

Nobel prizes so they are un-cancelable; they are allowed to utter the unutterable, and they do it nicely (Akerlof and Shiller 2009, 2015). We work-a-day economic teachers thank them for adding back a bit of educated common sense to the profession.

REFERENCES

- Akerlof, George, and Robert Shiller. 2009. *Animal Spirits*. Princeton: Princeton University Press.
- Akerlof, George, and Robert Shiller. 2015. *Phishing for Phools*. Princeton: Princeton University Press.
- Colander, David. 2000. "New Millennium Economics: How Did It Get This Way, and What Way Is It?" *Journal of Economic Perspectives* Volume 14 (1): 121–32.
- Colander, David. 2005. "The Future of Economics: The Appropriately Educated in Pursuit of the Knowable." *Cambridge Journal of Economics* 29 (6): 927–41.
- Piccione, Michele, and Ariel Rubinstein. 2007. "Equilibrium in the Jungle." *Economic Journal* 117 (522): 883–96.
- McCloskey, D. 1983. "The Rhetoric of Economics" *Journal of Economic Literature* 21 (2): 481–517.
- Rubinstein, Ariel. 2012. *Economic Fables*. Cambridge, UK: Open Book Publishers.

DAVID COLANDER
Middlebury College

H Public Economics

The Deficit Myth: Modern Monetary Theory and the Birth of the People's Economy. By Stephanie Kelton. New York: Perseus Books, PublicAffairs, 2020. Pp. vii, 325. \$30.00, cloth; \$18.99, e-book. ISBN 978–1–5417–3618–4, cloth; 978–1–5417–3620–7, e-book.

JEL 2020–0449

This book has three interrelated objectives: explaining Modern Monetary Theory (MMT), pushing an agenda of public spending for social insurance, and sketching a memoir on the author's experience in public life. I'll discuss these objectives backward. The memoir component lightens up the whole book and makes for an interesting read, lively and funny at times. The public-spending agenda, mostly detailed in the last chapters of the book (chapters 7 and 8), contains provisions for infrastructure, education, health care, job guarantees, etc. These are large but generally worthwhile public-spending objectives. How large is hard to say—and the book

does not contain an estimate. The lack of an estimate is perfectly consistent with the logic of the book, which is set to lay out a theoretical structure showing that the government budget constraint essentially does not matter, that monetary financing can support any public spending the government sets its mind to: "if Congress wants to accomplish something, the money can always be made available" (p. 4).

This theoretical structure is MMT and it is explained through six "myths"—claims about budget deficits from mainstream economic thinking, which MMT allegedly proves erroneous (chapters 1 to 6). These are claims like "the federal government should budget like a household," "deficits are evidence of overspending," "deficits make the United States dependent on foreigners," and more along these lines. The book's grandiose praise of MMT as a revolutionary set of ideas, "a Copernican revolution," appears far from justified, to my reading.

The book should be seen as a rhetorical exercise. Indeed, it is the core of MMT that appears as merely a rhetorical exercise. As such it is interesting, but not a theory in any meaningful sense I can make of the word. The T in MMT is more like a collection of interrelated statements floating in fluid arguments. Never is its logical structure expressed in a direct, clear way, from head to toe. It is very hard for the reader to capture all the moving parts in a coherent structure, which would allow for some sort of confutation. I will try, rather, to expose what seems to me the logic behind the rhetoric of the floating statements.

Some of these statements are literally correct but used for incorrect or misleading implications—plays on words, effectively. They seem taken directly from the book of tricks of the Greek sophists (the ones Aristophanes makes fun of). For instance, statements to the effect that any monetary sovereign cannot default on its debt because it can always monetize it are of course literally correct. This does not imply that the consequences of monetizing the debt, in real terms for bondholders, are much different from those of a literally defaulted-upon debt. This misleading wordplay along the real/nominal distinction appears one of the core foundations of MMT: "There is zero risk of the US being forced into

default by its creditors. That's because the federal government can always meet its obligations by turning those yellow dollars [debt notes; my comment] back into green dollars" (p. 87). The same can be said for one of the "myths" the book aims at dispelling. It is correct that the government is not a household because it has monopoly of the currency. Not only is this argument correct, but it also has important consequences: it takes us directly to seigniorage and it might take the more sophisticated among us to the fiscal theory of the price level. It does not break, however, the conclusion that "the government must tax more to spend more" (p. 20), unless we play with the word tax, excluding seigniorage from the realm of taxes.

