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Recognizing the duty of the House of Representatives to abandon Modern Monetary Theory and recognizing that the acceptance of Modern Monetary Theory would lead to higher deficits and higher inflation.

IN THE HOUSE OF REPRESENTATIVES

MARCH 23, 2021

Mr. HERN (for himself, Mr. BUDD, and Mr. BAIRD) submitted the following resolution; which was referred to the Committee on Financial Services

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RESOLUTION

Recognizing the duty of the House of Representatives to abandon Modern Monetary Theory and recognizing that the acceptance of Modern Monetary Theory would lead to higher deficits and higher inflation.

Whereas noted economists from across the political spectrum have warned that the implementation of Modern Monetary Theory (referred to in this preamble as "MMT") would pose a clear danger to the economy of the United States;

Whereas, in July 2019, Zach Moller, deputy director of the economic program at Third Way, wrote in a memo the problems associated with MMT, including that—

(1) "Under an MMT regime, policymakers would need to respond to inflation by doing two of the most un-

popular things ever: raising taxes and cutting spending. . . . We can easily imagine divided government's paralysis to fight inflation: Republicans refusing to raise taxes and Democrats refusing to cut spending.'';

(2) MMT ''ends our central non-political economic manager'' and ''markets trust the Federal Reserve and, as a result, businesses and individuals have well-anchored inflation expectations. . . . To solve the challenges higher interest rates create, including a possible interest financing spiral, MMT generally says that the Fed will be tasked with keeping interest rates low by making the Federal government, through the Fed, the consistent (if not the primary) purchaser of bonds. This is a different mission for the Fed than it has now. The Fed would no longer be tasked with intervening to keep prices stable because it would be too busy buying bonds. Bond purchases by the Fed generally increase inflation. Thus, the Fed would no longer be an independent manager of the economy.''; and

(3) MMT ''destroys foreign confidence in America's finances. . . . Holders of U.S. debt (in the form of treasuries) expect stability in value, a return from their investments, and the ability to be paid back. MMT blows that up. Bondholders would no longer be assured a return on their investment, and it will no longer be as desirable for our creditors to hold U.S. debt.'';

Whereas, on May 17, 2019, Joel Griffith, a research fellow at The Heritage Foundation, wrote in an article entitled ''The Absurdity of Modern Monetary Theory'' the following: ''There is no free lunch. We will pay either through the visible burden of direct taxation, the hidden tax of inflation, or higher borrowing costs (as the government competes with businesses for available capital).

Such realities might not make for a great stump speech, but facing them squarely now can save us a lot of headaches down the road.'';

Whereas, on March 25, 2019, Janet Yellen, Secretary of the Treasury, disagreed with those individuals promoting MMT who suggest that ''you don't have to worry about interest-rate payments because the central bank can buy the debt'', stating: ''That's a very wrong-minded theory because that's how you get hyper-inflation.'';

Whereas former Secretary of the Treasury and Director of the National Economic Council Lawrence H. Summers—

(1) on March 5, 2019, wrote in an opinion piece in the Washington Post entitled ''The left's embrace of modern monetary theory is a recipe for disaster'' that, ''contrary to the claims of modern monetary theorists, it is not true that governments can simply create new money to pay all liabilities coming due and avoid default. As the experience of any number of emerging markets demonstrates, past a certain point, this approach leads to hyperinflation.''; and

(2) on March 4, 2019, said that—

(A) MMT is fallacious at multiple levels;

(B) past a certain point, MMT leads to hyperinflation; and

(C) a policy of relying on a central bank to finance government deficits, as advocated by MMT theorists, would likely result in a collapsing exchange rate;

Whereas, on February 26, 2019, Jerome Powell, Chair of the Board of Governors of the Federal Reserve System, stated: ''The idea that deficits don't matter for countries that can borrow in their own currency I think is just wrong.'';

Whereas, on February 24, 2019, Matt Bruenig, founder of the People's Policy Project, wrote in an article entitled ''What's the Point of Modern Monetary Theory'' that ''the real point of MMT seems to be to deploy misleading rhetoric with the goal of deceiving people about the necessity of taxes in a social democratic system. If successful, these word games might loosen up fiscal and monetary policy a bit in the short term. But insofar as getting government spending permanently up to 50 percent of GDP really will require substantially more taxes in the medium and long term.'';

Whereas, on February 21, 2019, Doug Henwood, a journalist and economic analyst, wrote in an article in Jacobin entitled ''Modern Monetary Theory Isn't Helping'' that ''MMT's lack of interest in the relationship between money and the real economy causes adherents to overlook the connection between taxing, spending, and the allocation of resources'';

Whereas, on January 28, 2019, in a question and answer session with James Pethokoukis of AEIdeas, Stan Veuger, visiting lecturer of economics at Harvard University, stated that, ''if you take MMTers at their word in the most aggressive sense, then what you would see is a massive debt finance expansion of the welfare state with Medicare for All, with a jobs guarantee, and with concerns about inflation being deferred entirely to elected officials who would have to raise taxes to keep it under control. I think in a scenario like that, we do run a risk of going back to the 1970s pre-Volker style macroeconomics and I think that would be bad.'';

Whereas, on January 17, 2019, Michael Strain, Director of Economic Policy Studies at AEI, wrote in an opinion article in Bloomberg entitled ‘‘Modern Monetary Theory Is a Joke That's Not Funny'' that ‘‘if you thought from the start that the whole idea sounded like lunacy, you were right, even if it's possible to admit some sliver of sympathy for it'';

