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THE MMT

Tony Makin
Gene Tunny

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The MMT Hoax

Tony Makin

Gene Tunny

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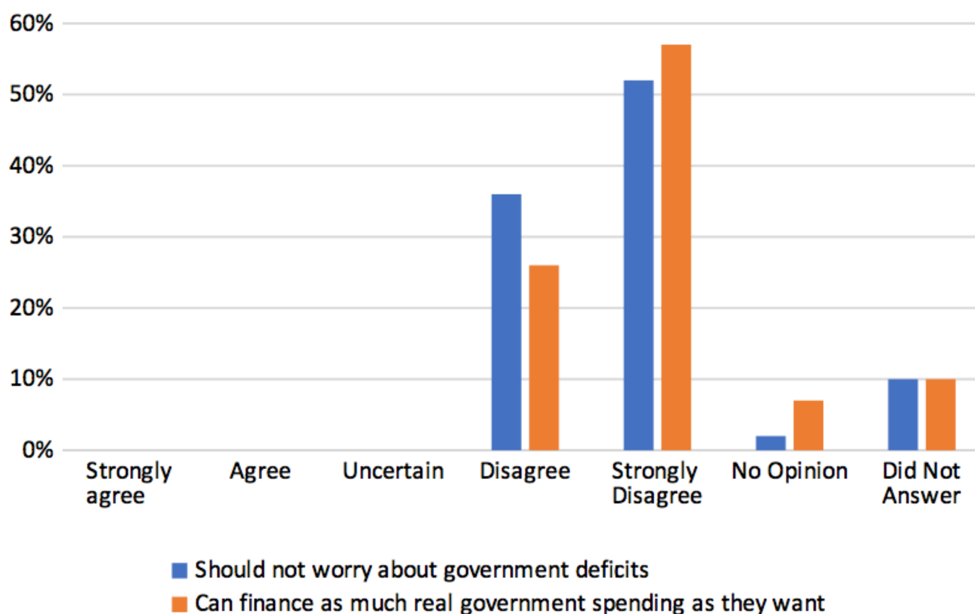
1. Introduction

In recent years, so-called Modern Monetary Theory (MMT) has been reported in the mainstream media as an alternative approach to conducting macroeconomic policy. MMT's sway derives mainly from newspaper and online articles where its facile policy prescriptions have attracted the attention of journalists and commentators. Its emergence as a supposedly new macroeconomic paradigm has not stemmed from an acceptance of its actual novelty or contribution in academic circles, where for many years it has largely been ignored as a fringe perspective. Indeed, the Chicago Booth Economics Experts Panel overwhelmingly disagreed with the central MMT propositions:

- that countries that can borrow in their own currencies should not worry about government deficits; and
- can finance as much government spending as they want (Figure 1).

Figure 1: Chicago Booth Economics Experts Panel responses to questions regarding countries that borrow in their own currencies



Source: https://www.igmchicago.org/surveys/modern-monetary-theory/

Furthermore, MMT is also rejected by prominent economists viewed as liberal or progressive, including Paul Krugman (2019) and Larry Summers (2019).

MMT has become prominent largely due to its political appeal to the left. It has become popular among left-wing politicians such as US congresswoman Alexandria Ocasio-Cortez, largely because it appears to offer them cover for big spending promises on programs such as the Green New Deal.

MMT has been thrust into mainstream policy debates, particularly with the publication in 2020 of Stephanie Kelton's *The Deficit Myth*. As leading US macroeconomist Greg Mankiw (2020) notes, MMT came to prominence because Kelton was an advisor to US Senator Bernie Sanders, a leading contender for the US presidency in 2020. The key proposition of her book is that "Taxes and spending should be manipulated to bring the overall economy into balance", regardless of what that means for deficits and debt.[1] The proposition argues the reason deficits and debt do not matter is that so-called monetary sovereign countries — which can freely issue and borrow in their own currencies — can simply print whatever money is required to pay the Treasury's bills. As Kelton writes:

> For the currency issuer, money is no object. Literally or figuratively. It doesn't exist in some scarce physical form—like gold—that the government needs to "find" in order to spend. It is conjured into existence from a computer keyboard each time the Federal Reserve carries out an authorized payment on behalf of the Treasury.[2]

While central banks can create money and have been engaging in a range of unconventional monetary policies, MMT should be perceived by economic policy makers as an extreme school of thought.[3]

Economic history teaches us that sharply deteriorating macroeconomic conditions create a vacuum for alternative policy-oriented frameworks to emerge. This was true during The Great Depression and the high inflation era of the 1970s. To a lesser degree it has been true of MMT, which has incubated in a distressed macroeconomic environment; the 2008-09 Global Financial Crisis (GFC) and its aftermath, and most recently due to the COVID-19 Crisis (the CVC).

