

Governments Can't Run Out of Their Own Money

Article by Stephanie Kelton

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Supporters of Modern Monetary Theory (MMT) claim that it is an entirely new way of looking at the economy, a Copernican revolution in how we think about approaching problems. The theory boils down to this: a country with its own currency – such as the United States, the United Kingdom, China or Japan – never needs to worry about debt. Countries can fund their own debt through opening the money taps. Nor do they need to worry that more money means hyperinflation. According to MMT, it is not the amount of money in an economy that determines the rate of inflation, but the extent to which an economy uses the potential of workers and its productive capacity. Since the pandemic, governments have pumped billions into the economy and taken on new debts in vindication of MMT-style monetary activism. In November 2021, EU inflation hit 4.9 per cent though economists point to many contributing factors. Robert Bodegraven sat down with economics professor Stephanie Kelton, author of *The Deficit Myth*, to discuss Modern Monetary Theory and what it means for Europe.

Robbert Bodegraven: I'm afraid I must start with the most frequently asked question. You say that there is no limit to the amount that a government with its own currency can spend. How does that work?

Stephanie Kelton: The big difference between such a government and you or I is that the government owns the money press. It makes the money, issues it, and decides whether or not to make more. If more money is needed, the government provides it and doesn't have to pay it back. We, as citizens and companies, have to earn money before we can spend it. And we can go bankrupt, whereas a government with a currency cannot.

Of course, there are limits to the creation of money. Those limits are determined by the availability of labour, technological knowledge, the availability of raw materials, as well as the factories and machines that can produce at any given moment. In other words, available resources.

Moreover, we have ecological limits. Just because we can access raw materials – because we can mine, frack or pump them from the earth – doesn't mean that we should do so. MMT does not say that we should exhaust all available resources to the maximum, but that we must seek a balance. This would mean finding an equilibrium between a bottom line of wellbeing for everyone and planetary boundaries, as Kate Raworth's "[doughnut model](#)" shows.

Critics say that opening the money tap will lead to hyperinflation. Are they wrong?

First of all, there is no economic theory that is as concerned about inflation as MMT. Inflation is relevant, planetary boundaries are relevant, available resources are relevant. So, although we must be very careful that inflation doesn't get too high, we don't have to worry about budget constraints.

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You are referring to countries that have their own currencies. Countries that are members of the European Union have exchanged their own currencies for the euro. This means that the Netherlands cannot resolve its debts through the Dutch central bank. Is MMT irrelevant for the EU?

I'm cautious about making statements about European policy; that's up to Europeans. But I do want to say this: the ECB has the mandate to determine whether or not member states have access to the currency. If European member states have too much debt, they turn to the ECB for money. However, the ECB has determined that there is a limit to the debt a country can incur. In doing so, it denies countries access to the euro. Member states are thus not given the opportunity to use European money in the interest of their people.

In 2010 we saw where that led; the Greeks are still suffering from the consequences of the ECB's austerity policy. We really can't return to that. Fortunately, the ECB is improving. It has set up a Pandemic Emergency Purchase Programme (PEPP) and its message to member states is: "Go spend money, ignore the growth and stability pact that prohibits too much debt. Support your own economy, don't worry, we will support you."

There is nothing stopping the ECB from continuing along this path. In the future, it can support member state governments in spending money that contributes to facilities, prosperity and employment for the population, as well as green and sustainable industry. The debts accumulated by countries can then easily be taken over by the ECB. The bank can simply put them on the balance sheet and tell member states to invest that money in a healthy economy, in climate policy, in infrastructure and so on.

The problem I see is that the debate is sliding back to the familiar push for austerity. The ECB is once again giving the signal: "We're going to stop supporting you. Put your own house in order, we're pulling out." This goes directly against my economic convictions.

It's frightening. You see what is happening in the member states. In France, for example, tensions are high, people have suffered from the pandemic, lost their jobs and their income. The population is under great stress. In combination with an austerity government, the result will be the rise of the ultra-right, populist parties. So it is not very wise of the ECB to tell governments to stop spending. I am very concerned about that.

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The pandemic is one crisis, the climate crisis is another even greater challenge. Adapting to and mitigating climate change will require a multitude of investments in the form of emergency packages. Do you think that placing restrictions on the required investments will even then not be necessary?

The climate crisis does indeed require enormous efforts, as well as a huge amount of money. In the US, people are worried about the costs of President Biden's new climate measures. But that spending is still nowhere near what is needed. We need much higher and ongoing investments. Not just in the US: money must also be made available to poor southern countries. Those of us in the rich industrialised West need to help those countries withstand the impacts of climate change. That will require a global Marshall Plan.

Given that task, can government spending be infinite?

There is no spending restriction in the sense that a currency cannot run out. But I don't like the word "infinite". It creates confusion and suggests that there are no limits. The real limit is the limit of what is available and for sale in your own currency. With your own currency, you can buy anything that is for sale in that currency. For example, you can hire all the available labour; anyone who wants to work can work. This allows the government to use its own currency for full employment. That is good, because fighting the climate crisis involves a lot of work.

Instead of talking about an infinite supply of coins and money, let's talk about what we want to achieve. For example, Mariana Mazzucato talks about a mission-oriented economy. My work and MMT are about mission-oriented budgeting. This means developing very concrete goals, for example being carbon neutral by 2035, and creating a budget for that. The budget should be adapted to the problem and not the other way around. Now we start with an amount that we think we can spend and only then do we start thinking about how to spend it. That's the wrong order.

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If those billions are invested in the economy and inflation rises, what then? Won't a new crisis arise?

