The Rock-Star Appeal of Modern Monetary Theory

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Economic Policy Ethical Economics Feature May 22-29, 2017, Issue The Rock-Star Appeal of Modern Monetary Theory The Sanders generation and a new economic idea. By Atossa Araxia Abrahamian Twitter May 8, 2017 fb tw mail Print

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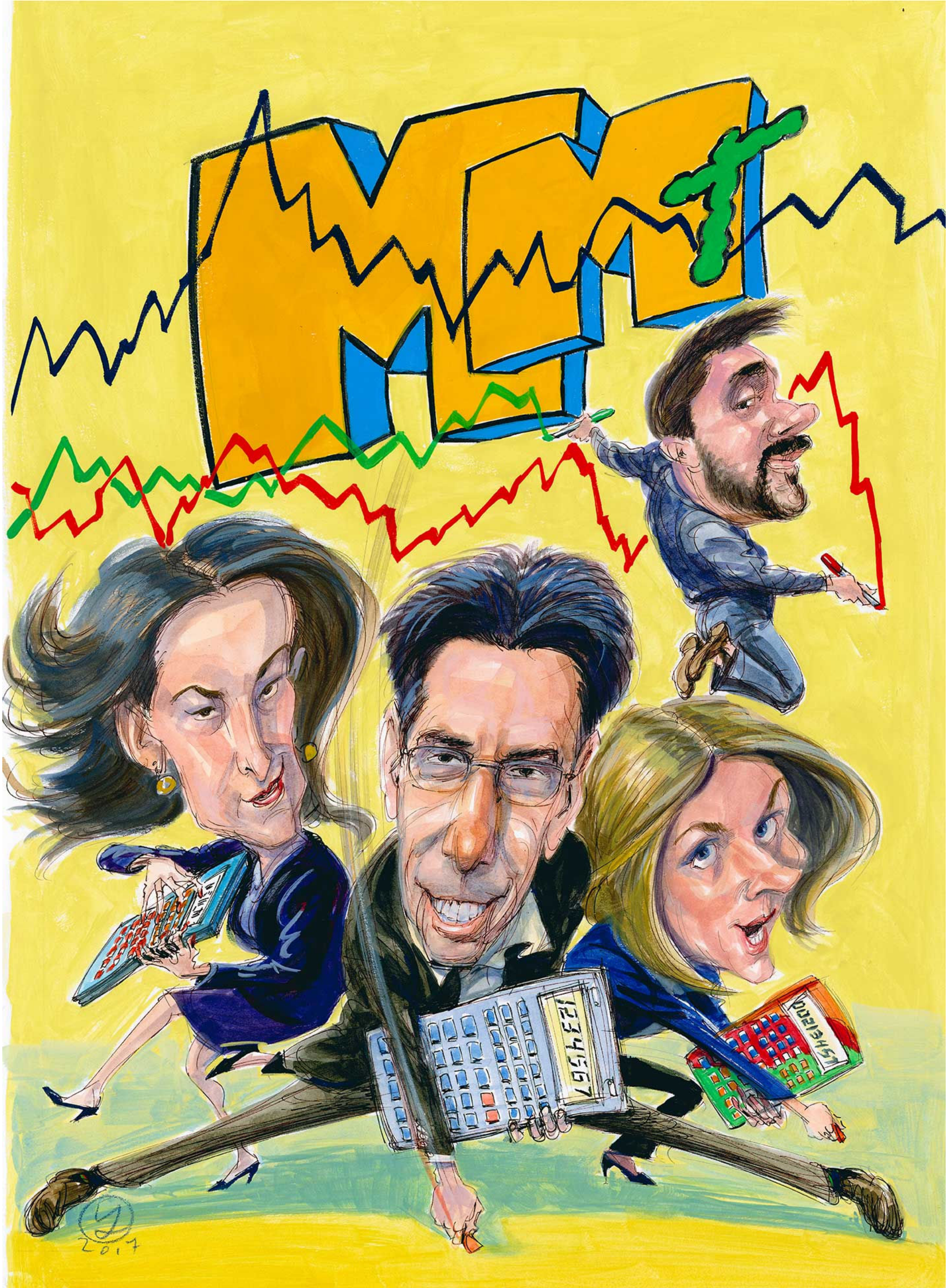

(Illustration by Victor Juhasz)

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In early 2013, Congress entered a death struggle—or a debt struggle, if you will—over the future of the US economy. A spate of old tax cuts and spending programs were due to expire almost simultaneously, and Congress couldn't agree on a budget, nor on how much the government could borrow to keep its engines running. Cue the predictable partisan chaos: House Republicans were staunchly opposed to raising the debt ceiling without corresponding cuts to spending, and Democrats, while plenty weary of running up debt, too, wouldn't sign on to the Republicans' proposed austerity.

