

[00:00:00] Adam Butler: All right, we are right into it today. No commercial, straight into the glass and down your throat with PJ Pierre from Denali Asset Management. Today, we are going to be talking about Modern Monetary Theory, how it would guide us through the current economic conundrums and the potential certain concern maybe in a lot of quarters about the potential for moving into a fiscal dominance situation.

What is that? How would the government and the markets navigate that? So we're going to cover all that territory today. PJ is especially well equipped to discuss this, studied for several years under I'm going to call him the father of Modern Monetary Theory, Warren Mosler and applies that framework and a variety of other frameworks in his day job as a global macro trader at Denali.

But before we get started, I just want to make sure everyone understands that this is for informational and educational purposes only. This is not advice. Please discuss anything that we talk about today with your own advisor before acting on any of the information or concepts. And before we get going, I know that Rodrigo has some housekeeping he wants to catch you up on. But he's frozen, so maybe we'll just keep going.

[00:01:21] Richard Laterman: He is frozen.

[00:01:23] Adam Butler: Okay. He was super...

[00:01:24] Rodrigo Gordillo: All right, are you guys, can you guys hear me now? Am I back? No, am I still?

[00:01:27] Adam Butler: Okay. Yeah. You're back.

[00:01:29] Richard Laterman: A little lagged, but you're back.

[ReturnStacked.com](#) and Other News

[00:01:30] Rodrigo Gordillo: I'm back. So just yeah, I got, I forgot to turn off my VPN. So yes, welcome to the new season ReSolve Asset Management and before we do get into the nitty gritty of the MMT and all that fun stuff, I just wanted to make some quick announcements of the things we've been working hard on the last couple months. The main announcement is, we have launched *Returnstacked.com* and this is a kind of Return Stacked Portfolio Solutions joint venture with Corey Hoffstein at Newfound Research, where we are helping advisors and foundations and pension plans and individuals, anybody who wants to listen, to understand how to use prepackaged products of

different betas and alphas in order to create all types of portfolios that, in the way that the institutions do it, right? Stacking things on top of each other. Saying yes, and rather than this, do that. So if you want to check that out, go to Returnstacked.com. We have a ton of new content. We also have a new YouTube channel.

So look up Returnstacked Portfolio Solutions and you'll see four pieces of content there now, but we're going to put a lot more information over the coming weeks and months. So do subscribe, comment. If you like this channel, you're going to love that channel. And there will be, you can sign up for our newsletter so you can get some information over your email as well.

The last announcement is that we also have done an update on our own site. If anybody's interested in looking to see what ReSolve's been up to, go to InvestReSolve.com and let us know how we did on the revamp and what we're offering there. It has a bunch more information, bunch more presentations and images and content that I think you'd find useful.

And with that, I think we can start off our main conversation with our main guy. But I know that Adam has been preparing diligently for this, so when we started off with him, so have you, Richard. I know that you guys are hard working...

Backgrounder

[00:03:19] Adam Butler: Yeah. I have to say that some of the most fun conversations that I have the chance to have with people in the industry I've had with PJ at various events. So I've been looking forward to this. I actually, I look back, the first time we met was at a, I think it was a Real Vision conference here in Cayman.

And man, I think I spent two hours, I cornered poor PJ at the end of a table at dinner and just grilled him for two hours on MMT. And I had all kinds of questions and yeah he answered every single one of them. And I came away with just a way better understanding of the topic and having cleared up a lot of misconceptions.

So I hope that we can do the same today. And I thought that probably the clearest line of inquiry to get us started was to start with some of the basics, right? Because I think a lot of this, I don't think there's any topic in economics that is more misconstrued and misunderstood than Modern Monetary.

People confuse it with a very clear neoliberal prescriptive policy framework and like it just gets tarred with all kinds of different brushes. So let's start with, where did all this come from? My understanding is that MMT is actually a descriptive framework about how the monetary system works and then how the economy then, layers on top of the of the monetary system.

So maybe just start with what is MMT, as a sort of descriptive framework for how the economy works.

MMT

[00:04:48] PJ Pierre: Sure. I'm excited to be here with you guys. And this is obviously a topic that's pretty near and dear to me. So MMT, I think is pretty much a description of the debits and credits that take place, within any sort of a monetary system. And I think where a lot of the theory comes from, and a lot of the controversy comes from this idea that a lot of people with, armed with MMT insights come up with certain prescriptions that may bring about certain controversies. So the way I like to say it is I think MMT starts with a description of the sequence of events in a monetary system and I think that sequence is important because it's, it shines light on what things are applicable and inapplicable when you're analyzing a fixed exchange, floating exchange monetary system.

So for example, I would say that MMT describes our monetary system as a system where, or at least the money story, starts as a system where the government imposes a tax payable in its tax credit that it issues, which is the currency. And from there, the government spends, collects taxes, issues bonds. And that sounds like a pretty trivial sort of description, but the reason it's not trivial is, if you assume that the government starts from a, if you assume that the money story starts with the government first collecting taxes from the private sector and then spending, you arrive at all sorts of beliefs on what the government's fiscal position is and what that means for solvency, what that means for private investment, things like crowding out and so forth. But I think if, once you understand the sequence, it becomes clear that with a floating exchange system, certain things just aren't really applicable.

[00:06:47] Richard Laterman: So let's pause here for a second because I want to get this straight. So at one point, government needs to collect money, proceeds to fill its coffers so that it can spend that money into existence, right? If you think way back, if we're going to go from the start of when governments first organized, they were probably trying to raise an army, right, for all sorts of conquests and geographic additions to their mainland. And once you take that premise, where are they collecting those taxes from? Like the way I think about this, they're going to be collecting taxes

from the productive portions of the population. And that is the starting point from which they can then spend those taxes. What am I missing? Where am I getting this wrong?

[00:07:31] PJ Pierre: So I think the difference is, I think the idea that you bring about is a very common one, right? That's how we all learn about economies and monetary systems. And we look at them from a perspective of real resources, because that's what really matters, right? The currency is just debits and credits on a balance sheet or, something printed on paper or minted coin. It's the real resources that the currency buys, that's really important, that really drives the economy. So we think of, we like to think of it in terms of real resources. But if you think about it, when the government first collects a dollar, first collects taxes in USD, that sort of creates a sort of, begs the question, where did the private sector get the USD in the first place?

[00:08:17] Richard Laterman: I guess the USD would be the medium of exchange through which it has to pay those taxes. But the value that is accrued through goods and services is, happens above and beyond what the government is doing, right, above and beyond whatever medium of exchange is being used for that.

[00:08:35] PJ Pierre: Sure. But for the transaction, when the greenbacks were first introduced, US dollar, which is the unit of account that we most typically analyze, being American centric here in the U S, when the government first issued greenbacks and you would ask the question, how was the government able to spend greenbacks into existence?

How was the Union army able to be mobilized with this currency thing that didn't exist just a year before. And it's because the federal government imposes a tax payable only in greenbacks. which then allows them to spend those greenbacks into the economy as people are basically unemployed with respect to this new tax credit.

And then they're able to then go work, earn that tax credit and remit it back to the government. And this concept isn't as controversial as you think. The concept of revenue, the revenue translates to return, it's to return the tax credit back to the government. It's, it was never like the, it was never, tax paying public was never the source of that credit in the first instance.

Same way if you go to a ball game on Sunday to watch a foot, to watch a football game or soccer, whatever sport of your choice, it doesn't matter, and people going into the stadium and they're handing tickets over to the ticket attendant. They're returning those tickets to the ticket attendant.

Those tickets first came from *Stadium* and they're being returned as a credit, as an admission credit that gets you in the game. And when you understand that sequence, it makes certain things, I think it keeps you from making certain mistakes. It would, for example, it keeps you from making the mistake of the infamous widow widowmaker trade thinking that, where's, you know, who's going to buy the JGBs? This is a good short. Because eventually this, these rates are going to spike. It prevents you from that sort of thing because you understand that the credits used to buy, purchase JGBs are first put into the economy by the Japanese government when it spends, and then are only returned to it when the government taxes, or if there's a deficit, issues JGBs.

[00:10:42] Richard Laterman: But if I'm using your example then, and let's say the government is raising taxes for the first time, the greenbacks have yet to be spent or distributed into existence. I would imagine the first time those taxes are being levied would be through the collection of precious metals. And I know that this doesn't quite apply to the way the economy is run today, because we're no longer, we're in a fiat system.

