

BOOK REVIEW

THE DEFICIT MYTH: MODERN
MONETARY THEORY AND THE BIRTH OF
THE PEOPLE'S ECONOMY

STEPHANIE KELTON

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I've got good news and bad news. The good news is that Stephanie Kelton—economics professor at Stony Brook and advisor to the 2016 Bernie Sanders campaign—has written a book on Modern Monetary Theory that is very readable, and will strike many readers as persuasive and clever. The bad news is that Stephanie Kelton has written a book on MMT that is very readable and will strike many readers as persuasive and clever.

To illustrate the flavor of the book, we can review Kelton's reminiscences of serving as chief economist for the Democratic staff on the U.S. Senate Budget Committee. When she was first selected, journalists reported that Senator Sanders had hired a "deficit owl"—a new term Kelton had coined. Unlike a deficit *hawk* or a deficit *dove*, Kelton's deficit *owl* was "a good mascot for MMT

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because people associate owls with wisdom and also because owls' ability to rotate their heads nearly 360 degrees would allow them to look at deficits from a different perspective" (p. 76).

Soon after joining the Budget Committee, Kelton the deficit owl played a game with the staffers. She would first ask if they would wave a magic wand that had the power to eliminate the national debt. They all said yes. *Then* Kelton would ask, "Suppose that wand had the power to rid the world of US Treasuries. Would you wave it?" This question—even though it was equivalent to asking to wipe out the national debt—"drew puzzled looks, furrowed brows, and pensive expressions. Eventually, everyone would decide against waving the wand" (p. 77).

Such is the spirit of Kelton's book, *The Deficit Myth*. She takes the reader down trains of thought that turn conventional wisdom about federal budget deficits on its head. Kelton makes absurd claims that the reader will think surely *can't* be true... but then she seems to justify them by appealing to accounting tautologies. And because she uses apt analogies and relevant anecdotes, Kelton is able to keep the book moving, despite its dry subject matter. She promises the reader that MMT opens up grand new possibilities for the federal government to help the unemployed, the uninsured, and even the planet itself...if we would only open our minds to a paradigm shift.

So why is this bad news? Because Kelton's concrete policy proposals would be an absolute disaster. Her message can be boiled down into two sentences (and these are my words, not an exact quotation): *Because the Federal Reserve has the legal ability to print an unlimited number of dollars, we should stop worrying about how the government will "pay for" the various spending programs the public desires. If they print too much money, we will experience high inflation, but Uncle Sam doesn't need to worry about "finding the money" the same way a household or business does.*

This is an incredibly dangerous message to be injecting into the American discourse. If it were *mere* inflationism, we could hope that enough of the public and the policy wonks would rely on their common sense to reject it. Yet because Kelton dresses up her message with equations and thought experiments, she may end up convincing an alarming number of readers that MMT really *can* turn

unaffordable government boondoggles into sensible investments, just by changing the way we think about them.

Precisely because Kelton’s book is so unexpectedly impressive, I would urge longstanding critics of MMT to resist the urge to dismiss it with ridicule. Although it’s fun to lambaste “*Magical Monetary Theory*” on social media and to ask, “Why don’t you move to Zimbabwe?”, such moves will only serve to enhance the credibility of MMT in the eyes of those who are receptive to it. Consequently, in this review I will craft a lengthy critique that takes Kelton quite seriously, in order to show the readers just how *wrong* her message actually is, despite its apparent sophistication and even charm.

MONETARY SOVEREIGNTY

In her introductory chapter, Kelton lures the reader with the promise of MMT, and also sheds light on her book title:

[W]hat if the federal budget is fundamentally different than your household budget? **What if I showed you that the deficit bogeyman isn’t real?** What if I could convince you that we can have an economy that puts people and planet first? That finding the money to do this is not the problem? (p. 2, bold added)

The first chapter of the book makes the fundamental distinction for MMT, between currency issuers and currency users. Our political discourse is plagued, according to Kelton, with the fallacy of treating *currency issuers* like Uncle Sam as if they were mere *currency users*, like you, me, and Walmart.

