Modern monetary theory and post-Keynesian economics

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1. Introduction

I have already provided a detailed analysis of modern monetary theory (MMT) in a previous article, titled "The monetary and fiscal nexus of neo-chartalism: a friendly critique" (Lavoie 2013). Readers who wish to know more about my views on MMT (or neo-chartalism as it was first called) are invited to give a look at this earlier article. Its title still reflects my opinion: I don't think that I would change much of it if I were to revise it today. So I will limit myself to a small number of observations in this paper, many of which are inspired by very recent writings by MMT authors.

In what follows, I shall deal with three themes. First, what is the relationship between MMT and post-Keynesian theory? This is a question which I often get asked when the topic of MMT arises. Second, what is new with MMT? This is a crucial question since MMT is often considered as being a new and revolutionary school of thought. Third, I will discuss the fact that MMT is made up of two different frameworks, depending on whether the central bank and the government are consolidated into a single entity. These three questions are interrelated, so the sections that follow are to some extent arbitrary.

2. MMT as part of Institutionalist post-Keynesianism

Let us start with the first issue. MMT, to me, is just part of post-Keynesian economics. I would classify MMT advocates as Institutionalist post-Keynesians, because they are very much concerned with monetary and financial institutions, and in particular the institutional links between the government and the central bank.[1] Indeed, MMT authors have themselves made this clear, as Fullwiler, Kelton and Wray (2012, p. 25) have asserted: "We have never tried to separate our "MMT" approach from the heterodox tradition we share with Post Keynesians, Institutionalists and others. We have tried to extend that tradition to study the "nature" of "modern" money". Besides financial instability, MMT authors have also paid quite a lot of attention to the payment system, that is, the clearing and settlement process in a monetary economy. This is, in my opinion, their main contribution, both to monetary theory at large and to post-Keynesian economics in particular: to show and analyze the links between the central bank and the government within the context of the payment system. Other post-Keynesians known for their analysis of endogenous money, for instance Basil Moore (1988), had instead focused on the links between the central bank and the private sector or on those between banks and other agents.

[1] The main MMT authors – Randall Wray, Matt Forstater, Stephanie Bell-Kelton, Pavlina Tcherneva, Andrew Watts, Eric Tymoigne – were all tied to post-Keynesian economics from the very start. The only exceptions would be Scott Fullwiler, who came from the Institutionalist tradition, and William Mitchell, who was closer to the Marxian tradition. After all, Randall Wray, as well as Jan Kregel, the latter having also in the past given his support to MMT, are both the editors of the *Post Keynesian Journal of Economics*! Ironically, it is MMT's most ardent critic – Tom Palley, when using the term structural Keynesianism – who has avoided the post-Keynesian label.

MMT authors have thus clarified a part of the monetary analysis that had been mostly left aside by post-Keynesians. MMT advocates have also made new policy proposals, such as the job guarantee program or buffer stock employment, where the State acts as an employer of last resort and hence where expansionary fiscal policy is concentrated in the geographic areas where unemployed rates are high, instead of spreading money in all areas, even those where unemployment rates are relatively low, thus leading to what some have called Spatial Keynesianism. As an aside, MMT authors, like most post-Keynesians, are not favourable to proposals tied to a Universal Guaranteed Income.

While MMT authors have recognized on a number of occasions that the MMT approach is part of Institutionalist post-Keynesianism, references to post-Keynesian economics over the last few years have been rather scarce. Still, despite MMT authors apparently operating *en vase clos*, there has been positive spin offs for post-Keynesian economics as a number of students have told me that they became aware of post-Keynesian economics through their exposure to the MMT literature. The apparent present reluctance of MMT authors to refer to antecedent post-Keynesian works in macroeconomics or monetary theory, with a few exceptions such as the works of Hyman Minsky and Wynne Godley, can perhaps be explained by the fact that most critiques of MMT claims or policy proposals initially arose from insiders, that is, from the post-Keynesian camp. This is to be expected since early MMT authors, at least until 2008 but even until very recently, presented their views mostly to post-Keynesian audiences at conferences, and also because these authors dealt with monetary and fiscal issues that were close to the heart of other post-Keynesian scholars.

