JANUARIUS HOLDINGS INC.

Investment and Research Group

It's Time to Look More Carefully at "Monetary Policy 3 (MP3)" and "Modern Monetary Theory (MMT)"

Summary
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Two Building Blocks of Economic Policy:

- **Monetary Policy**
  Determines the total amount of money and credit (i.e., spending power) in the system

- **Fiscal Policy**
  Determines the government's influence on where it is taken from (i.e., taxes) and where it goes (i.e., spending).

What Policy Makers Has to Solve in Next Downturn: Fixing economy for most people <u>when monetary policy does not work.</u>

- Interest Rate Cuts (Monetary Policy I) and Quantitative Easing (Monetary Policy II) won't be as effective producing money and credit growth (spending power) and it won't be effective in getting it in the hands of most people to increase their productivity and prosperity.

- **Proposed Solution:** We will have to go to Monetary Policy 3, which is fiscal and monetary policy coordination that is of a form that we haven't seen before in our lifetimes but has existed in various forms in others' lifetimes or faraway places.

What is Modern Monetary Theory ("MMT") and How Does it Fit with All This?

- MMT is one of the configurations of Monetary Policy 3, which is characterized by the following configurations:
  - Fixing interest rates at 0%
  - Strict control of inflation via changing of fiscal policy surpluses and deficits, which will produce debt that central banks will monetize

Characteristics of Monetary Policy 3 (and MMT):

- **Preconditions:** Countries have their debts denominated in their own currency (else it may lead to an inflationary depression).

- **Added Benefits:** Can be better targeted to fund the desired uses than the process of having the central bank buy financial assets from those who have financial assets and use the money they get from the central bank to buy the financial assets they want to buy

- **Key Risk:** Putting the power to create and allocate money, credit, and spending in the hands of politically elected policy makers.

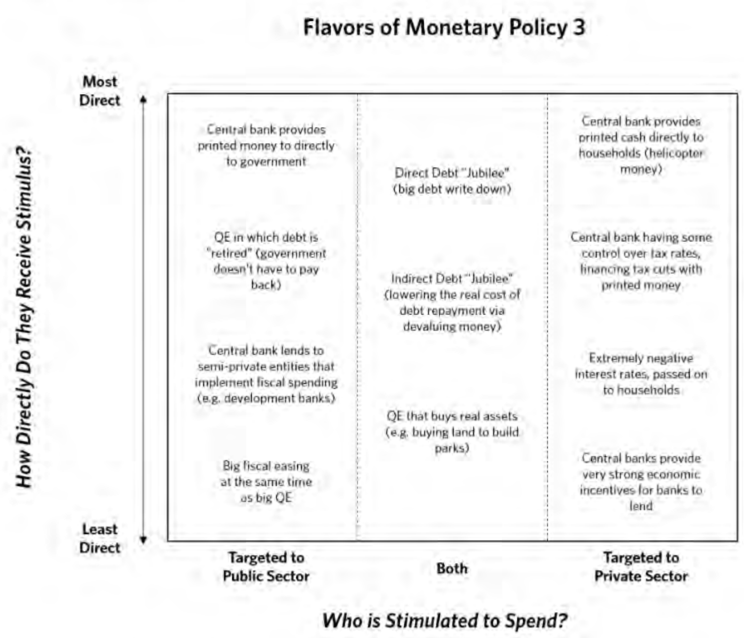
- QE (MP2) and interest rate (MP1) cuts help the top earners more than the bottom (because they help drive up asset prices, helping those who already own a lot of assets) whereas MP3 can be more directed.

Why not rely on Normal Fiscal Policy to achieve targeted uses of funds?

- It is slow to respond; it has long lead times, you have to make programs, concerns over deficits can make it more challenging politically to pass fiscal stimulus, etc.

- Funding such things with money printed by the central bank means that the government doesn't have to worry about the classic problem of the larger deficits leading to more debt sales leading to higher interest rates because the central bank will fund the deficits with monetization (QE).

What MP3 Looks Like



Flavors of Monetary Policy 3:

- Who gets the money / is stimulated to spend (private or public sector)?

- How directly that printed money is provided (directly providing "helicopter money" to spenders versus more indirect means of financing spending)? *In general, the more direct policies would be more effective, but also more politically difficult to do.*

Samples of Monetary Policy 3:

- An increase in debt-financed fiscal spending paired with QE that buys most new issuances (Japan 1930s, US WWII, nearly all developed country following 2008 financial crisis).

- Lend to/capitalize development banks or other private/semi-private entities that would use the financing for stimulus-related projects (e.g., China in 2008).

- Big debt write-down accompanied by big money creation (the "year of Jubilee")

- In certain cases, governments directly created or negotiated debt write-downs (e.g., Ancient Rome, Great Depression, Iceland recently).

- Printing money and doing direct cash transfers to households (i.e., helicopter money). (e.g., US veterans' bonus during the Great Depression, Imperial China).

- MP3 policies could work through banks, providing them very strong incentives to lend. For instance, in addition to negative rates on excess reserves, the central bank could offer highly positive rates on required reserves—making it materially more profitable for banks to lend (Europe, Japan, UK).

Key Questions for Policy Makers on whether to use MP3:

- Are MP1 and MP2 ineffective in producing money and credit growth?

- Does one's country have the capacity to use Monetary Policy 3 (debts denominated mostly in own currency)?

- Is the right system for policy makers in place to ensure proper decision making for the allocation of funds?