There are even contradictory statements about MMT in the book, but they are kept vague and far enough apart from each other that they are not easy to spot. For instance, on the central issue of government budget constraint, a statement to the effect that monetization is not without limits is repeated a few times in the book, for example, "MMT is not a free lunch" (p. 37), and "MMT is not about removing all limits" (p. 40). But these statements leave no dent on the core message of MMT—that a sovereign government has no need to finance its spending. It is said that inflation is what limits monetization. But the role of inflation is left dangling, seemingly unrelated to fiscal policy or to agents' expectations. Inflation is never built in the structure of the arguments; it is mentioned and quickly forgotten. For instance, there is no discussion of inflation after arguing that it is "relatively easy to peg interest rates on short-term government debt instruments by standing ready to purchase it at fixed price in unlimited quantities" (p. 122). And never is the inflation of the 1970s in the United States discussed, not even to argue that things are/would be different now.

Some of the fundamental statements upon which the whole construction of MMT appears to be built are outgrowths of chartalism: for example, "the tax is there to create a demand for the government's currency" (p. 25); "It's not our tax money that the government wants. It's our time" (p. 26). But never is this logic taken to the obvious conclusion that a large monetized debt will need to result in a lot of our time to the government—

that is, effectively in taxation (in real/not nominal terms). The conclusion MMT draws from chartalism, on the contrary, is that the government is not a "currency user"; it does not have to collect money to spend. "Taxpayers aren't funding the government; the government is funding the taxpayers" (paraphrasing p. 27—in the past tense in the text).

These general components of the rhetorical exercise of MMT are sprinkled with a flurry of more standard tricks:

- (i) Straw men arguments: mainstream economists are presented as thinking that deficit spending is, in and of itself, overspending; that deficits necessarily crowd out private assets, that is, that the economy's savings are exogenously given, etc.
- (ii) Identities used as behavioral relationships: government deficit = nongovernment surplus, current account deficit = capital account surplus, etc.
- (iii) Irrelevant details playing with the imagination of the reader: how can the monetization of the debt be so damaging if it can simply be "accomplished using nothing more than a keyboard at the New York Federal Reserve Bank" (p. 83)? How can it induce higher interest rates, if the interest rate is defined by the Treasury in their bond auctions and bonds go "in practice, ... always oversubscribed" (p. 119)?

Interestingly, there is hardly a mention of agents' behavior in the book—which is somewhat peculiar for a book in economics (even if non-mainstream economics). The sparse indications that interest rates could increase with debt are immediately covered by flirting with some form of financial repression. However, financial repression is never explicitly mentioned, nor are nominal and real rates ever clearly distinguished. For example, it is suggested that interest on national debt is a "matter of political economy," that, if the interest rate is higher than the growth rate, the government can "keep the projected interest rate down" (p. 92), that "the interest rate is a policy variable" (p. 112).

Not all rhetorical plays on words in the book are tricks to mislead the reader. First of all, some of the arguments used in the policy debate against government debt are themselves misleading and the book serves a useful purpose in addressing those—rhetoric dispels rhetoric. I also find the rhetorical innovation of using the word “deficit” to stress lack of social insurance in the US political economy (“the good-jobs deficit,” “the education deficit,” “the health-care deficit,” and so on, in contrast to government deficit) intelligent and witty.

In conclusion, it’s not that the public-spending agenda proposed in the book wouldn’t be worthwhile, or that monetization is never a useful tool of monetary policy. In fact, low interest rates and low inflation might really be calling for more debt in the United States at the present time. These are all issues currently studied and debated in (mainstream) academic and policy circles. But MMT, as exposed in the book, appears to be a very poor attempt at supporting this political agenda, with no coherent theoretical support.

ALBERTO BISIN
New York University