

Wray, L. Randall

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**A meme for money**

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## Working Paper No. 736

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### **A Meme for Money**

by

**L. Randall Wray**

Levy Economics Institute of Bard College

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Levy Economics Institute  
P.O. Box 5000  
Annandale-on-Hudson, NY 12504-5000  
<http://www.levyinstitute.org>

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## **ABSTRACT**

This paper argues that the usual framing of discussions of money, monetary policy, and fiscal policy plays into the hands of conservatives. That framing is also largely consistent with the conventional view of the economy and of society more generally. To put it the way that economists usually do, money “lubricates” the market mechanism—a good thing, because the conventional view of the market itself is overwhelmingly positive. Acknowledging the work of George Lakoff, this paper takes the position that we need an alternative meme, one that provides a frame that is consistent with a progressive social view if we are to be more successful in policy debates. In most cases, the progressives adopt the conservative framing and so have no chance. The paper advances an alternative framing for money and shows how it can be used to reshape discussion. The paper shows that the Modern Money Theory approach is particularly useful as a starting point for framing that emphasizes use of the monetary system as a tool to accomplish the public purpose.

It is not so much the accuracy of the conventional view of money that we need to question, but rather the framing. We need a new meme for money, one that would emphasize the social, not the individual. It would focus on the positive role played by the state, not only in the creation and evolution of money, but also in ensuring social control over money. It would explain how money helps to promote a positive relation between citizens and the state, simultaneously promoting shared values such as liberty, democracy, and responsibility. It would explain why social control over money can promote nurturing activities over the destructive impulses of our “undertakers” (Smith’s evocative term for capitalists).

**Keywords:** Modern Money Theory; Framing; Meme; Lakoff; Fiscal Policy; Deficits; Money; Monetary Policy

**JEL Classifications:** A11, A12, A14, B15, B50, E21, E42, E44, E50, E62, H1, H40, H60, H62, H63

## INTRODUCTION

We all know the usual approach to money: it begins with a fantasized story about barter, the search for an efficient medium of exchange, the role of the goldsmith, and then on to the gold standard, the deposit multiplier, fiat money, and monetary neutrality—at least in the long run.<sup>1</sup> It provides a perspective on the nature of money, on the primary functions of money, and on rules for proper monetary management. It frames all mainstream discussions of money—whether by economists, by policymakers, or by the population at large. That framing is also largely consistent with the conventional view of the economy and of society more generally. To put it the way that economists usually do, money “lubricates” the market mechanism—a good thing because the conventional view of the market, itself, is overwhelmingly positive. The market “meme” frames our view of the economy and society, too—the market is the place we go to exercise choice, to assert our individuality, to catch and bring home prey to the adoring family. The king of the market, of course is the highly vaunted, entrepreneurial small businessman (gender-specific) who provisions society with useful work as well as consumption goods and services. Each productive member of society is appropriately rewarded with money, which preserves the freedom to choose how to apportion his claim on output in a manner consistent with preferences. The biggest potential threat to efficient allocation of scarce resources among competing unlimited wants comes from government’s exercise of control over money—first, by replacing natural, intrinsically valuable, commodity money with fiat money; second, by taking away people’s hard-earned money through taxes; and third, by profligate government’s uncontrollable urge to inflate away money’s value.

It is a beautiful meme, entirely consistent with the individualistic sentiment that has dominated public discussion since Margaret Thatcher asserted that there is no such thing as society. Government’s destructive impulses must be constrained by strict rules—balanced budgets, debt limits, and especially an independent father-figure central banker who keeps tight control over the purse strings. Voters must insist on frugality, and can enforce it through tax cuts to “starve the beast.” Wasteful spending—which includes almost all government spending—must be reigned-in to allow the market to allocate scarce resources to more productive, private use.

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<sup>1</sup> See Wray (2012) for a discussion of the orthodox approach and for the alternative presented here.

We need an alternative meme, one that provides a frame that is consistent with a progressive social view. To be sure, in my view, the conventional story is wrong—it is inconsistent with the findings of historians, anthropologists, legal scholars, sociologists, and political scientists.<sup>2</sup> I'd prefer a meme that is more consistent with these findings.

However, I also know from experience that “truth” doesn't automatically trump myth. George Lakoff has brilliantly explained how our minds work: using metaphors—memes—to understand the world.<sup>3</sup> This is especially true the more abstract the concept under examination. Economics uses highly abstract concepts and reasoning: “economy,” “market,” “equilibrium,” “productivity,” “supply and demand,” and, especially, “money.” Simple stories—Crusoe and Friday agreeing to use seashells as a medium of exchange—simplify difficult concepts and also draw attention to the lesson the speaker wishes to teach. The “story of money” outlined above provides the proper framing for the conservative's lesson. Money simplifies life for Crusoe and Friday. More importantly, the story diverts attention away from inconvenient topics: Crusoe and Friday come together as equals, of their own free will to engage in mutually beneficial exchanges, in a “free” market only lubricated by money—not as conqueror and subject. While the simplistic story adopted by economists is inconsistent with historical “facts,” it is not difficult to adapt the story to bring it in line with many of the findings of historians (who, after all, generally do adopt the conservative framing).