It is by no means certain that inflation will rise. Inflation is a complex, dynamic phenomenon. To find the right policy answers, you need to look under the hood to see the

causes. In fact, higher spending may very well fight inflation. If you invest that spending in research and development, infrastructure, technological innovation and scientific breakthroughs, you increase the productive capacity of the economy in the longer term. In that way, additional spending will lower inflation.

If you say to me: “Listen, inflation is running at over 3 per cent, so we should just stop the support programmes, let companies go bankrupt, let hundreds of thousands of people die, let families suffer, let the crisis rage on”, I will reply that we need answers fit for a war situation. Fighting the pandemic with more spending – and thus saving more lives – is the priority. During World War II we had a 7.5 per cent inflation rate in the US, but the alternative was rather bleak. So no, rising inflation is not the priority.

Critics of MMT point to the great responsibility you place on government. The ECB was given a politically independent role because politicians would not know how to control themselves if they could just open the money tap. What is your rebuttal?

There are only two political-economic knobs that can be turned: fiscal policy and monetary policy. Critics who do not trust their elected politicians with monetary policy put it in the hands of unelected, non-publicly accountable central bankers who play with interest rates. In doing so, they overestimate what bankers can do. Central banks, by creating price stability, cannot provide us with good, dignified and sustainable societies. They simply cannot; that’s what politics is for.

The US Congress decided to cut child poverty in half in early 2021 through the Covid-19 crisis package. Politicians can do that. Isn’t that what we want? We will need to entrust our politicians with making policies that serve the interests of the people, that combat undesirable social phenomena.

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Certainly, but politicians also take re-election into account. So how do we prevent them from overspending in exchange for voter support?

Can you give me one example of a multiparty democracy where this is an issue? Where a democratically elected government buys the voter’s favour with wildly ambitious plans that require huge expenditures? In reality, you see democratically elected governments that are divided, where people disagree, where political contradictions dominate. Between Republicans and Democrats in the US for example, both want to spend money, but not on the same things. Why don’t the Republicans get behind Biden’s proposals? Wouldn’t that make them popular? Better schools, better roads, better healthcare – wouldn’t that also deliver votes to the Republicans?

The reality is that parties do not share the same goals. Political divisions limit spending.

Value-driven politics is a safeguard against inflation and excessive spending by governments and administrations.

In your view, this leads to governments spending too little rather than too much?

Exactly. Governments invariably spend too little money. In doing so, they deprive us of opportunities.

Another point of objection for you and your MMT colleagues is the belief that the government should raise taxes to pay for the climate transition. Can you elaborate?

Although a government with its own currency does not have to earn money before spending it, this does not make taxes superfluous. For example, governments can use taxes to influence the behaviour of companies or citizens. A carbon tax is a way to promote climate-friendly behaviour with taxes.

Taxation also plays a role in fighting inflation. If the government must invest billions in the economy for the climate transition, this could lead to higher prices. Taxation can then be used to take money out of the economy. Finally, taxation can also contribute to the redistribution of income and wealth. If a small group of people continues to have as much money as they do now, and moreover they do not spend it but save it or invest in financial products, then that money is not being used to create more jobs or to help society move forward. Taxation is one way to tackle inequality, although perhaps not the most effective.

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So what is more effective?

Progressive economists see taxes as a tool against inequality. They want the rich to pay their fair share. They address the problem at the back end, when all the wealth has already gone to the top. I think we should first move towards a fair distribution. I support the plan of Robert Reich [former Secretary of State under Clinton and top advisor to Obama] for pre-distribution. We must prevent the people at the top from accumulating so much wealth. That's also why we need to do something about patents, protective trade rules, monopolies, and working conditions. There are countless policies that effectively combat inequality. Taxation also helps, but it's only one piece of the puzzle.

Tackling the climate crisis by investing billions, fighting inflation, and inequality with tax measures: how do you convince people that this is all necessary and can be done without creating problems for the public treasury or future generations? Because even if you are right, politicians fear electoral loss and will not do much without popular support.

Indeed, broad support is needed. As Hillary Clinton wrote: “It takes a village”. What we really need is for the media to tell honest stories and reach the masses. When people turn on the TV and hear respected figures only talking about the fiscal crisis and the skyrocketing government spending that must be paid back by our children, they believe it. But if the debate shifts and newspapers, television and radio stations tell the real story and steer the conversation away from whether we can afford it to how do we find the resources for what’s needed, then yes, we will move forward.

You are now seen as the most prominent MMT economist. Do you feel the responsibility of that position?

For me, it’s about ordinary citizens understanding how the economy works so they can exert influence. Currently people too often hear their politicians say: “We can’t afford this expenditure, we don’t have the money for it, we have to stay within our budget.” Citizens then think: “Yes, that sounds logical, it is indeed not possible to pay for climate policy, good education or good health care.” If we inform people better, so that politicians don’t get away with refusing to do something because the money is not there, we are strengthening democracy. For me, it’s about exposing the truth and thus contributing to a more democratic political debate.

We are not yet there in the Netherlands. We are known as defenders of strict European budget rules, and we are dependent on the European Central Bank and its policies. What do you recommend we do?

It is extremely difficult within the EU. It would be best to develop a framework in which the ECB could be used by the national governments as the issuer of the euro. My advice: try to achieve a real union, like the United States is a federation of fifty states with a federal government and its own currency. Both fiscal policy and monetary policy are invested at the federal level, and the central bank works for everyone. In the EU, you could either give member states the flexibility to pursue macro policies to make local societies prosperous and healthy, or you could regulate this at the supranational level. Economically, these options are not difficult. The problem is the political will.

This interview was first published in Dutch in *De Helling*.



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