THE MAGIC MONEY TREE:

The case against Modern Monetary Theory

Antony P. Mueller

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ABOUT THE AUTHOR

Professor Antony P. Mueller studied economics, political science, and philosophy along with foreign relations in Germany with study stays in the United States (Center for the Study of Public Choice in Blacksburg, Va.), in England, and in Spain and obtained his doctorate in economics from the University of Erlangen-Nuremberg (FAU). He was a Fulbright Scholar in the United States and a visiting professor in Latin America - including two stays at the Universidad Francisco Marroquin (UFM) in Guatemala. Currently, Antony Mueller teaches in the economics department of the Brazilian Federal University UFS where he also participates in the doctoral program in economic sociology.

EXECUTIVE SUMMARY

- Modern Monetary Theory (MMT) contends that government can spend without restraint and large deficits and debt don't matter when the economy is not at full capacity. It asserts that the state, as the issuer of the nation's currency, cannot go bankrupt because it can just keep creating and printing money; taxation exists not to obtain revenue but to oblige people to use a nation's currency and control inflation; and that all public expenditure can be financed by debt or creating money.

- MMT, whose theoretical foundations can be linked to the Marxist economic theories of Michal Kalecki, have come to prominence in recent months because of advocacy by the far-left of the Democratic Party in the United States and some left-wing commentators and campaigners in the United Kingdom.

- MMT advocacy, particularly in the political sphere, is often driven by Utopian thinking by those who want massive unaffordable public spending programmes.

- MMT is rejected by most economists. A recent survey by the University of Chicago found that no economic expert thinks that countries that borrow in their own currency need not worry about deficits because they can print money to finance debt. Similarly, none thought that it is possible to fund as much real government spending as you want by creating money.

- There are a number of serious flaws in MMT:
    - MMT asserts, with limited evidence, that there is substantial unused economic capacity that government spending can activate. However, in practice, when government excessively expands the monetary supply (prints money) the impact is inflationary, if not hyperinflationary - as was the case in the Weimar Republic, Zimbabwe, and today in Venezuela.
    - MMT depends on governments knowing much more than they possibly could and acting more rationally than politics allows. It depends on government knowing precisely the natural rate of unemployment, and therefore when to spend, to stimulate activity, and when to tax, to drain the excessive inflationary impact of creating money. This ignores ignorance.
    - MMT is premised on substantial public employment policies to create economic activity for the unemployed. This policy underestimates the bureaucratic costs and the coordination problems that come with public employment policies. Only autocratic governments would have the means to enforce such policies.

INTRODUCTION

In just a few months so-called "Modern Monetary Theory" (MMT) has surged from obscurity to prominence. Until recently, the attention given to MMT in economics has been negligible and its policy impact nil. The trigger for the launch of MMT to notoriety are self-described socialists within the Democratic Party's call for a 'Green New Deal' for America, including net zero-interest rates, public job guarantees, and 'Medicare for All'.[1] The promoters of the 'Green New Deal' claimed that MMT provided justification for their massive public spending plans.

This movement in the US has prompted discussion about MMT in the UK in recent months.[2] While not explicitly based on MMT, Opposition Leader Jeremy Corby has called for a 'People's Quantitative Easing (PQE)': requiring the Bank of England to create money to fund infrastructure and apprenticeships via a 'National Investment Bank,' with the goal to create a million new jobs.[3] This is

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1 Murphy, Robert. 2019. "Study Estimates The Green New Deal To Cost $93 Trillion — That's A Conservative Estimate". https://mises.org/wire/study-estimates-green-new-deal-cost-93-trillion-%E2%80%94-thats-conservative-estimate.

2 See, for example, Larry Elliott, "As Recession Looms, Could MMT Be the Unorthodox Solution?," *The Guardian*, March 17, 2019,

3 Jeremy Corbyn, "Invest in our Future," *Huffpost Blog*, July 8, 2015,

similar to many proposals put forward by MMT supporters. British advocacy group *PositiveMoney* have also put forward ideas based on similar ideas to MMT.[4] Following in the footsteps of the 'Green New Deal', *PositiveMoney* has called for the Bank of England to "channel billions into green investment," that is, to use the capacity of the bank to create money for explicitly ideological investment purposes.[5]

Despite the growing attention in public debate, the rejection of the MMT is very broad, from neoclassical to new Keynesians and Austrian economists. A recent survey by the The University of Chicago Booth School of Business' IGM Forum found that no economic experts think that countries that borrow in their own currency need not worry about deficits because they can print money to finance debt.[6] Similarly, none thought that it is possible to fund as much real government spending as you want by creating money. Nevertheless, MMT demands a serious discussion. After all, as John Maynard Keynes once rightly observed, economic ideas are powerful "both when they are right and when they are wrong".

The proponents of MMT claim that since a government that issues its own currency cannot go bust, it is possible to use printing money to fund substantial government spending with the goal to deliver full employment. The adherents of the MMT admit that there are resource limits. If inflation eventuates from creating money it can be dealt with subsequently with fiscal policy, that is, targeted tax increases. MMT ignores ignorance. No-one knows the exact position of the natural unemployment rate, or could know when and how

4 Rob Macquarie "Modern Monetary Theory and Positive Money,Part 1," *PositiveMoney*, September 3, 2018,

5 PositiveMoney,"Bank of England: Put your money where your mouth is - unleash green investment now!," *Action Network*,

6 IGM Forum, "Modern Monetary Theory," March 13, 2019, http://www.igmchicago.org/surveys/modern-monetary-theory,

to start taxing to avoid inflation after the monetary supply has been expanded, for example. The proponents of MMT may use a concept such as Non-Accelerating Inflation Buffer of Employment Reserves (NAIBER) as a theoretical construct in a model. Yet to apply them to policy is another matter. In order to fulfil the task which MMT sets for the state to accomplish, governments would have to know much more than they possibly could and act more rationally than politics allows.

MMT serves as an academic alibi to a Utopian policy agenda. If there is no fiscal restraint for public spending, opposition to huge public expenditure programs loses its legitimacy and projects like 'Medicare for All', free college attendance for the masses, a 'Green New Deal', and a comprehensive upgrading of the country's infrastructure can be launched with gusto. MMT provides the sales pitch for the agenda of socialists that hope that scarcity could be abolished with the right policy. In practice, however, it is most likely to have disastrous consequences - most prominently, excessive inflation and a collapse in investment.

1. WHAT IS MODERN MONETARY THEORY?

Modern Monetary Theory (MMT) is neither a modern nor a monetary theory. MMT claims that a sovereign state that produces its own money faces no fiscal restraint. While there is no dispute about this statement, the challenge of MMT comes from the claim that government can and should spend as much as it can. Only price inflation is a limit.

