Response to Doug Henwood's Trolling in Jacobin

neweconomicperspectives.org/2019/02/response-to-doug-henwoods-trolling-in-jacobin.html

By L. Randall Wray February 25, 2019

Doug Henwood has posted up at ***Jacobin*** an MMT critique that amounts to little more than a character assassination. It is what I'd expect of him in his reincarnation as a Neoliberal critic of progressive thought. (https://www.jacobinmag.com/2019/02/modern-monetary-theory-isnt-helping). It adopts all the usual troll methodology: guilt by association, taking statements out of context, and paraphrasing (wrongly) without citation.

According to Henwood, MMT is tainted by Warren Mosler's experience as a hedge fund manager. Beardsley Ruml (father of tax withholding and chairman of the NYFed, who argued correctly that "taxes for revenue are obsolete") is dismissed because he was chair of Macy's (*and* Director of the NYFed—Macy's still has a director on the NYFed) *and* because he argued that the corporate tax is a bad tax (his main arguments were later advanced by *Musgrave&Musgrave*, ***the*** *textbook* on public finance, by Hyman Minsky, and by me in the second edition of my *Primer*).

Oh, Ruml must not know anything about either taxes or central banking because he was a corporate stooge. Never mind that he was a New Dealer who helped to organize the New Deal plans for projects all over the country. And a PhD who authored several books and who was the Dean of Social Sciences at the University of Chicago. He must be an ignoramus when it comes to taxes and central banking because he does not adopt Henwood's belief that the sovereign government of the United States must rely on the taxes that come from corporations and rich folk. Such is the depth of Henwood's argument against MMT. It amounts to little more than a series of baseless *ad hominem* attacks.

I used to respect Henwood in his earlier role as editor of the *Left Business Observer* and indeed we enjoyed a good relationship, often corresponding on progressive issues. He disappeared from the scene some decades ago and I thought he had died. However, he reappeared recently as a troll arguing in blog commentary against MMT. His rants were largely incoherent and as we say in economics, orthogonal to anything MMT actually says. He has apparently suffered the fate of many aging Marxists—after years of fighting the good fight against capitalism they realize they've accomplished little and decide to instead engage the progressives on the argument that all is hopeless.

Apparently, *Jacobin* assigned to him the task of destroying MMT. My name is mentioned 17 times in Henwood's article—I think that is more than anyone else. The magazine is publishing the attack without any offer of a response. That is quite typical when it comes to diatribes against MMT—dating all the way back to my first book in 1998 (*Understanding Modern Money*—the first academic book on MMT. The editor of the main Post Keynesian journal published a critique of the book—by Perry Mehrling, someone with no Post Keynesian credentials–without giving me an opportunity to respond in the same issue, and then declined to even let me have a response in a later issue. This is the way academics has dealt with MMT from the beginning—any critique, no matter how groundless, will be featured and no response will be allowed. And so it goes.

As *Jacobin* did not give me a chance to respond, I'm penning this for NEP. These are my responses and none of the other MMTers Henwood has trolled in his piece should be implicated. I'm sure that all of them—Kelton, Tcherneva, Mosler, Tymoigne, Fullwiler, Dantas, Galbraith, and Mitchell—can defend themselves ably and with more nuance and respect than I can. Me, I detest trolls and I cannot hide my distaste.

In any event, here are some of the topics I would address if I had been given a chance to respond.

1. According to Henwood, Wray does not discuss the role of private money (and financial institutions) in the private economy. Henwood claims "absent" from Wray's work "is any sense of what money means in the private economy". In fact, My 1990 book (*Money and Credit in Capitalist Economies"* is one of the foundational books in the endogenous money literature (that Henwood discusses favorably). My work before and after that book has focused on the private financial sector and includes hundreds of articles, chapters, and books on the topic—including a book co-authored with Tymoigne on the global financial crisis (*The Rise and Fall of Money Manager Capitalism*, Routledge 2014), and a recent book on Minsky's approach to finance (*Why Minsky Matters*, Princeton, 2015). I'd wager that there are vanishingly few authors who have written more on the private banking system than me, and along with Bill Black, few who have taken such a critical perspective of private banking as practiced.
2. In one place, Henwood seems to backtrack a bit, writing "Wray, who once wrote a book on the topic, now dismisses endogenous money as a "trivial advance" next to MMT". Yes, I do argue that in retrospect the endogenous money literature is trivial for several reasons. First, the modern endogenous money research (that began seriously around 1980) largely just recovered the pre-Friedmanian views that were common in the 1920s (and that were never lost in the UK); second the endogenous money approach was rather quickly adopted by heterodoxy; and third all the central banks of the rich, developed

