

Review of Gerald Epstein's "What's Wrong with Modern Money Theory?: A Policy Critique"

BY MAKOTO ITOH, PROFESSOR EMERITUS, UNIVERSITY OF TOKYO | AUGUST 2021

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1. Recommendable Contribution for Examining Significances and Limitations of MMT

MMT (Modern Money Theory) against neoliberal austerity policies is gathering broad attention in Japan as well as in the world. This book is highly recommendable for learning and rethinking its significances and limitations. The author, Professor Gerald A. Epstein is a co-director of Political Economy Research Institute (PERI) in the University of Massachusetts Amherst, and a well-known post-Keynesian scholar in the field of financial economics. His Institute and University are leading centers for liberal and radical political economic studies and education in the United States. There must be not a few members among our Japan Society of Political Economy, the most influential heterodox association in Japan, who have visited and keep academic contact with UMass Amherst.

This book is composed from eight chapters as summarized below. They are all clear-cut, well-ordered and may serve as good models for graduate students to learn how to write papers. Japanese translation talentedly manages to keep such merits in original text and easy to read even for beginners or non-academic readers.

Chapter 1 introduces MMT's central argument that a government can expand budget expenditure for full employment without being limited by tax revenues in advance, so far as it depends on the central bank's purchasing operation of state bonds by means of issuing sovereign currency. It also points out that this argument has managed to get a strange combination of support from both progressive politicians like B. Sanders or Ocasio-Cortez and prominent fund managers who expect to avoid higher tax rates on rich persons and business firms.

Chapter 2 draws attention to two characteristics of MMT. One of them is chartalism in its theory of money which defines sovereign currency as money created originally by state power to collect taxes. Another is argument for functional public finance which recommends government freely to expand deficit-ridden public finance for full employment depending on the central bank's purchasing operation of state bonds, and then turn to belt-tightening policy in case inflation occurs with full employment as fine-tuning. Concerning this latter point, this book wonders if central banks finance state expenditures so easily and automatically. Even in the United States, the complicated political power relations among FRB (Federal Reserve Board), President, the Congress and private business sectors especially financiers in Wall Street always affect the attitude of FRB how to behave in relation to the state budget policies.

Especially as Chapter 3 discusses, if economic policies in developing countries in the floating exchange rate international monetary system follow MMT to expand public debt and state bonds freely depending on increased issue of their own currency, international payment and currency crisis must inevitably occur with rapid inflow and out flow of speculative international capital, widely damaging both employment and real investment.

In comparison, as analyzed in Chapter 4, the United States having dollar in the privileged position as international currency may be a country most suitable for MMT's macro-economic policies. The historical concrete factors which support such a privileged position of the United States and its currency dollar in the world market are among others; 1) her size of economy with highly liquid financial market, 2) open markets for international trade and finance, 3) high level of stability and credibility on prices, exchange rate, monetary policies, and public debt, 4) cumulative effects of network for international payments, and 5) the overwhelming military and diplomatic hegemony. Even though R. L. Wary, a representative scholar of MMT assumes that we need not worry about a fall of the position of dollar as international currency, the author of this book is concerned rather on the increasing risk of flight of world monetary reserve asset from dollar to other currency as the size of Chinese economy expands with formation of wider Renminbi economic area.

In fact, as Chapter 5 retrospects, many other economies not limited to developing countries have been suffered from destructive damages by fluctuations of interest rates with sudden changes of speculative inflow and outflow of massive speculative capital due to widely changeable America first-like macro-economic and financial policies of the United States. In this regard, the author suggests needs for international cooperative regulation schemes such as Tobin tax or a project to set up a world central bank.

At the same time, as examined in Chapter 6, even in central countries having sovereign currency like the United States, macro-economic policies operating expansive state expenditure by means of monetization of public debt with nearly zero political rate of interest similarly as macro policies recommended by MMT actually promoted speculative expansion of credit, financial bubbles and caused financial crises with much increased financial instability. Here is a paradoxical contradiction in MMT school, where many theorists like Wray studied and followed H. Minsky but have not referred to the risk to increase financial instability underlined by Minsky due to their own policy recommendations.

In Chapter 7, another worry is presented. While MMT's macro-economic policies appeal that we need not care about both the wall of budget constraint and selection of priorities for public resource allocation, giving expectation to even to rich persons to avoid increase in tax burden, such an appealed expectation must turn out illusionary when full employment becomes closer. As political decision on the priority order as well as the burden concerning the public resource allocation must then become necessitated, voters and progressive politicians may have to battle against each other while rich persons and big businesses may escape from necessary tax burden.

In the concluding Chapter 8 as well as in Preface to the Japanese edition, we can read while this book well sympathizes intentions of many MMT scholars to promote large-scaled Green New Deal (GND) policies and public support for medical care, education and employment anew in face of pandemic and global warming crises against the neoliberal austerity policies, on the one hand, it also criticizes, on the other hand, that the macro-economic policies argued for by MMT contains certain limitations and dangers not easy to be generalized in view of concrete institutional and historical facts. It thus intends to promote constructive dialogues for more desirable and appropriate progressive economic policies together.