The proponents of MMT propose that through proper employment policy, the government can achieve full employment, overcome the short-term trade-off between employment and prices and actually move the natural employment rate to the full employment level.

Modern Monetary Theory claims that the government of a sovereign state that produces its own currency does not depend on revenue from taxation to finance its expenditures. Money itself is the creation of the state and as such it comes into circulation through government expenditure. Taxation serves not primarily to finance the budget but to oblige the population to accept the state money in the private sector.

Modern Monetary Theory takes a few correct economic insights, exaggerates their relevance and ignores the rest. There is no doubt that the issuer of fiat money cannot go bankrupt, but this does not do away with the law that production comes before consumption. The adherents of MMT are right to say that the sovereign can create as much fiat money as it wants, but this does not do away with the law of scarcity. In as much as money becomes less scarce, its value falls even if it is still the only currency that the state accepts as a tax payment.

Economics attracts its fair share of cranks and quacks, but they are most likely to be found in the sub-discipline of money.

Modern Monetary Theory is promoted by a small but very active group. Publications date back to the 1990s, but the number of publications has accelerated more over the past couple of years and even led to a textbook in 2019.[7] Prominent representatives of MMT include L. Randall Wray, Stephanie Kelton, Michael J. Murray and Mathew Forstater, Warren Mosler, and Bill Mitchell and Joan Muysken.[8] Reviews of the MMT approach in academic journals are rare.[9]

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7 Watts, Martin, William Mitchell, and Randall Wray. 2019. Macroeconomics. 1st ed. Macmillan.

8 Wray, L. Randall. 2012. Modern Money Theory: A Primer On Macroeconomics For Sovereign Monetary Systems. 2nd ed; Murray, Michael J, and Mathew Forstater. 2017. The Job Guarantee And Modern Money Theory: Realizing Keynes' Labor Standard; Mosler, Warren. 2010. 7 Deadly Innocent Frauds Of Economic Policy; Mitchell, William, and Joan Muysken. 2008. Full Employment Abandoned. Cheltenham: Elgar.

9 Palley, Thomas I. 2014. "Money, Fiscal Policy, And Interest Rates: A Critique Of Modern Monetary Theory". Review Of Political Economy 27 (1): 1-23.

In its simplicity, Modern Monetary Theory is seductive to those who see in the state the prime promoter of prosperity and justice. MMT is a theory which apparently justifies substantially increased government spending, combined with a public job guarantee, and downplays the risks of inflation. Modern Monetary Theory is the "anti-austerity" - theory *par excellence*.[10]

There is no dispute about the basic tenets of the concept. Conventional economics fully agrees, first, that the issuer of a country's fiat money faces no financial constraints, and, second, that the budget deficit of the government has its counterpart in the financial surplus of the other sectors of the economy. Indeed, it is the essence of a "fiat" money that it can be created at will by the sovereign, and in this respect, there is no limit to its expansion. The problem with excessive monetary expansion is price inflation. While the adherents of Modern Monetary Theory do not dispute that an economy faces constraints by the limits of its productive capacity, they claim that government can extend these limits by proper employment policies and governmental investment management.

Beyond this accordance, Modern Monetary Theory claims to provide a unique theory of an economy that is based on fiat money and credit: modern economies use state money and thus face no fiscal constraint. Origins of this idea can be found in the so-called "chartalism" and the "state theory of money" of German economist Friedrich Knapp.[11] These ideas influenced Keynes in his General Theory who, however, admonished against the neglect of inflation and of the threats of permanent government deficits.[12]

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10 Blyth, Mark. 2013. Austerity: The History Of A Dangerous Idea.

11 German original 1905, English edition 1924, see Knapp, Georg Friedrich. 1924. "The State Theory Of Money.". Journal Of Political Economy 34 (3): 404-406.

12 Keynes, John. 1936. "The General Theory Of Employment, Interest And Money."

In his "The Economic Consequences of Peace", Keynes states that there is "no subtler, no surer means of overturning the existing basis of society than to debauch the currency.[13] The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose." For policy positions such as that "deficits don't matter", Modern Monetary Theory cannot claim John Maynard as its ancestor. The origin of MMT rest with the radical ("hybrid") branch of the Keynesians.

Under a fiat money regime, a government can finance its deficit and spend more than it earns as revenue not only by selling bonds but also by issuing currency. Financing a part of government expenditures through the issue of a nation's currency is well-known to mainstream economics where it is discussed under the concept of "seigniorage".[14]

Yet the advocates of MMT go a step further and claim that taxation and the sale of bonds come in only as a second tier and that the issue of high-powered ("sovereign") money can serve fully as the vehicle to finance a budget deficit. Furthermore, so the reasoning goes, because there is no limit for the government to issue new state money, there is also no fiscal limit for government spending. With reference to the concept of "functional finance", which also grew out of the Keynesian Revolution, the advocates of MMT see taxation not as a necessary instrument to fund the government, but as a control tool to absorb an excess of money creation if need be.[15]

From this approach follows the conclusion that "it is possible to have

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13 The Economic Consequences of the Peace. 1919. As reprinted in Keynes' Collected Writings, Vol. II. London: Macmillan, 1971, p. 149

14 Seigniorage Definition From Financial Times Lexicon". 2019. Lexicon.Ft.Com. http://lexicon.ft.com/term?term=seigniorage.

15 Lerner, Abba P. "Functional Finance and the Federal Debt." Social Research 10, no. 1 (1943): 38-51. http://www.jstor.org/stable/40981939.

truly full employment without causing inflation".[16] Such a promise falls on open ears of politicians like Alexandria Ocasio-Cortez who want more public spending to realize their plans of environmental protection and social justice.[17] For the backers of MMT, their policy would not only guarantee full employment but also lay the basis for 'Medicare for All' and comprehensive environmental policies. It would appear, therefore, that advocacy for MMT is largely driven by political motivated reasoning.

The promoters of MMT distinguish between the government as the "currency issuer" on the one hand and households and businesses as the "currency users" on the other hand. As a currency issuer, the federal government is not bound by financial restraint. Therefore, the federal government can use the money to bring the country to its full potential and achieve the nation's greatest aspirations. MMT also makes a distinction between "bank money" as credit created by commercial banks, and "currency", which only the sovereign can bring into existence. As the sole issuer of currency, the federal government does not need money for its spending. In the view of the followers of the MMT approach, the purpose of taxation is not to finance government spending in the first place but to incentivize the public to use the sovereign currency. For that purpose, the government stipulates the use of the sovereign currency as the only type of money which can serve as a means to honor tax obligations.

