

Is Modern Monetary Theory's prescription to spend without reference to tax receipts an invitation to tyranny?

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ABSTRACT

A set of policy prescriptions based on Modern Monetary Theory (MMT) have been developed that are independent of the monetary model, which are often presented together, in a context that does not require taxation: guaranteed income, job guarantee and full employment. These are enabled by the ability of a government to deficit spend as needed, as long as government controls its sovereign currency.

Here I raise the concern that implementing MMT accounting could cause increases in political power inequality relative to citizens not seen since the medieval era or before. The assumption that spending and tax policy in an MMT system would occur as proponents expect is contradicted by the history of political choices regarding spending and taxation over the past half-century. The record of behaviour by politicians in the nations where foreign aid money “fell from the sky,” thus divorcing national income from the tax base, also contradicts this idea.

With removal of the formal requirement for taxation, politicians operating in an MMT system will have little inherent reason in the short term to treat citizens well except moral suasion. This should provide a foundation for tyranny unparalleled in modern history. Incorporating progressive taxation into MMT's corpus, for the express purpose of economic and political stability, is suggested in order to achieve the overall aims of the MMT policy advocates. However, this may not be sufficient. In addition, considering increasing the role of governors/leaders of states within the monetary unions may be useful, because those governments do need to follow the old rules of taxation to support spending, and this may provide a counterweight.

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JEL CLASSIFICATION INDICES

B59, H50, H56

1. INTRODUCTION

“Economists can only recommend policies: politicians are the ones who implement them, so an understanding of how political parties and governments operate, and how policies are ultimately adopted, is paramount. . . . Sometimes it has less to do with what is right for the country . . .” (Rochon – Rossi 2016:35)

Prior to the invention of fiat (e.g., the period of the gold/silver standard), taxes were necessary to finance nation-state spending, just as they are now with states and municipalities within nations. However, after going off the gold standard and conversion to fiat currency, this changed.

Beardsley Ruml’s 1945 address to the American Bar Association (Ruml 1946), is arguably the first formal declaration that taxes are not necessary for federal spending. In Ruml’s era, what has evolved into today’s Modern Monetary Theory (MMT) was termed “functional finance” and gained mainstream acceptance (Wray 2018). Ruml’s address is one of the foundation observations that led to MMT, however, this capacity for government to spend at will when borrowing from its own bank is not itself MMT.

1.1. Spending comes first – double entry bookkeeping applied to fiat currency system

MMT points out that in a fiat currency system, in order to tax, a government must spend; consequently, spending cannot require tax collection. In the MMT model, when money is spent by a government, it is accounted for as creation of money. Conversely, in MMT, when taxes are received by government, this is accounted for as destruction of money (Bell 1998; Fulwiler 2010). In this MMT model, essentially, government’s books are accounted for as if the government itself is a bank, and all spending by the government is a loan that creates money. Thus, like a standard commercial bank, when the loan principal (government spending) is paid down (government tax collection) the money created by that loan disappears from the books. MMT is essentially the application of banking’s double-entry bookkeeping to the entity of a sovereign government currency issuer.¹

Contrast the MMT accounting concept with the current system in which, to deficit spend, government borrows from its central bank and pays its debt out of taxes. In this latter case the

¹At this juncture, some may consider whether a particular fiat currency is accepted. For instance, in 1919, the Hungarian Commune council government could not force acceptance of its currency, and farmers kept using the old notes of the monarchy. This points to the role of politics in money, conforming to this aspect of Misesian theory. However, this is a separate matter from how a fiat currency functions if it is operating.



borrowed money gets destroyed when the principal is paid off to the central bank, but interest is retained.

MMT is founded on:

“...macroeconomic accounting identities, such as the often-cited sector financial balances equation in which the domestic private sector’s net saving of financial assets is by definition equal to the government sector’s deficit and the current account balance.”

“Given the accounting logic of the Fed’s balance sheet, changes to the Treasury’s account affect the quantity of reserve balances circulating—that is, government spending creates reserve balances, [while] taxes and bond sales destroy them.” (Fulwiler 2010:1,3)

Thus, conceptually, in MMT the destruction of money when taxes are received is analogous to the destruction of money by cancellation of principal when loans are repaid. This may put MMT into a category of analysis opposed to the monetary circuit theory, as this theory does not necessarily destroy money when a loan is paid (Ganchev 2013; Keen 2009).

1.2. Money creation

Within the current monetary system, creation of money is preceded (if only by moments: by creation of debt (Gardiner 2006)). In truth, this has always been the case, as even precious metal coin represents a government declared transferable debt that all are supposed to honour (Graeber 2011). That coin had a seigniorage difference from the face value benefiting the government issuer in most cases. The difference in seigniorage between coin and paper money, and between paper money and accounting representations, is a matter of degree, not kind, as even accounting or electronic representations carry a cost.

The USA has functioned as a deficit creator, borrowing from its Central Bank to pay its bills, since before Ruml. Ruml simply formally recognized what was already being done in a fiat currency issuer context.

As of close of 2019, the US treasury debt is over 100% of GDP, up from 55% in 2000 (Federal Reserve Economic Data, FRED 2020a) without causing inflation. Japan has a national debt over 230% of GDP, up from 100% in 2000 (FRED 2017), and has sustained high debt without major toxic effects in its economy. Since 1945, most politicians understand that they can spend in deficit without grave penalty – if they borrow from their own nation’s bank in their own currency. However, in the current system of government accounting, taxes are a necessity, if for nothing else but to service the debt.

