Modern Monetary Theory (MMT)—A Response to Henwood

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> We offer this piece on Modern Monetary Theory (MMT), writen in response to our friend and *MR* author Doug Henwood's recent piece in *Jacobin* in the interest of opening the pages of MR Online to the ongoing debate about MMT's merits. MMT has been much in the news, and it has been openly support among today's democratic (Democratic Party) socialists, including members of Congress such as Alexandria Ocasio-Cortes. While MMT, like all economic theories has various interpretations and complexities, its basic idea is simple: sovereign governments typically have a monopoly over the issuance of their own currency. Thus, they can issue money whenever they want, and thus can never face bankruptcy for lack of funds. Therefore, if there are unutilized resources in society, indicated by unemployed labor, a government can spend money to put people to work producing output. And it can always manage to check inflation should that become a problem. Although as Japan shows, enormous deficits (compared to the size of total output (GDP) can be run over long periods of time with little or even zero inflation. In reality, then, the size of the deficit is irrelevant, and whatever its size, what the government spends becomes income for the recipients, money to demand what is produced by the formerly unemployed labor.
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> There are certainly questions that can be raised about MMT, and we hope that these will be raised in an ongoing discussion here at MR Online. However, what MMT has shown is that the government, especially a large a powerful one such as that of the United States, cannot ever claim—nor can capitalists and their ideological apologists—that there is not enough money to finance socially useful investments, such as, for example, a Green New Deal.
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> —The Editors

For much of 2018, a small corner of leftist social media buzzed with the news that Doug Henwood was writing a takedown of Modern Monetary Theory (or "MMT")—a heterodox economic perspective that has soared in popularity since the Great Financial Crisis. After many, many months of promises, we finally received Doug Henwood's "polemic" [jacobinmag.com] against MMT in late February 2019. Suffice it to say, it was not worth the wait. The essay is little more than a inchoate mix of old MMT criticisms that have been responded to *ad infinitum,* plus some unique historical cherry-picking. Because unraveling every "Henwoodism" would require a book, we are not going to reply to each specific point.

Instead, we will focus on what matters—the politics of full employment in the Green New Deal era. We think it's important and instructive for the left to see just how badly Henwood gets it wrong. For us, there are three critical problems:

- First, Henwood is ignorant as to the deeper connections between central banking operations and class struggle.
- Second, this leads Henwood to miss the structural role of government debt within capitalism.
- Finally, and most importantly, Henwood is dead wrong on the contemporary politics of public finance and taxation.

Early in his screed, Henwood asserts that "[r]eserve accounting is important if you're a financial economist or a central banker, but it's of limited relevance to anyone concerned with big-picture economic questions." MMT advocates, of course, think otherwise. In fact, it would be surprising if central banking had little to do with the "big picture economic questions." Henwood's contention that focusing on central banking means ignoring class struggle is circular; he simply ignores MMT analysis demonstrating that such understanding strengthens the cause. [levyinstitute.org].

The shallowness of Henwood's critique is especially clear when he painfully misinterprets Kalecki's "Political Aspects of Full Employment" [equitablegrowth.org]. In full concert with MMT, the essay literally begins with Kalecki describing how the government pays for the services by crediting bank accounts, but also drains reserves by selling bonds. Furthermore, Kalecki argues that the central bank can control key interest rates, no matter the amount of deficit spending. Now, contrast Kalecki's analysis with Henwood:

> MMTers extend this hubris about the precision and power of policymaking to the realm of interest rates, which they think the central bank is completely in control of and should be kept as close to zero as possible…. Without higher interest rates to compensate for greater default risk or longer maturities, there will simply be no one willing to buy the bonds or issue the loans. MMTers would answer that the Federal Reserve (or any comparable central bank around the world) could buy up the bonds instead. But that would, if carried to extremes, run the risk of runaway inflation—and it still wouldn't help the wildcatter or the bodega owner. MMTers say little about how far this process could be carried on.