16 Wray, L. Randall. 1999. Understanding Modern Money. Edward Elgar Pub.

17 Relman, Eliza. 2019. "Alexandria Ocasio-Cortez Says The Theory That Deficit Spending Is Good For The Economy Should 'Absolutely' Be Part Of The Conversation". Business Insider. https://www.businessinsider.com/alexandria-ocasio-cortez-ommt-modern-monetary-theory-how-pay-for-policies-2019-1?r=US&IR=T.

2. MOSLER ECONOMICS

The original impulse to formulate a new monetary economics came from Warren Mosler. He inspired a group of economists to elaborate on his basic thesis that when there is a sovereign state money, deficits do not matter, and the government can achieve full employment and pursue its great aspirations.

According to Mosler, economists and the public, in general, have been under the spell of "seven deadly innocent frauds".[18] It has been taken for granted, first, that a government should conduct its financial matters like a private household which needs income before it can spend. Mosler claims that as the issuer of the nation's currency, governments need not tax and borrow to spend. Second, it is wrongly believed, Mosler explains, that the accumulation of public debt in the past and present would put a burden on the shoulders of future generations, and worse, third, that deficits would absorb savings. The fourth myth, according to Mosler, is the proposition that the social security payments could not be upheld in the future and

18 Mosler, Warren. 2010. 7 Deadly Innocent Frauds Of Economic Policy.

that the old age pension system is in a precarious financial situation. Furthermore, Mosler also claims that contrary to what is generally held to be true, the U.S. trade deficits will not reduce domestic employment and put the American economy at risk because of the accumulation of foreign debt that comes with persistent current account deficits. The sixth myth that Mosler wants to denounce is the proposition that savings are the precondition of investment and that government spending and budget deficits would lead to lower private investment. Rather, so the final point in Mosler's catalog, larger budget deficits now do not lead to a higher tax burden in the future.

For the adherents of MMT, money is debt and not primarily a medium of exchange. First, the function of money is to serve as a unit of account. Money comes into existence as a state monopoly and its acceptance is driven by its use as a means to honor taxes. Money comes into circulation through the state and receives its value because the state designates its specific form of money as the token with which the citizens of this state must pay their taxes. In this sense, the value of money is socially determined. Authorities play a central role in the establishment and for the functioning of the modern monetary system. Money is a product of the state and not the result of a spontaneous emergence of the market economy. In the view of MMT, the monetary system was brought into existence by the state and was developed in order to move private resources to the public purpose under the guidance of the sovereign. In the past, the monarch used the money to obtain resources for the crown. In the modern democracy, money serves the public purposes. The adherents of MMT emphasize that money is a state creation and functions as a social construct between the sovereign and the people.

The logic of MMT says that because the government creates money by its own spending, taxation is not necessary to finance comprehensive state activity. For the advocates of MMT, the main function of taxation is to motivate the state's subject to use and accept the state currency and to obtain its general acceptance because it is that unit of account which the state recognizes as the means to pay taxes. Beyond that, taxation has a regulatory function to siphon off excess demand and modify individual behavior (sin tax)[19] as well as to serve as an instrument for environmental policy. There is no need for a positive interest rate and beyond its use for regulation, there is no need for taxation because the government can spend as much money as it wants.

For the promoters of Modern Monetary Theory, public debt poses no fundamental problem. First, because under a fiat money system, the government can always pay its debt through money creation and, second, because future consumption depends on future production - irrespective of the level of debt. What counts is the performance of the economy in the future, and, so Mosler claims, by public spending today, the economy can be more productive in the future. Insufficient savings do not restraint public spending because budget deficits have as their counterpart private savings.

"Deficits don't matter" is the fundamental mantra of Modern Monetary Theory. This statement's true meaning is the claim that scarcity does not exist. Neither budget deficits nor trade deficits pose a problem for the performance of the economy when there is allegedly unused economic capacity. On the contrary: both are a boon. Because public spending creates the necessary savings to finance the budget deficit, the government (or its central bank) can set the interest rate at any level it wants to, preferably at zero. According to Mosler, the great promise of Modern Monetary Theory is "to pro-

19 "Sin Tax". 2019. Investopedia. Accessed April 9. https://www.investopedia.com/terms/s/sin_tax.asp.

mote the restoration of American prosperity".[20] Mosler's policy catalog includes a "full payroll tax holiday", a program of federally funded transition jobs whereby everyone who is willing to work gets paid by the government until he finds private sector employment. Mosler demands universal health care: "Medicare for All".

The promoters of MMT challenge the common view that government needs taxation to spend. In fact, according to Mosler, it is the other way around. The government creates money through its spending. Taxation serves as a means to oblige the public to accept the state currency. The level of taxation serves as a tool in the hands of the government to regulate effective demand and siphon-off an excess of money. A currency issuer can never go broke. Therefore, the federal government as the issuer of the US-dollar as the nation's currency, or the Bank of England and the government as the issuer of the pound, can do by its own will what it deems necessary to afford. The government has no need for external funding either. For the adherents of MMT, the national debt is a record, it represents the accumulated deficits of the past and as such is a register of the net amount of currency the federal government has created over time.

Modern Monetary Theory claims that understanding the power of currency creation means to abandon the self-imposed restrictions of debt ceilings and to forgo the requirement of a balanced budget. Adopting the insight of Modern Monetary Theory would free the government from false restrictions and open the gateway to full prosperity. The political backers of MMT claim that freed from the shackles of financial restraint, the federal government could restore the nation's infrastructure, invest in health and education, and guarantee internal and external security. Mosler's vision says that with the application of Modern Monetary Theory the nation would

20 Mosler, Warren. 2010. 7 Deadly Innocent Frauds Of Economic Policy.

achieve full employment. Freed from the fiscal restraint, the federal government could spend on the well-being of the sick and old people.

3. THEORETICAL FOUNDATIONS

The adherents of Modern Monetary Theory do not follow a secret formula. On the contrary, they promote its wide distribution to convince the world that a budget deficit has as its counterpart a private savings surplus.[21] The basic formula of MMT serves to justify the claim that deficits do not matter because they are self-financing.

Based on the macroeconomic equation for aggregate demand with the components consumption (*C*), investment (*I*), government (*G*) and net exports (*NX*) and the use of income for consumption (*C*), paying taxes (*T*) and savings (*S*), the macroeconomic equilibrium of an open economy with state activity becomes:

$$0=(\mathrm{IPR}-\mathrm{SPR})+(\mathrm{G}-\mathrm{T})+(\mathrm{EX}-\mathrm{IM})$$

21 Network, The AIM. 2016. "What Is Modern Monetary Theory And Will It Help? - The AIM Network". The AIM Network. https://theaimn.com/modern-monetary-theory-will-help/.

