It’s on like Donkey Kong! The economic policy battle lines have been drawn for the 2020 US presidential election showdown. In the red corner, weighing in at a hefty $22 trillion in US national debt and growing, Republican-favored supply-side economics. In the blue corner, weighing in at an immeasurable sum, progressive Democrat-favored Modern Monetary Theory (MMT). Make no mistake, this is truly a heavyweight fight. Yet, there will be no victor in this economic policy war, only losers. Sadly, both policies will result in tons more debt and still subpar future growth.

Are these tired old solutions the best we can hope for from our elected officials and their policy wonks? I’m afraid so. And that means trouble as US economic growth has settled into a much lower trend rate compared to long-term history.

Supply-Side Economics: If at First You Don’t Succeed, Try, Try Again

In the early 1980s, Reaganomics reignited supply-side economics. In response to the stagflation of the 1970s and an ongoing recession, supply-side economics promised to bolster US economic growth by lowering taxes and decreasing regulation. In theory, any increase in the deficit brought on by the government collecting less tax revenue would easily be recovered by the anticipated rebound in economic growth. Critics of supply-side economics attempted to debunk this notion that tax cuts pay for themselves by labeling it “voodoo economics.” However, the resulting US economic resurgence during President Reagan’s two terms supported the practice. But a funny thing happened on the way to prosperity. The debt-to-gross domestic product (GDP) ratio was about 30 percent when Reagan took office in 1981 and steadily climbed throughout his presidency. Today, the debt-to-GDP ratio stands at slightly more than 104 percent.1

Yet, whenever the Republican Party needs to boost growth they dust off their old go-to supply-side economics playbook. And why not? It has worked so well for them historically. So, not surprisingly, after years of modest growth in the post global financial crisis era, the Trump administration and Republican controlled Congress went to work on a massive supply-side economic plan. Their $1 trillion fiscal policy package included lower taxes for individuals and
corporations as well as less regulation. And it initially delivered the desired results. US GDP surged to 4.2 percent in the second quarter of 2018. Last year, the unemployment rate plummeted and wages grew at the fastest pace since 2009. Plus, business spending rebounded and measures of both business and consumer confidence reached multi-year highs.

Regrettably, however, as in the past, as the benefits of the supply-side economic plan faded, so did growth. US GDP growth has slowed for three consecutive quarters. As of March 13, the Atlanta GDPNow forecast for first quarter GDP is just 0.4 percent. At the same time, the US national debt has exploded beyond $22 trillion, the highest it has ever been. The shortfall in tax revenue collected due to lower tax rates and federal spending that continues to increase have resulted in a widening of the federal deficit. Over the next decade, annual deficits are expected to average $1.2 trillion, or 4.4 percent of GDP. That’s higher than the 50-year average of 2.9 percent of GDP.

Clearly, the promise of persistent economic growth at higher sustainable rates has once again fallen flat.

**Figure 2: Sorry, Supply-Siders, Tax Cuts Don’t Translate Directly into Higher Wages**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percent Change in Average Hourly Earnings Between the First Half of 2017 and the First Half of 2018 (Not Inflation Adjusted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Services</td>
<td>0</td>
</tr>
<tr>
<td>Utilities</td>
<td>2</td>
</tr>
<tr>
<td>Education and Health</td>
<td>4</td>
</tr>
<tr>
<td>Transportation and Warehousing</td>
<td>6</td>
</tr>
<tr>
<td>Construction</td>
<td>8</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>10</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>12</td>
</tr>
<tr>
<td>Administrative and Support</td>
<td>14</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>0</td>
</tr>
<tr>
<td>Arts &amp; Entertainment</td>
<td>2</td>
</tr>
<tr>
<td>Professional and Scientific</td>
<td>4</td>
</tr>
<tr>
<td>Information</td>
<td>6</td>
</tr>
<tr>
<td>Mining</td>
<td>8</td>
</tr>
<tr>
<td>Management of Companies</td>
<td>10</td>
</tr>
<tr>
<td>Accommodation and Food</td>
<td>12</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: David Cho and Alan Krueger, October 2018.

**MMT: If You Can’t Beat Them, Join Them**

Not to be outdone or, more specifically, outspent, progressive Democrats like presidential candidate Bernie Sanders and Representative Alexandria Ocasio-Cortez and others are prescribing an even more radical fix. They advocate Modern Monetary Theory (MMT) to boost growth.