MMT authors have sometimes expressed surprise when subjected to these critiques: they could not understand why fellow post-Keynesians would not fully endorse the MMT approach, while at the same time feeling that the critics did not fully grasp the significance of MMT writings.[2] To understand this tension and many of the debates around MMT, it is important to realize that MMT is essentially situated at two levels. This is what I discuss next.

3. Two MMT frameworks

First, there is the story for the sophisticated reader or the scholarly researcher, what Fullwiler, Kelton and Wray (2012) – three key contributors to MMT – call the specific case. This is the story which is exactly right and with which I am in full agreement. Different countries have different institutions with different specificities, and small differences or small changes may lead to substantial consequences with regards to the monetary and fiscal nexus. Then there is a second story, which MMT writers call the "general" case, which is designated for a more popular consumption, for instance blog readers. This is the story with which I am not at ease, and which justifies the title of my 2013 article.

This second story differs from the first one because it assumes the consolidation of the central bank and the government into a single unit. This story is assumed to apply to all countries that have a "sovereign currency". Being a sovereign currency is not a bimodal issue. There are degrees of sovereignty, the highest being a country where: the domestic currency is the unit of account; taxes and government expenditures are paid in this domestic currency;

[2] "Interestingly, the economists seeking to discredit MMT have not been confined to those working within the mainstream tradition (New Keynesian or otherwise). Indeed, considerable hostility has emerged from those who identify as working within the so-called Post Keynesian tradition, even if that cohort is difficult to define clearly" (Mitchell, 22 August 2016).

the central bank is unhindered by self-imposed regulations and can buy whatever it wishes; there are no constitutional limits or rules on public debt or public deficits; the public debt as well as private debts of the domestic economy are labelled in the domestic currency; there is a floating exchange rate regime.

Some post-Keynesians, notably Tom Palley from what I recall from conversations with him, initially feared that the MMT claims based on the general story might hurt the reputation of post-Keynesianism and heterodox economists, as they felt that those claims were overly controversial. A number of post-Keynesians, while recognizing the contribution of neo-chartalists to monetary and macroeconomic theory, thought that it would be best for MMT to abandon the story based on the general case, or else to present the consolidation of the central bank and the government into a single entity as an objective to be achieved through institutional change, which also seems to be the interpretation given by a few MMT authors such as Tymoigne and Wray (2015), instead of an actual feature of economies upon which policy advice could be offered.

However, it must be granted that the story based on the so-called general case, combined to the assumption of the highest degree of sovereignty, works well in the sense that it arrives at striking conclusions, which attract the attention of and are easy to understand for non-economists. In my opinion, this is not the only reason for the success of MMT, on the blogosphere and elsewhere. Its proponents have been incredibly active on all social media to spread their views, and they have benefitted from a breakthrough when Stephanie Kelton became an economic adviser of Bernie Sanders during his electoral campaign in 2016. Changing the name from neo-chartalism to modern money theory or modern monetary theory was also an astute marketing move: who could object to something which is modern?

Still, however attractive and persuasive the story based on the general case can be to non-economists, it sounds like an over-simplification, or even a counterfactual description, to mainstream economists and a number of heterodox economists who only access this story. As MMT has got ever more into the limelight, especially since the beginning of 2019, critiques have arisen from new corners: Besides post-Keynesians, other heterodox economists – mainly Marxist economists, for instance Gerald Epstein (2019) – have started to pay attention to MMT policy proposals, focusing on their political feasibility, while journalists have solicited the opinion of mainstream economists with regards to the validity of MMT. Not surprisingly, with a few exceptions such as Brad DeLong, they have been highly dismissive, usually without reason.

