

HİTİT EKONOMİ VE POLİTİKA DERGİSİ

Hitit Journal of Economics and Politics

e-ISSN: 2687-4717
Cilt | Volume: 5 • Sayı | Number: 2
Aralık | December 2025

Modern Monetary Theory (MMT): A Different View

Modern Para Teorisi (MPT): Farklı Bir Bakış

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Makale Bilgisi | Article Information

Makale Türü | Article Type: Araştırma Makalesi | Research Article

Geliş Tarihi | Received: 05.02.2025

Kabul Tarihi | Accepted: 29.12.2025

Yayın Tarihi | Published: 31.12.2025

Atıf | Cite As

Yolusever, A. (2025). Modern Monetary Theory (MMT): A Dufferent View. *Hitit Journal of Economics and Politics*, 5 (2), 104-123.

Değerlendirme: Bu makalenin ön incelemesi iki iç hakem (editörler - yayın kurulu üyeleri) içerik incelemesi ise iki dış hakem tarafından çift taraflı kör hakemlik modeliyle incelendi. Benzerlik taraması yapılarak (Turnitin) intihal içermediği teyit edildi.

Etik Beyan: Bu çalışmanın hazırlanma sürecinde bilimsel ve etik ilkelere uyulduğu ve yararlanılan tüm çalışmaların kaynakçada belirtildiği beyan olunur.

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Çıkar Çatışması: Çıkar çatışması beyan edilmemiştir.

Finansman: Bu araştırmayı desteklemek için dış fon kullanılmamıştır.

Telif Hakkı & Lisans: Yazarlar dergide yayınlanan çalışmalarının telif hakkına sahiptirler ve çalışmaları CC BY-NC 4.0 lisansı altında yayımlanmaktadır.

Yapay Zeka Etik Beyanı: Bu çalışmanın Abstract kısmının hazırlanması sırasında yazarlar 'proof reading' amacıyla ChatGPT ve DeepL araçlarını kullanmıştır. Bu araçları/hizmetleri kullandıktan sonra yazarlar içeriği gerektiği gibi gözden geçirip düzenlemiş ve yayının içeriğinin tüm sorumluluğunu üstlenmiştir.

Review: Single anonymized - Two Internal (Editorial board members) and Double anonymized - Two External Double-blind Peer Review

It was confirmed that it did not contain plagiarism by similarity scanning (Turnitin).

Ethical Statement: It is declared that scientific and ethical principles have been followed while conducting and writing this study and that all the sources used have been properly cited.

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Conflicts of Interest: The author(s) has no conflict of interest to declare.

Grant Support: The author(s) acknowledge that they received no external funding to support this research.

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Artificial Intelligence Ethical Statement: During the preparation of the abstract of this study, the authors used ChatGPT and DeepL tools for proofreading purposes. After utilizing these tools/services, the authors thoroughly reviewed and revised the content as necessary and assumed full responsibility for the content of the publicat

Modern Monetary Theory (MMT): A Different View

Abstract

Modern Monetary Theory (MMT) offers an alternative economic framework that redefines the functioning of monetary systems, particularly in relation to government financing. It posits that sovereign currency issuers, such as Japan, can create additional money at all times, in contrast to traditional perspectives that link government deficits to inflation risks and advocate for balanced budgets. MMT highlights the crucial role of the government in the economy, arguing that carefully managed budget deficits can stimulate full employment and economic growth. It challenges conventional beliefs about inflation and unemployment, proposing that the availability of resources is more significant than budget constraints in managing inflation. Critics of Modern Monetary Theory (MMT) express worries about the possible inflationary effects of increased government spending and raise questions about the theory's empirical basis and practical relevance. Despite these concerns, MMT has demonstrated its efficacy in real-world situations, particularly during the COVID-19 pandemic, underscoring its potential for effectively managing economic fluctuations. In essence, MMT presents a contemporary approach to economic policy, advocating for reassessing government spending and fiscal strategies to advance public welfare and address urgent issues such as climate change. The primary objective of this study is to conduct an in-depth analysis of the historical progression and fundamental assumptions of MMT, provide a comprehensive review of existing literature and policy implications, and discuss the potential future of MMT..

Keywords: Modern Monetary Theory, Economic Theory, New Economy Policy, Chartalism

Modern Para Teorisi (MPT): Farklı Bir Bakış

Öz

Modern Para Teorisi, özellikle kamu finansmanı ile ilgili olarak para sistemlerinin işleyişini yeniden tanımlayan alternatif bir ekonomik çerçeve sunmaktadır. Bu yaklaşım, ülkelerin hükümet açıklarını enflasyon risklerine bağlayan ve dengeli bütçeleri savunan geleneksel bakış açılarının aksine, her zaman ek para yaratabileceğini varsaymaktadır. Modern Para Teorisi, devletlerin ekonomideki kritik rolünü vurgulayarak, dikkatlice yönetilen bütçe açıklarının tam istihdamı ve ekonomik büyümeyi teşvik edebileceğini savunmaktadır. Heteredoks bir yaklaşım olarak kabul edilen teori, enflasyon ve işsizlik hakkındaki geleneksel görüşlerin aksine, enflasyon ile mücadelede kaynakların efektif kullanımının gerekliliğini vurgulamaktadır. Öte yandan, Modern Para Teorisi'ne yöneltilen eleştirilerin başında artan hükümet harcamalarının olası enflasyonist etkileri gelmektedir. Bu endişelere rağmen, Modern Para Teorisi, özellikle COVID-19 salgını sırasında etkinliğini kanıtlamış ve ekonomik dalgalanmaları etkili bir şekilde yönetme potansiyelini ortaya koymuştur. Bu çalışmanın birincil amacı, Modern Para Teorisinin tarihsel evrimini ve temel varsayımlarını incelemek, mevcut literatürü sunmak, politika çıkarımlarının bir değerlendirmek ve teorinin potansiyel geleceğini tartışmaktır..