As Jack Balin argues, memes serve as the basis of stories, networks of cultural associations, metaphoric and metonymic models, and other mental structures.<sup>4</sup> Memes are self-replicating, sort of like a virus. Since we think through metaphors, according to Lakoff, as the virus spreads through the population, the meme controls the way we think about a topic.

Conservative memes dominate all discussion about the economic sphere. The market is “free;” the government “intervenes.” Consumers “choose;” government “regulates.” Through judicious framing, the conservatives have won all the important economic debates of our times. Deficits crowd out, cause inflation, and bankrupt our nation. We've run out of money. Government is the problem. Taxes and regulations destroy initiative. Small business creates jobs and government destroys them. Yet, in every case the conservative claims are demonstrably false. But it does not matter; they've got the better framing, the better money memes.

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<sup>2</sup> The best place to start for a sociological approach to money is with Ingham (2004). See also Wray (2004) for a number of contributions that counter the story told by economists.

<sup>3</sup> See Lakoff (2004).

<sup>4</sup> See Balin (1998) and “Meme,” *Wikipedia*, <http://en.wikipedia.org/wiki/Meme>, last modified October 18, 2012.

In most cases, the progressives adopt the conservative framing and so have no chance. For example, take the current debate about government budget deficits, which progressives propose to reduce by raising taxes on the rich to “pay for” government spending. Without knowing anything about government or budgeting, the listener knows a) deficits are bad—somehow government is “deficient,” and b) the progressive solution relies on more taxes—and no one likes taxes. The conservative framing—government spends too much—has a much more appealing solution: reduce government waste. It addresses the problem more directly, and in a morally superior manner. Lakoff explains why conservatives always win:

They understand the importance of morally-based framing, the importance of language, the importance of repeating language, the importance of not using the opposition's language, and the importance of an extensive communication system that operates daily everywhere... Everything you understand is a matter of framing. And what counts as a fact depends on the frame used in understanding.<sup>5</sup>

Hence, it is not so much the accuracy of the conventional view of money that we need to question, but rather the framing. We need a new meme for money.

That meme would emphasize the social, not the individual. It would focus on the positive role played by the state not only in the creation and evolution of money, but also in ensuring social control over money. It would explain how money helps to promote a positive relation between citizens and the state, simultaneously promoting shared values such as liberty, democracy, and responsibility. It would explain why social control over money can promote nurturing (“parental bent,” as Veblen called it) activities over the destructive impulses of our “undertakers” (Smith’s evocative term for capitalists).

According to Lakoff, there are two competing views of the parent: the strict father figure who constrains and punishes versus the nurturing parents; most individuals simultaneously hold both views—but the conservative views about the dominant father who needs to discipline the kids is most prominent in political discussion. Adults, of course, want to escape the strict father represented by government, and so want to limit its power. Conservatives emphasize that we need to “get government off our backs.” In Lakoff’s terminology, progressives need to emphasize the nurturing characteristics of the state—the mother and father working together in

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<sup>5</sup> Mark Karlin, “George Lakoff: Progressives Need to Use Language That Reflects Moral Values,” *Truthout.org*, October 30, 2012, <http://truth-out.org/progressivepicks/item/12401-george-lakoff-progressives-need-to-use-language-that-reflects-moral-values> (accessed November 19, 2012).

the interest of the “family,” rather than the stern, punishing, “strict father model” with rules and constraints.

With respect to money, the conservatives emphasize “fiscal discipline” and “inflation targets” enforced by our Father Chairman who art at the controls of the Central Bank. Progressives can win this debate only by taking a higher moral stance, emphasizing the nurturing role that can be played by our government working with our monetary system to support us, to help us to achieve more, and to make us better people.

## **FRAMING THE ALTERNATIVE APPROACH**

The approach that I take is the Modern Money Theory (MMT) approach. In the discussion that follows, I will presume that readers have a working understanding of MMT.<sup>6</sup> MMT provides a correct description of the operation of modern monetary systems, so it makes sense to base our alternative meme on the correct approach to money. However, this contribution is not so much concerned with a correct theory, but rather with developing a progressive meme for money—a story of money’s origins, nature, functions, and operations that can serve as an alternative to the orthodox story briefly explicated above.

There are several approaches to the history of money that are consistent with the alternative meme. I prefer the one I adapted from the great Cambridge numismatologist Philip Grierson, who located money’s origins in the ancient practice of Wergild.<sup>7</sup> I find that story to be most consistent with what I understand about tribal society—but, again, what is important is the frame. According to Grierson, money evolved as unit of account used to measure debts for the purpose of paying fines in compensation. This is inherently a social story, not an individualistic story. The purpose of the payment was social: to prevent blood feuds and to maintain social cohesion. Further, the fees were established by agreement in social assemblies, socially imposed, and payment was collectively enforced. There was no “higgling and haggling,” no “market exchange,” no thought to individual “efficiency.” Further, the story begins with a debt—not a voluntary transaction between equals to satisfy personal preferences, but with a wronged party who demands compensation or else retribution will be taken. With the imposition

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<sup>6</sup> Those who do not can read my new book, *Modern Money Theory*, cited above. Unless otherwise noted, references to support arguments made here, as well as citations to literature mentioned, can be found in that book.)

