

Modern Monetary Theory- How It Became Policy

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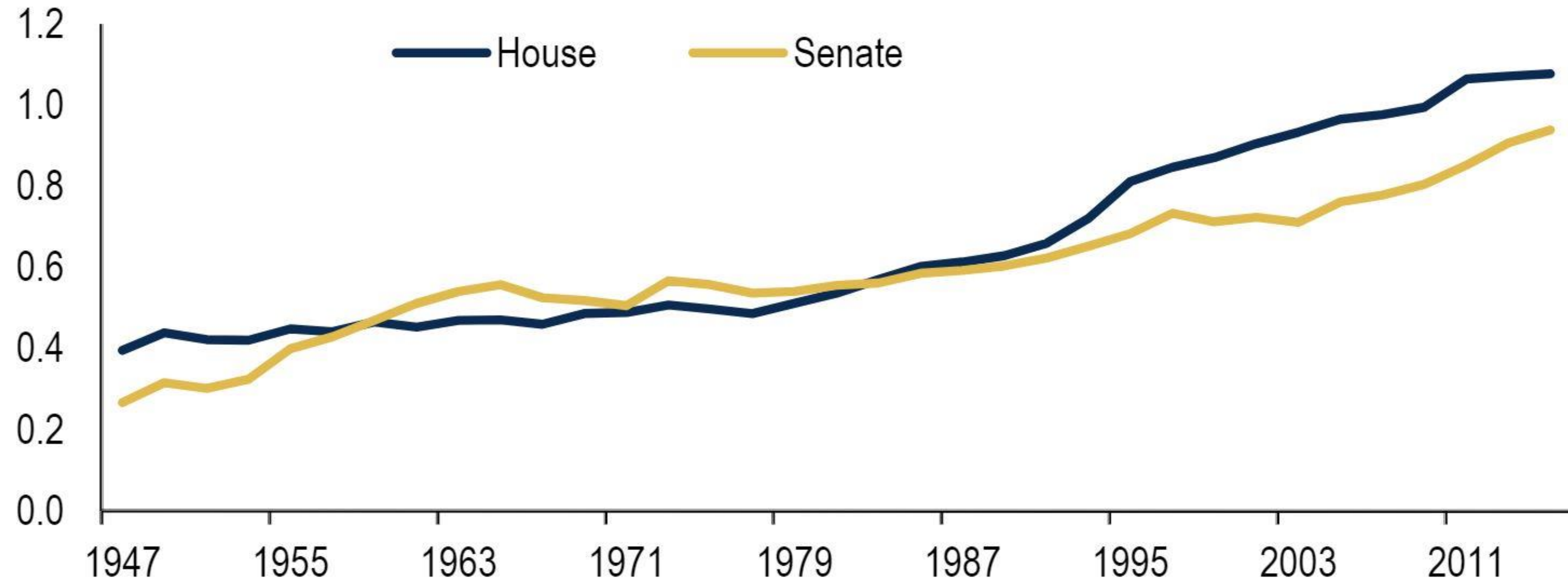
Senior Equity Strategist

Senior Vice President

May 2023

Divided we stand: Gridlock in the U.S. Government

Difference in Ideological Positions of The House and Senate
Scale: 0-Centrist, 2-Stronger Conservative or Liberal Ideologies



It doesn't matter who's president, unless "big policy"

Business Cycles Have Mattered More Than the Party in the Oval Office

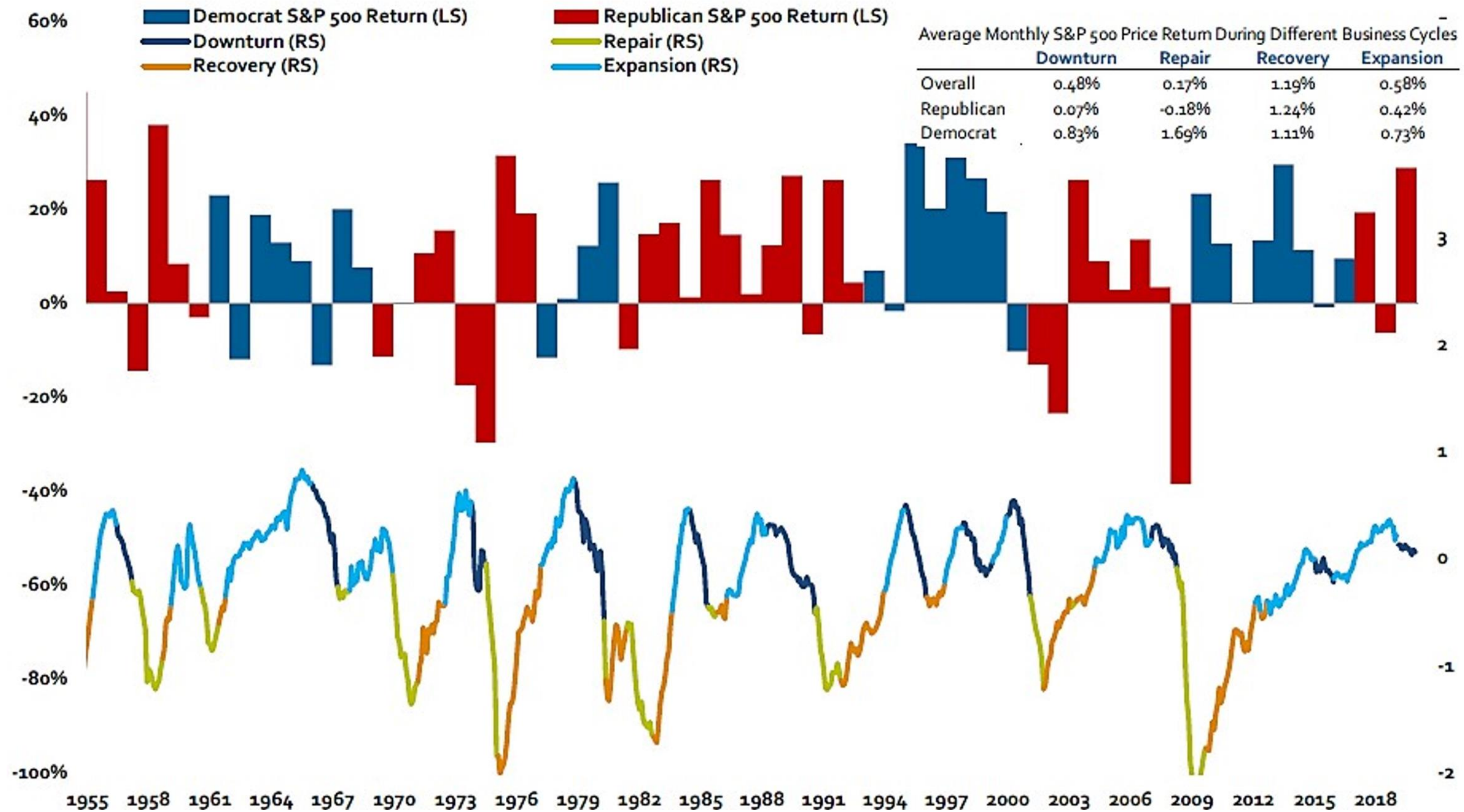
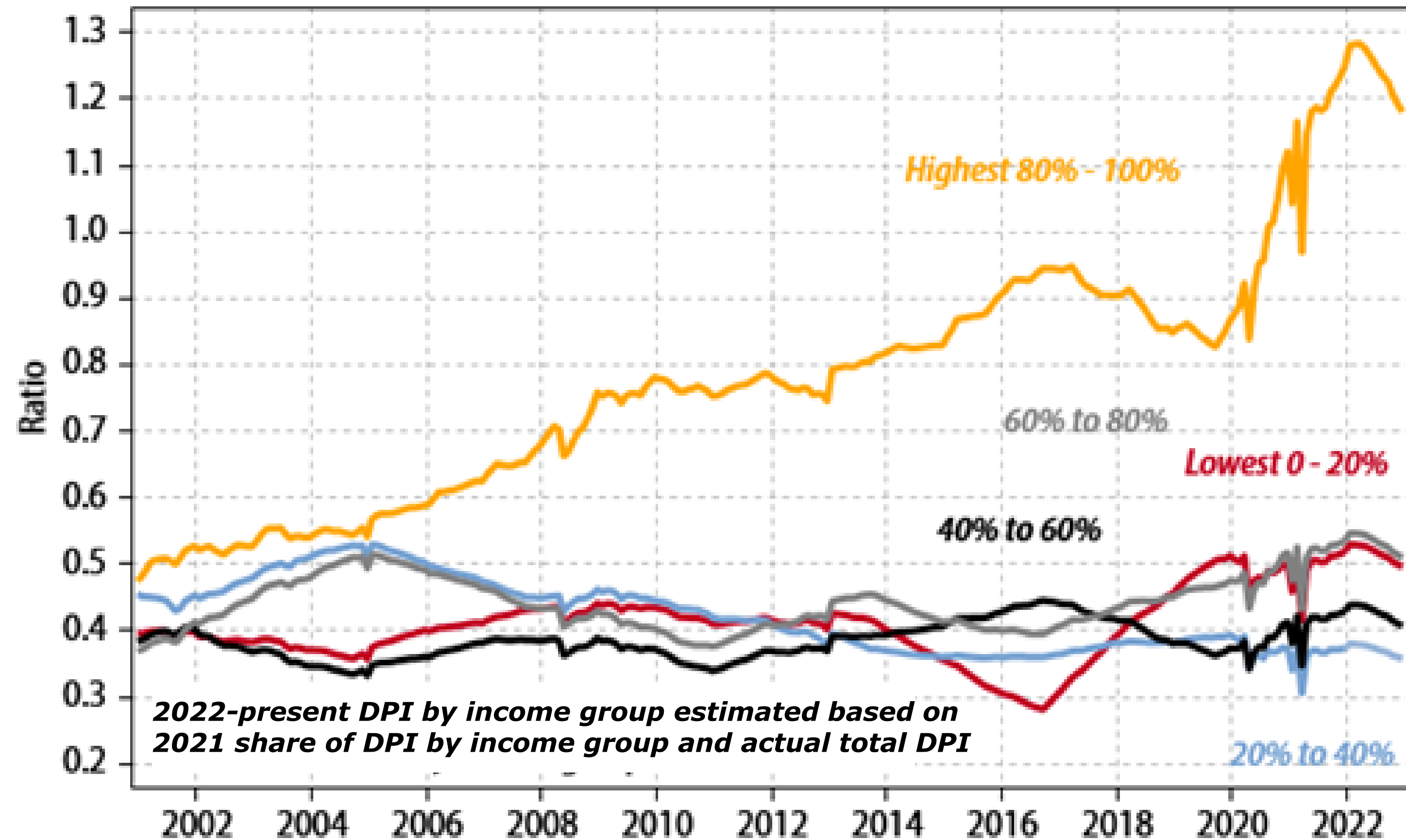