In case that there are no external account balances (*EX* = *IM*), the equation shortens to:

$$(G - T) = (SPR - IPR)$$

From this, it follows that government spending (*G*) that exceeds tax receipts (*T*) has at its counterpart an equivalent excess of private savings (SPR) over private investment (*IPR*):

$$(G > T) \Leftrightarrow (SPR > IPR)$$

The advocates of MMT interpret this result as a "proof" that a government deficit (*G* >*T*) is automatically self-financing because it necessarily comes with a savings excess in the private sector (*SPR* > *IPR*).

From that, the main thesis of Modern Monetary Theory says that the issuer of a currency who enjoys the status of the legal tender faces no financial restraint. Consequently, there is no inherent limit to public debt. The proponents of MMT recognize that too much spending may cause inflation. However, they do not see the problem in the money supply but suggest that any excess of demand could be siphoned-off by appropriate taxation. Because the government has the authority over money and thus can spend as much it wants without facing a financial constraint, the problem of taxation as a form to finance public spending falls into the second tier.

The supporters of MMT argue that the causal relation runs from the public sector deficit to savings.[22] The basic equation of this theory says that, *ceteris paribus*, a public sector deficit implies the equivalent in national savings. Considering the Modern Monetary Theory, investment creates the savings by which it is financed. In the mod-

22 Mosler, Warren. 2010. 7 Deadly Innocent Frauds Of Economic Policy.

ern credit market of pure fiat money, loans create deposits. It is not necessary to have deposits first as a result of savings. Budget deficits do not lead to a higher interest rate. In a world of pure fiat money, so runs the argument, the "natural rate of interest" would be zero.

The policy mix of the Modern Monetary Theory includes a permanent zero interest rate, and is then typically mixed by its proponents with public job guarantee and and Medicare for All.[23] The main position of MMT comes down to the claim that beyond the risk of inflation, unhampered public spending faces no restraint.

Modern monetary theory is based on ten key assertions:

1. The government has a monopoly over the currency;
2. The value of money comes from currency's usefulness to pay taxes;
3. The government does not need money to spend, it creates money in terms of digits as units of account that are used as money in the economy;
4. The sovereign state as the issuer of a fiat currency is not a household;
5. Budget deficits are not harmful when there is unused capacity;
6. Through budget deficits, extra money comes into the economy and increases savings;
7. Taxation serves to siphon off a casual surplus of aggregate demand;
8. Price inflation is a constraint to unlimited monetary expansion;
9. The faith in government bonds rests on its equivalent to currency; and
10. Interest rates are not set by the markets, but by the government.

23 Forstater, Mathew, and Warren Mosler. 2005. "The Natural Rate Of Interest Is Zero". Journal Of Economic Issues 39 (2): 535-542. doi:10.1080/00213624.2005.11506832.

For the adherents of MMT, the national debt is no problem because its counterpart represents financial wealth. As Stephanie Kelten explains:

> *"The national debt is nothing more than a historical record of all of the dollars that the government spent into the economy and didn't tax back that is currently being held in the form of safe U.S. Treasury bonds. That's what the national debt is. Thus, the question about whether the debt is too big or too small (or whether it might get too big at some point in the future) is really a question about whether that's too many safe assets for people to hold 10, 20, 50 years from now."*[24]

The defenders of Modern Monetary Theory acknowledge that there is a resource limit, yet they claim that it is much further out than conventional economic policy assumes. With the right policies, MMT claims, the so-called natural unemployment rate can be much lower as conventional textbooks posit it as the non-accelerating inflation rate of unemployment (NAIRU). The adherents of MMT assert that when the government finetunes public spending and taxation and puts a comprehensive governmental employment system in place, policy can push down the natural unemployment rate to full employment.

Different from the aggregate approach of Keynesian deficit spending, the promoters of Modern Monetary Policy want to target specific areas to timely eliminate bottlenecks of production - be it labour or capital.[25] Policies of this kind are a rehash of 1960s planification pro-

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24 "Bernie Sanders' 2016 Economic Advisor Stephanie Kelton On Modern Monetary Theory And The 2020 Race". 2019. CNBC. https://www.cnbc.com/2019/03/01/bernie-sanders-economic-advisor-stephanie-kelton-on-mmt-and-2020-race.html.

25 Mitchell, William, and Joan Muysken. 2008. Full Employment Abandoned. Cheltenham: Elgar, pp. 239.

jects in France and Britain and of the liberation schemes of the economic programs of the radical student movement of that time.[26] As also Keynes had insinuated in his Notes on the Trade Cycle, the plan is to take away the "investment function" from private business to government.

The adherents of MMT envision an economy where the government will implement a state-run employment administration policy with an overall job guarantee. They claim that with the help of a buffer stock for capital and labour, policy could escape from the trade-off between inflation and unemployment of the short-run Phillips curve and to move the natural unemployment rate of the long-run Phillips curve to full employment.[27]

26 Jacques Leruez, "Britain, France and Economic Planning in the 1960s: The Commissariat Au Plan: Role Model or Counter-Model?," in _Anglo-French Relations 1898–1998: From Fashoda to Jospin_, ed. Philippe Chassaigne and Michael Dockrill, Studies in Military and Strategic History (London: Palgrave Macmillan UK, 2002), 174–88; "An Essay On Liberation By Herbert Marcuse 1969". Marxists.Org. https://www.marxists.org/reference/archive/marcuse/works/1969/essay-liberation.htm.

27 Robert J Gordon, "Friedman and Phelps on the Phillips Curve Viewed from a Half Century's Perspective," Working Paper (National Bureau of Economic Research, August 2018); Watts, Martin, William Mitchell, and Randall Wray. 2019. Macroeconomics. Macmillan, ch. 19 & 21.

4. THE NEO-MARXIST ROOTS OF MMT

The thesis that "deficits don't matter" does not go back to the English economist John Maynard Keynes, but to the much less known Polish economist Michal Kalecki (1899-1970). This self-described Marxist economist counts among the precursors of Modern Monetary Theory.[28] Kalecki prepared the theoretical groundwork for the expansion of government spending, particularly in the countries of the third world. Yet while most developing countries have abandoned this theory, it celebrates its comeback disguised as "Modern Monetary Theory".

