

Modern Monetary Theory: An overview and Developing Countries Case Studies

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Course Description

Are we talking just about the USA, or dollars, or developed countries? How do we understand MMT on the regional level? This is the starting point of this course. Modern Monetary Theory has a developed approach around fiscal and monetary policies, has thought and rethought the state, money, debt, deficit, unemployment, and inflation concepts. Nevertheless, MMT requires some basic or necessary economic conditions to desolve its ideas, an aspect that strikes with developing regions or countries, which likely do not accomplish them.

So, what Modern Monetary Theory can do to improve the economic landscape of developing countries? So far, how MMT could contribute to the strengthening of the Global South.

Weekly Schedule and Readings

SESSIONS 1 and 2: MMT Theoretical Overview

- **SESSION 1: Understanding government finances and the monetary system**

Short Description of the Session:

Required readings:

Wray, L. R. (2015). The technical details of central bank and treasury coordination: the case of the Fed. In *Modern money theory: A primer on macroeconomics for sovereign monetary systems*. Palgrave Macmillan, London.

Bell, S. (2001). The role of the state and the hierarchy of money. *Cambridge Journal of Economics*, 25(2), 149-163.

Additional readings:

Wray, L. R. (2014). From the state theory of money to modern money theory: An alternative to economic orthodoxy. Levy Economics Institute, Working Papers Series, Working Paper No. 792.

Bell, S. (2000). Do taxes and bonds finance government spending? Journal of economic issues, 34(3), 603-620.

Tymoigne, E. (2014). Modern Money Theory, and Interrelations Between the Treasury and Central Bank: The Case of the United States. Journal of Economic Issues, 48(3), 641-662.

- **SESSION 2: Unemployment and Inflation**

Short Description of the Session:

Required readings:

Fullwiler, S., Grey, R., & Tankus, N. (2019). An MMT response on what causes inflation. Financial Times.

Bill Mitchell (2010) Modern monetary theory and inflation – PART 1
<http://bilbo.economicoutlook.net/blog/?p=10554> (DANIEL)

Additional readings:

Mitchell, W. (2009) Zimbabwe for hyper ventilators 101. Bill Mitchell - Modern Monetary Theory.

SESSION 3: Developed and Developing Countries contrasting realities

Short Description of the Session:

Required readings:

Wray, L.R. (2012): *Modern Money Theory. A Primer on Macroeconomics for Sovereign Monetary Systems*, Basingstoke, Palgrave Macmillan.

Epstein, G. (2019). The institutional, empirical and policy limits of 'Modern Money Theory'. Political Economy Research Institute (PERI), University of Massachusetts Amherst, Working Paper Series No. 481.

Additional readings:

Murray, M., & Forstater, M. (2013). *Employment guarantee schemes: job creation and policy in developing countries and emerging markets*. Springer.

Murray, M. J. and Forstater, M. (2013) *The Job Guarantee: Toward True Full Employment*, Basingstoke: Palgrave Macmillan.

SESSIONS 4 to 8: Country Case Studies in the Development World

● **SESSION 4: Brazil**

This session aims to provide an understanding of the current debate of MMT in Brazil while addressing common caveats to the MMT approach when analysing developing countries' realities. It is crucial to highlight the existence of a monetary spectrum in which developing countries can perform more or less monetary sovereignty depending on i) its own domestic characteristics and ii) its insertion into the international economy. As for the case of Brazil, austerity has been the rule and there was a spending ceiling until the beginning of the pandemic. However, COVID-19 consequences have shown the necessity of social spending and an emergency budget was approved by the parliament in tandem with the flexibilization of fiscal

rules. “Miraculously” the money to pay social grants and manage an expansionary fiscal policy has appeared. MMT has much to explain in this regard and its framework can help to debunk some myths in public finance. Nevertheless, MMT’s underlying policy recommendations should be shaped to fit the developing countries' dilemmas.

Required readings:

Deos, S., Bullio, M. O., Ultremare, F. & Mendonça, A. (2021). Modern Money Theory: Rise In The International Scenario And Recent Debate In Brazil. *Brazilian Journal of Political Economy*, vol. 41, number 2, pp. 314-332.

Vergnhanini, R., & De Conti, B. (2018). Modern Monetary Theory: a criticism from the periphery. *Brazilian Keynesian Review*, 3(2), 16-31.

Additional readings:

Bonizzi, B., Kaltenbrunner, A. & Michell, J. (2019). Monetary sovereignty is a spectrum: modern monetary theory and developing countries. *Real-World Economics Review*, 89, 46–61.

- **SESSION 5: Colombia and its road to a more crucial State: Industrialization & Deficits**

In this session we will analyse the Colombian road to development, as we consider how this South American country has passed through different stages that have been supposed to achieve its way out from the “Developing country” category. Necessary conditions that would make MMT an adequate analytical lens to observe the Colombian economy. Since this country has today structural trade deficits, a high structural unemployment rate, import dependency of complex goods and services and, disadvantages in trade terms. All this behind the exaltation of a stable macroeconomic performance in the 20th century.

