00:11:01

Well, let's start with the end. Which is this idea that the Kalecki Equation effectively assures that it goes back to the private sector and I think there's almost no just dispute that that's true. That the dynamic of the Kalecki Equation

is that any government surplus or deficit spending to be more accurate, government spending more than it is taking in, is going to make its way into the private sector but it doesn't have to make it into the capital class by any stretch of the imagination. How you choose to do that is going to have a huge impact, what constraints you place and what policy you put in place. Among other things they can go to the foreign sector not necessarily to the domestic corporate sector, you can change that by changing your tariff policies your trade policies, it can go to the corporate sector but it doesn't have to go to the corporate sector, it can be a direct transfer to the household sector, they can then choose to save or to spend and express their preferences in that manner, you can have redistributive taxes where those at the higher income levels are taxed more and that is a direct redistribution into the lower classes.

So, there's all sorts of choices that you can make on the policy dynamic that guides the way the system is going and unfortunately what I would suggest has happened by and large at this point, is that we have become so enamored with the idea of meritocracy and current outcomes being demonstrative of capability. Jeff Bezos is the richest man in the world I guess, actually here's the irony, Elon Musk is currently the richest man in the world. And that is supposed to speak to his capability, that is evidence of his capability. Well, if Elon Musk didn't have 17 children or however many he has, if he had a single child and that child were to inherit that, would that then be indicative of that child's success? No it would not. It would be indicative of his social status. It would be indicative of the genetic origins of his wealth.

We have systems that are like that in history, we have systems of nobility and aristocracy that have enabled that sort of behavior. But we don't have to do that, and we can recognize that a system that not only socializes losses but also recognizes that socializing gains can play an important role in building robustness of the society. I think it's actually a really important conversation to begin having.

Operating Systems and Apps

Adam: **00:13:23**

So this is actually at the core of the conversation that I want to have, because a corporation is an app layer on top of an operating system layer. The operating system layer is facilitated by the laws that govern a state, the currency that a state controls, the enforcement of laws through an unbiased court system, all of the basic fundamental institutions that provide guard rails and basically an operating system for a corporation to exist to be able to ship through using roads, to have trained people that have been brought through the school system et cetera. It exists on this layer. You brought up Ole Peters and I'm a long time student of his work and I find the whole organicity economics concept fascinating.

One of the more interesting experiments that that Ole participated in was this thought experiment where he conceived of a simple economic framework and a simple transaction mechanism and savings mechanism and redistribution mechanism, and he played out, he simulated the evolution of systems where each of those layers is parameterized in a slightly different way, and this experiment yielded some really fascinating results. One of which is that, without distribution in a conventional capitalist system, even if all agents begin with this exact same productive capacity, eventually all of the resources in the economy will accrue to a single individual.

Mike Green: **00:15:43**

This is part of the debate that I've been having with the bitcoin world, because your currency policy or your monetary policy actually influences that quite dramatically. When you think about that simulation and this happens with any simulation, you have to dispense with features. Ole has dispensed with monetary policy in his simulations. Part of the reason we have expansionary monetary policy is to address the inequities that emerge in a crisis where collateral disappears. So what you're actually doing is you're saying, look these people made bad bets, they ultimately can't make whole on them. The chain effect of that is other people who were not directly involved in making those bets are now facing losses that may mean they are unable to participate in the economic system going forward as well. If I put all my savings into mortgage-backed security bonds in 2007 thinking that I was being a prudent individual, and I lose all of it. I paid attention to the ratings agencies etc. I've now lost all of it, that means I'm going to lose my house and if I lose my house then my gardener loses his job and my housekeeper may lose their job, and I may be forced into a sub-optimal parameter and all of that happened.

We know those are the bad stories associated with it, now put it into the corporate sector and say if Citibank had gone under think of the hundreds of thousands of people that would have lost their jobs, think about the smaller firms that had lines of credit with Citibank, that they ultimately needed to tap to make them through the relative economic drought associated with the period from 2008 to 2009 where they were able to draw down lines of credit to maintain cash flow and keep their business opportunities which are real options, that cash flow allowed them to stay alive, the same thing happened with PPP and the Corona environment. Many firms were able to tap into that optionality to preserve the real option of keeping their business operating. So, when you talk about cutting that off, the chain effect of that is ultimately what happened in the great depression. One of the key components is that we found that we couldn't because of the link to the gold standard, we couldn't flex our monetary policy and create additional collateral that prevented the rapid transfer.

You saw this in Rome in the period of the social war where the supporters of Marius and the supporters of Solo basically ended up fighting with each other

and the richest man in history Crassus emerged on the back of that having guessed the side of the equation and being able to take advantage of the fact that people were being killed, and their properties were being seized, and the only way that they could possibly extract any value whatsoever to pass on to their heirs was to sell at a distressed price to Crassus. He did the same thing with fire, with owning the monopoly on the fire brigade in Rome. Your house is burning down; Crassus offers to buy it from you for a fraction of its net worth or he's not going to put out the flames. So you're left with nothing or you're left with something. What do you choose under that system of duress? And that's what a 2008, 2009 liquidity event really is, is it's applying duress to capital structures, it's shortening the time horizon of the real options that exist around do I keep my business open.

Adam: **00:19:03**

How do you penalize imprudent decision making while also providing a backstop against productive assets? You talk about the MBS investor and saving the MBS investor as though this MBS investor is a prudent fiduciary, a knowledgeable investor. This goes back to the privatization of retirement. And I'm not suggesting that pension assets are managed any more prudently or thoughtfully than the assets of many individuals, but all of this goes it goes back to incentives. There's an opportunity to provide a framework for professionals to steward capital in furtherance of the productive capacity of a society, but we've opted to move in a different direction. This is why this is also interlinked. It goes back to the privatization of retirement savings which is why an individual now needed to make a choice about whether buying CNBS or CLOs is a prudent investment and in what amount and at what price, for their retirement portfolio instead of having professionals do that, and then having a professional investment class with all the wrong incentives and also regulated by an industry that is beholden to several masters. So you've got a plan sponsor for a defined benefit pension. The pension itself has an obligation to the beneficiaries of the pension but it requires funding from the plan sponsor and so you've got this sort of competing interests there that make it very difficult for pensions to act exclusively on behalf of pensioners and all kinds of incentives that means that that portfolio is unlikely to be stewarded in a way that facilitates the productive capacity of society as a whole. Really all of the statements that you made while true are endemic of a framework of incentives that doesn't facilitate the goals that I think if we were to ask people to raise their hands and say, is this a fundamental objective we should pursue, that they would say is the optimal objective. How do you untangle all of these misalignments and then set the train back on the track and hope that it goes in the direction?

The Fourth Turning

Mike Green: **00:22:00**

I think ultimately people refer to "The Fourth Turning". That's what these conflicts and these societal conflicts are all about. Is actually deciding whose

voice is going to rise and that's actually part of what I'm trying to do. I'm trying to inject an element of rationality. Look, I am about as hardcore capitalist as you could possibly get and part of the message that I'm trying to convey to the capital class is that the choices that we are making are leading to a society in which your control of that capital are becoming increasingly uncertain, it is becoming more and more fragile in the Ole Peters type model. What Ole Peters did, you're referring to the "Fable of the Farmer" sort of dynamic where he creates a story and there are always simplifications around this, but the idea is if you have multiple farmers in a society do you require some risk redistribution that preserves their capacity?

You can think about it just in terms of sharing harvest. Is there some proportion that you want to equalize? And the analysis that you go through is Jim is a farmer, Jill is a farmer and Steve is a farmer, and in season, the first harvest, Jim has a bumper crop and therefore has tons of seed available, therefore he has lots of resources. Jill meanwhile has had a failed harvest because geographically she's in an inferior location to Jim and as a result her farm comes up for sale, she's forced to go into bankruptcy, Jim is able to buy it. Steve meanwhile has an average harvest and is out there. And that system eventually, simply by starting with just a small head start, is almost inevitably going to coalesce to Jim winning and Jim taking everything.