<sup>7</sup> See Grierson (1977); also see Wray (1998).

of a fine, the social assembly turns the tables: the perpetrator becomes the debtor, the victim is the creditor. The debtor is finally “redeemed” by the payment of the fine. With that, the slate is wiped clean, restoring equality and social cohesion.

With that framing, money is not something that intermediates trade between self-interested globules of desire, but rather is part of an institutionalized practice designed to further the interests of the community—maintaining peace and justice.

To be sure, we do not know exactly how payment of fines “in-kind” (there was a specific payment to be made depending on infraction: a pig for this, a bushel of wheat for that; note also that the practice of paying “bride-price” to the family losing a female to marriage is also an example of a wergild “fine”) to harmed individuals were transformed into payments of money to the authorities (fines, fees, and later taxes). Again, there are alternative stories. My favorite is that with the transformation from tribal society to a “civilized” command society, the authorities were able to first obtain a share of the fines paid and later to transform transgressions into “crimes against the crown” (later, against society) rather than against identifiable victims. It then made sense to establish a measuring unit (the money unit) to measure the fine and to value the things delivered in payment, and later to actually issue the means of paying the fine—a money “thing,” currency, to be used in paying fines. Note that this reverses the orthodox sequence: first liabilities, then a money unit, then a money “thing,” and finally money prices and markets based on sales for money. Why did markets develop? Not to barter what you have but don’t want, but rather to obtain the means of debt (tax) settlement.

And while the “creation of money” as a means to move resources to the authority (in payment of fines, fees, tithes, and then taxes) was not initially a progressive development, with the rise of the democratic state the monetary system could be used to further the public purpose—including promoting peace and justice. Of course, even the modern state also uses the monetary system to pursue war and conquest, and as well private interest that runs counter to the public interest. But for reasons we will discuss, use of money is—on the whole—a progressive development that supports economic activity in the public interest, in spite of the danger (often a reality) that money can be used in inimical ways. In truth, the same can be said of the development of democracy.

What is important for our argument here is that we need to change the focus—away from money as a cost-minimizing medium of exchange and to money as an institution, as Geoff

Ingham has long argued (following in the footsteps of Dudley Dillard<sup>8</sup>). And leaving to the side all the ancient history and speculation on money's origins and evolution, it is clear that our modern monetary system arose with the development of capitalism and the rise of the modern state; that is to say, the capitalist state. In that respect, all the stories about barter are irrelevant for two reasons. First, production for "the market" bears no resemblance to hypothesized production for barter. Capitalist production begins with money, to produce commodities for sale, to realize "more money" (as Marx, Veblen, and Keynes all insisted). Capitalists do not produce with a view to exchange for other commodities—they want money and if they do not get it, the production was a failure. And hence, there must be a credit system to supply the production process with the money it needs to start and to ensure that purchasers have the money (indeed, the "more money") that validates capitalist production.

Second, in almost every case, the money of account is a state money of account—chosen by the state and sometimes backed by legal tender laws, but always backed by a tax system. Indeed, it could be said that currency issued by the government is "the means of tax settlement." (Today, we should include central bank-supplied reserves in the definition of currency—that is, high powered money, HPM—since taxes are paid for customers by banks whose reserves are debited.) Previous to the European Monetary Union, exceptions to what Charles Goodhart (1998) called the "one currency, one nation" rule were rare, usually limited to small states closely connected to another, or to currency board arrangements. And when a new nation was formed (usually by breaking up a nation), one of its first acts would be to create a new currency. So, modern moneys are "state moneys."

The alternative frame must therefore stress this dual link between money and capitalism and between money and the (capitalist) state—as Ingham insists. The Crusoe-Friday meme is not useful either for understanding the way our system works, or for framing our discussion about how to use money to further the public and private interests. To that end, we need to begin with the state and its money, that is, with the state and its treasury and central bank at the center of our monetary system.

On one level, that monetary system is a set of credits and debits: I Owe You's and You Owe Me's. One of our memes is: "money is what we owe each other;" or: "money is the tie that binds."

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<sup>8</sup> See for example Dillard (1980).

These IOUs are recorded on balance sheets, with banks handling much of the record keeping. At the aggregate level, all the IOUs must cancel—there are always two entries, a debit on one account and a credit on another—but that takes away all the fun, all the action, all the power. If I strike you, you are struck by me and so the two cancel but that does not mean there is no impact. The credits/debits necessarily represent a social relation—the creditor and debtor are related in a social bond. While we normally think it is better to be a creditor than a debtor, throughout history both parties have always been thought to be tainted by this relationship. In any case, it is unavoidable in a society in which much of the economy is organized through and oriented toward the monetary system—which itself consists of layer upon layer of debits and credits.

