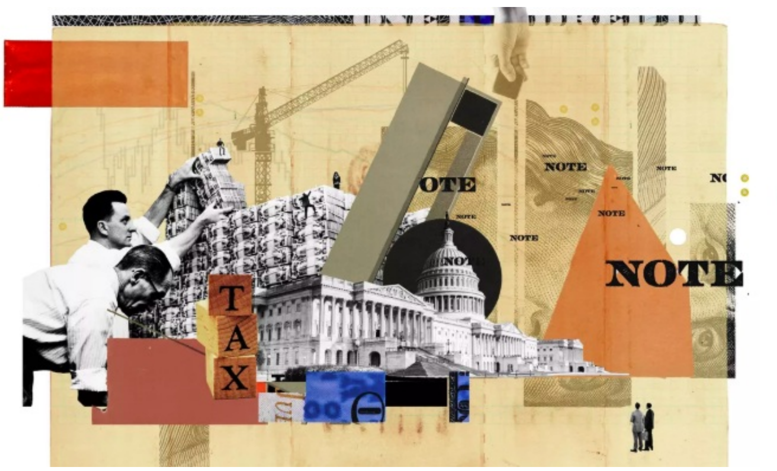
# For MMT

tribunemag.co.uk/2019/06/for-mmt

Thomas Fazi is a writer, journalist, translator, and researcher. He is the co-author of *Reclaiming the State: A Progressive Vision of Sovereignty for a Post-Neoliberal World* (Pluto Press, 2017).

Bill Mitchell is a Professor in Economics and Director of the Centre of Full Employment and Equity (CofFEE), at the University of Newcastle, NSW, Australia. He is the co-author of *Macroeconomics* (Macmillan, 2019), an MMT textbook, and *Reclaiming the State* (Pluto Press, 2017) among numerous other books.




*Tribune* recently published an article unequivocally titled ‘Against MMT’, written by James Meadway, former advisor to the Shadow Chancellor John McDonnell. He joins a coterie of economists and policymakers–Kenneth Rogoff, Larry Summers, Paul Krugman and others–who have attacked modern monetary theory (MMT). This campaign reached its apex when Republican senators proposed a resolution in Congress denouncing it–one of the first times an economic theory has been condemned in this way.

More surprising is the fact that MMT has also been the subject of fierce criticism by left-wing economists and commentators, such as Doug Henwood and Paul Mason. In the last year or so, the critiques of MMT have accelerated as its public profile has risen, partly due to Alexandria Ocasio-Cortez’s promotion of the theory in relation to her endorsement of a ‘Green New Deal’ (GND).

This was to be expected: MMT not only threatens powerful vested interests in our societies, but also challenges the hegemony of mainstream macroeconomists who have been able to dominate the policy debate for decades using a series of linked myths about how our fiat monetary system operates and the capacities of currency-issuing governments within such a system.

MMT allows us to break out of the illusory financial constraints that for too long have hindered our ability to imagine radical alternatives and to envision truly transformational policies, such as the Green New Deal, in the knowledge the issue is not whether we can 'afford' a certain policy in financial terms but only whether we have enough available resources–and political will–to implement it. This is a massive paradigm shift.

Our response to Meadway's *Tribune* article provides a simple (though limited) understanding of what MMT actually is–rather than what its critics often accuse it of being. MMT describes and analyses the way in which 'fiat monetary systems' operate and the capacities that a government has within that system. It explains how monetarily sovereign states–that is, states that issue their own currency, float it on international markets and only issue liabilities in that currency–can never run out of money or become insolvent. That is because, unlike households or businesses, which *use* the currency, the state *issues* the currency.

Currency-issuing governments can purchase whatever is available for sale in that currency, including all idle labour. They spend first–the central bank simply credits the relevant bank accounts to facilitate the spending requirements of the treasury–and collect taxes after. Taxes thus *do not fund spending*. Issuing debt does not increase the capacity of such a government to spend. Indeed, a monetarily sovereign government could run fiscal deficits without issuing debt at all: this policy has been called overt monetary financing (OMF), although the terminology is problematic.