We mere currency users have to worry about financing our spending; we need to come up with the money—and this includes borrowing from others—before we can buy something. In complete contrast, a currency *issuer* has no such constraints, and needn’t worry about revenue when deciding which projects to fund.

Actually, the situation is a bit more nuanced. To *truly* reap the advantages unlocked by MMT, a government must enjoy *monetary sovereignty*. For this, being a currency issuer is a necessary but insufficient condition. There are two other conditions as well, as Kelton explains:

To take full advantage of the special powers that accrue to the currency issuer, **countries need to do more than just grant themselves the exclusive right to issue the currency. It's also important that they don't promise to convert their currency into something they could run out of (e.g. gold or some other country's currency). And they need to refrain from borrowing...in a currency that isn't their own.** When a country issues its own nonconvertible (fiat) currency and only borrows in its own currency, that country has attained monetary sovereignty. **Countries with monetary sovereignty, then, don't have to manage their budgets as a household would.** They can use their currency-issuing capacity to pursue policies aimed at maintaining a full employment economy. (pp. 18–19, bold added)

Countries with a “high degree of monetary sovereignty” include “the US, Japan, the UK, Australia, Canada, and many more” (p. 19) (And notice that even these countries weren't “sovereign” back in the days of the gold standard, because they had to be careful in issuing currency lest they run out of gold.) In contrast, countries today like Greece and France are *not* monetarily sovereign, because they no longer issue the drachma and franc, but instead adopted the euro as their currency.

The insistence on issuing debt in their own currency helps to explain away awkward cases such as Venezuela, which is suffering from hyperinflation and yet has the ability to issue its own currency. The answer (from an MMT perspective) is that Venezuela had a large proportion of its foreign-held debt denominated in US dollars, rather than the bolivar, and hence the Venezuelan government couldn't simply print its way out of the hole.¹ In contrast, so goes the MMT argument, the US government owes its debts *in US dollars*, and so never need worry about a fiscal crisis.

YES, KELTON KNOWS ABOUT INFLATION

At this stage of the argument, the obvious retort for any post-pubescent reader will be, “But what about inflation?!” And here's where the critic of MMT needs to be careful. Kelton repeatedly stresses throughout her book—and I've seen her do it in interviews and even on Twitter—that printing money is *not* a source of

¹ See, e.g., Brown (2019).

unlimited real wealth. She (and Warren Mosler too, as he explained when I interviewed him on my podcast²) understands and warns her readers that if the federal government prints too many dollars in a vain attempt to fund too many programs, then the economy will hit its genuine resource constraint, resulting in rapidly rising prices. As Kelton puts it:

Can we just print our way to prosperity? Absolutely not! **MMT is not a free lunch. There are very real limits, and failing to identify—and respect—those limits could bring great harm.** MMT is about distinguishing the real limits from the self-imposed constraints that we have the power to change. (p. 37, bold added)

In other words, when someone like Alexandria Ocasio-Cortez proposes a Green New Deal, from an MMT perspective the relevant questions are *not*, “Can the Congress afford such an expensive project? Will it drown us in red ink? Are we saddling our grandchildren with a huge credit card bill?” Rather, the relevant questions are, “Is there enough slack in the economy to implement a Green New Deal without reducing other types of output? If we approve this spending, will the new demand largely absorb workers from the ranks of the unemployed? Or will it siphon workers away from existing jobs by bidding up wages?”

THE FUNDAMENTAL PROBLEM WITH MMT

Now that we’ve set the table, we can succinctly state the fundamental problem with Kelton’s vision: Regardless of what happens to the “price level,” monetary inflation transfers real resources away from the private sector and into the hands of political officials. If a government project is deemed unaffordable according to conventional accounting, then it should also be denied funding via the printing press.