Anahtar Kelimeler: Modern Para Teorisi, İktisat Teorisi, Yeni Ekonomi Politikası, Çartalizm

Introduction

Modern Monetary Theory (MMT) is a macroeconomic framework that has gained prominence in recent years for challenging traditional economic beliefs. Developed in the late 20th century, MMT offers an alternative macroeconomic framework on how monetary systems function, particularly in relation to government finance and the role of currency. At its core, MMT asserts that sovereign nations with control over their own currency, such as the United States or Japan, cannot run out of money in the same way that households or businesses can, as they have the capacity to create more of their currency. This understanding has led to principles emphasizing the central role of government spending, budget deficits, and public welfare, and has sparked considerable debate within economic circles (Espinosa, 2024). Recent global crises, such as the COVID-19 pandemic, have thrust MMT into the spotlight, sparking renewed debate over government expenditure and inflation. The financial strains faced by nations have necessitated a re-evaluation of fiscal limits, making MMT's insights particularly timely as policymakers navigate post-pandemic recovery.

One significant difference between Modern Monetary Theory (MMT) and traditional neoclassical economic theory lies in their contrasting perspectives on the interaction between

the government and the economy. Neoclassical economists typically advocate for a balanced budget and warn against high levels of government debt, portraying government borrowing as a potential catalyst for inflation. On the other hand, MMT considers government deficits as a policy instrument for attaining full employment and fostering sustainable economic expansion, fundamentally reshaping the understanding of the link between government expenditure and economic well-being (Espinosa, 2024).

Unlike previous studies that often focus on isolated theoretical aspects or specific regional applications of Modern Monetary Theory, this research provides a holistic synthesis that bridges the gap between MMT's historical-theoretical foundations and its practical policy implications across diverse economic contexts. By integrating a comparative analysis of global case studies—ranging from sovereign currency issuers like Japan and Australia to constrained economies in the Eurozone and emerging markets like Argentina—this study distinguishes itself through a balanced evaluation of MMT's efficacy. It contributes to the literature not only by mapping the theory's intellectual lineage from Chartalism to the present but also by rigorously juxtaposing its bold policy prescriptions against real-world outcomes and multi-school critiques, thereby offering a nuanced roadmap for the theory's future applicability.

The main goal of this research is to thoroughly examine the historical development and underlying principles of Modern Monetary Theory (MMT) and offer a comprehensive assessment of the current body of literature on this topic. Additionally, the study aims to engage in a detailed discussion regarding the potential future directions and advancements of MMT.

1. Key Concepts, Key Figures and Origins

Modern Monetary Theory (MMT) has emerged as a significant alternative economic framework that challenges conventional economic thought. Developed in the late 20th century and gaining increased attention in recent years, MMT articulates an alternative interpretation of monetary sovereignty—that is, the capacity of a government to issue its own non-convertible currency and conduct fiscal operations in that unit of account—on how monetary systems operate, particularly regarding government financing and the role of currency.

One key differentiation between Modern Monetary Theory (MMT) and traditional neoclassical economic theory pertains to their divergent perspectives on the interplay between government and the economy. Neoclassical economists typically stress the importance of a balanced budget and warn against excessive debt, portraying government borrowing as a potential catalyst for inflation. Conversely, MMT regards government deficits as a policy mechanism for attaining full employment and sustainable economic expansion, fundamentally altering the understanding of the connection between state expenditure and economic well-being. In this section, we will firstly delve into the fundamental concepts of the approach, providing a comprehensive discussion and analysis of its key components. After, the key figures and origins will be discussed.

1.1. Role of Government

In the framework of Modern Monetary Theory (MMT), the government holds a central position as the primary creator of currency. This grants the government the unique power to spend without financial constraints, as long as such expenditures do not surpass the economy's productive potential, potentially causing inflation. Advocates of MMT argue that budget deficits are not inherently detrimental; instead, they can serve

to close the gap between overall demand and supply. From this perspective, when the private sector is inclined to save, the government is tasked with increasing its spending to ensure the seamless functioning of the economy and the preservation of employment opportunities for the population (Curcic,2024).

MMT also redefines national debt not as a liability, but as a record of past government spending not yet taxed back. This perspective shifts the fiscal focus from debt reduction toward strategic investments in public services and infrastructure to promote economic stability (Sultanum, 2024).

A cornerstone of MMT's policy framework is the 'Employer of Last Resort' (ELR) program. This proposal advocates for the government to act as a backstop against involuntary unemployment by providing jobs to anyone willing and able to work who cannot find private-sector employment. In an important study, Öztürk (2006) provides historical and theoretical evidence that aligns with the argument that governments must assume a proactive role in managing employment and economic stability. In this sense, Öztürk's analysis complements the MMT emphasis on active fiscal capacity by situating state intervention within a broader intellectual tradition that treats macroeconomic stability and employment as policy-relevant objectives rather than automatic market results. These proactive spending management helps control inflation and stabilize the economy, shifting policy focus from deficits to the dual objectives of full employment and price stability.

Furthermore, MMT presents a direct challenge to traditional perspectives on the relationship between inflation and unemployment. Mainstream macroeconomic theory suggests that increased government spending can trigger inflation. However, MMT proponents argue that inflation is more closely tied to the availability of resources than to government budgets. They advocate for an assertive fiscal policy that prioritizes achieving full employment without the concern of spiraling inflation. According to MMT, addressing underemployment and unused capacity can be effectively managed through strategic government expenditure.

1.2. Fiat Money

The core of MMT revolves around the concept of fiat money. Fiat money obtains its value not from any inherent usefulness, but rather from the trust and consensus of its users. Throughout history, the development of economic theories concerning money, especially fiat currencies, has sparked continuous discussions about its role in enabling transactions and shaping economic results. Unlike commodities, the value of fiat money is primarily dependent on the shared faith in its worth, underscoring its significance in MMT discussions (Gu et al.,2019).

