

Modern monetary theory provides the best mechanism for...

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There are some people who like to suggest that modern monetary theory (MMT) suggests that a government can create money without limit. They go on to say that this has always resulted in economic disaster. The words Zimbabwe and Weimar Republic are never far from their lips. The reality is, however, that MMT does not say that governments can create any amount of money they like without limit. What it does say are two things.

The first is that as a matter of fact all government spending is paid for out of money newly created for the purpose and that this is then cancelled by taxation. I would argue that this is simple fact.

And the second is that this money creation process can be undertaken until such time as real physical constraints are met in the economy, after which if it continues then inflation will follow.

Far from being a prescription for inflation creation then, MMT does in fact provide both a very precise description of when demand-pull inflation might be created in the economy by suggesting that money creation should be curtailed when there is no excess capacity in the economy (this constraint being applicable to both government and private bank created money) and it provides two mechanisms for addressing that inflation. One is to stop the money creation, either by limiting government spending in that situation, or by limiting bank lending. The other is to tax that inflation out of the system.

MMT is then the friend of those who would like to control inflation. Professor Stephanie Kelton explains this very succinctly here, making clear in the process that it is not the availability of money that constrains a government from fulfilling its plan: its whether or not they can actually be delivered on the ground that does that. But what is never true is that MMT is a prescription for inflation: indeed, it could be entirely reasonably argued that it provides the best mechanism for controlling inflation that we now know of given that monetary policy is now almost wholly ineffective given that real rates are at or close to zero.

https://youtu.be/ja_qHRvZNRU