1.3. Taxes in MMT

MMT does suggest some level of taxation for anchoring the currency but eliminates income tax (Mosler 2008). The logic to elimination of the income tax is that Mosler thinks that ending the sale of treasury bonds is a more effective method of attacking non-productive rentier income (Mosler 2010). MMT, by contrast with the neoclassical model (and every other economic model) does not require taxation to support government. Instead, taxes may be levied to control inflation by diminishing aggregate demand. Taxes within MMT also act to enforce the currency by creating liabilities that can only be paid in the currency of the issuer.



“Why governments tax

...taxation functions to promote offers from the non-government sector of goods and services to the government sector in return for the necessary funds to extinguish legally enforceable tax liabilities. In this way, the imposition of taxes creates unemployment (people seeking paid work: in the non-government sector. We might think of this as taxes creating the real resource space (by reducing non-government purchasing power) that the government has to fill with government sector spending. The real resource space created by the taxes allows a transfer of goods and services from the non-government to the government sector, which in turn, facilitates the government’s economic and social programme.

We can think of the effect of imposing taxes as creating unemployed resources (including labor). Government spending then puts those resources to use in the public sphere. It would make no sense for government to impose taxes, causing unemployment, except to the extent that it needs to release resources from private use so that they can be employed in the public sector.” (Mitchell 2019: 355)

This justification for taxation comes from the neoclassical theory, which teaches that a role of taxes is to make room for public expenditure in *real terms*. This teaching is an outcome of the dynamic stochastic general equilibrium (DSGE).² This neoclassical DSGE model can hold true *only* when there is full employment in a static economy, with full utilization of the static resources.

For the DSGE, the problem is that resources in the real world are rarely static or at their limit except temporarily. Hitting a limit results in prospecting, opening of new mines, development of new technologies, building of new factories, etc., and employment limits, result in new technologies for labour replacement. Likewise, full employment today is not common to say the least. As per Hornstein et al., in the USA, full employment is laughable nonsense, as the real unemployment rate is higher (FRBR 2020). In addition, there are millions of people of prime working age that appear to be permanently off of the non-employed lists, even when applying the more rigorous Hornstein-Kudlyak-Lange measure. This is visible by a simple calculation of the number of working age adults (FRED 2020b), multiplying that by the employment rate (FRED 2020c), and taking the difference. For February of 2019, this yielded on the order of 40 million working age adults in the USA without visible jobs, approximately 20% of the potential workforce. Examining the FRED graphs (FRED 2020c), we see that in the USA, there has never been a time when employment rose above 82% of the working age population. Also, this ignores the obvious issues of severe underemployment and employment below a living wage in the current day US economy. Thus, within MMT, justifying taxation for the purpose of freeing up resources seems to be an unlikely prospect.

“...A fiscal deficit in one period is not paid back in some later period. Taxes in the future might be higher or lower or unchanged depending on the overall state of aggregate spending in relation to productive capacity. These future decisions about tax rates have nothing to do with ‘funding’ government spending.” (Mitchell et al. 2019: 355)

In these two passages from the above, we see that rather than government requiring taxes in order to have money to spend (or service debt), taxes, by creating unemployment and shortage in the private sector, necessitate spending. This is quite the opposite of government accounting and current beliefs about taxation. The closing paragraph makes it crystal clear that there is

²DSGE is a model which presumes that equilibrium has been established, and that full employment is true. However, the neoclassical theory has been painstakingly deconstructed and shown to be faulty (Keen 2011).



absolutely no requirement to tax in order to spend. In the short term, the lack of inherent necessity for taxes is one of the greatest appeals of MMT to the wealthy.

Even implementations of Marxism such as in China (Thaxton 2008), and before its collapse, the USSR (Nove 1972), imposed taxes to support the state. Thus, this feature of MMT not requiring taxes for government spending is unique among the economic models in this sense.

1.4. Taxation for redistribution of wealth

MMT *does not currently advocate, nor demand taxation for redistribution of wealth* for the purpose of addressing *inequality*. However, Wray would like to tax the wealthy until they are no longer rich, though this is not a formal part of MMT (Wray 2020).³ The redistribution of wealth through taxation is a fundamental feature of the neoclassical theory (Samuelson 1956; Mas-Colell et al. 1995; Keen 2011), but such wealth redistribution is absent from MMT (Wray 2014a). Redistribution taxation is no longer practiced as much as it once was, particularly in the USA (FRED 2020d), and despite its foundational position in neoclassical theory, it is rarely mentioned in public discourse today. However, I think that adding redistribution taxation to the MMT system is probably a necessity to stabilize the economy (Weller 2010), and to accomplish political stability (Acemoglu – Robinson 2012). The former reason is that taxation for redistribution lowers Gini, and thus, stabilizes demand growth. While Weller and Rao's argument is relative to the emerging economies, the same issues appear in the developed ones. Relative to politics, Acemoglu and Robinson's work shows that the more unequal economic hierarchies produce political instability together with worse economic performance. Barring this kind of taxation, other careful work must be done to prevent rentier gaming of the economy, although Mosler's concept of eliminating bond sales has a great deal of merit.