Famous mainstream authors have argued that MMT-based policies would be a recipe for disaster or would pose a great danger to the economy, their opinion being based either on a misunderstanding of MMT or on the oversimplified version that can be quickly accessed on the web, as well as illustrating their usual bias against anything looking like non-mainstream economics. According to Mitchell (2019, March 7), these mainstream critics "all essentially followed the same pattern – little citation, false constructions, idiotic inferences". Bankers and financial advisors sometimes provide a more nuanced opinion, a few of them even a highly positive one as they felt the MMT story allowed them to understand what otherwise seemed like puzzling evolutions of the financial sector. Central bankers, to keep their respectability, tended to take the line of mainstream economists. The latter often commented that MMT did not provide a full-blown macroeconomic theory. All of this should induce MMT authors, now that they have attracted the attention of politicians and the general public, to renew with their post-Keynesian roots, realizing that other heterodox economists are their best allies, and not their foes, if they wish to convince power makers of the completeness of their approach.

4. Common MMT and post-Keynesian beliefs

MMT is without a doubt part of the post-Keynesian tradition. Besides the link between the government and the central bank, as well as a few claimed novelties, such as the MMT view of the Phillips curve, the implicit MMT macroeconomic theory relies on post-Keynesian macroeconomics and its belief that the market cannot be left on its own and thus must be tamed; MMT relies on a credit-creation view of banking – the endogenous money view of post-Keynesians, more specifically I would say the horizontalist view – where banks are special financial institutions which are something more than financial intermediaries and where central banks essentially pursue defensive operations; there are obvious similarities between the circuit of State money as described by MMT authors and the circuit of private money as described in the Franco-Italian post-Keynesian monetary circuit approach; MMT authors, just like (almost ?) all post-Keynesians reject 100 percent reserve-related schemes that have regained popularity since 2008; both MMT and post-Keynesian economists believe that fiscal policy, not monetary policy, should be the main tool to stabilize the economy, and hence that quantitative easing is unlikely to jump-start the economy.[3] They also favour functional finance *à la* Abba Lerner, or at least some version of it.

MMT authors and post-Keynesians alike reject the following statements, often heard from politicians, pundits and several mainstream authors: the government will run out of money; the government will go broke; the government should run its finances like a household; government deficits bring higher interest rates; government deficits take savings away from the private sector and lead to crowding out, and hence a reduction in private consumption and private investment. As Mitchell (22 August 2016) puts it, “While Post Keynesians rejected the so-called mainstream ‘crowding out’ theories (where fiscal deficits are alleged to push up interest rates and stifle private investment), MMT provides new ways of understanding why crowding out cannot occur in a modern (fiat) monetary system”. Thus there is a lot, both on the positive and negative sides, that MMT advocates and post-Keynesian authors agree upon.

When asked at the June 2019 Bilbao conference on Economic Developments in Theory and Policy about the relationship between MMT and post-Keynesian economics, Éric Tymoigne, an advocate of MMT and a former student of Randall Wray, responded that MMT and post-Keynesian theory were the same, with MMT adding the analysis of the links between the Treasury, the central bank and the payment system. This to me sounds like a fair assessment, even though some post-Keynesians may disagree with a number of key MMT propositions. A scholar cannot expect that another scholar with a similar background will necessarily agree with every one of his or her propositions being put forward. For instance, it seems to me that there is quite a bit of room for discussing the unforeseen consequences or the difficulties that are likely to be met when implementing the job guarantee program, its likely effect on wages and prices, the proper version of the Phillips curve, and finally whether flexible exchange rates truly provide more room for fiscal and monetary policies in countries

[3] As an example of how close the monetary theories of MMT and (at least some versions) of post-Keynesian economics are, readers are encouraged to compare the analysis of Lavoie (2010) and that of Fullwiler (2013), and see for themselves that they are quite similar when discussing the implications of quantitative easing and of the move towards a monetary framework based on the floor system.

whose currency is not high in the hierarchy of monies and where, besides the issue of the exchange rate, the degree of currency sovereignty is not high.

