MODERN MONETARY THEORY

'Modern monetary theory' (MMT) – the idea that a country that is able to borrow in its own currency need not worry about government deficits and debt – has been all over the economics and finance media in recent weeks. This approach to macroeconomics, which has been used to underpin calls for new public spending programs, has been debated widely in newspaper columns, blog posts and tweets – often in quite vitriolic ways.

Among mainstream economists, there has been little support and some prominent commentators have been far from complimentary, including Paul Krugman, Kenneth Rogoff and Lawrence Summers. Proponents such as Stephanie Kelton and other MMT-ers have responded fiercely. And even writers potentially sympathetic to MMT politics and/or critical of the mainstream have found themselves under attack. Meanwhile, Neil Irwin in the *New York Times* proposes trying out the theory on a small country with its own currency first.

We decided to put the ideas to our US panel of economic experts by asking them whether they agreed or disagreed with the following statements, and if so how strongly and with what degree of confidence:

(a) Countries that borrow in their own currency should not worry about government deficits because they can always create money to finance their debt.

(b) Countries that borrow in their own currency can finance as much real government spending as they want by creating money.

Of our 42 experts, 38 participated in this survey. On the first statement, only 1 expressed no opinion, 15 disagreed and 22 strongly disagreed. On the second statement, 3 expressed no opinion, 11 disagreed and 24 strongly disagreed.

Weighted by each expert's confidence in their response, the results were 72% strongly disagree and 28% disagree on the first statement; and 76% strongly disagree and 24% disagree on the second statement. While the statements that we put to our panel often command more than 80% levels of agreement (or disagreement), this kind of unanimity of opinion is rare.

Among the short comments that the experts are able to include when they participate in the survey, Oliver Hart at Harvard made the same remark in response to both statements: 'This kind of behavior can quickly lead to inflation or even hyperinflation once the economy is close to full capacity.' So too did Steven Kaplan at Chicago, who answered both statements: 'At some point it becomes untenable and the country becomes Venezuela or Zimbabwe.'

On the first statement, Kenneth Judd at Stanford commented: 'A government may be able to do this once but doing this systematically will make it impossible to sell bonds in the future.' Robert Shimer at Chicago noted that: 'The real value of the money supply is bounded above. At some point, this must create inflation.'

And Markus Brunnermeier at Princeton cited precedents for that outcome: 'See numerous historical examples: Germany in 1920s, Latin America...'.

On the second statement, Eric Maskin at Harvard observed: 'There will come a point where the currency is so debased that further spending becomes difficult if not impossible.' And Larry Samuelson at Yale added a further reference to history: 'Creating money can finance a great deal of spending, but incidents of hyperinflation, collapse and other crises indicate there are limits.'

Pete Klenow at Stanford provided links to further columns by Lawrence Summers and Paul Krugman. All comments made by the experts are in the full survey results.

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