



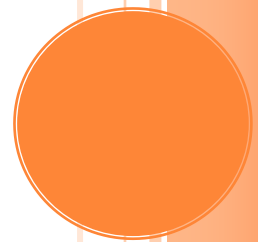
MACROECONOMIC
Analysis & Policy Studies

MMT: A Brief Overview

Student Research Internship Report

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Key challenges to orthodox macroeconomics that led to the birth of MMT

There is some truth, perhaps, in considering that orthodox macroeconomics has analyzed economic behavior under existing institutions, given a dogmatic approach with irrational and pre-existing conditions such as the fiscal deficit being 3% of the GDP. Yet, there has been much discussion about the critical heterodox changes needed to bring societies to the point where they should be capable of innovative policies, heterodoxies, and modern monetary theories, albeit, can they?

Having read about the highly debatable topic of public finance through deficit spending remains a controversial topic among many since many would agree that government financial policies require choosing through the vast burden of taxes, the sale of interest-run debt duties, and the 'printing'/creation of government money, (Viz. Venezuela and Zimbabwe are prime examples of orthodox macroeconomic failure) and thus there is often far, widespread and robust disagreement regarding the macroeconomic consequences of these choices.

So-called 'good' macroeconomic policies aim and attempt themselves such that we hit a reasonable pace of growth of aggregate nominal demand and controlled inflation, and we fail at that. Be it India or most developing countries. Thus, a relatively 'newer' approach was needed, and it was MMT. However, a forewarning, the literal definition of MMT is a bummer.

The literal definition of MMT is disappointing

The word 'modern' is quite an irony in the case of Modern Monetary Theory, given the fact that its development began in the early 18th Century. Albeit, the word 'modern' rather implies its modernity at any point of time in the sense that it has dynamic relativity, which cannot be substantiated.

While the word 'theory' is not justifiable for MMT, this is because a theory is more of a consequence of a set of ideologies intended to achieve a precise goal in exploiting a system that employs said theory to determine what can be discovered in Einstein's words. And MMT tries to depict and attempt it but has some significant failures too.

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So, to quote,

"Everyone names everything wrong" — Richard Feynman, Nobel Prize Winner.

The concept is put pretty well and is not disappointing (yet)

The concept of MMT appeals to me because it recognizes diverse plural sovereignty, which allows states to control the value of their currencies. Psychology and behavioral economics prove that individuals and institutions rely on natural hierarchies for survival and connect with concepts that are more likely to stand the test of time. The same is in the case of MMT. In addition, implementing a sovereign monetary policy is perhaps the most significant way to avoid any attempt at globalization and totalitarian absolutism, one model for the world that has been shown wrong and is a failed attempt to welcome the world's plurality.

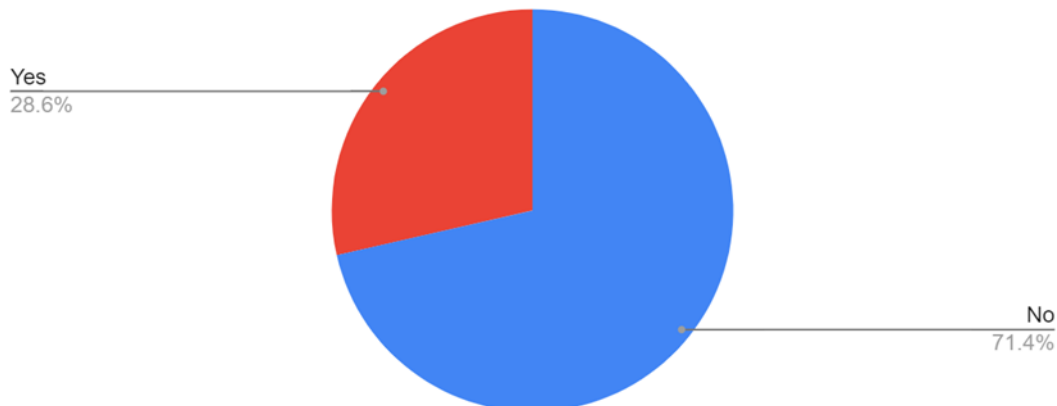
Governments that control their currency, according to Modern Monetary Theory, should spend without limit on programs that they deem valuable because they can always generate more money to pay off obligations. Larger independent governments, on the other hand, cannot run out of money and hence should have few financial restrictions when it comes to high expenditure and debt levels.

The convergence of monetary and fiscal policy inevitably leads to an analysis of Modern Monetary Theory (MMT) and how to project inflation in the future, given the Fed's significant involvement in subsidizing the US federal government's budget deficit.

Do students know about the concept of MMT?

To observe whether students knew about the concept of MMT, I ran a survey amongst my university, and mind you; these are students with a bachelor's in Economics. The result was astonishing.

Do you know about the concept of MMT? (162 responses)



Source: Google Form circulated amongst university students about their knowledge about MMT.

Out of 162 respondents on the survey, only 53 students had ever even heard about the concept of MMT. That is just 28.6% approximately students studying a bachelor's in economics know what MMT is!

Another way of looking at MMT is through this beautiful example:

Assume that instead of robbing the wealthy, Robin Hood created undetectable counterfeit money and distributed it to the poor, who then spent it in rich-owned stores. As a result of the increasing demand, the wealthy may produce at a larger scale and hence at a lower average cost, resulting in more commodities for the poor and more profits for the wealthy.

Also, assume that, on occasion, Robin does not donate the money to the poor but instead uses it to develop and repair local infrastructure used by both the rich and the poor. As a result, the cost of delivery and service decreases, and the same advantageous outcomes as those described in the above paragraph occur.

According to MMT, there is a certain quantity of counterfeit money that would produce these results. MMT also claims a level of counterfeit would saturate the market, generate inflation, and ultimately destroy the currency. In short, that's MMT.