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Modern monetary theory: is there any added value?

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Abstract
The paper opens with a brief sketch of the origins of money and the nature of "modern money" in respect of the role of the state, central bank and commercial banks. outlined. It is argued that there has been a lack of attention to the application of the ideas on initial finance and final finance drawn from the Italian circuitist analysis tradition, and that lack of attention has led to confusing statements. Central bank money is always needed by government to enable expenditure to proceed and can be created at virtually zero resource cost. It tends to detract from the important issues which relate to the institutional and political constraints on the central bank creating money, whether central bank money is always accepted and the implications for "final finance" and how far should be government go in its spending? It is argued that the significance of the MMT argument that government expenditure precedes tax revenue is greatly overstated. Proposals for job guarantee/employer of last resort programmes would not achieve their stated aims of achieving full employment and price stability. The claim that the application of MMT would have inflationary consequences is dismissed. The limits of monetary sovereignty are briefly explored.

Key words modern monetary theory, budget deficits, job guarantee, full employment, financing

JEL codes E24, E40, E60

1. Introduction

It is often noted that modern monetary theory (MMT) has a wide range of literatures from books, academic, blogs, commentaries and Twitter interchanges. It has a range of adherents who make many claims for MMT ranging from the serious academic to the frankly bizarre. In this paper I focus on the contributions of leading contributors to MMT in terms of their academic work and to some degree their blog type writings.

In Section 2 the views of MMT on the origins of money and the credit nature of money are briefly summarised. This leads into the nature of "modern money" in respect of the role of the state, central bank and commercial banks. In Section 3, it is argued that there has been a lack of attention to the application of the ideas on initial finance and final finance drawn from the Italian monetary circuitist tradition, and that lack of attention has led to confusing statements. It is acknowledged that central bank money is always required by government to enable expenditure to proceed and such money can be created at virtually zero resource cost. But while it is relevant to acknowledge that it provides an answer to the question of "where does the money come from", it tends to detract from many more important issues. These relate to the institutional and political constraints on the central bank creating money, whether central bank money is always accepted and the implications for "final finance" and how far should be government go in its spending?

Proposals for job guarantee/employer of last resort programmes have been central to the MMT since the beginning and aim to secure full employment and price stability. It is argued in Section 4 that such proposals would not achieve their stated aims. Section 5 considers and largely dismisses the claim often made that the application of MMT would have inflationary

consequences. The limits of monetary sovereignty are briefly explored Section 6. The paper is completed by some concluding remarks.

Terms such as financing, funding, "paying for" are widely used in the MMT and other literatures, though often with different meanings. In this paper, the distinction between initial finance and final finance is drawn upon (as discussed further in Section 3 below). I will be pedantic and use the term initial finance (or (initial) finance) to mean the availability of money to enable expenditure to occur, and final finance or funding to refer to the sources and uses of funds accounts.

2. Origins and nature of money

MMT has been closely associated with chartalism and the State theory of money (Knapp, 1924) which locates the origins of money with the State (or other social organizations). There has been a stress on the token nature of money as a credit relationship, and the rejection of the metallist view of money (Goodhart, 2003, Wray, 2003). The association of money with the State means that the money (as a unit of account and the money form as a means of payment and settlement of debt) operates within the jurisdiction of the State. The State and money is further emphasized by the nature of coins and (in later periods) notes which are embossed with the sovereign mark etc. Trade between different jurisdictions has to (at least initially) have more of a barter form, though at later stages with exchange rate being established between the currencies.

Whatever the precise origins of money, it is generally the case in recent times that a change in the unit of account comes from State action, as, for example, in the case of the adoption of the euro, and the countries from the former Yugoslavia introducing their own currencies to replace the Yugoslav dinar. The form of money in most industrialised economies can be described in the following manner. A central bank, closely associated with the State, is the bank of the State and the bank of (commercial) banks, and in both relationships can act as a lender of last resort. The State (or at least central government[1]) spends in the form of central bank money and only accepts payment of taxes in the form of central bank money[2]. Transferable liabilities (demand/cheque deposits) of the commercial banks are money being denominated in the unit of account and generally accepted as a means of payment, of which such deposits form the vast bulk of money. Money, especially central bank money, can be created at close to zero cost, and can be readily created but also destroyed: e.g. money created by commercial banks in the loan process is destroyed when loans are repaid. In the case of notes and coins, the creation and destruction does not refer to their physical creation and destruction but rather entry into and exit from the private sector.

