

The Moguldom Nation

When The Money Printers Go Crazy: Gold Investors Go On The Attack As New Modern Monetary Theory Book Is Released

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When the money printers go crazy: Gold investors go on the attack as Stephanie Kelton's new modern monetary theory book, "The Deficit Myth" is released. MMT argues that trillion-dollar deficits are OK. Image: Unsplash

Modern monetary theory or MMT is the proposition that trillion-dollar deficits are OK — that the U.S. federal government can and should freely print money to finance massive spending with no concern about debt and deficits.

Economist Stephanie Kelton's controversial new book, published today, busts through "myths that prevent us from taking action because we can't get beyond the question of how to pay for it," according to the dust jacket.

The book is called "The Deficit Myth: Modern Monetary Theory and the Birth of the People's Economy." Kelton served as senior economic adviser for Bernie Sanders's presidential campaign. She's a professor of economics at Stony Brook University and former professor at the University of Missouri–Kansas City.

Economist John H. Cochrane describes how MMT became the darling of progressive Green New Deal enthusiasts in a Wall Street Journal review.

"MMT erupted suddenly into the public consciousness when it won the attention of high-profile politicians including Bernie Sanders and Alexandria Ocasio-Cortez," wrote Cochrane, a senior fellow at the Hoover Institution and an adjunct scholar at the Cato Institute.

But no one is embracing MMT more fervently than the Federal Reserve under the Trump administration. Federal Reserve Chairman Jerome Powell said that the government can print all the money it needs, and nothing bad happens.

Kelton's idea — that most fears about budget deficits are wrong and dangerous — could have a real impact on the country's fiscal future thanks to the coronavirus, Charles Fain Lehman wrote for the Washington Free Beacon.

Peter Schiff, a broker, investor and gold enthusiast tweeted,

"One of @realDonaldTrump biggest supporters is now @StephanieKelton, a former economic advisor to @BernieSanders. She believes purchasing power can be created out of thin air. That governments can make everyone richer simply by printing money and spending it into circulation."

Schiff is known for being bearish on the U.S. economy. He is chairman of SchiffGold, a precious metals dealer based in Manhattan. He also owns Euro Pacific Asset management and is chief economist and global strategist for Euro Pacific Capital, a division of Alliance Global Partners.

The federal government spent \$4.5 trillion in 2019 — more than it got back in taxes — creating a \$1 trillion deficit last year. It pays for deficits by borrowing, adding to the national debt — about \$25 trillion and counting.

Republicans and Democrats use these numbers to argue respectively for cutting spending and raising taxes, Lehman wrote. If Congress doesn't "pay for" its deficits, some argue, financial ruin will follow, in much the same way that normal people cannot rack up debt without eventually going broke.

The "deficit myth" Kelton refers to is the idea that the federal government has the same financial limitations as a household. The MMT argument goes that unlike people who run households, the U.S. government can spend and borrow as much as it likes without the risk of going bankrupt.

Now that the U.S. dollar is no longer tied to gold, money is no object for the currency issuer, Kelton wrote. The gold standard forced the federal government to control spending to protect its gold reserves. President Richard Nixon ended the gold standard in August 1971,

Money no longer exists "in some scarce physical form—like gold—that the government needs to 'find' in order to spend," Kelton wrote. "It is conjured into existence from a computer keyboard each time the Federal Reserve carries out a payment to the Treasury."

"In other words, the government's budget is not the same as your household ledger, because it—unlike average schlubs like you and me—will never go broke," Emilio Lianza wrote for The Progressive.

Lawrence Lepard, an economist and gold stock fund manager, likened Kelton to a modern-day John Law.

"Let's see how this modern day John Law justifies something that has been proven to not work for centuries," Lepard tweeted.

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Law, a Scottish economist who lived from 1671 to 1729, set up what became the first central bank of France, which was originally funded by himself and Louis XV. Law distinguished money, which he saw only as a means of exchange, from national wealth that depended on trade. He believed that paper currency had advantages over gold. He held that money creation stimulates the economy, that paper money was preferable to gold, and that shares are a superior form of money as they pay dividends. The term "millionaire" was coined to describe beneficiaries of Law's scheme.

Kelton acknowledges that inflation is possible "if the government tries to spend too much in an economy that's already running at full speed."

"But she does not grapple with the vast and deep economic thinking since the 1940s on money, inflation, debts, stimulus and slack measurement," Cochrane wrote. "Each item on Ms. Kelton's

well-worn spending wish list has raised many obvious objections. She mentions none. Skeptics have called it ‘magical monetary theory.’ They’re right.”