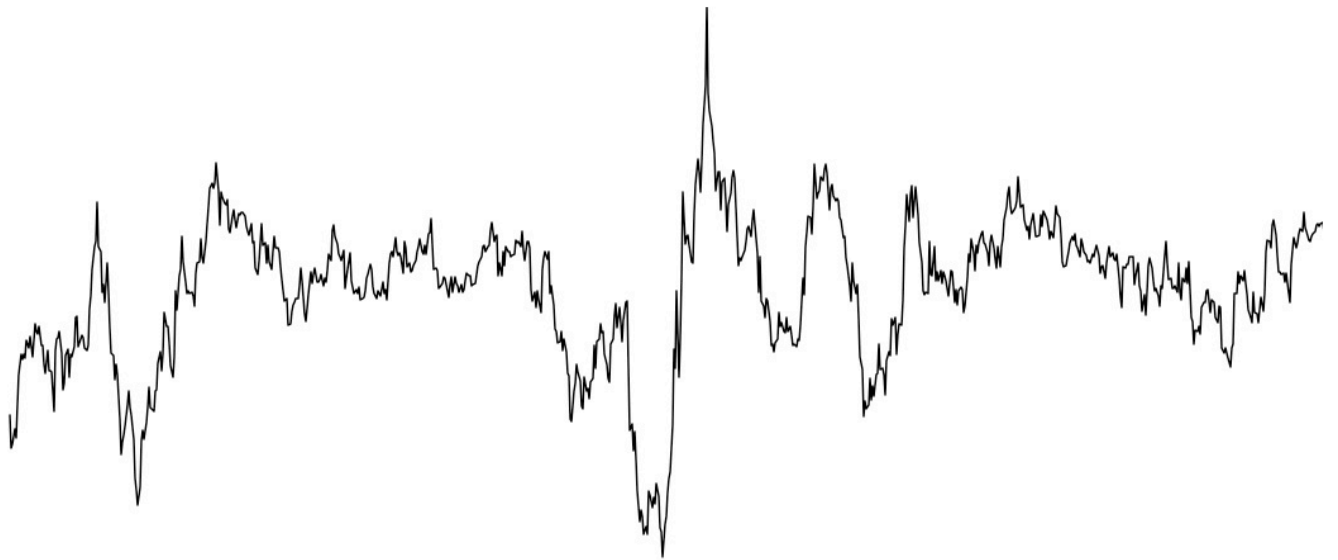


# ALPHA SOURCES

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# WOKE ECONOMICS

The chancellor of the Exchequer had sobering news for the UK public last month when he unveiled that the Treasury is on track to borrow almost 20% of GDP this year to plug the hole in the economy created by the virus, a move that will see the public debt-to-GDP ratio zoom past 100%. In a world governed by the rules of [the now-defunct work by Rogoff and Reinhart](#)—famously discredited by [a spreadsheet error](#)—these numbers would send chills down the spine of economists and public policymakers, but we’ve moved from on then, significantly. We now understand that the government does not operate under a budget constraint, and that it can, in fact, create as much (sovereign) money it wants to buy as much debt that it wishes to issue—via primary market purchases by the central bank—to finance whatever level of

spending and investment—ostensibly to generate jobs for every able man and woman—that it wants. I treated these issues in [a long-form essay on fiscal policy](#), but the elevator pitch is simple enough. Under the auspice of MMT, governments have the ability and duty to create jobs for everyone and to prevent financial and economic distress and harm. It must do so because the economic costs and constraints hitherto associated with such a policy strategy are figments of Neo-Classical economists’ imagination.

Do you smell the rat too?

Returning to the UK’s public finances, two of the country’s foremost economic and political commentators, [ITV’s Robert Peston](#) and [BBC’s Laura Kuennsberg](#), found themselves in hot



water for suggesting that the Treasury's borrowing might impose constraints on the economy in the future. Mrs. Kuenssberg's comment on national TV that the government has "maxed out the national credit card" proved particularly controversial. In essence, Mr. Peston and Mrs. Kuenssberg asked the question that we are no longer allowed to ask, because it isn't necessary to ask; who is going to pay the bill? The economics profession, apparently, was so affronted by this performance that 24 of its most prominent members wrote a letter to the BBC decrying the scandalous reporting. They claim that Mrs. Kuenssberg's line;

*"misrepresents the financial constraints facing the government and reproduces a number of misconceptions surrounding macroeconomics and the public finances."*

The critique was less polite on social media, as you would expect, but the main message is clear enough; the public is being misled by the reporting on the state of the UK's public finances.

