Broad Definition: Firms with an interest coverage ratio less than one for three consecutive years and over 10 years old
6 MODERN MONETARY THEORY
Grundidee von Abba Lerner

- The central idea is that government fiscal policy, its spending and taxing, its borrowing and repayment of loans, its issue of new money and its withdrawal of money, shall be undertaken with an eye only to the results of these actions on the economy and not to any established doctrine of what is sound and unsound. The principle of judging only by the effects has been applied in many other fields of human activity, where it is known as the method of science as opposed to scholasticism.”

Massive Kritik durch keynesianische Ökonomen


Kenneth Rogoff (2019)

• “Fed Chair Jerome Powell could barely contain himself when asked to comment on this new progressive dogma. ‘The idea that deficits don’t matter for countries that can borrow in their own currency I think is just wrong,’ Powell insisted in US Senate testimony last month. He added that US debt is already very high relative to GDP and, worse still, is rising significantly faster than it should.

• Powell is absolutely right about the deficit idea, which is just nuts. The US is lucky that it can issue debt in dollars, but the printing press is not a panacea. If investors become more reluctant to hold a country’s debt, they probably will not be too thrilled about holding its currency, either. If that country tries to dump a lot of it on the market, inflation will result.”

• “For the moment, the world is quite content to absorb more dollar debt at remarkably low interest rates. How to exploit this increased US borrowing capacity is ultimately a political decision. (...), it would be folly to assume that current favorable conditions will last forever, or to ignore the real risks faced by countries with high and rising debt. These include potentially more difficult risk-return tradeoffs in using fiscal policy to fight a financial crisis, respond to a large-scale natural disaster or pandemic, or mobilize for a physical conflict or cyberwar. As a great deal of empirical evidence has shown, nothing weighs on a country’s long-term trend growth like being financially hamstrung in a crisis.”
Suppose that the Fed or its equivalent in another country can set interest rates, and that a lower interest rate leads, other things equal, to higher aggregate demand. Then at any given point in time there is a downward-sloping relationship between the interest rate and GDP, as shown by the lines IS1, IS2, IS3. Suppose that the current aggregate demand schedule is IS3. Then the central bank can set the interest rate so as to achieve full employment, getting the economy to point C.

Now suppose that the government were to cut spending, shifting the aggregate demand schedule down to IS2. Need this create unemployment? No: the central bank can still get us there by cutting interest rates, getting the economy to point B. So we've just refuted the claim that the required size of the budget deficit can be determined by the need to achieve full employment; as long as monetary policy is available, there is a range of possible deficits consistent with that goal.

Now, this breaks down when the interest rate required to achieve full employment goes negative. If fiscal policy is contractionary enough that it pushes the aggregate demand schedule down to IS1, we end up at point A.

(...). Kelton seems to claim that expansionary fiscal policy – in Figure 1, policy that pushes the IS curve out from IS2 to IS3 – will lead to lower, not higher interest rates. Why?

It seems as if she's saying that deficits necessarily lead to an increase in the monetary base, that expansionary fiscal policy is automatically expansionary monetary policy. But that is so obviously untrue – think of the loose fiscal/tight money combination in the 1980s – that I hope she means something different.
Modern monetary theory is fallacious at multiple levels.

First, it holds out the prospect that somehow by printing money, the government can finance its deficits at zero cost. In fact, in today’s economy, the government pays interest on any new money it creates, which takes the form of its reserves held by banks at the Federal Reserve. Yes, there is outstanding currency in circulation, but because that can always be deposited in a bank, its quantity is not controlled by the government. Even money-financed deficits cause the government to incur debt.

Second, contrary to the claims of modern monetary theorists, it is not true that governments can simply create new money to pay all liabilities coming due and avoid default. As the experience of any number of emerging markets demonstrates, past a certain point, this approach leads to hyperinflation. Indeed, in emerging markets that have practiced modern monetary theory, situations could arise where people could buy two drinks at bars at once to avoid the hourly price increases. As with any tax, there is a limit to the amount of revenue that can be raised via such an inflation tax. If this limit is exceeded, hyperinflation will result.

Third, modern monetary theorists typically reason in terms of a closed economy. But a policy of relying on central bank finance of government deficits, as suggested by modern monetary theorists, would likely result in a collapsing exchange rate. This would in turn lead to increased inflation, increased long-term interest rates (because of inflation), risk premiums, capital fleeing the country, and lower real wages as the exchange rate collapsed and the price of imports soared.
Figure 2. Taxonomy of the macroeconomic critique of MMT.
Kritikpunkte von Palley

P. 7: “That lack of dynamics and behavioral content leads to fundamentally flawed claims regarding the macroeconomic effects of money financed deficits and government’s ability to use deficit finance to secure its policy goals.”

P. 9: “(…) money financed budget deficits drive the economy to full employment by increasing wealth and AD. That makes it critical there be institutional arrangements for closing the deficit once full employment is reached to avoid inflationary excess. However, MMT relies on a highly simplified and implausible political economy in its attempt to address that problem. Thus, it assumes taxes can be abruptly and precisely raised at full employment to contain excess demand, when the reality is taxes are politically contested and difficult to raise.”

P. 10: Another political economy critique (Lavoie, 2014) is that central banks and fiscal authorities are institutionally separated in most economies, but MMT ignores this and treats them as a unified decision maker.

P. 11: “The above political economy critiques (regarding fine tuning and public choice biases speak to the difficulty of using fiscal policy to stabilize the business cycle and deliver full employment. For those reasons, monetary policy (i.e. interest rate policy) is widely viewed as the preferred instrument for delivering on those goals, yet MMT discards it.”

P. 12: “In particular, MMT’s framework is static and has little to say about how policy affects expectations of the future, and how expectations of the future have important immediate consequences.

P. 13: “A government that financial markets believe engages in excessive money issue is likely to face significant financial market blowback. In particular, long term interest rates may rise if financial market participants anticipate risks of future financial turmoil or higher future inflation.

P. 14: “Money financed deficits can also have significant adverse exchange rate and balance of payments effects.”

P. 16: “As argued earlier, those expectations (inflation expectations) are likely to be significantly impacted by adoption of an MMT policy regime.”

P. 18: “the implication is that sovereign governments’ ability to use money financed fiscal policy are limited by market constraints and reactions which impose costs on governments.”

P. 19: “Taxes become unavoidable as the economy moves along the Phillips curve and inflation increases owing to greater resource demands, and taxes may even be needed earlier if other economic constraints kick in earlier.”

P. 20: “MMT represents itself as a general theory applicable to all sovereign governments.”

P. 22: “MMT proponents argue there is no relation between budget deficits and interest rates or between budget deficits and inflation. Shifting to an MMT fiscal policy regime could quickly generate those relationships via the impact of changed expectations about the future on financial markets.”
Analytische Darstellung von MMT

Expansionary fiscal policy capital market financed
(= constant money stock)

Expansionary fiscal policy MMT financed
or expansionary fiscal policy capital market financed
accompanied with expansionary monetary policy
(= higher money stock)
Erfahrungen mit hohen Fiskal-Defiziten
Keine erkennbaren Inflationseffekte
Die Lehre von Paracelsus

„Alle Ding' sind Gift und nichts ohn' Gift; allein die Dosis macht, das ein Ding' kein Gift ist."

Paracelsus (1493-1541)