Introduction to Symposium: Modern Money Theory and Public Budgeting and Finance

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The condition of the federal government's finances has been a major concern of policy makers and budgeting scholars for quite some time. The gross federal debt has reached 105 percent of the gross domestic product (GDP) and is rising rapidly in response to the coronavirus. Even in the absence of the virus crisis, annual deficits were expected to exceed one trillion dollars for the foreseeable future. Entitlement programs, especially Social Security and Medicare, are regarded as placing ever-greater pressure on the federal purse as the baby-boom generation retires. Additionally, some politicians continue to call for tax cuts and large-scale spending increases such as Medicare for All. This situation has prompted many scholars, policy makers, and citizens to worry that the federal finances are unsustainable, and that, if continued, they will lead to serious economic and fiscal problems.

Major economic consequences of high debt loads are believed to include increasing default risk, higher interest rates, crowding out of private investment, and inflation. Negative fiscal consequences include interest on the debt crowding out parts of the budget related to domestic spending, and inability to respond effectively to future crises. Not to be forgotten are fears that foreign investors may use their holdings of U.S. Treasury debt to influence U.S. government policy. Anxiety over these potential problems have led many to conclude that drastic action must be taken to reduce the federal government's chronic deficits, and to reduce the burden of the national debt. The discussion among budgeting scholars has largely focused on how to accomplish this. Little attention has been paid to whether or not it actually needs to be done. This symposium addresses the latter question, by examining the heterodox school of economics known as Modern Money Theory (also known as Modern Monetary Theory, or MMT).

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MMT scholars largely disagree with fearful prognostications about the national debt, arguing that mainstream predictions are based upon faulty understandings concerning the actual operations of the U.S. monetary system. They hold that understanding the procedural mechanics of money and monetary institutions is critical to understanding the real effects of federal deficits, and the federal government's debt position. Such an understanding leads MMT theorists to vastly different conclusions than those reached by mainstream economists. For instance, according to MMT scholars, a government that is truly monetarily sovereign, that possesses its own central bank, that spends and borrows in its own fiat currency, and which operates in a floating exchange rate system need not be threatened by most of the negative consequences mentioned above.

In fact, MMT holds that it is mechanically impossible for many of these consequences to occur, no matter the level of debt. This does not mean that there are no constraints on the level of government debt. MMT scholars are quick to point out that inflation can be a major constraint, where it occurs. Spending (both public and private) that exhausts resources in the economy is inflationary. Thus, too much spending combined with too little taxing may eventually lead to intolerable levels of inflation. However, as MMT scholars point out, too little spending combined with too much taxing will certainly eventually produce a recession, and unnecessarily so. The implication is that, as long as inflation remains at politically tolerable levels, the federal government can run larger deficits than it has in the recent past as a means to address the nation's many problems—such as climate change, sea level rise, critical infrastructure renewal, and health care.

MMT has the potential to fundamentally change the way budgeting scholars and practitioners view the federal debt and deficits. In this context, and in recognition of the increasing interest in MMT among scholars and finance practitioners alike, *Public Budgeting & Finance* has undertaken this symposium in order to introduce budget and finance scholars to MMT's key ideas, concepts, and policy conclusions. This is by no means an endorsement of MMT, but rather an opportunity for readers of this journal to learn about the insights provided by MMT, and assess for themselves their veracity and utility.

We are fortunate to have contributions from three leading MMT scholars, who have generously agreed to share with our community their work on several key features and components of MMT. Additionally, three budgeting scholars (including the symposium editors) have contributed pieces in order to help frame MMT in a budgeting and public finance context.

In this light, the article by James Douglas (University of North Carolina at Charlotte) and Ringa Raudla (Tallinn University of Technology), serves as an on-ramp to MMT for budgeting scholars and practitioners. Using language familiar to the budgeting community, they introduce several key components of MMT including the nature of money and the mechanics of debt financing. They then go on to discuss the validity of the predicted threats posed by large debt loads, focusing particularly on the concerns of the Congressional Budget Office. L. Randall Wray (Levy Economics Institute of Bard College) is one of the founders of the MMT school within the field of economics. A student of the late Hyman Minsky, Wray is a leading authority on and advocate of MMT. His article discusses the mechanics of a sovereign currency. He explains how a sovereign government that issues and borrows in its own fiat currency cannot be forced to default on its debt, and that such a currency provides the government with a lot of domestic policy space that it can use to address major problems facing a country. He explains the implications for U.S. fiscal policy.

In his piece, Eric Tymoigne (Lewis & Clark College) explains further the concept of monetary sovereignty, focusing on the important relationship between a nation's central bank and treasury. He posits that a fiscal balance is not a relevant policy objective for a monetary sovereign government, and that there is no optimal size of the fiscal balance. In an important article that is sure to generate interest among public debt scholars, Scott Fullwiler (University of Missouri-Kansas City) argues that the interest rate on the national debt is a policy variable that is driven by monetary policy, rather than the bond markets. Finally, Robert Kravchuk's article (Indiana University) sums up and integrates the other articles in the symposium. As a budgeting scholar, Professor Kravchuk takes the work of the other authors and puts them in the context of public budgeting and finance. He points out several shortcomings as well as areas where budgeting scholars might contribute in the future. His conclusion is that there is considerable room for a potentially highly productive synthesis of views between MMT and public budgeting and finance.

The federal debt and deficit play important roles for government finance and the larger economy, but perhaps not in precisely the ways in which mainstream economic theory predicts. It is, therefore, crucial for budgeting scholars and practitioners to understand what may be the true impacts that the debt and deficits have on the economy. This symposium offers an alternative to the mainstream view. We hope that the readers of the symposium find the articles useful in guiding their understanding and possible future research directions.