3. Initial finance and final finance

There is an important distinction to be made between *initial finance* and *final finance* (or funding), taking the terms from the monetary circuitist analysis (Graziani, 1987; 2003). Initial finance is required for any expenditure to occur in that the prior possession of money is required in order for it to be spent. Final finance refers to the funding of expenditure over a

[1] Other tiers of government may operate through the commercial banking system.
[2] Payment of tax by an individual could be in form of bank notes; rather more likely to involve instruction by the individual to her bank to transfer bank reserves to the central bank.

particular period, that is the source of the funds (from income, from savings, from borrowing) needed to underpin the expenditure undertaken.

The circuitist analysis has generally focused on the initial financing of production, where it is required to cover the costs of planned production and to enable the expenditures, and requires possession of money which may be provided through bank loans. Final finance refers to the funding in the sense of the sources and uses of funds relating (in this example) to the costs of production.

This general line of argument applies to the government and the financing and funding of its activities. Just as firms cannot finance their "initial spending by future revenues that do not yet exist and, therefore, must rely on bank credit, the same would apply to the state. In both cases, when firms and the state engage in spending, there must be money creation" (Bougrine and Seccareccia, 2002, p.66).[3] It is clear that for government expenditure to occur, there has to be the availability of purchasing power in the form of money, and this comes in the forms of the issue of notes and coins and the use of its central bank to transfer reserves to the banking sector. Since government expenditure has to be (initially) financed in order to proceed, it can be readily seen that when a multiplier analysis of the effects of government expenditure has been undertaken it has been implicitly assumed that central bank money is indeed available to the government. This is akin to the implicit assumption made in respect of private expenditure (e.g. when analysing investment, it is implicitly assumed that banks will make loans available as required). If central bank money were not available to the government then the government expenditure could not take place.[4]

The immediate changes in assets and liabilities following government expenditure (initially) financed by central bank money involves reserves held by commercial banks rising, and the bank deposits held by the public increasing to the same degree, which may be held in demand deposits and time/savings deposits. There may be some rise in the notes and coins held by the public.

Following a higher level of government expenditure, economic activity will rise, taxes will be paid and money (in the form of bank reserves) return to central bank as payment of taxes. The government budget position will differ with a rise in budget deficit or diminution of budget surplus. The related questions arise as to how that budget changes are funded and the relationship with private saving. There will be sales/purchases of government bonds (and thereby money returns to government and central bank). Government expenditure stimulates private expenditure and private production, and the private expenditure and production needs to be financed, and hence loans and thereby bank deposits created. There would in general be a change in loans provided and deposits: this is not through any operation of reserve ratio requirements (as reserves have risen) but through the higher level of economic activity and the financing of that activity.

It is indisputable that government expenditure can only occur if (initial) finance is available, and that the spending by government injects money (in the form of reserves with central bank and cash) into the private sector. It is also indisputable that central bank money can be created at virtually zero resource cost. It is also the case that the national money created through the central bank is domestically accepted as payment and government transfer

[3] See also Sawyer (2014).
[4] See Cesaratto (2016) for much more extensive discussion on these points.

payments (and the international acceptance is briefly considered below under monetary sovereignty). Although money is accepted by people, it does not follow that there is a demand to hold money as part of asset portfolio and more usually money is accepted in order to dispose of it through spending or purchase of financial assets. It will, of course, also be the case that much of the money created through government expenditure returns through taxes, fines and sale of government bonds.

