Research Article

The Effect of Modern Monetary Theory on the Economy

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Abstract: *The contemporary monetary system has had a negative impact in many parts of the world. It has contributed to the rise of the global economic crisis due to the growing negative effects of fiat money's nature. Increased support for Modern Money Theory (MMT) in recent years has also been the currently accepted explanation for this trend. The main finding of earlier study is that MMT are not fiscally restricted, and government are not reliant on taxation to pay government expenditures. Since this topic is crucial today, the main study objective is to identify what is the effect of this damaging controversy. Contrary to popular belief, the fundamental flaws in MMT are substantially responsible for the growth of economic downturn. However, our research shows that contemporary monetary concepts, which are drawn from the Western worldview, frequently conflict with the outcomes it produced. Thus, we also found out that a person's choice of worldview may have an impact on the outcome of a decision they make concerning economic issues, and this might soon have wider-reaching consequences on the global economy. The important underlying factor contributing to financial downfall has little to do with money. Instead, it becomes ultimately about people and the things they decide to expand, practice, or create.*

Keywords: Modern Money Theory; Modern Monetary System; Fiat Currency; Financial Crisis.

1. INTRODUCTION

In order to challenge the dominant theory of money at the time, chartalism, a heterodox theory that first appeared in the early 20th century, gave rise to Modern Money Theory (or MMT). The notion was dubbed "chartalism" since the government defines what constitutes money and charters allow banks to manufacture money.

Numerous neo-chartist authors are Randall Wray, Matthew Forstater, Stephanie Bell-Kelton, Pavline Tcherneva, Eric Tymoigne, and Felipe de Rezende just to name a few.

MMT claims that money equals to wealth and any deficits does not matter in the event where government were to print money (given that the government possessed of a sovereign currency) may borrow all that it requires from its central bank. It also argues that government can never run out of money because it can always create more of it. As a result, sovereign governments which control their own money can never default on their own debt since they can always create enough to cover the existing and future obligations.

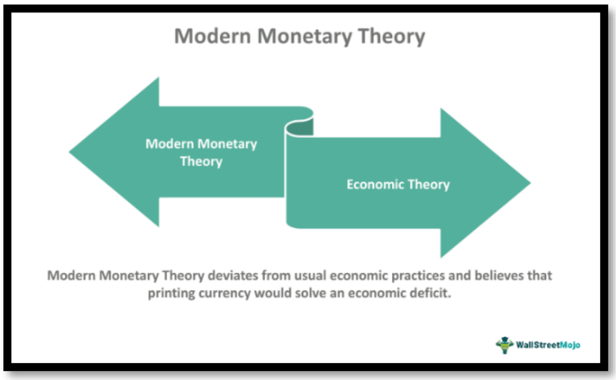

Figure 1. Modern Monetary Theory by WallStreetMojo

MMT has been called naive and irresponsible by critics. American economist Thomas Palley has said its appeal lies in it being a "policy polemic for depressed times."· He has criticized various elements of the theory, like the suggestion that central bank interest rates be maintained at zero, and said it provides no guidance to countries like Mexico and Brazil and does not consider political complications arising from vested interests.

2. OBJECTIVE

This research aims to study and discover the effect of modern monetary theory on the economy, in relation to fiat currency.

3. METHODOLOGY

In this research, the authors opt for qualitative document and content analysis by investigating peer reviewed articles to establish the analysis of modern monetary theory, fiat money and its concept as well as the effect it has on the economy. The author employs library research method examining published works including journal articles, books, quotes from prominent practitioners, primary translated books from the original authors on the subject matter. The paper attempts to deductively analyse the threat of MMT and fiat currency.

4. DISCUSSION AND RESULT

MMT claims that money equals to wealth and any deficits does not matter in the event where government were to print money (given that the government possessed of a sovereign currency) may borrow all that it requires from its central bank.

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5. CONCLUSION

We learn that the important underlying factor contributing to financial downfall has little to do with money. Instead, it ultimately relates to people and the things they decide to expand, practise, or create.

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