

# MODERN MONETARY THEORY

What economic theories do you know of? What is modern monetary theory (MMT)?

- 🔊 Listen to the first part of the report and make notes on what Stephanie Kelton says about MMT.



- 🗣️ Do you see a country's currency as a simple, public monopoly?  
Does your country run a large, budget deficit? How important is the size of a country's budget deficit, in your opinion?
- 🔊 Discuss these questions and then listen to the next part of the report and check your ideas:
- 1 What do people tend to think budget deficits are evidence of?
  - 2 What do you get if a budget deficit is too big?
  - 3 What do you get if a budget deficit is too small?
  - 4 If a government spends \$100 into the economy, but it only taxes \$90 out, the \$10 difference is the government's deficit. But what is it for the people?
  - 5 What can governments do to boost longer-term growth?
- 🗣️ Is there a general opinion in your country that governments should strive to eliminate budget deficits?
- 🔊 How much debt is too much debt? Listen to the next part of the report and note down what Stephanie Kelton says.



- 🗣️ At what level is the budget deficit in your country?
- 🔊 You just heard Stephanie Kelton say that the only potential risk with the national debt increasing over time is inflation. What do you think she says is the best defence against inflation? Listen to the next part of the report and note down what Stephanie Kelton says.
- 🗣️ Do you think this is a good approach to government investing?
- 🔊 What do you think drives inflation in the US? Listen to the final part of the report and note down what Stephanie Kelton says.

- 🗣️ Does your country experience more 'demand pull inflation' or 'cost push inflation'?

👤 Read the first part of the article about MMT and underline the things that were mentioned in the report.

## The Economist

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### Is modern monetary theory nutty or essential?

“MODERN MONETARY THEORY” sounds like the subject of a lecture destined to put undergraduates to sleep. But among macroeconomists MMT is far from soporific. Stephanie Kelton, a leading MMT scholar at Stony Brook University, has advised Bernie Sanders, a senator and presidential candidate. Congresswoman Alexandria Ocasio-Cortez, a young flag-bearer of the American left, cites MMT when asked how she plans to pay for a Green New Deal. As MMT’s political

stock has risen, so has the temperature of debate about it.

MMT has its roots in deep, doctrinal fissures. In the decades after the Depression, economists argued, sometimes bitterly, over how to build on the ideas of John Maynard Keynes, macroeconomics’ founding intellect. In the end, a mathematised, American strain of Keynesianism became dominant, while other variants were lumped into the category of “post-Keynesianism”: an eclectic mix of ideas. In the 1990s a number of like-minded thinkers drew on post-Keynesian ideas in fleshing out the perspective embodied in MMT.

That perspective is not always clear; there is no canonical MMT model. But there are some central ideas. A government that prints and

borrowes in its own currency cannot be forced to default, since it can always create money to pay creditors. New money can also pay for government spending; tax revenues are unnecessary. Governments, furthermore, should use their budgets to manage demand and maintain full employment (tasks now assigned to monetary policy, set by central banks). The main constraint on government spending is not the mood of the bond market, but the availability of underused resources, like jobless workers. Raising spending when the economy is already at capacity can lead to rapid inflation. The purpose of taxes, then, is to keep inflation in check. Spending is the accelerator, taxation the brakes. Fiscal deficits are irrelevant as long as unemployment is low and prices are stable.

👤 Why do MMTers think governments are better equipped to achieve full employment than central banks? Read the next part of the article and check your ideas.



To economists who consider

heavy-duty maths a mark of seriousness, MMTers’ sparse use of mathematical models is either evidence of intellectual inferiority or a way of avoiding scrutiny. It may instead reflect the fact that MMT is less a rival theory than a qualitative critique.

Yes, central banks can use interest rates to achieve full employment, if rates are not too close to zero. But MMTers think governments are better equipped. Monetary policy works via banks and financial markets, but when markets panic, this mechanism is

weakened. Rate cuts stimulate the economy by encouraging firms and households to borrow, but that can engender risky levels of private-sector debt. Government spending sidesteps these problems. Similarly, rate rises can slow inflation. But they often work by inducing indiscriminate, involuntary unemployment. The state could instead tame an unruly boom, MMTers argue, by breaking up monopolies—thus loosening supply constraints—or by aiming tax increases at fossil-fuel firms.



