

Democrats Are Flirting With a Dangerous Economic Theory

By John Kristof

More Democrats are willing to throw out payment plans for expensive programs due to a dangerous, fringe economic idea: modern monetary theory (MMT). Several Democrats have [consulted](#) with economist and former Bernie Sanders campaign advisor Stephanie Kelton, who's largely responsible for popularizing MMT and deficit spending. And February has already seen Rep. Alexandria Ocasio-Cortez [justify](#) the exorbitantly-priced Green New Deal by pointing to MMT.

But to know why it won't work, we have to understand what it is.

Put simply, MMT turns traditional fiscal policy on its head. We usually think Washington uses American tax money to fund programs like Medicare and national defense. But MMT adherents argue that because the U.S. government creates that money in the first place, it actually doesn't need tax revenue to fund programs, pay entitlements, or settle debts. The federal government has the power to simply issue its own money to whomever needs it. And since the U.S. government has this power, [according to Kelton](#), expensive policies like college-for-all, military expansion, and national infrastructure development are all naturally affordable.

But much of the popular discussion around MMT stops here—perhaps because this is where it gets complicated. Some hear MMT's claim that governments can afford anything they want and deficits are irrelevant, and, thus, spending can be practically limitless. But MMT recognizes governments still have to deal with inflation. More dollars floating around translates into more people demanding scarce resources, causing prices to rise. The way MMT fights demand-fed inflation is not through "printing" less money, but rather by taking money back out of the economy through taxation. Contrary to popular media's discussion of MMT, the theory *still* sees taxation as a necessary policy tool.

While some disagreements between MMT economists and orthodox economists are relatively semantic, MMT really just has far too many problems in practice.

Balancing fiscal policy to control inflation requires a much less politicized budgetary [process](#) than the one we have. For MMT to work, we would first need something like a Federal Reserve for fiscal policy—which we don't have. And advocating MMT requires an unreasonably optimistic view of interest rates. So long as the growth rate exceeds the interest rate, we should always have enough cash to pay our debts. But even as progressive economist Paul Krugman [notes](#), deficits tend to raise interest rates, slowing investment and growth.

That's where MMT faces a crisis. If debt [accelerated](#) to, say, 300 percent of GDP—which would be [sooner](#) rather than later if something like the Green New Deal were passed and funded through deficits—and interest rates were 1.5 percentage points higher than growth, Washington would have to run a budget surplus equal to 4.5 percent of its GDP. If the U.S. had to do that today, we would have to run an \$872 billion surplus. That's nearly a trillion dollars doing nothing for Americans outside of holding off an economic disaster. So when Democrats like

Rep. Ocasio-Cortez use MMT to dismiss concerns about their programs causing [massive deficits](#), they fundamentally misunderstand its principles.

Most economists aren't persuaded by MMT. No significant academic journals have [published](#) MMT papers. But ambitious Democrats don't need to worry about winning over economists. Selling MMT to the public is a way to [endorse](#) popular, expensive programs without admitting tradeoffs.

This strategy will backfire economically—but it could politically, too. Back in the 2018 primary elections, candidates endorsed by the moderate New Democratic caucus [won](#) 86 percent of their races, while only 40 percent of the candidates endorsed by the Bernie Sanders-esque Our Revolution organization won nominations. In the November general elections, 23 New Democrats [flipped](#) seats from red to blue, while the Revolution progressives flipped zero.

Moderates found more success than progressives because the [vast majority](#) of Americans don't feel [represented](#) by the right-populist Republicans or progressive Democrats. Rep. Ocasio-Cortez may be [setting the tone](#) for the rest of her party, but when we step out of our social media [bubbles](#), we find most Americans want more civil leadership and fewer war cries from Washington. And given [71 percent](#) of Americans now think addressing the debt should be among the federal government's top three priorities, Democrats should rise above provocative "[sloganeering](#)" and champion fiscal responsibility in the [2020 campaigns](#), [formerly](#) a standard GOP platform, and potentially win over [disillusioned](#) Republican voters.

There are plenty of plans for pursuing progressive goals like [better healthcare coverage](#) and [environmental sustainability](#) that don't rely on a widely-dismissed calculus or require America to risk a serious economic crisis. Democrats would be smart to chase after one of those instead.

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