Chart shows annual data as of December 31, 2019.

Source: Bloomberg, Morgan Stanley & Co. Research, NBER, Bloomberg, Haver Analytics. The Morgan Stanley Cycle Indicators measure the deviation from historical norms for macro factors including employment, credit conditions, corporate behavior and the yield curve. The repair phase occurs due to the lag time between when these factors are beginning to improve and when they turn positive. Report as of July 24, 2020.

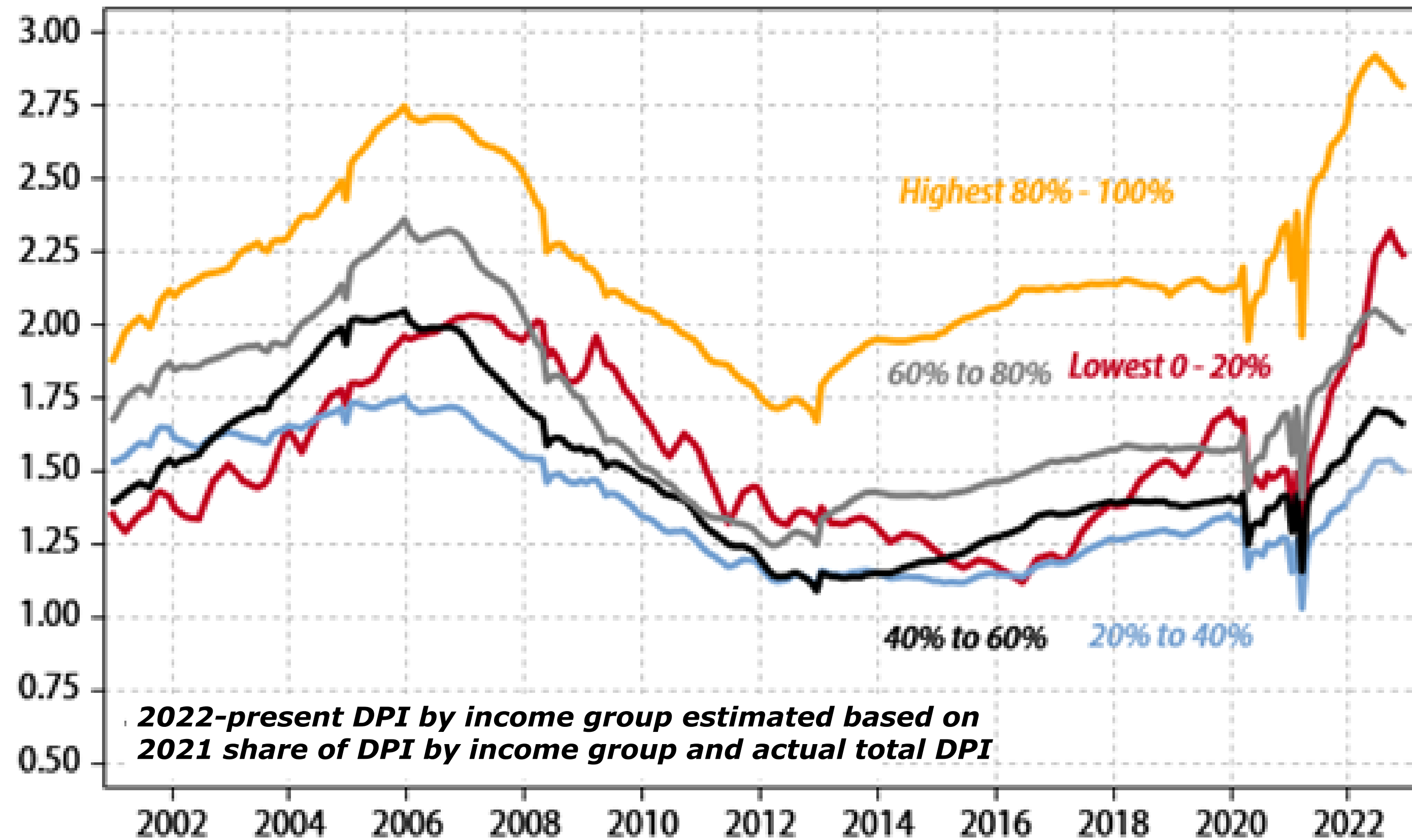
Cash holdings for poorer Americans have not risen much since Covid...