The precise ways in which the central bank operates and its relationships with the government vary between countries and over time. The MMT literature (e.g. Bell, 2000; Fulweiller, 2017) has been a detailed analysis of the manner in which (generally for the USA) the central bank money/government expenditure nexus works.

The MMT supporters have generally argued for the consolidation of government and central bank. “The consolidation hypothesis does not describe current institutional arrangements; rather, it is a theoretical simplification to get to the bottom of the causalities at play in the current monetary system. It is correct that, under current institutional arrangements, Treasury must receive funds to its account at the central bank before it spends and that this is accomplished through taxes and bond auctions, but that is not MMT’s point. The consolidation logic ignores current self-imposed institutional constraints on the Treasury and the central bank” (Tymoigne and Wray, 2015, p. 30).

This tends to carry the idea that the central bank will always provide additional central bank money to enable government expenditure to proceed. I would argue that there needs to be recognition that the central bank can be operationally independent of central government (and is not necessarily owned by the State), and a general analysis is needed which allows for the central bank to be constrained (legally, politically) in its creation of money, as reflected in the quote in the previous paragraph. However, when the central bank is State owned, the consolidation of balance sheets is appropriate in arriving at the overall public sector debt position. Thus, it is argued that in the analysis of initial finance of government expenditure, the central bank is to be treated as operationally independent of the central government to enable analysis of the legal and political constraints on the creation of central bank money.

The funding of government expenditure can be readily set out (and for simplicity a closed economy case is taken initially). Government expenditure (G) is funded by tax revenues (T) and the net sale of government bonds (DB). Some of the government bonds will have been acquired by the central bank through purchase, and the net increase in central bank money (held as reserves by banks, DCBM) is equal to the quantity of bonds purchased by the central bank (DBb).

The consolidated accounts of central government and central bank would then read:

(1) $G = T + DBh + DBb = T + DBh + DCBM$

where DBh is the net increase in bonds held by the public.

The budget deficit (G – T) is equal to the difference between private savings (S) and private investment (I). Hence:

(2) $S – I = G – T = DBh + DCBM = DBh + DBD$

where DBD is the increase in bank deposits which correspond to the increase in bank reserves with the central bank, which are equal to DCBM.

There is clearly a funding budget constraint on government expenditure, even though such expenditure can always potentially be (initial) financed through central bank money. The ex post funding accounting requirement is given by eqn. (2). The *ex ante* funding constraint comes from the amount of net private savings (savings minus investment) which would be available if the economy were operating at full employment.[5] This can be written:

(3) budget deficit BD ≤ S* - I*

where * after variable signifies the level of that variable which would be achieved under conditions of full employment. As public expenditure is expansionary and tax rises deflationary, the level of economic activity and employment is dependent on the scale of the budget deficit. Pushing the budget deficit past that limit through higher expenditure and/or lower taxes would take the level of economic activity past full employment and threaten inflationary pressures. The standard Kaleckian approach (elaborated in Sawyer, 2019) coming from the view that the government should aim to operate the budget position to achieve full employment is that the government should aim to ensure that the inequality in eqn (3) becomes an equality. The practical difficulties of achieving such an outcome have to be recognized including the complications which arise from variations in the propensities to save and to investment and thereby variations in S* and I*.

The argument is made by MMT proponents that government expenditure has to precede tax payments, which are to be viewed in terms of draining liquidity from the economy rather than in terms of funding government expenditure. “In an economic system in which a sovereign government operates through its own monetary system, spending (or lending) must occur before taxing. In addition, taxes are not a funding source in that logic. They are part of the destruction of government currency, i.e. they return currency to the issuing government. Thus, the government “budget constraint” is more relevantly interpreted as an *ex post* identity that shows the sources of injection and destruction of government currency. It is not an equation describing the choices to fund government expenditure” (Tymoigne and Wray 2013, pp.5/6).