Does this mean that taxes are not necessary or that we shouldn't 'tax the rich'? Of course not. Taxes reduce the purchasing power of the non-government sector, allowing the government to purchase goods and services without inflation. We are all for taxing the rich. But not to get their money. Rather, to deprive them of their purchasing power, which translates into economic and political power.

Neither does this mean that a nation can or should run 'enormous deficits and … sustain extraordinary trade deficits', as Meadway puts it. Fiscal deficits in themselves are neither good nor bad. Any assessment of the fiscal position of a nation must be taken in light of the usefulness of the government's spending programme in achieving its national socio-economic goals and the savings desires of the non-government sector. Typically, in the presence of an external deficit–that is, if a country imports more than it exports, causing a leakage in domestic demand–the government will have to run a fiscal deficit to maintain spending sufficient to keep all resources fully employed. If this condition is not met, growth will necessarily have to be sustained by an expansion in private debt.

Finally, despite showing that currency-issuing governments don't face a financial constraint, MMT doesn't claim that a nation faces no spending constraints whatsoever; rather, it shows that the real constraints faced by governments are the real resources (plants, machines, workers, etc.) available to the nation either locally or through trade. It follows that the real limit to government spending is the capacity of the economy to absorb it without generating runaway inflation.

However, the core MMT developers do not, as Meadway claims, consider a 'hierarchy of currencies' with the US dollar at the top, nor do they assume that non-dollar currencies have only limited currency sovereignty. All currency-issuing governments enjoy monetary sovereignty, as outlined above. Of course, issuing one's own currency doesn't make a nation 'rich'. A nation with limited access to real resources will remain materially poor. Sovereignty, though, means that it can use its currency capacity to ensure that all available resources are always fully employed. Therefore, Meadway is mistaken to assume that '[i]f you can't issue the dollar, MMT isn't going to work'. That is a fundamental misunderstanding.

In fact, MMT is not a regime that you 'apply' or 'switch to' or 'introduce'. Rather, it is a lens which allows us to see how our fiat monetary systems *already work*. How you decide to use that understanding depends on the value system or ideology you apply to it. It thus makes little sense to talk of 'MMT-type prescription' or an 'MMT solution'. Indeed, governments already operate according to the framework offered by MMT, regardless of what they may claim in public (and the accounting smokescreens they may employ).

Citizens are constantly told that the government cannot afford to invest more in education, healthcare, infrastructure, welfare and other public services. Yet, there is never a lack of money when it comes tax cuts for the rich, bank bailouts, military activities and other programmes that benefit our political and economic elites. As of March 2006, approximately £4.5 billion had been spent by the UK in Iraq, enough to pay for the building of around 44 new hospitals and to fund the recruitment and retention of over 10,300 new teachers for ten years. Yet, there was never any debate about how the UK would 'fund' the war.

Unfortunately, the mainstream macroeconomic narrative continues to plague large swathes of the left, particularly in Europe. Meadway's article is representative. It concentrates 'on the practical and political implications [of MMT], why they are wrong–and why Labour's own economic programme makes more sense'. In that sense, he is really talking about a conception of the application of MMT according to a certain value set, rather than MMT itself.

The knee-jerk reaction to MMT is that government deficits will be inflationary, especially if they are not accompanied by debt issuance. Critics characterise MMT as being about 'monetary financed deficits'–and usually slip the word 'printing' in there, even though there are no printing presses involved. Meadway recognises that 'modern governments do not have to collect taxes before they can spend: they can also borrow the money, or create and spend that money directly', but says that this 'does not apply over the longer term'. Why?

Because ‘issuing money … will lead to a general rise in prices, known as inflation’–a point that Meadway claims is ‘readily acknowledged by academic MMT supporters’. There is no such acknowledgement.

Meadway’s claim can be distilled down to the discredited Monetarist assertion that increasing the ‘money supply’ in the economy reduces its value via inflation. In truth, there is nothing intrinsically inflationary about a growing supply of currency. It is the government *spending* itself that carries the inflation risk, regardless of whether the deficit is matched with debt-issuance or not. Indeed, all spending (private or public) is inflationary if it drives nominal aggregate spending faster than the real capacity of the economy to absorb it. But if the net government spending is purchasing real goods and services that are available for sale, then such spending is unlikely to trigger inflation. A growing economy requires a growing volume of currency. Issuing debt does not reduce this risk. The funds in question represented saving and were not being spent anyway.

