R_2: Why MMT is not 100% right, or why monetary parallelization is Pareto superior

Modern monetary theory (MMT) provides a first step in the right direction, but it is not enough. MMT argues that governments which control their own currency are not households. They do not have to balance their budget, nor do they have to tax or impose fees on their citizens and corporates first in order to spend the money on something else second. The idea of budget constraints is an academic myth. Governments that control their currency can create the liquidity they need. Past (2008 crisis), current (Covid-19) and future (global warming) asymmetric shocks have been, are and should be managed in a similar way. The amount of money created is limited by two external factors only: first, the resources (natural, human, technology, infrastructure) available and second, the CPI (consumer price index). In fact, taxation is not a fiscal tool required to finance public affairs and governmental activities, but rather an instrument to control excessive demand.

Some critics say that any debt represents a claim on future resources (goods, labor, services), meaning that if we create additional debt claims now, this will have an inflationary impact on future GDP growth later. This *compulsion to grow* is another economic myth. MMT points out that public debts generated by public bodies do not have to be paid back with a compound interest rate. A government can create money not only to finance wars or support banks, but also to finance SDGs. We simply do not have to grow first (the so-called growth imperative) to then tax that growth in order to finance our common goods second.

This MMT argument is true, but it has its intrinsic limits, too: in *next-to-zero interest environments*, conventional monetary policy has a negative distributive effect. Empirically, injecting additional money into the economy shifts liquidity from the public to the private sector, from the corporate world to the finance sector, from SMEs to the transnationals, from the poor to the rich, and from the young to the older generation. It devalues private savings accounts, insurance and philanthropic activities and finally shifts assets from the periphery of the financial system to its core. MMT in its current version is unable to overcome these negative distributive effects, meaning that any additional liquidity generated within the MMT world has to fight an unwanted uphill battle against these effects. An updated 'MMT 2.0', designed in the right way, can meet and overcome these challenges.

MMT 2.0 or parallelizing the currency system: if we not only increase the money base as MMT does, but also consider parallelizing the monetary system itself, we can create a holistic mechanism to finance SDGs. Designed in the right way, such a two-tier currency system has several advantages. (1) Overcoming the monetary monopoly: competition between interlinked currency systems decreases price and increases quality. (2) Creating multiple second-round effects beyond wind fall profits: anytime the ‘green euro’ or ‘green dollar’ is used, potential negative spillovers are avoided. This is true both top down and bottom up. (3) This steers the entire economy from fossil to low carbon, avoiding welfare losses. (4) A green euro or dollar with a positive interest rate would trigger a desired carry-trade effect for investors. (5) A dual currency system has anti-cyclical and anti-inflationary properties. (6) It would overcome the negative distributive impact of a low-interest environment (see above). (7) Once such a parallel currency is in place, we will start differentiating between private assets and public goods, which will lead to a disentanglement of subsidies and taxation. We will end up with a free and competitive private market system on the one hand and a public sector providing public goods and services on the other. (8) Investor freeze: investors will not cash in their assets in the near future, but instead have an incentive to invest long term. They can cash in their assets later on in a world where there are fewer spillovers and fewer negative externalities, leading to higher yields. In sum, these mechanics would provide a Pareto-superior welfare state for all.

Finally, if we apply distributive ledger technology and enable new monetary channels, we adapt the financial system to the requirements of the complexity of the new Anthropocene Era. All of this together would then be MMT 2.0—a dual currency system that is Pareto superior to traditional MMT.

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