

the Sunday Times' attack on modern monetary theory shows

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David Smith has, apparently, been leave economics editor of the Sunday Times since 1989. Today [he addressed the issue of modern monetary theory](#), and you would have hoped, given that experience, that he might have offered some intelligent insight or comment since he claimed to have read Stephanie Kelton's 'The Deficit Myth'. This, however, is the Murdoch press in action, and what he offered was anything but that. For an alternative way to read his comments, [see here](#).

I discussed his article this morning with someone who knows more than I do about modern monetary theory, and suggested that it was not worth responding because the article was so poor, but, since then I have noticed that some who also offer deeply unintelligent comment upon modern monetary theory on Twitter and elsewhere, like Ann Pettifor, were latching onto the article with glee, despite its origins, and so feel it necessary to do so.

He started with a common trope, saying:

My reluctance to write about it has been in part because its true believers can get very exercised when faced with criticism, even if it is constructive.

But that's not true. What we do get really bored with is people making claims as to what MMT is that are not true. And why not?

Having started in this way little got better thereafter. For example, he claimed this of Stephanie Kelton's book:

It is arranged as a series of myth-busting chapters, although people who are aware of conventional economics do not believe many of these myths. The first "myth" is that the government's budget is not the same as a household budget; something I thought had been buried many years ago. The same goes for most of the other myths.

Frankly, that's absurd. He knows that throughout the last decade Cameron, Osborne, Clegg, May, Miliband and McDonnell (to refer to the UK alone, and Obama, Clinton, and almost all Republicans barring Trump in the US) have all been talking about the

country 'maxing out its credit card', so he is being disingenuous in saying what he has. It's either that or he is otherwise ignorant of economics or has been absent since 2010.

Then he claimed:

The central idea of MMT is simple. It distinguishes between currency issuers and currency users. The only currency issuer in America is the US Treasury, with the Federal Reserve acting as its agent. Everybody else is a currency user.

As a currency issuer, the government has the ability to print as much money as it needs. The budget deficit itself is not a constraint, and neither is government debt.

This is true, in as far as it goes. But what he actually fails to note is that MMT says that a currency issuer cannot have debt denominated in the currency it issues because that is a tautological impossibility. The evidence of this comes from this:

Some claim - wrongly, I think - that MMT has already been adopted in response to the Covid-19 crisis in the form of quantitative easing (QE).

I am well aware that there are issues surrounding MMT and QE, but if there is a point - and it's the one he misses - it is that so-called government debt only exists because the governments wishes that it does so, and not because it needs it.

Thereafter Smith, rather surprisingly, correctly notes:

The only tests of whether a budget deficit is too large or too small [in MMT] are inflation and unemployment. If inflation is low, the budget deficit cannot be too high, and if there is unemployment, the budget deficit must be too low.

This is true. If money and so-called debt are not a constraint - and they aren't - then these two issues certainly are. Smith proves as a result that he has understood a core MMT argument, from which it follows that unemployment must always, in that case, be a choice. But of these claims he says:

Many people will catch their breath at this point, not least because Kelton claims that this is not just a theory but an explanation of how the world works. However, that requires us to be taken down a rabbit hole of implausibility.

In response he offers this:

If deficits can be costlessly funded and managed by the simple device of issuing currency, why do governments need to levy taxes? In perhaps the least plausible explanation of how incentives work, people apparently need to work to meet their tax obligations. If they did not have to pay tax, they would not need to work. I rather think they would, to satisfy their wants. Another reason for taxing - to redistribute wealth and income - does not wash either: you can redistribute wealth and income within the tax

system without raising any net revenues by taking from the rich and giving it to the poor in tax credits. Taxation exists in the real world to raise revenue. And borrowing by governments also plainly exists.

Let's ignore that he says tax does not need to exist to offer tax credits, which is an interesting idea. And let's also ignore that MMT does not say that people need to work to pay their taxes when it actually says people need to work to achieve the things that they and society want. Let's instead note that in saying this he ignores the key argument on tax that MMT makes, which is that at any time, and most especially in the current era, tax is the only effective weapon a government has to control inflation. That is, of course, because we have net effective zero government interest rates now, and because of the combination of large central bank reserves and the use of QE are very likely to continue to do so for a very long time to come. It's also because tax is the only way that we have to cancel the impact of government spending without it being inflationary - which point Smith appears to have wholly missed.