Now there's no longer a gold backed currency of any sort, but originally I would imagine gold, silver, and maybe other types of precious metals were raised in taxes and that became then the ballast against which greenbacks were issued, right? The, especially back in the beginning, those greenbacks were IOUs that people would then claim that there would, there was the thought of there was a claim behind for precious metals.

So I guess what I'm trying to understand is this very beginning of this premise that MMT establish, establishes that governments spend this money into existence and then recollect it back as taxes. The way I envision this is, government's first need to collect taxes from the population. And the way I am envisioning this through your scenario is, collects dollars, collects sorry, collects gold, collects silver, and then establishes critical mass for this ballast, that then becomes the monetary system.

[00:11:59] PJ Pierre: So if you actually look at the way it's played out in history, it's very similar to what you're saying, except for the government doesn't, the government doesn't just show up and collect your, the government, say on a fixed exchange system or on a gold standard, the government would accept, or silver, precious metals in exchange for taxes. But what the government's actually doing is the government's purchasing your gold with its tax credit, which you then have and then can use to pay your tax obligation. So it's a purchase in the first instance, it's similar to like in the banking system when you get a mortgage.

It's accurate to say that the financial institution is purchasing your note when it issues you that mortgage and it's paying for that purchase with commercial bank deposits. And when you look at it from that sequence of credits, it keeps everything in line, in essence.

[00:12:55] Adam Butler: When at the foundation of most modern countries, whatever precious metals are held in reserve at the government were typically seized. They weren't harvested through taxes, right? They were seized, through either conquest or a military seizure on whatever landmass that you're defending. So...

[00:13:16] PJ Pierre: Yeah, some sort of conquest. Or if you look at like with colonialization. The British set up a colony and somewhere in the, off the coast of Africa or somewhere in Africa, it's, the government starts by imposing a tax payable in its currency. And in that way, if it's a mining colony, everyone there, maybe it's a hut tax.

And the government says, look, if you don't pay your taxes, we'll burn down your hut. These are very, it's a very, yeah, like in a feudal state, this is a very coercive system of governance with taxation, as we all know. And this indigenous population says, okay how do I earn this thing that I need to pay the taxes while you show up at the mine and you mine for the copper, and we'll pay you this many credits, and you owe, this is your tax obligation.

We'll pay you an amount that's typically in surplus of your tax obligation, which allows for savings. And that's what allows them to monetize this new colony with their currency. So again, from the beginning, it starts with that imposition of the tax. Then the government can spend that which is necessary to pay taxes into the economy. And then that economy can remit that back to the government to meet its tax obligation.

[00:14:24] Richard Laterman: Let's say then for argument's sake that we established that, that this is a good starting point because I guess we can go back on chicken and the egg. I can definitely imagine a scenario where even if the government did control a lot of the precious metals, there would have been warlords or other people with means that would have controlled a portion of that.

And so the government is acting on the economy against some of these other plays. But for argument's sake, let's just say that this is the starting point for the framework. Then it's useful to understand why you think that this way of viewing the monetary system is more useful or is more accurate than perhaps some of the more conventional frameworks.

[00:15:00] PJ Pierre: Yeah. And... note that you don't really, you don't really have to nail down how every single monetary system was started, throughout human history. It's not really relevant. The point is that you can start a monetary system this way. It has been done this way in certain instances.

And the sequence, I think, holds, no matter how you look at it. If you look at, if you go back to Roman times and you were on a precious metal system and you were using shekels or whatever. That instrument that's used, that circulates in the system is usually an instrument that comes from the crown.

And if you are caught counterfeiting that thing, you're punished. So it's tax credits historically, and are a creature of the state.

[00:15:45] Adam Butler: Yeah. And I think it's useful also to try and cast this in a modern context, right? There was a bill signed into law, the Inflation Reduction Act. Once that bill is signed into law, that money is de facto spent already. And the government then, so actually, maybe why don't you walk through the steps? Once a bill is signed into law and the government commits to spending into the economy, what happens then, in a modern context?

[00:16:12] PJ Pierre: Yeah. So like in our modern system, when Congress passes a budget and spending is appropriated, that appropriations, in essence, is instructions for the Treasury to make certain payments to certain agents in the economy. Whether those agents be government employees, whether they be government contractors, whether they be you know, citizens receiving stimulus checks, or any sort of private entity that's basically you know, engaging in trade with the government.

So it's that sequence, is Congress appropriates a bill, when it's the Treasury then, makes those scheduled payments and the Fed maintains this all on its balance sheet, which the dollar monetary system is just a balance sheet with debits and credits at the Federal Reserve.

[00:17:03] Adam Butler: So the spending happens because the, because Congress is bound by law that says that they're going to appropriate, that they need to appropriate these funds and distribute them into the economy and then they set about figuring out, is there money in the Treasury General Account to pay this? Do we need to issue new funding sources in order to raise the money to go pay this? And at some point in the future, some of the money that is paid out into the economy is then returned in the form of taxes.

[00:17:36] PJ Pierre: Yes, and whatever balance hasn't been used to pay taxes yet is evidenced by the national debt. Sits in savings accounts at the Fed, which is, which we know as, Treasury Securities.

[00:17:50] Adam Butler: Sure. And of course, whatever surplus is outstanding as government deficit is also definitionally private surplus, right?

[00:18:01] PJ Pierre: And that's just basic double entry accounting. I don't think, that's not something that's controversial.

[00:18:07] Adam Butler: Yeah. In, in many respects, the government creates the wealth and the private sector and the government distribute that wealth.

[00:18:17] PJ Pierre: So see, I'll be careful to use the term wealth, right? Because I think that's where some of these controversies come from, and these discussions, because some people argue, MMT proponents believe that currency is real wealth. And, so terms like wealth, terms like money can be a little bit too ambiguous, I think, for pushing forward a discussion.

But what it, what that does create are the net financial assets that accumulate as dollar denominated savings in the private sector. If you're an Austrian, if you're an Austrian, you don't believe that's real wealth.

[00:18:52] Adam Butler: Ha, right, and I want to get into the role of the banking system too here, because that's a very complex dimension of the whole MMT framework, that it's important to tell that story. But I want to dwell on for a second on the fact that, do you agree, first of all, with the assertion that under the framework that exponents of MMT view the monetary system, that taxes are not a mechanical constraint on spending? And if so, do you think that may be a source of discomfort with people who are first learning about how MMT views the monetary system?

[00:19:26] PJ Pierre: Yeah, I agree with you that I think that can sometimes be a source of discomfort. I also would like to make the point that I don't think that's a controversial statement, right? I think almost every modern school of economic thought understands that a fiat currency issuing government isn't revenue constrained per se. The government can issue currency and spend, I mean you know, we see all the means money printer ... understand that, when COVID, when COVID hit and they passed these appropriation bills. \$2.4 trillion in spending that the government didn't hurry up and mobilize the IRS to collect that 2. 4 trillion first before they could issue those checks.

So it's not really a controversial statement. I think what might be controversial or the point of contention is do MMT, as an MNT proponent, do I believe that the government can spend infinite sums of its currency into the economy and never, without any real consequence? And I would say that's often a mischaracterization of MMT. The idea is the government's not revenue constrained and the government can issue that currency, but then there are consequences.

Those consequences could be inflation. They could be a collapse of your currency. They could be all sorts of things. The burden of proof is on individuals making these sort of proposals to determine whether or not those consequences are real, or, have a high probability of hitting the economy.

When Congress appropriates a budget, it shouldn't be so concerned on balancing, spending with tax collection, as much as it should be looking at the full picture of if we are spending in deficit, is this going to be creating an inflation problem? Is this going to cause us to have trouble with our desired trade position, and so on.

[00:21:10] Richard Laterman: Is it productive spending or are you actually just kicking the can down the road? So I guess the revenue constraint comes from the ability to expand M2 or the monetary base, however you want to characterize it, versus the production of goods and services that can meet that additional monetary base, right?

So I guess maybe it would be useful to establish a couple of flags in the sand to understand how you're thinking and how your framework jives with our understanding. Would you agree that this recent inflationary episode that we've had over the last couple of years, would that have to do with the fiscal spending that the government deficit spending, the government had expansionary fiscal policies through COVID, necessary fiscal policies, you might argue on the degree and the size of those.