What Ole would observe and what I would highlight as well is that an element of redistribution that encourages new entrants' entrepreneurship and encourages a recognition that a windfall gain that is a byproduct of participating in a system, does not actually belong to you. It is the same as winning the lottery. Now that's horribly offensive to a lot of people, I know that Jeff Bezos built Amazon, I know that his insights actually created an incredible organization, but what Barack Obama was inelegantly trying to say was, 'you didn't build that'. That's not possible without a system of roads, without a system of infrastructure, without the internet having been created, without local police to protect the warehouses that are built all over our country and increasingly international, without the provision of logistics support to Chinese manufacturers who are able to undercut U.S manufacturers.

Adam: 00:24:48

That's the operating system layer.

Mike Green: 00:24:50

That is exactly correct. So, what we need to do is we need to go back to the operating system layer and say how do we want to actually run our society? The US has had a tremendous advantage because it effectively had a massive land surplus for give or take 200 years. In a world in which most resources were produced from the land, you had an environment in which anyone who chose to claim to come to North America effectively was able to claim a dramatic increase in the land per capita versus anywhere else in the world. That attracted

a continual influx of new individuals and new resources to our society that we improperly attribute that growth and resources to something unique and wonderful about the American model of capitalism. That's just not true, we constantly brought in additional factors of production and there is an amazing gift that we can give ourselves and to the world by continuing to offer that. Immigration is an almost unquestioned good, particularly if it's done in a way that encourages more and more resources to come into a society.

So one of the things you'll hear me talk about on a regular basis is our systems of national accounting going back to that operating system and how we observe it. In our systems of national accounting, we don't consider the resources that come to the United States or to Canada or to Australia in the form of human capital from immigration. But what could actually be more valuable than somebody? Let's imagine a country like India or a country like China and you give birth to an individual, you raise them through the risky period of childhood, you provide state resources in terms of an educational system, protection from the police etc. They turn out to be a skilled individual and therefore they attend one of your elite colleges and then what do they want to do? They want to go to the United States. Where does it show up in the system of national accounting that China invested roughly \$250 000 into an individual who then left? It doesn't show up. We want to track things like human trafficking but the reality is that immigration is just voluntary human trafficking. You're taking that human capital from one place and putting it in another and giving it the opportunity to survive and thrive in a system where it's more highly valued. But we don't track that and as a result our operating system is giving us terrible signals.

Adam: **00:27:16**

Yeah. So, another example of that would be any sort of extractive sector, whether it be the energy sector or the timber sector or the copper mining etc., where once it comes out of the ground it's gone for good, and you've also got externalities related to environmental impacts. You've got sort of the residual of what's left behind which may be worse than what was there before and you've got the fact that this has now come out and can no longer be used again and so the people that profited from that extraction, they should profit from their energy, their efforts, their innovation and technology and extracting that resource from the ground, but to what extent do we share the value of that resource with members of the immediate community, with members of the state or province, with members of the country, with members of the world. So, that's one question, and then the other question is how do you account for, just in terms of like again this idea of system of accounts and not accounting for these many externalities? How do you account for the residual cost of the environmental impact and the fact that those resources are now gone for good? There are many of these types of externalities within the capitalist framework that add up to an enormous amount. Well, another externality that is not

factored into the accounting of production is domestic services, parenting. What is the value of motherhood and fatherhood?

Mike Green: 00:29:07

What we have actually done, stop and think about this for a second, we have said there is no value to even tracking and measuring that human labor component that goes into raising children. We are not going to value the members of society who do not directly participate in the corporate sector or in the entrepreneurial sector where they are exchanging their services for quote-unquote money.

Adam: 00:29:34

The only way you can get paid for child care, is if you raise someone else's child.

Mike Green: 00:29:38

Correct. So what are we ending up with? More and more children who are being raised by somebody who's being paid for it, we're seeing more and more fracturing of the family, we're seeing fewer and fewer resources being capable of being devoted to this because we're making that choice. That was an explicit choice that was made in the construction and Simon Kuznets, who built most of our systems of accounting in terms of national accounting systems. GDP is one of his concepts obviously, he actually wanted to include that. But because the system was largely set up to measure how do we raise taxes? How do we measure economic activity for tax purposes as compared to thinking about it from the standpoint of how do we maximize the value of the human capital, the value of the individuals, because that's how it was constructed?

We undervalued those components and we're getting less and less and less of them and those components very explicitly contribute to success in every other aspect of our society. If you are coming from an intact home and you are well fed and you are taken care of as a child in a loving environment, you are infinitely more likely to succeed within our social framework, your success in school is better, your success in school translates to success in the job market which translates to success for your children going forward, and because we've chosen to devalue those components in the name of efficiency, we call it efficiency when we optimize for the dollar production of the economy. We're hollowing out the strengths that exist in our system, we're hollowing out the resources that have historically attracted the world's best and brightest to our shores. We have to again go back to the system of national accounting like if I were in charge, what is the very first thing I would do? It would be to put value on human beings. Not in a Ford Pinto sort of way, how much do I have to pay them if I kill them? But from the standpoint of how do I raise the value of every individual in our society recognizing that that's ultimately what we are. We're a group of individual people who have come together in the pursuit of life liberty and happiness and if we do not offer an operating system that allows the majority of those individuals to survive and thrive in that system, we're going to recreate

some of the more ugly features that have happened when those systems break down.

Systems Breakdown

Adam: 00:32:03

Speaking of systems breaking down, one of the primary causes for the breakdown of our social cohesiveness is a loss of trust in the ability of government to act in the people's interest. There's multiple sides of that, one of which is obviously regulatory capture. The power of largely corporate interests combined with lobbying efforts to guide rulemaking in directions that facilitate the status quo that protect existing interests at the expense of innovation. But the other is a loss of faith that government institutions can just do a good job, can be good stewards of resources in the public's best interest. Let's set aside for a second the regulatory capture because I want to return to that, but how do we restore faith in government as an institution that can be trusted to be prudent stewards of resources in furtherance of the public good? Of the common good.

Mike Green: 00:33:54

Look, I think part of the reason you're hearing me speak up on these issues is precisely because I think we've gone too far in the idea that government does not play a role, or the government cannot play a helpful role in this process. There are incredible inefficiencies in the way our governments work, part of it's tied to the regulatory capture dynamic that you're referring to whether that's the for-profit education system, the student loan system, the mortgage system, the system is largely set up at this point to preserve a status quo and that status quo is helping those who are already privileged within our society most. And that is part of what I'm referring to the hollowing out, we increasingly are incapable of having conversations where people trust the other person's intentions. You see this on Twitter in terms of my feed, so I've recently come out against bitcoin in terms of the impact that I think that it is ultimately having on a variety of fronts. I don't want to spend a lot of time talking about it, but the anger and nastiness that gets thrown at me from people who simultaneously call me a capitalist pig and a member of the one percent and representing the status quo and from another group of people who are screaming that I'm a socialist and that I'm a communist and trying to... it literally it's just coming from all directions and what it really boils down to is nobody is actually stopping and saying, hey wait a second, maybe this guy actually has good intentions, maybe this guy is actually coming from a position of honesty where he's saying no, I've been through the numbers, I understand what you think you see here and I see something different, I want to make sure that you're aware of it and I'm not in a position to force people to follow it and I think in general you don't want people to be in a place to force people to do something.

But it is really important that we recognize that part of the role of government is to use a representative democracy to make the hard choices that often get drowned out. Part of the reason we have a representative democracy is because we want to protect the minorities in our population and by minorities I don't mean the color of your skin or your sexual orientation or anything else, minority viewpoints, ultimately that what stands behind free speech and freedom of religion and freedom of assembly and all that sort of wonderful stuff that we genuinely lose sight of a lot of the time. The representative democracy exists to put a limit on the mob's behavior, but it also exists because we rely on those individuals to make the educated hard choices and to facilitate the movement of society in a direction to listen to people to what direction we need to go.