It is notable that the former communist nations have implemented flat-tax systems with the apparent intent to increase Gini (Ganchev – Tanchev 2019). The observation by Ganchev and Tanchev, that the formerly communist economies could be modeled with a 100% income tax rate and all wages were redistribution⁴, suggests that a 100% income tax also causes political instability. This political instability in turn suggests that there are limits to redistribution taxation's stabilizing effects. This 100% tax rate is similar to Wray's suggestion above to tax the rich out of existence, which does not differentiate between rewards for productive economic activity and the economic parasitism of rentiers.

1.5. MMT and banking

MMT presumes that the Central Bank still operates by setting rates for commercial banks, but that government creates money at zero interest. Otherwise, if commercial banks also have a Central Bank operating at zero interest, instead of influencing the economy with interest rates,

³Piketty justifies a similar flattening by assuming that return on capital regresses to a fairly high level, which, in turn, forces inequality to spiral upward (Piketty 2014). However, Schmelzing has published an analysis showing that the return on capital has instead trended down for 800 years, and he predicts permanent negative rates (Schmelzing 2020:13, Fig. 3). This removes the interest rate foundation of Piketty's argument, and could be seen as doing the same for Wray. However, bank interest rates are not the only return on capital.

⁴This income tax rate model is founded in Marx' "From each according to his ability, to each according to his needs."



this can only be done by raising taxes when normally there would be little or no taxation. *While theoretically sound, one has to wonder if raising taxes at will could be as politically feasible as modifying interest rates is today.*

Currently, the Treasury is not a bank. Rather, the Treasury department borrows from the Central Bank. And when the Treasury pays the Central Bank, 90% of the interest paid on the debt (in the USA) is returned to the Treasury by the Central Bank, which lowers the real interest rate the Treasury pays to 10% of the face value. Thus, it appears that MMT implies that the Treasury department merges with the Central Bank, whether de facto, or de jure. This is significantly different from the current situation. Thus, MMT simplifies the monetary circuits within government.

Another way of looking at MMT is that government spending represents a kind of debt that bears no interest, just as printing of the currency does. So, government can spend at will without the “flywheel” that is the national debt notes held by the Central Bank which require servicing of interest. This simplification in turn implies that the Central Bank’s role should be modified to be a clearing house and purchaser of assets for the commercial banking sector and whether it continues to handle debt notes such as Treasury Bills is an open question. Thus, in an MMT system there may be an interest rate governor available for the commercial banking sector’s money creation, but there is none on government’s money creation through spending – the latter idea is antithetical to MMT.

The concept that money issued by a government is a liability is just one model. Fiat money issued by a government without creating bond sales through a central bank, is not required to be a liability, it can simply be an asset for all, including the government that issued it.

1.6. MMT’s policy prescriptions

MMT’s political *raison d’être* in the present day is that MMT enables policy prescriptions for economic and social improvement. These policy prescriptions are separate from the MMT monetary model though often presented with the monetary model as part of MMT. These policies are intended as part of an overall address to the problem of *plutocracy* experienced by democracies such as the USA, which gives the wealthy outsize influence on governance (Giles 2007). The enablement of these prescriptions is founded on the ability of government to spend at will, and is demonstrated by the USA’s high level of deficit spending which has averaged \$834 billion/year from 2008 to 2018, with a highest level in 2009 of \$1.4 trillion. This enablement of spending allows these programs’ funding to be decoupled from the demand to raise taxes for the purpose of paying for them. However, MMT’s formal adoption is not necessarily required to accomplish these spending goals. A low interest rate environment is what is needed, and prioritization of this spending by government existed in the post-depression years.

These prescriptive policies advocate for several possible programs: universal basic income; a job guarantee; full employment; and elimination of taxation except as a governor on inflation (e.g., to support stability of/anchor the currency; rather than for revenue). In the USA, these policies may also include national health care and tuition-free higher education, which are already implemented in many OECD nations. Because these latter are already common elsewhere and well understood by most, I will not expand upon them.

1.6.1. Universal basic income. Universal basic income (UBI) is the right to unconditional support that is not means tested, generally identical for all except for an age criterion, and is only



given to persons. UBI might be sufficient for maintenance above poverty, or it may not. Basic income has a long history, harking back to the late 18th century, first appearing in the writing of Thomas Paine and Thomas Spence (King 2006). In modern times, Milton Friedman favoured a form of it (Friedman 1962). Hayek also advocated basic income as a defence of personal freedom (Burczak 2013). Cost and inflation have long been the criticisms of UBI, and MMT has apparently removed cost as an obstruction.

1.6.2. Job guarantee – full employment. The job guarantee targeting full employment is what the MMT economists advocate today (Wray 2014b; Paul et al. 2018). The job guarantee is similar to the 1946 Full Employment Act (Steelman 2013). In the job guarantee, the government would provide jobs through economic development and infrastructure spending, and also directly in a similar manner to the Depression era Work Projects Administration. While a criticism of the job guarantee is that this could become another form of wage slavery if there is no UBI, MMT has strong criticism of the UBI itself. Some of the highlights of that criticism are that UBI erodes the production process, may create inflation, undermines the currency, and harms collective provisioning (Tcherneva 2013).

1.7. Historical related precedents

While not MMT, the allies' use of deficit spending to win WWII, the 1946 employment act, and the subsequent economic boom of the 1950's–1960's era of functional finance (Salant 1973), are used as examples of what MMT can make possible. However, Hjalmar Schacht, head of the central bank under Hitler, also used deficit spending to make Germany's arms build-up spending possible (Evans 2005). This shows that the deficit spending aspect of the pre-MMT model stands apart from the purposes to which it may be put, which in turn indicates that the MMT monetary model likewise stands apart as well.