What makes MMT “cool” is that it’s (allegedly) based on a fresh insight showing how all of the mainstream economists and bean counters are locked in old habits of thought. Why, these fuddy-duddies keep treating Uncle Sam like a giant corporation, where

² See Murphy (2019b).

he has to make ends meet and always satisfy the bottom line. In contrast, the MMTers understand that the feds can print as many dollars as they want. It's not revenue but (price) inflation that limits the government's spending capacity.

I hate to break it to Kelton and the other MMT gurus, but economists—particularly those in the free-market tradition—have been teaching this for decades (and perhaps centuries). For example, here's Murray Rothbard in his 1962 treatise, *Man, Economy, and State*:

At this time, let us emphasize the important point that government cannot be in any way a fountain of resources; all that it spends, all that it distributes in largesse, it must first acquire in revenue, i.e., it must first extract from the "private sector." **The great bulk of the revenues of government, the very nub of its power and its essence, is taxation, to which we turn in the next section. Another method is inflation,** the creation of new money, which we shall discuss further below. A third method is borrowing from the public.... (Rothbard 1962, 913–14, bold added)

To repeat, this is standard fare in the lore of free-market economics. After explaining that government spending programs merely return resources to the private sector that had previously been taken from it, the economist will inform the public that there are three methods by which this taking occurs: taxation, borrowing, and inflation. The economist will often add that government borrowing can be considered merely *deferred* taxation, while inflation is merely *hidden* taxation.

And it's not merely that inflation is equivalent to taxation. No, because it's harder for the public to understand what's happening when government money-printing makes them poorer, there is a definite sense in which standard taxation is "honest" whereas inflation is insidious. This is why Ludwig von Mises considered inflationary finance to be "essentially antidemocratic" (Mises [1944] 2010, 252): the printing press allows the government to get away with spending that the public would never agree to explicitly pay for, through straightforward tax hikes.

Kelton and other MMT theorists argue that inflation isn't a problem right now in the US and other advanced economies, and so we don't need to be shy about cranking up the printing press. But whether or not the Consumer Price Index is rising at an "unacceptably" high

rate, it is a simple fact that when the government prints an extra \$1 million to finance spending, then prices (quoted in US dollars) are higher than they otherwise would have been, and people holding dollar-denominated assets are poorer than they otherwise would have been. Suppose that prices would have *fallen* in the absence of government money-printing. Then in this case, everybody holding dollar assets would have seen their real wealth go *up* because of the price deflation. If the government merely prints enough new dollars to keep prices stable, it is still the case that those original dollar-holders end up poorer relative to what otherwise would have happened.

Now to be sure, Kelton and other MMT theorists would object at this point in my argument. They claim that if there is still some “slack” in the economy, in the sense of unemployed workers and factories operating below capacity, then a burst of monetary inflation can put those idle resources to work. Even though the rising prices lead to redistribution, if *total* output is higher, then per capita output must be higher too. So on average, the people still benefit from the inflation, right?

On this score, we simply have a disagreement about how the economy works, and in this dispute I think the Austrians are right while the MMTers are wrong. According to Mises’s theory of the business cycle,³ the existence of “idle capacity” in the economy doesn’t just fall out of the sky, but is instead the result of the malinvestments made during the preceding boom. So if we follow Kelton’s advice and crank up the printing press in an attempt to put those unemployed resources back to work, it will simply set in motion another unsustainable boom/bust cycle. In any event, in the real world, government projects financed by inflation will not merely draw on resources that are currently idle, but will also siphon at least *some* workers and raw materials out of other, private-sector outlets, as I elaborate elsewhere (Murphy 2019b).

In summary, the fundamental “insight” of MMT—namely, that governments issuing fiat currencies need only fear price inflation, not insolvency—is something that other economists have acknowledged for decades. Where the MMTers *do* say something

³ See Murphy (2020b).

different is when they claim that printing money only carries an opportunity cost when the economy is at full employment. But on this point, the MMTers—like their more orthodox cousins, the Keynesians—are simply wrong (Murphy 2009).

