The Deficit Myth: Modern Monetary Theory and the Birth of the People's Economy, Stephanie Kelton. Public Affairs, 2020, 325 pages.
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It is not often that an unorthodox macroeconomic theory becomes the object of public attention. And yet this is just what happened to Modern Monetary Theory (MMT). MMT has been thrown into the spotlight by the indirect endorsement of two popular US politicians – Senator Bernie Sanders, the independent senator from Vermont and two-time runner-up for the Democratic presidential nomination, and House Representative Alexandria Ocasio-Cortez, one of the rising stars of the left wing of the Democratic party. This sudden and unexpected popularity has led to a flurry of public skirmishes between mainstream economists and MMTers (e.g. Kelton 2019; Krugman 2019; Rogoff 2019; Galbraith 2020; Mankiw 2020; Cachanosky 2021). Unfortunately, so far, these exchanges have tended to generate more heat than light, as both sides have displayed a propensity to talk past each other. This is particularly unfortunate given that the core disagreement between MMTers and mainstream economists concerns the correct attitude towards government deficits, which is an especially important and relevant topic at a time when many governments have significantly expanded their spending in response to, first, the 2008 Financial Crisis and, more recently, the COVID-19 pandemic. As deficit hawks circle over the public square, it is a particularly important time to try to understand what self-proclaimed deficit owls (i.e. MMTers)[1] claim and how their views differ from those of deficit doves.

The publication of Stephanie Kelton's *The Deficit Myth* provides us with an excellent opportunity to take stock. Kelton, who is a professor of economics and public policy at Stony Brook University and a former advisor to Senator Sanders' 2016 presidential campaign, is also one of the foremost champions of MMT, which makes her unusually well qualified to guide her readers through the basic tenets of MMT. And, to her credit, Kelton does an excellent job in many respects. Her synopsis of MMT is clear, systematic, and accessible to a wide audience. The book is well-written, well-structured (if a bit repetitive), and, surprisingly, even entertaining. Moreover, taken with a pinch of salt, it might even disabuse its less knowledgeable readers of some basic misunderstandings about public finance. Unfortunately, however, for more knowledgeable or attentive readers, it makes for a frustrating read. But let me start from the basics.

On the face of it, the main disagreement between MMTers and mainstream economists concerns the importance of a balanced budget for monetary sovereigns – i.e. governments that have full control of the currency in which their debt is denominated (such as the US federal government). Kelton repeatedly argues that the widespread public concern about the US federal government 'going broke' (illustrated by the picture of a penniless Uncle Sam

[1]The label 'deficit owl' was coined by Kelton. As she explains, 'I had coined the term in 2010, as a way to distinguish the views held by MMT economists from those of the more deficit-anxious birds. I decided the owl would make a good mascot for MMT because people associate owls with wisdom and also because owls' ability to rotate their heads nearly 360 degrees would allow them to look at deficits from a different perspective' (76).

that adorns the cover of the book, which is inspired by a Tea Party bumper sticker) is misdirected. Kelton reassures her readers that it's not as if Uncle Sam puts his revenues into a giant piggybank, which he, then, needs to break to pay for his expenses. When Congress authorizes an expenditure, the payment is usually performed by some government official at the Treasury Department, who credits the relevant accounts by hitting some keys on a keyboard, thereby, essentially 'creating' the money to pay for that expense. Unlike governments that do not have full control of the currency in which most of their debt is denominated (such as Greece since the adoption of the euro or the many developing countries that borrow in US dollars), a monetary sovereign cannot go involuntarily bankrupt because it can always 'print' enough money to meet all its financial obligations (or, in fact, pay for anything else it decides to pay for, whether it is an expensive military campaign or more extensive unemployment benefits). The basic insight on which MMT is built is that a monetary sovereign need not tax or borrow to obtain the money it spends because it is the very issuer of that money and, as such, it can create all the money it needs. A few times Kelton compares this basic insight to the Copernican revolution in astronomy (e.g. 2). However, properly understood, this basic insight is hardly revolutionary. While the general public might not fully understand the concept of a *fiat* currency, no mainstream economist doubts that a monetary sovereign can always issue more currency (after all, it is a straightforward logical consequence of the definition of a monetary sovereign). For instance, Kelton approvingly quotes former Fed Chair Alan Greenspan, who during a 2005 congressional hearing on the financial sustainability of the US Social Security system, responded to Former House Representative Paul Ryan's worry about the Social Security system becoming insolvent by saying that 'there's nothing to prevent the federal government from creating as much money as it wants and paying it to somebody' (182). While Kelton seems to suggest that Greenspan's answer let the cat out of the bag, the truth is that anyone who understands how *fiat* currencies work knows that what Greenspan said is strictly speaking correct – i.e. the US government has the power to issue as many dollars as it wants and no external force can interfere with its exercise of that power, which means that, contrary to what Ryan had suggested, it cannot go involuntarily bankrupt. However, while the US government has the power to issue as much money as it wants, it also has very good reasons not to exercise that power indiscriminately.