5. Gone is the reference to post-Keynesianism!

Still, in the new textbook designed for introductory or intermediate macroeconomics that has just been published by Mitchell, Wray and Watts (2019), MWW from now on, post-Keynesian economics is nearly absent. I lacked time to give the book a really good look, but I noted the following. MWW (2019, p. 17) start by pointing out that "Modern Money Theory, falls within the heterodox camp. Indeed it rests upon the foundations of many of the heterodox traditions". It is then said that "the three most important of these schools of thought are the Marxist…, the Institutionalist, and the Keynesian (followers of John Maynard Keynes)" (ibid, p. 6). MWW feel obliged to add a caveat in a footnote, saying that "Many of those who call themselves 'Keynesian', as well as the approach that is often presented in economic textbooks as 'Keynesian theory', are not heterodox" (ibid, p. 17).

At this stage one wonders why MWW did not explicitly clarify that the Keynesian authors they had in mind belong (mostly or entirely) to the post-Keynesian school of thought. The more so since, according to MWW,

> "MMT is … based on what is known as a stock-flow consistent approach to macroeconomics by which all flows and resulting stocks are accounted for in an exhaustive fashion. The failure to adhere to a stock-flow consistent approach can lead to erroneous analytical conclusions and poor policy design" (ibid, p. 15).

The stock-flow consistent approach is at the heart of post-Keynesian economics since the mid-1990s, and it was a critical contribution of Godley and Cripps (1983).

To add insult to injury, in the index (ibid, p. 570), under "post-Keynesian school", we are told to look at "schools of economic thought". However, the entry (ibid, p. 571) has long sub-entries devoted to New Keynesian economics, the New monetary consensus and the Real business cycle theory, but post-Keynesian economics is nowhere to be found. MWW do mention the works of a few post-Keynesians (mine included) in the short list of references that they offer at the end of each chapter.[4] However, when it comes to identify the "best-known early Post-Keynesians", among the half-dozen names being offered, one finds Thomas Rymes (ibid, p. 437). Now Rymes is the teacher who first introduced me to post-Keynesian economics, and I became his colleague and a tennis partner; he produced two excellent books on the consequences of the Cambridge capital controversies for the measure of technical change and he edited a synthesis of the lecture notes taken by various students when Keynes was writing the *General Theory*. In addition he was among the few economists with an understanding of the clearing and settlement system, about which we had several discussions. So I feel grateful that he was included among the best-known early post-Keynesians. But from experience when mentioning his name to colleagues or doctoral students, I can attest that, unfortunately, he is not well-known!

[4] To be fair, I must add that a few pages are also devoted to Keynesian and post-Keynesian theories of the business cycle, but as I said previously, I lacked time to read them carefully.

Post-Keynesians, as well as MMT authors, often complain that mainstream authors take hold of their ideas without proper acknowledgment. It would be unfortunate that the same occurs within heterodoxy.

6. Credit to be given where credit is due

While MMT scholars often get irritated by the critiques being put forth by their fellow post-Keynesians, sometimes rightly so when these critiques seem to rely more on neoclassical theory than on established post-Keynesian lines – post-Keynesians themselves feel irritated by assertions occasionally made by some key MMT contributors.

Bill Mitchell writes thousands of words nearly every day on his blog, so he can certainly be excused for putting forth exaggerated claims now and then. While one can certainly agree with Mitchell's (23 July 2019) statement that "MMT is a superior paradigm for understanding how the monetary system actually operates in comparison to the mainstream logic", or even perhaps that "The MMT economists are delivering the alternative paradigm in macroeconomics. No other challenge to the mainstream has succeeded and the heterodox tradition just became lost in peripheral issues. MMT is front and central macroeconomics and the mainstream cannot deal with it", it is rather hard to swallow statements to the effect that "MMT economists were the first in the modern era to point out that loans create deposits not the other way around" (16 July 2019). Reverse causality, linking credits to deposits and then to reserves, were the mainstay of post-Keynesianism ever since Le Bourva in 1959, Kaldor in 1970 or Moore in 1979, way before any MMT writing.

