Catching Up:
Developments in MMT, January 2019 - May 2020

In Our Last Episode …

The last two episodes of Pocket Change, interviews with Tyler Emerson and Pavlina Tcherneva, aired in late January 2019. The preceding November, Democrats took back the majority in the U.S. House of Representatives. Much attention was given to a number of leftist Democrats who had defeated Democratic incumbents in primary elections and gone on to win general elections in districts that were safely Democratic. Among them, Rep. Alexandria Ocasio-Cortez of New York explicitly said that modern monetary theory should be part of the national political conversation. This led to a large increase in references to MMT in the media and in the blogosphere, though most of these references were hostile.

Support for MMT-informed policies within the House Democratic caucus was, however, very limited. While 68 Congresspeople signed on to H.Res. 109 (the Green New Deal resolution), only two -- Ocasio-Cortez and Ro Khanna of California -- wanted to take up repeal of the "PayGo" rules which stipulate that any new federal domestic spending initiative must identify equivalent spending cuts so that the fiction of "sound finance" can be maintained. That means that the overwhelming majority of House Democrats still felt that they would be vulnerable to Republican attacks for "tax-and-spend," "budget-busting" proposals.

The 2020 presidential campaign was in its early stages then. Senator Bernie Sanders revived his candidacy from 2016 and explicitly endorsed a Green New Deal. His campaign emphasized the increasing inequality in the distribution of income and wealth in the U.S. in recent decades, so it is not surprising that "Tax the rich" was one of his major themes. It is important to note, however, that Sanders described increased taxation on the wealthy as a way to help "pay for" the Green New Deal (and also to help "pay for" Medicare for All). This suggested that he and his top advisors were not yet willing to make an MMT-informed argument along the lines of "Taxes do not fund spending, indeed at the federal level taxes precede spending." He apparently felt that, as Stephanie Kelton would have put it, "Tax the rich because they're too damn rich" would not have been a politically viable argument. So even the left wing of the Democratic party was not yet ready to break with "sound finance" in favor of functional finance.

At the level of national politics, that's where thing stood until the Ides of March 2020, then the coronavirus crisis led to a shutdown of the U.S. economy, mass unemployment and the sharpest economic recession since the Great Depression of the 1930s.

Academia and Public Intellectual Discourse

We'll get back to the macroeconomy in a few minutes. But first, let's take a look at some of the more significant developments in MMT as a body of thought in political economy and the social sciences more generally. I'd like to cite two books and one essay which really moved MMT forward in the past fifteen months.

***Macroeconomics* textbook**

First, the publication of the first MMT-informed macroeconomics textbook, *Macroeconomics*, by Bill Mitchell, L. Randall Wray and Martin Watt. This text made its appearance in April 2019. Having its title be simply "Macroeconomics" -- rather than something like "Macroeconomics: A Modern Monetary Theory Approach" reflected the authors' confidence that MMT is now **the** way to do macroeconomics, not simply **a** way to do macro. Its publications means that in academia instructors have a viable alternative to the heavily monetarist textbooks by mainstream authors like Gregory Mankiw.

How to Pay for the Green New Deal

Second, an essay written by Yeva Nersisyan and L. Randall Wray, *How to Pay for the Green New Deal* published as a working paper by the Levy Economics Institute of Bard College. This paper took on the question of "How are we going to pay for it?" and reformulated it as, "How are we going to assemble the real resources needed to move to a non-carbon-energy-based economy?" It posed this question as a parallel to the question posed by British economist John Maynard Keynes in his 1940 pamphlet, *How to Pay for the War*. According to Keynes, financing Britain's fight against fascism was not the real question. The real question was how could Britain mobilize the real resources needed for the war without restricting consumption or sparking inflation to the point where popular support for the war effort would be undermined.

Nersisyan and Wray argue that we can take a similar approach to the Green New Deal. They first attempt to quantify the real resources needed to effect the transition to a carbon neutral economy. They note that shifting to a single-payer health care insurance system and making other reforms which are part of Medicare for All has the potential to free up massive resources which could be redirected elsewhere. Same for suppression of carbon-based energy production. Nersisyan and Wray estimate that we will need to devote 5 percent of our resources over a 10-year period to effect the Just Transition. Should resources shifted from other purposes not be sufficient to the task, Nersisyan and Wray say that then, and only then, do we need to consider the kind of wartime measures Keynes proposed in 1940: increased taxation and the deferment of consumption through voluntary and involuntary savings (Green New Deal bonds and mandatory IRA-like accounts).

