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Scott Sumner's Testament to Original Thinking

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It's been over a dozen years since Scott Sumner launched TheMoneyIllusion, his now-famous macroeconomics blog. The launch didn't attract much attention: Bentley University, where Sumner was teaching, had only just transcended its previous status as a mere "college," and Sumner was known only to its undergraduates and a few fellow economists. But the occasion was momentous: The United States was in the throes of what was just starting to be called the "Great Recession." Five million workers had already lost their jobs, and another two million would soon join them. Nominal GDP—a measure of total spending on output—had shrunk by almost 4%, while real GDP—an inflation-adjusted measure of output—had fallen almost as much.

For Sumner, the sharp decline in both spending and output was no coincidence. Nor was it inevitable. Instead, it was a matter of cause-and-effect: Output shrank *because* people were buying less. To his way of thinking, this meant that, despite record-low interest rates, monetary policy had been too tight. The only way out was to somehow get spending back up again.

Ideally, Sumner argued, the Federal Reserve should have taken steps months earlier to keep nominal GDP growing at a steady clip—say, 4.5% annually. That would have allowed for a 2% long-run inflation rate, the Fed's official target, and an average real GDP growth rate of 2.5 percent. This and similar recipes now go by the name of "NGDP targeting."

Although it didn't take long for TheMoneyIllusion to become one of the most popular economics blogs, by then the Great Recession had already reached its nadir. Sumner's relentless, take-no-prisoners posts couldn't undo the past. But they could play a part in the recovery, if only by discouraging Fed officials from raising interest rates again until spending recovered its lost ground. And play a part they did—one big enough, indeed, to get The Atlantic's Derek Thompson to refer to Sumner, in the fall of 2012, as "The Blogger Who Saved the Economy."

By then Sumner's way of thinking had grown into a movement dubbed "Market Monetarism." The moniker has stuck; but it isn't all that felicitous. Though Sumner was himself a University of Chicago PhD, most Chicago-school Monetarists were, and are still, convinced that inflation is the best indicator of the stance of monetary policy. If prices rise too quickly, monetary policy must be too loose. If they rise too slowly or fall, it's too tight.

Although the Great Recession began in December 2007, the recession-dating gurus at the National Bureau of Economic Research took a year to say so. In the meantime, headline inflation at first headed north, reaching a whopping 5.5% between mid-2008 and mid-2009. Unaware that

a recession was already underway, Monetarists, including several Federal Open Market Committee members, wanted the Fed to step on the brakes, not the accelerator. If Sumner had to convince anyone of the virtues of Market Monetarism, it was these “old-school” Monetarists.

In some ways, indeed, Market Monetarists have more in common with Keynesians, who consider “aggregate demand”—their name for total spending—to be *the* crucial determinant of real output. But there’s a far-from-trivial difference here as well: Whereas Market Monetarists consider it sufficient for spending to grow at a rate consistent with a long-run inflation rate near 2%, many Keynesians believe that more spending, and correspondingly higher inflation, would mean still less unemployment. That Market Monetarism is in fact something of a compromise between old-fashioned Monetarism and Keynesianism may explain why it became so popular so quickly.

Sumner's book is quite distinct from his blog.

But while a blog offering so sensible a compromise, and written with such elan, was perhaps bound to succeed at a time crying out for some macroeconomic stock-taking, the blog’s archived posts are hardly ideal for reaching a new set of readers. Hence Sumner’s eagerly anticipated book, also called *The Money Illusion*.

Although Sumner’s book and blog are namesakes, they’re quite distinct. The book isn’t a mere compilation of former blog entries: It is an original production. Nor does it just cover those ideas that made the blog famous, including its unique account of the causes of the Great Recession. It does both more than that, and less.

The Money Illusion is more than a restatement of the tenets of Market Monetarism because it also looks at sundry other monetary economics topics, albeit always from Sumner’s distinct point of view, and because it includes Sumner’s account of his own intellectual journey. But by pursuing these other agendas, it sacrifices the advantage of a narrower scope, and correspondingly sharper focus. The case for NGDP targeting is among the casualties of this approach: Arguments for it may be the warp of the book. But too often they disappear behind its weft.

The intertwined agendas of *The Money Illusion* may also limit its appeal as a text for classroom use. Yet, were I still teaching monetary economics, I wouldn’t hesitate to assign it, not as a textbook, but as the testament of one of today’s most original monetary economists. For *The Money Illusion* is capable of teaching them something no textbook ever will, namely, the importance of thinking for oneself.

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