But that money was spent into existence and was given into the pockets and bank accounts of the population that were chasing the same amounts of goods and services, and at some points a more constrained amount of goods and services, because of supply chain constraints and all those things that happen. Would you agree that the primary driver for this inflationary episode had to do with an expansion of money and currency in circulation versus the availability of goods and services for the economy?

[00:22:26] PJ Pierre: Yeah, I think that's a fair statement. I think that statement is true by definition, right?

[00:22:30] Adam Butler: Okay, so maybe a better, a more general sort of way to approach this is, taxation is not a constraint, a mechanical constraint on spending. What are the constraints on spending? And if you violate those constraints, what are the expected consequences and how are they observed?

[00:22:50] PJ Pierre: Yeah. So I think the simplest answer I'd say is the government spending is constrained by goods and services offered for sale in exchange for its tax credit, right? And at any given price level, there's a certain amount of goods and services offered for sale. Like we all understand markets and sometimes you have to cry up the price to try to command more goods and services and which is, which can be known as inflation. But if you're in a situation where, for example, if you have a shortage of some critical resource, no amount of spending is going to allow you to purchase that resource if the economy is net short. There's always going to be potential real resource constraints. More fundamentally, the government could ask me to, if I'm a coder or a programmer, the government could ask me to write a program and I could just, my services could just not be available for sale. I could just not take that job, right? Government might ask you to sell your house and you may, you may decide to not sell your house no matter what they offer.

[00:23:51] Adam Butler: So it's a series of incentives and you have a very large number of agents in the economy that are all making decisions from day to day and minute to minute about whether they're going to be incentivized to work at this price, or incentivized to spend at this price or incentivized to produce at this price, right? And so in, what is the optimization that the fiscal, the government fiscal agent is trying to engender? Are they trying to create sufficient fiscal deficits or surpluses in order to be well aligned with the current productive capacity of the economy in general? Is that sort of the primary objective?

[00:24:35] PJ Pierre: I don't think they are. I don't think that our policymakers understand the role of government in that regard, right? So in a simple answer, like at a current given amount of, at a current level of taxation, the government creates a certain amount of demand for its currency. People looking for work in exchange for its currency.

And to the degree that it leaves, to the degree that the government allows that it's fiscal position to clear that market. Is it, agree that I would think you would say that it's optimizing the way you, the way you describe their item. So I think oftentimes our government, has a situation where, government policy can create, a million people who are unemployed and the government just leaves them there. So it's, I don't think I would consider that to be optimization. I think that's also another, I think, important insight of MMT is understanding that when the government imposes a tax based

on any given level of taxation, and private sector desire to net save, you could always see whether or not the government spending is adequate for full employment. And it's evidenced by by how many people, are unemployed. Anytime that you have high levels of unemployment, the government could easily move those people, employ that labor, either via a tax cut or a spending increase. And it doesn't really matter what your politics are. If you're a conservative, you probably propose, you probably would prefer a tax cut and that's fine. And if you're a progressive, you might desire to pay people to clean up the oceans and that would be a spending increase.

But, from an economic standpoint. And for what, where that leaves the government's fiscal position and the economy's, the economy's net ability to net save and where aggregate demand levels off, is going to be the same.

[00:26:27] Adam Butler: Same place.

[00:26:28] PJ Pierre: Ends up at the same place. Those just become political decisions.

[00:26:31] Adam Butler: So contrast that with, what I would say, maybe the, I guess the neoclassical view, but I think also the dominant economic paradigm that we've been operating under, say, for the last sort of 30, 35 years, the monetarist paradigm, since everyone seemed to embrace Milton Friedman's framework and policy guidelines, I obviously, the monetarist would say no, we don't do that with fiscal policy.

We do that with monetary policy, right? We raise interest rates when we want to slow the economy down. We lower interest rates when we want to accelerate economic demand. How does the MMT fiscal focus differ from the monetarists monetary or interest rate focus? And, what is the source of contention there? Why can't those two schools come to an agreement?

[00:27:17] PJ Pierre: I think it's, I think it's comes down to what you just said. Monetarists believe that, the economy should be regulated. Policymakers should regulate the economy through via monetary policy. And they believe that's the least, the least amount of intervention. And I argue, I would argue that they're missing a critical component, and that's the fiscal aspect of monetary policy, right?

Recently the Fed decided to raise rates to combat inflation. Simply put, when the Fed raised rates from near zero, 25 basis points to five and a quarter percent, five and a half percent, that increases the amount of interest the Treasury has to pay on the outstanding debt. That has, that has implied

fiscal ramifications and those fiscal ramifications are, can't just be hand waved away. I think that, that's real money. That's, at the current debt load and this level of interest, the government's paying a trillion dollars of interest payments a year to the private sector, and I, that number is probably not a trillion yet because some of that debt hasn't rolled off yet at those lower rates, but as that debt rolls off, doing simple calculations, that real soon the interest expense is going to, he's going to be well over a trillion dollars.

And if, you'd have to say we live in some pretty interesting times. Just a couple of years ago, we were talking about how much responsibility the Fed bears for income inequality with their zero rate policies and their non conventional monetary policies like QE and so forth. And now we have a situation where the Fed unilaterally decided to increase the amount of money the Treasury pays to people who already have money in direct proportion to how much they have. Using up limited fiscal space and there's not even any debate about it. If the, if Congress decided that they were going to increase spending by 500 billion, there'd be tons of debate, people would, one side of the aisle, would you have to, both sides of the aisle would have to agree for anything to get passed on and so forth.

We live in a world now where central banks just unilaterally could, put 500 billion of extra fiscal into the economy.

[00:29:35] Rodrigo Gordillo: Yeah, whether they want to or not, they want to or not, they're playing the fiscal game, right?

[00:29:40] PJ Pierre: They're playing a fiscal game.

[00:29:41] Rodrigo Gordillo: but the political party line is that Ma and Pa Kettle who save in their savings account, they can finally start getting a 5 percent nominal rate of interest that they hadn't gotten in 15 years.

[00:29:50] PJ Pierre: Yeah. And you could make the argument that it's a good thing that people could earn income on their savings, but we're not even, no one's even making the argument. It's just, we're not even debating whether or not that's a good thing or not. We're just, we just accept it as being sort of just an unavoidable consequence of trying to combat inflation.

[00:30:10] Rodrigo Gordillo: By the way, assuming that Ma and Pa Kettle can get 5 percent in their banks, which is a whole...

[00:30:14] Adam Butler: Yeah, that's true too. This would be a good time actually to bring in Oh, he said it's not like Ma and Pa Kettle are getting anywhere near the Fed funds rate. They're in their savings accounts either so...

[00:30:24] Richard Laterman: Not yet.

[00:30:25] PJ Pierre: They can if they buy T bills though.

[00:30:27] Richard Laterman: Yeah, those that have redeemed out of the mid tiered banks that are starting to buy that Treasury ladder of bills. But I did want to linger on, I think you're touching on an important point, which is this unelected body, technocrats and bureaucrats, has been afforded a lot of power, largely because of the paradigm that we've been in over the last 35, 40 odd years, which is, Adam was referring to before, which is the monetarists, these guys, especially once they leave office and they leave their roles as central bankers, they have admitted that they should not have this much power in their hands and they have been clamoring for governments to step in.

And I guess what MMT provides is a bit of a framework where the government, where elected officials can use as a way to disperse these fiscal outlays and to balance the economy in some way. I wanted to go back on this point that you were talking about labor and unemployment being a choice.

Unemployment is only a choice to the extent that you can spend that money and employ those people towards productive capacity, right? There's the old adage of having a group of people dig a hole, having another group of people patch up that hole. The GDP, you add to the GDP, you employ those people.

There's no productive activity happening there. So I'm wondering, do you agree that you can only employ those people and achieve full employment through the use of fiscal policy to the extent that you get those people to act productively and to produce goods and services that are demanded by the economy?

[00:31:56] PJ Pierre: No, I think I'd have to push back against that. I would argue that our Congress isn't productively employed.

[00:32:02] Richard Laterman: I would not argue with that.

[00:32:04] PJ Pierre: But those checks don't bounce and they're able to feed their families. Are they doing, would the American people consider what they do to be productive? Probably not. Approval ratings are pretty low.

[00:32:14] Richard Laterman: From us. On this call.

[00:32:16] PJ Pierre: But, and that, that retort's a little tongue in cheek, but it illustrates the fact that the government could, and when I say unemployment's a choice, what I mean is, so I define unemployment as people looking for work, that people looking for paid work, right? You could volunteer down at your local shelter, or, you could coach kids' soccer at the YMCA and give your time. And to me, that's a form of employment. And, or if, if you're looking for volunteer work and there's none available, they're, YMCA already has a soccer coach.