The Invisible Arm of Françafrique

The third major contribution to MMT over the past year-and-a-half which I'd like to cite is one which will still be obscure to most of our English-speaking listeners. It's a book published in France in 2018 whose title in French is *L'Arme Invisible de la Françafrique: Une Histoire du Franc CFA*. The authors are Fanny Pigeaud, a French independent journalist and Ndongo Samba Sylla, a Senegalese economist. The title could be translated as "The CFA Franc: The Invisible Arm of French Imperialism in Africa." The former French colonies of West Africa and Central Africa, though independent since the 1960s, do not have their own currency. Instead they have a common currency, the CFA franc, still largely managed by the French treasury and tied originally to the French franc and now to the Euro. Because these countries do not have monetary sovereignty, France continues to suck wealth out of them and they are unable to manage their economies in a way that would pull them out of poverty.

Why is *L'Arme Invisible* a major contribution to MMT? Most of the time MMT advocates stress what monetary sovereignty means for macroeconomic policy in countries like the United States, the United Kingdom and Australia which have their own currencies and do not borrow in foreign currencies. We also talk about what happens in the Eurozone countries which have given up their individual currencies in favor of the Euro. But the African countries in the CFA zone suffer from two levels of lack of monetary sovereignty. Pigeaud and Sylla explicity refer to MMT in discussing this situation. So their book is what one could think of as "applied modern monetary theory" -- and an exciting instance thereof.

And you have to love a book that opens with one of the founding aphorism of modern monetary theory: *"Tout un chacun peut creér de la monnaie: le problème est de la faire accepter."* Which is Hyman Minsky's "Anybody can create money. The problem is getting it accepted."

Ndongo Samba Sylla spoke at the Third International MMT Conference at Stony Brook University in September and gave the best talk in the entire conference. That's not just my opinion; Randy Wray said so as well.

Unfortunately, the publication of an English translation of *L'Arme Invisible* has been pushed back to February 2021 (*Africa's Last Colonial Currency: The CFA Franc Story*). In the meantime there are plenty of YouTube videos with Sylla (albeit mostly in French). Steven Grumbine had a Macro 'n Cheese interview with Sylla and Fadhel Kaboub last November. And I wrote an English language chapter-by-chapter summary of "L'Arme Invisible" on the Modern Monetary Theory Google group list as well.

The COVID-19 Crisis and the Macroeconomic Crisis

Let's now turn back to the real economy, how MMT understands the real economy, and the way people react to MMT given the state of the real economy.

Until the end of February 2020 unemployment -- at least the headline measure -- was sharply falling in the U.S. and other conventional economic measures like GDP and the stock market were booming. What was notable about this was that high employment was accompanied by low inflation -- indicating that mainstream economics' favorite macro meme, the Phillips curve, was no longer applicable. This was best captured by Rep. Ocasio-Cortez's questioning of Fed chair Jerome Powell in July 2019.

That was then. By mid-March 2020, to try to break COVID-19 transmission, the U.S. and other economies had to be put into the economic equivalents of medically-induced comas. Many small businesses closed immediately. Unemployment is skyrocketing. The executive and legislative branches of the federal government haggle over bailout packages which, when passed, include lots of special provisions snuck in by lobbyists directing federal funds to big business and the rich. The professional middle class gets to fulfill its dream of "working from home all the time" -- at least until their employers' sales and cash flow dry up. The medical professions and the working class get to keep their paychecks at the price of working long hours and being exposed to a deadly virus -- but at least they get to have the Air Force Thunderbirds and Navy Blue Angels do aerial stunts in their honor.

From an MMT point of view, the most important aspect of the economic crisis is the fact that many more people are now willing to acknowledge what MMTers have been saying all along. The federal government creates money by spending it into the economy. When the federal government decides to spend bigtime, it does so by creating money bigtime. It doesn't have to raise taxes to do so. It doesn't have to wait for tax revenues to come in to do so. It doesn't have to conduct Treasury bond sales to do so. It can do so because it's monetarily sovereign.

As Stephanie Kelton has put it, in its bailout legislation in March and April, the U.S. Congress has remembered that it has the power of the purse.

Does this mean that "we're all MMTers now"? Hardly. The right-wing think tanks have already begun grinding out position papers and op-eds saying that as soon as the crisis has passed "sound finance" must once again prevail and that "we" will need spending cuts in order to "pay down" the deficit. Nonetheless, many in the mainstream media have begun to acknowledge that MMT's analysis of the economy is an accurate one. (New York Times; CNBC commentary.)