Meadway claims that the only solution proposed by MMT to deal with inflation is to use taxes to take ‘money’ out of circulation, thus reducing the amount of money chasing goods–something which allegedly places MMT in ‘a place remarkably similar to the hated mainstream of economics’. There is nothing mainstream about dealing with inflation; on the other hand, obsessing about it, like Meadway does, is very mainstream indeed. MMT acknowledges that if the inflation is due to excessive growth in aggregate spending (which is just one of many ways inflation can arise), then that growth has to be attenuated. There are a number of ways that attenuation can occur, tax rises being one of them. Furthermore, an MMT understanding also requires governments to be continually analysing real resource constraints *ex ante* and avoiding stimulus beyond those limits.

But if there is a need to attenuate spending growth in the economy, MMT demonstrates the superiority of an employment buffer stock approach–the Job Guarantee–over the current unemployment buffer stock approach to inflation control. Instead of creating unemployment to discipline wage demands, MMT proponents advocate that the government would, instead, offer a public sector job at a socially- inclusive minimum wage to anyone who seeks to work. Redistributing labour from the inflating sector to the fixed price sector would ensure price stability and avoid costly mass unemployment.

Contrary to Meadway’s assertions, MMT has nothing in common with mainstream economics. If anything, his defence of Labour’s ‘Fiscal Credibility Rule’ (FCR) betrays his own sympathies for the kind of neoliberal thinking that got us into the mess we’re in. The FCR, which Meadway helped to design as advisor to Shadow Chancellor John McDonnell, comprises ‘a strict set of rules [that Labour has adopted] for how a future government will manage its finances’. Meadway claims that these rules are consistent with ending austerity.

MMT shows this claim to be false. In the presence of an external deficit, the government will have to run a fiscal deficit to maintain spending sufficient to keep all resources fully employed. Since Britain has run an external deficit since the 1970s, and is not likely to generate large external surpluses in the foreseeable future, it follows that the only way private debt–and the power of financial institutions over society–can be brought under control without driving the economy into recession is for the government to run persistent and substantial fiscal deficits.

This reminds us that steering the economy towards full employment, something socialists should aim for, doesn't just require 'fine-tuning'–some extra spending when the economy slumps–and public investment. It requires constant control of its movement through fiscal policy. The FCR–which includes a commitment to reduce the debt-to-GDP ratio at the end of a five-year period–would fail in a deep recession. And the suspension clause in the Rule, where the Bank of England would cede policy control back to Treasury, would not have been invoked during the financial crisis, even with interest rates at 0.25 per cent.

The technical justifications offered by Meadway for such binding fiscal rules are even more puzzling. Meadway believes that 'clear and credible [fiscal] targets' are necessary to keep government borrowing rates down and the 'bond vigilantes' at bay. This is simply false. First, the government could stop issuing debt altogether if it wanted. Second, the central bank can always control yields in the bond markets, regardless of the overall debt level, as Japan is demonstrating.

Meadway's irrational fear of financial markets is particularly evident when he talks of current account (balance of payments) deficits. In the article, he repeats the oft-stated claim that countries with a current account deficit such as the UK 'will always be vulnerable to demands for foreign currency that they cannot immediately meet' and that this represents 'a significant impediment to sovereignty' if speculators lose faith in the policy settings of the nation and sell off the currency causing its value to collapse. It follows, he claims, that countries should eschew current account deficits and 'MMT-like prescriptions'.

Meadway also alleges that MMT understates this point, claiming that this represents a significant flaw in the theory. But in our book *Reclaiming the State* we dedicate an entire chapter to the balance of payments issue. MMT does not deny and has never denied that crises, particularly pertaining to currencies, can occur. Indeed, it is fully cognisant that a currency can become, under certain extreme conditions, worthless. There are many reasons why this could happen. Running a fiscal deficit is not one of them: there is simply no robust statistical evidence linking fiscal deficits to currency crises.

