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What's Wrong with Modern Money Theory?

A Policy Critique

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About the Author

Gerald A. Epstein is Professor of Economics and a founding Co-Director of the Political Economy Research Institute (PERI) at the University of Massachusetts, Amherst, USA. Epstein has written articles on numerous topics including financial crisis and regulation, alternative approaches to central banking for employment generation and poverty reduction, capital account regulations and the political economy of central banking and financial institutions. Epstein has worked with numerous UN agencies including the ILO, UNDESA, UNDP, and UNCTAD on the topics of macroeconomics and monetary policy in developing countries. His most recent volumes are: *The Handbook of the Political Economy of Financial Crises*, (co-edited with Martin Wolfson) and *The Political Economy of Central Banking: Contested Control and the Power of Finance*. In recent years he has been the recipient of two INET grants, one to study the "social efficiency" of the financial system and a second to look at the distributional impacts of quantitative easing. He has also won the Samuel F. Conti Faculty Fellowship Award from the University of Massachusetts, Amherst.

CHAPTER 1

Introduction: Strange Bedfellows and the Rise of Modern Money Theory

Abstract Modern Money Theory (MMT) has attracted a great deal of attention and a large number of adherents in recent years. Also sometimes called Modern Monetary Theory, the doctrine's appeal has largely come from its argument that governments that issue their own sovereign currencies do not have to pay for government expenditures—their central banks can simply create money. Mainstream and heterodox critiques have questioned the theoretical bases and the practical viability of this program. This chapter introduces my critique of these policy proposals based on their limited applicability, their possible dangers for developing countries, the advocates lack of attention to empirical evidence, and the dangerous political message it sends to progressives, among other problems.

Keywords Modern Money Theory · Post-Keynesian · Sovereign currency

1.1 Introduction

Modern Money Theory (MMT) has recently gained a significant amount of attention. From occupying a marginal corner of the marginalized "Post-Keynesian" economics five years ago or less, MMT has now drawn attention, support, and disdain from Wall Street speculators, Harvard economists Kenneth Rogoff and Lawrence Summers and even Jerome

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