It can be readily accepted that money cannot be used in payment unless it is in existence, and in the case of government the payment of taxes cannot take place unless central bank money has been created, usually through accompanying government expenditure. Whilst it can be readily acknowledged that government expenditure involves creation of central bank money and the payment of taxes destroys central bank money, it does not follow that in any time period government expenditure has to precede tax payments. An increase in the tax rate would lead to higher tax payments which can be paid from the existing central bank money. This would lead to some drain of central bank money from the private sector which may have to offset through the operations of the central bank.

MMT is often represented as though much of government expenditure is to be funded by increase in central bank money.

[5] The difficulties of defining full employment have to be acknowledged, and also that in order to achieve full employment of labour there has to be sufficient productive capacity.

> "The government does not need to borrow if it runs a deficit. Firstly, that is because it can, at least in theory, simply run an overdraft at its central bank, on which no interest may be charged. This negates the need for borrowing. Second, government borrowing actually makes little apparent economic sense in an economy using the fiat money of the national government because the money that is supposedly borrowed has already been created by the government when injecting cash into the economy through its spending" (Murphy, 2019).

Although this quote says no interest *may* be charged, the current practice in many countries in that interest is paid by central bank on bank reserves. This also indicates that the issue of reserves by central bank is a form of borrowing. It is also the case that money created has to be held somewhere in the economy, though it can be destroyed through repayment of loans (in the case of commercial bank money) and payment of taxes and purchase of bonds (in the case of central bank money). The requirement that the money in existence has to be held raises the question as to whether the money will be willingly held and if not what are the repercussions. The traditional monetarist type answer is inflation as people seek to spend the "extra" money. Another approach is the effects on interest rates and financial stability as people seek to move their savings out of money into interest bearing assets.

The question can also be asked as to the appropriate manner in which the budget deficit be funded as between issue of bonds and of (central bank) money. Recall from above that BD = DB + DCB = S – I: net private savings (in a closed economy) are held as a combination of government bonds and central bank money. The central bank money is held as bank reserves to which there is a counterpart in the form of bank deposits held by the public. The limitation on the use of money funding of budget deficit then comes from limits on the willingness of people to hold their (additional) savings in the form of bank deposits (and for the banks to accept holding reserves with the central bank as assets corresponding to their liabilities in the form of bank deposits).

4. Job guarantee / employer of last resort

MMT authors have often associated themselves with proposals under the heading of employer of last resort/job guarantee (see, for example, Wray, 1998; Wray et al., 2019). As the term "job guarantee" or something similar have been used in association with a range of policy proposals which do not share many of the features of the MMT job guarantee schemes, I will refer here to job guarantee/employer of last resort (JG/ELR) to emphasise that it is the schemes proposed by the MMT people which is being discussed here. Schemes such as the American New Deal and its Public Works Programme through to the Argentinian Jefes y Jefas programme are cited as cases where some form of job creation and guarantee for specific groups have had some success. Programmes along these lines often have a considerable role to play in creating socially useful employment. But these do not fully fit with the criteria of the JG/ELR which is the provision of work for anyone at the minimum wage. The JG/ELR proposals of the MMT have the characteristics of offering a job (in the public sector or in non-profit organisations) at the minimum wage to anyone who seeks work, and that the JG scheme acts like a buffer stock providing employment when private demand (plus "mainstream" public demand) is low but not when it is high. The hiring of workers under

JG/ELR is a conditional demand for labour – that is conditional on absence of sufficient demand in the private sector (and mainstream public employment).[6] As Wray put it MMT

> "ALREADY had our full employment policy: the Job Guarantee (also called employer of last resort, public service employment and buffer stock employment). It was from the very beginning THE central stabilizing component of MMT … We have always insisted that the JG is inseparable from MMT" (Wray, 2019).

The idea of buffer stock employment has echoes of buffer stock schemes designed to stabilise price in the face of fluctuating demand and supply conditions. The operation of such schemes is generally undertaken in the context of a homogenous commodity for which there can be a single price; and their continual operation requires sufficient storage capacity to meet the fluctuations in demand/supply conditions and sufficient funding to pay for the purchase of surplus. Carrying this over to the case of employment faces the obvious issue that labour is not homogeneous, and hence not paid a uniform wage which leads to proposals that those in what has been termed "buffer stock employment" (BSE) would be paid the minimum wage. In order for such employment to be effectively provided, there has to be the capacity (capital equipment, managerial) to provide the buffer stock employment.