Deposit-To-Disposable-Personal-Income Ratio by Income Group



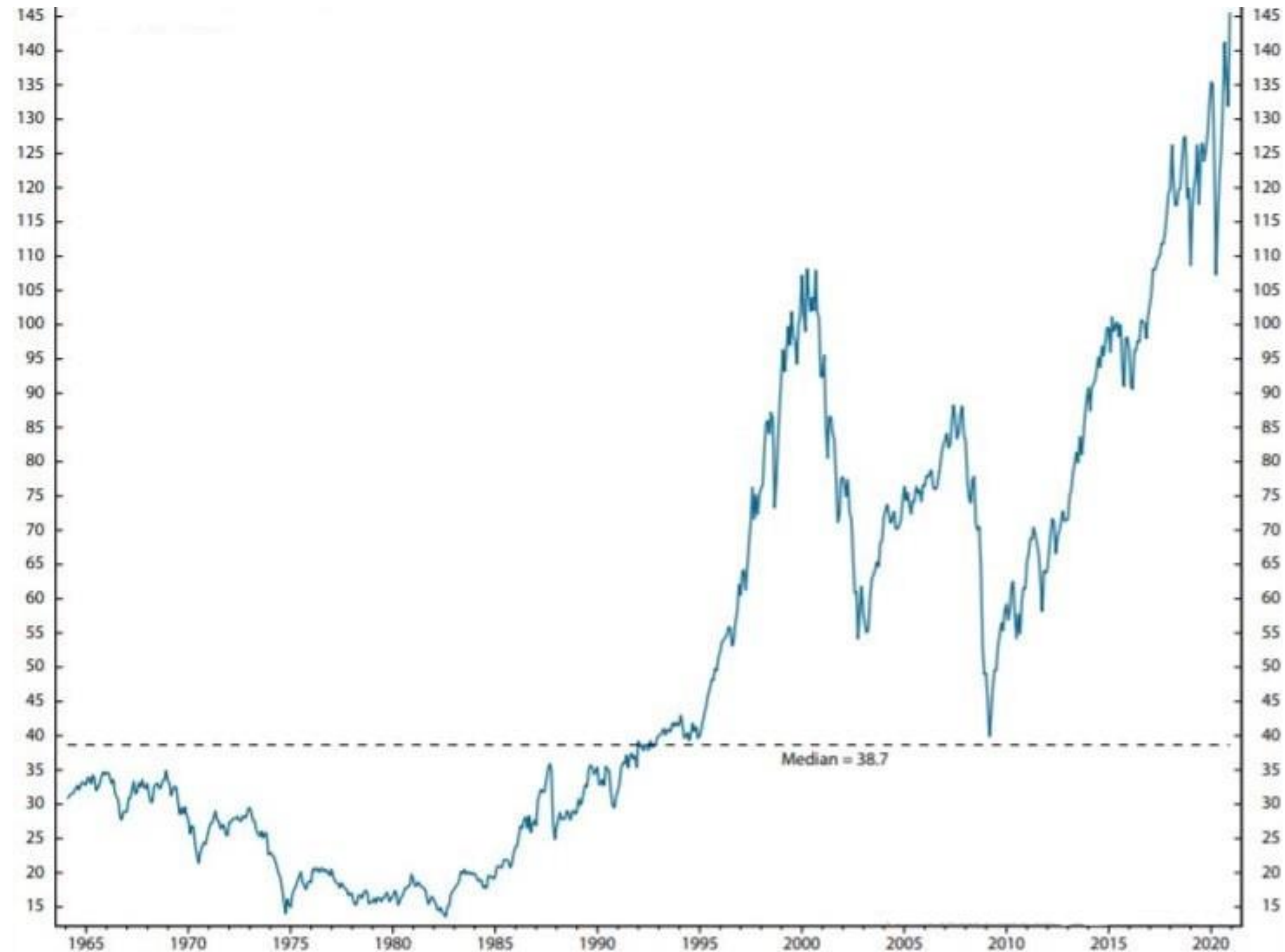
The value of their real-estate relative to income has risen a lot

Real-Estate-to-Disposable-Personal-Income Ratio by Income Group



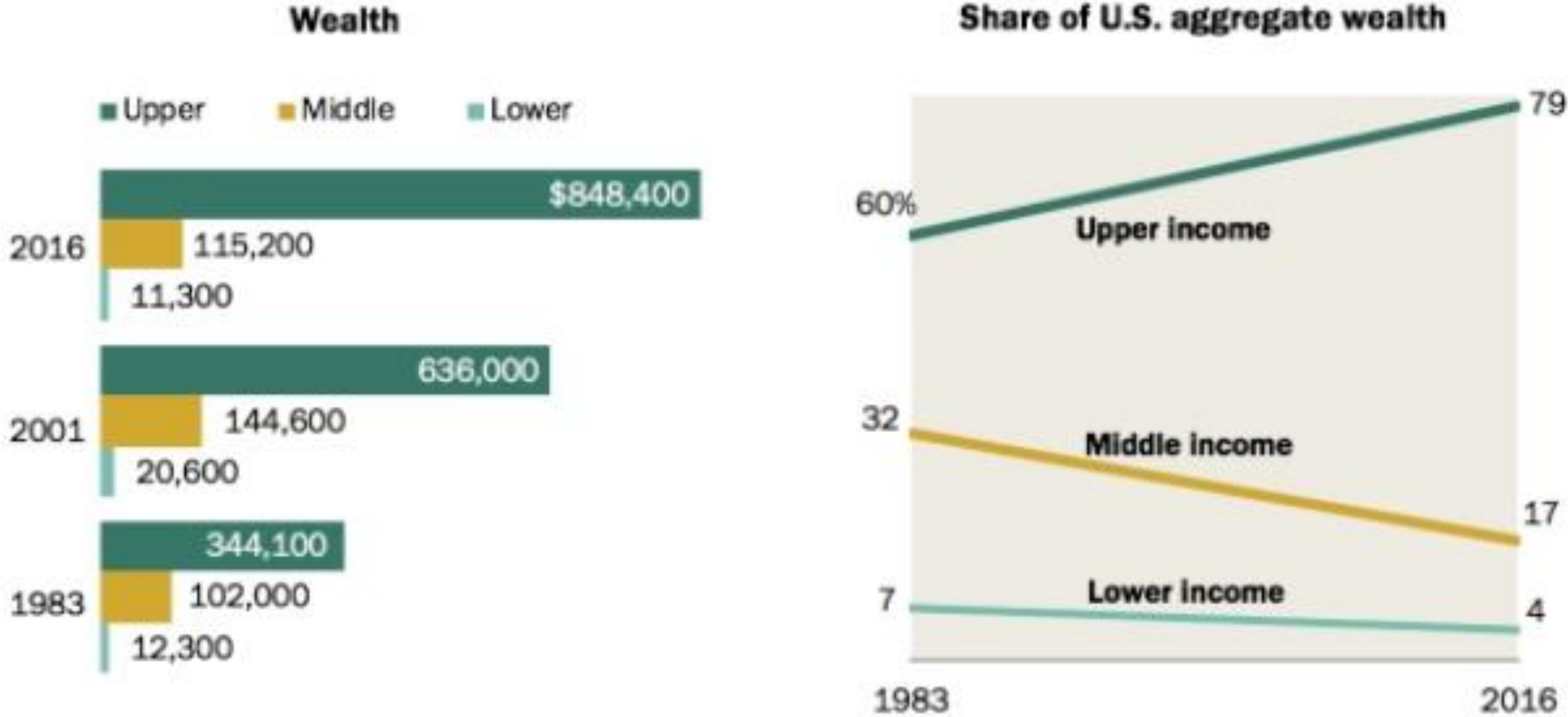
About one-half of Americans don't own a single stock

Hours of Work to Buy S&P 500 Index



The gaps in wealth between upper-income and middle-and lower income families are rising, and the share held by middle income families is falling

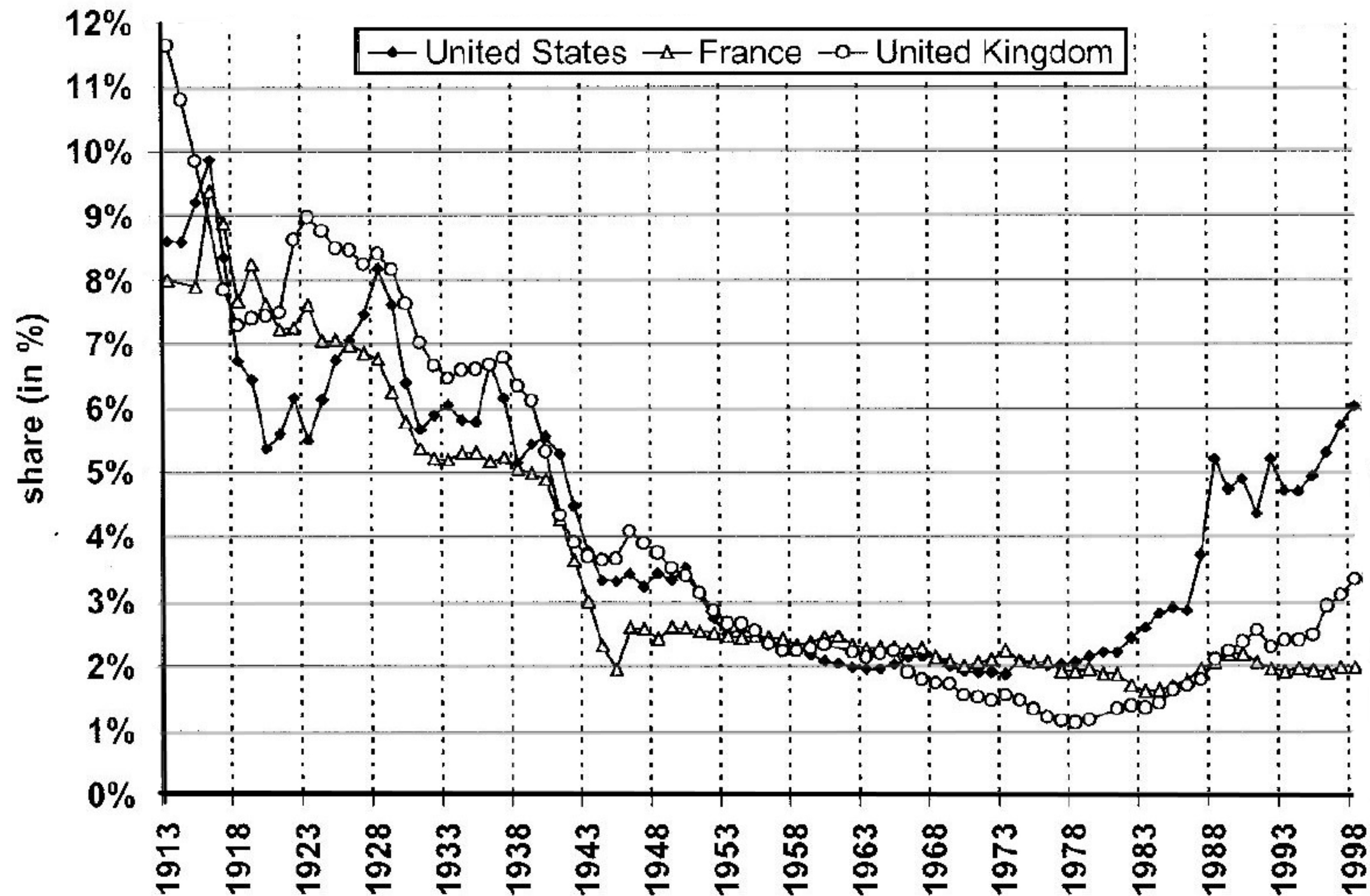
Median Family Wealth, in 2018 Dollars, and Share of U.S. Aggregate Family Wealth, by Income Tier