MMT is based on the principle that a sovereign government with the authority to issue its own fiat currency:

- It enables the purchase of goods, services, and financial assets without the requirement to accumulate funds through taxes or debt issuance beforehand.
- Debts denominated in a country's own currency cannot be forced into default.
- Notably, the ability of the central bank to create money and make purchases is constrained by inflation. Inflation tends to accelerate once the economy's real resources,

such as labor, capital, and natural resources, are fully utilized at maximum employment levels.

1.3. Taxation

In Modern Monetary Theory (MMT), the role of taxation is reconceptualized from being merely a source of government revenue to a key instrument of macroeconomic management. Rather than primarily financing public expenditures, taxes are understood as tools for regulating aggregate demand, controlling inflationary pressures, and shaping income and wealth distribution. This functional view of taxation enables tax policy to be aligned with broader economic governance and social objectives, including equity and stability. Importantly, empirical studies on redistributive taxation provide concrete support for this perspective. For instance, analyses of financial transaction taxes—such as the Tobin tax—demonstrate how targeted tax instruments can generate a “Robin Hood effect” by reducing income inequality and enhancing distributive justice, thereby contributing to social and economic stability (Yavan, 2024). By embedding tax policy within a wider framework of macroeconomic regulation and redistribution, MMT advances a more integrated and socially oriented approach to taxation (Baker & Murphy, 2020). In Modern Monetary Theory (MMT), taxation is redefined not merely as a revenue-raising tool but as a policy instrument for managing economic activity. Taxes are primarily used to control inflation and redistribute income, thereby aligning tax policy with broader social objectives and economic governance. This reconceptualization of the purpose of taxation opens new possibilities for a more innovative approach to tax policy, allowing it to be integrated into broader social objectives and economic governance.

The conventional view is that tax revenue is the primary source of funding for government expenditure, shaping and limiting social policy. However, Modern Monetary Theory (MMT) challenges this perspective by proposing a spend-tax cycle, which reverses the traditional tax-spend relationship. Modern Monetary Theory (MMT) illustrates how tax can be utilized to address social issues such as reducing income and wealth inequality, improving housing accessibility, and financing initiatives like the Green New Deal. This presents a challenge for social policy researchers to leverage these insights to revamp tax systems and reform social tax expenditures (STEs) in order to serve innovative social policy objectives.

1.4 Chartalism

Chartalism and Modern Monetary Theory (MMT) are analytically contiguous traditions that conceptualize money as a state-constituted institution, grounded in the state’s authority to define the unit of account and enforce tax liabilities in that unit, with direct implications for how monetary issuance and macroeconomic stabilization are understood (Knapp, 1924). Chartalism asserts that the value of money is inherently linked to the authority of the state, while MMT further develops these ideas by emphasizing the significance of government policy and fiscal responsibility in economic management.

The origins of chartalism can be traced back to the work of early 20th-century economists, notably Georg Friedrich Knapp, who articulated the theory in his seminal book “The State Theory of Money” (1905). Knapp argued that the value of money derives from the state’s recognition and support, effectively positioning money as a creature of

the state rather than a mere commodity. This perspective gave a broader understanding of the state's role in economic transactions.

Chartalism is based on the state theory of money, which emphasizes the government's role in determining a currency's value. This is made evident through the legal requirement that specific forms of money, usually government-issued currency, must be accepted for tax payments and other obligations. As a result, the acceptance of currency is intrinsically linked to the government's enforcement and authority.

Modern Monetary Theory (MMT) extends the Chartalist tradition by analyzing the operational and policy consequences of monetary sovereignty grounded in the state theory of money and its implications for sovereign finance and macroeconomic policy (Wray, 2014).

1.5. Key Figures

The evolution and widespread adoption of MMT have been influenced by the contributions of leading economists and proponents in the field. Warren Mosler is a prominent American economist and entrepreneur who is widely regarded as one of the foundational figures in Modern Monetary Theory (MMT). His contributions to MMT are significant, and he is known for co-founding the Center for Full Employment and Price Stability. In addition to his work in economics, Mosler has also made a mark in the automotive industry by launching Mosler Automotive. His initial insights into MMT developed during his time as a Wall Street trader in the 1970s. In 1993, he published the influential essay "Soft Currency Economics" online, which played a crucial role in introducing MMT concepts to a wider audience. This essay garnered the attention of fellow economists, including Bill Mitchell, who also made substantial contributions to the evolution of MMT theory.

L. Randall Wray is also a leading scholar for MMT. His notable work includes a widely acclaimed book that delineates the principles of MMT, encompassing the monetary and fiscal policy implications for both developed and developing nations. Wray has underscored the misconceptions about the nature of money that played a role in the 2008 financial crisis and has put forth new frameworks for economic policy in addressing present-day challenges (Wray, 2011).

Another scholar, Stephanie Kelton, has become a prominent advocate for MMT especially within the realm of politics. Notably, she served as the chief economic advisor to presidential candidate Bernie Sanders, effectively bringing MMT concepts into mainstream discussions about economic policy. Kelton's influence extends beyond political spheres, as demonstrated by the wide readership of her bestselling book. Her lectures and writings consistently challenge misconceptions about government financial operations, emphasizing the need for a shift in understanding the creation and management of money (Carnevali & Deleidi, 2023).

Bill Mitchell is an influential figure in the development of MMT, making significant contributions to its theoretical framework. His research primarily delves into the implications of MMT for addressing unemployment and guiding social spending policies. Mitchell's argument centers around the idea that sovereign currency issuers have the capacity to maintain full employment levels through specific government interventions. As mentioned above, alongside Mosler and Wray, Mitchell has played a key role in

advancing the understanding and acceptance of MMT through his academic writings and public discussions.