Michell (1998) argues for a "BSE [buffer stock employment] policy whereby the public sector absorbs all the current idle workers into paid employment at a base level wage that it sets and maintains." He develops a "relevant price stability concept" – the NAIBER [non accelerating inflation buffer employment ratio]. "The BSE model allows currently idle workers to contribute in many socially useful activities including urban renewal projects and other environmental and construction schemes, … personal assistance to pensioners, and assistance in community sports schemes" (Mitchell, 1998, p. 549). Other writers have used similar socially useful activities, though from the prospective of employment creation socially un-useful activities would also serve. As the "buffer employment rate" rises "resources are transferred from the inflating non-buffer sector at a price set by the government; this price provides the inflation discipline. The disciplinary role of the NAIRU, which forces the inflation adjustment onto the unemployed, is replaced by the compositional shift in sectoral employment, with the major costs of unemployment being avoided" (Mitchell, 1998, p.552). If some form of NAIRU existed, the operation of JG/ELR could still be inflationary in that it in effect adds to level of demand for labour and it is the level of employment which exerts inflationary pressures through, for example, enhancing workers bargaining power. However, inflation implications could be mitigated by the construction of additional productive capacity on which the JG/ELR employees would work.

There are (at least) four major shortcomings in the JG/ELR proposals, namely the question of the nature of the jobs which would be provided by JG/ELR, the payment of minimum wages, the undermining of mainstream public employment and the provision of productive capacity.

Which jobs?

Jobs which are dependent on public expenditure (whether within the government sector or outside) should be undertaken on the basis of the economic, social and political benefits which would be provided. The proponents of JG/ELR often list many social beneficial jobs

[6] See Sawyer (2003, 2005) for detailed critique of "employer of last resort".

which could be undertaken within the schemes such as social care, environmental clean-up, education. A minor note: these jobs are generally seen as "progressive", but any jobs, e.g. in defence, would from a demand and employment creation perspective serve equally well. The main point I would make is that if jobs are socially beneficial then they should be undertaken on a long term basis and not be subject to variations in the level of private demand. To take an illustration – it should not be the case that someone receiving social care is told that you cannot receive it today as there is a higher level of private demand and employment and you will have to wait for a downturn in private employment. The JG/ELR would need to be limited to jobs which either meet some "one-off" demand (e.g. responding to emergency) or which relate to the timing of public investment. Instead I would advocate that the level and structure of public expenditure be set according to social needs, and that fluctuations in private demand be addressed through a tax system which enhances the automatic stabilisers of fiscal policy, the variation of some tax rates in response to movements in aggregate demand (for example, variation in social security contribution rates dependent on level of employment) and "discretionary" public investment.

Minimum wages

In order for JG/ELR employment to operate in this conditional manner it has to be at (or below) minimum wage. Otherwise people would often seek JG/ELR employment (which is guaranteed) rather than mainstream employment. The payment of minimum wage to those in the JG/ELR schemes could have a range of effects of which two are highlighted here. First, much of the work undertaken under JG/ELR would be similar to that which is undertaken in "mainstream" public employment. There is every prospect of downward pressure on public sector wages. Second, JG/ELR employment may often be preferable for an individual as compared with employment in the private sector. For example, a JG/ELR position offering 35 hours work a week at minimum wage would be preferable to a mainstream job involving part-time work less than desired (so those classified as underemployed: check which definition of unemployment), those involving a zero hours contract (or similar) at or just above the minimum wage. Further, there would be no risk of redundancy under JG/ELR employment which is acting as a "buffer stock" and always willing to provide employment.