This seems to be where mainstream economists locate their disagreement with MMTers. Mainstream economists seem to understand MMT as claiming that monetary sovereigns 'should not worry about government deficits because they can always create money to finance their debt' (IGM 2019). However, this is clearly a misunderstanding of MMT. As Kelton constantly emphasizes (see in particular Chapter 2), there are very real limits to how much currency monetary sovereigns can issue without running into trouble. According to MMT, those limits are primarily a function of the economy's capacity to put the newly issued money to productive use. When those limits are exceeded, the threat of inflation looms large. However, once we add this crucial qualification, it becomes apparent that the disagreement between MMTers and mainstream economists is, once again, not nearly as radical as both sides seem to think. Like MMTers,

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mainstream economists also take the risk of high inflation to be one of the most important reasons why monetary sovereigns should not make indiscriminate use of the printing press. Rather than a deep theoretical disagreement the one between MMTers and mainstream economists turns out to be an empirical disagreement about what the 'real limits' of the economy are, which is a question that is likely to have different answers in different contexts (as it depends on, among many other things, what the current state of the economy is, what the government decides to spend on, what the tax system is like). Kelton is most likely right in thinking that deficit hawks typically underestimate those limits and that, as a result, they tend to advocate for overly cautious fiscal and monetary policies (e.g. 49–54). However, it seems to be too simplistic to assume, as Kelton sometimes seems to do (e.g. 54–73), that a positive rate of unemployment is always an indicator of the fact that the economy has not exceeded its real limits. While eliminating involuntary unemployment is a worthy goal, it seems unrealistic or even utopian to think, as Kelton seems to do (see in particular Chapter 8), that it can be achieved simply by implementing a federal job guarantee supported primarily by a lax monetary policy without unleashing unsustainable levels of inflation. There are good reasons to think that, if a federal job guarantee is to be sustainable, it needs to be accompanied by a highly progressive tax system.

This brings us to another apparent disagreement between MMTers and mainstream economists – the one about the function of taxation and government borrowing. According to MMT, the point of taxing or borrowing is not to collect revenues to finance government spending (after all the government could 'print' all the money it needs). However, this doesn't mean that taxes and borrowing have no function in MMT. The point of taxing or borrowing is to offset some of the government spending by 'absorbing' any excessive amount of currency in the economy to avoid inflation (e.g. 33). Even admitting that there is a genuine theoretical disagreement between the two sides on this point (as opposed to a merely verbal one in which one side uses 'offset' where the other side uses 'finance'), it is unclear what difference this disagreement might make in practice. Presumably, MMTers concede that, even if, in theory, monetary sovereigns do not need to resort to taxing or borrowing to finance their spending, in practice, they cannot just print money to pay for all their expenditures without exceeding the real limits of the economy – the money creation needs to be at least in part offset by taxes to keep inflationary forces at bay. So, even if the idea that governments need to balance their budgets is, in fact, false, nevertheless, it might be often a useful fiction that prevents monetary sovereigns from engaging in unrestrained money issuance. But this is also the considered view of most mainstream economists (or at least of the deficit doves among them). For example, Paul Samuelson, one of the most prominent mainstream economists of the 20th century, went as far as calling the requirement of balancing the budget as a 'superstition' whose function is akin to that of an 'old-fashioned religion' whose function 'was to scare people by sometimes what might be regarded as myths into behaving in a way that the long-run civilized life requires'.[2] Once again, the disagreement seems not to be about a deep theoretical question about the function of taxing and borrowing, but about an empirical question – the

[2]Quoted in Hockett and James (2020: 48–49).

question is, given the prevailing economic circumstances (e.g. the state of the economy, the nature of the spending, the extent of the existing debt), how much of the government spending should be offset (or financed) by taxes, how much of it should be offset (or financed) by borrowing, and how much of it should be just left as a liability on the balance sheets of the government (with the equivalent amount of currency freely circulating in the economy). On this point, it is unclear that, insofar as they agree on the details of the situation, deficit owls and deficit doves would disagree much (if at all) on the appropriate level of taxation and borrowing. Insofar as there is a genuine disagreement on these points, the deficit doves seem to be right. For example, deficit doves typically believe that growing public debt is only worrisome when the interest on it exceeds the rate of growth of the economy (e.g. Blanchard 2019). Against that view, Kelton argues that monetary sovereigns should not worry about interest rates because they 'can't lose control of interest rates' (91). A monetary sovereign, she explains 'can always strip markets of any influence over the interest rate on government bonds' (93) by buying large enough quantities of those bonds. While, strictly speaking, this is true, it is also slightly misleading. What Kelton neglects to note is that this undermines what, according to MMT, is the very function of those bonds – i.e. keeping that money out of circulation in the economy so as to avoid inflation. So, while it is true that, in theory, monetary sovereigns can always buy back their own bonds in a bid to lower key interest rates, it is not true that they can always do that while, at the same time, keeping inflation at bay.