Unfortunately, we're in a really weird place where we've given so much personhood to the corporate sector, and we literally have given them so much personhood that the corporate sector increasingly drowns out access to the halls of government for the ordinary individual. They're no longer able to participate. There's an equivalence on Twitter and I'm going to confess that like having dealt with a lot of the anger and vitriol that's been coming at me, I have been very liberal in my use of the mute button. There's a part of me that feels terribly about that. I really actually do because I can think of nothing worse than screaming into the void, wanting somebody to hear your rage and anger and them having zero awareness. They continue to see your news come across, your Facebook feed continues to exist there, you're commenting and it's almost like the debate around does the "close" elevator button actually work. Is it just there for stress relief. The internet created an environment particularly the social media, created an environment in which people thought that they were being heard for a period of time and they thought that everyone's opinion should be relevant, that everyone should have a blog and this was going to be the future.

Unfortunately, like everything else, certain voices rise to the top and if you agree with them or you don't you can express your viewpoint, but they now have the ability to mute you and your screaming. Our representatives are the same, the reason people think Congress is ineffective is because Congress is not listening to them. They're listening to those who are ultimately paying for their next election, who are supporting them. There are exceptions to this and by the way I don't actually agree with many of them. An AOC for example, I think is just as captive to her own special interests as anyone else and her lack of understanding and her base populist response is ultimately going to be quite caustic to our society. I think it already is demonstrating aspects of that. But I do think that what people are correctly saying is, I don't have access to the court system. I've been through a legal challenge that destroyed my first business and created conditions that radically affected my family's outcome, spent millions of dollars in a legal process that ultimately culminated in a purely moral victory. That was it, congratulations. And dealt with all sorts of challenges around that both

personal and professional that have influenced in many ways the way that I think about these outcomes. But the vast majority of people look at the legal system and say I can't access it, it doesn't actually exist for me.

Adam: 00:39:24 I think it's that mute button really that was the progenitor ultimately of the Trump voter.

Re-engagement

Mike Green: 00:39:36 Totally agreed. Totally, completely agree. So this is part of the challenge, I mean how do we actually get people to re-engage? The first thing you have to do is turn off the mute button. You just have to take it away and you have to figure out how do we address this. Part of that I would suggest is a reinvigoration of the local community. One of the things that I've been saying on Twitter is "vote better". I don't mean at the national level. Vote better at the local level, take the time to become involved in your community and ask what decisions are being made that I can actually have an influence on because it is at the local community, and if things are going on at the local community that you don't like shine a light on it, make it clear. That's the only thing we can do is slowly take this system back.

Adam: 00:40:31 Yeah, that's consistent with Ben Hunts and Epsilon Theory's sort of grass roots.

Mike Green: 00:40:37 It's the only thing we can do, and I would suggest that it's not just Ben Hunt. Richard Werner who's on Twitter is Scientific Econ, and is one of the original thinkers in finance. A little crazy in some ways but also one of the true original thinkers in finance. One of the things he highlights is the importance of local banking institutions. Because local banking institutions can actually look you in the face and say, you're an upstanding member of the community. I'm going to help you get started in your business that rewards the local community.

Adam: 00:41:13 And it provides incentives to be a good local citizen.

Mike Green: 00:41:18 "It's a Wonderful Life" is a durable movie, not because it tells the story of could you change things and making everyone realize they're relevant. Part of it is the affirmation of the fact that that banking institution is all of us. That was true then, I could walk into my local Citibank or Chase, I assure you that is not my community bank and we've lost something in that process, it is recapturing that local responsibility. That is the path forward for us.

Adam: 00:41:53 Just shifting gears a touch, Rowan Gray's vision incorporates a plan to create a public bank, or a public banking framework which I think part of which is to

encourage that sort of local banking relationship again, but it puts the banking interests in the hands of the government rather than in the private sector for the large part. I mean, I've long said that the banking industry is basically being treated as though they are a public utility, and that's why they keep getting bailed out and that if they are a public utility then they should be wrapped into a bad bank and then distributed as a public asset and run by some arm of the government. It sounds like Rowan Gray's plan at least incorporates elements of that, are you familiar with some of his policy proposals and the implications there for the banking sector?

Mike Green: 00:43:23

I am familiar with a lot of his work, Rowan and I actually have become friends in the past couple of months. I interviewed him on Real Vision, I encouraged Dimitri Cofinas to share publicly both parts of his interview with Rowan Gray. I think Rowan is a really really interesting thinker, and I think that there's an entire body of work and almost an academic school that is emerging around this idea of contract law and the importance that that has in our interpretations. So we think about contracts as, I enter into a business and you and I have a contract. Well, there's also a contract that you signed with the bank when you deposit, when you enter into the banking system and open an account. There's a contract that you create with your credit card company, there's a contract that you create with Google when you say, hey here's what you can do with my data. Our ability to evaluate and think about those contracts, there's so many of them now that in part, nobody is stopping to think about what are the rights that we're signing over, and there's the idea behind the consumer protection bureau was in part that was going to be an institution that was supposed to help us navigate that process.

Now it's turned into a horrible caricature of what it was supposed to be. But those contracts and the legitimacy of entering into them is one of those operating system functions that we need to be extremely thoughtful about. The way our society is set up now, the single largest contract that many individuals enter into enter into in their entire lives occurs when they're a minor. How much debt do I take out for student loans to pay to go to go to college, am I paying for the tuition or am I paying for my lifestyle when I'm there, which is often included in the financing packages. Roughly 50% of all student loan outstanding is not for tuition or books, it's for the rent of your dorm room, the food that you bought, the purchases that you made on your student credit account at the bookstore, all of those factor into the amounts that you're entering into and we're handing that off in terms of responsibility in a non-dischargeable fashion to minors. In any society that should be viewed as criminal.

We're presuming the parents are capable of identifying and understanding this stuff but the reality is only 28% of the adult class prior to this last generation where the student body loans became a big deal, only 28% of the population

had a college degree, they had any experience with it whatsoever. The vast majority of children that were going off to give us the 70% attendance rate that we had in this last generation, less than 50% finished but 70% attended in one form or another and had the opportunity to spend an insane amount of money on their college education, whether it was worth something or not. The vast majority of those people did not have the frame of reference. I was incredibly a fortunate individual in that both of my parents had attended college, my mother didn't graduate college but she attended college, and that they were able to give me some thoughtful advice in terms of what would be an appropriate career, would be an appropriate expenditure. And I was also very fortunate that for the most part they were able to help me out in some ways. I had significant student loans when I graduated, but I was far better off than many other people. I also was given the awareness of the financial situation and encouraged to get a job. I had multiple jobs throughout college, most of them which were helpful in furthering my career. Those were communications. Today, you send a kid off and student loans are used to pay for this stuff.

Adam: **00:47:05**

It's a chicken and egg issue too because it's perceived that a college education is a necessary input to a fruitful career these days. I mean if you look at the differences in expected lifetime income for a college grad, versus a high school grad, versus a non-grad, those numbers speak to themselves. Whether the delta overcomes the net present value of the non-dischargeable loans that are required in order for many students to get a college degree is another question, but the availability of loans allows institutions to charge these astronomical fees to attend colleges. It's like the housing sector, the availability of loans is what allows the housing sector to price the vast majority of individuals out of a meaningful proportion of urban markets. The availability of credit allows for a massive increase in pricing power.

So, how do you manage that? You want to provide a facility for students to get an education, especially underprivileged or people that come from less fortunate backgrounds to get access to an education to better themselves and to maximize their contribution to society, we've chosen to do it through loans, it's the same with housing. I mean it's a stated policy of every government over the past, going back as far as I can remember to increase household formation and home ownership. And the way that that's done is by creating institutions to make it easy for people to get cheap credit and cheap credit drives the cost of homes higher. You've got a bunch of people with homes but they're also saddled with the massive amount of debt and you can argue fine, that the debt service costs are low now, but will they always be low? And is this even a model that makes any sense?