Source: Wolfe Research. August 9, 2021

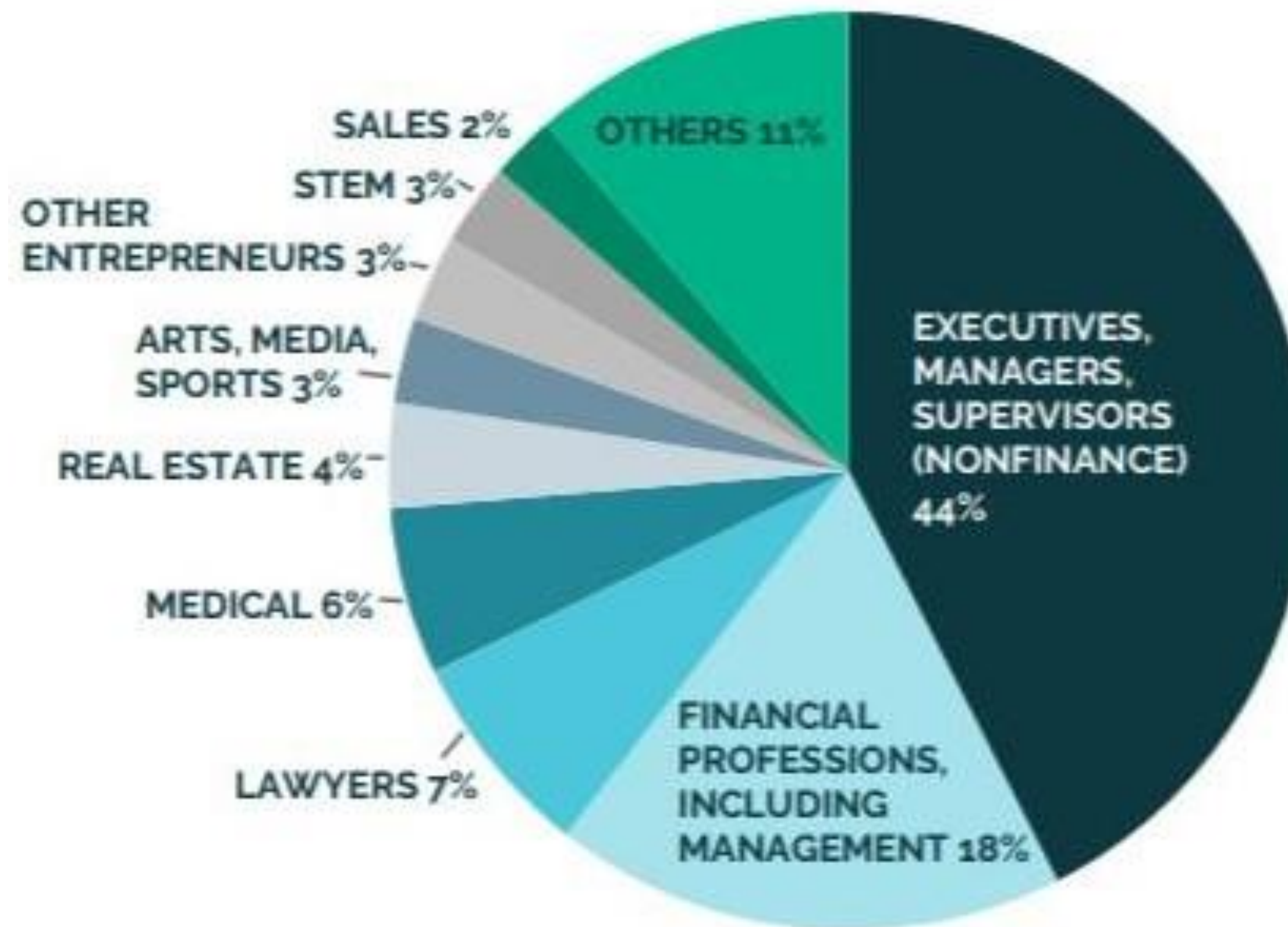
Top 1% in the U.S. doing exceedingly well

Top 1% Income Shares in the U.S., France, and the U.K. 1913-1998



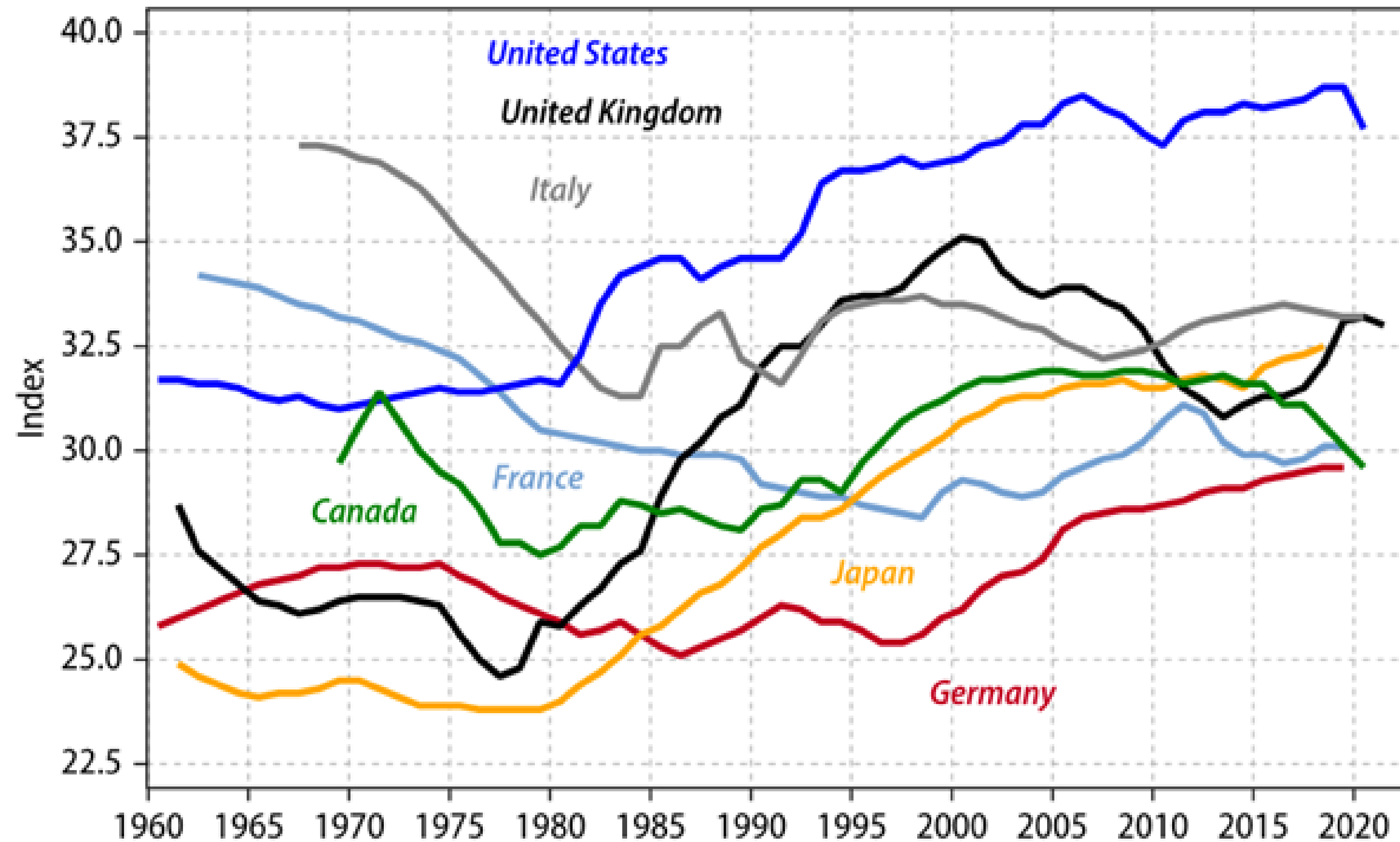
Who are the top earners?