1.8. Introduction closing

In no sense should it be construed that I disagree with the MMT's analysis of the monetary system. It is a valid a model, and more streamlined than current operations and accounting. It is an alternative model of operation that logically holds together. My concern is with what I believe is a crucial monetary circuit, taxation, that motivates politicians to care for their nations as "enlightened self-interest". In the context of a conversion to the MMT accounting system, the tax circuit requirement to pay for expenditures and interest on borrowing disappears. I believe that formally removing the tax requirement risks a tyrannical outcome that is unique among the economic models and that there are indicators of this already visible. Thus, below, I examine the monetary circuits in politics that drive politicians.

2. MONETARY INCENTIVE CIRCUITS IN POLITICS

The incentives and motivations of politicians have not been evaluated relative to monetary circuits as part of the prescriptive side of MMT to date. So, I will examine the incentives of politicians and government in light of MMT. Wedel (1998) documented the negative effects of



overwhelming insertion of aid money, documenting an inverse relationship between aid and later economic health towards the end of the 1990s. In some nations aid dominated national budgets and/or provided corrupting influence in Eastern Europe in the 1990s. [Moyo \(2009\)](#) observed the same kind of issues in Africa. I dubbed this the time when “money fell from the sky.” Money fell in amounts that made taxation in these nations less significant, and in parts of Central Asia unimportant. I observed the effect on economies of the former USSR directly.⁵

I will also discuss the record of the US, and what the US has done with its great wealth, which is informed by my experience inside the political campaigning of a politician, and as a legislative advocate to the US Congress. The purpose of this discussion is to show that there are serious pitfalls to implementation that allow the MMT economic model to be turned to implementation of tyranny rather easily. Marxism also had unforeseen pitfalls in implementation.

My fundamental thesis is that the MMT model — that spending in the short term is not constrained by tax receipts — has significant risk of contributing to the rise of tyranny precisely by eliminating taxes as a necessity. This is because when taxation is no longer inherently necessary, it eliminates the near-term requirement that politicians care enough for their nation’s health that taxes can be paid. This also potentially inverts the relationship that now exists between politicians and plutocrats, with even the plutocrats becoming supplicants. The 20th century saw the rise and fall and evolution of some of the great tyrannies in history, and most of these regimes were similarly founded upon well-intentioned economic idealisms. This is further complicated by the fact that for fiat currency systems, the MMT model appears to be the correct one.

In the next two sections, for the purposes of understanding the motives of the politicians, and how that affects their relationship to their monetary circuits, let me set the stage and discuss matters that have bearing, which are not directly monetary in nature. Some might say that politics should be separate from economics, but I do not subscribe to this – politics and economics are always deeply intertwined.

3. POLITICIANS AND THEIR MILIEU OVERVIEW

Politicians in an ideal world would act based on intelligent principles, enunciate them clearly, and allow the voting public to choose which politicians will serve. These philosopher-senators would help all voters to the best of their ability and accept new evidence. They would not act against their principles, and would accept political defeat with equanimity, not modifying their positions to avoid being voted out of office. In practice, that is not how democracy works. In the real world, all too often, “. . .the best lack all conviction, but the worst are full of passionate intensity. . .” ([Yeats 1989](#): 186). Consequently, we must examine the incentives in which politicians operate.

While there are politicians who serve in this model of philosopher-senator to some degree, it is not a good way to stay in office in most locales. In addition, today, we see some of the leading apparent exemplars of the philosopher-senator politician advocating policies that many economists would say are based on wild misconceptions ([Schweikert 2017](#); [Risch 2018](#)). Their policies compete with policies of other politicians, most of which are similarly founded in ignorance. As one US senator eloquently stated, “Getting voted into office doesn’t require

⁵Disbursements of aid monies to Republic of Georgia between 1992 and 1999 averaged 97.4% of government tax revenue per year, with a peak in 1995 of 130.9%.



passing an intelligence test” (Chasse et al. 2004). It is unreasonable to believe that politicians will appear in the future that are inherently better than those we have today.

It is a commonly held belief by constituents that politicians should be more answerable to them, but this has serious practical limits. To start with, politicians do not have unlimited amounts of time to devote to constituents and fundraising if they are to govern. So those constituents who control the greatest resources for the politician are prioritized. This is a simple matter of the economic value of time. Oligarchs and plutocrats are able to enunciate exactly what they want, what they can and will do in return, they don’t waste time, and they understand social rules of order which make them pleasant to deal with. These also provide future career opportunities for politicians.

Ordinary citizens approaching politicians are often not at all clear, sometimes dangerous, and can be abusive for no reason except wanting to vent their frustrations. Meeting with them usually accomplishes little for the politician in terms of electability. Some of those self-selected parties are psychotic. Some have wound themselves up into such a lather they are impervious to reason, or they have latched onto delusional nonsense that motivates their approach. A significant role of a politician’s staff is to ensure that such people don’t bother the politician. This in turn tends to insulate the politician from the realities of the lives of constituents, which is, arguably, a potential stepping stone toward tyrannical behaviour.

I have also observed that even close friends of politicians may have weak impact on decisions due to the exigencies of perception politics and fundraising. This can even extend to matters of simple fact if it is in the politician’s electoral or fundraising interest to ignore facts brought to their attention by trusted parties that know them well.