Loans versus Equity

Mike Green: 00:49:37

First of all, I agree with the vast majority of what you're saying. I do think it's really important to recognize why we choose loans rather than equity. I also think it's important to think about the incentives that exist within these systems. When you talk about the availability of student loans, the reason that the availability exists is because they are both non-dischargeable and government guaranteed. So, as an investor any additional yield I can pick up on that, wonderful, I'm going to make as many of them available as possible. And since they're government guaranteed, I don't actually care what you use them for. Do you use them for housing? Do you use them for partying? Do you use them to take underwater basket weaving classes and French medieval literature.

I'm not necessarily drawing an equivalence between those two, first is a worthy field of study for many although I realize again that's not medieval. We rob a system of price signals that would allow somebody to say, hey wait a second, if I'm going to go to MIT and get a degree in computer science or electrical engineering, that is a far less risky outcome than if I'm going to go to a very mediocre private school that offers a wonderful social experience where I'm going to study underwater basket weaving and the particular arts of various lost Atlantic societies. If that's your field of study you have almost no prospects for employment but nobody is incentivized anywhere in this process to say that to you. You need to actually decide what are you going to do as a society. What do you want to do? Do you want STEM grads, then give them a lower cost loan, make more credit available to the STEM graduates than to others.

Adam: 00:51:42

Why does that need to be the model at all? Why can't the model be massively subsidized higher ed. So that the tuition doesn't need to be nearly so high and yet the quality of the education is just as good or perhaps maybe even better.

Mike Green: 00:52:07

We're arguing a spectrum here. Subsidized interest rates is the same thing as subsidies for tuition, it just changes the payout functions. We need to decide how we're going to do that. .

Adam: 00:52:19

But you're saddling a society rather than saddling an individual.

Mike Green: 00:52:22

But you don't have to, because what you're describing if you were to simply subsidize it, then you'd get an expansion of higher education without any attempt to hold it to quality. A better way to do it for example would actually be to introduce an element of debt into it in which the colleges themselves became first lost carriers. You don't help this kid get a job, you don't create in them a system of responsibility of paying back these loans, guess what? You should go out of business. You should have a substantive disadvantage where you have to

charge higher tuitions because you are less likely to collect from the terrible education that you're providing to kids. That is a market mechanism for feedback that we are ignoring. And what will that do? That will drive really good colleges to actually expand their operations because they'll have lower cost access to capital, they'll do a better job of placing students, that'll give them the resources to allow themselves to continue to expand where the mechanism simply isn't tuition. It actually becomes how profitable is that tuition to us?

Adam: 00:53:29 It's skin in the game.

Skin in the Game

Mike Green: 00:53:30 Effectively you want to create skin in the game. Debt is a wonderful tool in a capital structure. Everybody forgets that debt is somebody else's asset. Nobody runs around saying the problem is we just have too many assets, but people are really excited to run around and say the problem is there's just too much debt, everything's going to go to hell in a handbasket. That's just not true, we're just not using the debt properly.

Adam: 00:53:55 Okay. I think that introduces a different set of complexities, but I'm obviously aligned with the incentive structure that you're proposing that if you're going to charge a high price for your services then you should be able to demonstrate that that high price carries commensurate value in terms of the prospects of the students that are coming out of that school. I'm sure that the arguments for the student loan program in the beginning included a discussion about how you want to incentivize or maximize the productive capacity of society and therefore maximize capital formation. I think it's clear that there is no link between the current student loan program and the objective to maximize the productive capacity of a society and maximize future capital formation.

Mike Green: 00:55:07 Yeah. Again, I think it all boils back down to the incentives and the information systems that we build around it. Why is college so important? Is it because if you spend four years at I'm going to make up a school, "Have Fun U". Because I don't want to insult any particular academic institution, but if you decide that "Have Fun U" is equivalent because it provides a quote-unquote college degree to somebody who goes to Harvard or Princeton or Yale where the primary benefit is actually the exclusionary admissions process, they only take five percent of the applicants, therefore anyone that you're hiring out of that pool is in the top five percent of something. It's a signaling mechanism having attended an elite institution, yes the teachers were incredible, yes the opportunities to interact with brilliant peers and to form relationships that I've carried in many situations throughout my life were absolutely incredible. But I assure you that there was not that much of a difference between the courses that I took at UC Santa

Barbara which is again an elite institution to be fair and the courses that I took at Penn.

Nature and Nurture

Adam: 00:56:23 And the vast majority of the value that an individual is going to provide to a company or society is decided by genetic variation and the amount of variation that you get in the end from differences in educational inputs pales in comparison.

Mike Green: 00:56:51 I'm going to be very careful on that because I'm not entirely sure I share that view. I think genetics play an important role and I do think that you can certainly create an advantage for your children by having an intelligent spouse et cetera. But I think the modeling of the behaviors that actually are typically associated with that. Do you value education? Do you sit down with your children and do their homework? Are there two parents in the household who are capable of giving each other a time out when they're going crazy and so they don't engage in the stress related behaviors that are there potentially two incomes and a suburban or adequately sized house that provides the environment for a child to thrive. I think those are incredibly important and I think it is very very dangerous in our society, we still have a Calvinist streak. It's true for both the United States and less so for Canada, but at the end of the day we think the richest and most successful amongst us secretly deserved it.

It's evidence of their chosen status, they're smarter, we pay more attention to what they say, we rarely mute them. That's a Calvinist philosophy that basically says your success is a function of your inherent worth, you've been chosen by God. Having done this business now in one form or another for 30 years, I can assure you there is a highly stochastic component to it as well, and so what we're describing in a lot of ways is creating conditions under which children make it to the age of 16 or 18 without the debilitating conditions that prevent them from succeeding going forward. All the evidence in terms of productivity actually is that tertiary education, college education, has a very limited impact on productivity.

Adam: 00:58:34 We can fundamentally agree there. I just want to emphasize that my position is that genetics themselves are stochastic. That is the most stochastic and impactful variable and it's completely due to luck. A person should no more be rewarded for having good genetics than they should be rewarded for winning the lottery. It is a compounding variable, you happen to win a lottery and you now are set up to have all of these advantages and if you also have a supportive environment and a family and community and educational infrastructure that allows you to reach your full potential, the reality is that your full potential is largely dictated by your genetic code which is itself a lottery.

But I find this whole area very fascinating because just going back to the original Ole Peters discussion and this idea of a simplified economy and the idea that if you have a population where there is actually zero variability in the starting conditions in terms of the productive capacity of each individual or agent in the system, that even if everybody has an equal capacity for production, all of the wealth in society will converge to a single individual. That's obviously oversimplified for a variety of reasons and you mentioned some earlier, but one of them is that of course just not everybody actually comes to the table with the same set or the same level of productive capacity. But to the extent that they came with a higher level of productive capacity, that itself was due to luck, and not due to any particular merit or effort or decision making of that individual and that is not at all incorporated in our status signaling, in our reward structures, or in the vast majority of the mechanisms under which we operate.

Mike Green: **01:00:48**

Again, I agree with the majority of what you're saying. If you look at the Ole Peter's model it gives you an interesting opportunity to separate luck from skill, and we need to think of both as capable of being rewarded and also capable of being appropriately redistributed. The examples that you're talking about with Ole Peters can be as simple as a coin flip, so if you enter into a game where everybody flips a coin and only those with heads advance to the next level. So you continue this process you eventually end up with a single winner. Did that individual demonstrate skill? Absolutely not. That is complete luck. So, we know the outcome of a system at least on a stochastic basis of something that is completely luck. Now the frightening thing that Ole demonstrates is that the distribution of wealth in our society almost perfectly follows that pattern of pure luck.

Adam: **01:01:53**

Actually I think his paper makes the claim that the redistribution parameter in the system in order to generate the current wealth distribution is actually negative.

Mike Green: **01:02:09**

That's part of the reason why I say when you go to the operating system and you think about how do you reward behaviors, what you actually want to do is you want to tune that system for maximum reward to skill, and maximum redistribution of luck.

