# Rodney's Take

November 29, 2021

## The Road to MMT Is Paved With Good Intentions

President Biden has claimed that his $2 trillion Build Back Better Act (BBBA) will cost zero, because it's "paid for." Clearly, he meant that the bill won't add to the deficit, but that's not the same as not costing anything. Paying $20 for a meal with cash instead of using a credit card doesn't add to my personal debt, but it still costs $20.

The Congressional Budget Office estimates that as written, the BBBA will add $160 billion or so to the deficit, but no one, including the bill's authors, believe that. The benefit programs contemplated might have short lives on paper, but the goal is to embed them into the social fabric of the nation so that they must be extended in the years to come. Once the child tax credit, universal pre-K, child-care subsides, and other benefits are retained beyond the 10-year budget window, the "cost" of the program soars from the CBO's $160 billion to more than $2 trillion.

Since the pandemic began, we've passed several massive stimulus bills that added trillions to the U.S. debt. Inflation has popped to more than 6%, but the Federal Reserve tells us it will ease during 2022. Other than that, the financial world hasn't come crashing down. In fact, wages, stock prices, and home prices are higher, while interest rates have barely budged. It's almost as if Modern Monetary Theory (MMT), the idea that countries that borrow in their home currency can run unlimited deficits without financial harm, is proving itself correct.

It isn't, and following its precepts, even in the name trying to do right by the population, could cost us dearly.

MMT proponents claim that fiat money is just a tool government should use to maintain full employment, thereby giving citizens the ability to maintain and grow their standard of living without being subjected to the vagaries of the private market. Workers would be free to work for any firm they choose, but if they lost their private sector jobs, they could work for the government in some unnamed capacity and receive a fair wage. Uncle Sam would maintain wages even when the private business cycle turned lower, thereby ensuring workers could remain solvent.

If wages rose to the point that rising demand outpaced the resources and productivity of the nation, thereby causing inflation, then the government could use automatic stabilizers such as lower wages, taxes, and regulation to bring prices down. It sounds so easy, but the devil is in the details.

The automatic stabilizers include lower government spending on guaranteed employment and higher taxes. To make a difference, those two stabilizers would have to take a bite out of the middle class, thereby reducing their standard of living. However, the inflation likely will have pushed asset prices, including stocks and real estate, higher, increasing the wealth of those who already hold such assets. MMT is a great way to make those who own assets wealthier while eventually subjecting the middle class to higher taxes and possibly the loss of income.

In the wake of all of the stimulus spending and Fed printing over the last 18 months, the BBBA might do the same thing. As I wrote in the November *Rodney Johnson Report*, the act calls for adding millions of jobs for child care and adult care at much higher wages than those positions currently pay. Child care workers, who at present make less than $30,000 per year, will be paid the same as elementary school teachers, who make around $65,000. Such child care workers would be required to have similar credentials, so it's not as if all child care workers will make this much, but wages definitely will jump. The higher costs will be subsidized by the government, which will rely on deficit spending and isn't dependent on market forces.

As those wages push higher, wages for competing workers also will jump, which will drive up prices for goods and services unrelated to child care. The Fed might try to tame prices through higher interest rates, but overlending won't be the problem, it will be the substantially higher pay subsidized by the government for millions of workers, which is a close approximation of MMT's guaranteed employment.

This is where the other MMT shoe will drop.

If some of this comes to pass and government-subsidized wages drive inflation higher, don't expect the government to reduce the subsidies that feed wages, which is exactly what MMT requires. The pain felt by consumers, and therefore felt by politicians, would be too great, just as it would be if we were truly implementing MMT. Instead, there will be cries for government price controls and inquiries into market manipulation, just like those we hear today about gasoline. Politicians will demand regulatory action, just as MMT calls for government intervention when markets "misbehave" in the judgment of unnamed bureaucrats.

Eventually we'll settle in with the higher prices, which will eat through wage gains, leaving those who rely on just their paychecks worse off as those who own assets watch their gains increase. That's not the goal of the BBBA, or even MMT, but it's a likely outcome.

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*Got a question or comment? You can contact us at* info@hsdent.com.