It should be understood that in the arena of government, the monetary rules that are made and observed can create their own reality within (or in opposition to) the larger reality that regulates actual limits to what can function. I suggest that the way these rules operate should be examined carefully.

4. POLITICAL CAREER CIRCUITS

Continuing in the vein of setting the stage for understanding a politician’s world, let us consider that a politician has a career to consider, diagrammed in Fig. 1. Most have families to support, and the ideal of a politician who is willing to accept minimal salary in return for the privilege of doing the best job possible for the people is not realistic.

A politician has incentive to serve himself or herself over the course of a career, just like anyone else.⁶ This affects decision-making while in office in order to hold open doors in the future that might become available. At lower levels of office in the USA, various groups ranging from police, fire department and prison guards, to Greenpeace and a host of single-issue political committees may provide personnel for fund raisers, precinct walking, social media, and phone

⁶There are politicians who go back into private jobs with little influence or accumulate enough in office by insider trading to retire. However, the path shown is common for those who wish to make a career out of the skills and contacts that they develop. Hence, they are the most significant players.



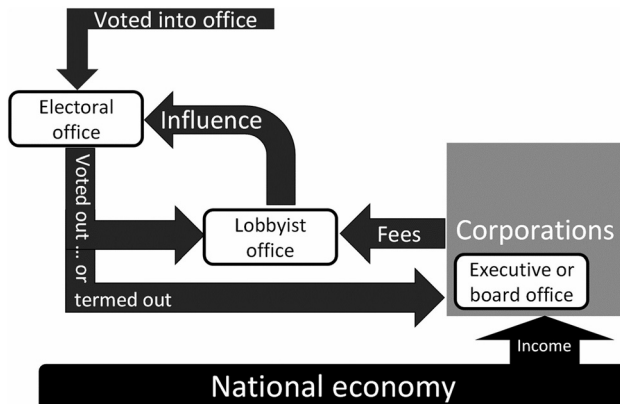


Fig. 1. Politician career path. Common politician career positions are shown in white with heavy border.

campaigns, along with endorsements, often making themselves quite effective gatekeepers for the low-turnout primary elections that enable candidates to actually run for office.⁷

Thus, at the lower rungs of political office where most politicians usually begin, it is common for single issue groups, ranging from public employees to pressure groups, to fundraise for politicians, endorse them, and staff political barbecues and parties. Public employees may desire raises and pension improvements. Single issue pressure groups at least get access to the legislator, and politicians must throw some sort of bones to the groups. However, money is always a major driver in politics, even at the lowest level, so the plutocratic business relationships tend to get the lion's share of the benefits.

This gatekeeping function prevents voters from seeing politicians in general elections who don't play the game from the start. Then, to stage an effective campaign, particularly in the first few elections for any major office, the politician usually has relationships with deep pocket donors and other political operators that are generally in the plutocrat class. It is rare that a plutocrat runs for office and wins. The temperament required to succeed as a plutocrat, and their tendency toward a blinkered, narrow view of the world, makes it difficult to cross over into politics. Thus, oligarchs and plutocrats usually make use of politicians as professionals. In our current world, oligarchs and plutocrats act as the masters that politicians serve to a great degree.

These financial/logistic support relationships set up financial and barter circuits within politics, with politicians, the specialist professionals, trading in the services they can provide. As explained to me by an unusually successful career lobbyist, the primary two games in politics are payback and middleman. An effective politician is good at payback (retaliation) as well as assessing which parties will do him/her political harm if not cooperated with. In the middleman game, if a politician can get conflicting parties to support him/her, then the politician can play them off against each other to force compromises that may be more in line with what the politician would prefer.

⁷This is a USA centric view. How politicians get elected in other nations may vary. However, usually, there are choke points in elections where smart players can insert themselves as gatekeepers.



5. POLITICIAN MONETARY INCENTIVE CIRCUITS OF PRE-MMT OLIGARCHY/PLUTOCRACY

...economic elites and organized groups representing business interests have substantial independent impacts on U.S. government policy, while average citizens and mass-based interest groups have little or no independent influence. (Gilens 2014: 564)

Once elected to office, a politician is surrounded by an oligarchic milieu of monetary circuits leading to votes as diagrammed in Fig. 2. The politician needs money and voters to stay in the office (Gilens 2014). A fundamental incentive circuit for the elected politicians to care for their nation is taxation to support the government and allow spending. The government spends money through the treasury and regulates the economy such that taxes will continue to be forthcoming to the government. This fundamental circuit creates a strong incentive for politicians, government officials and oligarchs to ensure that the economy provides enough citizens with a reasonably good living that they can pay taxes, and that corporations are provided what they need to continue paying taxes. If this doesn't continue, then the system breaks down.

Government spending seeds a great deal of economic activity (stimulus). The credit money created by that spending creates qualified borrowers, which in turn multiplies the effect of the spending through retail/commercial banking. When examined objectively, most of this economic stimulus appears to be accidental, and in the current austerity era, deliberate stimulus is anathema to a significant bloc of politicians, though it does occur.

Politicians make legislation and regularly earn profit from their foreknowledge of how that legislation will affect certain parts of the economy (Keith 2013). This can be a significant incentive to produce legislation, although application of public pressure can at least moderate that practice.

