The deficit doesn't matter

Thinking morally about the economy with Stephanie Kelton

by Daniel José Camacho

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Just before Christmas, Donald Trump signed the Republican tax bill which many predict will exacerbate wealth inequality in the country. Analyses project it will add over $1 trillion dollars to the deficit.

For all the talk about the national deficit and why it's the reason our government can't afford to improve healthcare or education, these developments reveal profound layers of hypocrisy. They show how deficit-talk has constrained political imagination and reduced the economy to a soulless, amoral balance sheet. Earlier this month, I sat down with one of our nation's leading economists who's been sounding the alarm on this precise problem.

Stephanie Kelton is a professor at Stony Brook University and a former chief economist for the Senate Budget Committee Democratic staff. If there is such a thing as a prophetic economist, she might just be it. Kelton is not afraid to rattle the status quo. A former adviser to Bernie Sanders (she recalled her trip to the Vatican with him), she is now also providing economic advising to Rev. Barber's new Poor People's Campaign.

Kelton's public intellectual work has drawn attention to how a bipartisan fear of the deficit has distracted politicians from fixing problems in the real economy. Below is an edited transcript of our conversation.

Daniel: According to a *New York Times* report, Republicans sought to discredit the Joint Committee on Taxation's analysis of their tax bill. But back in 2015, it was Republicans who changed the rules in Congress so that an economic analysis of major legislation would be required…

Kelton: That was the very first thing that happened when I started my new job in the Senate. The House passed this and I was asked to write a white paper explaining to members of the Democratic Caucus what dynamic scoring was all about.

Daniel: I don't want to overly psychologize politicians' motives, but how genuine do you think the concern about the deficit is when there's so much flip-flopping?

Kelton: It's not at all and everybody knows it. They do not care. And they are right not to care. What concerns me, honestly, is that the Democrats are going to make their persistent message that Republicans are hypocrites when it comes to the deficit but that they had it right when they were hysterical about it. That is not where I would like to see the party end up. I would much rather see the party go, "You know what? The Republicans have said it's okay to add $1.5 trillion to the deficit over the next 10 years as long as we're doing it for a good reason." Take that. It's a gift. Take that gift and say, "Look, you're willing to do $1.5 trillion. We're willing to do $1.5 trillion. But you're making your check paid to the order of big wealthy corporations and the richest people in this country. Let me show you how we're going to write our checks for $1.5 trillion—this is where a moral vision is crucial. Our checks are going to go the poor, the struggling, and the people with no healthcare. We're going to do this with our $1.5 trillion."

Someone asked me on Twitter what sound investments Democrats could make with $1.5 trillion. Here's what we could do: $650 billion for infrastructure, $750 billion to make public colleges and universities tuition free, and $100 billion in aid to Puerto Rico; or cancel all outstanding student loan debt for $1.4 trillion; or expand social security for $1.2 trillion. Put it in front of the American people that Republicans want to do $1.5 trillion in big giveaways to people who don't need any more money.

People don't wake up angry in the morning because of the national debt. They're angry because they've lost wage mobility, they're worried about their own retirement, and they're worried about putting their kids through school. If Democrats think that worrying about the deficit is the way to win back Trump voters or get people to the polls, it's not.

Daniel: What will it take to change the prevailing economic philosophy about the deficit?

Kelton: We have to stop talking about the debt and the deficit as if these are important considerations. The Joint Committee on Taxation and the Congressional Budget Office are the guardians at the gate for legislation in Washington, D.C. They effectively hand out the permission slips. It is a huge problem that there is so much reverence within Washington, D.C. for the raw budget scores handed out by these agencies. We're in real trouble, as a species, if we're waiting around for a budget score from CBO that tells us we can do something on climate because it won't add too much to future deficits. In that case, we're doomed. That's where we are. If we can't pass anything legislatively unless the CBO gives you a permission slip, we're going to be in real trouble.

