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Sorry Alan, but Modern Monetary Theory is a load of cobblers

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Alan Kohler considers the current crisis provides the ideal laboratory for applying the catchily titled Modern Monetary Theory — MMT. He sees this as a paradigm change whereby the government just keeps spending money with little concern for debt in order to maintain employment. He considers this to be a modern version of the stimulus to counteract a downturn, one that goes much further than policies favoured by Keynesian economics.

Keynesian economics is a prescription for ironing out the peaks and troughs in an economic cycle. It would never have achieved its current popularity had it been seen as the permanent stimulus that Kohler advocates. Even in its pure form it had become discredited in bringing about "stagflation" in the 1970s rather than its intended economic recovery. And in the Global Financial Crisis in 2007, Australia recovered not from the wasteful Kevin Rudd/Ken Henry stimulus policy of "Go hard, go early, go households" but from a genuine increase in demand brought about by the booming Chinese economy.

Keynesian policy prescriptions as advocated by Keynes himself, at least in his later years, contra Rudd/Ken Henry, involved investment spending to provide a platform of higher future incomes. The problem with this is that government is likely to be wasteful its allocations and such spending takes many years to get underway.

In going further than the temporary Keynesian solutions of deficit-financed pump-priming to stimulate demand, financing would be later recouped in higher taxes, Kohler sees no need to take repayments into account. He sees MMT as a policy that would keep creating debt to inflate the economy permanently that will have no downside.

In fact, no serious MMT analyst would say that. Eventually, the money itself and servicing the debt it represents would engulf the economy as monetary expansions from Ancient Rome to modern Zimbabwe and Venezuela always have. The MMT theory is that the government keeps employing people who have lost their jobs but pushes them to go back to the private sector when inflation starts to rise. As with the Keynesian solution, it could never have gained any credibility if it was the open-ended formulation that Kohler advocates.

In its present policies, Australia is currently pretty much applying MMT prescriptions. JobKeeper/JobSeeker programs are paying 30 per cent of the nation's employees to produce nothing. In the end, this means around a 30 per cent reduction in incomes.

Support programs are reasonable as temporary measures to resolve a crisis, which, rightly or wrongly is largely created by government policy. But the policy is already bringing calls for its expansion and extension beyond the September. The economy cannot keep paying itself 30 per cent more than it earns and must either adjust to a lower level of output or remove the lockdown obstacles to this.