I don't consider that person to be unemployed per se, but if you're looking for paid work in the currency and that which the government demands as payment of taxes is how I think unemployment is academically defined. And when you look at it from that framing you realize that the government imposition of the tax obligation is what creates that unemployment.

It goes back to what you're saying in the beginning, Richard, when you said if a government wants to, the government creates unemployment in the private sector so that it could hire those people. Like the government wants to, wants a standing army. So it wants to create available soldiers who are going to then show up and conscript and get paid in their currency and so forth. And to that degree, Congress can always pass full employment policies. We've seen this during COVID. I argue that during COVID, the government passed full employment policies. The, they, we locked the economy down, people stayed home, but they got a paycheck in the mail because you were just employed by the government. People who are receiving unemployment checks are, they're employed, they're just in the public sector.

[00:34:01] Richard Laterman: And as we walk that forward, aren't the consequences that we have lived through of that policy of that two year, give or take, of fiscal outlays to remediate and I'm not passing any moral judgment here. I think that was necessary. You might argue the degree, but I think given the imposition of locking down the world or a good chunk of the world, you needed to provide people with the means to provide for their families.

And so I understand that. But if the inflation that we just saw is a consequence of that, then I think we're just, it's a real live example, recent live example of the consequences and the limitations of

such policies in the real world against the constraints if you're not producing enough goods and services to meet that addition of aggregate demand once that monetary base is a lot larger.

[00:34:48] PJ Pierre: Right? Oh...

[00:34:49] Rodrigo Gordillo: Can I clear something up for me? Sorry, guys. I just want to understand. You just said something that's very interesting, right? There was a policy that was implemented by the government. That policy has led to externalities that were probably not something that they wanted, which is inflation and over-employment. The blame has been placed on MMTers as like these guys, they went into the government, they told them what to do, and this is the cause. Like, MMT is a total failure. So this is where I think things are missing. My view is that what people perceive to be MMT is very different than what the government has done and is historically and is doing still. That the whole of the MMTers are trying to go into government and saying, this is our tool set, please use this tool set rather than what you've done. But maybe I'm wrong. So maybe PJ, you can clear that up, right? Is the question...

[00:35:40] PJ Pierre: Yeah, no.

[00:35:41] Rodrigo Gordillo: Are they, have they run MMT policies or have they not, and can we do better?

[00:35:45] PJ Pierre: So for me, it's difficult to say what's an MMT policy, right? MMT is just a framework for analysis. So I may come to you, I may come to the government with certain policy proposals that a different MMT proponent. come with different proposals. And it's no different from a monetarist or if you're a new Keynesian, post Keynesian neoclassicals, you're not necessarily going to have the same policy proposals.

What I will say is that, from the public's perspective, I do understand the, I do understand where they come from, where, and they're you know, before COVID, you had the popularity of MMT starting to grow really fast. Stephanie Kelton released her book, *Deficit Myth*. I think that was a New York Times bestseller in the economic category.

She was on the Senate Budget Committee working for, I think, Bernie Sanders staff and so forth, so started to get some level of prominence, as probably the most well known, the most visible MMT proponent. And, she was making the argument that the government's not revenue constrained. So in other words if we say we want to rebuild our infrastructure, we're not constrained by the budget

position, we're constrained by whether or not we have the available resources to do it, to get the job done and making these arguments. So as she was, I think correctly from my perspective, trying to push back against like this, budget myth, and then you get COVID and then the government acts in a very un revenue-constrained fashion, I do understand people saying the government did MMT and I think the government acted in a fashion where it recognizes that there's no revenue constraint, but I think most MMT proponents would argue that the government is always ready to act in that un revenue-constrained fashion when push comes to shove, right? When it's time to fund the Iraq war.

They don't go out and raise taxes dollar for dollar. They deficit spend and pay for the war and so on and so forth. And, when Bush passes the Bush tax cuts and prescription drug, that blows out the deficit. Ronald Reagan trying to win the cold war that blew out the deficit.

So the government. I think governments act in an un revenue-constrained fashion, but the political banter is always around a budget position. I think that's like more of a political football, right? Roderigo, your party's in power. I don't like the proposals you put forth, so I say, how are you going to pay for it? My party's in power. If we have enough votes, we sign the bill and we pay for it. And, that's just more like political gamesmanship than anything else. I think, most...

[00:38:15] Rodrigo Gordillo: In an ideal.

[00:38:16] PJ Pierre: Agree.

[00:38:17] Rodrigo Gordillo: What happened is, and what happens in the real world is it becomes bipartisan when it's a disaster and we need to fix it.

[00:38:25] PJ Pierre: Yeah, when it's a crisis, when it's a disaster,

[00:38:28] Rodrigo Gordillo: And so that's when everybody aligns and maybe they do a good job and they recognize that they're unconstrained from a monetary perspective, then when we actually need to do some planning as a community and actually create some spending on infrastructure that is needed in the country, that's where it's been really difficult to use any, you can't use the we're constrained by tax argument, right? Or that's when they do use, we're constrained by tax argument, and they won't, they're not willing to do it.

[00:38:55] Adam Butler: To reframe that, and I was, I wanted to ask this a little earlier, but this is the perfect time. Does it matter? How would you view the difference between spending and investment? Because I think I think neoclassicists are like, any budget, any fiscal deficit is spending, right? And you never hear a neoclassicist talk about investment if it's coming from the government, right? Obviously the COVID fire hose of money into peoples' bank accounts. That's clearly spending, right? And you can argue degree I think where, oddly, where there's the most contention in Congress is around what I would characterize as investment, right?

The US Society of Civil Engineers calculates something on the order of a \$6 trillion public infrastructure deficit has accumulated over the last 30 years. Seemingly it's impossible to find any billions of dollars to invest in a new infrastructure program, right? So how does MMT view investment versus spending and how does that contrast with maybe other dominant approaches?

[00:40:11] PJ Pierre: I think that's a good point, right? Because... it's these things come about from, the way we're conditioned to think about these things, that sort of dovetails into what I was saying before about the Fed raises rates five percent and the government's fiscal position increases by a trillion dollars a year.

And no one's debating whether or not we can afford to or not afford to do that. It's just a consequence of necessary policy. And I'm not saying that the Fed is necessarily wrong to do so or not do I think that's beside the point. It just illustrates what you're saying. And for me, it's, when I learned macroeconomics, I look at investment as a subset of spending. They're spending for consumption. They're spending for, they're spending on investment, which gives you some sort of residual. The belief is that if you spend on productive investment, that increases your future income, which allows you to consume more in the future. To me, investment is a subset of spending.

So I agree with you. I think that when we look at government spending, we don't have a debate around whether or not this is, whether or not the spending is going to do something that is productive, that's going to pay dividends, like rebuilding our infrastructure, educating our youth, those kinds, there are these things that we all agree are important things, as Americans. But we seem to have resigned ourselves to the fact that we maybe can't afford to do them to the degree that we would like. Because the government's run out of money, and no one wants to pay higher taxes, which is understandable. So the belief that the government needs to get the money from taxing the the public to spend on these things, is the limiting factor.

When you have these discussions and, as I was saying before if that's the belief, then that you would expect the public, if they understood, would be very upset with these rate hikes and be wondering, hey, you know how I don't want to have to pay. I don't want to have increased taxes to pay for these, for these rate hikes, but it's that same dynamic.

So it, there's definitely some sort of selective, we're really selective on where we apply these constraints, similar to Rodrigo's question about the fiscal side, as well, where it's, I think it's just the way we're conditioned to look at some subsets of spending versus others.

[00:42:27] Rodrigo Gordillo: And is this a main goal of the MMT community, do you think? Is this a top of the agenda item to educate on that part, or different?

[00:42:37] PJ Pierre: So as Adam said I had the privilege of working with Warren Mosler, working directly under Warren Mosler for a few years, and he remains one of my dear friends and a mentor to me. And, I'm not going to put words in all MMT proponents' mouths, but I will say that Warren's motivation for, in essence, being like the genesis of this framework was exactly that.

It was this idea of, it was this idea that we allow there to be real resource. We basically have less real wealth, lower standard of living because we're chronically starved of our actual productive capacity. We're not reaching that. We're not achieving our true productive capacity. If you look at aggregate demand in the United States, it's, right now we have record low unemployment.