Although Modern Monetary Theory cannot be characterized as

28 Ibid.

Kaleckian economics in its core, the influence of the economics of Kalecki on MTT is hard to ignore.[29] Indeed, it was Kalecki who pushed forward the notion that "deficits don't matter" and that government spending creates by itself the savings surplus in the private sector.[30]

Kalecki is, different from Keynes, not a household name, and, even among economists, he is not very well known. While Keynes was in favor of a balanced budget in the long run and saw persistent deficits as a threat, Kalecki's theory contends that deficits don't matter because a deficit in the government budget means that "the private sector of the economy receives more from government expenditure than it pays in taxes''.[31]

For Keynes, public deficit is a temporary remedy when the economy is hit by insufficient aggregate demand. For Kalecki, deficits are a permanent feature of an economic policy that wants to maintain full employment. While Keynes stressed that the public debt accumulation must not get out of control and thus debt should be liquidated in the times of the boom, the Kaleckian position says that public debt can be accumulated without facing a limit. Modern Monetary Theory is rooted in the labor theory of value and the Marxist state and class analysis. Along with some connections to the old institutional economics, the main foundation of Modern Monetary Theory is Post-Keynesian economics with its main proponent Kalecki.[32]

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29 Dixon, Robert, and Jan Toporowski. 2013. "Kaleckian Economics". Oxford Handbooks Online.

30 "Where Does the Idea That Deficits Don't Matter Come From?," December 14, 2018. https://www.aier.org/article/where-does-idea-deficits-dont-matter-come.

31 Michal Kalecki, Introduction to the Theory of Growth in a Socialist Economy (Oxford: Basil Blackwell, 1969).

32 King, J E. 2012. The Elgar Companion To Post Keynesian Economics. 2nd ed. Edward Elgar Pub; "Michal Kalecki," accessed April 9, 2019, https://www.hetwebsite.net/het/profiles/kalecki.htm.

The Kaleckian model postulates that deficit spending is self-financing.[33] To prove his point, Kalecki distinguished between the consumption of the capitalists and that of the workers. Different from the Keynesian model, where consumption is a part of aggregate demand along with investment, government spending, and net exports, Kalecki postulates that the consumption of the capitalists depends on profits while that of the workers depends on the wages they earn. For Keynes, consumption is a function of national income. For Kalecki, the consumption of the capitalist (C_k) depends on profits (Π) and the consumption of the workers (C_w) is a function of the wages sum (W). More specifically, Kalecki postulates that the workers do not save but fully consume what they earn ($C_w = W$).

As a Marxist, Kalecki views the economy through the lens that capitalism is a class society. For him, society is composed of two classes: the capitalists (the bourgeoisie) and the workers (the proletariat). Keynes argued that savings are that part of the national income which is not consumed. In contrast, the Kaleckian macroeconomic hypothesis asserts that workers consume all their income. Workers have a marginal consumption rate of one and a savings rate of zero. All their wage income is spent on consumption.

For capitalists, the situation is different. Their income exists in the form of profits and profits, or so claims the Kaleckian theory, is the difference between national income and wages ($\Pi = Y - W$).

Because the consumption of the workers is equal to their wages ($C_k = W$), investment (I) and the consumption of the capitalist (C_k) are a residual. In a peculiar twist of argumentation, yet grounded on his model of the capitalist economy as a class society, it follows that prof-

33 Robert Dixon and Jan Toporowski, "Kaleckian Economics," The Oxford Handbook of Post-Keynesian Economics, Volume 1, September 18, 2013

its are determined by the investment of the capitalists and their consumption. Joan Robinson, a good friend and colleague to both Keynes and Kalecki in Cambridge, summarized the Kaleckian theory in the phrase: "the workers spend what they get, and capitalists get what they spend".[34]

Michal Kalecki explains:

> *"… the budget deficit always finances itself – that is to say, its rise always causes such an increase in incomes and changes in their distribution that there accrue just enough savings to finance it … In other words, net savings are always equal to budget deficit plus net investment … any level of private investment and the budget deficit will always produce an equal amount of saving to finance these two items.".* [35]

Not different from the basic Keynesian model, where income is composed of consumption, investment, government expenditure, and net exports, Kalecki determines private savings as that part of income that is left after taxes and consumption ($S = Y - C - T$). These private saving are, according to the Kaleckian model, equal to investment (I) along with the trade balance (NX) and the government budget deficit ($G - T$).

This result is the same as that with which the adherents of MMT justify their propositions and implies the same result that public deficits automatically create their own funding. In the Kaleckian model, investments and budget deficits are the counterpart of private savings. This thesis is also the focal point of the Modern Monetary Theory. They use the same reasoning that according to their macro-

34 "Kalecki, Michal (Social Science)," accessed April 9, 2019, http://what-when-how.com/social-sciences/kalecki-michal-social-science/.

35 Kalecki, M. 2013. Essays In The Theory Of Economic Fluctuations. Routledge.

economic modelling, private savings (*S*) are equal to investment (*I*), the budget balance (*G-T*), and the trade balance (*NX*).

The macroeconomy is in equilibrium as the accounts, albeit the show individually a deficit or surplus, balance out as a whole. The sum of the difference between investment (*I*) and savings, between the budget deficit (*G* - *T*) and the trade balance (*NX*) is zero. The investments of the capitalists and the deficits of the government generate at once the savings to finance these expenditures. According to this model, permanent budget deficits and the incessant accumulation of public debt present no threat because, automatically with the budget deficit, the savings surplus will rise and thus provide the funds to finance the deficit.

In conventional macroeconomics, savings provide the funds to finance investment and a budget deficit lowers national savings. The Modern Monetary Theory, in the footsteps of Kalecki, puts it upside down: the more the capitalists invest and the higher the deficit spending of the government, the larger becomes the national saving.

Based on a set of equations similar to Kalecki's model, the proponents of the Modern Monetary Theory promote unhampered deficit spending to drive economic growth.[36] Their slogan that "deficits don't matter" and that government spending has no limits is embraced by the Democratic Socialists of America (DSA) and associated politicians.[37] The Modern Monetary Theory serves as an intellectual tool to justify substantially increased government and comprehensive public welfare spending.

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36 "MUELLER._Macroeconomics_of_Michal_Kalecki.Pdf," accessed April 9, 2019, http://continentaleconomics.com/files/MUELLER._Macroeconomics_of_Michal_Kalecki.pdf

37 Harry Cheadle and Tom Streithorst, "The Radical Theory That the Government Has Unlimited Money," Vice (blog), February 28, 2018, https://www.vice.com/en_us/article/a34n54/modern-monetary-theory-explained; "Democratic Socialists of America (DSA) - Working towards a Better Future for All.," Democratic Socialists of America (DSA), accessed April 9, 2019.

The Kaleckian model never took hold in industrialized nations. The Keynesian policy recipe, too, was abandoned after the disastrous stagflation of the 1970s.[38] The Kaleckian theory was more influential for development policy, and still serves as a cornerstone of the Post-Keynesian variant of the aggregate demand theory.