While we can imagine a Crusoe-Friday barter economy, it excludes by assumption these credits and debits and the social relationship of creditor to debtor. Even if Crusoe and Friday decide to use seashells as a “money” medium of exchange there is no social relationship, no creditor, no debtor—just an impersonal relation with the commodity for which one traded. The seashell “money” is asocial—as befitting a theory that denies the very existence of society. Note also that in the currently fashionable economic models that use a “representative agent” (i.e., Real Business Cycle and Dynamic Stochastic General Equilibrium models) the debits and credits would be silly—you owe yourself—which is precisely why there’s no room for money, whether it is social or not.

Our alternative approach needs the debts, the power of creditor over debtor, and the threat of bankruptcy. It also needs the state in the center. We’ve already mentioned the state’s choice of the monetary unit. It is difficult to perceive how the haggling of a number of self-interested individuals bartering a reasonably large number of items could ever settle on a single measuring unit. But in any case, it is rather clear that today, at least, it really is the state that chooses the unit, taxes in the unit, and issues the currency denominated in that unit (again, we recognize the caveat that there are a few minor exceptions plus one major exception in which EMU member states chose to adopt a common unit and chose to constrain currency issue through self-imposed rules). So while we can imagine a creditary system without the state at the center, it wouldn’t be our capitalist system with the “bourgeois” state (or democratic state, depending on one’s ideological orientation) pursuing the interests of the dominant capitalist class (or the public purpose depending on one’s political persuasion).

We could also imagine the capitalist state functioning without money, with only the private sectors keeping accounts in a mutually approved unit of account on the books of private banks. Rather than using money to move resources to itself, the state could use force to take what it wanted—from workers and capitalists. This would be a sort of command state economy operating outside the capitalist monetary system (perhaps a feudal system but with a modern state). As Warren Mosler always jokes, in the old days you'd go to the pub for some drinks and wake up in the crown's navy with a big bump on the head. From this view, the use by the state of the monetary system to exercise claims on resources is a big improvement as one can choose to sell or to withhold labor and other resources from the state's use. Join the navy if you want, but drink freely in the pub without worry that you'll be in uniform tomorrow.

To be sure, however, this development of the monetary system to be used for both production and allocation is not without negative aspects. It is difficult to conceive how organized prostitution as well as illicit drug “markets” could have reached their current level of development in the absence of the monetary system. (While one could imagine some one-off “sex for coke” barter, sophisticated and violent long-distance trade based on complex production chains would be difficult to organize without money.) As much of the “trade” in sex and drugs runs across national borders, it is unlikely that it would have been possible without well-organized currency exchanges and especially the international reserve currency in which illegal activities are priced. I'm sure the drug cartels thank Uncle Sam for providing the almighty dollar to lubricate their trade.

Still, on balance, the development of the monetary system must be beneficial. Government purchases what it needs and imposes liabilities (mostly taxes and fees today, not fines) to ensure a demand for its currency. In that sense, we say “taxes drive money.” While taxes are largely an involuntary liability, sales to government are largely voluntary. Exactly what one does to obtain the means of paying taxes (“money,” although technically taxes are paid using HPM, with payment handled by private banks) is at least in part discretionary. But, as they say, only death and taxes are unavoidable. Most people have to sell *something* to get the means of paying taxes.

## AN ALTERNATIVE TAX MEME

According to the orthodox meme, taxes are bad—the far right views them as outright theft—so the lower they are, the better. Most view taxes as necessary to “pay for” government spending, but again since in the conservative framing, government does next to nothing that is useful, this represents a redistribution from productive, private use to public waste. Hence, again, it is best to keep taxes as low as possible to “starve the beast” and to keep the private sector humming along.

Yet, from the state money view, the monetary system that we’ve actually inherited is a state money system. And from that framing, the most important purpose of taxes is to create a demand for the state’s money (specifically, for its currency). Further, as we’ll see below, the state really does not *need* tax revenue to spend and in fact really *cannot* spend tax revenue. Our meme: taxes create a demand for the currency, ensuring willing sellers of goods and services for money.

Taxes serve two other important purposes, too. They can be used to regulate demand—by increasing costs and reducing net income. This is especially important as the economy reaches full employment; if the government continues to increase its resource intake it will drive up prices unless it reduces nongovernment use of resources. And sin taxes are used to reduce socially undesirable behavior (or tax credits are used to reward good behavior).

Another use of taxes is to prevent accumulation of wealth over generations—the so-called “death tax”—although it is doubtful that in practice inheritance taxes are very effective (at least in the US where tax rates have fallen and most wealth is excluded thanks to exemptions, evasion, and legally-sanctioned avoidance). However, Jamie Galbraith has argued that inheritance taxes do drive charitable contributions—including university endowments—which supports a large non-profit sector serving the public interest alongside government. So, to some degree, inheritance taxes can be used to drive resources to the charities.

So in addition to driving money, taxes can be used to further the public purpose.

We can examine in some detail three examples of use of taxes to further the public purpose: favorable tax treatment of mortgage interest, tax advantaged saving, and payroll taxes to “finance” social security.

