

Book Reviews

THE DEFICIT MYTH

A Paradigm for Understanding Budgeting; What Role is there for Land Reformers?

BY: MARK MOLLINEAUX

It's in the air: something called "Modern Monetary Theory" (MMT). MMT purports to have answers on how to pay for public goods without burdensome taxes, how to shift more earning power to workers, and how to circumvent gridlock and democratic stasis. Especially in the context of COVID's unique challenges, MMT tells us that our recovery may be quick and merciful. But what exactly is it?

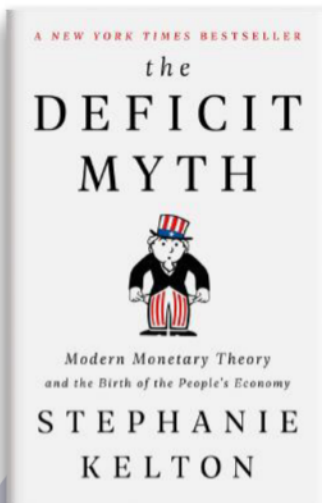
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Enter "The Deficit Myth." Authored by Stephanie Kelton, former Chief Economist on the U.S. Senate Budget Committee, former advisor to Bernie Sanders, and among the key group of MMT-focused professional academics, this book outlines the basis of Modern Monetary Theory. Is MMT a series of programs, or a way of thinking? Is it even anything new?

For those who view tax policy as a profound matter of equity, is this development perhaps troubling? When you're in the vocation of pushing for good taxes, is one correct to fear a paradigm saying that taxes don't fund government services after all?

MMT: A FEW KEY TENETS

Kelton's book (which she finished writing just as COVID struck) is aimed at the MMT-curious, but doesn't take previous knowledge for granted: the book is framed around the "common wisdom" of budgets that seemingly everyone believes today (...balanced budgets are a sign of seriousness; our debts today will be paid off by future generations; America is being bought by China through their purchase of its debt...) and works to correct and demystify each myth one by one.



In each case, the explanations are a careful balance of hand-holding, engaging and funny anecdotes, as well as gory and technocratic details. By the time Kelton explains the most nuanced and wonky of the myths (that public debt redounds to a "crowding out" of private investment), we're deep in the dance: a convoluted structure involving many players (notably, the interplay between the Treasury and the Federal Reserve). Rules govern the action, some

seemingly real and part of the economic firmament, others we have imposed on ourselves, whether it be Congress's PAYGO system of mandating funding sources for all new spending, or our particular bond issuance policy and its relationship to deficit spending.

As someone who has been fairly well-acquainted with the MMT arguments, it's Kelton's demystification of the intragovernmental procedure that was most rewarding for me. Her use of "green money" and "yellow money" to track the flows of both currency and bonds is the best explanation I've yet seen, and the footnotes pointing to papers with even gorier detail are appreciated.

Kelton also uses her experience with how the sausage is made in Congress to enliven the proceedings with some amusing examples about how our electeds understand and misunderstand debt. How is it possible for Congress members to abhor the National Debt but also want to protect the availability of Treasury Bonds for investors, given these are fundamentally two perspectives of the precise same thing?

This review is far too short to explore what MMT is to the extent that the book does, but here's a short summary of the argument.

- Whereas it's appealing to believe that financial restraints to a government are similar to that of a household or business, when a government controls its own currency (as is the case for a monetary sovereign such as the United States or Japan, but not Greece or New York) it can never truly default on its debt; the real constraint is on its credit-worthiness.

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IS THIS EVEN NEW?

If the last phrase above rings a bell, it's that "Full Employment and Price Stability" is not only a MMT rallying cry, but also a volume of work by William Vickrey, who dedicated much of his later life to righting misconceptions about the macroeconomy and the tendency towards austerity. Vickrey appears a few times within Kelton's book, as does another notable name: Abba Lerner. Lerner's work on "Functional Finance", starting in the 1930s, is essentially identical in propositions to the bullet points above, leading many to ask whether MMT is really anything new, or is just a new name on an old concept.

This stirs plenty of debate ("isn't MMT just a way of talking about seigniorage rents/chartalism/etc?" "isn't this just a slight amplification of Keynes?"). However, I personally don't think the question of novelty is really too important. Even if it is a new brand more than a fundamentally new idea, MMT certainly has a freshness in modern political discourse that seems to indicate that it's either notably effective in grabbing the public attention, and/or it's the right framing device for this time.