The rise of the MMT is reflected in the growing interest it is garnering from influential figures and the ongoing debates within the economic community. This indicates a significant pivot towards regarding MMT as a substantial departure from conventional economic doctrines. Advocates of MMT are advocating for a comprehensive reevaluation of government strategies for managing currency and fiscal policies to tackle today's intricate economic challenges.

1.6. Origins of Modern Monetary Theory

Modern Monetary Theory (MMT) was developed independently by Warren Mosler and first presented to the public in 1993 through his publication *Soft Currency Economics* (Mosler, 1993). The theory gained academic recognition in 1996 when it was disseminated via the internet. As the MMT academic community expanded, the involvement of Professors Bill Mitchell, L Randall Wray, Mat Forstater, and Pavlina Tcherneva, followed by Stephanie Kelton and Scott Fullwiler, led to further research into potential precursors and approaches aligned with MMT (Quiggin, 2020). This included the credit theory of money, which has a long-standing history as a concept dealing with money as credit or debt.

The concept of money as a form of credit or debt has been prevalent for a significant period. In 1914, during the decline of the gold standard by major currency issuers, British diplomat Alfred Mitchell-Innes wrote two influential articles on money and credit for *The Banking Law Journal*. The first article, titled "What is Money?", received commendation from Keynes and was succeeded by "Credit Theory of Money." Randall Wray, a pioneering MMT academic, lauded these articles as "the best articles on the nature of money written in the twentieth century." Furthermore, MMT aligns with the "taxes drive money" approach outlined by Georg Friedrich Knapp in his work "The State Theory of Money," initially published in Britain in 1924 (Mitchell et al., 2019).

MMT shares some significant elements of complementarity with the work of leading twentieth-century economists like John Maynard Keynes and Abba Lerner. However, MMT should not be viewed as a development of their work, but rather as a distinct school of thought. It emerges from a rich academic heritage and stands apart from other mainstream economic theories in its unique description of the modern monetary system. It offers a comprehensive understanding of the monetary system as it has evolved since 1971, when a system of free-floating currencies replaced the Bretton Woods system of fixed exchange rates.

The rise of MMT has been greatly influenced by the internet, where economists have been able to elucidate the theory through widely read personal and group blogs. Of particular note is the widespread attention and discourse surrounding the concept of a trillion-dollar coin. Supporters have also circulated a video featuring former Federal Reserve Chairman Alan Greenspan, in which he asserts that pay-as-you-go benefits are secure because the federal government has the power to create and distribute money as it sees fit (D'Souza, 2024).

Lastly, the global financial crisis of 2008 and the economic repercussions of the COVID-19 pandemic have significantly influenced the economic landscape. As a result, there has

been a growing interest in heterodox economic ideas, such as MMT, which have sparked discussions about alternative fiscal policies. This shift in the economic environment has prompted a reevaluation of traditional economic approaches and has brought unconventional ideas to the forefront of policy debates (Carnevali & Deleidi, 2023).

2. Literature Review

There is an extensive literature on MMT. This heading will present a summary of these studies. Fiebiger (2011) underscored that MMT does not accurately depict the modern monetary system. Its proponents often present a system resembling that of US colonies in the 1690s and alternating between the 1940s. Accordingly, modern money theorists seem to be unaware that they propose conflicting theories, and neither version holds much empirical relevance. The 1690s version flips fiscal policy by suggesting that Treasury spending is funded by pre-emptive money creation rather than the subsequent collection of fiscal receipts. The paper argued that the narrative of 'treasury spending equals money creation' relies on questionable assumptions, specifically, that either the treasury's account at the central bank is not debited when it spends or that the principles of mathematics no longer apply when using deposits. The paper concluded that Modern Monetary Theory does not provide a workable alternative to fiscal austerity and proposed considering narrow banking as an alternative.

Nesiba (2013) conducted an analysis of the extent to which Post-Keynesian Institutionalism aligns with the historical, theoretical, and policy aspects of Modern Monetary Theory (MMT). The study identified areas of agreement and disagreement between scholars of these traditions and assessed the potential for resolving these disagreements in the context of MMT. The conclusion was that while MMT is open to challenge, debate, and refinement, its impact on public policy and its increasing presence in academic literature, mainstream media, and online discussions necessitate serious consideration by scholars of Post-Keynesian Institutionalism. MMT has emerged as a vital, albeit contentious, topic in this discourse and warrants the attention and respect it commands.

In their 2014 work, Juniper et al. contended that integrating MMT principles enriches the post-Keynesian theoretical and policy framework. The authors supported this assertion by (1) delineating the shared theoretical tenets that bind post-Keynesian and MMT proponents, (2) addressing post-Keynesian contentions regarding MMT's interpretation of money and the monetary system, and (3) examining the divergent perspectives on the role of fiscal policy in attaining sustained full employment.

Connors and Mitchell (2017) asserted that MMT has faced challenges in gaining widespread acceptance in economic and political discussions due to two main factors. First, a lack of comprehensive understanding of essential macroeconomic concepts among economic commentators, journalists, and the general public leads to a lack of education on the subject. Second, key macroeconomic terms are often used incorrectly within pervasive cultural metaphors to justify policy interventions that primarily benefit a privileged few at the expense of the majority. The authors provided a conceptual framework for understanding how language can limit thinking and analyzed the use of metaphors that reinforce the flawed principles of traditional economics. They also explored the core principles of modern monetary theory, which presents a politically

neutral model of macroeconomic operations, and suggested effective ways to communicate these principles within a progressive social and economic framework.