You cannot read Stephanie Kelton's book and not know these things. It makes it abundantly clear that this cancellation process to control inflation is what the primary purpose of tax in MMT is. Nor can you miss the fact that tax is, when it comes to social, economic and even fiscal policy, about more than redistribution (although it can be used for that purpose). But Smith completely ignores all the arguments in question. The result is that his rejection of MMT - because he clearly thinks the above paragraph his killer argument, offered before moving on to abuse - is based on a deliberate misrepresentation of what MMT says.

This is typical, and even normal now. It was, for example, what Ann Pettifor also did in her book on funding the Green New Deal last year, which was so wrong about MMT it was almost laughable in its claims. But that does not stop Smith ladling out the abuse, most of it also misinformed. for example, he says:

MMT is misnamed because it is not monetary at all but almost entirely fiscal. As Kelton puts it: "MMT requires us to demote monetary policy and elevate fiscal policy as the primary tool for macroeconomic stabilisation."

That's firstly because it's necessary, and secondly it's because in a very real sense MMT eliminates the boundary between the two, and by making clear that interest rates should be zero in perpetuity, if at all possible, inevitably puts what has been called fiscal policy (but which in MMT's case is quite different from that which neo-Keynesians offer) at the forefront of attention.

But what's really bizarre is that after rolling out all the usual names (Rogoff, Summers, Krugman) who do not like MMT he says:

Not even Jeremy Corbyn and John McDonnell embraced MMT, despite being urged to by some supporters.

I'll happily take the sideswipe. At least it shows he was paying attention to the last decade after all, and you can read into that what you will about his claim on the First Myth.

To this he adds:

They were wise not to do so, because there are fundamental problems with MMT. It would take another book to address them fully.

I'd politely add, that would have required him to have understood 'The Deficit Myth', but he continues, quite bizarrely, saying:

Kelton has fun with Margaret Thatcher's "backward dictum" because Thatcher described a government's finances in the way you would describe a household's finances. However, Kelton has more in common with Thatcher than she thinks. In the early 1980s, when the Tories launched their monetarist experiment, Thatcher thought the key driver of inflation was the budget deficit. The deficit had to be cut to reduce money supply growth and inflation. It is why people associated monetarism with "cuts". Kelton looks at it from the other end of the telescope but applying the same principle.

Apparently this quite amazing association is because:

[It is a quite] "preposterous" idea that getting the Congressional Budget Office in America, or equivalents elsewhere, to predict inflation will take care of the inflation risk from large budget deficits. Given the forecasting record on inflation, it plainly will not.

And so he claims

[W]hile advocates of MMT see it as a two-way street in which spending would be reined in if inflation took off, politicians may see it differently. Would it be a recipe for huge instability in the provision of public services, with public spending cut in response to rising inflation in a way that would make George Osborne's austerity look like a tea party? Or would the government decide it could live with a lot more inflation? Either way, it would not be pretty.

So we go back to the point he deliberately missed, which is that it is not spending cuts that MMT says would be required if there was inflation at full employment (which is the only sort of inflation which is within the control of a government, come what may) but tax that would need to be increased.

By deliberately missing the fact that MMT has already answered the point he has made - by suggesting the use of tax as the only tool we now have which is capable of managing inflation if it were ever to rear its head again (which seems very unlikely for a long time to come) Smith has deliberately constructed a 'straw man' argument to dismiss MMT. His argument is, then, meaningless.

Or rather as an economic argument it is, but politically it is very revealing. If the only way you can argue against MMT is by ignoring what it actually says then there is something important to note. And that is that people like David Smith are in reality profoundly worried by MMT and actually know that they have nothing in their own armoury with which to launch a counter-argument, because it describes the world that we live in with greater accuracy than any other economic model now available, whilst making clear that the mechanisms of economic control used by governments over the last forty years (i.e. spending cuts and interest rates) now have no further part to play in the management of the macroeconomy in the world we now live in. That must be deeply disconcerting for neoliberals like Smith, and neo-Keynesians like Pettifor, who was tweeting this article for all she was worth today, but the simple fact is that all they reveal is that they are very frightened that their whole worldview has been overturned and have no clue what to do about it.

I would suggest that they should think again. I suspect that will take a while though. They have vested interests in maintaining their current positions, however wrong they are.