TOUGH QUESTIONS FOR MMT

A standard rhetorical move is for proponents to claim that MMT is not ideological, but merely describes how a financial system based on fiat money actually works. (For example, this was the lead argument Mike Norman used when he and I were dueling with YouTube videos.⁴) Yet since so much hinges on whether a government has “monetary sovereignty,” it’s amazing that the MMTers never seem to ask *why* some governments enjoy this status while others don’t.

For her part, Kelton criticizes certain non-monetarily-sovereign governments for particular actions, such as joining a currency union (p. 145), but she doesn’t ask the basic question: Once an MMT economist explains its benefits, why doesn’t *every* government on earth follow the criteria for becoming a monetary sovereign? Indeed, why don’t all of us *as individuals* issue our own paper notes—in my case, I’d print RPMs, which has a nice ring to it—and furthermore only borrow from lenders in our own personal currencies? That way, if you fell behind in your mortgage payments, you could simply print up more of your own personal notes to get current with the bank.

Posed in this way, these questions have obvious answers. The reason Greece adopted the euro, and Venezuela borrows so much in US-dollar-denominated debt, and the reason I use dollars rather than conducting transactions in RPMS, is that the rest of the financial community is very leery of the Greek drachma, the Venezuelan bolivar, or the Murphyian RPM note. Consequently, the Greek and Venezuelan governments, as well as me personally, all subordinated our technical freedom to be “monetary sovereigns” and violated one or more of Kelton’s criteria.

In short, the reason most governments (including *state* governments in the US) in the world aren’t “monetary sovereigns” is that members of the financial community are worried that they would abuse a

⁴ See, e.g., Murphy (2013).

printing press. The Greek government knew its economy would receive more investment, and it would be able to borrow on cheaper terms, if it abandoned the drachma and adopted the euro. The Venezuelan government knew it could obtain much larger “real” loans if they were denominated in a relatively hard currency like the USD, rather than the Venezuelan currency which could so readily be debased (as history has shown). And I personally can’t interest *anybody* in financial transactions involving my authentic RPM notes, and so reluctantly I have to join the dollar-zone.

Now that we’ve covered this basic terrain, I have a follow-up question for the MMT camp: What would it take for a government to *lose* its monetary sovereignty? In other words, of those governments that are currently monetary sovereigns, what would have to happen in order for the governments to start borrowing on foreign currencies, or tie their own currency to a redemption pledge, or even to abandon their own currency and embrace one issued by a foreign entity?

Here again the answer is clear: A government that engaged too recklessly in monetary inflation—thus leading investors to shun that particular “sovereign” currency—would be forced to pursue one or more of these concessions in order to remain part of the global financial community. Ironically, current monetary sovereigns would run the risk of forfeiting their coveted status if they actually followed Stephanie Kelton’s policy advice.

MMT IS ACTUALLY WRONG ABOUT MONEY

For a framework that prides itself on neutrally describing the actual operation of money and banking since the world abandoned the gold standard, it’s awkward that MMT is simply *wrong* about money. In this section I will summarize three of the main errors Kelton makes about money.

Money Mistake #1: The Treasury Needs Revenue Before It Can Spend

A bedrock claim of the MMT camp is that unlike individuals and Walmart, the US Treasury doesn’t need to have money before

spending it. Here's an example of Kelton laying out the MMT description of government financing:

Take military spending. In 2019, the House and Senate passed legislation that increased the military budget, approving \$716 billion.... There was no debate about how to pay for the spending.... Instead, Congress committed to spending money it did not have. It can do that because of its special power over the US dollar. Once Congress authorizes the spending, agencies like the Department of Defense are given permission to enter into contracts with companies like Boeing, Lockheed Martin, and so on. **To provision itself with F-35 fighters, the US Treasury instructs its bank, the Federal Reserve, to carry out the payment on its behalf. The Fed does this by marking up the numbers in Lockheed's bank account. Congress doesn't need to "find the money" to spend it. It needs to find the votes! Once it has the votes, it can authorize the spending. The rest is just accounting. As the checks go out, the Federal Reserve clears the payments by crediting the sellers' account with the appropriate number of digital dollars, known as bank reserves.** That's why MMT sometimes describes the Fed as the scorekeeper for the dollar. The scorekeeper can't run out of points. (Kelton, p. 29, bold added)