Vergnhanini and De Conti (2018) analyzed the recent discourse surrounding MM and its relevance to peripheral countries. Their work offered a critical perspective on the application of MMT, which has been focused on debunking the assumptions of the 'New Macroeconomic Consensus' and proposing an alternative approach to achieving full employment alongside price stability. One of the key criticisms of MMT is its assumption that constraints on domestic policies are primarily self-imposed, without due consideration for the influence of international markets. The authors argued that peripheral countries do not possess full sovereignty in determining their macroeconomic policies in the context of financial globalization. They introduced the concept of the "international currency hierarchy" to support this argument, highlighting that currencies issued by peripheral countries do not serve as effective mediums of exchange at the international level. Consequently, these currencies and assets are primarily sought after by international investors for their high returns, with demand influenced by international liquidity preference and market confidence in the respective country. As a result, interest rates in peripheral countries are often higher and more volatile, while exchange rates are susceptible to the movements of capital flows. The authors emphasized that MMT does not adequately account for the constraints faced by peripheral countries in terms of monetary, fiscal, and exchange policies.

MMT asserts that the government can engage in expand fiscal spending by borrowing or printing money than traditional monetary theory allows. However, in a significant article, Coats (2019) pointed out that MMT's efforts to repackage and revive the empirically and theoretically discredited Keynesian policies of the 1960s and 70s have been unsuccessful. MMT suggests that countries which borrow in their own currency need not be concerned about government deficits because they can always create money to fund their debt, and that these countries can finance any amount of real government spending by creating money.

In a 2019 study, Edwards examined MMT in the context of Latin America. While the study didn't delve into a comprehensive analysis of MMT's shortcomings, it did note that most of its policy recommendations align with those of Latin American populists, which should concern global economy watchers. The study conceptualized MMT as proposing policies that simultaneously shift the IS and LM curves to the right. Although this may seem appealing at first glance, it poses significant risks, including potential inflationary pressures as aggregate demand surpasses supply constraints and the likelihood of higher interest rates. Additionally, the study suggests that MMT could lead to a higher risk premium and currency depreciation. As per Edwards, it's important to note that even though taxes are required to be paid in the local currency by law, this does not imply that the demand for local currency is unaffected by rapid depreciation. Historical analysis of various countries has shown that once inflation surpasses a certain level, there is typically a sharp decline in the demand for cash and bank deposits, also known as M1 among economists. This insight challenges the view held by MMT supporters, which is based on the work of German economist G. F. Knapp from 1905.

In his 2019 analysis, Roberts examined the implications of MMT for the labor movement and compared it to Marx's monetary theory. He emphasized the theory's US/Australia-centric nature and argued that its policy recommendations may not be universally

applicable, similar to Keynesian theory. Roberts highlighted the state's limited control over its currency's value relative to other currencies or gold, emphasizing the potential consequences of a loss of trust in a currency's value or a decrease in demand for that currency, leading to currency devaluation and increased inflation. In this way, MMT acts as a safety net for capitalism. The state is the employer of last resort but not the primary employer. It aims to mitigate the failures of capitalist production, not replace them.

Beck and Prinz (2019) emphasized that MMT begins with the accurate observation that a government borrowing in its own currency cannot go bankrupt: it can always print as much money as needed to meet its obligations. Some advocates of MMT, as outlined in the study, utilize the theory's concepts to rationalize extensive government spending without encountering the usual issues associated with high government debt. The article outlines the fundamental concepts of MMT and provides an overview of its findings. While the fundamental concepts of MMT are widely acknowledged, the conclusions drawn from this theory are exceedingly far-reaching and daring. In particular, they question the political feasibility of the MMT prescription to raise taxes swiftly as the primary tool to curb inflation once full employment is reached.

Sumner and Horan (2019) pointed out five significant weaknesses of MMT and demonstrated that recent US economic history does not align with the theory's core principles. The study highlighted MMT's reliance on questionable assumptions about inflation and the roles of monetary and fiscal policy, as well as its unrealistic expectation that fiscal authorities could effectively manage inflation. The authors also warned that an MMT approach, which involves fiscal authorities controlling monetary policy, carries the risk of leading to high debts, inflation, or both, ultimately harming the broader economy. Instead of embracing MMT, the authors suggested that the Fed should prioritize a stable, rules-based monetary policy, while policymakers in Congress should exercise caution when formulating fiscal policy.

Newman (2020) utilized Austrian economics to contend that MMT shares the shortcomings of all forms of Keynesian economics, particularly the original version from the 1930s and 1940s. The study asserts that MMT fails to grasp capital-based macroeconomics and the impact of government policy on the temporal structure of production. Additionally, MMT overlooks the significance of profit and loss accounting in comparison to government resource allocation. The Austrian school posits that the conventional New Keynesian countercyclical monetary policy leads to a credit-induced boom and bust (Austrian business cycle theory) by infusing new money into private sector loans through the banking sector. However, Austrian analysis has shown that MMT's monetary policy of monetizing government deficits and augmenting the money supply through government spending would instead result in prolonged economic stagnation and an impaired capital structure. In conclusion, according to Newman, the policy recommendations of MMT pose a significantly greater risk than traditional New Keynesian policies.

In his study, Mankiw (2020) discussed MMT and identified the key differences between MMT and mainstream macroeconomic frameworks. Specifically, he argues that while MMT correctly asserts that sovereign governments cannot default in their own currency, this insight does not validate the theory's radical policy conclusion that fiscal deficits are irrelevant to interest rate determination or inflation risks. In their 2021 publication, Drumetz and Pfister introduced the MMT approach to money and monetary policy, delving into its recommendations on fiscal policy, aggregate demand management,

structural policies, and international aspects. Their research suggests that MMT relies on outdated economic science and exaggerates its claims about economic policies, leading to the conclusion that MMT resembles more of a political manifesto than a genuine economic theory. They argue this is because MMT relies heavily on accounting identities while lacking a formalized behavioral model to explain how economic agents actually react to money financing.