For the politician's career in office, what is most important is donations in order to be elected and re-elected. The candidate must raise funds to pay for everything from offices and campaign

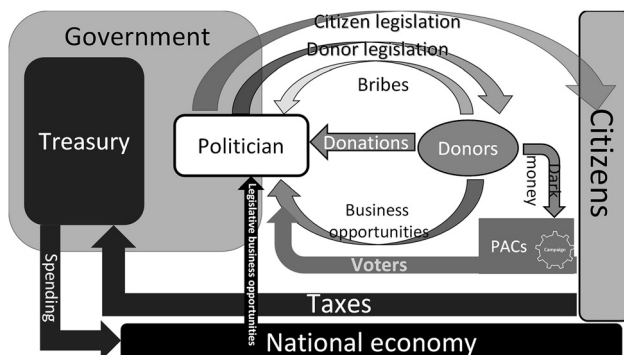


Fig. 2. Circuits affecting politicians. For the government which the politician serves, in the pre-MMT model, taxes support spending from the treasury. This helps fuel the national economy, which economy supports the citizens so that they can pay taxes. Politicians are beholden to donors, and must keep the economy going well enough that donors will support them.



staff to advertising. Money is at the core of any political campaign and a campaign for higher office is very expensive. In 2012, the average cost of a campaign for a seat in the House of Representatives in the USA was \$1.6 million, and a senate seat cost \$10.4 million. The most expensive senate campaign was John Corzine's unsuccessful run in 2013 that cost \$63.2 million (Rugg et al. 2016).

Donors provide funds, and while it rarely is directly stated, the *quid pro quo* is that if the politician does not do as expected, more funds will not be forthcoming in the future. Few will contest that influence can be bought. When I was advocating on Capitol Hill in 2004, I estimated a simple face-time with a congress person at \$10,000 per hour. I based this on what was required for my face-time and on talking to others. Pay that rate, comport oneself well and face-to-face access would happen as well as discussions with the congressional staff. I strongly suspect that the rate goes up non-linearly the less palatable the desired outcome is with the public. Political Action Committees (PACs) are also funded by powerful donor groups, and in some cases some very wealthy individuals. PACs deliver money with the assumption that money and advertising will deliver voters to elect a candidate.

Aside from simply staying in office, one of the more powerful incentives to politicians is business opportunities. These can take many forms, from insider information deals already mentioned, to jobs for themselves and relatives. The sinecure of a future job at the top of an influential corporation is a strong incentive, as is the job of the lobbyist. These latter incentives have become more important to politicians due to term limits, not less. Term limits in particular have strengthened certain perverse career incentives, possibly resulting in less responsiveness by politicians to the voters.⁸

In return, the politician provides special interest legislation, and the cost benefit for this is legendary (Chen et al. 2010). Few investments have a return as high as political investment dollars can be. The politician also provides legislation for the citizens of his district, his nominal constituency.

Donors also provide direct bribes to politicians. Bribes are a two-edged sword, because they can bring a politician down, so bribes tend to be sparse and hidden. When a bribe is accepted, the politician and the bribing agent are then locked in a deadly embrace. But the politician may have more to lose, depending on the crimes involved, because corporations can replace personnel that get sent to prison, and the return on bribes tends to be so high that fines to the corporation are affordable.

6. POLITICIAN INCENTIVE CIRCUIT CHANGES FROM MMT'S REMOVAL OF TAXATION FOR REVENUE

As seen in Fig. 3 compared to Fig. 2, the politician's monetary circuits change considerably with the adoption of MMT accounting. The tax circuit essentially disappears, with no inherent governor on spending. With this change, the politician holds the leverage in the donor/plutocrat relationship, and calls the tune, inverting those relationships. There is, in such a system, no

⁸Perverse incentives created by legal restrictions on political campaigns, from donor limits to term limits, appears to be a wide-open area for research.



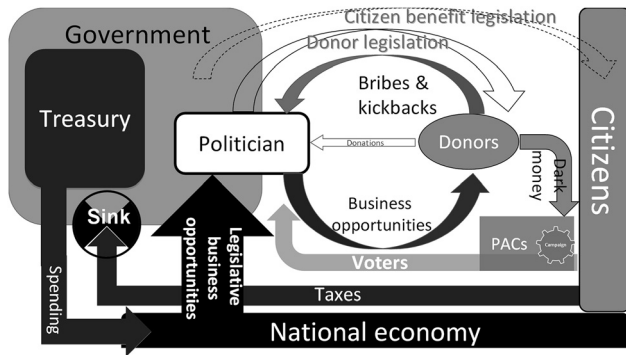


Fig. 3. Probable MMT effect on circuits affecting politicians. Compare this diagram with Fig. 2. Spending still flows from the treasury, however, taxes are optional, and only used to drain excess money from the economy to control inflation, as symbolized by the sink symbol. This reverses the flow of the business opportunity circuit to now flow from the politician providing money to the “donors”. Legislative business opportunities expand greatly. The politicians have ultimate control over all funding. This, in turn, greatly weakens the power of donations, as indicated by the smaller “Donations” arrow. In fact, a government operating this way can do virtually anything it wants without fiscal reins on it. It can entirely eliminate the democratic mechanisms for control and probably pauperize any entity that fails to go along. I strongly suspect that entirely new circuits will be established that most would consider pathological relative to human rights and economic equality.

inherent reason anymore to be interested in a strong economy for any but the elite, and the politicians should in short order become the elite. I think that in the USA there are already signs that we are evolving in this direction of politician plutocrats (Williams 2020).