Pre CVC, advanced economies had been experiencing significantly lower economic growth than prior to the GFC. Economic growth in most advanced economies had been weaker and unemployment higher than previously. The CVC then dealt a devastating blow to economies worldwide in 2020, causing deep recessions and big spikes in unemployment. Very low inflation — often below central banks' target levels — has persisted, while official interest rates have fallen close to zero. The macroeconomic response to the pandemic involved unprecedented fiscal and monetary support for businesses and households. Fiscal policy, in particular, assumed a far more prominent role than in the 1980s, 1990s and early 2000s, when short term macroeconomic management was largely the preserve of independent central banks.

In this context, MMT's main point is that fiscal policy in the form of increased government spending should supplant monetary policy as the macroeconomic instrument for managing the economy to ensure full employment; not only during crisis periods like the GFC and CVC, but all the time. Following the spirit, indeed the letter, of John Maynard Keynes' celebrated Depression-era work *The General Theory of Employment, Interest and Money* (1936), MMT's central premise is that increased public spending — irrespective of its form, or productivity — should be used to bolster chronically sub-optimal aggregate demand to lower unemployment.

This paper evaluates the macroeconomic worth of MMT. The next section briefly assesses its claim to novelty with reference to the evolution of macroeconomic theory. We then examine the plausibility of the central propositions motivating MMT, notably its advocacy of activist fiscal policy, before concluding that adhering to the policy prescriptions of MMT would lead to disastrous macroeconomic consequences far worse than those it seeks to remedy.

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1 Kelton (2020, location 990, Kindle).

2 Kelton (2020, location 3746, Kindle).

3 See also Mitchell, Wray and Watts (2019).

2. Everything Old Is New (and Wrong) Again?

The fact is that there is really nothing new in MMT. It is essentially just a reprise of 1930s Keynesian fundamentalism, as proselytised by Joan Robinson, Paul Davidson (1972) and others; or what has been called the Post-Keynesian School. Add some later heterodox ideas from other earlier economists like Alvin Hansen (1939) and Abba Lerner (1951), and with MMT you have a blend of old — corked — Keynesian wine in a newly labelled bottle.[4]

As University of Chicago economist Henry Simons (1936) presciently warned in his review of Keynes book when first published, its author risked "becoming the academic idol of our worst cranks and charlatans." Another critic at the time suggested Keynes had said many things that were true and many things that were new, but the things that were true weren't new, and the things that were new weren't true. In the case of MMT, it is not a stretch to say the things that are supposedly new are not actually new at all — let alone true.

MMT effectively ignores the evolution of macroeconomics in the 85 years since publication of Keynes' *General Theory*, the novelty of which lay in its attempt to explain how national income and employment were determined with reference to newly refined national accounting aggregates. For instance, it was left to other economists, notably Sir John Hicks (1937), to properly integrate the central bank and money into Keynes' primitive macroeconomic model and show that government spending can crowd out private investment under normal economic conditions.[5]

Over the three decades from 1936, economists built on Keynes's foundations to justify using fiscal policy to 'fine tune' the economy. Policy makers believed there was a stable relationship between unemployment and inflation: the Phillips curve, named after the New Zealand economist who found a stable empirical relationship between UK wages and unemployment. The Phillips curve would enable economic policy makers to choose optimal combinations of unemployment and inflation, and to achieve them via judicious tax and spending decisions.

The high watermark of the fiscal-policy-first approach was the Kennedy tax cut of the early 1960s. During the time when fiscal policy was predominant, monetary policy was viewed as of secondary importance, and its macroeconomic consequences were not fully appreciated. Easy money policies were favoured without regard to their eventual inflationary consequences in combination with growing money-financed budget deficits, particularly associated with the Vietnam war.[6]

The inflationary consequences of Keynesian economics as practised in the 1960s and 1970s led to the Monetarist attack on Keynesianism led by Milton Friedman (1968). Also, fine tuning the economy via fiscal policy turned out to be much more challenging in practice than in theory. Policy makers discovered there were recognition, action, and impact lags associated with fiscal policy. Also, the Phillips curve broke down and western economies ended up with the hitherto unimaginable combination of high unemployment and high inflation, known as stagflation. The anti-Keynesian New Classical paradigm — pioneered by Robert Lucas and Thomas Sargent (1979) and others — followed by incorporating elaborate microeconomic foundations and rational expectations into macroeconomic analysis. This made macroeconomics overly complex, with models constructed on this basis and their policy predictions becoming sensitive to underlying assumptions. The macroeconomic forest in some ways got lost for the microeconomic trees. In contrast, MMT offered a simplistic alternative.

