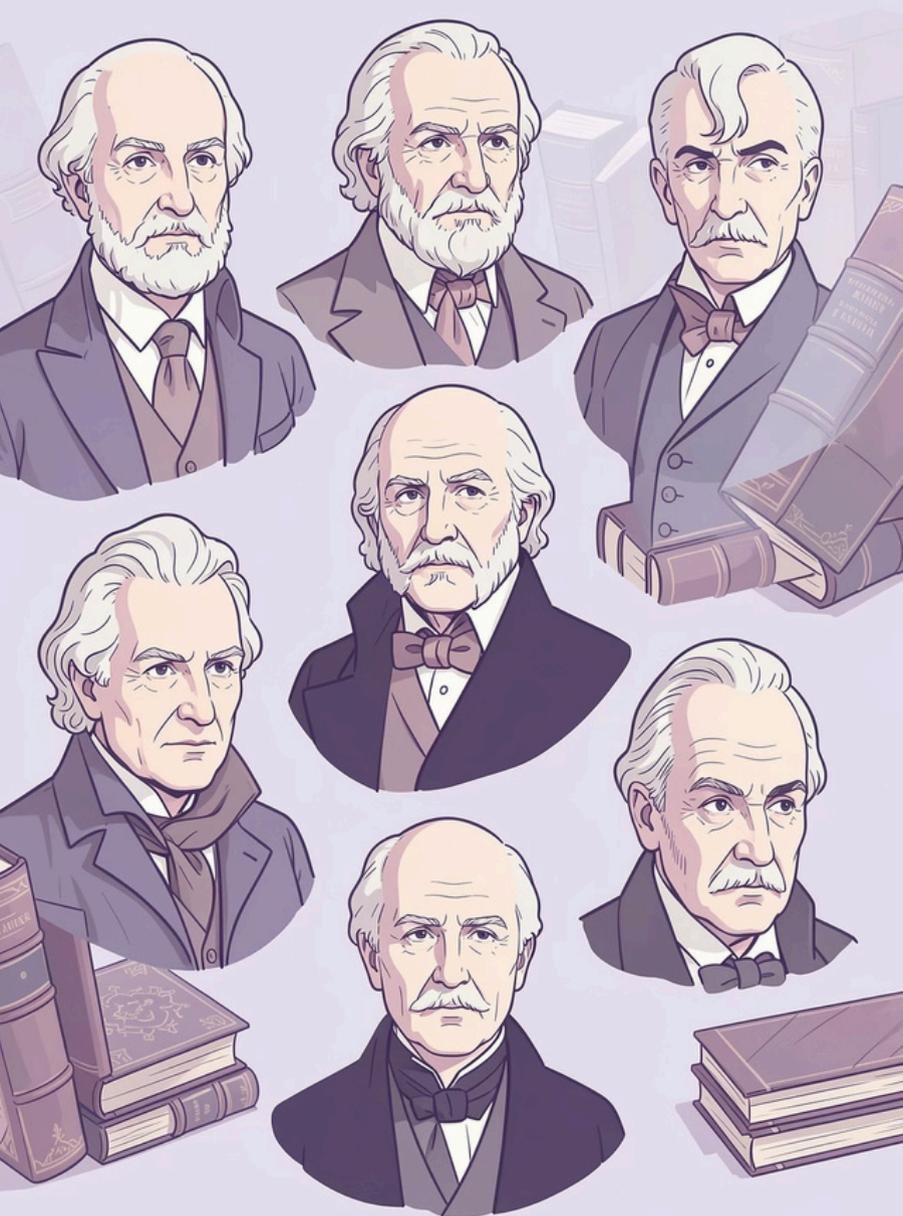




Would Keynes Approve of Modern Monetary Theory?

Examining whether MMT faithfully continues Keynes's economic philosophy by situating Keynes within the evolution from classic alto post-Keynesian thought.

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Classical & Neoclassical Background

Self adjusting markets

Ricardo, Say, Mill:
markets naturally restore equilibrium.

Say's Law

Supply creates its own demand;
persistent general unemployment deemed impossible.

Marginalist Revolution

Walrasian general equilibrium formalized the economy as tending toward full equilibrium.

Keynes's Break with Orthodoxy

Keynes argued economies can lock in to equilibria with involuntary unemployment. He emphasized expectations, uncertainty, and effective demand over automatic market self-correction.

His critique was more radical than later neoclassical reconciliations (the 'neoclassical synthesis').



Post-Keynesian Roots



Post-Keynesians (1970s–80s) rejected neoclassical reinterpretations, stressing:

- Fundamental uncertainty
- Endogenous money
- Persistent disequilibrium

MMT largely emerges from this tradition.

Core Claims of Modern Monetary Theory



Currency Issuance

Government that issues its own currency cannot become insolvent in that currency.



Taxes & Spending

Taxes don't finance spending but regulate aggregate demand.



Constraint= Inflation

Inflation, not solvency, is the true limit on fiscal policy.



Job Guarantee

MMT proposes a Job Guarantee to anchor price stability and achieve full employment.

Keynesian Agreements with MMT

- Rejecting deficit hysteria

Keynes would welcome skepticism toward automatic fear of deficits.

- Focus on effective demand

Both place fiscal policy at the center of managing demand and employment.

- Money not neutral

Recognition that money matters for real outcomes.



Potential Keynesian Reservations



Radical uncertainty

Keynes emphasized deep uncertainty and fragile expectations—hard to model or control.

Policy confidence

MMT sometimes appears confident in precise policy control over inflation and demand.

Deficit stance

Keynes supported countercyclical deficits, not necessarily permanent structural deficits.

Where MMT Aligns and Diverges



Alignment

Critique of automatic equilibrium; fiscal policy centrality; dismissal of deficit taboos.



Divergence

Simplification of Keynes's uncertainty and possible overconfidence in policy tools.



Judgment: Would Keynes Approve?



Agreement

Reservation

Conclusion

This captures the balance: Keynes would recognize MMT's kinship but remain cautious about its confidence and treatment of uncertainty.

Sources

Colander, D. & Landreth, H. — History of Economic Thought (Ch. 1, 6, 12, 13, 17)

Hunt, E.K. & Lautzenheiser, M. — History of Economic Thought (Ch. 4, 6, 18–19)

Lecture slides: Classical Economics; Marginalist Revolution; Institutional Economics; Austrian School.