I beg to differ. Asking how we pay for the Covid-19 crisis is exactly the right question to ask, mainly because it is up to politicians to answer it. Once you are equipped with this relatively simple insight, it becomes apparent that intellectual posturing over how governments can simply create the money they need to spend and invest—they always could even in a context of a budget constraint—misses the point by a mile. Even in a world where the inflationary constraint on printing money is absent, for a while, you still need to decide who gets what and how much, a decision which will be made by politicians along the lines of the ruling party's key constituents and political agency. Did you notice, for example, the incoming U.S. Treasury Secretary [Janet Yellen's comments](#) that fiscal policy can, and should, be used to reduce gender

and race disparities. White working class families in the US, and, presumably, white men would be excused for a feeling slightly short-changed. It would seem odd to bypass such an important constituency in a world where everyone can get whatever they want, unless of course the plan is something else entirely. As it turns out, it probably is. As the official Twitter account of the Biden-Harris transition team [said earlier this month](#);

*"Black and Brown communities continue to be disproportionately impacted by climate change, COVID-19, and the economic crisis due to systemic inequalities. Our administration will work every day to root out systemic racism that hinders progress for all".*

I am happy to hear that brown people are in with a shout here. After all, why should black communities get all the spoils? If you don't see what's going on by now, I am not sure what I can do to help, but try this. **The idea that the rise of MMT as a prescription for economic policy would not come with a very specific distributional overlay is naive in the extreme.** And this is before we get to the inevitable discussion about taxes, and it will come, I guarantee it.

Meanwhile in the UK, I am relatively confident that the government will not be echoing such propositions anytime soon, but even before we get to the thorny question of how the money is spent, it seems to me to be of utmost importance for the UK public to know whether they should expect taxes to go up—they might anticipate this regardless mind—or whether the BOE will simply cover the bill. Some members of the public might prefer taxes on other members of the public to go up, and if this group has the ear of the political majority in Westminster, they might get their wish. Another entirely different, and complex, layer of complexity revolves around the question



of whether the BOE's printing press can be used to plug the hole in local government and municipal finances. As a resident in a [bankrupt council](#), for example, I would like to know. The political economy is not a veil of inefficiency preventing an otherwise benevolent central government from doing the right thing. It is part of the real economy, and it has a tendency to make things far more complicated than the MMT acolytes would like to admit. After all, to them the failure of state-sponsored sovereign money finding its way into every local polity's empty pocket has to be the result of some penny-pinching malevolent central government liquidationist, not printing quickly enough.

### TOWARDS A DIAGNOSIS

The example above is part of a wider issue in macroeconomics, or at least, I think it is. It is one thing to note a glacial shift in macroeconomics towards an emphasis, acceptance, even embrace of activist fiscal policy, financed by a state-controlled central bank. It is quite another to claim that those raising questions about the sustainability and viability of such a policy should be brushed aside as malevolent liquidationists. I will be accused of killing straw men and windmills with bazookas, but the shift is clear enough for anyone with eyes to see.

In today's macroeconomics, the virtuous road is paved with promises that the government can and should create jobs for everyone, that financial stress and unemployment are unnecessarily brutal side-effects of running a market economy. This is quickly becoming the [institutional consensus](#), though when I look at some of the economists carrying the torch, I am left wondering whether they are doing so because they believe what they're backing or whether they're taking the position because it is currently the convenient, or safe, position to take. Put differently, the macroeconomic

discourse on fiscal policy and MMT is starting to resemble other debates of our time—mainly about gender and race—which have been near-irretrievably warped by the incursion of critical theory and postmodernism.

By now, I will be losing readers faster than my council is losing its money, but hear me out. [In this excellent discussion between Coleman Hughes, Peter Lindsay and Peter Boghossian](#) critical theory is defined as a view of the world divided between oppressors and oppressed. This, in turn, implies that discourse and evolution of ideas are defined by a struggle for power. Compromise, complexity and even compassion for the counterpoint are impossible in this context, because any issue, by definition, will be defined by a dichotomy between two positions, one virtuous and correct and one sinful and wrong, the latter which often either is, or has been, the prevailing oppressive paradigm. Postmodernism, by contrast, is (in)famously characterised by the idea that objective truth doesn't exist, and that all phenomena draw their essence from how they're interpreted. It is the idea that anything goes, and that boundaries don't exist. In the modern parlance, critical theory and postmodernism are often associated in with being "woke", but what does this mean exactly?