Kaleckian macroeconomics promotes policies of systematic budget deficits without regard to their consequences for the public debt burden and inflation. This model favors investment irrespective of any entrepreneurial guidance. Macroeconomics of this kind operates exclusively with aggregates. This approach neglects completely the microeconomic foundations. Like the Keynesian model, Kalecki disregards not only relative prices but also the price level.

Despite its name, Modern Monetary Theory is devoid of prices and money. It comes as no surprise that those countries that followed the Kaleckian model were devastated by a massive squandering of capital, widespread malinvestment, and high inflation. In Latin America, where this type of reasoning is still in vogue in some circles, the policies of unhampered public spending and import substitution have created an economy marked by low productivity, low wages, and widespread misery.[39]

Kaleckian economics favors investment in purely quantitative terms because this theory holds that in the same fashion as budget deficits create their own financing, investment automatically means higher revenue. In the Kaleckian macroeconomics, the capitalist automatically creates profits and consumption. The conclusion is that if the

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38 "Stagflation: Can It Happen Again?," November 23, 2018, https://www.aier.org/article/stagflation-can-it-happen-again.

39 Eduardo Maldonado Filho, Fernando Ferrari Filho, and Marcelo Milan, "Toward the Crisis: A Kaleckian-Keynesian Interpretation of the Instability of Growth and Capital Accumulation in Brazil," International Review of Applied Economics 31 (March 6, 2017): 1–17

government could become the state capitalist, the government would reap the profits that otherwise fall into the hands of the private capitalists and government could come into the position of the capitalist class and be able to consume what it spends.

The Kaleckian economic policy theory leads to the demand that the investment function should be taken away from the capitalist in the private sector and transferred to the state. By way of investment of the state, the consumption of the state can be increased. The suggested policy mix asks more deficit-financed state expenditure for investment which would increase the potential for consumption of both the state and the population at the same time.

Yet the promise that budget deficits would finance themselves through higher savings has never happened. Instead, the countries that followed the Kaleckian model have suffered from chronic stagflation and have remained stuck in the underdevelopment of the middle-income trap.[40]

The developing countries abandoned Kalecki's failed approach after their disastrous love affairs with deficits and public debt. After the lost decades that came with the international debt crisis of the 1980s, the new orientation came more in line with the so-called "Washington Consensus". For some time, so it seemed, the "deficits don't matter" thesis was a thing of the past. Developing countries have abandoned the failed approach of the high public spending and turned to solid economic policies.[41] Meanwhile, the opposite is happening in the developed world, in particular the United States.

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40 Antony Peter Mueller, "The Middle-Income Trap in the Perspective of the Austrian Capital Theory," MISES: Interdisciplinary Journal of Philosophy, Law and Economics, November 2, 2018.

41 "What Should Modern Monetary Theory Learn From Argentina?," March 27, 2019, https://aier.org/article/sound-money-project/what-should-modern-monetary-theory-learn-argentina

5. MAIN POINTS OF CRITIQUE

- MMT underestimates the complexities of the modern global economies
- MMT suffers from the pretense of knowledge
- MMT ignores the central role of money as a medium of exchange
- The postulate of MMT that government bonds are as good as money breaks down in a financial crisis
- MMT neglects the role of physical and human capital as well as the importance of technological progress for economic growth
- MMT disregards the importance of entrepreneurship and competition in a market economy
- Even if not necessarily always the intention, MMT is often used to justify substantial increases in state-spending and coercive control

Modern Monetary Theory negates the complexity of the economy that operates nowadays on a global scale. The coordination of individual action among the consumers and producers in such an intricate network needs markets for which policy planning is no substitute. Even more so than historically, a new wave of economic planning based on the hubris of the pretence of knowledge not bring prosperity and stability but misery and chaos.[42]

The adherents of the Modern Monetary Theory regard money as the unique creation of the state that derives its value from the currency's function to serve as a means for paying taxes. This so-called "Chartalist" approach of money theory goes back to Knapp's "Staatliche Theorie des Geldes" of 1905 with the English translation of 1924.[43] The early evaluations of Knapp's state theory of money already pointed out that what is right with this theory is old and what is new is wrong.[44]

The fact that modern money is mainly "*chartal money*" does neither imply that money had come into existence exclusively through the state nor that money derives its value from its governmental recognition to serve for paying taxes.[45] The usefulness of money extends beyond taxes and includes the function of money to facilitate the exchange in a fundamental way. As a tool to escape the limits posed by the "double coincidence of wants", money broadens the possibilities of exchange.[46] In a barter economy, person A would have to find a seller who wants the good that A has to offer in exchange. With

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42 "The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 1974," NobelPrize.org, accessed April 9, 2019, https://www.nobelprize.org/prizes/economic-sciences/1974/hayek/lecture/.

43 German original 1905, English edition 1924, see Knapp, Georg Friedrich. 1924. "The State Theory Of Money.". Journal Of Political Economy 34 (3): 404-406.

44 L. Journal of Political Economy 34, no. 3 (1926): 404-06.

45 "State Money and the Real World: Or Chartalism and Its Discontents: Journal of Post Keynesian Economics: Vol 26, No 1," accessed April 9, 2019, https://www.tandfonline.com/doi/abs/10.1080/01603477.2003.11051383.

46 Mises, Ludwig von. 2014. On The Theory Of Money And Credit. Indianapolis: Liberty Fund Inc.

money, person A can sell to anyone who wants his good and buy from anyone who sells what he wants.

It is obvious that a sovereign state that issues chartal money under legal tender laws can always create as much money as it wants and thus faces no fiscal constraint.[47] The central question, however, is not whether the state can do this, but which macroeconomic consequences follow from public spending and public debt. The basic problem of fiat money is that the state faces no "budget restraint," and that government can and probably will print too much money and thus cause price inflation. Money does not supersede Say's law: that in the economy as a whole, goods and services are finally paid by other goods and services.[48] When too many means of payments chase too few goods and services, the result is price inflation.

Quantity theory of money begins with the tautology between nominal income (*Y*) and monetary transactions (*MV*). The identity between the nominal income as the product of real production (*Q*) and the price level (*P*) is identical to the other side of the equation as the product between the stock of money (*M*) and its velocity of circulation (*V*). Isolating the real production in the variable Q, the equation becomes:[49]

$$Q=(MV/P)$$

This equation separates the real side of the economy, production, from the monetary side, given by money and its velocity (*MV*) and the price level (*P*). The equation shows that if money circulation

47 kanopiadmin, "Legal Tender Laws and Fractional-Reserve Banking," Text, Mises Institute, July 30, 2014, https://mises.org/library/legal-tender-laws-and-fractional-reserve-banking-0.

48 kanopiadmin, "Lord Keynes and Say's Law," Text, Mises Institute, April 20, 2005, https://mises.org/library/lord-keynes-and-says-law.