Adam: **01:02:27**

It ends up being turtles because like I say, whether you were born with just genetically qualities that map well to what is currently rewarded in society, whether you had a strong foundation in terms of a stable household and access to schooling and resources that allow you to train in areas that are rewarded in the current environment, all of these elements that I think fold into the idea of quote-unquote talent, are also luck.

Mike Green: 01:03:14

I'm going to withhold judgment on the fraction that is luck, and the fraction that is not. I've seen the work of Ole Peters and I increasingly believe that luck plays a much larger role than any one individual would like to admit. Particularly those who have been successful. It is extremely painful to imagine that your success in life is largely a function of luck, but I also think that that is so liberating if you can accept that properly. That's part of what religion allowed people to do and we've lost religion as a component where it allows us to give thanks. It allows us to say I have been blessed, without any shame associated with it. Which is kind of what people are trying to defend against, it's like what possible right do you have to private jets and boutique health care services and life extension therapies and all this sort of stuff. You're immediately placed into a defensive role where you're trying to justify it instead of saying I have been incredibly blessed. It's such a powerful and easy thing to say and to actually internalize it I think will make us a much nicer and better society.

Adam: 01:04:36

I agree. Just coming back to this idea of redistribution, because I had your friend Bill on Riffs on Friday. Thank you very much for the introduction, that was fantastic. But one of the things I put to him and it was specifically in the context of taxes but really it boils down to this question of redistribution, but under the way that the monetary system is described and perceived in the context of modern monetary theory, is there a link between taxes and spending?

The Utility of Taxes

Mike Green: 01:05:23

Yes. The taxes ultimately create the capacity to spend because they create the demand for the currency that you're spending. By introducing taxes, you are creating a liability for each member of society to a differing degree, they have to obtain the government's currency in order to settle that obligation. What that means is when the government hands out welfare checks or when the government pays soldiers, that there is demand for that currency that they have paid them in. You need the taxes, but the reason that you need the taxes is not because that's where the government is actually getting the money from, but that's what's creating the demand for the money and this is actually one of the really troubling aspects that we've gone through as we continually lower taxes is, I would suggest that part of the reason that we experience many of the problems that we're experiencing is a function of us saying, let's reduce the demand for the US dollar. Donald Trump didn't pay taxes. Now that's bizarre when you really stop and think about it. That a member of our society that has benefited most from the general resources and the luck associated with birth, genetics everything else has no obligation to society to respect our currency.

Adam: 01:06:59

Walk me through that again, because I'm still not connecting the dots. First of all, can we both agree that the vast majority of people who pay taxes currently believe that their taxes are used to pay for the services that express their values?

- Mike Green:** 01:07:23 Yes. I agree that that's how most people think about it.
- Adam:** 01:07:28 Okay. So let's put a pin in that. Now, describe to me what the true utility of taxes are again because I'm still not quite getting that.
- Mike Green:** 01:07:39 The true utility is to create demand for the currency with which you are giving people or paying people to do what the government wants to do.
- Adam:** 01:07:52 But doesn't the private sector create that demand as well? Anytime a consumer purchases something.
- Mike Green:** 01:08:01 This is exactly the point people have around private currencies. Theoretically, you see this all the time or you used to see this much more, company in town, you get paid in company script, you can only use it to purchase goods from the company store. That's a system, it exists, it's exploitive but it exists. How are you going to pay the rent to live in the company property? You got to use company script. Will they accept dollars? No they will not. That's why our currency says on it, for settlement of all debts public and private. It is the law that you have to accept that dollar, it's the violation of that law that makes a company in towns so terrible, the fact that you're being paid in company script and you're being forced to shop at the company store where that can be used. If you tried to take your paycheck and cash it in and go somewhere other than the company store they'd tear down your house. That was exploitive and it was wrong and we got rid of it. Now people try to look at the system of currency and think of it in the same way and it is ultimately. What the US government is doing is saying look, we're going to pay for education, we're going to pay for services around soldiers in the military, we're going to pay welfare checks to people and what is going to get you to accept their script? The greenback that they receive. What is going to get you as an individual to accept that? Well, I'm going to create a liability for you as well, you must pay me a tax on your economic activity. The first dollar that goes out has to be spent by the government without any taxation, how did they get it in the first place? It has to come from the government first and then they have to create a demand for it, which is what taxes are all about.
- Adam:** 01:10:03 Okay. So I buy that taxes are critical for the formation of a currency. Do you still think they play the same role?
- Mike Green:** 01:10:17 Yes I do.
- Adam:** 01:10:20 So, you don't buy that the US dollar is a shared story, you're saying it's a shared story only to the extent that those dollars are used to pay taxes, because it is the only unit of account that can be used to pay US taxes.

Mike Green: 01:10:42

I think at its core yes, that is what sustains the system, the threat of violence that if you do not pay your taxes you will suffer consequences that are both monetary and physical in form. You'll be incarcerated, your properties will be taken away from you. That system of violence as unappealing as it sounds, is the reality that creates the demand. Ask Wesley Snipes how it worked out when he basically said, "hey I don't have to participate in the system it's optional."

Adam: 01:11:12

No, I hear you that's fine. But one dollar from each individual would serve that purpose. If every person needed to pay a marginal amount in taxes, you would still need to accrue sufficient wealth in the designated unit of account to pay those taxes.

Mike Green: 01:11:41

That's actually so. The challenge is the question, how much should you be offsetting. The taxation policy is largely designed to offset the depreciation of the currency. If it was only one dollar, if we only needed 320 million dollars to serve those obligations then there'd be a crazy amount of dollars running around without an offsetting obligation associated with them and people would functionally be able to drive inflationary conditions which would result in the correctly defined, that's just the depreciation of the currency.

Your real policy is a function of creating demand, that's the idea behind interest rates is that it's a way to create demand for your currency. If you raise interest rates it makes it more attractive for individuals around the world to hold assets denominated in your currency effectively parking the funds, freezing them up. It's how monetary policy contributes. There's a secondary view of monetary policy which is that by lowering interest rates you're encouraging economic activity. I actually think that's flawed, the mechanism behind that, what's referred to as the Euler Coefficient, that all the evidence is empirically that's just fundamentally wrong. That lowering interest rates drives an increase in demand, what it actually does is it creates an increase in collateral, it drives bond prices higher effectively creating more financial assets that can then be collateralized.

So, what have we done, over to your period very specifically what began in 1997, in 1998 is that the central banks began reacting to declines in asset prices by cutting interest rates. Effectively creating a system in which bonds and equities were not substitute goods, which they had been from roughly 1963 through roughly 1998, they were substitute goods, where your decision was do I want to own a bond or do I want to own an equity? And by the way, the two are correlated in their prices because the Fed is mostly focused around fighting inflation. So it's going to raise interest rates if things are getting too hot. That's going to lower the value of bonds and it's going to lower the value of stocks because it's trying to cool the fundamentals of the economy. In 1998 we switched that, we began using briefly in '87 and then officially and on a permanent basis in 1998 we switched that policy, We began using interest rate

cuts to create the collateral, to drive the price of bonds higher. Again, what we thought we were doing is simulating economic activity but the evidence is very clear that it hasn't done that. All that's driven is greater and greater financialization, more and more collateral is then being borrowed against.

Adam: 01:14:16

So this is the asset price inflation that has been sort of bandied about and debated as a technical inflationary channel.

Mike Green: 01:14:30

It's actually a deflationary channel, because what it's encouraging is excess capacity in society over capitalization, particularly on the financial asset side. If you just think about in the most extreme form, imagine that the only asset that exists is a 30-year bond yielding 5%. So a 30-year bond has a duration about 22, you cut that interest rate from 5 to 4%, that bond is going to appreciate and create additional collateral. Now, I can borrow more money because I've got an asset that's gone from par to 122. So now I do the next thing and then say, well guess what happens to my collateral over time? That bond now begins to mature towards par so that 122 falls to 121 falls to 120 to 119 to 118 to 117 et cetera, all the way back to 100. And at some point in that process I discover I no longer have enough collateral, that creates a credit crisis. Feds force the lower interest rates to 3%, that bond reappreciates creating additional collateral. That's basically where we are today, where you have ridiculous assets like an Austrian Century Bond trading well over 200 and potentially going even higher than that. That system is guaranteed to create credit crisis after credit crisis after credit crisis because the collateral is tied to that face value, the market value of that bond, that is falling back towards par.