For the purpose of this argument, I'll define wokeness slightly broader than [the Cambridge Dictionary's definition of the term](#) as: *"a state of being aware, especially of social problems such as racism and inequality."* Don't get me wrong, Cambridge's definition covers one version of the term, but it is not the one we're looking for here. I'll consider wokeness to be characterised by the following three discursive strategies,

**1. The dichotomization of everything** - Wokeness is the art of taking otherwise complex subject matters and dividing into crude opposing representations, mainly in



order to make the discourse fit the model set out by critical theory.

### **2. Guilt by association –**

Wokeness is characterised by the position that anyone disagreeing with your argument is fundamentally flawed, malevolent or dangerous. For the woke mind, those with opposing views don't deserve to be heard, and to the extent that they are, ridicule or cancellation are necessary and justifiable countermeasures.

### **3. Gaslighting the majority –**

Wokeness often involves the elevation of an obviously wrong argument to canonical truth, creating a bizarre situation in which a large group of experts, in a specific context or discipline, are coerced to solemnly agree on something even though the same people know, or should know, that their position is untenable. Wokeness is, in the extreme, the process of gaslighting whole subject matters, if not the public at large, often to devastating effects.

What does this have to do with macroeconomics, MMT and fiscal policy?

There should be more than enough hints above, but in case it isn't clear; I'll repeat my reply to [Noah Smith's proposal](#) that MMT is akin to the memefication of macro;

*"You could have just said the truth; MMT is woke economics; it's the idea that everyone can, and should, get a pony and that arguing otherwise is liquidationist malevolence."*

In a way, this a low blow against Noah, and I should like to correct that here by noting that he makes a number of key observations; he usually does, mind. He hits the nail on the head, for example, when he says:

*"MMT is engaged in a very different activity from traditional economic*

*analysis. Traditional econ is trying to model and understand the economy. But MMT is engaged in policy advocacy — their goal is to make the government more willing to run deficits.*

(...)

*the MMT people are up against a deeply entrenched and powerful meme — the idea of government as a household. When a household runs up its credit cards instead of saving money, it gets poorer and poorer. So people tend to think that when the U.S. government runs up the national debt, America is getting poorer. Let's call this the Austerity Meme."*

In [a follow-up post](#), Noah continues;

*"(...) as far as policy debates go, arguments about optimal fiscal policy based in formal macroeconomic models seem to be out, replaced by a consensus that giving people money is necessary and good. (at least, for the foreseeable future)."*

The contradiction highlighted by Noah is crucial. As I explain in my detailed analysis on fiscal policy and MMT, the idea that its proponents are fighting the "good fight" against the needlessly cruel Neo-Classical austerity economics is a key part of the genesis story for the project. For MMT theorists, real business cycle theory was never fully vanquished by New Keynesianism, it was just diluted, if not merely hidden. More philosophically, MMT is guided by the idea that the discipline and virtue traditionally attached to saving and restraint often are a vice—incorporating Keynes' paradox of thrift—and that spending is the opposing virtue insofar as it helps your neighbour, and the economy as a whole. The obvious problem is that in a world where people are being encouraged to spend a larger share of their income, for the greater good of course, it can be quite lucrative



for the select few doing the saving. The rise of wealth and income inequality in a world characterised by unprecedented policy intervention is a hint. I wonder what the marginal propensity to consume of MMT's most ardent advocates is? I suspect many of those being spoon-fed the idea that savings are bad wouldn't be too happy if they knew the answer; spending for thee, but not for me, right?

I reckon a version of [Shiller's Narrative Economics](#) can go a long way to capture what's going on here. It's possible that the spectrum swung too far in one direction—towards the idea of saving, restraint and "austerity" as virtues—and now it is simply, and inevitably, swinging towards the other extreme. I think this is a strawman, hiding the fact that some countries have always had more sovereign currencies than others, offering them more degrees of freedom, especially in a world of free capital mobility.

That's just my opinion, however, which does not detract from the main point. For team MMT, the time has come to strike back, and revenge, it would seem, is very sweet indeed.

I have some sympathy for this position, but the problem is also clear at this point. In the real world, the difference between the analysis of government finances as a household budget and one based on the idea of an unconstrained creator of sovereign currency is not binary. It takes place on a spectrum, and a proper inquiry along that axis requires caution, humility and careful study of the specific situation.

In this context, MMT is an application of critical theory because its proponents are drawing up a dichotomy between the virtuous idea of a benevolent social planner that can, and should, borrow as much money as is necessary to eradicate financial adversity and create jobs for everyone and the malevolent counterpoint, which is anything that even questions this base line. MMT is

postmodernist in the sense in that it proposes an interpretation of the world in which a government, with the ability to create fiat currency at will can increase the welfare of the citizenry to hitherto unseen levels.