Distribution of the Top 0.1% Income Share, by Occupation



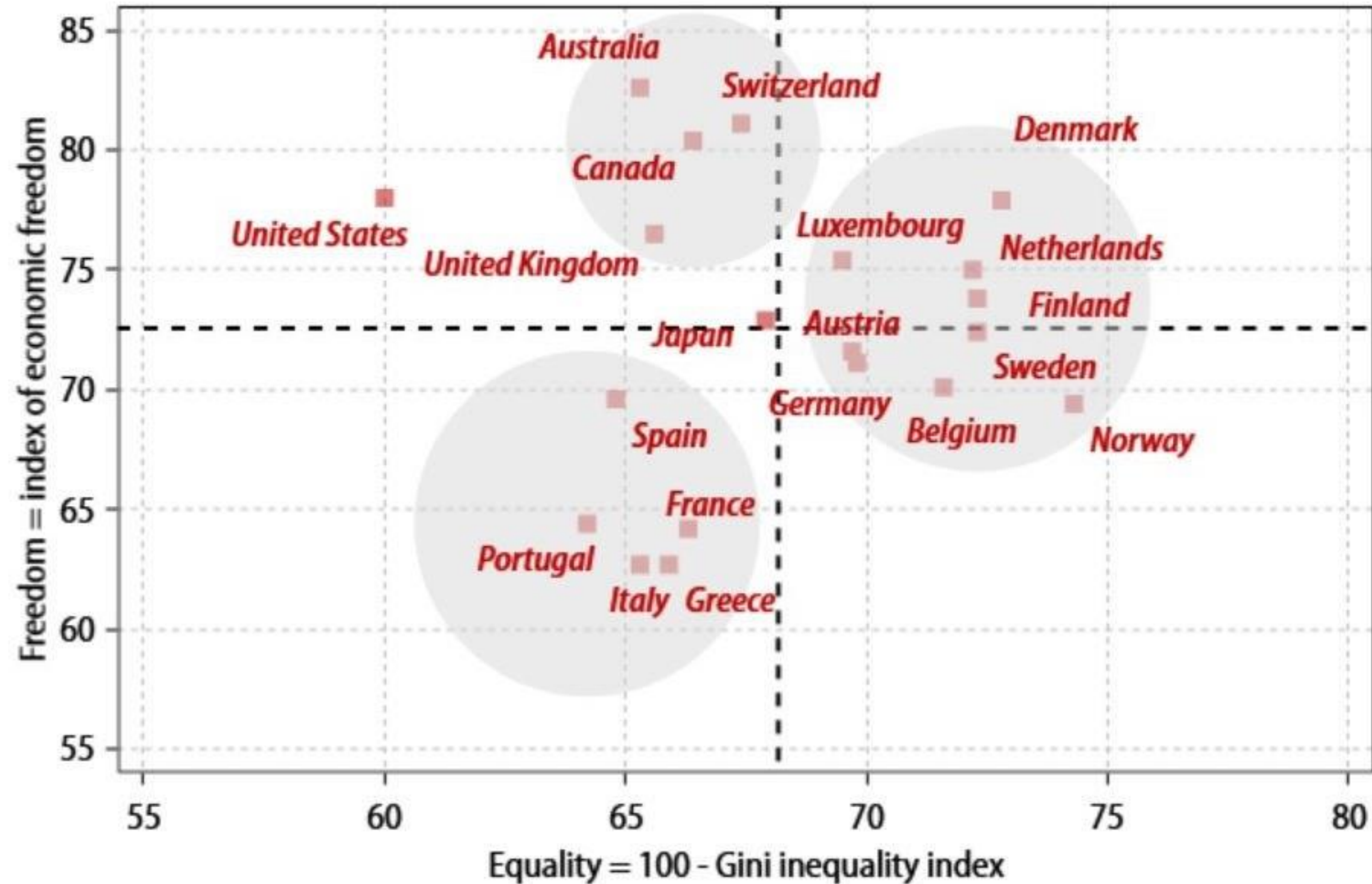
A dubious distinction for the United States

The Standardized World Income Inequality Database, Gini Index for Disposable Income



The U.S. stands out – good and bad

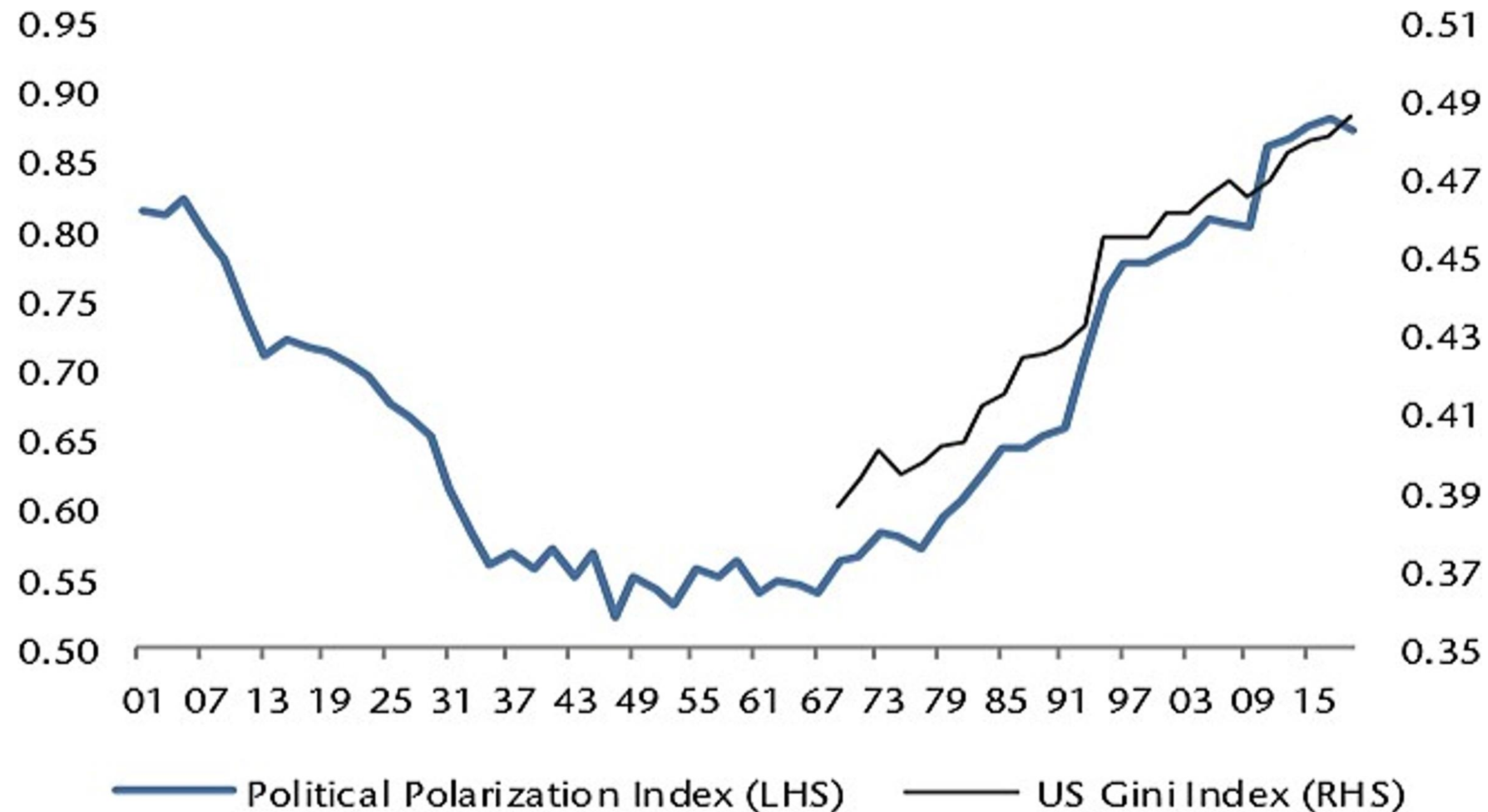
Freedom Versus Equality in Developed Economies