Olaf (2021) pointed out that asset purchase programs undertaken in anticipation of an increase in government bond offerings to finance growing fiscal deficits post the COVID-19 pandemic can be traced back to MMT. The author highlighted that such programs effectively result in the monetization of significant additional debt, as private investors are not expected to increase their holdings of government bonds during the current crisis. This involves the government either selling bonds to the central bank or creating new money through direct spending. The author also discussed the role of MMT in advocating concepts such as helicopter money and permanent monetary finance. The article critically examined key aspects of MMT and utilized MMT's balance sheet analysis to demonstrate that the actual functioning of the modern credit economy often contradicts the theory. According to the research, MMT appears to comprise prescriptive ideas about how things should work, rather than accurately reflecting how they do. Kotilainen (2021) contends that by carefully considering a variety of more subtle barriers and strategic motivations that primarily affect small currency-issuing nations, the cosmopolitan ideals of MMT are still well-founded. As a result, the political implications of MMT are re-evaluated, and a case for the international exercise of monetary sovereignty is presented. The author illustrates how the traditional state-focused approach to currency privileges can be detrimental from the standpoint of democratic governance. The conclusion drawn is that neochartalism and cosmopolitanism can mutually enhance and complement each other.

In a recent study, Ehnst (2022) addressed points raised by Drumetz and Pfister (2021) and reaffirmed the fundamental principles of Modern Monetary Theory (MMT) while providing recommendations for central banks. MMT offers insights into the creation and destruction of money, functioning as an explanation rather than a political agenda. Unlike many other monetary theories, MMT's core assertions are testable, grounded in a balance sheet approach to macroeconomics. Given that several central banks have already educated the public about modern money creation through bank lending, extending this to encompass government spending would be a positive step. Collaboration between MMT proponents and central bankers could facilitate progress by moving past traditional theories of money like the theory of loanable funds and the money multiplier.

Carnevali and Deleidi (2023) conducted a study on the MMT approach to inflation within an open economy framework. Their analysis examined how the MMT framework elucidates the inflation process and presented empirical evidence in support of this perspective. However, they also utilized a stock-flow consistent open-economy model to highlight certain limitations of the theory when applied in a non-US, relatively open economy with a flexible exchange-rate regime. The model raises questions about the MMT proponents' assertion that initiatives like the job guarantee program can achieve full employment without encountering a trade-off between inflation and unemployment. Carnevali and Fontana (2023) pointed out two aspects of MMT that may have contributed to some confusion. First, prominent MMT proponents primarily target policymakers and

the public to shape public opinion. Consequently, specific important details and institutional nuances are omitted or not fully explored to ensure the main MMT concepts are easily digestible for policymakers and the public. Secondly, MMT delves into the implications of endogenous money theory for the government sector. Given that endogenous money theory is gradually gaining recognition among central bankers and mainstream academics, there is potential for misinterpretation.

Helgadóttir and Grosen (2024) examined the remarkable ascent of MMT as a case study and put forth two assertions. Firstly, they argue that MMT's concepts did not form a distinct heterodox economic paradigm through conventional channels such as academic peer-review and citation networks, but rather through extensive online engagement. Secondly, they maintain that the communication that drove MMT consistently intertwined foundational assertions with explicit statements of societal intent.

Sylla (2024) conducted critical study. Accordingly, as a research program, MMT is built on several theoretical pillars that could be used to study all economies, regardless of their level of development. Thus, MMT provides an original understanding of colonialism's monetary and fiscal dimensions, which is undoubtedly important to developing countries, as most were former colonies. From a policy analysis perspective, MMT helps clarify the nature of peripheral countries' constraints and the possible development options. In such a context, an MMT perspective stresses the necessity and foundations of a development model based on domestic resource mobilization, particularly on the full employment of the labor force.

3. Policy Implications

Argentina's employment policies represent one of MMT's most important case studies. The academic discussions on public employment policies, such as the Job Guarantee (JG) and Employer of Last Resort (ELR), frequently emphasize their potential impact on macroeconomic stability. One notable example is the restructuring of Argentina's Plan Jefes, a significant stabilization policy introduced in the aftermath of the 2001 economic crisis. Initially, Plan Jefes provided public sector employment opportunities in community projects for unemployed heads of households, focusing on assisting impoverished women. Subsequently, this program evolved into a cash transfer initiative called Plan Familias, which continues to target poverty and gender inequality in Argentina. Argentina's economic history is characterized by the government's use of sovereign currency issuance to tackle fiscal deficits. According to researchers, the significant increase in government spending, particularly in social programs, played a pivotal role in stabilizing the economy during hyperinflation (Archacki, 2022). The research indicates that while MMT strategies can improve economic stability, they also pose the risk of exacerbating inflation if not carefully managed (Archacki, 2022).

United States' Fiscal Responses are another example. During the COVID-19 crisis, the U.S. Treasury took significant action by authorizing approximately \$5 trillion federal spending. This move sparked extensive discussions about the federal government's capability to manage debt and deficits effectively. L. Randall Wray, a Senior Scholar, made a compelling argument, stating that concerns about federal solvency are often misguided. Wray emphasized that the crucial question is not whether the government can spend, but rather whether it should do so to avoid resource constraints. Analytically, the US case demonstrates that despite exceeding traditional debt-to-GDP thresholds, the

predicted spike in interest rates did not materialize, suggesting that market confidence in monetary sovereignty outweighs fiscal metrics.

Japan has been conducting a monetary experiment that serves as an interesting case study. In the past few decades, Japan's monetary policy has heavily relied on extensive quantitative easing and fiscal measures, which are in line with MMT principles. The primary goal has been to combat deflation and spur economic growth by maintaining low interest rates and increasing government spending. As noted by Koo (2018), these MMT-like conditions have produced mixed results, characterized by moderate GDP growth alongside persistently low inflation despite substantial fiscal deficits. These outcomes raise important questions about the long-term sustainability of such strategies and their potential impact on national debt (Koo, 2018).