In full opposition to Kalecki, Henwood believes central banks have little control over interest rates, that bond buyers and banks will refuse to play ball if rates are too low, and that deficit spending will inevitably lead to inflation. In adopting this position, Henwood not only misreads the very historical text he cites, but also overlooks modern developments that render these systems even more difficult to properly understand without careful analysis. In the United States, the Federal Reserve System requires certain financial institutions (primary dealers) [newyorkfed.org] to bid competitively and clear the bond auction. The Bank of Japan already offers to buy long term bonds in unlimited quantities if they fall below a certain price [boj.or.jp] without a hint of inflation [bloomberg.com]. Even prominent mainstream economists have begun to acknowledge the dominant influence of monetary policy on long term interest rates [bis.org].

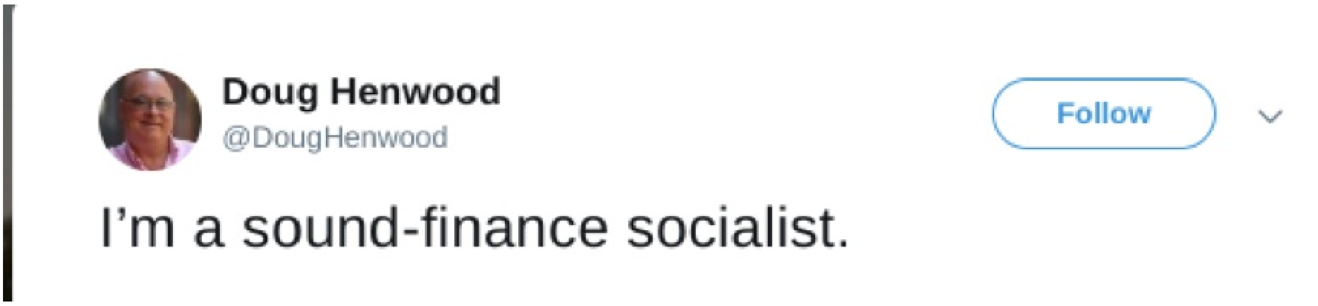
Henwood's belief in the unfailing power of monetary policy to generate inflation would make even the most ideological central banker blush. As MMTers have regularly predicted [neweconomicperspectives.org], moving interest rates up or down has only a muted effect on overall spending. After all, there's a reason Volcker had to raise interest rates to above 20% to cause a deep recession. Such crude misattribution of power is a weakness for the left, especially when inflation is such a hot topic in the news [bloomberg.com].

Most importantly, however, because Henwood thinks reserve accounting is unimportant , he fails to fully understand Kalecki's thesis regarding the politics of full employment. Kalecki is not *merely* claiming true full employment would threaten capital because it would eliminate the reserve army of labor. Rather, Kalecki's contention is more sophisticated. He first demonstrates that government interest rates are set *by* governments and then argues that boosting "effective demand" would only threaten inflation if the real economy could not produce real goods and services in response. He then argues that lowering interest rates or slashing taxes is inadequate for maintaining a full employment economy. After illustrating the economic arguments step-by-step, Kalecki contends that popularization of the "doctrine of full employment" destroys the capitalist's knee-jerk arguments regarding budgetary crisis and inflation. What remains is the power struggle we all agree we must fight. As economist J.W. Mason once wrote, the central bank interest rate policy is meant for "keeping us all insecure and dependent on the goodwill of the owning class" [jacobinmag.com]. Central bankers may protest that they have little control over interest rates and must ultimately submit to the desires of banks and bondholders, as Henwood does, but this is a veneer.