countries have also adopted the endogenous money approach. The policy recommendation that comes out of it is to direct central banks to target interest rates, not reserves or money supply. Central banks had *usually* adopted interest rates, anyway, outside of the relatively brief Monetarist experiment that began under Chairman Volcker—and although it is true that mainstream economists had taught that central banks could choose money targets, they recognized that if both the IS and LM curves are stable, choosing a money target is formally equivalent to choosing an interest rate target. By contrast, we have been pushing the MMT approach to fiscal finance since the early 1990s and it still remains highly controversial—and still attracts the same comments from trolls and others, like Bill Gates and Austin Goolsby who both recently announced "that's crazy!". Why? Because the implications of understanding fiscal finance are huge. By comparison, the implications of endogenous money are trivial—which is why it was relatively easy to get the theory adopted.

3. Wray supposedly "shies away from" discussing use of tax increases to counter inflationary pressures. While I am (and MMT in general is) skeptical of use of discretionary tax hikes to fight inflation, we strongly support progressive income taxes that will automatically rise in a boom. MMT also supports use of a JG to cause government spending to rise countercyclically (rising in a downturn as workers are shed from the private sector and falling in an expansion). Together, these can help to stabilize spending and income at the aggregate level. We also argue that the countercyclical swings of employment in the JG pool can act as a bufferstock to help stabilize wages. If there were a prolonged stretch of inflation we would—of course—recommend pro-actively raising taxes and/or reducing spending. We've been very clear on this. Our argument has always been that a JG and progressive tax system help to stabilize aggregate demand, wages, and prices but if that is not sufficient, government still has at its disposal the usual methods of fighting inflation—everything except using unemployment (since austerity will not increase unemployment but will instead increase employment in the JG).
4. According to Henwood "Wray has said MMT is compatible with a libertarian, small government view of the world". Yes, the descriptive part of MMT accurately describes how sovereign currency systems work, and such knowledge can be used by Austrians or Marxists to better understand the world they want to change. MMT proponents, however, are mostly progressives, who are not content with merely explaining the world but more importantly want to radically change it. Hence, we do have policy proposals—proposals that I expect both Austrians and Marxist will hate, such as the JG. As I've written before, it is strange that the far right and far left come together in favoring unemployment over employment in a JG. One of those strange but true alliances against progressive policy. Austrians oppose the JG on

the basis that it expands the role of government; some of the Left opposes it because the JG ameliorates suffering, presumably reducing recruits for the coming revolution.

5. Henwood: “Wray’s explanation of the Weimar hyperinflation, one of the most dazzling of all time, is odd. The deficits, Wray explained in his book, were caused by the inflation, not the other way round.” Yes, that is true; Henwood adopts the Monetarist explanation that “too much money” causes inflation. He confuses causation and correlation. Severe supply constraints can push up prices, increasing the amount of money that needs to be created both publicly and privately to finance purchases. Tax revenues fall behind spending so a deficit opens up as spending tries to keep pace with inflation. The money stock is a residual and it will grow rapidly with hyperinflation. That does not mean it is the cause. Mitchell has closely examined the hyperinflation cases from the MMT perspective; the argument is not at all odd and has the advantage that it is fact-based, unlike Henwood’s Monetarist linking of money and inflation that has been so thoroughly discredited that even central bankers have dropped it.
6. Henwood proclaims: “MMTers like Mitchell and Wray write as if borrowing abroad is just a bad choice, and not something forced on subordinate economies” and then goes on to argue that Mosler is “wrong” when he says that Turkey can buy capital equipment in its own currency (lira). Henwood does not understand foreign exchange markets—anyone (including Henwood) can exchange Turkish Lira for either dollars or euros in foreign exchange markets—including at airport counters around the world. Turkey can exchange lira for dollars to pay for imports of capital. (Might that affect exchange rates? Possibly. That is why floating the currency is important.) Nor does MMT argue that “borrowing abroad” is a “bad choice”—if that means issuing domestic currency debt held by foreigners. What we argue is that issuing debt in a foreign currency is a bad choice for any country that can issue its own currency. I’d go even further and argue that any country with its own currency should prohibit its government from issuing debt in a foreign currency, or from guaranteeing any such debt issued by its domestic firms. However, if private entities want to issue debt in foreign currencies, I do not necessarily advocate preventing that. What about the special case of a country that issues a currency that cannot be exchanged in forex markets (remember, Henwood wrongly proclaimed that Turkey is such a country—here I’m not talking about Turkey or any of the other many countries which do have currencies listed in forex markets; for a list of exchange rates of the 150 or so convertible currencies from the Aruban Florin to the Zambian Kwach, go here: https://www.oanda.com/currency/converter/)? I think it is most likely a mistake to issue debt in a foreign currency unless there is an identified source of the forex that will be needed to service the debt

(for example, dedicated forex earned from exports). If you cannot exchange your currency in forex markets, and cannot earn forex, your best bet is international charity. Indebtedness in foreign currency will be a disaster.