I am reminded of Jordan Peterson's takedown of postmodernism in which he acknowledges that there are indeed an infinite amount of ways to interpret the world, but only very few that works over time. In this context, MMT lends itself to the interpretation of the world in which the government can achieve just about any economic outcome it wants, and that it can do so without being subject to any constraints. It works on paper, kind of, but it quickly runs into a number of obstacles in the cold light of reality, chiefly of which is the question of the distribution of the funds, when to stop lining people's pockets if at all, and the implications for currencies in a world of free capital mobility. As I have said on numerous occasions, MMT's proponents are either unaware of this or they're not being honest about what they really want, which is to say a specific distributive outcome and (much) less capital mobility.

The inflation constraint is lurking too, mainly through the question of what a political economy high on MMT would do if it did manage to find (hyper)inflation. If you read the original literature, it is a tight race between spending less, in effect recognizing the inflationary constraint, or controlling prices. It is fair to say, however, that it is on this field that MMT has recorded its most important, and genuine, victory. Whatever the merits of the Phillips Curve, and Kindleberger's hyper-inflationary warning of monetization of deficits, recent experience suggest that their constraints are not as binding as we once thought, for the time being.

## IT'S TIME TO COME CLEAN

In summary, MMT is woke economics because it takes an otherwise complex topic, fiscal policy, and dichotomizes it



between a free-spending currency-creating government and a budget-constrained opposition. It is woke because, it divides these two positions across an axis of good vs evil. It is woke because it gaslights the economics profession, and the public at large, by elevating the idea that governments can create money at will, to ensure jobs for everyone and eradicate economic harm and distress, to a self-evident truth.

Macroeconomics have not reached the point similar to when biologists are having serious discussions about whether there are in fact fundamental differences between men and women or, in the case of sociology, whether all white people are racists who need remediation from the likes of Ibram X Kendi and Robin DiAngelo. But I fear we are getting close.

It's easy to see how we got here, mind. Fiscal activism and MMT were hot commodities before the Covid-19 shock, and the virus has been a battering ram for idea that governments can, and should, use its currency-printing powers to stabilize the economy. After all, it is the least it can do after using those same powers to close the economy.

Don't get me wrong, I have my qualms about MMT, but it would take a cold-hearted economist to argue that governments and central banks should not have supported the economy through the Covid-19 storm. On that note, I doubt that MMT has peaked. In fact, I think we are merely in the foothills of a journey towards an increasingly more transparent and full-fledged version of the policy, an experiment if you will.

As a macroeconomist, I am a bit excited about this, though as I have tried to explain above, I am not at all impressed with the virtue-signalling associated with the position, nor with the scorn for those with the temerity to argue the counterpoint. The recent case in point is the cancellation of MIT economics professor Jonathan A. Parker for [suggesting that the U.S. might be digging a fiscal hole for itself](#).

Admittedly, the professor gets into a muddle about QE by suggesting that "the Fed takes in bank reserves to purchase govt debt". The Fed, of course, *creates* these reserves to purchase securities in the secondary market. I am inclined to believe, however, that Mr. Parker understands this, and that he is able to make a qualified defense of his position—that the fiscal deficit in the U.S. could be a challenge at some point—after taken this into due consideration. By contrast, I am less convinced that the throng of anon Twitter accounts currently trampling on his social media carcass would recognize a government budget constraint—and the fact that it actually does allow for the debt monetization they so covet—if someone knocked them over the head with one.

Meanwhile, for those of Mr. Parker's detractors well versed in the arcane arts of MMT and unconstrained non-inflationary money printing, my accusation is more serious. For starters, their main argument is the art of making a mountain out of a molehill. They spend most of their time intellectualizing the trivial position that the government can print money and fill its citizens' pockets if it wants to.

To paraphrase Noah Smith, they want to give people money. That's all. More seriously, though, they're being dishonest. Most of them remain unwilling to talk about the distributive overlay of their policy prescription, and the fact that they have a specific view on this, and most of them are as of yet unwilling to speak openly about the consequences of MMT in a world of free capital mobility. Remember, the division between the virtuous spenders and malevolent savers exist between nations too, and if the spenders can't get the savers to change their ways, what then? Capital controls? I am fairly sure, many proponents of MMT want just that—it's part of the theory after all—but as with so many other things, they haven't come clean. I think it is long overdue that they do.