Mitchell next adds that "You will never find that proposition in the standard macroeconomics textbooks", meaning the reversed causality between loans and deposits. The proposition can however be found in the introductory macroeconomic textbooks of Baumol, Blinder, Lavoie and Seccareccia (2010) as well as that of Dullien et al. (2018).[5] Similarly, when Mitchell (15 July 2019) writes that some central bankers finally acknowledge "what Modern Monetary Theory (MMT) economists have been pointing out for more than two decades – that the accumulation of household debt ultimately becomes a brake on spending growth", he seems to forget that this proposition has been put forward by a long list of post-Keynesian economists, including Godley and Lavoie (2007) and even Palley (1996)!

Mitchell often complains that MMT advocates have been misunderstood by their critics. When an objection is made by some serious observer of MMT, Mitchell or his fellow MMT advocates usually claim that the critic fails to understand the intricacies of MMT, the true intent of its scholars, or that the entire MMT literature has not been properly ascertained. The complaint could be reversed however. Mitchell asserts that post-Keynesians are deficit doves, who are in favour of deficit rules and who have "become trapped into thinking that deficits in downturns must be offset by surpluses in upturns to stabilise public debt" (Mitchell, 25 August 2016). This allows Mitchell to claim that the "body of MMT work is clearly novel and improves on the extant Post Keynesian literature in the subject which was either silent or lame on these

[5] Indeed, Godley's three balances, dear to MMT authors and many other post-Keynesians, can also be found in the Baumol et al. (2009) textbook under the name of the fundamental identity, and it was already to be found in the previous American editions by Baumol and Blinder. This may be because Blinder did have contacts with Godley.

topics”.[6] Mitchell (12 August 2019) argues later that “This tells me that we are entering a period of fiscal dominance, which will represent a categorical rejection of the mainstream macroeconomics consensus that has dominated policy making since the 1980s – the neoliberal era. More and more people will start to achieve an understanding of the main precepts of Modern Monetary Theory (MMT) as a result because our framework is the only macroeconomics that has been advocating this shift”.

I may be wrong, but it seems to me that post-Keynesian authors, such as Sawyer (2011), or Fazzari (1993-94) and James Galbraith (1993-94) in the mid-1990s, were far from being deficit doves and were advocating the abandonment of monetary dominance in favour of fiscal policy, as well as presenting views on fiscal policy that were very close to those of MMT and functional finance. Besides, most of the post-Keynesian colleagues to whom I talk object to fiscal rules.

On a related topic, while Mitchell recognizes that post-Keynesians also object to the crowding-out argument, he believes that they do so for the wrong reasons, based either on a reinterpretation of the IS/LM framework, where the government has the capacity to monetize the deficit or through access to international financial markets. The true reason for rejecting crowding out, Mitchell (25 August 2019) says, is to be found in an explicit analysis of the payment system that includes the relationship between the government, the central bank and the banks. In the following statement Mitchell seems to imply that the extant post-Keynesian literature has learned nothing on this issue over the last 20 years:

> “Where MMT departs from this literature is to explicitly integrate bank reserves into the analysis in a way that no previous Post Keynesian author has attempted. The MMT framework shows that far from placing upward pressure on interest rates, fiscal deficits in fact, set in place dynamics that place pressure on interest rates in the opposite direction. You will not find that result in the extant Post Keynesian or mainstream literature… Even the Post Keynesian economists consider crowding out to be overcome by the government’s capacity to print money” (Lavoie, 2014).

It is nice of Mitchell to make a reference in his blog to my 2014 book on post-Keynesian economics. However credit must be given where credit is due. While MMT advocates Warren Mosler and Randall Wray (1998) were the first to claim that, all else equal, a government deficit would put downward pressure on the overnight rate, this analysis was quickly picked up by myself (Lavoie 2003) and other fellow post-Keynesians. In contrast to what Mitchell asserts, my 2014 book explains in detail why the government deficit leads to downward pressures on the overnight rate. In addition, in the introductory macro textbook that Mario Seccareccia and I adapted to the Canadian market, the same analysis is provided in very explicit terms (Baumol et al., 2009). This thus came ten years before MWW.