*Using definition of Economic Freedom from Heritage Foundation. Index of Economic Freedom measures economic freedom of 186 countries based on trade freedom, business freedom, investment freedom, and property rights. Source: Gavekal Research/MacroBond as of January 12, 2021

Dystopian: Denoting an imagined state or society where there is great suffering or injustice

Political Polarization Index & Gini Coefficient

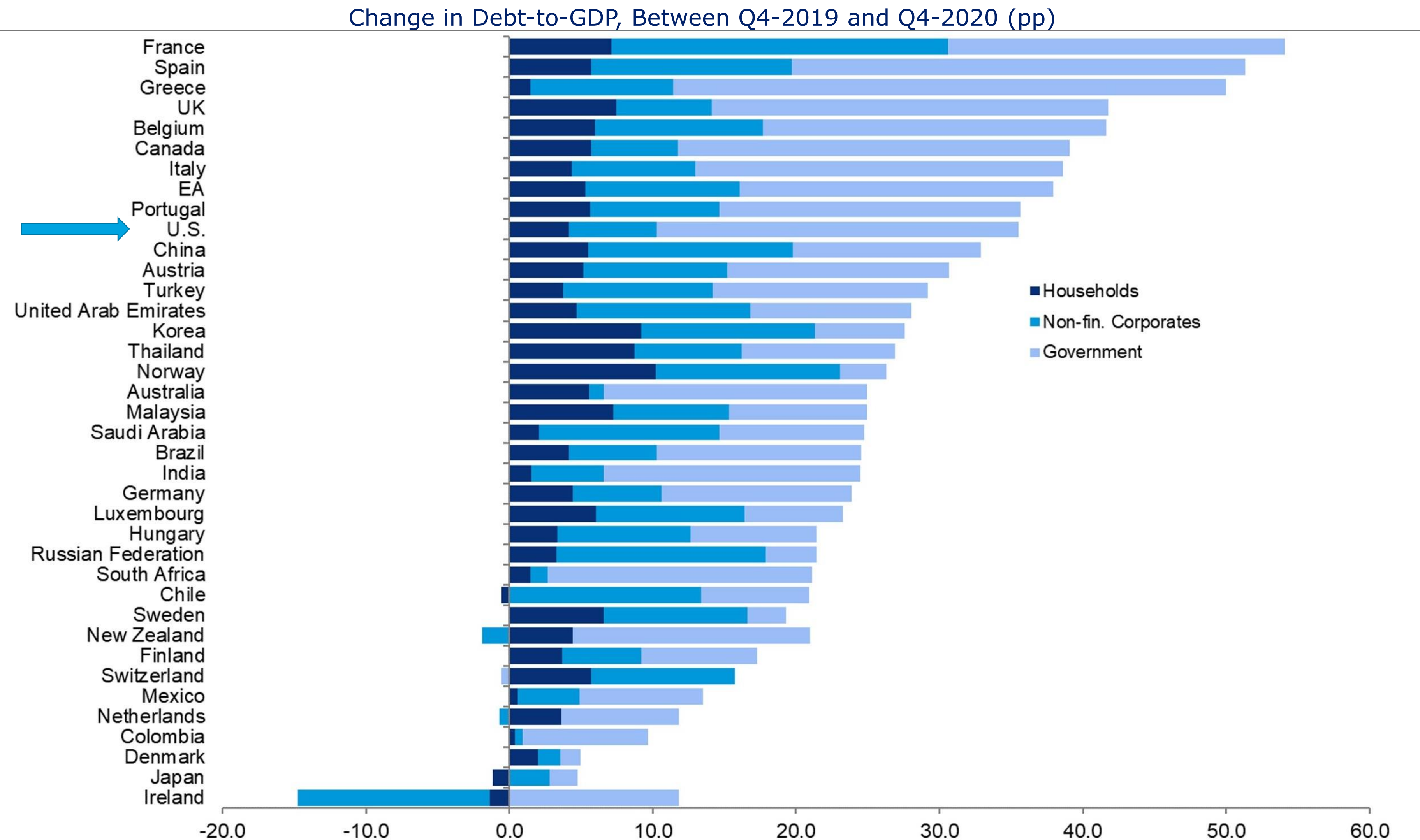


The Gini Index is a summary measure of income inequality. The Gini Coefficient incorporates the detailed shares data into a single statistic, which summarizes the dispersion of income across the entire income distribution. Source: Bloomberg, voteview.com, Jeffries, Census Bureau. Report as of June 15, 2020.

Divided we stand: Thanks to government deficits & debt—stimulus!



Global cost of the pandemic: The U.S. has been particularly generous



Source: IIF, Deutsche Bank, as of May 4, 2021

And the debt champion is....

Debt Levels and Increases in Major Economies

	2022 Gross Government Debt <i>US\$ tr</i>	Increase in Gross Government Debt between 2019 and 2022 <i>US\$ tr</i>	2022 population <i>millions</i>	2022 Govt Debt per Capita <i>US\$</i>	Increase in Govt Debt per capita between 2019 and 2022 <i>US\$</i>
USA	30.57	7.32	333.01	91,795	21,022
Canada	2.12	0.58	38.74	54,663	13,653
UK	2.66	0.19	67.60	39,417	2,351
Japan	10.94	-1.13	125.17	87,409	-8,215
Germany	2.89	0.60	83.29	34,677	7,190
France	3.13	0.48	65.63	47,695	6,965
Italy	2.96	0.27	59.19	50,046	5,065
China	13.61	5.49	1412.50	9,634	3,879

Source: Gavekal Research as of February 2023.

More breathtaking stimulus on the way

Global Monetary and Fiscal Stimulus to Fight COVID-19 Impact
February 2020 to September 2022 (CSM)

	Central Bank Liquidity Injection		Fiscal Stimulus		Central Bank Liquidity Injection and Fiscal Stimulus	
	\$ Tln	% 2021 GDP	\$ Tln	% 2021 GDP	\$ Tln	% 2021 GDP
U.S.	\$6.21	27.0%	\$7.32	31.8%	\$13.53	58.8%
Eurozone*	\$2.38	16.4%	\$4.94	34.0%	\$7.32	50.4%
Japan	\$1.03	20.8%	\$3.72	75.3%	\$4.75	96.1%
U.K.	\$0.57	17.9%	\$0.89	29.7%	\$1.46	45.6%
China	\$2.11	12.1%	\$1.10	6.3%	\$3.21	18.4%
Others	\$1.71		\$3.45		\$5.17	
Global	\$14.01	14.6%	\$21.41	22.2%	\$35.42	36.8%