And I would argue that we're still chronically, aggregate demand is still chronically lower than it could be. And you could see that to me and what I think economists would term as effective demand, right? Effective demand is, if you need, we want to hire more teachers, more cops, but people don't want to, people don't want to do those jobs at those wages.

Effective demand isn't just, is there demand for your services? If you set wages at zero, there's infinite demand for every good and service. How many personal assistants would you have, Rodrigo if they were free? Maybe 10.

[00:44:00] Rodrigo Gordillo: Not enough, man. Not enough.

[00:44:02] PJ Pierre: Not enough, right? But if you have to pay them, that's when you see where effective demand really is. And I think that we've just been chronically starved of aggregate demand and, not in all periods. There are bottlenecks like we saw post COVID where there were real labor

shortages. There were people who were hesitant to go back to work. A lot of people lost their lives from COVID. Those are, some of those people were people in the labor force.

[00:44:29] Rodrigo Gordillo: Those are people that didn't want to go in because they had enough money in their pockets not to have to work, right? So those menial jobs might've not been, if I could not work, or work in a shitty job, then that's a different.

[00:44:40] PJ Pierre: Yeah, or, I could afford to stay home and by staying home, I could watch my kids. if I go to work, I'm going to have to pay for daycare and then that's too expensive. So people are making those sorts of economic decisions. And yeah, you have those sorts of bottlenecks, but I think if you look over the last 40 years, we've, you know, our productive capacity has been running, most of the time, well below 80% and our capacity utilization, and it's, you see it in the effective demand. It's companies want to hire truck drivers, but they're paying a wage well below what people are willing to accept to do that job. What does that tell you?

That tells you that based on the current level of taxation, and the private sector's desire to net save, there's not enough effective demand, there's not enough aggregate demand to basically support, to support employment at certain levels.

[00:45:38] Rodrigo Gordillo: Okay. I want to...

[00:45:38] Richard Laterman: What role does demographics play in this? Sorry. I, because we've touched on a few topics now that are, in my view, circling the drain around this issue of demographics, which I think has changed, has evolved quite a bit in the last 40 years. And some would argue that it was the coming of age of the baby boomers of the 19 in the 1970s and eighties that propelled much of that increase in aggregate demand and part of the inflationary balance that we had throughout that year. So I wonder if you might bring demographics into the picture. How does that play into the MMT framework? How does it, how does the MMT framework contend with the role of demographics, aging population, and maybe you might sprinkle in an analysis or an understanding of what that does to the participation rate in labor, which is what we've seen is at historic lows and has been for some time, which I think touches a little bit on, on some of the things you've been talking about just...

[00:46:34] Rodrigo Gordillo: And how that ties into effective demand, which I still want to understand how we measure that in like just the measurements generally.

[00:46:41] PJ Pierre: Yeah, I think the demographic point is a very important one and I'm also sympathetic to the view that a lot of the, a lot of the boom we had in the 70s and into the 80s had a lot to do with demographic trends. And that now we might be seeing demographic trends going in the other direction as boomers are retiring.

But I'll say that I think some people use demographics to do too much work in their modeling. Because if you, if you look at it for example, with millennials, a few years ago, people were saying things like, oh, millennials just aren't really interested in household formation.

They'd rather live in the basement and take trips and go to concerts. They care more about experiences and things. But then as soon as and YOLO, exactly. But as soon as unemployment fell below 6%, all of a sudden millennials started buying homes and buying things. And it's, so you, so I do think that there, that you can't discount demographics of course, because I think demographics are fundamental to the demand picture, but I do think that you, when you're thinking about optimizing your real wealth as a nation, I think you can make the argument that we have not done those sorts of things. Just look at something simple as like the tariffs, right? We've decided that, we decided that Canada was selling us lumber for too cheap, making it too difficult for US lumber producers to compete.

So 17 percent tariff. That's, like you're literally telling your neighbor to charge me more for the, you, we still need Canadian lumber. It's not like we had a surplus of U. S. lumber and Canadian lumber was just, it was still a critical part of the entire demand stack. And all we did was make that component of it more expensive.

So when you look at the inflation story, I think not enough is being said about what, about the role that tariffs played in the inflation story. Biden came into office and he doubled down on the Trump tariffs and those, they went from 17 to 34%.

[00:48:42] Rodrigo Gordillo: Yeah, the special interest group benefited, but the rest of the population didn't.

[00:48:46] PJ Pierre: The rest of the population had to pay high prices for lumber. And it's, so you get those sorts of dynamics that, that really suppress aggregate demand. And, I don't know if I know of a really good measure of effective demand. I just know that anecdotally to me it's just obvious in the fact that where, when, so for example, when the government passes Dodd/Frank, right? It causes, it imposes a higher level of regulatory burden on financial firms and on bank, on the banking

system, banks. Banks have to hire more compliance officers, so on and so forth to meet this compliance. You never hear, you never hear JP Morgan say, we were trying to hire somebody to do compliance.

We're going to pay them a hundred thousand a year. And no one showed up. It's no, because there's effective demand for that job, but you hear it with a truck driver where they're trying to pay them, 30 an hour, 25, 30 an hour. And it's no one's showing up. It's yeah, cause maybe you need to offer 35, 40 to get people to show up for that job. And so I think anecdotally, you could, you could get a sense of where effective demand is based upon, where the current economic incentives are allowing certain labor markets to clear, where certain other ones aren't.

[00:50:02] Rodrigo Gordillo: So how would MMT in that particular example, like an MMT policymaker, come in and say, okay, I think we can fix this by doing, how do you incentivize? Yeah, much better. How do you incentivize that, those truck driver employee employers to increase their prices via MMT?

[00:50:20] PJ Pierre: Could think of proposals that could incentivize that kind of thing, but I don't know if I'm necessarily proposing that's what we necessarily need to do. I think the bigger insight is understanding that the economy, that we could afford to have, or recognizing that the economy probably has more drag than we're currently modeling.

So I think the way you would incentivize that to me, I think the easiest way, the thing that has the most political capital to get done would be a tax cut. I think we're overtaxed as a society. And I think it's evidence in the fact that lag of aggregate demand, some proponent, someone who's a little more, some people might want to do that via some sort of, some form of spending increase. I think you could do, I think in a lot of instances you could do both, right? If you want to if you believe that you want to invest in the infrastructure, then I believe that you would incentivize it via spending money on infrastructure.

I think that sort of, that increased income that private firms see is going to support them, their ability is going to support profits at a higher level that would allow them to pay a higher wage. So it allows them to attract more labor. The reason why the banks don't have any trouble attracting the labor is because they're probably, their profits aren't as squeezed as construction firms or transport companies.

[00:51:40] Rodrigo Gordillo: Yeah, let me just...

[00:51:41] Richard Laterman: There's also a consideration, when it comes to some of these jobs, you're referring to trucking, you might talk about coal mining. Isn't there also the incentive that once you can't find enough people to work at that particular price, what you're actually doing is, thank you very much, spurring innovation, whether technology, particularly technological innovation, so that no one needs to work in those jobs where you're causing harm to your health, or you're sitting in a car for tens of hours at a time. Isn't it preferable from a societal outcome perspective to not raise the prices of those, of those goods and services or in particular those jobs that are more harmful, so that you can actually starve the economy and to some degree, create the innovation.

[00:52:27] PJ Pierre: No, I think that's a fair point. That's why I was a little uncomfortable with Rodrigo's question of, how would I incentivize it? I'm not proposing like a centrally planned economy. I don't think that I think letting the economy, letting economic agents compete and come to, come to the best solutions for some of these problems is the best thing. I think if you had infrastructure spending, firms would be able to invest into creating those sorts of innovations that you're saying that could, you know, ease some of these labor issues. With labor shortages companies can innovate and create autonomously driven trucks and you know, you're seeing that in the mining industry and so forth and but all that requires there to be an adequate level of aggregate demand that people are willing to basically make those sort of CapEx expenditures.

[00:53:17] Adam Butler: And invest at those, at the horizons necessary in order to generate that kind of long-term innovation.

[00:53:22] Rodrigo Gordillo: It is generally a government led type of project, right? I think the, in terms of total aggregate capacity. One of the clearest examples is starting from the beginning of the United States. What happened, you have some money to spend. You have two options. You could give it to people so that they can buy up more product and more goods and services, or you could invest in railroads, and partner with industry. And what happens when you build railroads, it's just, it makes it easier to do commerce and that's the type of, I think if you are decaying in your infrastructure, you're slowly reducing efficiencies, which means that you're not maximizing your ability to grow as an, as a society to be more efficient to have ... companies to go from West coast to East coast and so on and so forth.