All of these have unintended and perhaps undesired consequences, and may not actually be in the public interest. The mortgage interest deduction is widely believed to increase house prices. By lowering net after tax monthly payments, it allows owners to take on more debt and thereby pay higher prices. The deduction might also increase the demand for housing, which if supply-constrained, also pushes up prices. Home ownership is also believed to be socially beneficial (promoting stable communities and providing a secure asset against which families can borrow to finance education or expensive healthcare). However, once home ownership is widely established as a nearly universal goal of households in a nation, it probably does not require a tax advantage—which may be more than offset by higher real estate prices, anyway. There is also the question about equity since homeownership and the benefits of the deduction are skewed to higher income families. For these reasons, it is not clear that the deduction is in the public interest.

Favorable tax treatment of saving—whether in individual retirement accounts or in pension funds—increases individual desire to save. However, as we know from Keynes, that leads to the paradox of thrift: increased propensity to save reduces aggregate demand and thus income so that saving actually does not increase. While thrift is a private virtue, it is a public vice. Nor is it even possible to provision for future retirement through financial means—as J. Fagg Foster (following Keynes) put it so clearly.<sup>9</sup> Financial saving cannot transfer aggregate purchasing power from the present to the future. The financial “sinking fund” can actually make it more difficult to provision in the future, by depressing demand and thus investment in capacity today. Only investment, today, in productive capacity can actually help to provision for the future. And, as Keynes insisted, saving does not “finance” investment—indeed it is better to see investment as “financing” saving in the sense that the income to be saved is generated by the investment spending. Again, Foster’s take on this is informative: saving is the pecuniary accounting of the investment. It looks like this is another poorly designed feature of the tax system.

With that in mind, let us look at the third example: imposing payroll taxes to “pay for” social security retirement. While the US Social Security program began as “paygo” (revenues set to more or less match benefit payments through time), after 1983 it became “advanced funded” with taxes set high enough to accumulate a “trust fund” (sinking fund) to be drawn

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<sup>9</sup> See Foster (1981).

down in the future. We won't go into all the problems here, but let us focus on three topics: the undesired consequences of taxing wages and salaries, the accumulation of trust funds, and the belief that taxes "pay for" benefits.

The US payroll tax as designed is flat up to a base income after which it drops to zero. Hence, overall it is a regressive tax. It is applied only to income derived from work, and taxes both employees and employers. Hence, as supply siders would say, it drives a "wedge" between the cost of labor and take-home pay. It reduces both the incentive to work and to hire labor. To the degree that this actually does reduce employment and output, the payroll tax makes it harder to provision for retirees in real terms—both today and into the future if investment is thereby reduced. In spite of what my teenage son thinks, work is not a sin that we want to reduce, so why tax it? Obviously, reduced employment is counter-productive to the purposes of the social security program—supporting retirees with real goods and services. For the reasons discussed previously, a sinking fund makes this even worse. So accumulation of a trust fund not only *cannot* add to "national savings" that can be drawn down in the future to support aged persons, but it might even reduce national saving through the paradox of thrift's effects on investment.

And finally we turn to the main conventional "tax meme," the notion that taxes are needed to "pay for" government provision of services and "entitlements" like Social Security. This meme is adopted by both conservatives and liberals, but it suits only the purposes of the conservatives. It is a disaster for progressives. And it is wrong.

Conservatives have used this meme to great advantage since the early 1970s, as they successfully changed the framing of taxes from "the price we pay for civilization" to something closer to "fee for service" payments to government made by "stakeholders." This was important in the US for the "devolution of government" in which primary responsibility for many government services was moved from the federal to state and local governments. (In the US, since 1960 the federal government has not grown relative to GDP, while state and local governments grew rapidly until around 1980 to become approximately two-thirds the size of federal government—reflecting the devolution trend.<sup>10</sup>) In many cases, these extra responsibilities were imposed on state and local governments without federal funding—"unfunded mandates." That necessitated local tax increases that were sold on the basis that they would pay for enhanced services—which were typically targeted to middle class homeowners.

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<sup>10</sup> See Wray (2005).

That promoted the view that taxes were paid in exchange for government-provided services, some of which were targeted to the “stakeholders” (suburban homeowners) who paid the taxes.

At the same time, social welfare “entitlement” spending grew (some due to “unfunded mandates”). Aided and abetted by Daniel Patrick Moynihan’s “culture of poverty” thesis, the taxpaying stakeholders grew increasingly angry that “their” taxes were being used to pay welfare to the “undeserving.” Problems were compounded by white flight from cities to suburbs and from public to private school. Parents of children in private schools objected to “their” taxes going to support public schools attended by the children of “others” (often of other racial or ethnic backgrounds).

Candidate Romney’s candid dismissal of the “47 percent who don’t pay taxes” reflects the orthodox tax meme: “those” people are not worthy of our attention because they are not stakeholders in our society.<sup>11</sup> President Reagan successfully framed the social safety net as supporting “welfare moms driving Cadillacs,” while President Clinton “ended welfare as we know it” by setting lifetime limits on support for poor families with children in order to wean them from the public teats.