49 Mueller, Antony P., Capital and the Business Cycle – A Synthesis (With a Didactic Exposition) (March 15, 2018)

(*MV*) rises while the real product remains constant, the price level (*P*) must rise. In other words: when government creates too much money by spending too much, price inflation is the consequence. When rational investors anticipate the inflationary consequences of too much government spending, they will lose trust in the fiat money that the government issues. Price inflation, a widespread increase in the cost of goods and services, may begin much earlier than full employment has been reached.

Higher budget deficits and rising public debt will rouse qualms about tax increases and discourage the entrepreneurs. When investment declines because of excessive public spending, price inflation need not happen because the effect of the public debt will manifest itself as a decline of economic activity before the price effects take hold. The MMT equation that budget deficits have their equivalent in an excess of private savings over investment remains valid. If government spending (*G*) is larger than government revenue (*T*), private savings (*SPR*) is larger than private investment (*IPR*):

$$(\mathrm{G} > \mathrm{T}) \Leftrightarrow (\mathrm{SPR} > \mathrm{IPR})$$

Yet this equivalence comes about not because of higher savings but because of lower investment. The exponents of MMT advocate a monetary policy rule according to which the central bank should set the overnight (interest) rate at zero, and keep it there. Because the state acts as the issuer of fiat money, the government does neither need to borrow money nor pay interest as any budget deficit can be financed by the issue of new money.

Modern Monetary Theory claims to be a theory about the workings of the modern credit economy, yet in fact, MMT is neither modern nor a monetary theory. It is a rehash of the fiscal theories of the 1940s as they flourished as hybrids from the Keynesian theory. MMT brings back the promises of full employment through public expenditures. As a theory, MMT suffers from the lack of a microeconomic foundation. It is a theory without human action, without entrepreneurs and without capital. It ignores the insight of Austrian economics that the natural rate of interest is a fact of the time preference of human action and cannot be eliminated by policy measures.[50]

Yet not only economists of the Austrian tradition reject MMT but also outstanding mainstream economists (Rogoff),[51] conventional Keynesian economists (Krugman)[52], and prominent investors (Buffett)[53] and central bankers (Powell).[54]

The set of the equations of the MMT model provides the logical implications that when exports equal imports, a budget deficit implies a surplus in the private sector. Yet the equation says nothing of the absolute size of the variables and thus of the amount of the imbalances in the sub-sectors. This, indeed, is not a mathematical question but a problem of economic analysis. Mathematics says nothing about the direction of causality. Which way the causality runs is not a mathematical but an economic question. Mathematics cannot answer the question of how a budget deficit affects the level of economic activity. What happens when debt and deficits diminish eco-

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50 "The Pure Time-Preference Theory of Interest | Mises Institute," accessed April 10, 2019, https://mises.org/library/pure-time-preference-theory-interest-0.

51 Kenneth Rogoff, "Modern Monetary Nonsense | by Kenneth Rogoff," Project Syndicate, March 4, 2019, https://www.project-syndicate.org/commentary/federal-reserve-modern-monetary-theory-dangers-by-kenneth-rogoff-2019-03.

52 Paul Krugman, "Opinion | Running on MMT (Wonkish)," The New York Times, February 27, 2019, sec. Opinion, https://www.nytimes.com/2019/02/25/opinion/running-on-mmt-wonkish.html

53 "Buffett Joins Scorn of Modern Monetary Theory and 'Danger Zones,'" March 15, 2019, https://www.bloomberg.com/news/articles/2019-03-15/buffett-no-fan-of-modern-monetary-theory-with-its-danger-zones.

54 "Jerome Powell Says the Concept of MMT Is 'Just Wrong,'" February 26, 2019, https://www.bloomberg.com/news/articles/2019-02-26/jay-powell-is-no-fan-of-mmt-says-the-concept-is-just-wrong.

nomic activity? Then, savings may still be around to finance the deficit, but the real economy is vanishing.

While the MMT equation holds that the budget deficit finds its equivalent in a savings surplus of the private sector, the surplus will come not from the rise of savings but from the decline of private investment. The savings surplus that the adherents of the MMT celebrate is the consequence of the decline of private investment. The decline of investment in the private sector generates net savings. The MMT equation hides that the private economy shrinks in real terms while public expenditure rise and debt expand.

Budget deficits and public debt matter. Contrary to the proponents of the Modern Monetary Theory, deficits do not raise savings, but because the savings surplus comes from the crowding-out of the private sector savings become available to finance the budget deficit. Venezuela is one of the recent examples of a policy of unhampered public deficit spending at the cost of the private sector.[55] Yes, the budget deficit is still financed. Yet the source of the "savings" is money creation. Hyperinflation marks the end of the binge of government spending under the parole that "deficits don't matter".

Using the same set of equations as the adherents of the Modern Monetary Theory, it becomes clear that budget deficits ($G > T$) require either a savings surplus of the private sector ($S > I$) or a trade deficit ($EX < IM$). Having a trade deficit means, *ceteris paribus*, that the country imports capital. In this case, foreign savings are added to national savings. When the trade balance is zero, the basic equation of MMT says that a budget deficit ($G > T$) implies a savings surplus ($S > I$) in the private sector. This savings surplus does not come from

55 "Venezuela Economy: Population, GDP, Inflation, Business, Trade, FDI, Corruption," accessed April 10, 2019, http://www.heritage.org/index/country/venezuela.

more savings due to the deficit spending but by lower private investment. In this case, the accumulation of capital diminishes in the same way as the accumulation of debt rises. Lower investment means less real capital and faltering economic growth. Sooner or later the economy will confront a shrinking economy, and an unsustainable debt burden. The way out of this dilemma is the next disastrous policy step: hyperinflation.

The crucial error of both the Kaleckian and Keynesian macroeconomics and the Modern Monetary Theory is their negligence of the real components in their set of equations. The variables of demand such as consumption, investment, and government spending represent expenditures and, as such, they are composed of a real value and a price. The expenditure for consumption, for example, represents the number of consumption goods multiplied by the prices.

In the models of aggregate demand, the components represent expenditures and, as such, is the arithmetic product of quantity and prices. This way, aggregate demand, as an expenditure, can rise or fall either because quantity rises of falls or because the prices rise or fall or some combination between the change of quantity and prices happens. The proponents of MMT follow the naïve line of macroeconomic reasoning that expenditures matter while, in fact, it is the real production that counts and the availability of consumer goods. What counts for the consumer is the purchasing power of income and not the nominal amount of income and expenditure.

While expenditures rise, the purchasing power diminishes when the increase of consumption in nominal terms rises more because of the price increase than because of more quantity. While in nominal terms, the economy expands, it shrinks in real terms. That is, products would become more expensive, giving the false impression of higher aggregate demand, while less would actually be produced.