Adam: 01:16:08

Yeah. I love that. That mechanism is very intuitive actually.

Mike Green: 01:16:15

Very intuitive but nobody uses it.

MMT and the Taxation Myth

Adam: 01:16:19

I want to go back to taxes though, because this is something that I've raised repeatedly and haven't really gotten a satisfactory answer to. But it's the question of if everybody believes that their taxes are used to pay for services that express their fundamental values and beliefs as citizens of a society, and in reality the plumbing of the financial system is such that there is actually no link. You can in theory, and in fact we do mechanically fund every expense, every expansion of the fiscal balance sheet via the creation of new money and there does not need to be an offsetting deposit via the tax channel in order to spend.

And the only reason to have an offsetting channel via taxes is to moderate demand so that it's consistent with the productive capacity of the economy. Does that not change? If MMT were to propagate as a concept and citizens were

to shift their thinking so that now they believe that the spending channel is not linked to the taxation channel in any direct way, and in fact that their taxes are a way for governments to control the demand function according to some abstract arbitrary model, how does that change the social contract between taxpayers and or citizens who are taxpayers, and the government for spending purposes? And how do we expect that to play out as we go forward with MMT, as we begin to expand the balance sheet to maximize potential employment and the productive capacity of the economy knowing that we will only realize that we've maximized the productive capacity of the economy once we begin to see an uptick in inflation. How do we then go back to taxpayers and say we need you to pay more taxes? Is it exclusively at gunpoint? Has it only ever been at gunpoint?

Mike Green: **01:19:05**

The quick answer is yes, it's always at gun point. The difficulty of enforcing that is the story of the American revolution and various other components if they become viewed as onerous and you don't actually have the capacity to enforce them, then you have a revolution on your hands and you've got all sorts of other problems. I would suggest that we're actually heading towards that in the United States where you can feel that tension, you can feel the unwillingness. Part of that is because we have lost the actual narrative, this goes back to the Keynes observation that 'we are a slave to a defunct economist'. We think that the US is going to go broke because it is outspending its capacity to tax. I would suggest that what we're completely missing within the system is that the constraints that exist are not simply a function of inflation.

Inflation is one of the constraints that exists on the system, but there are other constraints that also exist or other areas where we could be significantly sub-optimizing and still get inflation. So if we choose a terrible policy around how we're going to allocate labor, then the labor is utilized ineffectively and at far less than optimal employment, you're going to end up with inflation. Same thing for capital. There's all sorts of components there that you need to be extremely thoughtful of, are you going to engage in significant amounts of trade? Are you going to engage in trade and simultaneously offer a high social safety net to your population meaning that they don't really have to work all that hard? Well then you're going to outsource all of your productive capacity to the foreign sector that's unwilling to offer those same benefits, but you're not penalizing that choice. So, we're going to have to have a serious dialogue around what aspects of our economy are underutilized and to me there is absolutely no question that the part of our economy and it's represented by the declining share, that part of the economy that is under utilized is the household labor sector. People are not being given the opportunity to maximize because they are effectively being forced into a system where they rely on the corporate sector and therefore it is an unequal negotiating system.

This is where Rohan Gray would point to the importance of unions for example, and I agree with him in the private sector. I think the irony of course, is that we've seen a proliferation of unions within the public sector where the imbalance works in the opposite direction, there's nobody with a profit incentive to control it. There's effectively just a desire to smooth it over. So, we've actually flipped the system - if anything there should not be unions available in the public sector, or where they are available, there should ultimately be private contracting that allows us to evaluate that in one form or another. But the system we have in place now is it's like a fun house mirror. The private sector labor has no negotiating power, the public sector labor has all the negotiating power. No wonder we feel we're getting screwed.

Adam: 01:22:06

I agree. But the sentiment seems to be or at least is shifting in the direction of the idea that fiscal expansion with government directed resource allocation is the answer and that we're going to make up for any misallocation of resources which might lead to inflation through the taxation channel. I think you've got a misguided premise on the distribution channel, the resource allocation channel and another misguided premise on the taxation channel because I think once you obviate the connection between taxation and the expression of social good that is currently embedded in the belief system and I think motivates taxation without having to resort to gunpoint most of the time, that will necessarily break down. I'm hearing you say you agree but what I'm not hearing you say is there is an obvious path to reconcile these major challenges.

Taxation and Redistribution

Mike Green: 01:23:32

Again, I think it depends on what you're trying to accomplish. When you describe a system where there's an increase in fiscal expenditure, let's use as a simple example that there becomes a job bank guarantee, a universal basic income for anyone who is willing to work, the selection of job is no longer a function of the corporate sector wanting to hire you. And I would just point out by the way, that we have the worst possible situation now where we establish a minimum wage which effectively says you as an employer can't bid for labor below a certain level, which restricts the demand for labor and then at the same time we say to people who are incapable of finding employment, get a job, that's the solution, get a job. It's absurd. So what you actually want to do is you want to create a situation where if somebody wants a job at the minimum wage, that is always available to them. But they have to participate, they have to be a member of society, you can't just sit there and say I deserve x because I'm a member of society, a universal basic income regardless of whether I'm willing to work. That's absurd, it really is. When you talk about this I think one of the things that is also missing though is, the power to tax, is also the power to redistribute.

When we start talking about taxation I would encourage us to be thoughtful about that taxation in the form of, what do we tax? Do we tax skill or do we tax luck? And this goes exactly to Ole Peter's observation, if the system actually exhibits negative skill now, then that what that means is we're subsidizing luck and that's absurd, you want to subsidize skill. So a system of taxation that is redistributive and encourages skill and the formation of capital behind skill would actually be one that would add to our society demonstrably.

Adam: 01:25:40

Let's say we have an effective mechanism to distinguish between luck and skill. We want to incentivize a skillful person to put their skills to work in pursuit of what ends up being eventually capital formation in one form or another, but the moment that wealth that's accrued through skill is able to be passed to next generations where now that connection between production and wealth is fundamentally broken. I mean so much of the current situation is also related to this, where you've got family dynasties and they're able to dodge the wealth tax and pass on dynastic wealth to multiple generations. Where do you stand on that and is there a solution there?

Mike Green: 01:26:56

I think the most obvious one is you just treat the quests and inheritance as ordinary income. You treat it no differently than you would any other income stream. I don't even understand actually why that's a hard one, you got it because you were lucky therefore at minimum it should face a taxation rate that is at least that of ordinary income. The idea that it should be some protected inheritance dynamic because your ancestor created some form of wealth, why are we encouraging that as a society? We're not capital short. If anything, we're income short. So, the redistribution of that becomes incredibly important and I understand how offensive that sounds to people who have spent a lifetime building something, but I would just again encourage you to recognize that part of what is happening is everything we've all built together is increasingly at risk of being torn down because we're fraying in our society. So you can choose to optimize your own personal outcome, but man your grandchildren are going to be living in a much worse world because of the choices that you're making today.

Turning the Ship Around

Adam: 01:28:10

So much of the challenge is, it's the same problem if you're trying to host a party. Like who else is coming? One person making good choices, that person is a sucker unless there is a proportion of other members of society who are making similar choices that are not in their own self-interest in the short term but are in the long term interest of the community or the society or the country, the state etc. I think the problem is that there isn't the perception that a meaningful segment of the population is making decisions in the interest of the long-term

health of society and therefore the rational actor is also incentivized to make selfish decisions. I don't know how you turn that ship around.

