



Written by [Bob Adelman](#) on February 18, 2019

## “Modern Monetary Theory” Will Pay for AOC’s Green New Deal

Stephanie Kelton, professor of public policy and economics at Stony Brook University, served as an advisor to Bernie Sanders’ presidential campaign. She gave similar advice to Alexandria Ocasio-Cortez as she was preparing to be sworn in as a member of the House of Representatives: You can have it all!



Writing in the Huffington Post last November, [Kelton said](#):

We have the outline of a plan. We need a mass mobilization of people and resources, something not unlike the U.S. involvement in World War II or the Apollo moon missions — but even bigger. We must transform our energy system, transportation, housing, agriculture and more.

What we don’t (yet) have is the final, vital ingredient — a critical mass of politicians prepared to unleash the enormous power of the public purse to save the planet.

To Kelton’s way of thinking, the only thing standing in the way of spending billions the government doesn’t have to solve problems many think don’t exist, is to change just how we think about the federal budget: “To save the planet and fix historical inequities ... we must change the way we approach the federal budget. We must give up our obsession with trying to ‘pay for’ everything with new revenue or spending cuts.”

It starts with discarding that old canard about how inflation is caused by increasing the money supply, through printing or digital multiplication, as practiced by the Federal Reserve. She declared, “Inflation isn’t triggered by the amount of money the government creates but by the availability of biophysical resources that money tries to go out and buy — like land, trees, water, minerals and human labor.”

Once that error is corrected, AOC can move ahead with her plan to go green in 12 years: “Once we understand that money is a legal and social tool, no longer beholden to the false scarcity of the gold standard, we can focus on what matters most: the best use of natural and human resources to meet current social needs and to sustainably increase our productive capacity to improve living standards to future generations.”

Putting aside for later discussion the clear implication that government would have to be greatly expanded, employing specialists and experts in vast numbers to direct “the best use” of those resources in order to “meet current social needs” as defined by those experts, let’s look at the new “theory” called Modern Monetary Theory, or MMT, on how to fund this madness.

Asking Kelton doesn’t help. She won’t even address the question: “Politicians need to reject the urge to ask ‘How are we going to pay for it?’ and avoid the trap when it’s asked of them. A better question is: What’s the best use of public money?”

Kelton wanders off into the ether, claiming that government spending doesn’t follow household rules:



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“If you control your own currency and you have bills that are coming due, it means you can always afford to pay the bills on time. You can never go broke, you can never be forced into bankruptcy. You’re nothing like a household.”

Kevin Muir, a market strategist with East West Investment Management, tried to define MMT: “Modern Monetary Theory is a macroeconomic theory that contends that a country that operates with a sovereign currency has a degree of freedom in their fiscal and monetary policy which means government spending is never revenue constrained, but rather only limited by inflation.”

The *Wall Street Journal* tried to improve on Muir: “MMT argues that fiscal policy makers aren’t constrained by their ability to find investors to buy bonds that finance deficits — because the U.S. government can ... print its own currency to finance deficits.”

Brian Maher, the managing editor at the Daily Reckoning, tried his hand:

The government runs a monopoly on the currency. Citizens must pay taxes in the same currency. The currency therefore supplies its own demand.

Central to the theory is that government must first spend money into circulation before it can be taxed....

Furthermore, it enjoys a nearly unlimited capacity to print money.

[Therefore] government spending should ... not be limited by the reach of the tax man.

Ben Hunt operates in the real world of high finance, running a hedge fund and writing about it. He sees MMT as the answer to every politician’s dream — being able to pay for every conceivable government program to solve all of society’s problems without having to worry about how to pay for them:

At its core, Modern Monetary Theory is an argument that would be wonderfully familiar to every sovereign since the invention of debt. It is essentially the argument that significant sovereign debt is a good thing, not a bad thing, and that budget balancing efforts on a national scale do much more harm than good.

Why? Because there’s so much to do and so little time for the right-minded sovereign [to do it]. Because it is fundamentally unjust for the demands of private lenders to thwart the necessary ends of the sovereign, and it is politically difficult to finance those ends through tax levies on a fickle citizenry.

MMT is the sovereign-friendly justification for deficit spending without end.

In simple terms, MMT is the new alchemy, a reiteration of a 4,000-year-old dream of tyrants, a medieval chemical pseudo-science that aimed to change lead into gold, a philosophy that promised a universal cure for cancer and a means of indefinitely prolonging life on earth.

Austrian economist Joseph Salerno sees the new theory for what it is:

Not only is [MMT] a recipe for massive inflation but it will also cause chronic depression.... The newly printed money will not cause an initial economy wide boom because it will not be injected through credit markets driving down interest rates and stimulating investment.

Rather it will go directly into the Treasury, allowing the government to immediately increase its spending on welfare programs, guaranteed-job programs, the “Green New Deal” and wasteful “investment in infrastructure.” It will thus siphon off labor and other resources from productive



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investment ... reducing genuine savings and capital accumulation.

MMT will not fool Mother Nature for very long. Money is not wealth. Multiplying it will not make it more valuable, but less. As Salerno's mentor, Murray Rothbard, explained:

What makes us rich is an abundance of goods, and what limits that abundance is a scarcity of resources: namely land, labor and capital.

Multiplying coin will not whisk these resources into being. We may feel twice as rich for the moment, but clearly all we are doing is diluting the money supply.

As the public rushes out to spend its newfound wealth, prices will, very roughly, double.

John Maynard Keynes said that inflation not only destroys the currency, but society as well: "There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."

MMT is not a multiplier of real wealth, but its destroyer.

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