The evolution of macroeconomics post-Keynes has also been based largely on Keynes' original unrealistic assumption that economies were closed to international influences; including cross-border capital flows, exchange rates, exports and imports. This reflects that after Keynes, macroeconomic theory evolved primarily in the United States — which is not a highly open economy.

To address this deficiency and to make macroeconomics more relevant for small open economies like Australia, Canada and New Zealand, then IMF economists Robert Mundell (1963) and John Fleming (1963) showed that once capital flows and flexible exchange rates were introduced into an aggregate demand-driven model, fiscal policy completely failed to 'stimulate' aggregate demand. Instead, increased government spending simply drove up the exchange rate and increased the trade deficit. According to Makin (2016), this was exactly Australia's experience following the Rudd government's Keynesian response to the GFC.[7]

Meanwhile, Arthur Laffer and others emphasised the importance of the aggregate supply side of the economy that Keynesians of all persuasions have always neglected. While some of the extreme predictions of supply side economists — such as tax cuts paying for themselves — have not been supported by experience, they were right to highlight

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4 See Makin (2020) for related discussion.
5 In macroeconomics textbooks this is known as the IS-LM model. See for instance Mankiw (2021).
6 On the secondary role played by monetary policy from the end of World War II to the 1960s, see Friedman and Schwartz (1963, p. 626).
7 Makin (2016) elaborates.

the adverse impacts of taxation and welfare measures on labour supply and entrepreneurship, and to emphasise productivity-enhancing reform.

What then are the key elements of MMT? We have distilled them to four propositions.[8]

(i) capitalist economies are inherently prone to unemployment and underemployment due to under-consumption and chronic spare capacity.

(ii) extra deficit-financed government spending is needed to boost aggregate demand and ensure full employment.

(iii) budget deficits and public debt that arise from (ii) are not problematic because governments can never run out of the currency their central banks can issue. Indeed, the most extreme MMT proponents suggest public debt is not even required, as the central bank can simply extend the required credit to the government.[9]

(iv) if inflation rises too quickly, taxes should be increased to reduce deficits and dampen aggregate demand. That is, monetary policy is driven by fiscal policy, as budget deficits increase the money supply and surpluses contract the money supply under the extreme version of MMT; in which the central bank is subordinate to the government and simply advances whatever credit is required to pay the government's bills.[10]

Let us assess each of the above propositions in turn.

3. Chronic Unemployment?

MMT assumes that, as a rule, economies chronically operate at less than full capacity, consistent with what the early Keynesian, Alvin Hansen (1939), predicted: that advanced economies were inherently prone to 'secular stagnation' and persistent high unemployment due to under-consumption. That implied government deficits and continuously rising public debt were necessary to ensure full employment. But post World War Two, this did not eventuate. Instead, the United States and other advanced economies performed solidly in the 1950s and 1960s due to flourishing international trade and productivity improvement, as well as favourable demographic factors (i.e. the baby boom).

More recently, the fear of 'secular stagnation' was revived post-GFC by Larry Summers (2014). Again, it failed to materialise, with the United States achieving low unemployment prior to the CVC, partly due to policies implemented by the Trump administration that bolstered aggregate supply; notably company tax cuts and reduced industry regulation. And while economic growth in other OECD economies has been sub-optimal, the prime causes have arguably been weak private investment and slower growth in international trade due to rising protectionism, not under-consumption.

Real wage growth in Australia, especially in the private sector, has been — and will remain — sluggish because of the anaemic level of private non-mining investment, which acts as conduit for productivity growth by embodying the latest technology.

MMT asserts that full employment occurs when unemployment reaches near zero per cent, (Book, 2021). This ignores the reality that some unemployment is inevitable when:

- it is due to structural change;
- is frictional when workers are between jobs; and
- when there are incentives to remain unemployed, for instance due to relatively high unemployment benefits.