In the absence of political consensus, and with time running out, a curious solution bubbled up from the depths of the economic blogosphere. What if the Treasury minted a $1 trillion coin, deposited it in the government's account at the Federal Reserve, and continued on with business as usual? The workaround was technically authorized by an obscure law that applies to commemorative platinum coins, and it didn't require congressional approval, so the GOP couldn't get in the way. What's more, the cash would not be circulated, so it wouldn't cause inflation.

"There is no reason why society should tolerate unemployment."—Pavlina Tcherneva

The thought experiment was catnip for wonks and bloggers, who described it as "ludicrous but perfectly legal" (*Slate*); "a monetary parlor trick" (*Wired*); "really thrilling" (*Business Insider*); "a large-scale trolling project" (*The Guardian*). The idea made its way onto late-night TV, political talk shows, White House press conferences, and lived on as a hashtag: #mintthecoin. At the heart of the attention was an acknowledgement that money wasn't the problem here—politics was.

For a small but committed group of economists, academics, and activists who adhere to a doctrine called Modern Monetary Theory (MMT), though, #mintthecoin was the tip of the economic iceberg. The possibility of a $1 trillion coin represented more than mere monetary sophistry: It drove home their foundational point that fiat currency is a social construct, and that there are therefore no fiscal limits on how much a sovereign currency-issuing nation can spend.

According to this small but increasingly vocal cohort of economists, including Bernie Sanders's former chief economic adviser, once we change the way we think about money, we can provide for everyone: We don't have to "find" the money to "pay" for universal health care by "cutting" the budget elsewhere. In fact, our government already works that way: Spending must precede taxation, or there would be no dollars in the economy to tax. It's the political will to spend on certain things, not the money to afford it, that's lacking.

“The idea that you can’t feed hungry kids *and* build a bridge is a huge problem,” says Stephanie Kelton, an economist at the University of Missouri, Kansas City. “It’s cruel to say we want more money for education and food but have to wait for legislation.”

Kelton, who spoke about the coin on MSNBC, is MMT’s most mediagenic expert. She’s 48 years old, whip-smart, impeccably coiffed, and brims with enthusiasm—important for someone who spends half her time telling Wall Street types to rethink their basic approach to economics. When San-ders ran for the Democratic nomination, Kelton became his chief economic adviser at the recommendation of several prominent left-wing economists, including Dean Baker and Jamie Galbraith. Before that, she served as chief economist on the Senate Budget Committee and moonlighted as the editor of a blog called *New Economic Perspectives*.

Kelton sees the fundamentals of her work as “a descriptive analysis that could be exploited by either side: Democrats and Republicans can use the insight to push tax cuts or increase spending.” Indeed, the idea of a big-spending economic stimulus to fix the country’s infrastructure served as a common ground for Trump and Sanders voters who liked the idea of jobs perhaps more than they disliked the idea of national indebtedness. If that’s what voters want, then MMT is a rare bird: an economic theory that not only validates their hunches, but contends that they’re the key to a healthy, stable, prosperous economy for all.

Modern Monetary Theory emerged as a distinct school of economic thought in the 1990s, when Kelton and her colleagues—mainly professors with homes in heterodox economics departments like the University of Missouri, Kansas City, and Bard’s Levy Institute—published research and discussed their theories, albeit mainly among themselves on a now-defunct listserv called “Post-Keynesian Thought” and at an annual conference that started in 2003.

The various strains of thought that make up MMT have their roots in Adam Smith and John Maynard Keynes, along with more contemporary thinkers like Hyman Minsky and Abba Lerner, but only recently have researchers connected the dots in quite this way. “We’ve rediscovered old ideas,” Kelton said, “and assembled them into a complete macroeconomic frame.”