While, for reasons of space, I cannot address other apparent disagreements between Kelton and mainstream economists in this review, I think that the above suffice to illustrate the shortcomings of the MMT approach as presented by Kelton in her book. Much of the dissatisfaction can be illustrated through a fictional analogy. Suppose that you go to a nutritionist because you would like to become healthier. Your nutritionist, who happens to be an adherent of a heterodox nutritional school named Modern Nutritional Theory (MNT), tells you: 'Look, mainstream nutritionists obsess about eating a balanced diet, but the truth is that you can eat as much as you want of whatever foods you want. Nothing prevents you from eating exclusively popcorn and drinking exclusively soda. The only real limit to what you should eat is given by your body's real capacity to employ the nutrients you feed it because eating a steady diet of popcorn and soda would eventually endanger your health, but, other than that, you can eat whatever you want insofar as you keep an eye on your health. Oh, and you don't really need to exercise in order to eat. In theory, you could spend your days sitting on your couch all day eating popcorn and drinking soda. Just eat whatever you want and, then, maybe exercise to offset some of what you ate.' Even assuming that what the MNT nutritionist just told you was strictly speaking true (if you pay close attention to all the subtle caveats and to the distinction between what you *can* do and what you *should* do), there seem to be at least three problems with the MNT nutritionist's advice. The first problem is that it is not clear how substantial the disagreement between MNTers and mainstream nutritionists, in fact, is. After all, when push comes to shove, the

MNT nutritionist would concede that, while, *in theory*, you could eat popcorn and drink soda on the couch all day, *in practice*, that would likely be very bad for your health. And, presumably, aside from 'diet hawks', most mainstream nutritionists would agree that one should not obsess too much about eating a balanced diet and it is perfectly acceptable to eat popcorn and drink soda on the couch all day from time to time (if you are inclined to do so). At the end of the day, it is unclear that, for all their claims of heterodoxy, MNT nutritionists genuinely disagree on any substantial point with more orthodox nutritionists (or, at least, the 'diet doves' among them). The second problem is that the MNT nutritionist's advice lends itself to misinterpretation – if you don't pay close attention to the fine print, you might be left with the mistaken impression that you might as well spend your days sitting on your couch eating popcorn and drinking soda. This is especially true given that, when it comes to these matters, people are likely to engage in motivated reasoning. Who wouldn't want to be told that they may eat and drink anything they want and exercise as little as they feel like? The third problem is that the MNT nutritionist's advice is uninformative – you went to a nutritionist because you wanted some advice on what foods you should eat and how much you should eat of them given your level of physical activity and the current state of your health, not to hear some empty truism about how much humans *can* eat *in theory* accompanied by some vague qualifications about how much they *should* eat *in practice*. Lay readers of the *Deficit Myth* are likely to find Kelton's advice unhelpful for very similar reasons.

Those on the political left, who typically believe that public spending on areas such as healthcare, education, social security or green energy is the foundation of a better and more just society might be swayed by Kelton's lucid prose and her seemingly sensible arguments. However, while Kelton's heart might be in the right place, it is hard to believe that MMT can deliver on the promises she makes. Let me mention two reasons why this is so. First, as we have seen, Kelton readily concedes that, in order to avoid inflation, governments will typically need to tax and/or borrow, so the ubiquitous question 'How are we going to pay for it?' is not completely avoided – it is merely replaced with the question 'How are we going to offset it?' – and it is unclear how helpful or practically meaningful that switch is. Second, as Kelton acknowledges (e.g. 33–34), even if taxes are not needed to finance government spending (and only to 'offset' it), they are still needed to achieve other political goals, such as curbing excessive economic inequality or steering the economy on a more environmentally sustainable path. So, for all of her claims of originality, Kelton inhabits a policy space that, all things considered, is not too unlike the one inhabited by those who hold more orthodox economic views. For the most part, deficit owls and deficit doves seem to be birds of a feather and, where they do differ, it is the doves not the owls that seem to be the wiser birds.

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Frame It Again: New Tools for Rational Decision-Making, José Luis Bermúdez. Cambridge University Press, 2020, x + 330 pages.
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Framing effects get a bad rap. Arguably, they have pride of place within the narrative that has taken hold in recent decades about our irremediable and predictable irrationality. But is susceptibility to framing effects always revealing of faulty rationality? In *Frame it Again: New Tools for Rational Decision-Making*, José Luis Bermúdez argues persuasively that it's not. Contra standard theories of rationality, he argues that being sensitive to how things are framed can be perfectly rational and that, once we understand why this is so, the value of frame-dependent reasoning for rational decision-making comes into view.

Bermúdez's book is a welcome contribution to the important, broader task of problematizing and challenging the powerful narrative that he labels the 'litany of irrationality' (8). This is grounded in the work of psychologists – most famously, Amos Tversky and Daniel Kahneman – which has shaped theoretical and public debates over rational decision-making over the past 40 years or so. The experimental 'discovery' of numerous cognitive biases and heuristics formed the basis of Tversky and Kahneman's (1986) prospect theory and this in turn influenced the development of behavioural economics and nudge theory. The narrative generated by these findings is one of 'human fallibility' (Thaler and Sunstein 2009: 40): there is 'an ineliminable gap' (76) between how rational