As any student of macroeconomics knows, the unemployment rate that results from these factors is called the 'natural rate of unemployment' — a concept MMT rejects.

Nobel prize winners Milton Friedman (1968) and Edmund Phelps (1968) proposed this was the hypothetical unemployment rate consistent with aggregate production being at the long-run equilibrium level. The strong policy implication was that unemployment could not be reduced below this level by stoking aggregate demand, but only via structural reforms aimed at the supply side of the economy.

In Australia's case, the natural rate of unemployment is probably around 5 per cent, suggesting the unemployment rate will not fall below that level without major labour reform that increases flexibility and lowers the cost of hiring young workers in particular.[11]

8 Book (2021) provides a related categorisation.

9 Consider the following passage from Kelton (2020): "For the currency issuer, money is no object. Literally or figuratively. It doesn't exist in some scarce physical form—like gold—that the government needs to "find" in order to spend. It is conjured into existence from a computer keyboard each time the Federal Reserve carries out an authorized payment on behalf of the Treasury."

10 In Australia, the extreme version of MMT could be implemented by the Government directing the RBA to abolish the limit on its current overdraft facility for the Official Public Account. See https://www.rba.gov.au/fin-services/banking.html

11 See Cusbert (2017) for a discussion of the Non-Accelerating Inflation Rate of Unemployment (NAIRU) which he notes "has declined since the mid 1990s and is currently around 5 per cent."

4. Extra Government Spending?

MMT reflects Keynes' antithesis to classical laissez-faire or free market economics on the grounds it persistently failed to produce full employment. To remedy this, state control of investment is deemed necessary. Or as Keynes (1936, p378) stated in the final chapter of *The General Theory*"... a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment." And in the preface to the German edition written when Adolph Hitler was in power, he stated that "the theory of output as a whole, which is what the following book purports to provide, is much more easily adapted to the conditions of a totalitarian state, than ... under conditions of free competition and a large measure of laissez-faire."

The MMT proposition that increased government spending is the solution to perceived and persistent macroeconomic malaise, implies an ever-expanding share of government spending in the economy. It is characteristic of MMT as a political doctrine that it recommends increased government spending rather than tax cuts to stimulate economies, and it recommends tax increases to pull money out of the economy and control inflation during booms. The political economy of MMT suggests it is conducive to ever-expanding government.

Another inherited Keynesian trait is that MMT proponents make no distinction between productive and unproductive government spending. Taxpayers should be concerned about the implications for the quality of government spending if there is effectively no constraint on it — such as the need to balance budgets or even to issue debt to the public to finance deficits. There is the risk of ineffective government programs and white elephant infrastructure projects, which we discuss further in section 8 below.

MMT also ignores any link between the size of government and long-run economic performance, oblivious to evidence that the size of government is a limiting factor for economic growth. This is because government spending crowds out private investment and, when funded by increased debt, creates additional uncertainty for households and business.

As mentioned above, MMT's Keynesian leaning unrealistically assumes economies are closed to international economic influences, and hence disregards the macroeconomic impact of cross-border interest rate differentials, international capital flows, exchange rate movements and associated variations in exports and imports. In an open economy, the difference between what an economy produces, aggregate output, and how much its households, firms and governments spend in total, including on imports, equals the trade balance. Other things being equal, this implies that a deficit-financed increase in government spending will not result in higher domestic production — and hence employment — but in a wider trade deficit.[12]

5. Monetising Budget Deficits Not a Problem?

According to MMT, central banks can easily and directly fund budget deficits by printing money — and if this generates excessive inflation, governments should then respond by hiking taxes to dampen aggregate demand. That governments can print money to pay for their spending is not new, and has been practised with disastrous consequences since Roman times for those governments that have done it to excess. This caused the record hyperinflation infamously experienced during Germany's Weimar Republic in the 1920s.

Post GFC, central banks reduced official interest rates to historic lows, dropping to near zero, with some turning negative. Several central banks also engaged in Quantitative Easing (QE), the expansion of liquidity in the economy via purchases of government bonds, aka 'printing money'. This was deemed necessary because although central banks can tightly control interest rates in the overnight cash market (or Federal Funds market in the US), they have less influence on longer-term interest rates determined by the bond market. Longer-term rates were perceived as too high to stimulate the required level of private sector investment and hence central banks since the GFC have turned to QE. Australia's RBA had not engaged in QE prior to the CVC, unlike the Federal Reserve, Bank of England, Bank of Japan, and European Central Bank which began QE in the aftermath of the GFC.