🗣️ Do you agree with the MMTers? Why / Why not?

👤 Say whether you think these statements are true  or false  and then read the final part of the article and check your ideas:

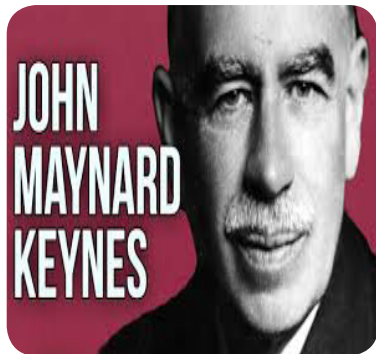
Most economists have long held that macroeconomic policy should stabilise the economy with the lightest possible touch.

Macroeconomists cannot run experiments as laboratory scientists can.

Mainstream Keynesianism was tarnished amid the inflation of the 1980s.

Paul Romer, a Nobel laureate last year, wrote in 2016 that “for more than three decades, macroeconomics has gone backwards”.

MMT is not obviously a step forward. But if it wins political support and influences policy only to flop, that is macroeconomics as usual.



Economists recognise that their models have shortcomings, and that monetary policy is not all-powerful. But most economists have long held that macroeconomic policy should stabilise the economy with the lightest possible touch. Other means can then be used to tackle reckless lending, market failures or inequality. MMT’s supporters question this—and believe

that recent economic history bolsters their case.

You might suppose that the feud could be settled by testing rival claims. Alas, macroeconomics rarely works this way. Macroeconomists cannot run experiments as laboratory scientists can. Statistical analysis of the world is muddled by the vast number of variables, many of which are correlated with the thing whose effect the economist is trying to isolate. Macroeconomic arguments tend not to produce winners and losers: only those with more influence and those with less. Post-Keynesian ideas were never proven false, rather they declined in status as mainstream Keynesianism rose.

Mainstream Keynesianism was tarnished in turn amid the inflation of the 1970s. The monetarism which then gained favour floundered a decade later, when central banks targeting money-supply growth discovered that the link between their targets and inflation had vanished. Keynesians regrouped and built “new Keynesian” models which became the workhorses of much recent analysis. They too have disappointed. In 2016, Olivier Blanchard, a former chief economist of the IMF, described the workhorses as “seriously flawed”, “based on unappealing assumptions”, and yielding implications that are “not convincing”. Paul Romer, a Nobel laureate last year, wrote in 2016 that “for

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more than three decades, MMT is not obviously influences policy only to flop, macroeconomics has gone a step forward. But if that is macroeconomics as backwards". wins political support and usual.

- 🗣️ Is MMT being discussed in your country? Do you agree with Olivier Blanchard and Paul Romer's comments?
- 🔍 Find synonyms in the article for these words and expressions:
  - 1 someone who studies the financial and economic systems of a country
  - 2 a system of money in general use in a particular country
  - 3 a person or company to whom money is owed
  - 4 income, especially when of a company or organization and of a substantial nature
  - 5 the amount of money that is available for a particular purpose
  - 6 an official document that states you will be paid a certain amount of money because you have lent money to a government or company
  - 7 company
  - 8 a period of great prosperity or rapid economic growth
  - 9 the theory or practice of controlling the supply of money as the chief method of stabilizing the economy
- ✍️ Write sentences of your own with the words.  
*e.g. There is a real estate boom where I live at the moment. House prices are high.*
- 📖 What does the highlighted expression in this extract from the article mean?

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...and built "new Keynesian" models which became the **workhorses** of much recent analysis.

There are other expressions related to horses in English.

What do you think these mean:

- 1 a dark horse      2 back the wrong horse      3 flog a dead horse
- 4 hold one's horses      5 horses for courses      6 straight from the horse's mouth

- ✍️ Now match the idioms to these definitions:
  - \_\_\_ directly from an authoritative source
  - \_\_\_ used to tell someone to stop and consider their decision or opinion about something
  - \_\_\_ used to say certain people are better suited to some tasks than others
  - \_\_\_ waste effort on something when there is no chance of succeeding
  - \_\_\_ someone whose abilities are little known to others
  - \_\_\_ support a person or thing that fails

- 👤 React to the statements read to you using the idioms studied.  
*e.g. Brad told me directly that he was leaving, so I know it is true.*  
*> So you heard it straight from the horse's mouth.*