Required readings:

Berry, A., & Thoumi, F. (1977). Import substitution and beyond: Colombia. *World Development*, 5(1), 89–109. [https://doi.org/10.1016/0305-750X\(77\)90007-9](https://doi.org/10.1016/0305-750X(77)90007-9)

Toro, J., & Lozano, I. (2007). Fiscal Policy Throughout the Business Cycle: The Colombian Experience. *Ensayos Sobre POLÍTICA ECONÓMICA*, 25(55), 12–39.

Additional readings:

Matías Vernengo and Esteban Perez Caldentey, (2020), Modern Money Theory (MMT) in the Tropics: Functional Finance in Developing Countries, *Challenge*, 63, (6), 332-348

Ortiz, C. H. (2004). An economic growth model showing government spending with reference to Colombia and learning-by-doing. *Colombian Economic Journal*, 2(1), 157–188.

- **SESSION 6: India**

MMT as a concept is everywhere now-a-days. Everyone seems to be fascinated about the idea that a government which issues its own currency, can print the same out of varied economic problems like unemployment, debt, economic downturns, recessions, etc. But, most of it seems to be ideal for countries like the USA, UK, JAPAN, etc. as these countries enjoy strong currency sovereignty and have strong developed economies.

Now in this session, we analyse MMT through India's Perspective and raise the question, Is MMT relevant in a developing global south country like that of India which still has weak financials compared to many developed countries in the world. We will also assess if the Indian economy and its variables are strong enough to implement something like the MMT in the Indian Economic System. We will also try to analyze the relationship between the Indian central government and the central bank of India, RBI, in the context of MMT.

Required readings:

Modern Monetary Theory, let's look at it from India's Perspective

<https://www.livemint.com/opinion/columns/modern-monetary-theory-let-s-look-at-it-from-india-s-perspective-11612886536139.html>

Why emerging markets like India are wary of using modern monetary theory to fix the economy

<https://theprint.in/economy/why-emerging-markets-like-india-are-wary-of-using-modern-monetary-theory-to-fix-the-economy/532893/>

Additional readings:

The Inexplicable Allure of Modern-Monetary Theory

<https://www.livemint.com/opinion/columns/opinion-the-inexplicable-allure-of-modern-monetary-theory-11571676733717.html>

Covid-19 Response: Can Modern Monetary Theory Come To India's Rescue?

<https://www.bloombergquint.com/coronavirus-outbreak/covid-19-response-can-modern-monetary-theory-come-to-indias-rescue>

- **SESSION 7: Morocco**

MMT isn't considered a political theory as everyone is assuming, it's a reality description of how money creation works. Many people went with the idea that modern monetary theory is only applicable to sovereign countries' currencies as US, UK, Canada and Japan without strict consideration of the impact on global south countries even if they're in continuous commercial transactions with most of the countries mentioned previously.

Developing countries are known for their borrowing character in currencies other than their own or having a second currency in use in their economies, or a weak and unenforced tax system. Morocco isn't different!

By the end of the 1980s, the Moroccan economy became qualified as an administered debt economy which was financed by the banking sector. This one was placed under government control. Interest rates were, at all, administered and the role of capital markets was marginal.

Because of the limits of this financing mode to allow and allocate efficiently the resources, a new financing system, centered on the market mechanisms, market-driven system was set up gradually.

Our objective in this section will consist at first to examine main measures taken by Moroccan monetary authorities within the framework of MMT in addition to a detailed clarification of how MMT is wholly relevant to the Moroccan economy.

Required readings:

-The Moroccan Monetary and Financial Structure Reforms and Economic Agents' Behaviour; Applied Econometrics and International Development, Vol. 6, No. 2, 2006

-Monetary Policy Strategy in Morocco: Between Theory and Practice; e-ISSN: 2321-5933, p-ISSN: 2321-5925. Volume 10, Issue 6 Ser. II (Nov. – Dec 2019), PP 51-59, iosrjournals

- **SESSION 8: South Africa**

In this session we shall explore whether MMT policy frameworks can be implemented in the South African context as a viable option to aid in socio-economic development.

Following the turn of democracy and the ushering in of a new constitutional dispensation, South Africa has been identified as a monetary sovereign emerging market within the African continent.

Favourable economic circumstances in the form of high domestic interest rates coupled with increasing demand for South African debt proves attractive to foreign investment due the long-term growth prospects both domestically and on a global scale.

As attractive as these economic circumstances may appear, it must however be noted that it is not without its hindrances. High dependency on imports, a small taxpayer base, soaring inequality gap and high fiscal constraint due to extensive over-financing of state-owned-enterprises, proves an arduous challenge to policymakers.

The principal intention of this session is to delve into the theoretical application of the MMT policy framework in a South African context and whether South Africa has the capacity to successfully implement these policy framework recommendations.

Required readings:

Lawlor, P. (2019, July 30). *MMT (Modern Monetary Theory) and the Implications*. Investec. https://www.investec.com/en_za/focus/economy/mmt-panacea-pie-in-sky.html

McGregor, S. (2020, October 16). *Allan Gray | Market and economy | The dangers of printing money.* Allan Gray. <https://www.allangray.co.za/latest-insights/markets-and-economy/the-dangers-of-printing-money/>