*The Deficit Myth: Modern Monetary Theory and the Birth of the People’s Economy* by Stephanie Kelton. PublicAffairs, New York, 2020, $30, ISBN-13: 9781541736184

This book is a timely and welcome addition to the economics literature. With a writing style that is upbeat, warm and clear, *The Deficit Myth* is geared toward a wide readership who wants to learn about Modern Money Theory (MMT). The book does not present the entire scope of MMT research—Wray (2015) is more appropriate for that purpose—nor is it an in-depth analysis of specific fiscal and monetary issues. Endnotes provides some suggestions to readers who are inclined to delve into the more academic literature. Some readers may be disappointed not to find any discussion of the private financial system or monetary theory—topics that are treated by MMT (e.g., Tymoigne and Wray 2014)—but this is not the focus nor the goal of the book. The book focuses on the meaning and significance of monetary sovereignty and its implications for government involvement in the economy. Its goals are to challenge conventional thinking and to create discomfort with incorrect narratives that have become second nature. Stephanie Kelton wants to generate that “aha!" moment, that glitter in the eye when one comes to understand an important point. Something that happened to Kelton herself decades ago after an initial strong pushback.

The book shatters the deficit myth. The myth is that a fiscal deficit is something abnormal that necessarily has adverse economic outcomes and ultimately leads to government insolvency. According to the myth, the federal government, like a household, should do everything in its power to eliminate a fiscal deficit and should find means to pay for (that is, raise taxes or lower spending somewhere else) new spending proposals. Issuing Treasuries to cover the deficit creates a burden for future generations and run the risk to be financially unsustainable if bond vigilantes raise the interest rate on public debt. The book makes it clear that none of this narrative applies to monetarily sovereign governments. Government deficits are the norm since the 1930s in the US, they are financially sustainable and the interest rate on the public debt is a policy variable not a something outside of government control. Monetarily sovereign governments, through the routine financial coordination of their Treasury and Central Bank, spend via the power of the purse. Like any other spending in the economy, government spending can be inflationary but it depends on the underlying economic conditions. Fiscal deficits do not crowd out domestic private investment but rather are a source of private income and so promote investment. In addition, the budget position is not under the control of the government. The willingness of households, businesses, foreigners, and states and localities to accumulate dollars, together with automatic stabilizers, ensure that fiscal deficits are a normal outcome regardless of the desire of federal government officials to close the budget gap. Ultimately, Kelton makes her readers completely rethink government finances in the context of monetary sovereignty. Prime Minister Thatcher got it exactly backward, there is no such thing as taxpayer money, there is only public money. Taxes are needed but not to finance the government. The PAYGO budgeting framework is not only incorrect but dangerous. Bond issuance is not a fiscal tool but a monetary policy tool.

Once one understands the significance and implications of monetary sovereignty, two immediate opposite reactions can occur among readers. One reaction involves fear, pessimism and retreat to the old way of thinking. Fear of losing constituents if the truth is uttered. Fear of anarchy and chaos if concerns about fiscal deficits are lifted. Martin Wolf argues that shattering the deficit myth “is wrong, because it will prove impossible to manage an economy sensibly once politicians believe there is no budget constraint” (Wolfson 2020). This first reaction leads one to bury the truth—“I can't say that” whispered Congressman Emanuel Cleaver to Stephanie Kelton and Warren Mosler once they convinced him—and to promote noble lies. As Paul Samuelson put it decades earlier, the purpose of the deficit myth is to frighten citizens "into behaving in a way that the long-run civilized life requires" (Samuelson in Blaug 1988). Yes the status quo is horrendous and the majority of the population would like specific government programs to be implemented but, unfortunately, the government cannot pay for them. This narrative provides politicians with an easy way out of uncomfortable discussions. It also leads to a sordid budget-making process focused on political games about finding pretend pay-fors in order to avoid adding to the public debt. This is “bullshit" as Senator Barbara Boxer shouted on the Senate floor.