Furthermore, the story being told by Mitchell is incomplete. While it is true that government deficits put downward pressures on the overnight interest rate, things are more complicated when it comes to other rates, for instance longer-term rates. With the help of a relatively simple stock-flow consistent model that incorporates several endogenous interest rates,

[6] It can be pointed out that Mitchell uses the spelling advocated by Paul Davidson, that is, Post Keynesian economics, a spelling which is normally associated with the fundamentalist branch of post-Keynesianism, whose authors often did not accept that central banks were essentially pursuing defensive tasks (as argued by MMT and “horizontalist” authors such as Basil Moore and Alfred Eichner).

Lavoie and Reissl (2018) show that a government deficit may or may not lead to an increase in these other rates, depending on the value of various parameters as well as those tied to portfolio decisions. Of course this result depend on the chosen model and its assumptions, but I believe that a wide variety of models would come to the same conclusion. Thus, as argued earlier, MMT needs to go beyond the institutional analysis of the payment system which is its *forte*, and incorporate the findings and tools of post-Keynesian economics if it wishes to provide a fully consistent macroeconomic theory. The example being provided here is directly related to monetary economics, but a lot also needs to be said about other aspects of macroeconomics such as growth theory or technical progress, not forgetting microeconomics and pricing theory.

7. The consolidation issue

I will close this paper by going back to the consolidation issue. This has been a subject of contention between MMT authors and their post-Keynesian critics from the very beginning, as can be ascertained by reading the earlier comments on MMT by Mehrling (2000) and Rochon and Gnos (2002) as well as my 2013 paper. In a blog where Mitchell (22 August 2016) outlines the new features of MMT relative to mainstream theory and post-Keynesian theory, he writes that some post-Keynesians, meaning Lavoie (2013) and Fiebiger (2012), "have claimed MMT presents a fictional account of the world that we live in and in that sense fails to advance our understanding of how the modern monetary system operates …. Marc Lavoie (2014) seems to think this criticism is important enough to devote a whole section in his book to repeating it". In fact I devote less than 15 lines to the issue of whether consolidation is appropriate in a book of nearly 600 pages.

In my friendly critique of neo-chartalism, after having noted that under most circumstances it did not really matter whether the central bank was purchasing government securities on the primary or the secondary markets, I asked the following question: "But then, if it makes no difference, why do neochartalists insist on presenting their counter-intuitive stories, based on an abstract consolidation and an abstract sequential logic, deprived of operational and legal realism?" (Lavoie, 2013, p. 17). Bell and Wray (2002-2003) had previously provided an answer that was mildly satisfying. Their argument was that the whole rigmarole around the Treasury being prohibited to have direct access to central bank money – a self-imposed constraint -- was to avoid large shifts in bank reserves when the Treasury was actually deficit spending. The constraints helped to coordinate the activities of the Treasury with those of the central bank. Consolidation helped to understand that the government faced no financial constraint and hence could never run out of money, at least in the case of a sovereign currency. Mitchell (1 May 2019) in his response to the critiques of Gerald Epstein based on the apparent independence of central banks, first uses a similar argument, claiming that "the central bank and the treasury departments work closely together on a daily basis". Of course, a counter-argument would be that collaboration and information exchanges between two parties do not mean that they act as a single consolidated institution.

Mitchell (22 August, 2016) provides a much better and interesting answer to my question, an answer which is repeated in an identical form in Mitchell (1 May, 2019). He argues that critics "have failed to understand the intent of the MMT consolidation of the central bank and treasury functions into a whole government sector". The intent, according to Mitchell, is that governments have

> "erected elaborate voluntary constraints on their operational freedom to obscure the intrinsic capacities that the monopoly issuer of the fiat currency possessed…. These accounting frameworks and fiscal rules are designed to give the (false) impression that the government is financially constrained like a household."

Mitchell then proceeds to an interesting analogy with Marx, arguing that "In the same way that Marx considered the exchange relations to be an ideological veil obscuring the intrinsic value relations in capitalist production and the creation of surplus value, MMT identifies two levels of reality". Those two levels of reality are the two levels that I identified earlier under the names of the general and specific cases. The general case is there, Mitchell says, "to strip away the veil of neo-liberal ideology that mainstream economists use to restrict government spending" and for the reader "to understand that such a government can never run out of the currency it issues and has to *first* spend that currency into existence before it can ever raise taxes or sell bonds to the users of the currency – the non-government sector". Once this is understood, the existing framework, with all its self-imposed constraints, can be looked at from an entirely different viewpoint.