The step into tyranny requires the elimination of, or control over, elections. Gaining control of elections by the kind of means currently visible in the USA is possibly sufficient. In recent years, prior to the 2020 elections, those means have included: disenfranchisement of voters by various means (Safstrom 2017; Berman 2017), gaining control of a party’s entire budget by one candidate through secret contract (Detrow 2017), super-delegates that vote as party bosses desire to ensure certain candidates can’t be nominated (Jacobs 2016), and rigging of debate eligibility rules (Axelrod 2020). Whether there is a major voting machine fraud is an open question. There are certainly suspicious signs such as polls that radically disagree with the results.

7. HOW HAVE GOVERNMENT SYSTEMS WITHOUT FUNCTIONAL TAXATION WORKED?

In the period after the breakup of the USSR, Janine Wedel discussed at length an inverse relationship between the amount of aid the nations received and the health of the economy ten years later (Wedel 1998). Aid in the form of loans also provides mechanism for enclosure of valuable resources by neo-colonial methods (Vasudevana et al. 2008).

One can model this in thought by asking: what would happen in the US or the nations of the European Union if a nation with radically different values, culture, and language were to funnel

\$6.5 trillion per year into the hands of individuals who gave lip service to their ideas and spoke their language? Such amounts seem incredible, but similar ratios of aid and international loans to national budgets occur in the developing nations. With jurisdictional problems in law enforcement rendering prosecution of thievery, embezzlement, and even murder near impossible, kleptocratic opportunities abound in these circumstances (Moyo 2009; Hanley 2007).

In my experience in the former USSR, it was obvious why this inverse relationship developed as Wedel described. The aid money so overwhelmed those nations that the way to become wealthy became a game of gated access to this money stream. This was greatly aided by an ability to defraud or influence the aid- and loan-granting authorities. Further complicating this situation was (and still is) the lack of legal venues and lack of treaties to file complaints or prosecute, even when abuse was brazen. This in turn meant that honest people fell to the bottom, and the corrupt vaulted to the top of the hierarchy of power, where many remain.

I witnessed politicians operate by allocation of opportunities for graft, smuggling, and various criminal high-return enterprises, with the understanding that the politician, and sometimes, branches of government, would receive a cut in return. The latter is similar to taxation, but off the formal books of the taxing agencies.

In these nations, during the period when “money fell from the sky,” taxation was not required to feed the treasury of government. I saw how politicians were put into the driver’s seat relative to those who would usually be their influencers or masters – reversing the direction of the relationship that exists today in the US and the rest of the developed world. When incredible amounts of money are falling into, or gated through, the hands of politicians for distribution, their impulse is to use it to assert power, and to feather their own nests.

8. APPLICATION OF THESE OBSERVATIONS TO THE WESTERN DEVELOPED NATIONS

In the US, after the 2008 banking crisis that precipitated the Global Financial Crisis (GFC), large, well-connected, and wealthy banks, corporations, and their CEOs were not investigated nor prosecuted for criminal activities. Those activities of major US banks ranged from deliberately defrauding buyers of securities (Wyatt 2011) to mass falsification of documents (Brescia 2011), and apparent falsification of securities ratings.

In the US there has been a large increase in inequality as tax rates on the wealthiest have plummeted since 1970 (Domhoff 2011). I don’t use plummet lightly. I have been advised of cases such as individuals with a gross income of over \$10 million paying tax of just over \$6,000 in the post-2008 period. That is a net tax rate of 0.06%. In the US, the nominal tax rates are just the starting point, and real tax rates for the wealthiest can be astonishingly low.

9. DISCUSSION

When politicians control purse strings, and because of the demise of the taxation circuit have no inherent control on them requiring them to tax in order to spend, what incentive do they have to spend money in ways suggested by the MMT proponents? In the US, we have the limited example of the depression era Work Projects Administration (WPA), and our current quite



limited social safety net that is continuously under attack by ideologues. In Eurasia, there are the examples of the USSR and China providing these guarantees. Programs reminiscent of the MMT prescriptions are now limited to the social safety net of various European nations, although a job guarantee has disappeared, even in China, where it has been replaced by economic development intended to create full employment.

Hudson et al. (2020) decry the “abuse of MMT” by politicians, holding up the financial sector capture of bailouts by banks and the Wall Street capture of political influence to inflate stocks, as a travesty of MMT. Thus, I think that strong arguments should be presented for why politicians would execute the MMT-inspired prescriptions and do so in such a way that it would turn out as intended. Those arguments need to go beyond ideological conversion and moral suasion. There is little evidence that such progressive arguments have worked reliably; why should they work just because the MMT model is accepted? I believe these two things are independent.

So, let us ask the question: What would the politicians in the US be expected to spend money on if there were no believed limit?

If we examine the record of the US during the period from 1980 up to the 2008 GFC, which was nearly two generations of mostly economic expansion with relatively mild recessions, we see two major areas of spending increased: incarceration (Travis et al. 2014), and intelligence services (Aftergood 2014) with military expenditures mostly holding steady at a high level. Except for federal prisons, incarceration costs were paid with tax monies.

The US incarcerates 25% of all prisoners worldwide with 5% of the world’s population. The incarceration rate per 100,000 rose from roughly 200 in 1940, to 750 in 2010 (Schmitt et al. 2010). With felony convictions often comes disenfranchisement of voting rights, removing these from the political process. This should give us a pause for reflection when considering what the government that holds itself up as the template of a free nation has done when large amounts of tax revenues were available to spend with little hindrance.