7. Henwood claims: "MMTers will sometimes say they want to tax the rich because they're too rich, but Wray said at a recent conference that he sees no point in framing the issue as taxing the rich to expand public services — presumably because government doesn't need to tax to spend" and has "has written that taxing the rich is "a fool's errand" because of their political power". The first part of that is correct—we do not need to tax the rich in order to expand public services. The second is dishonest reporting. He does not include a citation but what I actually argued is that trying to reduce inequality using taxes is not likely to be successful—because the rich influence the tax code and get exemptions. Like Rick Wolff, I argue for "predistribution"—prevent the growth of excessive income and wealth by controlling payments of high salaries in the first place. Eliminate the practices that lead to inequality—such as huge compensation for top management of public companies. I do like high taxes on high income and high wealth. I have argued they should be set so high as to be confiscatory. Not at a marginal income tax rate of 70%, but at 99%. Or even 125%. Or 1000%. Take it all. I am not confident that the effective tax rate will ever be that high—due to the exemptions the rich will write into the code—but we that doesn't mean we shouldn't aspire for better. It is amusing that Henwood refers to the barriers of "political power" when it suits his purpose (for example when he talks about the political infeasibility of the job guarantee) but objects if I notice that it is politically difficult to tax rich folks. All I'm arguing is that a) we don't need tax money to pay for the programs we want, and b) high tax rates on the rich, alone, will not be sufficient in our struggle to reduce inequality.
8. He writes "Tymoigne and Wray's response to Palley barely addressed any of his substantive points" and Henwood objects to our mention of a video where Palley argued against the job guarantee because if poor people in South Africa got jobs they'd want food and that might increase imports and even cause inflation. First, we responded to Palley's critiques in 43 different places in that paper, including responding in detail to nine long quotes where we let him speak for himself (unlike Henwood, who loosely—often wrongly—paraphrases our arguments, often with no citations at all). The video is not an outlier—it is Palley's often repeated position. Given a choice, Palley prefers low inflation over jobs and income for the poor. He is perhaps the only Post Keynesian who still uses the ISLM framework augmented by a Phillips Curve. (For those who don't know what that framework is, it is the "bastardized" version of Keynesian economics that helped open the door to Neoliberalism.) I have been at meetings

> where Palley urged the AFL-CIO to forget about arguing for full employment because of the danger of inflation. That was not in 1974 or even in 1979 when there actually was some inflation. No, it was a generation later. Like the Neoliberals, Palley is still fighting the inflation battle decades after the danger disappeared. Henwood is free to defend that Neoliberal position if he likes, but it is disingenuous to criticize us for linking to a video where Palley makes his own case for the position he is well-known to hold.

Henwood and *Jacobin* align themselves against the new wave of activists who have embraced MMT and the Job Guarantee as integral to the Green New Deal program. These new progressives want to tax rich people, too, not because Uncle Sam needs the money but because the rich are too rich.

Henwood wants us to believe that Government needs inequality. We've got to cater to the rich. They get to veto our progressive policies. If there weren't rich folk, we'd never be able to afford a New Deal. We only get the policies they are willing to fund. If we actually did tax away their riches, government would go broke.

As Kelton puts it, people like Henwood think money grows on rich people.

For far too long left-leaning Democrats have had a close symbiotic relationship with the rich. They've needed the "good" rich folk, like George Soros, Bill Gates, Warren Buffet, Bob Rubin, to fund their think tanks and political campaigns. The centrist Clinton wing, has repaid the generosity of Wall Street's neoliberals with deregulation that allowed the CEOs to shovel money to themselves, vastly increasing inequality and their own power. And they in turn rewarded Hillary—who by her own account accepted whatever money they would throw in her direction.

Today's progressives won't fall into that trap. "How ya gonna pay for it?" Through a budget authorization. Uncle Sam can afford it without the help of the rich.

And, by the way, they're going to tax you anyway, because you've got too much—too much income, too much wealth, too much power. What will we do with the tax revenue? Burn it. Uncle Sam doesn't need your money.

In reality, taxes just lead to debits to bank accounts. We'll just knock 3 or 5 zeros off the accounts of the rich. Of course, double entry bookkeeping means we also need to knock zeros off the debts held by the rich—so we'll wipe zeros off the student loan debts, the mortgage debts, the auto loan debts, and the credit card debts of American households. Yes, debt cancellation, too.

The new breed of progressive politician—represented by Bernie and Alexandria—doesn't need corporate funding, either. And they certainly don't need Henwood's scolding.