I am somewhat seduced by this justification for the preliminary use of the consolidation hypothesis, and one that indeed I had not considered before. Still, once this is done, the specific reality comes into being and must be tackled, and has often been tackled by MMT authors. The two cases, the general and the specific, must be clearly differentiated, and in my opinion, the most outrageous statements – such as the government does not need to borrow to spend or the government must run a deficit for the supply of base money to increase, must be left aside when discussing real policy issues.[7] As mentioned earlier, the consolidation of the central bank and the government into a single entity should enter the policy debate as an objective to be achieved through institutional change, and not as an actual feature of the economy upon which policy advice could be offered.

8. Conclusion

There is no doubt that MMT provides a key contribution to monetary and macroeconomic theory. Its contribution resides essentially in the analysis and understanding of the relationship between the government, the central bank and banks within the payment system, at least as understood within what MMT authors call the specific case. This analysis goes beyond the standard approach in terms of budget constraints. This cannot be disputed. One can certainly fully agree with this contribution of MMT, without however endorsing the so-called general case, which needs to be associated with a substantial degree of currency sovereignty. Similarly, it is possible to fully subscribe to the analysis based on the specific cases while doubting that a job guarantee program as advocated by MMT economists will

[7] Similarly, I sometimes feel that the fundamental identity underlined by Godley is being misrepresented. The private domestic part of the three balances reflects the *financial* saving of the private domestic sector. In a closed economy, because the identity says that the *financial* saving of the private domestic sector (the domestic net private lending, $S - I$) is equal to the deficit of the government, one is occasionally given the impression that the wealth of that sector cannot grow unless the government sector runs a deficit. However, even if the government budget is balanced, the wealth of the private sector will also increase whenever that sector is investing into real assets. Wealth is composed of real and financial assets. Indeed, when the economy is doing well with high real investment, the domestic wealth net of debt (even leaving capital gains aside) is likely to increase strongly, even though under such circumstances the government sector may be running a surplus.

simultaneously generate full employment and price stability, especially if this is accompanied by a depreciating currency and a target overnight interest rate set at zero.

I hesitate to say that MMT views are post-Keynesian views pushed to the extreme, because the *horizontalist* version of the endogenous money theory to which I have always subscribed was considered to be extreme by a majority of fellow post-Keynesians in the 1980s and 1990s, until central banks started to explicitly target interest rates and until central bankers themselves adhered to it (Bindseil and König, 2013). Who knows how close to reality the so-called general case will be in the future? My answer to the question evoked in the introduction, about whether there is anything new with MMT, is thus in opposition to Palley's (2015, p. 46) response, who surmises that what is correct with MMT was already understood, while what is new is wrong. The debate between Palley and MMT authors over the validity of their respective theoretical views is not one which is easy to disentangle. In my opinion, its best and most balanced assessment can be found in the review made by Fiebiger (2016), which is a must read.

Through hard work and perseverant interventions, a small number of MMT authors have managed to attract the attention of social media, mainstream media, as well as that of politicians. Through the media, they have managed to force mainstream macroeconomists and central bankers to respond to their heterodox views. In so doing, they have been persistent in arguing that the main constraint on government expenditure is not a financial one, and that, at least under certain conditions, there can be no default by a central government, thus providing additional legitimacy for expansionary fiscal policies, more precisely additional government expenditure, which, had been put on the backburner soon after the 2008 financial crisis. They must be congratulated for this. Let us just hope that all channels of discussion between MMT authors and their other post-Keynesian colleagues remain open: disagreements on theories and policies are to be expected, even thus scholars may share lots of common ground. This was also the conclusion of Nesiba (2013) in his study of the links between MMT, post-Keynesianism and Institutionalism.

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