The US has created the largest, or at least most expensive, spy system the world has ever seen (Elliot 2013). The capabilities of this system include surveillance of virtually every activity that a person might do on the internet and phone system (Landau 2014). Turning to the military, the total defence budget for 2019 comprised \$693 billion (OUSD 2019: 6), which was paid for with deficit spending.

We can also look at what has been cut by legislatures across the US over the 38 years prior to the GFC. Social services and support for education were targeted. A movement demonizing government social programs is strong. Within my lifetime, cost of higher education has become a heavy burden on the young who wish to attend college (Ratcliffe et al. 2013). Instead of mental health services we now imprison many of the mentally ill because we leave them on the street (Raphael et al. 2013).

During the period of highest tax revenues, most voters neither knew nor cared what happened as long as the problem-children were locked away, out of sight, and their own were treated preferentially due to their superior socio-economic status. Those that are extremely wealthy exhibit the same lazy convenience of conscience. This is the lifestyle of the landed gentry of past centuries as well. So, I think we should ask very hard questions about why we should expect that legislators will change historical priorities if they no longer believe taxation is necessary to fund spending. The fiat money central bank deficit mechanism is already known and used, and it has gotten us to this current peak of inequality.



Turning to Europe, we can observe what was done there to respond to the GFC of 2008. That response comprised austerity for the peripheral nations, and maintenance for the core. That policy had the effect of encouraging younger people, particularly those with education, to migrate to the EU's core, which in turn helped to alleviate the demographic age problems of the core nations. It also created bargains for the citizens of the core to buy in the peripheral nations. What this shows is that we must be careful to examine potential perverse incentives. In the introduction, [Mitchell et al. \(2019\)](#) stated that it made no sense for a government to create unemployment deliberately. Here we see an instance where apparently deliberate creation of unemployment through fiscal policy has made perverse sense. This should inform us and give us a pause. The perverse incentive area of economics tends to be lightly trod, particularly as it concerns politics.

10. CONCLUSION

I believe, based on the historical record, that under a regime in which politicians did not believe they were required to tax in order to spend money, that in the eyes of the progressive economists spending priorities could get worse, not better. If politicians did *not* think that when their nation is socio-economically unhealthy (e.g., high poverty rate, inability to collect taxes) that the country could not fund government and whatever the elite desired, then I believe this would sever a critical circuit of feedback and control that requires the politicians to care about the health and welfare of their industrial state in order to generate tax revenue.

Cutting social services, spending on national security, and funding prisons are red-meat issues for the politicians of a certain type. Even Europe has its version of this with the austerity policy, and right-wing ideas are at a high level in Europe as well. This is seen in other historical periods. When economic times get more unequal, the human race often turns to bigotry, oppression of minorities, violence and war. Why should the future be any different? In theory, it is possible for a benevolent set of politicians to choose to pay the citizenry a living wage, and create full employment directly, in order to create a just and fair society. This was the intent of the 1950–1970 period governance in the USA. But will this be the norm in the future when it is not the norm in the present? I can see no reason to believe this.

It is far easier to imprison and disenfranchise anyone who is inconvenient (e.g., poor or obstreperous) if a nation has virtually unlimited money to do so. With a panopticon intelligence system in place, the stage is set for utilization to aid in imposition of tyranny. These two elements are major facets of what the US did with its great wealth leading up to the present era, prior to the GFC, and little has changed, even with the Snowden revelations.⁹ Thus, I do not see a necessarily benevolent outcome of this MMT idea in the long-run, or the short-run. Instead, I think MMT carries a significant risk of increased inequality, and a shift back to mass incarceration to deal with the socio-economic problems.

We have seen in the past two decades that money has quite a grip on power. Political incentives conspire strongly in that direction. The current day US banking elites demonstrated that their grip on the White House and Congress was powerful enough to prevent investigation

⁹Edward Snowden is a former American computer intelligence consultant who leaked highly classified information from the US National Security Agency in 2013 when he was an employee and subcontractor for the CIA. (*The Editor*).



and prosecutions for domestic bankers after the GFC. I think that the evidence suggests that this MMT idea may lead to a nation ruled by an elite with an iron grip on power – a grip that in the modern era has the capacity to carry the police state to new heights undreamed of in the past eras.

Severing the belief in the necessity of the tax circuit may bequeath to our children a world with a concentration of wealth in the hands of a few that eclipses any period in global history. A political class that does not believe taxation is required to support government may be like a tiger who finds that his cage bars were a figment of his imagination. Absent incentives not visible in current MMT proposals, I think that outcome is of relevance to consider. Consequently, I believe it is necessary for MMT to incorporate progressive tax policy in order to provide for economic and political stability and create the kind of world that MMT advocates for. I call for MMT to do so based on the rationale that has been presented by [Weller – Rao \(2010\)](#) as well as [Acemoglu – Robinson \(2012\)](#). In addition, extra attention should be given to the structural proposals of [Mosler \(2008\)](#) that limit rentier income “at the source”. However, a most important matter to consider is how to incentivize the politicians. A possibility in that direction is to increase the role of governors/leaders of states within the monetary unions, because those governments do need to follow the old rules of taxation to support spending. This could help keep that tax incentive circuit alive.

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