In addition to missing the mark on central banking in general, he betrays ignorance of the many fundamental functions of safe government securities within capitalism—another analytical mistake that undermines his political conclusions. U.S. Treasury bonds will be issued regardless of their putative role in public finance. In general, U.S. Treasury securities [cornelllawreview.org] not only help manage interest rates, but also serve as ultimate reserve assets, price benchmarks, and a safe foundation upon which to build secondary financial markets. In fact, in response to the global financial crisis, the U.S. Treasury announced a "supplementary financing program", outside of traditional channels, which the Fed described as "a series of Treasury bill auctions, separate from Treasury's current borrowing program" for the explicit purpose of "offsetting the impact of recent Federal Reserve lending and liquidity initiatives." [newyorkfed.org]. Two decades earlier, at the end of the Clinton Administration, leaders in D.C. panicked that continued federal government surpluses would lead to a dearth of U.S. treasury bonds for the investor class [npr.org], so they proposed a solution used by Singapore today—issuing treasury securities to directly purchase private assets. [gov.sg]. Although this is hardly a radical policy, it would have been an insufficient response for the United States, for reasons MMT illuminates [levyinstitute.org]. Because Singapore runs *trade surpluses*, it can afford to run government budget surpluses and simply adopt alternative policies to serve investors. By contrast, Washington was running *trade deficits*, so its government surpluses were creating *actually unsustainable* deficits in the private sector. [businessinsider.com].

The bottom line is we are not going to dismantle financial capitalism through austerity. Instead, we must deconstruct the private financial markets and institutions bolstered by a complex web of financial assets and liabilities—of owning and owing. Selling treasury securities is not tantamount to placing the U.S. State in the thrall of the investor class. Persistent deficit spending is not a "few steps down the road to Weimar", as Henwood contends. If we truly want to end the wealthy's free lunch, the answer is not austerity or—shudder—"sound finance." It's euthanizing the rentiers. It's *lowering* Treasury Bond interest rates and pursuing a permanent zero interest rate policy [neweconomicperspectives.org]. One would expect a Marxist to understand how this policy prescription threatens the status quo.

When it comes to the politics of taxation, though, Henwood's position is hardly Marxist at all. A sympathetic reader may have expected a leftist perspective on public finance, distinct from both MMT and the mainstream, but they would be disappointed. Instead, we receive this confession:



Henwood's antipathy toward deficit spending is not merely at odds with MMT, but also most Post-Keynesians and Marxist economists as well. For Henwood, the left's role is merely to argue *extra hard* for corporations and the wealthy to pay their "fair share" of taxes. This amounts to a more boisterous version of Hillary Clinton's politics.

Henwood seems to think this Clintonian take is helpful for class struggle. He comes right out and says:

> [D]ivorcing taxation of the rich from the provision of public services throws aside the material and agitational advantages of waging class war through fiscal politics. Rich people would have a lot harder time complaining about their money being taken to educate kids and save the planet than if it were taken just because they're too rich.

First, reducing "fiscal politics" to "taxation of the rich" is an impoverished, tragic view. But more importantly, Henwood's description of the politics at play is empirically indefensible. Liberals and 'compassionate conservatives' alike already beg the wealthy and propertied for funds for schooling and conservation. And the wealthy and propertied have long defended their wealth and property on the basis of the very idea that they are precious taxpayers whose "rights" must be respected…or else! [splinternews.com] It is no coincidence that Thatcher went to great lengths to manufacture a conventional wisdom that "there is no such thing as public money, only taxpayer money". Weaponizing taxpayer identity has been fundamental to the rise of neoliberalism, generally, and it played a big part in getting Trump elected, specifically [thenation.com].

For over 40 years, Republicans have controlled the conventional wisdom around budgets, successfully using the "taxpayer money" myth and to force Democrats to cut social spending. Polling for our preferred policy proposals, including the Job Guarantee, Green New Deal, and Medicare For All indicates a sharp drop in favorability when taxes on the respondent are proposed [kff.org]. Henwood likes to talk about class war in the abstract, but his analysis fails to engage with the racialized (and gendered) politics of modern taxation. In her excellent recent book, "Racial Taxation" [uncpress.org], legal historian Camille Walsh traces the development of the development of "taxpayer citizenship" in response to the mandated integration of public schools. She specifically argues that the Supreme Court rejected the idea of a fundamental federal right to education precisely because of the countervailing burden it would place on the (implicit) rights of taxpayers. Walsh's work suggests that historically, at least, the short-term political advantages of 'fiscal agitation' that Henwood believes in are often undermined by the long-term political harm of perpetrating false understanding of how money in reality works. Conservatives claim that the funds for public education must be gathered solely via confiscation, at the local level if at all possible. The result is a struggle between neighbors about whose pockets to pick and this struggle almost always ends in the victory of the powerful. It's a divide-and-conquer strategy, plain and simple.