European Central Bank Responses is another case study. When examining how the Eurozone dealt with economic challenges during the debt crisis and Brexit, this research delves into the potential application of MMT principles in providing solutions for member countries grappling with austerity measures. According to scholars, adopting a more MMT-oriented approach, characterized by increased public spending and a reduced emphasis on balanced budgets, may have mitigated some of the economic hardships experienced by countries like Greece and Italy (Mucato & Jacobson, 2020). The study's conclusions indicate that embracing greater flexibility in fiscal policy could play a pivotal role in effectively addressing economic crises.

Australia's Response to COVID-19 can be seen another example. This case study examines how the Australian government implemented MMT principles in its fiscal response to the COVID-19 pandemic. The government's actions included providing direct payments to citizens and increasing public spending to bolster the economy during periods of lockdown. According to the Australian Treasury (2021), these measures sustained economic activity and mitigated the severity of the recession. The study assesses the immediate impact of these policies, which effectively boosted consumer spending, highlighting the potential of MMT in addressing unprecedented challenges. The response of the United States government to the financial crisis of 2008 serves as a significant example of the practical implications of MMT. During this crisis, the government implemented various stimulus packages, and the Federal Reserve pursued quantitative easing policies. Scholars have noted that these actions, informed by MMT principles, played a crucial role in alleviating the impact of the economic downturn. While critics like Palley (2019) argue this was standard Keynesianism rather than MMT, proponents contend that the scale of the stimulus validated MMT's core operational insights regarding fiscal space.

In the context of discussions about MMT, Zimbabwe is often brought up as a cautionary example of the potential risks associated with unrestricted government spending. During the early 2000s, the government of Zimbabwe resorted to extensive money printing as a means to finance both military expenditures and social welfare initiatives. This approach, when coupled with a severe decline in the agricultural sector and ongoing political turmoil, led to a state of hyperinflation within the country. According to MMT proponents, the issue in Zimbabwe was not primarily due to excessive spending, but rather a breakdown in productive capability, leading to a supply-side crisis. The significant reduction in available goods and services meant that increasing the money supply only exacerbated inflation (Noko, 2011). MMT proponents also emphasized that

Zimbabwe's economic crisis was not solely caused by the existence of its own currency, but rather by a mismanaged economy where currency issuance far exceeded the country's productive capacity. Therefore, supporters of MMT argue that inflation in Zimbabwe resulted from poor governance, rather than MMT principles.

The debt crisis in the Eurozone, particularly in countries like Greece, Portugal, and Spain, sparked extensive discussions about fiscal sovereignty and the limitations of a shared currency. Unlike countries with full control over their currency, these Eurozone members faced strict debt constraints and couldn't print their own money to cover deficits. Advocates of MMT contended that Greece and other Eurozone nations were compelled to adopt austerity measures because they lacked control over their currency. Unable to issue euros independently, they had to resort to external borrowing, ultimately leading to a debt crisis (Galbraith, 2011). The European Central Bank (ECB) eventually intervened with bond-buying programs to stabilize the situation. However, the constraints placed on Eurozone members illustrate one of MMT's key points: countries must have complete control over their currency to manage fiscal policy and avoid unnecessary austerity effectively. The Eurozone crisis underscored the constraints faced by countries without full monetary sovereignty. MMT scholars often cite this case to illustrate that nations subject to external debt regulations are susceptible to financial crises, particularly during economic downturns.

One last notable case study involves South Korea's response to the economic impact of the COVID-19 pandemic. Like other nations, South Korea implemented substantial fiscal stimulus measures, such as direct cash transfers, wage support, and infrastructure investments. Despite a significant increase in government debt, South Korea's proactive fiscal approach effectively alleviated the most severe consequences of the economic downturn. South Korea has its own currency, known as the won. According to MMT theorists, South Korea's successful economic recovery was largely due to its ability to effectively manage its domestic debt without depending on foreign borrowing. Despite engaging in substantial deficit spending, South Korea kept inflation in check throughout its recovery (Ha, 2022). This empirical evidence reinforces the MMT argument that when domestic production capacity is elastic, fiscal stimulus absorbs slack rather than driving up prices, provided the debt is denominated in local currency.

The following case studies provide valuable insights into the potential advantages and drawbacks of policies inspired by Modern Monetary Theory (MMT). In nations such as the United States and Japan, MMT can serve as a rationale for running deficits in order to stimulate employment and foster economic expansion without triggering immediate inflation. However, the experiences of countries like Argentina underscore the importance of maintaining fiscal and monetary discipline, especially when dealing with foreign currency-denominated debt or addressing structural vulnerabilities within the economy.

Similarly, we can gain valuable insights into the practical application of MMT by examining Zimbabwe's hyperinflation, the Eurozone crisis, and the pandemic responses of Australia and South Korea. Countries with full monetary sovereignty, such as Australia and South Korea, could utilize deficit spending to effectively address economic crises without causing significant inflation. On the other hand, the Eurozone crisis underscores the risks faced by countries that do not have control over their currency. Zimbabwe's

situation serves as a cautionary tale, illustrating the perils of severe mismanagement in an economy with limited productive capacity.

4. Criticism and Future Direction

While MMT has challenged the consensus on government financing, it faces rigorous scrutiny regarding its practical application. The main areas of concern are inflationary pressures, political risks, and international constraints.

4.1. The Operational Feasibility of Inflation Management

The most technical critique of MMT concerns its reliance on fiscal policy—specifically taxation—as the primary lever for controlling inflation. While MMT proponents correctly identify real resource constraints as the limit to spending, critics argue that the mechanism for enforcing this limit is operationally flawed. Traditional macroeconomics relies on central banks to adjust interest rates swiftly to curb inflation. In contrast, MMT suggests that tax increases or spending cuts should cool an overheating economy. Critics like Krugman (2019) contend that this approach oversimplifies the lag between policy implementation and economic impact. Fiscal policy is inherently sluggish due to legislative processes; by the time a tax hike is passed to curb inflation, the economic cycle may have already shifted. Furthermore, Sumner and Horan (2019) warn that assigning inflation management to fiscal authorities ignores the historical success of rules-based monetary policy, potentially leading to volatile price instability.

