
The Financial World Is Round

By Editor Test Tue, Apr 17, 2012

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The outcome of next fall's presidential contest may well depend on how many Americans are convinced that cutting the trillion-dollar federal deficit (and the \$15 trillion national debt) is Job One for the next administration. And if we make the wrong choice, some drastic and misguided policy decisions might get made.

Mitt Romney, with his recent endorsement of Rep. Paul Ryan's budget proposal, has identified himself as a deficit hawk. As for the president, he's probably a deficit dove at heart, but he seems determined not to look soft on the issue.

In fact, much of the country believes, as dogmatically as Colonial-era physicians believed in purging and bloodletting, that Washington should spend much, much less, starting right away. But one group of "heterodox economists," the Modern Monetary Theorists, disagrees.

You may never have heard of MMT, but its practitioners, who tend to be admirers of the late economist Hyman Minsky, can be found all over the globe. They're at the U. of Missouri-Kansas City (UM-KC), at the U. of Newcastle in Melbourne, Australia, and especially at the Levy Economics Institute of Bard College in Annandale-on-Hudson, NY. One the easiest ways to find them, as I did last week, is to attend the Levy Institute's Annual Hyman P. Minsky Conference on the State of the U.S. and World Economies, held every April at the Ford Foundation on E. 43rd St. in Manhattan.

This year's conference, entitled "Debt, Deficits and Financial Instability," was focused on the prospects for financial reform, not on MMT per se. But one of the speakers was L. Randall Wray, Ph.D., of UM-KC, who writes a lot about MMT in academic journals and the mass media. Having read several of his papers, I sought him out.

A wiry, reddish-haired man of medium height, Wray was at the wine and hors d'oeuvres reception after the conference adjourned. He and an MMT ally, Yeva Nersisyan of Franklin & Marshall College, were talking to Robert Kuttner, the longtime *Businessweek* columnist who now co-edits *The American Prospect* magazine.

Kuttner had remarked that Americans, in addition to participating in Social Security, should be able to save over their lifetimes in a government-sponsored, professionally managed, globally diversified retirement fund that pays out a consistent income in retirement.

Wray, who seems accustomed to being one of the most radical people in the room, disagreed. The government should get stop collecting a payroll tax entirely, he said, and just provide every retiree with a livable income. The risk-free interest rate, he suggested, should be zero. (He also believes—and this won't

endear him to the retirement industry—in ending tax advantages for 401(k) savings.)

Without warning, a slightly flustered, determined-looking woman approached Wray and said that she had worked in government and at one of the big investment banks and that she disagreed with his ideas. Wray politely, but firmly, responded to her objections. She turned and left. He returned to his conversation.

I'm still trying to get my head around MMT, and I don't pretend to grasp all the details. I can tell you what its practitioners don't believe, however. For instance, they definitely don't agree with the idea, as Speaker of the House John Boehner once phrased it, that when households have to "tighten their belts" the government also has a duty to tighten its belt—by spending less.

To MMT believers, that makes as little sense as saying that a reservoir should release less water during a drought than it does when there's plenty of rain. The purpose of a sovereign currency and a central bank, they argue, is to provide liquidity—and investment and employment—when the private sector can't. But to call them Keynesians wouldn't give you the whole picture.

In contrast to those who've announced that the United States is "broke," the MMT crowd claims that our government can't go broke or run out of dollars any more than Caesar's Palace can run out of plastic chips. As for the danger of leaving a massive tax bill for our grandchildren, MMT-ers hold that the federal government doesn't need taxes to pay for its activities; it relies on taxes mainly to remove excess money from the economy and to prevent inflation. Supply-side economics, which seems to suggest that we'd collectively pay more in taxes if we each paid less in taxes, doesn't add up for them.

MMT-ers believe that, like Galileo, the Italian astronomer who demonstrated that the Earth orbits the Sun, or like Columbus, who proved that you can't sail off the edge of the Earth, they're simply rendering a more accurate portrait of reality than the one most of us carry around in our heads.

Most of us, in their view, still believe that the financial world is flat, not round. We persist in that belief, they might say, because, on the micro level, in our household or municipal or state economies (e.g., Greece or California), the financial landscape is flat. But at the sovereign level, at the U.S. or Canadian or British central banking level, the world is spherical.

But don't take my word for it. I recommend "[Understanding The Modern Monetary System](#)," a 2011 paper by Cullen O. Roche, "The 7 Deadly Innocent Frauds of Economic Policy," a short [book](#) by Warren Mosler, and "Global Financial Crisis: A Minskyan Interpretation of the Causes, the Fed's Bailout, and the Future," a recent [monograph](#) by Wray.

MMT might strike you as sacrilegious, or quixotic, or even crazy. If so, you'll have company—at lofty places like the Bank of England and the University of Chicago. I don't necessarily agree with all the policy recommendations of MMTers. But, for me, MMT helps explain practically everything that was previously mystifying about our financial system. This much seems clear: the issues addressed by MMT are more than academic. The outcome of the next presidential election, and the health of our economy, may depend on how we feel about them.

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