To a layperson, MMT can seem dizzyingly complex, but at its core is the belief that most of us have the economy backward. Conventional wisdom holds that the government taxes individuals and companies in order to fund its own spending. But the government—which is ultimately the source of all dollars, taxed or untaxed—pays or spends first and taxes later. When it funds programs, it literally spends money into existence, injecting cash into the economy. Taxes exist in order to control inflation by reducing the money supply, and to ensure that dollars, as the only currency accepted for tax payments, remain in demand.

It follows that currency-issuing governments could (and, depending on how you lean politically, should) spend as much as they need to in order to guarantee full employment and other social goods. MMT’s adherents like to point out that the federal government never “runs out” of money to fund the military, but routinely invokes budget constraints to justify defunding social programs. Money, in other words, isn't a scarce commodity like silver or gold. "To people who've worked in financial markets, who work at the Fed, this isn't controversial at all," says Galbraith, who, while not an adherent, can certainly be described as "MMT-friendly."

The decisions about how to issue, lend, and spend money come down to politics, values, and convention, whether the goal is reducing inequality or boosting entrepreneurship. Inflation, MMT's proponents contend, can be controlled through taxation, and only becomes a problem at full employment—and we're a long way off from that, particularly if we include people who have given up looking for jobs or aren't working as much as they'd like to among the officially "unemployed." The point is that, once you shake off notions of artificial scarcity, MMT's possibilities are endless. The state can guarantee a job to anyone who wants one, lowering unemployment and competing with the private sector for workers, raising standards and wages across the board.

MMT didn't get much traction outside of academia at first. In fact, it was (and remains) on the fringes of the economics profession itself. "We all had offices in the same alley at the Levy Institute," Kelton recalls.

Then along came Warren Mosler, a wealthy financier who, as a result of his banking work, had come to some unorthodox and complementary ideas about money. Eager to share his views, Mosler finagled a meeting with Donald Rumsfeld in the steam room of the Chicago Racquet Club. Rumsfeld led him to Arthur Laffer, the right-wing economist who came up with the "Laffer curve" theory promoting low taxes, and Laffer, in turn, connected Mosler with his future collaborator, the economist Mark McNary. In an independently published paper titled "Soft-Currency Economics," Mosler, drawing on McNary's research, argued that taxes are what create a demand for federal spending and that deficits don't cause countries to default on their debt.

"We've always wanted to democratize our ideas, and now we can thanks to social media."—Pavlina Tcherneva

Mosler sought comments on his work from academic departments, too. He didn't have any luck with Ivy League institutions, but the man made it on Wall Street for at least one reason: He won't take no for an answer. So Mosler sent his paper to the "Post-Keynesian Thought" listserv and found a group of kindred spirits willing to engage.

Stephanie Kelton recalls initially disagreeing with some of Mosler's theories about taxes; then her colleague L. Randall Wray told her to do her own work and show how he was mistaken. "I wrote it up in the *Cambridge Journal of Economics* and set out to prove he was wrong," Kelton recalls, "but I arrived at the same place he did."

From then on, Mosler became something like the movement's sugar daddy, funding graduate research, making donations to the Center for Full Employment and Price Stability at the University of Missouri, even opening a research center in Switzerland. He was an unlikely addition to the gang: He lives in St. Croix for the taxes, has a thing for fancy cars, made a nice chunk of money investing, and has run for office in St. Croix and in his home state of Connecticut. Mosler isn't particularly ideological, but after some hesitation, he describes himself over the phone as "basically progressive." Still, he insists that he is simply opening the public's eyes to basic math. "It's a theory insofar as arithmetic is a theory," Mosler tells me.

"If you eliminate the tax on people working for a living and [let them] keep more money, the average family would have $625 of payroll pay. Why won't politicians do that? Because they believe the tax money is used to make Social Security payments. But that's a mistake." Even so, Mosler notes, "if anyone would propose that, it's not a big-spending liberal—it's something the Tea Party might propose."

Early in his foray into MMT, Mosler hired Bard economist Pavlina Tcherneva to help him with the research. Tcherneva had her 15 minutes of fame in 2015, when Bernie Sanders held up a graph she'd made showing how few gains in income American workers have seen since the Reagan years. (It went viral online under the *Vox* headline "The Most Important Chart About the American Economy You'll See This Year.") Today, Tcherneva's research is focused on how MMT can provide jobs.