So that's. Yeah. That's the decision that you make as a government agency is, are you putting money in people's pockets so they could buy more things and bid up prices, or are you putting money in something that will smooth out the economy and improve efficiencies? That is, I think, the...

[00:54:22] Richard Laterman: Especially the crowd in private investments. So be the first lost capital to...

[00:54:28] Rodrigo Gordillo: Yeah.

[00:54:29] Richard Laterman: ...take the risk off the private enterprise to remove risk off the table so that you can incentivize private companies to come in and build infrastructure and build and provide goods and services for the general population.

[00:54:41] PJ Pierre: Yeah. I think we've seen a good example of that with housing, right? When the government created like the GSEs, and became that first loss buffer for more home mortgages, for home loans, you saw an explosion in home ownership as more and more people were able to get affordable mortgages and buy houses.

And, that caused that growth in housing starts. And you see those sorts of, you see those sorts of policies play out in certain areas, but we, I don't think we have a framework that sort of applies that thinking more broadly to the broader economy.

[00:55:15] Adam Butler: You gave me twitches and seizures on that GSC assertion, right, because now you're introducing credit expansion and speculative incentives and all kinds of stuff. We know where that ended up with Fannie and Freddie and receivership. And, so there's lots of hair on the, we're going to, we're going to backstop. You backstop investment that's securitized and then basically you're providing for a major leverage bubble, right?

[00:55:42] PJ Pierre: So no, I agree. I think that there's, I think there's ways that you could, I think that those policies were mismanaged, right? We had that implicit government guarantee, but then we also had laissez faire regulation. I don't think if the government's going to guarantee it's going to backstop an activity, I think they should have a very narrow set of rules on how you're able to basically do that thing, right? The government trains and arms a Marine, and they don't just let the Marine, roam around and pull the trigger wherever he chooses.

[00:56:11] Richard Laterman: That's the plot to Jason Bourne. Isn't it, isn't that the Bourne story in a nutshell?

[00:56:16] PJ Pierre: It's true.

[00:56:16] Adam Butler: The government could just step in and buy out and build houses too, right? They could, or they could incentivize municipalities. With massive...

[00:56:24] PJ Pierre: Yeah, see,

[00:56:25] Adam Butler: ...tax breaks or something to build light rail and...

[00:56:28] PJ Pierre: They certainly can.

[00:56:30] Adam Butler: ...in,

[00:56:30] PJ Pierre: They certainly can. I would argue that they're probably not the most efficient agent to do it. I'm not one of these people who, you know... the government's inefficient no matter what the government does is inefficient. I don't think that's necessarily true, but I think it can be true in a lot of spaces, right? There are a lot of things that the private sector is able to do relatively efficiently that I think, if the government was building houses, then how many committees would it take to agree upon the floor plan?

[00:56:54] Adam Butler: The army could do it really efficiently, but

[00:56:56] PJ Pierre: ...army could do it. The army could do it very...

[00:56:59] Rodrigo Gordillo: ...the regulations and the policy. Like it's what Elon Musk complains about in California, right? Like they can't build anything and build any...

[00:57:05] PJ Pierre: The government can do things efficiently, sometimes.

[00:57:08] Rodrigo Gordillo: Any different governing bodies that have...

[00:57:10] Adam Butler: Okay. Okay. I'm going to, I'm going to, I'm going to press pause because I, we all could roll, we all could roll on this for another two hours. But I want to make sure that we also hit on a few other topics. One thing I think people are going to be screaming at the screen is, okay, you've mentioned the fact that the Fed has raised interest rates from zero to five and a quarter, and that is now blasting currently a half a trillion and very soon a trillion dollars a year of new fiscal spending into the economy, which I think you're arguing is going to be a positive feedback loop of fiscal stimulus, right?

That is not being properly accounted for by most economic schools. What would you have them do? So we have this inflation problem, the Fed has stepped in, they've tried to curb inflation by this rapid increase in interest rates. First of all, what does the Modern Monetary school say about what, why raising interest rates is likely to curb inflation? Maybe not. If you wouldn't mind spending a few minutes on that, just, cause they're not acting without some belief system, right? They think that this is going to work, right? So why do they think it's going to work? Why don't you think it's going to work? And what would the MMT school, with your framework and understanding, recommend instead?

[00:58:28] Richard Laterman: And maybe let's not forget that in addition to raising your interest rates, we have QT happening in the background, which is a hugely critical component of the monetary tightening that's happening right now, because it is forcibly removing reserves from the system. But please expand on that, Pierre, if you don't

[00:58:48] PJ Pierre: Yeah. I think our policymakers are operating from the framework that by raising interest rates, they're going to, they're going to limit credit. They're going to curtail credit. And by doing so, they believe that's going to slow the economy down enough to basically, bring down prices. And then that's where we get into the discussions of soft landing, hard landing, so on and so forth.

So the belief is that, the government's going to basically curtail, the Fed's going to curtail economic activity through lending channels and, whether or not that's going to cause a recession or not is debatable and so on and so forth. But that's how they believe that they're regulating the economy.

They're hitting the brakes. And I think it's, that's this monetarist view that and it's more, it's not just a monetarist view. I think that's a very uncontroversial view. I think it's a, it's pretty much accepted by post Keynesians, Neoclassicals, also where it's this belief that by raising rates, you're going to hurt borrowers more than you help savers. And I actually think that's, I actually think that's a relatively fair assumption. It's a belief that the borrowers probably have a higher propensity to spend than savers. Even though raising rates is a transfer from borrowers to savers, the borrowers are likely to curtail their spending by more than savers would increase their spending from this added income.

And I think that's a, I think that's a fair assumption. What I do think is the problem is when I started, I really got really deep into like high level macroeconomic discussions and debates, 15 years ago, right after the global financial crisis. And when we would have these conversations at conferences,

talking to other schools of thought, whether it be on message boards, whatever, one of the things that you would always hear is the problem with the government running persistent deficits is that eventually the debt level gets high enough that the Fed loses its monetary policy tool for regulating the...

[01:00:59] Richard Laterman: Dominance.

[01:01:00] PJ Pierre: ...fiscal dominance. And this was something that was, pretty much back then, it wasn't even debated.

As an MMT proponent, we didn't say that's not true. We were like yeah, there is, there could be that point where the Fed would lose that tool. And then at that point, if you were facing, dealing with inflation problem, the government would, should probably cut spending or raise taxes because raising rates is only going to be adding fiscal, not removing it.

It's like everyone was in universal agreement on it then. And back then, the debt, I think the, we probably had what the debt, the GDP back then was maybe 30 between somewhere between 30 and 50%.

[01:01:42] Adam Butler: Less than half of where it currently is. Yeah. Yeah.

[01:01:44] PJ Pierre: Less than half of where it currently is. And, no one really knew what that level of debt was, where you would start to see fiscal dominance, but they knew that at some point you would get that risk.

And now that we have debt to GDP at 100 in the, within the private sector, privately held debt is 100 percent of GDP. And, I would make the argument that we're already at a level where you're seeing that fiscal dominance. And for me, I believe that you're seeing it because I believe that's what that's why you see the economy is being, that's why you continue to see economic growth. You continue to see unemployment at record lows, and core inflation isn't coming down. Or at least not nearly as fast as the Fed would like to see it come down.

And to, I, in my opinion, I just think that the burden of proof is on those who believe that, I don't think the burden of proof is in, is with the fiscal dominance camp. I think the burden of proof is with those who are saying that, no, this debt level is not so high that we're seeing fiscal dominance.

And you get the argument that no, monetary policy just works with long and variable lags. And MMT proponents aren't, this fiscal dominance view isn't a view that's universally shared by MMT proponents either. Most of the MMT academics actually were pounding on the Fed and saying, "Hey, the Fed's going to cause a recession by raising rates", so on and so forth.

Guys like, me, Warren Mosler, Mike Norman, a few people were saying, "Oh no, I don't know. I don't think so. I think the interest on the debt is going to more than make up for whatever, whatever pullback in lending". And to this point, we haven't even seen that pullback in lending.

So what that tells me is, that tells me that savers are spending a portion of that excess income and that portion is enough to support the current level of credit creation and employment and economic growth. And I think it's, I think it's, the risk is if the Fed it, it puts the Fed in a real tough spot, right?

