

Week 1 (April 1 2024), Part 2: Context for Introduction

At this point we're going to start following the course format I've just outlined. I'll be speaking on camera for no more than ten minutes. Then we'll move to the discussion questions. In my remarks, I will not be re-stating what Stephanie Kelton is saying in *The Deficit Myth*. Rather, I will be *framing* or *providing context* for her remarks. I may introduce certain concepts which she does not explicitly use but which help us understand where she's going.

The Overton Window

Think of a window in your home. Let's assume that you don't have air conditioning in your house or apartment. So the only way to get fresh air into your home is to open the window. Other things being equal, the wider you open that window, the more fresh air will get into your home. If you've got a lot of noxious odors inside your home, you'll have to open the window wider in order to clear those odors out quickly.

Now think of the way national politics and government are discussed in the United States. Think of the coverage of events in Washington DC that you might find in the *New York Times*, the *Washington Post* or on major broadcast or cable networks like CNN. At any given point in time, certain ideas will be thought of as *legitimate* for mainstream discussion and other ideas will be thought of as too far fetched to be included in mainstream discussion.

This notion – that the range of topics eligible for mainstream political discussion is like a window that can be opened wider or be closed narrower – has been described as the *Overton Window*, Joseph Overton being the person who first formally described it. “The Overton window is the range of policies politically acceptable to the mainstream population at a given time. It is also known as the window of discourse.” As described in [Wikipedia](#), “the [Overton] window frames the range of policies that a politician can recommend without appearing too extreme to gain or keep public office given the climate of public opinion at that time.”

What Is Kelton Trying to Accomplish in The Deficit Myth?

There's an Overton window that regulates how wide the discussion of macroeconomic policy in the U.S. can be at any point in time – and Stephanie Kelton is trying to open that window wider – much wider.

Now, it's not just Stephanie Kelton who's doing this. In the mid-1990s a Wall Street guy named Warren Mosler began to self-publish his insights into the way that the U.S. Federal Reserve and other central banks work. He discovered that the way they actually work does not match the way that economics textbooks claim they work.

Mosler's ideas attracted the notions of a number of academic economists, none of whom worked for elite institutions like Harvard, MIT or Stanford. One of them was L. Randall Wray who, along with Stephanie Kelton, taught for many years at the University of Missouri/Kansas City. Another was Bill Mitchell, an Australian at the University of Newcastle in that country. They drew upon earlier generations of economists, notably John Maynard Keynes, Abba Lerner, Hyman Minsky and Wynne Godley – with a dash of Karl Marx tossed in behind the scenes.

Along the way they somewhat accidentally their school of thought “Modern Monetary Theory.”

Mainstream economists viewed the MMTers as cranks whose ideas were deservedly outside the Overton window. The MMTers, in contrast, stuck to their guns. In particular, they argued that the United States, Great Britain, Australia and other countries had responded in an inadequate manner to the massive rise in unemployment which those countries experienced after the Great Financial Crisis of 2007-08. They argued that the governments of these countries could have done much more to reduce unemployment and should have done much more.

Stephanie Kelton was part of this process from the late 1990s forward. She got a unique perspective when she worked as chief economist for the Democratic minority caucus of the U.S. Senate Budget Committee from 2014 to 2016. She got to see up close how misconceptions about the way our economy works place a chokehold on our ability to improve things. She became determined to change the scope and tone of political discourse, particularly among the full range of political actors who customarily look to the Democratic party for solutions to problems. Her book, *The Deficit Myth*, is her attempt to widen the Overton window around the role of the federal government in the U.S. economy.

To whet your appetite, allow me to quote from a [post last week by British political economist Richard Murphy](#). He finds

Stephanie Kelton’s explanation of MMT much superior to any other that is available. It is certainly the point at which anyone should start. It is the least dogmatic explanation available. It is also the most readable and, in many ways, the one least tainted by the policy objectives of those offering comment. For all those reasons, The Deficit Myth is a book that I recommend.

Methodology: Three Phrases

Over the next six weeks I want you to keep three short phrases in mind:

- What *does* happen
- What *can* happen
- What *should* happen

Modern Money Theory argues that what *does* happen in contemporary monetary production economies – what *actually* happens – is different from what orthodox economics and most public discussion about the economy claims happens.

MMT then argues that once we better understand how the economy actually works, we’re in a position to identify ways that the economy *can* evolve or be reformed.

Now, what we think *should* happen in the economy – that is, the way the economy *ought* to evolve or be transformed – does not follow directly from the way the economy actually works or even from those potential lines of development we see when we look at the economy through the MMT lens. To discuss what should happen we have to bring our values forward into the discussion. Different people have different values, so even people who agree on the MMT view of the economy can come to different conclusions about how the economy should evolve. That’s not surprising; our subject matter is, after all, *political economy*.

Now let’s turn to the discussion questions for the *Introduction* to Stephanie Kelton’s *The Deficit*

Myth.