12 Makin and Ratnasiri (2018) provides evidence that government spending has significantly worsened Australia's competitiveness.

The evidence on QE has been mixed, and it has generally not had the expected economic benefits. The most prominent consequence of QE has instead been highly inflated asset prices. QE has contributed to highly inflated prices of stocks, property, and other assets worldwide, as it has driven down yields and encouraged speculation. If equity values inflated by extremely cheap money continue rising at rates seen since the CVC crash in early 2020, a sudden correction to asset prices raises future macroeconomic risks.

While MMT and QE both expand the money supply, what MMT is proposing is more dangerous than QE, because MMT essentially makes the central bank a subordinate agency of the government. Under QE, the central bank retains control over monetary policy, while under MMT, monetary policy becomes beholden to fiscal policy. In the extreme version of MMT, the central bank must finance via money creation whatever the government chooses to spend money on. It brings into question the independence of the central bank, which is very concerning because central bank independence was crucial in anchoring inflationary expectations and winning the battle against inflation in Australia and New Zealand, among other economies.[13]

Furthermore, QE does not necessarily imply large budget deficits, whereas MMT makes the combination of large deficits and strong growth in the money supply much more likely — a combination that then makes inflation more likely. While a modest increase in inflation from current rates would be benign, there is a risk that MMT could lead to a much larger rise in inflation, unleashing inflation expectations that would be difficult to get back under control.

Also, the way QE is conducted suggests a natural unwinding of its monetary impacts. The central bank ends up with a balance sheet full of assets it has purchased from the private sector. When conditions return to normal it can sell those assets and pull back the huge money supply expansion it fostered by effectively destroying the value of the money it is paid for the assets it sells. That said, this has yet to be demonstrated in practice. For example, in the years prior to the pandemic, the Fed made a start on selling assets purchased through QE but it did not get far; only reducing its assets from the 2015 peak of around $4½ trillion to $4 trillion prior to the pandemic.

The relationship between money growth and inflation is not necessarily strong in the short-run, but in the long-run is very strong. As Milton Friedman (1994) wrote:

> …the rate of monetary growth does not have a precise one-to-one correspondence to the rate of inflation. However, I know no example in history of a substantial inflation lasting for more than a brief time that was not accompanied by a roughly corresponding rapid increase in the quantity of money; and no example of a rapid increase in the quantity of money that was not accompanied by a roughly corresponding substantial inflation.[14]

MMT advocates who are blasé about the strong growth in money supply that would accompany their policy prescriptions should note Friedman's conclusion based on his analysis of many episodes of 'money mischief' across the centuries.

6. Public Debt Not A Problem?

To the extent budget deficits arising from increased government spending are not financed by printing money, heightened public debt levels will put upward pressure on interest rates, and threaten nations' creditworthiness as well as household and business confidence. There is also the risk of a global bond market crash of the sort experienced in 1994.[15] Leading market economists such as Michael Knox of Morgans are already speculating on a bond bear market (i.e. with crashing prices and soaring yields/interest rates) in a few years' time.[16] The yield curve is already starting to steepen, reflecting rises in long term bond rates.

Higher public debt adds to uncertainty and implies retaining or increasing already high income and company taxes, which will stymie future investment and productivity. At the same time, escalating public debt bequeaths huge repayment obligations to future generations and reduces the capacity to react to future crises.

13 Alesina and Summers (1993) identified the negative correlation between central bank independence and inflation rates in advanced economies.

14 Friedman (1990, p. 194).

15 There was a large global sell off of bonds in 1994 after the Fed increased the Federal Funds Rate much more than the bond market was expecting. To illustrate, at the start of 1994, the yield on 10-year Australian Government bonds was 6.68 per cent, but by the end of 1994 the yield was 10.04 per cent.

16 Knox (2021).

Even before the CVC, a worldwide rise in public debt contributed significantly to a surge in total debt. Global debt — private plus public debt — stood at a record high of around 225 per cent of world GDP pre-COVID, some 12 per cent higher than before the GFC (IMF 2021). Global public debt was mostly owed by advanced economies that went in to the GFC with already historically high public debt levels. A debt surge followed in 2020, as economic activity shrank and governments provided assistance during the pandemic. Most of the increase was due to higher public debt in emerging economies and advanced economies.

