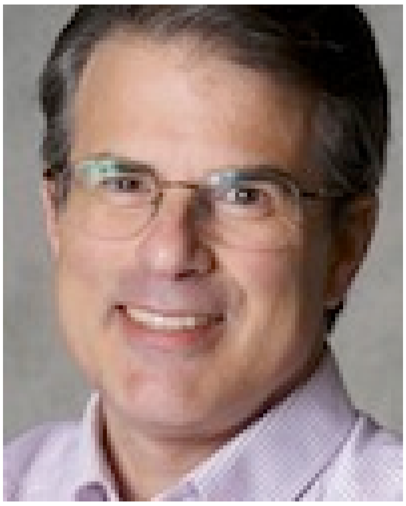
Guess What: America Is Rich

By Kerry Pechter *Fri, Oct 5, 2018*

Warning: Ingestion of the contents of this column may cause symptoms of apoplexy and dyspepsia among disciples of classical macroeconomics, neo-liberalism, or 'deficit hawks' in the US Congress.



Do you still wonder where the Federal Reserve found the trillions of dollars it needed to bail out the banking industry back in 2008? Or how the nation could be "broke" but afford a massive corporate tax cut? Or how Uncle Sam could carry a $20-plus trillion national debt and still enjoy low borrowing costs?

Ten years after the financial crisis, a surprising number of people continue to brood over these questions. Seeking answers, about 400 of them gathered last weekend at the New School of Social Research in lower Manhattan for the Second International Conference of Modern Monetary Theory (MMT).

You may have heard MMT (if you've heard of it at all) described as a "heterodox" school of financial thought, one embraced by utopians, social activists, and economists at universities that are not the Ivy League, Stanford or the University of Chicago. Judging by the people that the conference attracted, it's moving closer to the mainstream.

Speakers and audience members included academics from Harvard and Cornell, ex-bankers and bond traders, a harp manufacturer from Indiana, a state senator from Minnesota, and former Treasury officials. A few people came from as far as Canada, Spain, Italy and Australia, because MMT is a version of macroeconomics that applies to any country with a sovereign currency. One person, evidently a student, was wearing a black "Deficit Owl" t-shirt. MMTers sometimes call themselves deficit owls to distinguish themselves from deficit "hawks."

Maybe because some its advocates aren't shy about calling for a reduction in Wall Street's power over credit creation (and over elected officials), MMT is inherently linked to an agenda of significant social change. It attracts members of advocacy groups like **RealProgressivesUSA**, **ImHoppingMad.com**, and the **American Monetary Institute** filled the New School auditorium. MMT offers a theoretical path to one of their most pressing goals: The creation of guaranteed (not "make-work") government-paid jobs, with health insurance, and the end of involuntary unemployment.

The financial media, always trying to 'follow the money,' have taken more notice of MMT in recent years. A sympathetic journalist from Bloomberg News, and even one from buttoned-down *Barron's,* served as moderators of panel discussions. Reporters from liberal (*The New Yorker*) and conservative (Breitbart News) outlets filtered in. It was not hard for the journalists to find people who wanted to talk to them. During breaks, coffee, bagels, muffins and Danish pastries were served and conversations spilled out onto W. 12th St., in the heart of the West Village. (On Friday night, conference-goers crowded into a neighborhood tavern appropriately called Shades of Green.)

Although its name implies that MMT is a theory, the movement's creators (credit for conceiving MMT usually goes to **Randall Wray**, **Warren Mosler** and **Bill Mitchell**) consider it an accurate description of our financial system. For a number of reasons, however, the gist of MMT isn't easy to convey. (Here's an MMT **blog**.)

Joe Weisenthal, a conference panelist (and host of Bloomberg TV's "What'd You Miss?") likes to say that, in MMT's view, the US dollar is analogous to frequent flier miles. An airline can issue as many bonus miles as it wants. Its only constraint is its supply of seats, flights, and airplanes. It can use techniques like putting expiration dates on bonus miles or raising the prices (in miles) of seats to maintain a desirable balance between supply and demand.

The US government, according to MMT, finances itself is a similar way. Using the alchemy of the Federal Reserve and the banking system, it can create as many dollars as people need. Unlike a household, or even like a state government, it isn't credit-constrained. It is limited only by the supply of things that can be purchased in dollars (not just in the US but wherever dollars are accepted). It taxes dollars out of existence not to fund its expenditures, but to control inflation. That, at least, is my understanding of it.

MMT economist Stephanie Kelton on Bloomberg TV.

Here’s where I think many people run into conceptual trouble with MMT. We ordinarily assume that we “make” money by working or investing, and that the Internal Revenue Service (as some argue) “confiscates” taxes from us. MMT turns that view upside down, saying that the government spends dollars into the economy and taxes dollars out of it. In the MMT universe, Margaret Thatcher was wrong when she said that socialism doesn’t work because “eventually you run out of other people’s money;” the US and UK governments, by definition, have their own money.

This concept of creating and destroying money doesn’t make sense as long as you still think of “money” as a tangible item with intrinsic value, like those “Walking Liberty” silver dollars that an uncle gave me for my 13th birthday. Like matter, it may seem, real money can neither be created nor destroyed. That may been true for certain kinds of money at certain times, but it’s not true for the money we use now.

Today we use credit-money. A commercial bank creates deposits out of thin air by making a loan, and when the loan is repaid that money vanishes again. Through an analogous feat of double-entry accounting, according to MMT, the government can create money for its own account at the New York Fed without taking money from anyone else. The budget deficit simply measures how much more the government spends into the economy than it takes out in a year. The national debt represents the world’s savings in dollars and will never have to be repaid, merely serviced.

Some readers may be getting a bit uncomfortable at this point in the story. Mainstream economists tend to bridle at the mention of MMT, whose proponents dismiss macroeconomic orthodoxy regarding unemployment and inflation or government crowding-out of private investment. But a growing number of insiders have accepted its validity, even saying that they "knew it all along." (Alan Greenspan, for one, acknowledged the validity of its central premise in this **video**.) Stephanie Kelton, an MMT economist at Stonybrook University on Long Island, travels extensively, speaking about MMT at financial conferences (e.g., Morningstar's Investor Conference) and on television. She's been an economics advisor to the Democratic side of the Senate Finance Committee and has advised Bernie Sanders.

Most of those who attended the conference at the New School last week seemed to find MMT to be liberating and empowering, and understandably so. It tells them that the US can afford to spend much more on social insurance, schools, infrastructure, environmental repair and clean energy than it does today. If dollars are not a scarce commodity, then almost anything seems possible. Politicians may or may not cooperate (given our ethnic and rural/urban divides), but lack of money per se needn't be a deal-breaker.