Confessions of an MMT Groupie

By Kerry Pechter *Thu, Feb 10, 2022*

Systems of paper money or "fiat money" have always been, and remain, as problematic as they are powerful. I can't speak for MMT economists, but I don't think that any of them would say otherwise.

The *New York Times* ran a splashy profile of Modern Monetary Theory proponent Stephanie Kelton of Stony Brook University on the cover of the Business section last Sunday. A primary tenet of MMT is that a sovereign issuer of paper money can never run out of its own currency or be unable to pay its bills.

But that's not exactly how it comes across in the mass media, where MMT has taken a beating from all but a few journalists and economic pundits. The *Times* said that MMT means the government can print as much money as it wants, and that it can spend freely on stuff "without paying for it."

Now, that's a caricature of MMT. If you've heard or read about MMT in the popular press, that's probably the version you know. But I believe that MMT is important. It helps us understand, for instance, why the Federal Reserve can have endless trillions for Wall Street bailouts and COVID relief when our government is "broke" and Social Security is effectively "insolvent."

You may have read that MMT is obvious (the Fed creates money with keystrokes, duh) and adds nothing to a discussion of fiscal or monetary policy. In a sense, that's true. MMT is largely self-evident to those who've studied our financial system. First, we know our currency consists of IOUs which, unlike gold or silver, are as plentiful as Post-It notes. Second, and this is less self-evident, MMT shows why our financial system doesn't break down: The banks will always buy bonds from the Treasury and the Federal Reserve can always buy bonds from the banks. As a result, Treasury checks don't bounce. We take that for granted.

That's not a theoretical model. It's not a Ponzi scheme. Our fiat money is a human-made technology, and it has served us well. It has financed the biggest empire and the biggest bull market that the earth has ever seen. Is it vulnerable to moral hazard, manipulation, hyper-leverage and other abuses? You bet. But MMT didn't make it that way.

MMT, despite dismissive criticism, does bring fresh concepts to the economic conversation. The dominant economic paradigm says that government deficit spending is self-defeating because future taxes will cancel it out. That belief is the basis for the argument—prevalent in US politics for generations—that the federal debt has condemned “our grandchildren” to immense taxes and debt.

MMT calls BS on that paradigm. It says that government spending puts money in the economy (in effect, adding reserves to the banking system) before it taxes money back out. In MMT, the government’s liabilities (cash and Treasuries) are the private sector’s wealth. To put it another way, the stock market and home equity are sky-high because of federal deficit spending since 1980, not in spite of it. Is that obvious to everyone? I don’t think so.

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I don’t expect to win over any Milton Friedman monetarists or Murray Rothbard goldbugs or Ludwig von Mises acolytes with this column. I just want to set the record straight on MMT, based on my understanding of it.