2. Applicability to Japanese capitalism

As we have seen this book attempts to clarify the significances and limitations of macro-economic policies of MMT school in view of historical and institutional analyses (not easily being over-generalized from the chartalist theory of money), especially by comparing developing countries with the United States having dollar as sovereign currency in the privileged position of world money. Its approach clearly follows strong academic tradition of US radical economics, which promoted revival of political economy by emphasizing historical changes in social structure of accumulation (SSA) in the process of capitalist development.

A series of characteristic points of MMT's macro-economic policies are presented in this book from such a view; e.g. 1) strangely appealing to both the rich and the poor, 2) inapplicableness to developing economies, 3) the contradiction in Minsky's followers to neglect financial instability, 4) negligence of rival interests when full employment becomes closer, while priority among policy tasks is regarded unnecessary to consider. These are impressively brilliant and academically attractive for further consideration. Let me add some comments on applicability of MMT to Japanese capitalism, intending to supplement arguments in this book.

As is well-known, Wray in *Modern Money Theory* (2012) among others utilizes Japanese case to have piled up total remaining size of state bonds in the ratio against GDP far beyond twice of the most of major advanced countries without causing default or inflation as a favorable example for its argument to recommend flexible expansion of state budget by means of sovereign currency. Correspondingly, supporters of MMT are spreading to certain extent also in Japan among circles of politicians, business leaders, journalists and academicians. Similarly in the United States, MMT gathers attention and support curiously from both conservatists and progressive persons also in Japan. For instance, 'a study group to think of Japanese future' among members of Parliament in the conservative government party (Liberal Democratic Party, LDP) is reported to discuss acceptability of MMT's policies, and a relatively progressive popular politician Taro Yamamoto in Reiwa-Shinsengumi Party positively campaigned for broad expansion of public welfare expenditure based on MMT. Among influential members based on Marxian Economics in our Japan Society of Political Economy, Hideo Okamoto and Tasuku Matsuo among others are favorably arguing for MMT.

However, there must remain a serious question if Japanese macro-economic policies implemented by the government in coordination with the Bank of Japan for the so-called lost three decades since the 1990s can be regarded as a successful illustration in accord with understanding by Wray and other MMT scholars. It is admissible that Japanese government has continued flexibly wide expansion of public expenditure often as emergency economic policies depending upon the Bank of Japan's purchasing operation of state bonds by issuing sovereign currency, yen, without causing default of the state or vicious inflation. Nevertheless, in the process of cumulative state debt, (marginal) inheritance and income tax rates as well as corporation tax rates have been reduced repeatedly in favor of business firms and richer persons, while consumer taxes have been introduced and continuously elevated on the mass of people, promoting economic inequality. In addition, under neoliberal deregulation policies employment conditions for increasing number of younger generations have been deteriorated as proportion of irregular unstable jobs increased especially among female workers.

As a result Japanese economy has been in a series of corelated multiple crises; nearly zero (0.9% in average) real growth rate for these decades, destructive financial instability in bubble relay, shifting to an aging society with smaller number of children and younger working generations, deepening fiscal crisis of the state, especially with continuous natural disasters such as the great earthquake with a giant tsunami in the east Japan in 2011, frequent typhoons with devastating floods, and the recent COVID-19

pandemic. Japanese capitalism which seemed so strong until 1980s to be regarded 'Japan as number one' in the world, contrastingly forms a leading typical model of decaying advanced economies in the structured deflationary spiral for these three decades, with devastating effects on mass of human being and nature.

Thus, the worries pointed in this book, that MMT's macro-economic policy is not just inapplicable to most of developing countries, but also full of risk to cause financial instability and crises even in the United State despite of its highest applicability, are actually realized in a larger scale in Japan. We have to wonder why Japanese macro-economic policy recommended by MMT as a successful model case could not really manage to solve the vicious circle of multiple crises but rather worked to deepen it.

In a joint paper 'Has Japan Been Following Modern Money Theory Without Recognizing It? Yes. And No.' (with Y. Nersisyan) read in a conference held at Tokyo-Keizai University in December 2020, Wray criticizes that the Japanese government failed to be consistent in keeping expansive public expenditure and turned to austerity policy as soon as economic recovery was indicated, repeating the stop and go type of policy. This was partly a problem. However, while the size of public construction work against GDP in Japan used to be twice as much as those in most of advanced economies especially in 1990s, and thus it was not at all austere in this regard, its multiplier effect was estimated to have fallen below 1.2. Why? Here is a more important problem which require historical and institutional concrete analyses (as recommended by this book) concerning political decisions for constructing roads and buildings without much economic effects but with expensive prices of land and construction costs.