Japan, an economy that has performed tepidly since the 1980s, holds the record for excessive public debt, with gross public debt around 250 per cent of its GDP and net debt of around 170 per cent of GDP.[17] Despite continuing government budget deficits, its economy has not recovered the dynamism it experienced from the 1960s to the late 1980s before its asset bubble burst. Other advanced economies run the risk of 'turning Japanese' in the absence of serious fiscal consolidation.

Before the CVC, Australia had relatively low public debt by OECD standards. However, we will now see general government public debt almost double as a proportion of GDP in just a few years, from 42 per cent in 2019 to 80 per cent by 2024, comparable with the level reached in the early post-World War II years. As Robert Carling (2021) points out, this escalation of public debt will put government credit ratings at risk, slow future economic growth and limit the capacity to respond to subsequent crises. Ratings agencies S&P and Fitch already have a negative outlook for Australia's AAA credit rating, meaning they may downgrade it if Australia's public debt trajectory materially worsens. This would result in higher borrowing costs for Australia across the spectrum.

Post GFC, federal and state government debt has mostly ended up being owed to foreigners, albeit in Australian dollars. As a result, public debt interest paid abroad reduces national income dollar for dollar, as it must be subtracted from GDP to derive the national income measure. Hence public debt entails a significant drain on national income through public debt interest paid on foreigners' bond holdings, which is already a multiple of the foreign aid budget and many other federal government programs.

Foreign capital inflow chasing government bonds issued to fund government spending-driven budget deficits appreciates the country's real exchange rate, other things being equal. This means a loss of international competitiveness and crowding out of net exports — which also retards economic growth.

MMT advocates appear unconcerned about such a risk, as they believe so-called monetary sovereigns do not have to worry about bond markets and can simply print whatever money is required by the Treasury. In her book Kelton writes:

> …it's a mistake to apply the crowding-out story to monetary sovereigns like the US, Japan, the UK, or Australia.[18]

While right to identify Australia as having a relatively privileged position relative to many other countries, the concept of a monetary sovereign is a dangerous one. Were Australia to exploit this position, and simply monetise its deficits (directly through RBA purchases of new bonds sold at Australian Office of Financial Management auctions or indirectly through QE), it would risk long-term, persistently high inflation that would jeopardise our status as a 'monetary sovereign' (whatever that means).[19]

7. Could Higher Taxes Curb Inflation?

Fiscal policy has not been used as the primary instrument for managing short-run aggregate demand since the 1970s; with the exception of the GFC when fiscal stimulus packages were widely adopted worldwide. A lesson from the disastrous decade of the 1970s was that short-run macroeconomic management was best assigned to central banks conducting monetary policy at arm's length from government, the main objective being inflation control.

MMT restores fiscal policy as the primary instrument for managing short-run aggregate demand in all circumstances. It assumes an unbelievable ability of the government to fine tune the economy, to adjust its budget in such a way as to provide just the right amount of expansionary or contractionary fiscal policy, adding or subtracting just the right amount of money, to control GDP and inflation. As noted above, the experience of the 1970s and early 1980s with stagflation — representing a breakdown of the Phillips Curve — suggests fine tuning via fiscal policy is impossible.

The traditional fine-tuning story misses the role of inflationary expectations. In practice, an increase in inflation as an economy reaches full employment could

17 International Monetary Fund (2021).

18 Kelton (2020, location 2019 Kindle).

19 Makin, Robson and Ratnasiri (2017) show that, historically, the relationship between growth in base money and inflation in Australia has been very strong.

foster inflation expectations, and therefore inflation can get out of control, before the fiscal authorities (a) recognise the problem, (b) do something about it and (c) the 'something' has any effect — let alone exactly the right effect.

Practical problems also arise with this proposal in the Australian context. Raising taxes is presumably meant to curb aggregate demand by reducing household disposable income. The more spending on basic goods and services is curbed, the more effective tax increases are in reining inflation in. However, tax changes require legislation, so cannot be speedily implemented. Furthermore, close to half of the Australian population pay net zero tax after allowing for welfare payments. As these people spend most of their income on basic goods and services, to be effective, higher tax rises would have to fall on them and hence would be highly inequitable.

If instead, tax rises were skewed to already heavily taxed high-income earners, the impact on aggregate demand would be less, as they tend to save more. In addition, work effort — and hence aggregate supply — would be reduced, due to adverse incentive effects. If inflation persisted and attempts to control it this way continued, the tax take as a percent of GDP would just keep escalating with dire consequences for productivity.

