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MMT and Why Historians Need to Reclaim Studying Money

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MMT (Modern Monetary Theory—a form of post-Keynesian economics) is everywhere these days. Alexandria Ocasio-Cortez and Bernie Sanders embrace it; Paul Krugman and George Will write about it; the Financial Times, Forbes, and The Economist have all run columns about it. Even the men's parenting website Fatherly had an article on it. Do historians have anything to add?

Historians know this is not the first time that American politicians, scholars, and ordinary people alike have asked fundamental questions about what money is, how it works, and who it benefits. The 1896 presidential election is famous for William Jennings Bryan's "Cross of Gold" speech, but he was only one of many that decade to be talking and writing about the comparative merits of gold, silver, and paper. Americans got in barroom fights about it (at least one man died), sang songs about it, and composed poems on the subject. The economist President of Brown University, E. Benjamin Andrews, nearly lost his job because of his silverite views. Newspapers across the country reported when a Stanford professor asserted that faculty were forced to teach in favor of the gold standard; "Coercion in the colleges" ran the headline in the Morning World-Herald (Omaha).

Today, as in the 1890s, the fundamental question is whether prosperity can be increased and inequality reduced by injecting more money into the economy. Orthodox economists—the vocabulary of "orthodoxy" has been part of economics since the first professorships were created—say it cannot: that growth (whether it be the manufacture of more stuff, or the greener production of better stuff) has to happen in the "real" economy and that money simply facilitates buying, selling, saving, and investing. As J. Laurence Laughlin (first chair of Economics at the University of Chicago) wrote in 1895: "Money… no matter how valuable, is not wanted for itself. It is only a means to an end, like a bridge over a river." No one, Laughlin continued, could really believe that adding silver to the money in circulation would produce "bushels of wheat and bushels of corn and barrels of mess pork"—only mine owners and their investors would gain by its being minted.

MMTers and silverites, in contrast, emphasize the work left undone—factories shut, children and the elderly not cared for, solar panels not made and installed, etc.—because there is too little money in circulation. MMT's proposed mechanism for adding money to the economy is hardly that of the "Free Silver" movement, but the two fundamentally agree that money is a political phenomenon (a "creature of the state" in the words of Abba Lerner's 1947 paper). Populists in the 1890s campaigned against the 1873 law that demonetized silver; MMTers today, against the rhetoric of "deficits" and mandates for pay-as-you-go budgeting that have been central to American politics since the Reagan Revolution. MMT crucially claims that a monetary sovereign cannot go broke in its own money—it can always issue more. We should therefore think of public deficits not as bills to be paid, but as indicators of how much we as a nation care about particular issues. Since money exists for wars and walls, they say, it can just as readily be found for high-speed trains and clean-power energy.

If the sovereign uses its money-issuing power unwisely—if more exists in the system than there is work to be done or goods to be bought—then prices for everything could rise. Should there be high inflation, the government should spend less and tax the excess money back into its coffers. MMT, in other words, does recognize that deficit-spending could become problematic, but not for the reasons usually given. A country like the United States—a public entity that is sovereign, does not age or plan to retire, and is imagined as existing indefinitely into the future—is not a household that needs to balance its budget. Using examples from personal finance to explain public spending may give a homey touch to political campaigns, but they are fundamentally misleading.

In the way it links monetary policy, fiscal policy, and social policy—the Jobs Guarantee and something like a Green New Deal are not things to be "paid for" via MMT, but are part of it—MMT rejoins the Enlightenment tradition of political/social economy. Adam Smith, remember, was not an economist (the word was barely used in the eighteenth century) but Professor of Moral Philosophy and an opponent of many of the developments—growth of corporations, laissez-faire capitalism, the exploitation of workers—for which he is now imagined to stand. As Gareth Stedman Jones and others have shown, the selective reading of Smith as "father of capitalism" was an interpretation formed in reaction to the social radicalism of the French Revolution. So, too, did political context play a significant role when economics became a distinct, and then increasingly model-based, social science some 120 years ago. With the strikes and labor unrest of the 1880s and the Populist Movement of the 1890s, economists who spoke in favor of unions or about the plight of workers under monopoly capitalism either found themselves out of a job or re-appointed to Social or Political Science departments. There is a long institutional history, then, to MMTers' self-positioning as underdogs and voices in the wilderness.

While MMT economists (Stephanie Kelton, Pavlina Tcherneva, Randall Wray, Warren Mosler, and Bill Mitchell are five big names to know) quarrel with their fellow post-Keynesians over models and implications, historians need to reclaim money as something to be studied in specific social and political contexts. Historians know what all financial advisors profess to recognize: "past returns are no guarantee of future results." In fact, however, the entire field of economics—with its assumptions about trend lines, models, and transhistorical facts (such as Milton Friedman's assertion that "inflation is always and everywhere a monetary phenomenon")—has largely failed to internalize this salient and important truth.

The historian Andrew Dickson White, first president both of Cornell University and of the American Historical Association, made himself part of the 1890s debate with his Fiat Money Inflation in France: How it came, what it brought, and how it went (1896). An earlier version, entitled Paper Money Inflation in France, had appeared in 1876 when the Greenback Party (named for the paper money issued by the United States to fund and win the Civil War) was at its peak. In both pamphlets, White used the example of the French Revolution's paper money, the assignats, to argue against increases to the money supply and for "fighting a financial crisis in an honest and manly way." By changing the first word in his title and adding material borrowed from Macauley's History of England about seventeenth-century coinage debasements, White expanded his target to include all "fiat" currencies—all money created by government order. Re-issued in 1914, 1933, and 1945 by various publishers and in 1980 by the Cato Institute, White's pamphlet remains widely available today. This is a record of impact and influence few historians can match, but I do not suggest it is a model we should follow. Couched in a vocabulary of natural laws—at one point, White describes issuing paper money as equivalent to opening dikes in the Netherlands; elsewhere, he compares it to corrosive poison and cheap alcohol—Fiat Money Inflation in France appealed to partisans of the Gold Standard because it seemed to show fiat money's inevitable outcomes. But nothing in history is inevitable (even if some things are far more likely than others) and the eventual failure of the assignats owed as much to the specific politics of the Revolution as to any timeless laws of economics.

MMT, along with the euro crisis and awareness of austerity's social effects, has done much to open monetary and fiscal debates to wider audiences. Simply recognizing that money is political and historical (central, as Harvard Law Professor Christine Desan likes to say, to how a polity constitutes itself) is a difficult breakthrough for most people. On the other hand, seeing money in this way doesn't—in a fractured polity characterized by demagoguery and high levels of inequality—make policy any easier to write or implement.