The CBO was created by Congress. Congress needs to tell CBO: give us feedback, give us assistance, help us evaluate the impact of proposed legislation. Tell us: if we do this, are we at risk of creating an inflation problem? If we do this, how many kids are going to be lifted out of poverty? If we do this, what's going to happen to the Gini coefficient [measure of inequality] in this country? Ask them to produce metrics that matter. I don't need you to tell me how much this is going to add to the deficit. I don't care. That's not an important number for me. Start evaluating and judging policy on meaninful information.

Daniel: Your work is associated with Modern Monetary Theory. It's a very different way of thinking about the economy and, specifically, the deficit.

Kelton: MMT is a lens through which you can examine different economies and the workings of the monetary system. I can look at the U.S. or the U.K. or Canada or Japan, and they look similar to me in the sense that all of these countries are operating with what I call a sovereign, fiat currency. I can look at countries like Greece, or Portugal, or Spain, and I see them through a different lens. I can understand them and recognize that they have different limitations because they are not operating with their own currency. So there are limits in terms of what they can do with their fiscal policy arm. If the goal for government is to achieve full employment in its economy, we'd want them to set their policy so that we get the most out of the economy. Nobody wants to have an economy that runs below its potential. Everybody wants their economy running at its full potential, using all the labor that is possible to employ, and using all the capital. You don't want people under-employed or unemployed. You want full employment.

What MMT says is that in a country like the U.S. which controls its own currency, you can never end up like Greece. In a country like the U.S. which controls its own currency, the government cannot run into a situation where it has bills it can't pay. The U.S. government can afford to buy whatever's for sale in U.S. dollars. That's the upper limit. If I'm the U.S. Congress and authorizing the spending, I can sit down and go: "We're going to do $1.4 trillion in infrastructure. How are we going to do that? I just authorized it. That's how." When I say that the government spending is self-financing, I mean that the government does not prearrange finance the way that we do when we go buy a car. You go buy a car, and you either have the cash or you arrange financing. Someone has to give you the loan. That's not how it works for the federal government in the United States. Members of Congress propose that they spend some money on something, infrastructure, education, expanding social security, whatever the legislation is. Then there's a call for a vote. For example, take war. "We're going to authorize defense spending," and everybody either says yes or no to that legislation. They don't have prearranged financing in place. They know they don't have to do that. They authorize the spending. That alone sets into motion a chain of events that take place behind closed doors, coordinated between the Treasury and the Fed. The bottom line is, if Congress authorizes spending, the money will be spent. There's never going to be a situation where Congress bounces a check because the Fed didn't do what the Fed needed to do to clear the check.

Daniel: Then what are the limits?

Kelton: The limits are in the real economy. If I'm the U.S. government and I say, "I'm going to pass Medicare for all, college for all act, infrastructure," we're going to need more hospitals, universities, teachers, and improved roads and bridges. And if the economy is at full employment and there's nobody available to work, then how are you going to do it? The limits are in the real economy.

Let's keep it simple and think about infrastructure. Right now, today, if the U.S. wanted to spend a trillion dollars rebuilding crumbling infrastructure, it can afford it financially. But do we have the contractors, engineers, architects, steel, concrete, and machines? Do we have all the real resources we need to make a trillion-dollar infrastructure investment available for government to hire? If we don't, the only way the government can get them is by bidding them away from other uses, and that generates inflationary pressure. That's where the limits are. It's inflation. If you're coming out of the Great Recession when we had housing bust, and we had all these construction workers who were out of work, that would have been a perfect time to undertake massive infrastructure investment, because nobody wanted them. They were just sitting on the sidelines. You could've bid for that labor. The government could've offered them jobs, put them to work, and there was enough slack in the economy that we could do a trillion dollars in infrastructure and it would have benefited the broader economy because there was all kinds of room to do that. Today, some people would say that this is full employment and that we don't have room in the economy to absorb that kind of demand. I think that's wrong. I think that for a variety of reasons, long term, you can push this economy forward quite a bit without generating excessive inflation. But the limits are obviously real. You can't build roads and bridges without workers, concrete, and steel. If those things are not available and can't be made available, then you can't have them.