Whereas Paul Krugman, winner of the 2008 Nobel Memorial Prize in Economic Sciences—

(1) on March 1, 2019, posted on Twitter a point-by-point rebuttal to an article entitled ‘‘The Deficit Myth: Modern Monetary Theory and the Birth of the People's Economy'' by Stephanie Kelton, which concluded with Krugman tweeting that—

(A) ‘‘Sorry, but this is just a mess. Kelton's response misrepresents standard macroeconomics, my own views, the effects of interest rates, and the process of money creation.'';

(B) ‘‘Otherwise I guess it's all fine.''; and

(C) ‘‘See what I mean about Calvinball?''; and

(2) on February 12, 2019, wrote in an opinion piece in the New York Times the following: ‘‘And debt can't go to infinity—it can't exceed total wealth, and in fact as debt gets ever higher people will demand ever-increasing returns to hold it. So at some point the government would be forced to run large enough primary (non-interest) surpluses to limit debt growth.'';

Whereas, on November 15, 2019, Jason Fichtner and Kody Carmody of the Bipartisan Policy Center wrote in a report entitled ‘‘Does the National Debt Matter? A Look at Modern Monetary Theory, or MMT'' that—

(1) ‘‘deficits do have a role to play in public finance'' but, ‘‘as interest rates rise, some private-sector projects no longer make financial sense and are forgone. Crowd-

ing out private investment ultimately leads to a misallocation of resources away from their most economically productive use, hampering economic growth. . . . The more we borrow today, the more expensive it will be to continue borrowing in the future. At some point, debt has to be paid back. There is no free lunch.'';

(2) ''MMT underestimates other downside risks of debt'' and ''MMT advocates note that inflation is the only restraint on debt-financed spending. This leads some to conclude that under the theory of MMT, debt is not a concern, as governments can simply print more money to pay off debt. Such a theory is roundly rejected by academic economists on both sides of the political spectrum.'';

(3) printing money has costs, including a ''loss of credibility for the government'', an ''inflation risk'', and exacerbating ''exchange rates'';

(4) ''MMT assumes away politics'' and puts ''the onus of inflation control on Congress, the institution that lately seems worst-equipped to handle it. The Federal Reserve—which has spent a long time building extensive credibility in its commitment to fight inflation—would be largely sidelined.'';

(5) ''even MMT admits that deficits and debt matter'', noting that Stephanie Kelton has stated: ''I would never take the position that we ought to move forward, passing legislation with no offsets, to do Green New Deals, and Jobs Guarantees, and Medicare for All. In the end, MMT's arguments largely boil down to a disagreement over how much room there is to borrow without accelerating inflation.''; and

(6) it is ''hard to pin MMT down on anything at all'' due, in large part, to the fact that ''prominent supporters

of MMT have taken vague, sometimes contradictory positions: When politicians make claims about paying for the Green New Deal through MMT, stay silent, and when economists criticize this view, claim you are being misunderstood.'';

Whereas the March 2019 report entitled ''How Reliable is Modern Monetary Theory as a Guide to Policy?'' by Scott Sumner and Patrick Horan of the Mercatus Center at George Mason University found that—

(1) MMT—

(A) has a flawed model of inflation, which overestimates the importance of economic slack;

(B) overestimates the revenue that can be earned from the creation of money;

(C) overestimates the potency of fiscal policy, while underestimating the effectiveness of monetary policy;

(D) overestimates the ability of fiscal authorities to control inflation; and

(E) contains too few safeguards against the risks of excessive public debt; and

(2) an MMT agenda of having fiscal authorities manage monetary policy would run the risk of—

(A) very high debts;

(B) very high inflation; or

(C) very high debts and very high inflation, each of which may be very harmful to the broader economy;

Whereas the January 2020 working paper entitled ''A Skeptic's Guide to Modern Monetary Theory'' by N. Gregory Mankiw stated: ''Put simply, MMT contains some kernels of truth, but its most novel policy prescriptions do not follow cogently from its premises.'';

Whereas the January 2019 report entitled ''Modern Monetary Theory and Policy'' by Stan Veuger of the American Enterprise Institute warned that ''hyperinflation becomes a real risk'' when a government attempts to pay for massive spending by printing money; and

Whereas the September 2018 report entitled ''On Empty Purses and MMT Rhetoric'' by George Selgin of the Cato Institute warned that—

(1) when it comes to the ability of Congress to rely on the Treasury to cover expenditures, Congress is, in 1 crucial respect, more constrained than an ordinary household or business is when that household or business relies on a bank to cover expenditures because, if Congress is to avoid running out of money, Congress cannot write checks in amounts exceeding the balances in the general account of the Treasury; and

(2) MMT theorists succeed in turning otherwise banal truths about the workings of contemporary monetary systems into novel policy pronouncements that, although tantalizing, are false: Now, therefore, be it

Resolved, That the House of Representatives—

(1) realizes that large deficits are unsustainable, irresponsible, and dangerous; and

(2) recognizes—

(A) that the acceptance of Modern Monetary Theory would lead to higher deficits and higher inflation; and

(B) the duty of the House of Representatives to abandon Modern Monetary Theory in favor of mainstream fiscal and monetary frameworks.

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