In contrast, when Democratic Party of Japan took power in 2009 after the birth of Obama government in the United States and implemented political turn 'from concrete cement to human being' such as setting up new child allowance and eco-point subsidy system in order to mitigate the crises of human being and nature, corresponding to Obama's new New Deal, it worked prominently to pull up the Japanese yearly real economic growth widely by 5.7% from -2.4% in 2009 to + 3.3% in 2010. This experience is suggestive. The progressive macro-economic policy which this book argues for must shift its qualitative contents from the classical New Deal type of public construction work to the contemporary type of Green New Deal (public welfare support of medical and care services, education, pension and ecological management for all social members).

3. For Coordination from Marxian Political Economy

Neoliberalism since 1980s which has expected rationality and efficiency of competitive market principles on the ground of modernized versions of neo-classical micro-economics against Keynesianism is now facing a great transformation in the tide of basic tone of economic policies after four decades.

A democrat President J. Biden got power this year in the United States. For his victory against Trump, essential was cooperation and voting by great many younger generations who originally eagerly supported another rival candidate B. Sanders' appeal for socialist political change. Biden's new policies such as joining in the Paris Protocol, international agreement against global warming in the 21st UN Framework Convention on Climate Change (Conference of Parties 21, COP21) in 2015, and proposal for international coordination for restore higher rates of corporation tax for Green New Deal are welcomed to change the political tide in the world. Contemporary revival of progressive macro-economic policies which this book expects with many post-Keynesians including MMT scholars is thus actually trendy.

Under the situation, against MMT which tends to recommend expansive functional macro-economic policies by means of increasing issue of sovereign currency as a general case to be followed from

its chartalist theory of money, this book prudently underlined importance of more concrete historical and institutional analyses on a series of problems such as possibility for deterioration in the position of dollar as world currency, increased risk of financial instability by speculative expansion of credit system, or probability of conflict of interests between the most of working people and the richer persons on selection of priority order of public spending. Such a prudent historical and institutional approach must be easier to follow and coordinate from Marxian political economy, where researches of economic policies are mostly promoted in relation to historical changes in the stages of capitalist development as well as in more concrete analyses of contemporary capitalism (systematically at levels of research separate from basic principles of political economy like in Marx's *Capital*).

In retrospect, the basic nature of money in the classic stages of capitalist development until the first world war where the international gold standard system was tendentially realized cannot be understandable from the chartist theory of money to explain sovereign currency as money created originally by state power to collect taxes. As Marx pointed out, commodities originated from inter-social economic trade, and money commodity was anarchically selected in the position of equivalent form of such commodities to form commodity market economy mainly outside of precapitalist political power to control and govern various communal social order for reproduction. Capitalism was born by converting commodity economy into internal social order of economic life to form a complete commercial society on the basis of commodification of labor power in a social scale. In accord with this, nation states and their governments controlled coinage and unified standards of prices or names of units of money in each country but did not determine gold as world money.

Such an international gold standard system became untenable in the period of thirty years of crisis beginning from the first world war, via the world great economic crisis, ending with the second world war. It was enforced to turn into two types of managed currency system. While Germany, Japan, Italy formed fascist type of the Axis powers, other western countries followed the United States type of New Deal policies, as Keynes attempted to present its theoretical foundation. Both types of nationalistic managed currency system were conscious of revival of capitalism against rivaling Soviet type of socialism.

After the victory of allied nations against fascism, much strengthened American industrial hegemony enabled and supported the Bretton Woods international monetary system by locating exchangeability of dollar with gold as a stabilizing central anchor for fixed exchange rates in the capitalist world continuously until the beginning of 1970s. It worked as an essential framework to realize continuous high economic growth among advanced capitalist economies including defeated Germany, Japan and Italy under the cold war system against expanding socialist countries in the world.

However, when a series of historically favorable conditions for high economic growth among advanced economies were used up, the intrinsic contradiction and instability of capital accumulation had to reappear in the inflationary crisis in 1973-75 and broke down both continuous long boom and the Bretton Woods international monetary system. Traditional Keynesian macro-economic policies were not just unable to resolve the vicious inflation but worked rather counter-effectively in the 1970s. Through this crisis, the international monetary system was transformed into the floating exchange system, and the basic tone of economic policies of most of advanced countries was shifted to neoliberalism.

In four decades under neoliberalism since 1980s, the United States has managed to maintain the privileged position of her sovereign currency dollar as most powerful world money despite of widely weakened industrial hegemony in the world market. As this book suggests, here are interesting issues why and how long can she keep such a privileged position. In the same decades, though capitalism once seemed to get victory through the cold war against socialism due to unexpected collapse of the Soviet Union, most of advanced capitalist economies including Japan and the United States are rather seriously

decaying in multiple crises as we have referred, in comparison with rapidly growing China and certain other developing countries.

Are we not facing a period of historic deep crises to engender human being and ecological nature which necessitate a great transformation often reminiscent of interwar thirty years of crises? Systematic concrete analyses of contemporary capitalism on the basis of both principles and stages theory of capitalist development must be indispensable to answer such an acute problem. Elucidation of significance and problems in MMT's macro-economic policies in this book is surely utilizable also for contemporary studies in Marxian political economy concerning deepening crises in our age, in order to seek possible alternatives for the future of mass of working people.