This would be the consequence of a policy that follows the Modern Monetary Theory.

The same critique as to the MMT applies to the Keynesian theory of the fiscal multiplier.[56] Here, too, the proponents apparently found a tool to create prosperity. According to this model, the economy expands most in response to deficit spending when the savings rate is low. Here, too, the model only considers expenditure without the distinction between the monetary and the real part of the variable or between the quantity and the price component.

When real investment falls, the growth of the stock of real capital diminishes and less production is the consequence. While prices rise because expenditures, financed through debt, do increase, the real economy shrinks. Real incomes fall, unemployment rises, and price inflation erodes the purchasing power of the consumer.

The United States is, in some ways, is an exception. The US's massive accumulation of debt has not yet led to a contraction of investment activity. This is not, however, because the US is the issuer of a sovereign currency - it is because the US dollar is the world's major reserve currency. In practice, this means substantial foreign savings flow into the US to finance the public sector and external sector deficits.

There has been a wide lamentation of austerity over the past ten years. In practice, however, all major economies have expanded their money supply and public debt. Central banks have been active in monetizing public debt. This way, without explicit acknowledgement, fiscal and monetary policy has de facto practised MMT.

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56 Will Kenton, "Fiscal Multiplier," Investopedia, accessed April 10, 2019, https://www.investopedia.com/terms/f/fiscal-multiplier.asp.

Japan is a good case study in the problems that arise from debt accumulation, massive creation of money by the central bank, and extremely low interest rates. Japan's long economic stagnation points to the futility of this approach.[57] From over 40 per cent of gross national product in the 1970s, Japanese investment as a percentage of the gross domestic product has fallen to around 20 per cent after 2010.[58]

MMT's proponents downplay the inflationary consequences of substantially increasing government spending. They seem to presume that expansion can go on up to the point of full employment at which point taxation can jump in to absorb any excess money that could be inflationary. With this belief, the devotees of MMT assume a one-sector economy with an unlimited supply of capital whose only constraint is labour. Such a view of the modern economy is wholly unrealistic. The economy is not a homogenous entity where economic activity can be blown up and released as if it were a balloon at exactly the point of full employment. Furthermore, in the writings of the backers of MMT one looks in vain for the concept and the role that capital plays in the modern economy. The "economy" of MMT is a purely monetary vehicle and far away from the "capitalist economy" where entrepreneurs must incessantly arrange and rearrange the capital structure.

The usefulness of MMT to understand and to analyze the modern economy is nil when one considers that this theory ignores the heterogeneity of the modern economy, the role which entrepreneurship and capital play. Disaster will follow, should some future government take MMT seriously and implement its policy recommendations.

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57 "The Keynesian Trap: Lessons From the Japanese Slump," August 10, 2018, https://www.aier.org/article/keynesian-trap-lessons-japanese-slump.

58 "Gross Capital Formation (% of GDP) | Data," accessed April 10, 2019, https://data.worldbank.org/indicator/NE.GDI.TOTL.ZS?locations=JP.

There is no direct link between the creation of base money, aggregate demand, and price inflation. Base money and deposits can grow for quite some time without igniting inflation when the velocity of the transaction remains low. Money then sits idle and is not used as a means of payment to realize effective demand. Whether the velocity of money rises or falls depends on the inflationary expectations and these can change abruptly. A small unexpected rise of the general price level may rapidly change expectations and once the expectation becomes manifest, a self-fulfilling prophecy sets in motion. When the money which had been sitting still so far breaks loose and is being used for the payment of goods and services, prices will increase because they have risen. History provides ample examples of sudden outbursts of inflation and hyperinflation.

The problem of money creation exists in the crux that modern money is intrinsically not scarce, and the sovereign can produce as much of it as it wants. Yet the more the government expands its money supply, the less scarce money becomes and with that loses its value and its social acceptance decline to the point when it can become fully worthless in full-scale price inflation. MMT creates the illusion that we can get richer through more debt and that it is possible to borrow our way to prosperity. This is like claiming that you can drink yourself sober.

The supporters of MMT ignore that employment requires capital. The scarcity of capital can limit unemployment well before full employment is reached. When it comes to employment, the adherents of MMT ignore that the employment of people requires capital. The economy does not become richer but gets poor under full employment when the marginal worker employs more capital than is justified by his productivity. When the adherents of the Modern Monetary Theory favour more public spending, they ignore that the expansion of the government bureaucracy crowds-out the private sector and because government bureaucracy is less efficient than private enterprise, the overall level of productivity in the economy sinks.

CONCLUSION

Modern Monetary Theory promises the end of scarcity. In this sense, MMT is to economics what the flat-earth-movement is to geography. The popularity of the Modern Monetary Theory is a signal. It is the sign of a growing tolerance for debt and deficits. Furthermore, the popularity of MMT indicates that a growing number of people have become enticed by the promise that scarcity does not exist and that it takes only the right set of policy measures and injustice could be wiped out as well. MMT is the symptom of a new utopianism. It is the belief that the right formula and the right magic stick can do wonders. Politicians who promote the 'Green New Deal' welcome such theories. Modern Monetary Theory delivers the justification of a policy that otherwise would meet only neglect and contempt because of its childish silliness.

Mathematics without proper economic analysis begets flawed economic theories, and the application of a flawed economic theory leads to bad policies. Kalecki and the proponents of the Modern Monetary Theory use a set of simple assumptions, rearrange the variables and then interpret causality into these arrangements. The objective is not insight and truth but the promotion of an ideology. The Kaleckian thesis that capitalists earn what they spend and that when the state acts as a capitalist it is the state that gets what it spends as well as the slogan of the adherents of the Modern Monetary Theory that deficits do not matter - all these positions suffer from the abuse of mathematical abstractions for political purposes.

The dangerous policy implications of MMT include: that a state which issues its own fiat money cannot go bankrupt in its own currency;that the government does not need money from the taxpayer to spend; there is no limit to public spending and that a government can buy anything that is for sale; it is not necessary to balance the budget over the cycle; the government can spend up until it faces the full employment and inflation constraint; and that these constraints are much further away than is commonly presumed.

Modern Monetary Theory is a false belief system, yet this does not exclude its use as an instrument of political propaganda. Political candidates will appear who embrace MMT and will use it as a vehicle to promote their campaign. The promise of prosperity for all through more state activity and by more government spending will find its followers. As of now, when the US economy is doing relatively well, the MMT proposals do not yet ignite much enthusiasm. Yet this may change when unemployment is up again. Then, it is only a matter of time until more politicians will discover modern monetary theory and take its message to advance their real agenda of implementing big-spending government policies.