So if the Fed says, okay, so higher for longer and inflation remains persistent, God forbid inflation accelerates. With oil prices rising, there's a real risk inflation could accelerate. So the Fed goes, all right, maybe we have to do another couple of hikes. I think it gets to the point where I think there's some positive convexity in how much fiscal dominance actually supports, as they hike rates more and more.

I think that starts to be that much more excess spending because to me, it's all about, it's all about net savings desires, right? We work, we earn, and then we, we pay our bills, we pay our taxes and we try to net save. We try to reach our savings position. And any surplus income we have above our desire to save, typically we find some way to spend it.

And that spending doesn't even have to be in the form of consumption. I think that's where I think some macroeconomists, I think, in their models missed the boat where they only model consumption as a form of spending that can create inflation. Investment can also create inflation, right? If you're, spending money and giving it to VCs that are giving it to, these all sorts of "We're going to change the world"...

[01:04:59] Rodrigo Gordillo: Buy all these batteries, change...

[01:05:01] PJ Pierre: Buy all these batteries or, you look at businesses like WeWork. We're going to lease out a bunch of buildings and subsidize our customers to come in them. So we're just going to create growth at any cost. All these kinds of things are, our demand channels that can support prices at higher and higher levels, potentially, not necessarily, but it's possible.

[01:05:21] Rodrigo Gordillo: So is the, is your view that it's okay, I get that's what could happen with the way we're going. So raise, hiking rates might be the opposite of what we want. Is it then, should...

[01:05:32] PJ Pierre: Yeah.

[01:05:33] Rodrigo Gordillo: Is that the goal? Yeah, the...

[01:05:34] PJ Pierre: I think so. Like to me, I think the government should be, I think we should be a little bit more targeted in what we're doing with these policies. I'm describing a situation where we're as a, as collateral consequence of fighting inflation, we're paying more and more interest income to savers, to bondholders. We could have a, we could have a more thoughtful policy where we don't do that, right? We could have a more thoughtful policy where we keep rates at a, we keep rates, at whatever levels desire. I don't know. My preferred rate would be zero because I think that's the rate policy. That's the least amount of government intervention.

Like to me, like a positive risk free rate just means that every borrower has to pay that much more. There's no reason the risk free rate necessarily has to be positive. And all that does is just, push out this...

[01:06:26] Richard Laterman: Doesn't that create all sorts of externalities? When it comes to wealth, inequality, asset bubbles, doesn't that kind of lead into this *Minsky moment of disequilibrium* when we have, when you have this free money and this fanciful thinking, like very creative interpretations of investment and...

[01:06:46] PJ Pierre: That's been the narrative, but I don't know. I tend to push back against it. We, we didn't see those sorts of things play out in Japan.

[01:06:52] Richard Laterman: But we did see them in the last decade in the U.S.

[01:06:55] PJ Pierre: But we also saw them in the 90s in the U. S. when interest rates were 5%.

[01:07:01] Rodrigo Gordillo: And correlation.

[01:07:02] PJ Pierre: It's, so to me it's hard to determine as to whether or not, zero rate policy is really what caused those sorts of excesses. We've seen I think U.S. ...

[01:07:10] Richard Laterman: What might have caused them otherwise?

[01:07:12] PJ Pierre: I think it's just the way we, our institutional structures and the way we, the way our institutional structures allow spending and wealth to be accumulated in our economy. It allows enough of it to accumulate with capital and then capital is always looking for a way to invest in, at returns and you get these, you get when you get large pools of capital, you start to see investments that can be not as prudent as you would see when capital is a little more scarce amongst allocators.

[01:07:41] Adam Butler: I think there's a lot of truth in that. I think there's an important thing to, I think, explore a little bit, right? And it's not just the savings glut, right? The Bernanke savings glut, which I think is part of what you were alluding to, right? There are, there's a huge, there's actually, there's a small number of extremely wealthy institutions and people that, that need a home for their capital. And they're all competing for returns. And therefore the, you've got too much capital chasing too little production and there, and that's where you get low yields and therefore high prices, right?

[01:08:14] PJ Pierre: And then you start to go up the risk ladder when you're making these investments,

[01:08:19] Richard Laterman: Was the stated objective of QE when it, first the idea was to actually compress risk premiums to incentivize banks and private investors and the general population to take on more risk, to spend more to reduce the incentive for risk free saving.

[01:08:39] PJ Pierre: I think that became the narrative, after the fact, to me, I feel like ex ante QE, the idea of QE was to give the banks excess liquidity, thinking that would then spur lending.

[01:08:54] Richard Laterman: And up their balance sheets to some degree as well, help them with a balance sheet recession, which was clearly the main culprit.

[01:09:01] PJ Pierre: Yeah. I think the MMT policy was born from what I believe is a misconception that banks are reserve constrained when it comes to lending. This idea that if they have excess reserves, they'll do more loans. And it's just not, it's just not how bank lending works.

[01:09:15] Richard Laterman: I don't know if we have enough time to pull in all of these different threads that are coming up and there's so much interesting, but I did want to ask you something

because you do offer a quite a nuanced view. Your views are very nuanced with regards to MMT and how it fits into markets and the economy versus some of the other things I've heard.

And particularly, I read *The Deficit Myth* and I heard Stephanie Kelvin talk about it in a couple of interviews. I was very curious. She said something that stuck with me. And I'm from Brazil originally and that job, that did not seem to resonate with our lived experience of hyperinflation, which was the role of inflation expectations.

And she suggested that inflation expectations was something of a myth, or it wasn't really a strong variable that could lead to the self-fulfilling prophecies of higher inflation begets higher inflation. And that was precisely the type of pernicious cycle that we saw in Latin America, in Brazil, from Peru.

We saw that from Brazil. I remember we actually had to create an intermediary unit of value that was divorced from the old currency and the new currency in order to break the back of inflation expectation. This was a Nobel prize winning concept. So I'm curious, what role...

[01:10:27] Rodrigo Gordillo: you're going to have to tell the full story there, Richard, because it's a fascinating one. So maybe we'll do that next time. But yes.

[01:10:33] PJ Pierre: I think you got, I think you guys should bring Warren on the show and kind of dive a little deeper into some of the specifics of that Latin America experience. I think that'd be a good show. But yeah, no,

[01:10:42] Richard Laterman: ... willing to come, if you want to do the introduction we'd be very happy to have him.

[01:10:46] PJ Pierre: Yeah. I don't think that's a problem at all, but no, I think to, to your point so with inflation expectations, I think what, this is a hairy one to jump into here because so I think it really goes to whether or not you are describing inflation as academically defined or what we more casually determine, coin as inflation, which is just an increase in prices, right?

Inflation as academically defined is a continuous and constant increase in the price level. And it's, and you should be able to measure that across all prices broadly. It's never going to be everything, but it should be pretty much universally felt. Cost of labor should be going up, cost of housing, cost of energy, and I think that's the inflation that Milton Friedman says, that inflation is everywhere and always a monetary phenomenon in the sense that you can't have it without an increasing money

supply, because eventually you just run out of money, the economy crashes, and the economy becomes liquidity constrained, and then that, that stops. So for that to be persistent, you need that growing money supply.

[01:11:55] Richard Laterman: It's a truism, right? Everywhere and always a monitor. It's true, but it doesn't really explain. It doesn't do a, doesn't really explain anything.

[01:12:00] PJ Pierre: I think if then, I can't really speak directly to the inflation that you were experiencing in Brazil, but what I will say is there's this belief that, so for example, with COVID, there's this belief that when prices increase, that it's going to run away to the point that every agent is going to compete to increase their prices. And then you get these sorts of inflationary spirals. And I don't know if I believe that's always true. Now, I do think a lot of Latin American countries had government indexation to inflation.

[01:12:39] Richard Laterman: That was a huge variable,

[01:12:40] PJ Pierre: ...think the indexation.

[01:12:42] Richard Laterman: salaries and auto triggers of inflation indexing for...

[01:12:46] PJ Pierre: So I think it's the inflation indexing that allows that. So you have that higher amount of government fiscal that's supporting those higher prices at these higher levels. I think in situations where you don't see that sort of indexation, I don't think inflation is able to just run away based off of expectations that way.

[01:13:05] Rodrigo Gordillo: There's just going to, of Brazil, actually, Richard...

[01:13:07] Richard Laterman: ...does...