For a more rigorous, technical treatment, the advanced readers can consult Kelton's peer-reviewed journal article from the late 1990s on the same issues (Bell 2000).⁵ Yet whether we rely on Kelton's pop book or her technical article, the problem for the MMTers is still there: Nothing in their description is unique to the US Treasury.

For example, when I write a personal check for \$100 to Jim Smith who also uses my bank, we could explain what happens like this: "Murphy *instructed* Bank of America to simply add 100 digital dollars to the account of Jim Smith." Notice that this description is exactly the same thing that Kelton said about the Treasury buying military hardware in the block quotation above.

Now of course, I can't spend an *unlimited* amount of dollars, since I am a currency user, not a monetary sovereign. In particular, if I "instruct" Bank of America to mark up Jim Smith's checking account balance by more dollars than I have in my *own* checking account, the bank may ignore my instructions. Or, if my overdraft isn't too large, the bank might go ahead and honor the transaction,

⁵ Bell (2000) is the published journal article, but future references to this work will refer to Bell (1998), an earlier draft which is not behind a paywall.

but then show I have a negative balance (and charge me an Insufficient Funds fee on top of it).

The only difference between my situation and the US Treasury's is that I actually have overdrawn my checking account, whereas the U.S. Treasury hasn't had the legal option of doing so since 1981—and even before then, the Treasury only exercised the option rarely, and out of convenience not necessity.⁶ Indeed, Kelton's own journal article (Bell 1998, 11, Fig. 4) shows that the Treasury consistently maintained (as of the time of her research) a checking account balance around \$5 billion, and that the daily closing amount never dipped much below this level.

Indeed, the Treasury itself sure acts as if it needs revenue before it can spend. That's why the Treasury Secretary engages in all sorts of fancy maneuvers⁷—such as postponing contributions to government employees' retirement plans—whenever there's a debt ceiling standoff and Uncle Sam hits a cash crunch.

The MMTers take it for granted that if the Treasury ever actually tried to spend more than it contained in its Fed checking account balance, that the Fed would honor the request. Maybe it would, and maybe it wouldn't; CNBC's John Carney (who moderated the debate at Columbia University between MMT godfather Warren Mosler and me [Modern Money Network 2013]) thinks it's an open question in terms of the actual legal requirements, though Carney believes in practice the Fed would go ahead and cash the check.

Yet, to reiterate, at least going back to 1981 the Treasury hasn't spent money that it didn't already have sitting in its checking account. The MMT camp would have us believe that there is something special occurring day in and day out when it comes to Treasury spending, but they are simply mistaken: so far at least, the Treasury has never dared the Fed by overdrawing its account.

Indeed, Kelton herself in her technical article from the late 1990s implicitly gives away the game when she defends the MMT worldview in this fashion:

⁶ For the history of the Treasury's overdraft privileges see: <https://www.alt-m.org/2019/03/05/on-empty-purses-and-mmt-rhetoric/>

⁷ See Gudmundson (2011).

[S]ince the government's balance sheet can be considered on a *consolidated* basis, given by the sum of the Treasury's and Federal Reserve's balance sheets with offsetting assets and liabilities simply canceling one another out... the sale of bonds by the Treasury to the Fed is simply an internal accounting operation, providing the government with a self-constructed spendable balance. Although *self-imposed* constraints may prevent the Treasury from creating *all* of its deposits in this way, there is no real limit on its *ability* to do so. (Kelton 1998, 16, italics in original)

What Kelton writes here is true, but by the same token, we can consider the Federal Reserve and Goldman Sachs balance sheets on a consolidated basis. If we do that, then Goldman Sachs can now spend an infinite amount of money. Sure, its accountants might still construct profit and loss statements and warn about bad investments, but these are *self-imposed* constraints; so long as the Fed in practice will honor any check Goldman Sachs writes, then all overdrafts are automatically covered by an internal loan from the Fed to the investment bank. The only reason this *wouldn't* work is if the Fed actually stood up to Goldman and said "No." But that's exactly what the situation is with respect to the Treasury too.