4.2. Political Economy and Governance Risks

There is also a concern regarding the potential for politicians to exploit MMT policies. If governments are informed that they can spend without immediate consequences, there is a risk that politicians may make unrealistic promises they cannot fulfill, leading to fiscal irresponsibility. Upholding fiscal discipline in the context of limitless money creation could pose political challenges, particularly in countries with weak institutions. Critics are concerned that MMT offers an intellectual framework that could rationalize reckless spending, potentially leading to economic instability in the absence of proper safeguards (Tymoigne & Wray, 2013). The application of MMT to the global economy is also still a subject of debate, particularly for smaller or developing nations.

Critics also emphasize the political implications of MMT, suggesting that its acceptance could result in unsustainable fiscal policies. Advocates of free-market ideologies often present MMT as a threat to financial responsibility, contending that it may promote a culture of government reliance on monetary expansion instead of prudent budgeting. Figures such as Warren Mosler propose that the political environment is resistant to MMT because it challenges widely held beliefs about government funding, which politicians may be reluctant to publicly support due to concerns about opposition from traditional economic narratives (The Economist, 2019).

4.3. International Constraints and Monetary Sovereignty

The third major theme challenges the universality of MMT, arguing that it is implicitly modeled on hegemonic economies like the United States and Japan. Verghnhanini and De Conti (2018) introduce the concept of the "international currency hierarchy" to argue that peripheral nations lack true monetary sovereignty. For developing economies, excessive deficit spending often triggers capital flight and currency depreciation long before full employment is reached. Edwards (2019) reinforces this, noting that in Latin American contexts, MMT-style policies have historically resulted in higher risk premiums

and rapid devaluation rather than sustainable growth. Thus, critics argue that MMT underestimates the external discipline imposed by global financial markets, limiting its applicability to a handful of currency-issuing superpowers.

4.4. The Future

In the foreseeable future, it is likely that MMT will not be universally adopted in its entirety, but it is likely to exert influence on specific policy decisions, particularly during periods of economic turmoil. The COVID-19 pandemic has demonstrated that governments are willing to operate with larger budget deficits when deemed necessary, and the apparent effectiveness of stimulus measures in numerous advanced economies may prompt policymakers to reconsider traditional constraints on public spending. While it is unlikely that mainstream economists will completely embrace MMT, certain elements of its framework, such as the emphasis on fiscal flexibility and public investment, could potentially become more prevalent in public policy discussions.

MMT must offer clearer strategies for managing inflation to be more widely accepted. Existing MMT models depend on taxation and government intervention to control inflation, but the specific mechanisms and timing of these measures are not well-defined. If proponents of MMT can devise more advanced methods for managing inflation, such as integrating monetary and fiscal policy in innovative ways, the theory could effectively address a major critique and gain greater support from policymakers.

As we look to the future, it is likely that MMT will need to evolve and tailor its principles to countries that are more deeply connected to global financial systems or rely on foreign-denominated debt. This evolution would require a nuanced approach that takes into account the constraints of monetary sovereignty within the framework of global markets and capital movements to enhance MMT's relevance.

5. Conclusion

In summary, Modern Monetary Theory (MMT) has emerged as a transformative framework that challenges traditional economic paradigms by reshaping our understanding of money, fiscal policy, and government spending. By asserting that monetarily sovereign governments face real resource limits rather than financial constraints, MMT advocates for expansive fiscal policies to promote economic growth and address social inequalities. As governments worldwide grapple with the dual challenges of economic stagnation and social disparities, the principles of MMT offer an alternative perspective for evaluating the effectiveness of current economic strategies. However, MMT has faced several criticisms. Opponents argue that the theory may oversimplify the complexities of economic management and underestimate the risks associated with large-scale government spending. One major concern is the potential for inflation. Critics caution that increased government spending, without corresponding measures to boost productivity and capacity, could lead to runaway inflation, diminishing purchasing power and destabilizing economies. Moreover, the implications of MMT for public debt management raise questions about how such strategies would impact investor confidence and the long-term sustainability of fiscal policies. These concerns highlight the need for a comprehensive evaluation of the potential drawbacks of MMT alongside its proposed benefits.

Furthermore, applying MMT principles in different economies presents unique challenges and considerations. Various nations worldwide have different abilities to manage their

currency and debt levels effectively. This means that an approach that works well in one country may not be suitable or effective in another. The complexity of global economic systems requires a nuanced and carefully tailored approach that considers each country's specific economic conditions, governance structures, and social landscapes. Understanding these differences is essential for implementing MMT in a way that fosters sustainable economic growth and stability.

In the years ahead, economic policy may integrate MMT principles with traditional economic theories. As we navigate ongoing global challenges such as rapid technological advancements, climate change, and shifts in the workforce, there is a growing need for adaptable and innovative policy approaches. Policymakers may embrace MMT as a foundational strategy for fostering a more equitable economy, mainly through the equitable allocation of resources to underserved communities and the advancement of sustainable development.

The future research needs to carefully consider the bold propositions of MMT while assessing their implications. It is crucial to conduct empirical analysis to understand how MMT can effectively address real-world problems without leading to unintended consequences such as inflationary pressures or currency devaluation. Additionally, interdisciplinary collaboration among economists, social scientists, and policymakers will be essential to refine and operationalize MMT principles in a viable and beneficial way across various contexts.

Ultimately, the concept of MMT invites reconsideration of the potential for economic frameworks. It encourages us to think boldly about fiscal policy while emphasizing the importance of practical comprehension and application. As discussions about MMT progress, they can reshape economic policies and our perspective on value fairness, and societal sustainability. Embracing MMT could signify a significant turning point in

pursuing an inclusive economy, laying the groundwork for a future defined by increased prosperity, stability, and equity.

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