"There is no reason why society should tolerate unemployment," she tells me in her office at Bard on an unseasonably warm day in February. "It's a basic human right. By pegging a dollar amount to one hour of labor by having full employment, money will mean something in socially useful terms, and we can design a system to support and tighten the labor market and let people opt out of shitty jobs. Trump has his finger on the pulse of joblessness," she adds. "It's a direct recognition, a precise recognition, of their plight. But we need something concrete to offer."

In Europe, where a generation of young people remain under- or unemployed, more spending, better social welfare, and a guaranteed job are a particularly attractive combination. But eurozone countries share a common currency, so the European Union would have to allow all of its members to borrow more, not less, to stimulate the economies of its more beleaguered states. There is some, if limited, buy-in from governments, though probably nowhere near enough to change the policy. In Greece, for example, Rania Antonopoulos, who runs Bard's "Gender Equality and the Economy" program, serves as the alternate minister of labor in the Syriza government; she's proposed pushing the government to be the employer of last resort.

Despite the lack of official interest, austerity has given these MMT economists rock-star status. Kelton recalls a conference a few years back in Rimini, Italy, where her group sold out their initial venue and had to move the event to a basketball stadium. "When we were driving there, the parking lot was packed," she says. "We asked the driver what was happening, and he said it was for us." She thought he was kidding—until she saw the MMT signs in the background.

On this side of the Atlantic, the financial crisis, the tepid recovery, and the Occupy movement have paved the way for alternative ways of thinking about the economy, and the events of 2008–12 have made it clear that the US government had the money —it just chose to bail out the banking sector, not spend it on social welfare. This all served to validate many of the points that Kelton and her colleagues have been making for decades.

"We built credibility," Kelton says, "and that helped us get established as a school of thought. The [*New Economic Perspectives*] blog helped us get a voice. It also gave us a historical record about being right about things like how the US downgrade wouldn't make interest rates go up; that quantitative easing wasn't inflationary; and that the eurozone would run into trouble. We were saying that in 1998!"

Kelton's work with Sanders further boosted the gang's legitimacy. She didn't transform him into a "deficit owl," but observers note that during his run, Sanders did make moves to refocus the conversation around social goods, speaking of education, health care, and infrastructure deficits instead of obsessing over abstract negatives on a balance sheet. "He didn't 'go there,'" Tcherneva says, "but it was a teachable moment. The frame was useful because it concerns concrete things. People don't lose sleep over government deficits."

MMT has something else that most obscure economic doctrines don't have: a band of devoted bloggers and commenters, and a "street team" of young, politically engaged people who learned about these theories online and have taken it upon themselves to spread the gospel wherever they go with an almost religious fervor.

During the recession, the popular economics blog *Naked Capitalism* began publishing articles about the movement; economists Tyler Cowen and Paul Krugman, though not particularly sympathetic to MMT (in part because of their concerns about inflation), at least responded to them. In 2012, a Columbia Law School student, Rohan Grey, started a group called the Modern Money Network, which has hosted a series of symposiums with big-name speakers like the former Greek finance minister, Yanis Varoufakis. On YouTube, videos of MMT lectures, seminars, and tutorials abound. "I've been amazed by the activism," Tcherneva says. "We've always wanted to democratize our ideas, and we now can thanks to the magic of social media."

It's hard to imagine radical changes being made to the way politicians talk about money. It could take decades, even centuries, to make a dent in entrenched ideas about debt, scarcity, and supply. Even so, the time seems ripe for MMT: There is, particularly among young people, an enormous appetite for new solutions to the problems that modern economies face, from automation to offshoring. And the financial crisis has shaken the public's trust in established ways of thinking. Take the universal basic income: A few years ago, it seemed unrealistic and utopian, but today, versions of the UBI have been embraced by Silicon Valley moguls, economists on the left and the right, and politicians around the world.

MMT is less prescriptive: It describes the way that money works in a way that an 8-year-old can grasp more readily than a PhD, which in itself is unnerving. "The contribution of MMT is not the discovery of new facts," Galbraith says. "It's a teaching core of things which are factually uncontroversial." But its implications can be radically humane. What's threatening to the establishment, Galbraith adds, "is that the narrative is very compelling."

Listen to Atossa Araxia Abrahamian discuss MMT on the Start Making Sense podcast.