Whenever I argue the merits of MMT, I debate whether or not to bring up this particular quibble. In practice, it would be very naïve to think the Fed actually enjoys "independence" from the federal government that grants the central bank its power. And I for one think that the various rounds of quantitative easing (QE) were not *merely* driven by a desire to minimize the output gap, but instead were necessary to help monetize the boatload of debt incurred during the Obama years. (Of course Trump and Powell are doing a similar dance.)

Even so, I think it is important for the public to realize that the heroes of MMT are misleading them when they claim there is something unique to Uncle Sam in the way he interacts with his banker. So far, this is technically not the case. Even when the Fed has clearly been monetizing new debt issuance—such as during the world wars—all of the players involved technically went through the motions of having the Treasury *first* float bonds in order to fill its coffers with borrowed funds, and only *then* spending the money. The innocent reader wouldn't know this if he or she relied on the standard MMT accounts of how the world works.

Money Mistake #2: Taxes Don't Prop Up Currencies

Another central mistake in the MMT approach is its theory of the origin and value of money.⁸ To set the stage, here is Kelton explaining how Warren Mosler stumbled upon the worldview that would eventually be dubbed Modern Monetary Theory:

Mosler is considered the father of MMT because he brought these ideas to a handful of us in the 1990s. He says... it just struck him after his years of experience working in financial markets. He was used to thinking in terms of debits and credits because he had been trading financial instruments and watching funds transfer between bank accounts. One day, he started to think about where all those dollars must have originally come from. It occurred to him that before the government could subtract (debit) any dollars away from us, it must first add (credit) them. He reasoned that spending must have come first, otherwise where would anyone have gotten the dollars they needed to pay the tax? (Kelton, p. 24)

This MMT understanding ties in with its view of the origin and money, and how *taxes* give money its value. Kelton explains by continuing to summarize what she learned from Mosler:

[A] currency-issuing government wants something real, not something monetary. It's not our tax money the government wants. It's our time. To get us to produce things for the state, the government invents taxes... This isn't the explanation you'll find in most economics textbooks, where a superficial story about money being invented to overcome the inefficiencies associated with bartering... is preferred. In that story, money is just a convenient device that sprang up organically as a way to make trade more efficient. Although students are taught that barter was once omnipresent, a sort of natural state of being, scholars of the ancient world have found little evidence that societies were ever organized around barter exchange.

MMT rejects the ahistorical barter narrative, drawing instead on an extensive body of scholarship known as chartalism, which shows that taxes were the vehicle that allowed ancient rulers and early nation-states to introduce their own currencies, which only later circulated as a medium of exchange among private individuals. From inception, the tax liability creates people looking for paid work...in the government's

⁸ If you want to see the Austrian view, see Murphy (2003) on the contributions of Menger and Mises.

currency. The government... then spends its currency into existence, giving people access to the tokens they need to settle their obligations to the state. **Obviously, no one can pay the tax until the government first supplies its tokens. As a simple point of logic, Mosler explained that most of us had the sequencing wrong. Taxpayers weren't funding the government; the government was funding the taxpayers.** (Kelton, pp. 26–27, bold added)

I have included these lengthy quotations to be sure the reader understands the superficial appeal of MMT. Isn't that intriguing—Mosler argues that the *government* funds the *taxpayers*! And when you think through his simple point about debits and credits, it seems that he isn't just *probably* correct, but that he *must* be correct.