****China CB stimulus incl liq injections and other activities, e.g. re-lending, RRR, direct small biz lending, etc

*** U.S.: Fed's \$6.2 tln injection Incl the \$2.5 tln announced on Apr 9, and the \$3.7 facility.

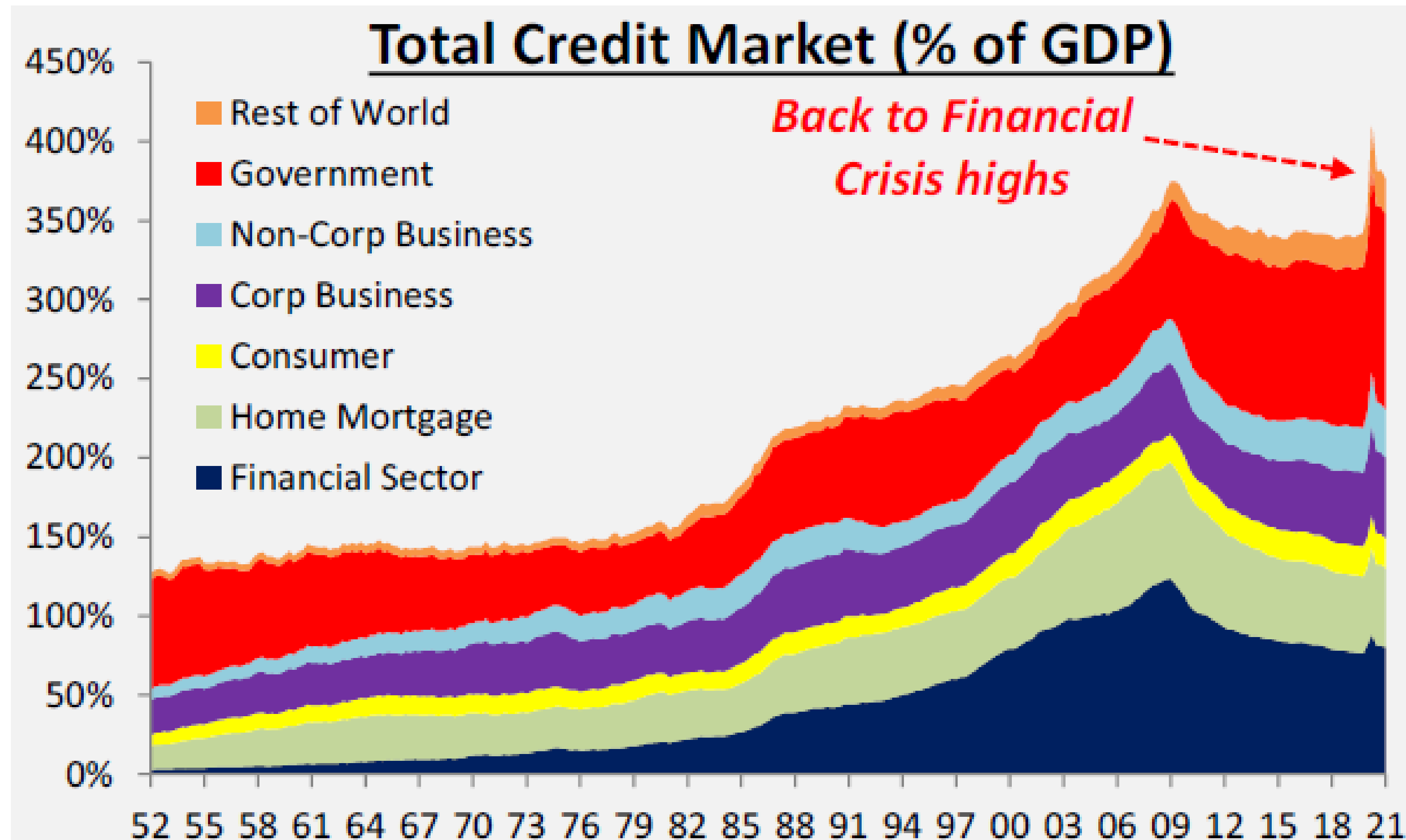
***On \$3.3 tln on the fiscal side, includes the \$454 billion appropriated to the ESF.

** "BOJ Vows to Buy as Many Bonds as Needed in Stimulus Move." (BBG, 4/27).

*includes Rest of World and Asian Development Bank, International Monetary Fund, World Bank CSM refers to Cornertone Macro

Source: Cornerstone Macro as of September 28, 2022

GFC* was the first time debt used outside of funding a war – and then there was Covid



Source: Wolfe Research. August 9, 2021
*-Global Financial Crisis

Cornerstones of MMT: No, not Magic Money Tree, *Modern Monetary Theory*

- Permanent Policy of Zero Rates
- Job Guarantee
- Unemployment is Always a Greater Problem than Inflation

In Practice

- No Bond Sales
- No Independent Federal Reserve
- Fiscal Policy makes all the demand adjustments
- Government has spent enough when the last person has walked into the job guarantee office

The Trick

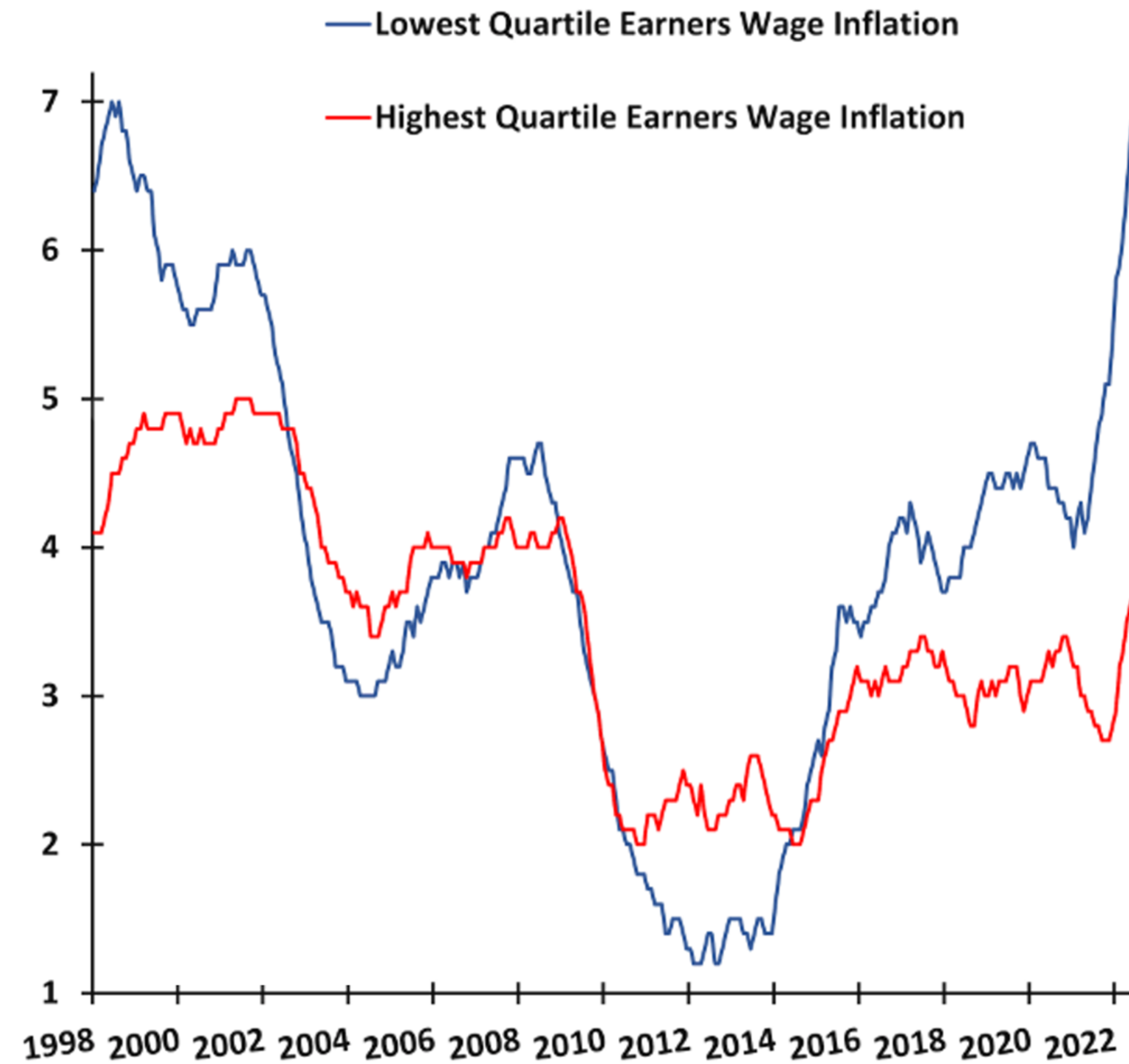
- To cut/raise taxes or spending just enough to keep economy humming at full employment, but without problematic inflation.

The Question

- Do you trust elected politicians with this task?