Mike Green: 01:29:20

I think it's actually easier to turn that ship around than most people think. Part of what is happening and you see this in many of the communications I've had with individuals where I'm able to connect with an individual, whether it's over Twitter or over something else and they're angry and frustrated and see the system is inherently unfair and simply offering them some clarity around 'yes you're right actually and here's what we can do to start to change it'. You'd be amazed how far that comes in terms of getting people to talk with each other and reconnect. The second thing that I would suggest is that these types of conditions have existed before. Effectively you're describing a situation where the elite class, the senatorial class has become increasingly disenfranchised from the proletariat. I mean to use revolutionary terms. We need to figure out how to redrive that connection and again the only way that's going to happen is starting at the local level.

Adam: 01:30:24

Has it ever been resolved? I know you're...

Mike Green: 01:30:25

It will never be resolved. It is ultimately a question, when we talk about things like austerity and the need to pay back, and we can't afford to do these things, we're trapped inherently in a system that is Malthusian, where we're saying, there's a finite pie and there's only so many people who can share it and therefore I'm going to get mine.

Adam: 01:30:43

I don't think that that's the only fundamental objection. I think that there is another objection which is just that humans are obsessed. Once you get above the level one of Maslow's "Hierarchy of Needs", the objective function for vast swathes of humanity is one of relative status. So austerity or this misapprehension about needing to balance the government books. That is a problem, but I'm not convinced it's the problem. My expectation is that MMT is going to open government wallets but unless we implement policies that facilitate distribution towards an objective function for society that all of society can agree to which will necessitate the dismantling of massive institutions that are there exclusively for the purpose of regulatory capture and will require buy-in from our elite class in order to get anything done or passed. If we simply expand balance sheets without correcting some of these other misaligned incentive structures, institutionalization, regulatory capture etc. All it does is exacerbate this other dimension which is causing an enormous amount of social strife, which is, it just exacerbates inequality.

Mike Green: 01:32:22

Again, I realize that I sound naïve in saying that is a function of how we choose to spend it. It's a function of how we choose to use that power. The point that I would argue over and over again is that we can actually choose the incentive

structure in our society. Do we reward skill? Do we reward luck? Do we actually choose to treat every individual as having the opportunity to participate and providing them with the resources that are necessary to get to a point that they can become a productive member of society? Does that mean that we need to give infinite resources to individuals who have almost no capacity to get there? Of course not. And those cultural choices, those decisions are incredibly hard, the larger scale you go, the less it seems like an issue. When we were living in clans in a cave we would have to get rid of a child with significant birth defects because we knew that there was no way that we could sustain those resources.

As you generate surplus those questions become less strident and increasingly if you think about the way religious systems, particularly in the middle east would treat things like Down Syndrome. I'm half Jewish, I wasn't raised Jewish, but I was introduced to this. I think it's one of those beautiful things that you could possibly think of which is that within the Jewish religion having a child with Down Syndrome is being viewed as a gift to the family because you're given basically an angel in the making, to think about that responsibility that's really powerful, and to apply that at a societal level. That's very very powerful and important again highlighting the importance of that cultural belief that shared responsibility and also the magnitude with which we have to address that at a national level. How do we choose to handle mental illness? How do we choose to handle addiction? How do we choose to handle individuals who are driven to levels of desperation that they commit crimes that are economic in nature? Drug dealing for example. Or should we treat that very differently than crimes that are driven out of malice, murder for example.

Of course we should. But part of the challenge is that we as a society have allowed ourselves to become so captured with this idea that there's a finite quantity of resources and they're best held in the hands of those who have demonstrated their skill by their success. They were incapable of having a discussion about what do we want to do as a society, we've been through periods like this before. Look at the behavior, look at the frustration that existed in Europe during the period post enlightenment, where the rising nation states and the nobility effectively meant that there was no loyalty amongst the elites. You could be French and governed by somebody who was Austrian. The list goes on and on and on and their loyalties were not with the individuals that they represented, hence the rise of representative democracy that says no you are accountable to me and we've lost that. We've lost that accountability. Nobody in our society unless you are a centimillionaire or above genuinely feels that you have the ear of your senator, or you have the ear of your local representative. That's wrong, it's just...

Walking it Back

- Adam:** **01:36:04** I agree. What's always amazed me is how in agreement I am with the vast majority of your views. I think the one lingering question is are there any analogs through history where a state or a society gets to this point and walks it back.
- Mike Green:** **01:36:32** There are lots of examples. The 1930s would be an example. We made a fundamental choice that we were going to behave differently in the 1930s, we dramatically expanded the social safety net, we broke significantly from the corporate sector in terms of...
- Adam:** **01:36:46** I'm sorry, let me let me clarify. Without a major catalytic...
- Mike Green:** **01:36:54** Of course not. Because who would make substantive change without a major catalytic event? It's a part of what I'm actually trying to do. This is why you hear me emphasize the dynamic that exists where the markets are deeply unhealthy. But they are increasingly being used as an indication of the expectations channel and a symbol of the healthiness of the society. Because the S&P 500 is up or the NASDAQ is up, therefore things are going well. No, things are going terribly and there's actually an alternate explanation that has nothing to do with 'Fed printer goes burrrr', although I do think that the response function creates this complementary versus substitute dynamic that expands the demand for financial assets, but the dynamics of the growth of passive which you hear me talk about over and over and over again, are increasingly breaking markets away from the expectations channel and so relying on them is giving us false signals. In the same way that we get false signals when we fail to consider the market value component of household labor. The worse our systems are, the less effective we're going to become. If you're using a fun house mirror for dressing yourself and combing your hair, you're going to have a very flawed perception of what you actually look like.
- Adam:** **01:38:06** Yeah. I think what you're saying is that the markets at the moment and I'm not sure when we can manifestly say that the sign flipped, but at the moment the health of markets are an inverse signal of the health of the economy.
- Mike Green:** **01:38:25** Again, I wouldn't go quite that far, I think that they have become increasingly pro-cyclical in their dynamics but I agree with, in principle, what you're trying to say. I understand. I would almost flip it on its head and say that the only way to get the attention of your representative, your senator, the regulatory body, is to crash the market.
- Adam:** **01:38:48** Agreed.

Mike Green: 01:38:52 What a terrible situation, that effectively puts you into a scenario, it's like being a parent where the only time you respond to your two-year-old is if they throw a temper tantrum. If that is the only time you respond to them, guess what? You're going to have a lot of temper tantrums on your hands.

Adam: 01:39:10 Absolutely.

Mike Green: 01:39:10 What you actually want to do is the reverse, when they throw a temper tantrum you ignore them and when they're behaving positively you reward them with your attention. That's wonderful Johnny, I'm so proud of you.

Rates and Productive Behavior

Adam: 01:39:24 Walk me through how higher interest rates incentivize productive behavior, and then why are we not engaging in a policy of steadily rising rates in pursuit of that. And then, is it not a potential positive externality that by raising rates and lowering asset prices we are also leveling the wealth distribution?

Mike Green: 01:40:06 There's a couple of different components there. Remember and this is part of the discussion that you hear me talk about in terms of the bitcoin community, and the naivete with which they're approaching the claim the dollar is collapsing. Those who are most negatively affected are those who are on the fringes of society already, those who are close to the subsistence. It's the minimum wage worker who suffers when the economy enters into a recession. It is the individual who is on the edge who bears the full pain associated with that.

Adam: 01:40:43 Because we don't have a...

Mike Green: 01:40:44 Correct. Because we don't have an advantage. So, we have to be very careful in the direction that we do these things.

Adam: 01:40:55 I think this is an order of operations problem, it's not a direction problem it's an order of operations.