Refusing to play this game, MMT demonstrates that the rich are a troublesome barrier to a better world, but we need not rely on their money [stitcher.com]. Of course, exposing neoliberal lies about the constitution of public finance is obviously not sufficient for achieving leftist aims, but it is necessary. As Kalecki said, "The social function of the doctrine of 'sound finance' is to make the level of employment dependent on the state of confidence". MMT's wide ranging analysis serves as a base for direct attacks on the powerful austerian interests that tell us that we should give up on big spending initiatives and leave the economy to the big, bad "taxpayers" and "job creators".

The threat that MMT—and especially leftist deployment of MMT—poses to the status quo is becoming more apparent everyday. Even if the reader were to believe that MMT is naive about the politics of full employment, there is no question that MMT is helping by bringing a fundamental ideological challenge to the establishment. Liberal economists like Paul Krugman and Jason Furman [stitcher.com] debate MMT advocates because they now feel they must. They feel no such pressure to respond to other heterodox projects and certainly not to Henwood. After all, why did Henwood write this piece after so many years of muttering to himself that MMT was a "cult"? Because of the mountains of mainstream press on MMT and its increasing popularity among young leftists.

If Henwood understood the destructive power of the ideology of sound finance—that it is "some imposed scarcity of money itself that produces those relations" [jacobinmag.com]—he'd understand our attraction to MMT. Deconstructing monetary and fiscal policy isn't skirting the administrative and political challenges of implementing the Job Guarantee or the Green New Deal; it's denying the foundational neoliberal myth that justifies why those programs shouldn't be seriously considered in the first place. Henwood argues that showing the "system can't pay" is politically useful. We argue that showing the system can obviously pay, but won't pay, is infinitely more powerful in demonstrating why the status quo must go. By reframing the question of "how are you going to pay for it?" into a question away from financial resources and toward real resources, we move public conversation to new and better terrain. Terrain where we can win. We are shifting the Overton Window, and we hope leftists can enjoy the newfound freedom knowing that economists—and sympathetic journalists—will loudly defend them precisely where they haven't had back-up in generations.

We are aligning with others who share our disposition. It is no coincidence that Representative Alexandria Ocasio-Cortez rose to prominence in an era where the "payfor" question is being healthily challenged—along with the rest of the neoliberal agenda. Ocasio-Cortez ambitiously claims that we must and can do more, reviving old ways of thinking and creating new ones. Like Ocasio-Cortez and others, MMT is not afraid to bust out of the cage we all have been trapped inside for decades. For years, MMTers have joined [inthesetimes.com] other advocates in pushing for the establishment of a legal right to a job, and stand by the centrality of the Job Guarantee within the Green New Deal. Six weeks before the Sunrise Movement [mmtconference.org] exploded onto the national scene, it co-sponsored the 2018 MMT Conference and many members joined us to co-conspire. Professor Kelton remains an economic advisor to Senator Bernie Sanders. We all share one thing in common which Henwood does not: we envision the future as a project of creation, as well as destruction; of nurturing and building, as well as fighting; of great hope, as well as potential pain.

Neither a Job Guarantee nor a Green New Deal will be won without brave, strong social movements. When it comes to building these movements, we joyfully follow the leadership of more capable community organizers and politicians. But to pass and administer the policies we all desire deeply, we think the left must embrace MMT. In doing so, we'll finally bury "sound finance" (including 'socialist' sound finance) and, with it, the rest of the neoliberal order.