[01:13:07] Rodrigo Gordillo: ... the Treasury Information Protected Notes, right? Whatever they were, higher than the interest rate, always.

[01:13:14] Richard Laterman: And so everybody in the salary renegotiations, every year you had salary repricing and salaries would go up by the previous year's inflation. And that, that becomes a self...

[01:13:24] Rodrigo Gordillo: But also the bonds, the government bonds would provide...

[01:13:27] Richard Laterman: You have those...

[01:13:27] Rodrigo Gordillo: ... would match the yield. And so that's, why would anybody invest anywhere else but bonds? And if that's monetary, you're just creating a self-fulfilling prophecy of...

[01:13:35] PJ Pierre: I remember once I was talking to a Fed staffer or actually someone from the Treasury and he was saying., "Why do you guys sell TIPS? Tips is just redefining your currency lower." Basically like we're staying with indexation, and he struggled to find a good reason as to why they sell TIPS, except ...

[01:13:52] Rodrigo Gordillo: Except that Bridgewater orchestrated portfolios, right?

[01:13:56] PJ Pierre: Exactly. And it's. So it's, I think it's always those sorts of dynamics. I also, with Latin American countries, a lot of times too, you have to be careful of, there's often some kleptocratic policies that go on too that can really spur inflation. So yeah, you have these dynamics where the state's making loans to private individuals and then forgiving those loans.

[01:14:19] Rodrigo Gordillo: Yeah.

[01:14:20] PJ Pierre: No, forthose guys, so those private individuals use that currency to buy FX and puts pressure on the currency, puts, makes imports cost more. So everyone has to raise their prices because to, in order to afford...

[01:14:32] Richard Laterman: Unproductive government spending and kleptocracy is the name of the...

[01:14:37] Rodrigo Gordillo: In fact, you know...

[01:14:38] Richard Laterman: ... combined names of the game.

[01:14:39] Rodrigo Gordillo: what Fujimori did in 1990 in Peru was Once he took over and just completely dissolved Congress and took over, he basically said, we are going to create a deflationary shock. We're not going to pay interest rates. We are going to match up what the cost of grains are in Peru to what the cost of the world is.

And it is what it is. Deal with it. And it was called the Fuji shock. And there was a momentary pain, but then it completely fixed the inflation problem in Peru. And we haven't had inflation above three and a half, four, like maximum 4 percent in the last 30, 40 years. It's been, it's interesting.

Okay. That's, I got to go back and rethink this. This is good. This is a great place to we're coming to an end here, but just last thing I want to ask you. So you got all this knowledge, how much of this knowledge. And it gives you a guide path for how you position your portfolio.

[01:15:37] PJ Pierre: Yeah. So I think, I've been asked this question, many times before, and, my default answer is I think it keeps me out of trouble more than it, more than anything, right? It, it doesn't always inform a trade, but a lot of times it keeps me from putting on a position just because.

It just, my framework just tells me that's probably not likely going to be the way things play out. Going into this year, end of last year, going into this year, a lot of people were putting on recession trades. I was not doing that. I was taking the other side of those crowded trades.

So I was long yields. Long yields, long growth assets to a certain degree. I wasn't as long as I should have been. So I didn't have the courage of my convictions to the degree that I should have had.

[01:16:21] Rodrigo Gordillo: Tis.

[01:16:22] PJ Pierre: To a certain degree, I was probably, now it's paying way too much attention to the changing options, market structure, things like that last year and this year.

So looking at a lot of things that were probably, I should have just bought stocks and played golf to be honest.

[01:16:35] Richard Laterman: it's the perennial, that's the perennial faith of any trader, right? When you're right, you were too small. When you're wrong, you're too big. It's never going to be any different.

[01:16:43] PJ Pierre: It's never going to be any different, but so it, I think it's a lot of those sorts of dynamics. There was, I think there was a lot of chatter over the last 12 months about, Japan and yield curve control. And, maybe now's the time to short JGB and, trades like that.

I don't think I get as. Caught up with so it more or less informs that. But the other thing is the markets, the market's never wrong, right? We all know that as market participants, the market is the market. So if most players are operating from a framework, that's very different than mine.

Sometimes it's prudent for me to trade alongside that crowd, even if I disagree, because that's just the direction of things.

[01:17:24] Rodrigo Gordillo: Yeah, awesome.

[01:17:26] Richard Laterman: take a while for the market to be,

[01:17:27] PJ Pierre: oh

[01:17:27] Rodrigo Gordillo: That's right.

[01:17:28] Richard Laterman: the, you could be right but early and you can go broke before your thesis manifests, but to just to close the loop on the J G B, you might have not have made money on shorting the J G B, but you definitely would've made some money shorting the yang.

So the,

[01:17:43] PJ Pierre: I've been short yen. I've been short yen.

[01:17:45] Richard Laterman: Yeah so have we, and it's been one of our best trades this year. That there are real constraints. So if you're going to hold one side of that for some things that have crumbled somewhere else, and that's where the and that's where the trade actually was, because there was real yield curve control.

And there continues to be, even though they've hinted at a slightly wider range for yields.

[01:18:06] PJ Pierre: Not to mention the energy exports, right? There's lots of reasons to be short yen.

[01:18:11] Richard Laterman: Yeah, for sure. But we're coming up on an hour and a half, and I continue to have more questions and

[01:18:16] Rodrigo Gordillo: god, yeah. We've got to do a part two for sure. Now that you've cracked Latin America for me, we're going to spend we're going to get.

[01:18:22] Richard Laterman: Yeah, we're doing it for

[01:18:23] Rodrigo Gordillo: State of the union here. Listen, I, we appreciate you coming by and given us this amazing masterclass on everything MMT and how you think about trading.

And I think that's important to how we match our macro views with how we trade and the level of things that inform us, anybody listening, is there any place that we can follow you and See what you're thinking on a day to day basis.

[01:18:44] PJ Pierre: Yeah, I don't do a ton of posting on social media, I'm on LinkedIn. I'm on Twitter. I think you guys linked my Twitter account. I do post on Twitter occasionally. People want to connect with me on LinkedIn and, ask me questions or just talk macro.

I'm always like all of us. I'm always down the nerd out on macro with just about anybody. And yeah, I appreciate the chance to catch up with you guys. And good to meet you,

[01:19:06] Richard Laterman: Twitter, you're Tatiana Pierre, which I heard your interview with our good friend Jason Buck. Shout out to Jason, he's on the comments section there. That's your daughter's

[01:19:17] PJ Pierre: That's that was my daughter's teddy bear. Yeah. When I first started my Twitter account, I was still one of those. I don't want to be on social media type. So I was like, I'm gonna use the anus.

[01:19:27] Adam Butler: When you lead with your LinkedIn account, you're still one of those, I don't want to be on social media types.

[01:19:31] Richard Laterman: That's right. That's right.

[01:19:33] Rodrigo Gordillo: So yeah, everybody, please do that. If you're still listening here, please do and share, it helps us great, get great guests like PJ over here. And and also, we talk a lot about macro. We are macro traders. We're systematic macro traders. So if you are looking to find things at Zig when your traditional portfolio is zag.

Do take a look at our website at investorshhealth.com. We have our main alpha product, which is the evolution strategy. And then we have a couple of public products that you can find there and maybe help you navigate these markets from all weather to all terrain is an interesting, if you want to look it up, it's a piece that we wrote a bit a while back and it's this, it's a great piece because it's just that there's so many, there's so many angles we could take. It really is tough to be right all the time and make your alpha be a hundred percent of your money making. This idea of Jason Buck, it was here, with his cockroach portfolio, we have our adaptive asset allocation framework that tries to have a little bit of humility.

Preparation before prediction and then, tech on the alpha after the fact. So if you're interested in any of that,

[01:20:37] Richard Laterman: much diversification. As we can layer on,

[01:20:40] Rodrigo Gordillo: if you think we're full of crap, just add some comments down there and let's start a dialogue. I'll make sure is aware of of the comments and get them to reply back. All right,

[01:20:49] Richard Laterman: and thank you for listening. Share, subscribe, have a great weekend. Thank you again,

[01:20:53] Adam Butler: Thank you, PJ. Lots of fun as

[01:20:55] Richard Laterman: episode number two.

[01:20:56] Rodrigo Gordillo: I'd see you guys. That was awesome.

[01:20:58] Richard Laterman: was

[01:20:58] Adam Butler: Cool. Thanks, brother.