The point is this: if taxes are seen to “pay for” government, then the stakeholders who pay more ought to get more from government. Progressives *cannot* win within this frame. Everyone knows what “pay for” means—we all go to the shopping mall, and we pull out our wallets to “pay for” the Gucci handbag. You do not grab the bag and look around for someone else to pay. “Hey bro’, I’m a bit short today; can you spare a few hundred to buy this for me?” No, if you cannot afford the Gucci you buy the Wal-Mart store brand made in China.

It does little good to argue that those who can “afford” to pay taxes ought to do so for the benefit of those who need welfare. That is what the charity meme is for. Of course we all ought to give to charity—from each according to ability to each according to need. If the tax system comes down to charitable contributions, then it should be based on voluntary contributions. Good luck with that! The mixing of these memes will at best lead to confusion, but more predictably it will lead to tax revolt and social spending cuts. (*Ex post* predictions are relatively

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<sup>11</sup> In fact, Romney was actually overly generous—it is pretty easy to make the case that a much higher percent of Americans are “deadbeats” when it comes to paying federal income taxes—their incomes are too low—although payroll taxes hit virtually all who work. The bottom 90 percent of the population contributes an insignificant proportion of federal income tax revenue. See L. Randall Wray and Pavlina R. Tcherneva, “Romney: The Little People Don’t Pay Taxes,” *New Economic Perspectives*, September 19, 2012, <http://neweconomicperspectives.org/2012/09/romney-the-little-people-dont-pay-taxes.html#more-3356>.

easy to make—that is precisely what happened after 1980. Liberals are still struggling to come up with a response.)

We need new tax and spending frames.

## **ALTERNATIVE SPENDING MEME**

At the level of the national government, taxes don't pay for nothing. As discussed, they serve three purposes: they drive money, they prevent excess demand, and they influence choice. All of these are within the proper purview of public policy; all have substantial social benefits. We need to stress these, and discard the conservative tax meme that taxes pay for government.

Now, at the local and state (or provincial) level, government is a “user” of the currency, not an issuer. It needs an income, including tax revenue, bond sales, and federal government “transfers” (or “block grants”). That is true. As discussed, promotion of the stakeholder view is a slippery slope, but for some government services it may not be too dangerous: police and fire services, garbage collection, toll highways, and so on, where benefits are fairly easy to see and are widely shared. But the conservatives brilliantly took advantage of the devolution of government in the area of social services. As the federal government underfunded social services in the face of growing inequality and an aging population, the burden on state and local government increased. The “welfare queen” framing of the social safety net pitted stake-holding taxpayers against undeserving loafers demanding “entitlements.” Hence, welfare was ended by Clinton—just as it took a Republican to initiate *détente* with China, it took a Democrat to end a half century of safety nets for the poor.

The biggest loser, however, was Social Security. It had long been sold as an insurance scheme: workers “pay in” to a fund that they draw down on retirement, with benefits linked (somewhat loosely) to earnings. That made it easy to produce “money’s worth” calculations and as well to estimate the program’s “solvency” over periods up to 75 years! For the first half century of the program’s existence, money’s worth was good for most workers as the payroll tax rate was low due to the relatively young demographics of the American workforce. Over time, tax rates rose in part due to slower economic growth and in part due to changing demographics. At the same time, the program’s long-run “solvency” came into question—leading to the transformation mentioned above from “paygo” to “advanced funding.”

In truth, Social Security was never an insurance plan, but rather an “assurance:” you work today to support yourself as well as seniors, and when you retire the workers of the future will take care of you. Really, there is no other way, since as we discussed above there is no way to financially provision for the future at the aggregate level. Tomorrow’s consumption will come out of tomorrow’s production. But here’s the problem: liberals and progressives bought the conservative meme. They believe that the conservative tax framing protects Social Security: “I paid into the Trust Fund through my taxes, so I deserve retirement benefits.” With that framing, Social Security is doomed. On narrow “money’s worth” calculations, Social Security is already a bad deal for many middle class workers, and it has always been a bad deal for high income workers (who don’t want the insurance, anyway).

All the conservative scare tactics work and are at least grounded in some truth if one accepts the meme that taxes pay for benefits: tax rates will have to rise, benefits will have to be cut, and retirement ages increased to maintain program solvency; Social Security won’t be “there” for today’s young workers, who would be better off taking their money elsewhere. The best that “progressives” can do is to say that the future tax revenue shortfall is “only” 25 percent of promised benefits—which only whips up fear in the listener who imagines a future retirement at three-quarters pay.

I watched in horror as some of the most prominent progressives fought tooth-and-nail *against* President Obama’s payroll tax holiday on the argument that payroll taxes *protect* Social Security’s future! As if what Americans love about the program is the tax they have to pay.

Bruce Springsteen knows something about framing.

*We take care of our own  
We take care of our own  
Wherever this flag's flown  
We take care of our own*<sup>12</sup>

Here’s the alternative meme on the social safety net. We don’t let old folks sleep on the street. We take care of our own. We don’t let children go hungry. We take care of our own. We don’t exclude the 47 percent. We take care of our own. We’re all stakeholders in this great nation. We take care of our own. White, black, brown, yellow and red, we take care of our own. Young or old, healthy or sick, we take care of our own.