Instead of the previous reaction, Kelton wants her readers to react with courage, hope and a determination to use the insights of monetary sovereignty to understand the possibilities and constraints that come with it. What are the relevant constraints on the federal budget-making process? They are certainly not financial. One constraint is the political process that sets the boundary of federal-government intervention. A society must decide for itself, hopefully democratically, what the public purpose is. What should the government do? It should be evident that, once the money question is made irrelevant to the political debates, this becomes a heightened point of contention. Kelton wants her readers to help rationalize and systematize the public discourse about the public purpose. Does that lead the government to be overwhelmed with demands? No it does not as the diverse experiences of developed democratic societies show. As such, and to the disappointment of some friendly readers on the left, MMT is not as radical as it might seem. MMT does not aim at eliminating the capitalist economic system but rather at making it fairer and more sustainable. MMT diagnoses that, while some developed economies are doing better than others, we live in a highly unequal society subject to several unsustainable processes and that government has a role to play to close the deficits that matter, the job deficit, the healthcare deficit, the democratic deficit, the environmental deficit, among others. The aim is to use the power of the federal government to complement for-profit activities in order to increase freedom of choices and opportunities in terms of work, healthcare, education, among others. This is done by decoupling access to them from ability to pay and the for-profit motive. This view of the public purpose is in line with the wishes of the US population with polls showing strong support for public healthcare and a job-guarantee program. The MMT public purpose is also in line with what many progressives want to do, but quite a few of them tend to fall for the deficit myth and the taxpayer money narrative.

While not radical, the MMT public purpose is at odd with both the Republican and Democratic political agendas; so much so that Republicans have proposed two resolutions to condemn MMT (Dmitrieva 2019; Hern 2020). However both agendas are reactionary when compared to the wishes of the majority of the US population. Their vision of the public purpose maintains a status quo that strongly favors the interests of the wealthiest segments of society in terms of political outcomes (Gilen and Page 2014) and economic outcomes (Darity and Mullen 2020; Galbraith 2012). This means that fulfilling the public purpose proposed by MMT will turn into a major political fight to elect people who believe in government action to close the deficits that matter and who want to improve government accountability and transparency. People like Alexandria Ocasio-Cortez and Bernie Sanders who advocate for government programs that benefit broad sections of the population and who want to improve the democratic process through much tougher tax policies and better government governance. Republicans want to do the opposite by putting in charge of public offices people who do not believe in government involvement in the economy and who want to cripple government ability to act while catering to the wishes of wealthy donors and lobbies (Galbraith 2009). Democrats may be less extreme and may have their heart in the right place but their track record is not much better, in part because of their acceptance of the deficit myth. As Kelton puts it, “it’s going to be a hell of a fight” (Kelton in Poitras 2020).

Another constraint is the resources available in the economy. The point is to harness the untapped domestic resources to meet the public purpose expressed by the democratic process. In order to do so, the government needs to behave like any other economic entities. Households plan their expenses, businesses plan their expenses, and the government must too. That planning can be done in several ways but a main one should be a job-guarantee program because labor is a major underutilized resource. The public purpose advanced by MMT would use the billions of labor hours left unused each year to close some of the deficits that matter. As Kelton notes, serious government planning and a sensible budgeting process are not unrealistic. Past experiences show time and time again that in periods of crisis this can be done; the point is to make it a routine behavior and a systematic habit of thought. This does not mean that the government should do everything or should force people to work. The job-guarantee program is not workfare or a first-resort job program à la Soviet-style, it is a non-compulsory last-resort work program guided by local initiatives inclusive of diverse constituents (Tcherneva 2020).

This framework of analysis does not apply only to the United States. The US dollar is the world reserve currency, which implies that the United States must run a current account deficit to respond to the desire of the rest of the world to accumulate dollars. As a consequence, the US fiscal deficit has to be bigger than it would otherwise have been. Other countries are not in that position and developing countries may struggle to get their currency accepted abroad and even domestically. They also face challenges of food dependency and energy dependency that constrain the ability of their national government to help even if they are monetarily sovereign. This, however, does not mean that nothing can be done. Unused domestic resources, however meager, can be harnessed by the government to fulfill the public purpose. Labor is usually a plentiful resource. For many developing countries, international aid is needed with the goal of promoting domestic development for the benefit of the majority. Not an easy feat. And that is where Kelton leaves the reader. Recognizing and understanding the power of monetary sovereignty is not the panacea, the hard work only starts but it starts on the right footing, with the correct mindset and a set of tools to build an economy that works for the people.

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