While it’s tough to precisely define MMT, there are some central ideas. MMT asserts that a government that prints and borrows in its own currency, like the US, will never default because it can always create more money to pay its creditors. The magical power to print new money also can pay for increased government spending, making tax increases unnecessary. In fact, the level of taxation relative to government spending becomes a policy tool that regulates inflation and unemployment (tasks now assigned to monetary policy, set by central banks), rather than just a way to fund government programs.

Therefore, government spending isn’t controlled by bond market vigilantes, but instead is influenced by the availability of underused resources, like jobless workers. And because increasing spending when the economy is already at capacity can lead to rapid inflation, the main goal of taxation is to keep inflation in check. As a March 14 article in The Economist rightly explains, under MMT “spending is the accelerator, taxation the brakes.” Fiscal deficits are irrelevant as long as unemployment is low and prices remain stable. Simply, MMT flies in the face of calls for greater government austerity to combat yawning deficits.

**Float like a Butterfly, Sting like a Bee**

Sanders and Ocasio-Cortez are suggesting that MMT could fund ambitious policy proposals like the Green New Deal. Energized by already low unemployment and benign inflation, they want to turn the government spending spigots on full blast to spur domestic economic growth and address issues such as widening income inequality and climate change.

But, like so many theories, MMT sounds good on paper, but is untested in practice. Despite today’s historically low unemployment and tame inflation, there are risks to piling up ever-greater amounts of debt and printing gobs more dollars. Just because the dangers aren’t evident today, doesn’t mean they aren’t lurking. When used wisely, debt can be a great way to enhance growth. Unfortunately, governments, especially the US, don’t have a great track record of using debt effectively. For example, from 2008 through 2018, every additional dollar the US government borrowed resulted in just about 40 cents in economic output. If the government used debt more efficiently, every dollar borrowed should produce at least one dollar in additional output.
As the US national debt skyrockets, every additional dollar the US borrows generates a diminishing amount of economic output. And increasing amounts of debt result in slower overall economic growth, potentially more volatile interest rates and unstable prices. So, although interest rates are low and inflation remains subdued, elected officials shouldn’t be lulled into thinking they can borrow limitlessly. Particularly with today’s lower economic growth, the solution isn’t to keep borrowing more money.

**And the Heavyweight Champion Is...Nobody**

One of these two schools of economic thought — supply-side economics or MMT — will prevail in the 2020 presidential election. But, dimly, the pursuit of either policy won’t change a darn thing! In fact, both will likely make things worse by increasing the debt and deficit. That’s especially problematic given that the trend GDP growth rate has fallen from 4 percent to 2 percent.

Economic policy must be adjusted to reflect the fact that the heydays of super-charged post World War II growth and the idealism of the American Dream are long gone. Aging demographics and massive government debt have resulted in a slower trend growth rate with lower interest rates and disinflationary attributes. At the same time, given the incredible transformation of the US and global economies, it is increasingly difficult to accurately measure key economic data such as productivity growth and inflation.

At this point, both elected officials and economic observers need to progress through the Kübler-Ross five stages of economic grief. Still stuck somewhere between denial, anger, bargaining and depression, it’s time for all of us to reach acceptance. Tired old policy solutions like supply-side economics and MMT’s prescription to spend our way to prosperity won’t boost the growth rate. They will simply result in more debt and lower growth.

Because the way forward is not to look to the past, we should welcome what will surely be spirited economic debates between the presidential candidates. If they are constructive, these discussions could lay the groundwork for tough and thoughtful solutions to our long-term economic challenges.

Particularly as the national debt and deficit continue to rise, rather than retreat to our political corners with old ideas, we need to find new middle ground. Perhaps then, working together, we’ll regain faith that our government really is ready and able to help solve our most pressing problems.

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3. Ibid.
Ready to Rumble: MMT vs. Voodoo Economics

Glossary

**Debt to GDP Ratio** The ratio between a country’s government debt and its gross domestic product (GDP). A low debt-to-GDP ratio indicates an economy that produces and sells goods and services sufficient to pay back debts without incurring further debt.

**Green New Deal** A package of policy proposals that aims to address global warming, and financial crises. It echoes the New Deal, the social and economic programs launched by US President Franklin D. Roosevelt in the wake of the Wall Street Crash of 1929 and the onset of the Great Depression.

**Gross Domestic Product (GDP)** The monetary value of all the finished goods and services produced within a country’s borders in a specific time period.

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