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<sup>12</sup> Bruce Springsteen, *We Take Care of Our Own* (New York: Columbia Records, 2012)

Here's the alternative meme about taxes and government spending. We pay taxes to keep our currency strong. A strong currency keeps our country strong. A strong currency and a strong country ensure that we can take care of our own. We need a good government to help us take care of our own. We need good public services and infrastructure to keep our country strong so that we can take care of our own. Our government spends to keep our country strong so that we can take care of our own.

If government doesn't spend tax revenue, how does it finance its spending? It spends its currency into existence. In modern economies, this is accomplished through keystrokes that credit bank reserves, with banks crediting accounts of recipients. A government that issues its own currency can never run out of keystrokes. Sovereign government cannot be forced into involuntary insolvency. It can always afford to make all payments as they come due. It can always afford to buy anything that is for sale for its own currency. It can always financially afford any spending that is in the public interest. It can always afford to take care of its own.

Anything that is technologically feasible is financially affordable. It comes down to technology, resources, and political will. We've got the technology to take care of our own. We've got the resources to take care of our own. All that is missing is the political will. We need the right meme to quicken the will.

Even the institutional home to Milton Friedman's version of monetarism, the St. Louis Fed understands these points about sovereign "affordability." Two of its economists wrote:

As the sole manufacturer of dollars, whose debt is denominated in dollars, the U.S. government can never become insolvent, i.e., unable to pay its bills. In this sense, the government is not dependent on credit markets to remain operational. Moreover, there will always be a market for U.S. government debt at home because the U.S. government has the only means of creating risk-free dollar-denominated assets.<sup>13</sup>

Sovereign government spends the currency into existence. It cannot run out of money. It cannot be forced to default. It never needs to either tax or borrow its currency in order to spend. It is never subject to the whims of bond vigilantes. It can afford anything that is for sale in dollars.

That's our state money meme: The currency-issuing sovereign can afford to buy anything for sale in its own currency. Duh!

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<sup>13</sup> Brett W. Fawley and Luciana Juvenal, "Why Health Care Matters and the Current Debt Does Not," *The Regional Economist*, October 2011, <http://www.stlouisfed.org/publications/re/articles/?id=2157>.

Government can no more run out of money than can the scorekeeper at Fenway Park run out of runs to award the Boston Red Sox.

In our modern economy, government spends by “keystrokes” that mark-up the deposit accounts of sellers. In practice, because banks handle the records of debits and credits for us, bank reserves are increased, and banks increase our deposits whenever we receive a payment from government.

Government cannot run out of keystrokes.

### **ALTERNATIVE FRAMING ON INFLATION**

The question is not about affordability but rather concerns effects on the value of the currency and impacts on the pursuit of private interest. As Stephanie Kelton says, cash registers do not discriminate: they do not care whether that dollar comes from government spending or private spending. If something is in scarce supply, more purchases of it by either government or private buyers might push up the price. A government purchase of something that is scarce can “crowd out” a private purchase. Government purchases need to be, and can be, planned to avoid undesired crowding out and price pressures.

Where the public purpose trumps the private purpose (say, use of rubber in WWII), government has at its disposal a number of options to reduce price pressure, including patriotic propaganda and rationing. It also has the big gun: taxes. An excise tax raises the cost to private buyers; an income tax reduces disposable income to free up production for the public purpose. In those cases, the tax hike keeps the currency strong. It is not needed to “pay for” the government spending, but to avoid the crippling effects of high inflation.

Progressive taxes can be justified on the basis that higher income people pose a much greater inflation threat than do low income people. Cash registers don’t discriminate. Rich folk take more dollars to market, and their spending cannot be planned, budgeted, coordinated in the way that government spending is done. And their spending is largely discretionary, not essential to daily life. Indeed, as one group of rich folk ramps up conspicuous consumption, other rich folk take up the challenge.

When resources are scarce, taxes on the rich need to be raised to protect the currency.

We don’t tax the rich to “pay for” government spending. Government is not in the position of Robin Hood. We never need rich folks’ money in order to provide for the poor. We

can keystone the bank accounts of the poor so that they won't be poor. We increase taxes on the rich only when their spending threatens our currency with inflation. Linking the two operations only reduces public support for helping the poor. And it's confusing. And it's operationally wrong. Progressives must stop linking the two—that only plays into the hands of the conservatives.

The rich also are much more likely to endanger the currency's value by pulling out of the domestic currency and running to safe havens at the first sign of inflation (as they are doing in Argentina now, creating pressures on the currency that raise inflation fears and fuel a cascading run out of pesos and into dollars). We need progressive taxes and inheritance taxes to protect our currency from antisocial behavior by the rich.

There is also a strong argument to be made for using taxes on the rich—especially capital gains taxes—to discourage sins of various kinds. The sin of speculative excess. The sin of usury. The sin of conspicuous consumption of prestige goods and services. And the sin of excess inequality.

Most important: the goal of taxing the rich has nothing to do with raising government revenue. Taxes are used to keep the currency strong and to punish sin. An ideal sin tax raises no revenue because it eliminates sin. While we cannot achieve that ideal, we can make sin less enjoyable. It is fitting that those who already enjoy all the benefits of life at the top ought to suffer more when they are sinful. Don't tax the sin of the worker who enjoys the occasional six-pack of brew. Go after the real sinners—those with the wherewithal to engage in truly anti-social sinning—speculative and consumption excess.