8. A Drag on Productivity

MMT risks a return to an era of sluggish productivity growth and declining relative living standards by promoting the idea of the government as employer of last resort. Australia tried this approach up until the 1980s when the cost of it became clear, with Australia slipping down the OECD league table of living standards. Public trading enterprises such as railways or electricity generators or networks end up hiring excess labour, with adverse consequences for productivity. Furthermore, taxes need to be higher than otherwise to support such a policy, and they have adverse economic efficiency impacts.

MMT could also justify public investment in white elephant projects or uneconomic 'nation building' constructs. Australian examples arguably include the Snowy Mountains Scheme[20], Building the Education Revolution school halls across Australia, the Ghan railway, and Brisbane's Cross River Rail subway system, currently under construction, and similar projects not subjected to rigorous cost benefit appraisal beforehand.

As noted above, there is great concern over the quality of public expenditures and investments that will be made by governments if MMT prompts governments to abandon the concept of a budget constraint and the need to ensure value for money.

20 Concerns about the economic viability of the Snowy Mountains Scheme raised in the 1960s are noted in Macintyre (2015, p. 423). For the bibliography: Macintyre, Stuart (2015) Australia's Boldest Experiment: War and reconstruction in the 1940s, University of NSW Press.

9. Conclusion

What academic credence does MMT have then? In short, very little.

MMT ignores the evidence that direct money financing of government spending ultimately generates high inflation; indeed, hyperinflation that cannot easily be brought under control. Argentina, Venezuela and Zimbabwe are currently experiencing such a problem. In fact, Argentina, which had a comparable standard of living to Australia over 100 years ago, exemplifies the consequences that follow from MMT-like policy prescriptions. It has been bailed out more than 20 times by the International Monetary Fund since 1950 as result of high budget deficits, high inflation and public debt.

With Argentina's inflation currently running at 36 per cent and a budget deficit of 8.5 per cent of GDP, its former President and current Vice President, Cristina Kirchner, opposes the fiscal consolidation the IMF has been insisting on as a condition for further financial assistance by declaring that "Here, economic activity is driven by demand. And there is no other way to stimulate demand than through salaries, pensions and affordable food prices."[21] That is MMT in practice.

In sum, MMT is essentially a primitive Keynesian doctrine that ignores decades of theoretical and empirical peer-reviewed research discrediting key aspects of Keynes' original theory.[22] It has been touted as macroeconomics for the 21st century but, in reality, is a reversion to the primitive macroeconomics of the mid-20th century.

Large budget deficits due to increased government spending — and the monetisation of higher public debt that arises as a result — are not a concern, according to MMT. But both the size of government and public debt have long term consequences; in terms of higher interest bills, higher taxes than otherwise and lower future economic growth.

It has been said that MMT could also stand for Magic Money Tree economics. It could stand as well for Mistaken Macroeconomic Theory that is hoping to take you away on a Magical Mystery Tour; yet alas, one that would end as a bad trip. Those who believe otherwise have been hoaxed.

21 As quoted in The Wall Street Journal, 30 January 2021.

22 See Makin (2018) for related discussion.

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About the Authors

Tony Makin

Tony Makin is Professor of Economics at Griffith University and has previously taught at the University of Queensland, the Lee Kuan Yew School of Public Policy at the National University of Singapore, and in the Australia and New Zealand School of Government (ANZSOG) program. His field of expertise is international macroeconomics and public finance and he has previously served as an economist with the International Monetary Fund and in the Australian federal departments of Finance, Foreign Affairs and Trade, The Treasury, and Prime Minister and Cabinet. He has also been Director of the APEC Study Centre at Griffith University, and Australian convener of the structural issues group of the Pacific Economic Cooperation Council (PECC).

Gene Tunny

Gene Tunny is Director of Adept Economics and a 1997 CIS Liberty and Society alumnus. He is a former Australian Treasury official who has managed teams in Treasury's Industry and Budget Policy divisions. In recent years, in addition to a wide range of domestic and international consulting projects, Gene has led several courses for foreign officials as part of University of Queensland International Development teams. Gene is a regular economics commentator in Australian and international media. In late 2018, his book *Beautiful One Day, Broke the Next: Queensland's Public Finances Since Sir Joh and Sir Leo* was published by Connor Court. He has a first class honours degree in economics from the University of Queensland.

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