Again, it's a tidy little demonstration; the only problem is that it's demonstrably false. It is simply not true that dollars were invented when some autocratic ruler out of the blue imposed taxes on a subject population, payable only in this new unit called "dollar." The MMT explanation of where money comes from doesn't apply to the dollar, the euro, the yen, the pound... Come to think of it, I don't believe the MMT explanation applies even to a single currency issued by a monetary sovereign. All of the countries that currently enjoy monetary sovereignty have built their economic strength and goodwill with investors by relying on a history of *hard money*.

In a review of Kelton's book, I'm not going to delve into the problems with the alleged anthropological evidence that purportedly shows ancient civilizations used money that was invented by political fiat, rather than money that emerged spontaneously from trade in commodities. For *that* topic, I refer the interested reader to my review of David Graeber's book (Murphy 2012).

Yet let me mention before leaving this subsection that the MMT story *at best* only explains why a currency has a nonzero value; it does not explain the actual amount of its purchasing power. For example, if the IRS declares that every US citizen must pay \$1,000 in a poll tax each year, then it's true, US citizens will need to obtain the requisite number of dollars. But they could do so whether the average wage rate is \$10 per hour or \$10,000 per hour, and whether a loaf of bread costs \$1 or \$1,000.

Furthermore, other things equal, if the government lowers tax rates, then it *strengthens* the currency. That's surely part of the reason

that the US dollar rose some 50 percent against other currencies after the tax rate reductions in the early Reagan years.⁹ So the MMT claim that taxes are necessary, *not* to raise revenue (we have a printing press for *that*), but to prop up the value of the currency, is at best seriously misleading.

Money Mistake #3: Debt Isn't Money

Amazingly, even though their system claims to explain how money works, the MMTers apparently don't know the simple difference between *money* and *debt*. Here's Kelton trying to defuse hysteria over the national debt:

The truth is, we're fine. The debt clock on West 43rd Street simply displays a historical record of how many dollars the federal government has added to people's pockets without subtracting (taxing) them away. Those dollars are being saved in the form of US Treasuries. If you're lucky enough to own some, congratulations! They're part of your wealth. While others may refer to it as a *debt* clock, it's really a US dollar *savings clock*. (Kelton, pp. 78–79.)

To drive home the equivalence of US Treasuries and dollars, shortly afterward Kelton says, "Heck, I don't even think we should be referring to the sale of US Treasuries as borrowing or labeling the securities themselves as the national debt. It just confuses the issue and causes unnecessary grief" (p. 81).

For an even starker illustration of the MMT confusion between debt and money, consider Kelton's approving quotations of a thought experiment from Eric Loneragan, who asked, "What if Japan monetized 100% of outstanding JGBs [Japanese government bonds]?" That is, what if the Bank of Japan issued new money in order to buy up every last Japanese government bond on earth? Loneragan argues "nothing would change" because the private sector's *wealth* would be the same; the BOJ would have engaged in a mere asset swap. In fact, because their interest income would now be lower while their wealth would be the same, people in the private sector would spend *less* after the total debt monetization, according to Loneragan.

⁹ See FRED, "Trade-Weighted U.S. Dollar Index: Major Currencies, Goods" (DTWEXM): <https://fred.stlouisfed.org/series/DTWEXM>.

In response to these observations, I make two simple points: First, one can't spend Treasury securities or Japanese government bonds in the grocery store. That's why money and debt are different things.

Second, if Kelton were right and the US national debt were a tally of how many dollars on net the government has "spent into existence," then when Andrew Jackson *paid off* the national debt, the American people would have had no money—the last dollar would have been destroyed. And yet even Kelton doesn't claim that dollars were temporarily banished from planet Earth. She merely claims that Jackson's policy caused a depression.¹⁰

DO GOVERNMENT DEFICITS EQUAL PRIVATE SAVINGS?

In Chapter 4, Kelton lays out the MMT case that government deficits, far from "crowding out" private sector saving, actually are the sole *source* of net private assets. Using simple accounting tautologies, Kelton seems to demonstrate that the only way the nongovernment sector can run a fiscal surplus, is if the government sector runs a fiscal deficit.