Wage-price spiral

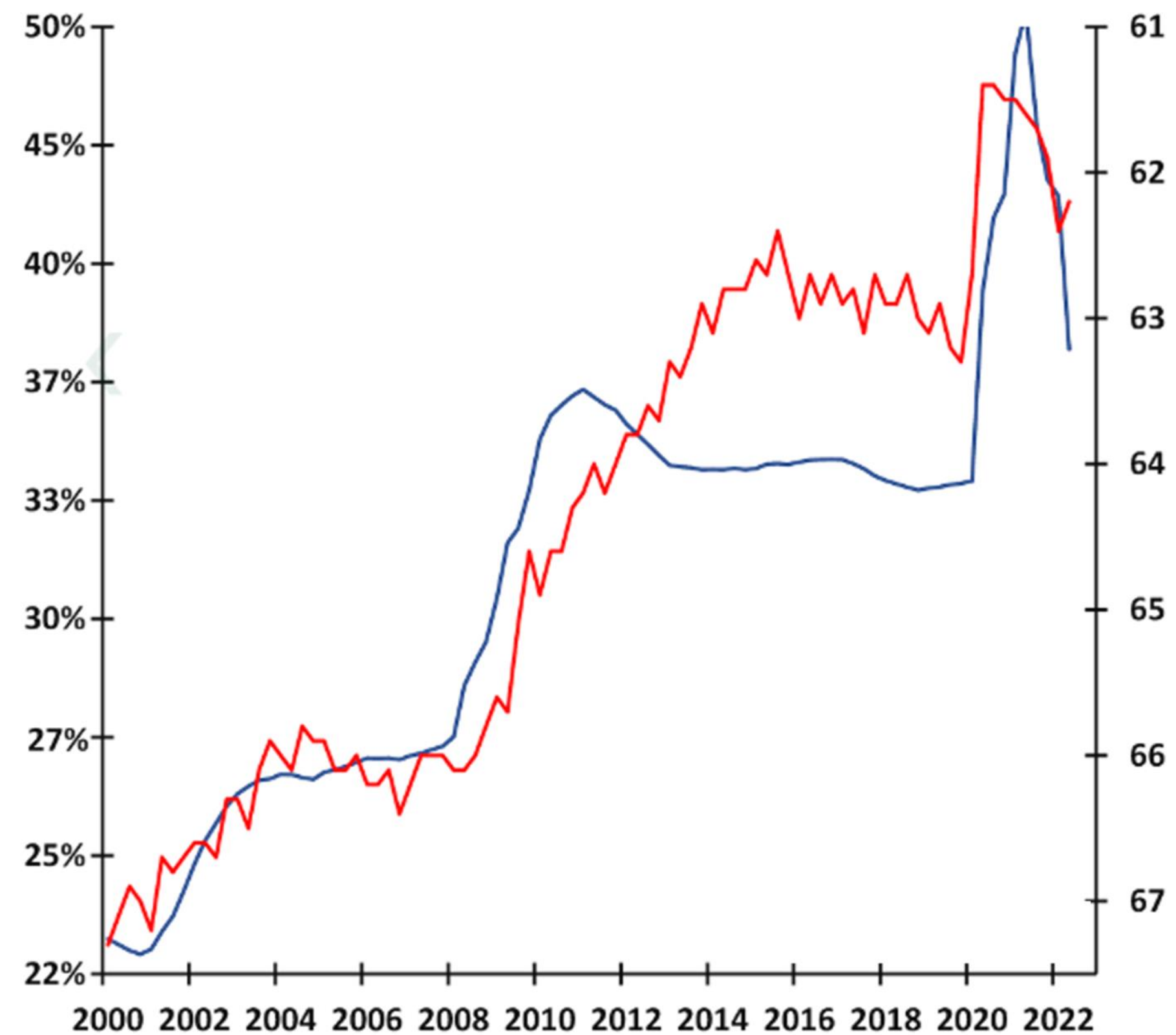
Atlanta Fed Wage-Growth Tracker
Lowest Quartile vs. Highest Quartile Earners



Modern monetary theory becomes modern monetary policy?

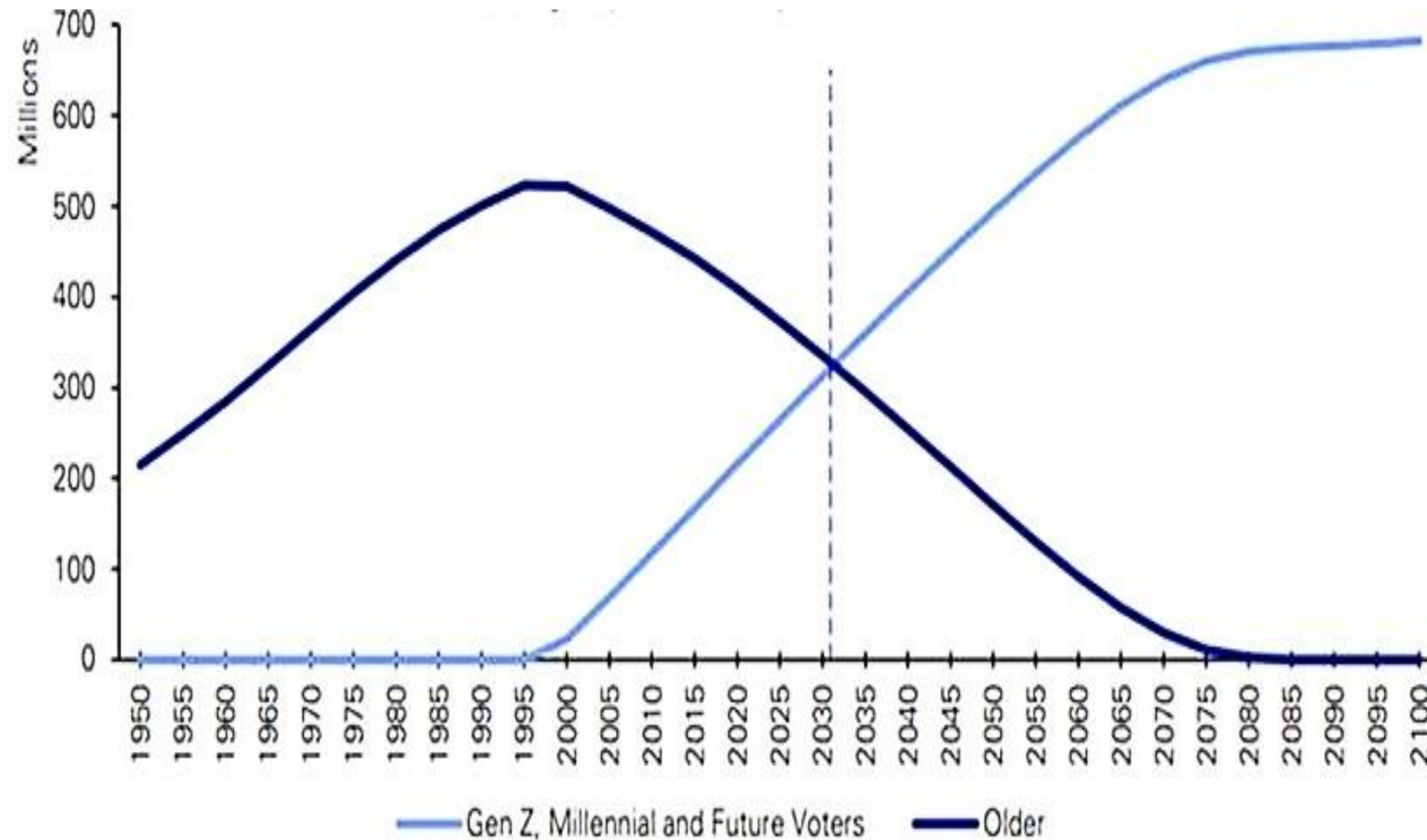
Transfer Payments and Labor-Force Participation

- Left Scale: Current Transfer Payments to Individuals (four-quarter moving average) as a percent of total Wage & Salaries Disbursements (natural log scale).
- Right Scale (INVERTED): U.S. Labor-Force Participation Rate



For your consideration – Millennials & Gen Z will have more voters than older generations by the end of this decade

Voting Populations* by Generations



*Voting population estimated from 17.5 years and older.
Source: United Nations, Haver, Deutsche Bank, as of September 9, 2020.

Interested in hearing more?

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LINDA DUESSEL



Mind on the Market

With more than 30 years of experience, Linda Duessel is nationally recognized for her expertise in analyzing equity market conditions. Linda discusses personal finance with investor groups across the country on topics of interest ranging from the impact of the alternative minimum tax to investing for retirement. Additionally, Linda has been extensively quoted by Associated Press, The Wall Street Journal and Barron's, as well as featured in the annual roundtable for USA Today.

As senior equity market strategist, Linda is part of the equity income team, which is responsible for formulating Federated's views about the market and the firm's positioning strategies within the equity income team. As senior client portfolio manager, she is responsible for articulating the strategy, process, positioning and performance of Federated's equity income products.

Interested in hearing more from Linda? Here are two ways:

1. **Read her weekly market views**
Look for them on our [site](#) and in our [weekly email](#).
2. **Connect with her on LinkedIn**