A well-governed country with a government committed to building and maintaining a first-class infrastructure, high quality public services (energy, transport, health, education, training, etc.) and a highly-skilled labour force would be a magnet for productive investment. The case of Australia–which has has run sizeable external deficits for the last fifty years and fiscal deficits in most of those years–exemplifies this. And Australia's financial sector contributes about the same to value added as Britain's financial sector.

Of course, capital markets may decide to dump the pound to put pressure on a radical Labour government. But that has nothing to do with following 'MMT-like prescriptions', nor is a tight fiscal stance going to avoid that if the underlying motive is political. Furthermore, if that should occur, a government can insulate the economy from those effects. Look at Iceland, which endured the worst financial collapse in history in 2008: it has successfully locked up the funds of some large international hedge funds using capital controls and its currency has strengthened as a result. Ultimately, progressives should understand that financial markets are not as all-powerful as they would have us believe.

The true problem with the FCR is not technical but political. By embracing a neoliberal framing about 'fiscal responsibility', Labour is setting itself up for failure. Meadway states that '[s]eeking to close a government deficit is not in itself neoliberal'. This might be true under certain circumstances, such as in the case of a country running a large trade surplus. However, the framing used by him and John McDonnell–and encapsulated in the FCR–is indeed neoliberal. The official FCR document says that 'everybody knows that if you're putting the rent on the credit card month after month, things need to change', while the Labour manifesto reminds us that the FCR 'is based on the simple principle that government should not be borrowing for day-to-day spending'.

Furthermore, John McDonnell went on record saying that Labour accepts that 'we are going to have to live within our means and we always will do'. This is a neoliberal framing. Which begs the question: if Labour is trying to break out of such narratives, why use these constructs? Meadway claims that one of the main reasons for adopting this framework is that 'it allows Labour to put together a coalition of support for its programme', ranging from mainstream economists to City professionals.

This is far-fetched. The support of mainstream economists and financial operators for certain theories and policies doesn't stem from a sincere belief in their virtue, but from the fact that they promote the interests of the dominant forces in society. The idea that a socialist government could guarantee itself the support of the economic establishment simply by adhering to the ideological framework that its members claim to believe in, with the aim of deploying mainstream theories and policies for progressive ends, is naïve.

Moreover, Meadway neglects the fact that the power of the capitalist establishment derives as much from its command of the state and means of production as it does from its capacity to frame the narrative. The primacy of these fiscal rules is a key part of the way in which the economic establishment censures governments that might be intent on redistributing national income or improving welfare services and the like.

Ultimately, the ideology of scarcity of money is integral to the maintenance of our deeply unequal relations of power in society. If there's anything the establishment fears more than the working classes seizing the means of production, it's the working classes seizing the means of production *of money* (or more precisely, of currency). You would think that socialists would understand that.

Labour should prioritise building a narrative that will advance the socialist cause for the decades to come. It should reject the ideology of 'sound money' outright and educate the public about the capacities of a currency-issuing government and the opportunities those capacities provide. It should explain to citizens that the purpose of fiscal policy is to advance broad welfare concerns, which pertain to wages, employment, equity, price stability, environmental sustainability and the like, not to achieve financial balance between revenue and outlays or to achieve a particular debt ratio.

In other words, Labour should strive to shift the Overton window–what is accepted in public discourse–rather than passively submitting to it for perceived (and highly dubious) short-run political purposes. This is precisely what MMT is doing, and why a growing number of people on the left find it so empowering.

MMT gives us the power to imagine truly transformational politics, without getting caught up in meaningless debates about whether we can 'afford' it or not. This is also why it is being attacked so fiercely. Not because of its theoretical foundations, but because of the range of economic and political possibilities that it opens up. The bottom line, however, is that MMT is here to stay. The Labour Party can choose to stick to an old neoliberal fiscal paradigm–or it can join the revolution.

Thomas Fazi is a writer, journalist, translator, and researcher. He is the co-author of *Reclaiming the State: A Progressive Vision of Sovereignty for a Post-Neoliberal World* (Pluto Press, 2017).

Bill Mitchell is a Professor in Economics and Director of the Centre of Full Employment and Equity (CofFEE), at the University of Newcastle, NSW, Australia. He is the co-author of *Macroeconomics* (Macmillan, 2019), an MMT textbook, and *Reclaiming the State* (Pluto Press, 2017) among numerous other books.