Mike Green: 01:41:00 Yes, I agree. I think that's actually really important but that's part of the challenge, is that if you talk about increasing the demand for labor by creating a government subsidized job bank for example that allows us to separate employment from the corporate sector, what are you going to hear from the corporate sector? "Oh my God, this is the worst idea ever. I'm going to call my senator and make sure that they oppose this because what is this going to do? This is going to drive inflation". Well, yes it will drive inflation but the reason it's going to drive inflation is because it's going to create competition for resources, it's going to be removing the marginal labor from inefficient organizations resulting in the failure of some organizations and therefore ... Exactly, and then

likely a contraction of some forms of supply. You're also going to have to simultaneously make sure that you protect local producers from the foreign sector that doesn't have to compete for labor in that same manner. So everything we're talking about I completely agree, it's going to create inflationary conditions, but is that actually a really bad thing for those who continue to participate and provide labor to the system? No. Because their incomes are rising as we go through this. Who loses in that analysis? Unfortunately, it's the asset holders, it's the wealthiest members of our society which is part of the reason why... I look at the nonsense around the bitcoin commentary. We want the hardest money. Who does that benefit? It doesn't benefit those who want to participate in the economy, those who are willing to exchange their human capital for financial income that they can then use to increase their consumption or save for future retirement. Hard money benefits those who already have wealth.

Adam: **01:42:45** I agree and I think this has been...I watch your debates on Advocates and I find them really strange because I know that you actually...and this conversation has validated this perception, but I know that you actually profoundly empathize with many of the...it's not really causes, but just many of the issues that have driven these people to the fringes. You empathize and sympathize with what's happened and how it's impacted people, and that sympathy gets lost in the mechanics of discussions about hard money and stuff which I know, it's almost impossible to avoid but I feel like we end up talking about something that actually is not the issue. It's like that advertisement that that circulated 10 or 15 years ago about the woman with the nail in her forehead, and it's not about the nail. Crypto is a symptom of a sickness, the discussion of crypto is marginally interesting and you and I may differ a little bit on what might come from that, but what I think so many of these conversations miss and I heard Nick, I forget his last name.

Mike Green: **01:44:39** Carter.

Adam: **01:44:39** ...Carter in your conversation with Grant at the end expressing all of these dimensions of dissatisfaction and I could just in my mind's eye see so many listeners to that podcast nodding along as he lists off all of these major issues. And I didn't feel like you had a chance to share your agreement to sympathize, to get in the car with these people and say we're actually on the same side here, it's just that I am more optimistic about being able to solve these problems using our existing operating system rather than trying to go outside the operating system. What I think you're arguing is a misguided way which I'm actually not interested in sort of getting into here. But I just think there's an opportunity for there to be more discussion around the fundamental issues that are driving people towards crypto and less about the fundamental flaws or mechanics in the crypto markets themselves.

Mike Green: **01:45:58**

No. I actually share that, and as I've indicated I deeply sympathize with what they're reacting to in the same way. I deeply am empathetic to both the Woke movement and to the Magastan movement. They both are displaying elements of longing and loss, then you have to actually...I don't understand how anyone doesn't appreciate that. The irony is if you actually listen to the language of Magistan, Wokistan and Cryptostan, they're using the exact same words expressing the exact same pain. I think that actually is telling you two things. One, there is a deeper truth and the idea that any one of them represents the solution set I think is increasingly untrue. You need to figure out a way to communicate better and I'm trying, but as you point out it's really hard because when somebody's screaming at you no, crypto is the answer and you're saying no, it's not. Let me explain to you why not. They're like, you don't even sympathize with the problem. That's just not true and I don't know how else I can simultaneously say no, crypto's not the answer and yes, I sympathize with your problem. I think I did a better job of that with pomp, which candidly has its own issues. But when you think about these types of dynamics, at some point people have to actually look at the person they're talking with in the eye and say, I actually trust that your intentions are good.

And I think that's the more concerning aspect of it because what I will tell you, what I keep referring to and why I refer to countries like China, Russia and Iran as significant enemies to the United States is, I actually think that part of what is happening, and there's very clear evidence for this, is that social media is being manipulated to drive the separation. The only way you beat America, and people think that I'm like some giant US central person. No, I am genuinely aware of what is happening all over the world. I'm incredibly sympathetic with the challenges that we all face. We've got to get our own house in order first. And the only way you beat the United States is by causing it to fracture. It's the only way. The resources that we have in terms of our own continent with oceans on either side, almost limitless physical resources, an incredible pool of human capital, a motivated and industrious population that genuinely wants the best for everyone else with the exception of when they're being driven to this sort of mania.

Those are resources that almost no other country can point to. China may have a much larger population, but they share a border with India and with Russia and neither one of them can allow China to become too strong, where they become existentially at risk. We in the United States, are uniquely privileged in that we have Canadians who we drive crazy on our northern border but fundamentally they are aligned with us, and Mexico the same on our southern border. Neither represents a legitimate threat of any form, and North America for as terrible as it sounds has been handed over to the United States as a control

mechanism, and nobody in Canada is going to dispute that, nobody in Mexico is really going to dispute that. We may occasionally get pissed at each other about those things, but that's a huge resource.

The only way you beat the United States is causing our society to fracture and social media is making that easier and our ignorance of the way in which we're being manipulated, which individuals like Ben Hunt point out extraordinarily well, being manipulated both by foreign powers and I would argue encouragingly by those within the United States, who whether they realize it or not are facilitating those foreign powers actions against the United States. I'm not meaning to imply that those people are unpatriotic or that they think they're doing something wrong intentionally. They're not bad people but the message of fracture, the message of blame, the message of it's his fault not mine, it has to stop.

Adam: 01:50:01 I think that's a good place to wrap up and it does leave some threads to pull later which is great. But I feel like we covered a lot of ground and...

Mike Green: 01:50:14 I hope we had two hours.

Adam: 01:50:16 Yeah for sure. I think really what divides us is just degrees of optimism. I think you're more optimistic, but maybe not. Maybe you're sort of seeing past the fact that there is almost by necessity a cataclysmic event which might be as benign as a market crash, like a significant market crash that's not effectively controlled by central banks, that acts as a bit of a resetting mechanism or could be some something completely beyond our imagination. But something will happen that will necessitate introspection, shuffle the deck chairs on the Titanic and provide a platform for everybody to again feel like we're all in this together, and come together for common conversation on common interests.

Mike Green: 01:51:23 I think what I would suggest is my optimism comes from having looked at the problems and understanding that there is not a structural deficiency in either our human capital or the resources that are available to us. I do not agree with those who think that the era of productivity gains is behind us. I think that there are challenges associated with it, but I think it's largely a function of having misdiagnosed the productivity gains that occurred before, not properly attributing them to human capital formation and as a result I am much more optimistic that we are going to enter into a period of additional surplus, and if we distribute that properly we can address almost all of the challenges that we're dealing with.

The reason I'm speaking out now in advance of these events is because I am truly hopeful that those who have helped identify them, can help people prepare for understanding that coming out the other side doesn't mean just

trying to do the same thing over again. Don't try to embrace stability at the expense of innovation, true innovation not failing to get regulated, not failing to get taxi medallions and offering taxi services etc. The cynicism of innovation in our society today that's being driven by Silicon Valley in my opinion is extraordinary, and again it's just one of these things that has to stop. People need to re-evaluate how we're choosing to express our lives and I'm probably the least likely candidate to do that because I'm a middle-aged white man who has succeeded within the existing system to a reasonable degree and as a result I am possibly the least leadership figure that you could possibly find in this.

I play the role of the prophet. That's all I can do. I can help people understand the problem. Somebody else is going to have to lead us out of it. It's not going to be me. I'm hopeful that that person is a good person. I'm hopeful that emerges and that we're able to rally behind it, but we can't know that. There's good outcomes and there's bad outcomes and all we can do is try as much as we possibly can individually, to ensure the good outcomes.

- Adam:** 01:53:36 Yeah, well said. Great.
- Mike Green:** 01:53:39 Thank you very much Adam. I appreciate the opportunity.
- Adam:** 01:53:42 Thank you very much. This has been really instructive and fruitful and let's...man I can't wait until we can actually do this for cocktails.
- Mike Green:** 01:53:51 I would really love to come see you and do this in nice warm weather sitting on a beach and enjoying a variant of a rum drink in one form or another.
- Adam:** 01:53:59 Absolutely, standing invitation.
- Mike Green:** 01:54:00 Thank you very much Adam. I appreciate it.
- Adam:** 01:54:04 All right. Thanks Mike.
- Mike Green:** 01:54:05 Take care.