Perhaps the only truly "new" feature of MMT, as compared to Functional Finance, is its focus on a federal Job Guarantee (JG) as a way to stabilize the economy in a non-inflationary way. This has attracted a great deal of debate; many have dismissed the claim that JG is integral to the MMT paradigm (I am inclined to agree, despite Kelton's interjection of JG as a helpful program throughout her book, it feels rather bolted-on). Others have criticized the framing of JG as an individual mandate (which would be a nightmare to administer, as opposed to simply advocating for a larger quantity of public sector employment). Yet others have criticized JG as being unfairly punitive, akin to workfare, as opposed to merely dispersing money through a Universal Basic Income or Unemployment Insurance, and making any work requirement voluntary. Personally, I agree with all of the above, adding my personal preference for bold and innovative anti-inflationary policy such as Abba Lerner's "MAP: Market Anti-Inflation Plan". I don't believe that these fairly substantial criticisms to the JG, as proposed, undermine the key insights to the MMT paradigm, which remain incisive.

RESPONDING TO OBJECTIONS FROM A LAND-TAXER'S PERSPECTIVE

There may be some anxious feelings this provokes from one committed to the justice of taxing land. If taxes don't really fund the government, will this lead to anti-tax sentiment which undermines the value of the LVT argument?

Not at all. It's important to remember a dictum of MMT: "think of inflation." Remember, inflation isn't one thing, but a multivariate tapestry of interweaving phenomena. While CPI and other inflationary behavior tied predominantly to wage

levels is the most common form to fixate on, one cannot forget asset price inflation (especially localized to real estate price levels). While asset price inflation only gets a passing mention in "The Deficit Myth" (for perhaps the cynical reason that taking on real estate interests is politically perilous), it's definitely a thread in the larger discourse. MMT-adjacent Post-Keynesians have some interesting insight into how the Asset Economy currently functions, one that fits interestingly into other insights about the role of expanding bank credit being used to buy up previously-extant real estate.

Another objection may be that this is missing the forest for the weeds: focusing on the "money economy" instead of the "real economy." This was a common refrain in the works of Henry George, who had the ability to see through the obfuscation of the financial economy, to reveal inequities underneath. A piece of money was, after all, not a piece of wealth at all, but only a voucher to extract resources and labor from others. In his book "Social Problems", George pays special notice to the immorality of issuing bonds to pay for war debt. After all, if we're content to simply conscript soldiers, why are we borrowing from the wealthy instead of taxing them? He then parlays this into a condemnation of "public debt."

I don't think there's any real contradiction here, given that 19th century America was not a monetary sovereign; an obligation to acquire gold at all costs is in fact a real public debt in a way that the current "national debt" is fundamentally fictitious. George's focus on the inequities of coddling the rich is fundamentally just, but ultimately far more fundamental than the questions of currency administration: ending wealth inequities should be done because ending inequities are good in themselves, not just because it's useful to fund spending.

Furthermore, it's important to note that the MMT authors are more focused on real resources and the real economy than most in the game of analyzing the economy. Kelton, throughout "The Deficit Myth," is consistent in noting that the way we treat money is a useful tool to effect change in real resources and constraints. Instead of focusing on the debits and credits of U.S. Reserve Notes, we need to spend more time identifying how monetary policy can either create a bounteous and effective world, or not. She lays out in one section a few "deficits that matter" (Employment, Healthcare, Education, Infrastructure), which she argues are far more worthwhile to focus on as opposed to a federal currency deficit with purely theoretical harm. (Cont. Next Page)

Book Review (Cont.)

To see the merit in the MMT framework is not at all to eject the relevance of good taxes, but rather to focus on how these good taxes will create positive effects in the real economy, something a Land Value Tax has in its favor. It's worth remembering the work of the early fiat currency theorist Silvio Gesell (who Keynes himself called an "unduly neglected prophet" of whose great insight Keynes drew upon). In Gesell's central text, "The Natural Economic Order," he reserves a third of the book to explain the necessity of land reform, in the model of Henry George, in order to stave off inflationary behavior as his particularly volatile brand of fiat currency was administered.

It's worth noting that MMT is already unlocking doors; the COVID relief spending is already moving new spending in greater quantities than the subprime-era bills, for the reason, in part, that the Deficit Hawks have less sway now than a decade ago. Paradigms that have political and explanatory power may quickly rise in importance, and it's for this reason that reading Stephanie Kelton's "The Deficit Myth" is a worthwhile use of energy.

Upcoming Events

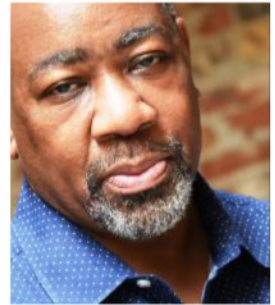
Join The Center for Property Tax Reform and 5th Square for a FREE webinar on Tuesday, February 23 exploring how abandoning the traditional property tax in favor of a land value tax could be the economic vaccine that the City of Brotherly Love needs.

Register at: <https://centerforpropertytaxreform.org/events>



Presenters include:

Wilson Goode Jr., Philadelphia City Councilperson
Maria Quinones-Sanchez, Philadelphia City Councilperson
and additional influencers and elected officials from Philadelphia



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