## **A MEME FOR DEFICITS**

When government spends more than it taxes, we not only get the services and infrastructure that we need but we also get to accumulate net financial wealth. We are richer in both real terms and financial terms. Government also offers to pay us interest on that financial wealth if we prefer to hold treasuries rather than HPM. Government spending greater than taxing should not be called a "deficit," rather, it is government's contribution to our saving; government bonds are not "debt," they are our net financial wealth. Deficits and debts are bad framing; saving and wealth are good framing. The clock that used to sit in Times Square doesn't record our national

government's debt; rather, it shows our net financial wealth. President Obama has added trillions and trillions to our financial wealth, making up for some of the losses Wall Street imposed on us. Thanks Uncle Sam!

Of course, as discussed above, government can spend too much—even if it balances its budget. It might not leave sufficient resources to promote the private purpose. It might cause inflation and currency depreciation. But there is no automatic causal sequence running directly from a budget deficit to inflation. Indeed, to a large extent, the government's ex post budgetary outcome is not discretionary as it depends on the nongovernment sector's actions.

At the aggregate level, a government deficit is offset by (and identically equal to) a nongovernment surplus; and a government surplus is offset by a nongovernment deficit. The government's budget can "balance" (spending equals taxes) only if the nongovernment sector's budget "balances" (spending equals income). The nongovernment sector's balance is complexly determined (and indeed depends partly on the government's actions), but we can take it as at least somewhat discretionary. To the extent that the nongovernment sector (which includes the domestic private sector plus the "rest of world" that includes both foreign governments and private sectors) exercises discretion over its budget, it means the government's budgetary outcome is *not* discretionary.

The government and nongovernment are thus inextricably bound in an inescapable *balance*. It makes no sense to talk about a government deficit as either *imbalanced* or *unsustainable*. A government deficit will result if the nongovernment sector has a surplus—a perfect balance—and can persist as long as the nongovernment sector wills it to be so—a perfectly sustainable balance. Balances balance! Of course they do.

Calls to cut the government's debt are, equivalently by identity, calls to cut our net financial wealth. Fiscal Austerians are, by definition, wealth destroyers. And they are not just any wealth destroyers: they destroy the safest and most liquid kind of wealth we can hold—government IOUs. We like it when the government owes us. Why on earth do the Austerians want to turn the tables, reducing the number of "Government-Owes-Me's"—would they be happier if we all owed the government? Holding a Government-Owes-Me is like holding a "Get out of Jail Free" card—if worse comes to worst, I can pay my taxes or other bills and stay out of jail.

## **A MEME FOR THE MONETARY SYSTEM**

The monetary system is a wonderful creation. It allows for individual choice while giving government access to resources needed to allow it work for us to achieve a just society. The monetary system spurs entrepreneurial initiative. It finances, organizes, and distributes much of the nation's output. It is one of the primary mechanisms used by government to accomplish the public purpose. There could be a better way to organize production and distribution. There could be a better way to allocate resources between public and private. There could be a better way to induce the private to serve not only its own interest but also the public interest. But if so, we have not yet seen it—at least not since the end of tribal society, and I'm not sure I want to go back there.

To be sure, the monetary system cannot and should not do everything. While capitalism tends to extend the monetary sphere into an ever larger proportion of our social provisioning processes (“the economy”), that can be carried much too far. There are areas that need to be kept off-limits, including many functions within the purview of government. We pay our judges and lawyers, but we do not want them to sell judgments to the highest bidder. We let our candidates for higher office accept campaign funds, but we do not want them to sell themselves to contributors.

As we push this progressive meme, we acknowledge that we deserve a better government than what we've got—and what we've had even when at its best. Many of those in government serve private interests, not the public interest. They've been bought and paid for. The monetary system provides the power to do good, and the power to do bad is the other side of the coin. Still, even a largely bought and incompetent government (remember “Heckuva Job, Brownie”—in charge of President Bush's rescue of New Orleans after Katrina?) is better than no government. Even the highly suspect bail-out of Wall Street in the aftermath of the Global Financial Crisis was better than no policy response at all. A better government can serve us better (compare the Obama administration's handling of Sandy to Bush's handling of Katrina). Perfection is hard to achieve, but not necessary to attain some success.

We have a better chance of getting a better government if we choose a better framing. We need better memes for our economics. As Robert Heilbroner told me (while declining to write a blurb for my 1998 book): money is the scariest topic there is, and your book is going to scare the hell out of the reader. He was right. We need to stop scaring their readers. I know from

nearly a quarter-century of experience that the framing and memes used by those of us who have developed MMT standing on the shoulders of giants (mostly, Post-Keynesians and Institutionalists) need better framing. It isn't enough to be right.

More generally, progressives need to drop the conservative framing; they need immunization against the conservative meme viruses. They need a new meme for money. I don't pretend to have found the right one(s). But I hope to have contributed to the initiation of a discussion.

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