The Deficit Myth

Henry George School of Social Science

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Week 4 (May 09 2022) Discussion Questions

Chapter 3: The National Debt (That Isn't)

- Explain the following terminology used by Kelton in Chapter 3:
    - Deficit hawks
    - Deficit doves
    - Deficit owls
    - Meganumophobia

- Explain Kelton's conclusion that the U.S. national debt poses no financial burden whatsoever.

- Explain why, per Kelton, we should not refer to the sale of U.S. Treasuries as "borrowing" or label those securities as "the national debt."

- Under what circumstances does an investor take on default risk when purchasing bonds issued by her own country's Treasury and denominated in her country's currency?

- Under what circumstances would a country that only "borrows" (i.e., sells debt instruments) in its own currency be forced to accept a market-determined rate of interest?

- Explain why, if the U.S. government were to substantially reduce the national debt, the economy might fall into a recession.

- ***Bonus Question:***

    From your understanding of the MMT perspective, discuss recent Biden administration statements on the federal budget and national debt as reflected in either of these two articles from the Washington Post and CBS News.

Chapter 4: Their Red Ink Is Our Black Ink

- Explain the following terminology used by Kelton in Chapter 4:
    - Policy variable
    - Crowding out
    - Loanable funds theory
    - Stock-flow consistency
    - Yield curve control

- Explain why, in a 2-sector model of the economy, the sum of the financial balances of the government and non-government sectors must be zero (0).

- Explain the role that federal government sales of Treasury bonds play in managing interest rate levels.

- Suppose a country's government decided to pledge to convert its domestic currency into U.S. dollars at a fixed exchange rate. Why would that government then have to give up control of its interest rates?

- Explain Kelton's conclusion that fiscal deficits increase our wealth and collective savings.