Going the other way, when the government is "responsible" by running a budget surplus and starts paying down its debt, by sheer accounting we see that this must be reducing net financial assets held by the private sector. (This is why it should come as no surprise, Kelton argues, that every major government surplus led to a bad recession. [p. 96])

In the present review, I won't carefully review and critique this particular argument, as I've done so earlier (Murphy 2019a). Suffice it to say, one could replace "government" in the MMT argument with any other entity and achieve the same outcome. For example, if Google borrows \$10 million by issuing corporate bonds and then it spends the money, then the net financial assets held by The-World-Except-Google go up by precisely \$10 million. (Or rather, the way one would define terms in order to make these claims true, is the same way Kelton gets the MMT claims about Uncle Sam to go through.) So did I just prove something really important about Google's finances?

¹⁰ For the Austrian take on this historical episode, see Sanchez (2009).

Obviously something is screwy here. Using standard definitions, people in the private sector can save, and even accumulate net financial wealth, without considering the government sector at all. (This is all spelled out in Murphy [2020a]). For example, Robinson Crusoe on his deserted island can “save” out of his coconut income in order to finance his investment of future labor hours into a boat and net. Even if we insist on a modern financial context, individuals can issue shares of equity in new corporations, thus acquiring assets that don’t correspond to a “debit” of anyone else.

It is a contrived and seriously misleading use of terminology when MMT proponents argue that government deficits are a source of financial wealth for the private sector. Forget the accounting and look at the big picture: Even if the central bank creates a new \$1 million and hands it to Jim Smith, it hasn’t made the community \$1 million richer except in the sense that we could all be millionaires with this practice. There aren’t any more houses or cars or acres of arable farmland available. Printing new money doesn’t make the community richer—at best it’s a wash with redistribution—and in fact in practice it makes the community poorer by distorting the ability of prices to guide economic decisions.

THE MMT JOB GUARANTEE

The last item I wish to discuss is the MMT job guarantee. Strictly speaking, this proposal is distinct from the general MMT framework, but in practice I believe every major MMT theorist endorses some version of it.

Under Kelton’s proposal, the federal government would have a standing offer to employ any worker at \$15 per hour (p. 68). This would set a floor against all other jobs; Kelton likens it to the Federal Reserve setting the federal funds rate, which then becomes the base rate for every other interest rate in the economy.

Kelton argues that her proposal would eliminate the unnecessary slack in our economic system, where millions of workers languish in involuntary unemployment. Furthermore, she claims her job guarantee would raise the long-term productivity of the workforce and even help people find better *private sector* job placement. This is because currently, “Employers just don’t want to take a chance on hiring someone who has no recent employment record” (p. 68).

There are several problems with this proposal. First of all, why does Kelton assume it would only draw workers out of the ranks of the unemployed? For example, suppose Kelton set the pay at \$100 per hour. Surely even she could see the problem here, right? Workers would be siphoned out of productive, private sector employment and into the government realm, providing dubious service at best at the direction of political officials.

Second, why would employers be keen on hiring someone who has spent, say, the last three years working in the guaranteed job sector? This would be, by design, the cushiest jobs in America. Kelton admits this when she says the base wage rate would be the *floor* for all other jobs.

Looking at it another way, it's not really a job *guarantee* if it's difficult to maintain the position. In other words, if the people running the federal jobs program are allowed to fire employees who show up drunk or who are simply awful workers, then it's no longer a guarantee.

CONCLUSION

Stephanie Kelton's new book *The Deficit Myth* does a very good job explaining MMT to new readers. I must admit that I was pleasantly surprised at how many different topics Kelton could discuss from a new view, in a manner that was simultaneously absurd and yet apparently compelling.

The problem is that Kelton's fun book is utterly wrong. The boring suits with their standard accounting are correct: It actually costs something when the government spends money. The fact that since 1971 we have had an unfettered printing press doesn't give us more options. It merely gives the Fed greater license to cause boom/bust cycles and redistribute wealth to politically connected insiders.

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