Undermining public sector employment

The operation of JG/ELR in macroeconomic terms can be viewed as an increase in public expenditure which has to be financed (as any form of expenditure does) which only operates when there has been a decline in private expenditures. It differs from mainstream public expenditure involving employment at minimum wage. For example, Wray (2019) writes Job Guarantee "offers a basic wage … providing a GND [green new deal] job to anyone willing to work"; a Green New Deal requires rather more than people working at the basic/minimum wage. The jobs which would be provided under JG/ELR would often be substitutes for mainstream public employment being undertaken at minimum wages. There is an obvious temptation for public sector employment to gradually shift towards minimum wages.

Availability of productive capacity

In order for JG/ELR to operate there has to be productive capacity in the right quantity and in the right places to enable someone otherwise unemployed to be employed on JG/ELR. The operation of a buffer stock requires there to be sufficient storage space in times of low demand to be able to purchase and then store. An alternative approach comes from

identifying the social needs which are to be addressed through additional government expenditure, and to undertake meeting those social needs on a permanent basis and constructing the appropriate productive and managerial capacity. The fluctuations in private demand to be addressed through progressive tax system to enhance the automatic stabilisers and discretionary fiscal policy. For some discussion on this see Sawyer (2019).

5. Are there inflationary consequences?

MMT has often been dismissed on the grounds of the implementation of policies based on it would be inflationary, and would lead into conditions of hyperinflation. This was summarised in the resolution put to the US Senate: "Recognizing the duty of the Senate to condemn Modern Monetary Theory and recognizing that the implementation of Modern Monetary Theory would lead to higher deficits and higher inflation."[7] There often appears to be a lazy association between periods of hyperinflation involving very rapid growth of the stock of money with a causal relationship between growth of the stock of money and inflation.

Money is created and destroyed every day of the week. Central bank is put into circulation within the private sector via central government spending; it is withdrawn from private circulation when taxes are paid, and when government bonds are purchased by private individuals. Any idea that government able to create ("print") money is on the path to hyperinflation is contradicted by everyday occurrences.

A money financed increase in public expenditure could be envisaged as having some inflationary implications potentially arising from two sources. The first would be that the overall level of demand in the economy is raised, and the level of demand has some inflationary consequences. The effects of any expansion of public expenditure on inflation would depend on the current position of the economy relative to any inflation barrier. Insofar as an accompanying JG/ELR programme added to the effective capacity of the economy to be compatible with full employment, then the inflationary effects could be minor.

The second would have echoes of a monetarist approach to inflation. The initial financing of public expenditure provides the means by which that expenditure can occur. The degree to which the stock of money rises as a result of an increase in public expenditure depends on the degree to which the budget deficit is monetised and the degree to which current account deposits at commercial banks expand as a result of the loan financing of private expenditure. A feature of the monetarist explanation of inflation comes from the notion that an expansion of the money supply could lead to a position where the willingness of individuals to hold money (the "demand for money") exceeded the expansion of the money supply leading to individuals holding an "excess" of money. In turn, this was viewed as leading to an increase in expenditure and prices.

A budget deficit which was largely or wholly funded by an increase in central bank money held as reserves by the commercial banks could have consequences. The increase in bank reserves would be matched by an increase in deposits held by the public with the commercial banks. The implications for economic activity, interest rates and prices would depend on the reactions of the public to holding the increase in deposits. Insofar as there are more bank deposits than the non-bank public are willing to hold, there could be implications for spending

[7] Senate Resolution (2019)

(and hence economic activity and prices) and for the demand for other financial assets. I would argue that there is nothing intrinsic in the observation that central bank money enables government expenditure to proceed that leads to inflation. But what may lead to inflation whether in prices of goods and services or in asset prices would be attempts to largely fund government expenditure through higher levels of central bank money.

6. Monetary sovereignty[8]

The MMT approach stresses that a monetary sovereign state is able to issue its own money, and hence domestically the government can then always finance its expenditure through creation of its own money as its citizens will always accept that money, bolstered by their need to acquire the central bank money in order to pay taxes. Further, provided that the State issues debt denominated in its own currency, then it need never default on that debt as it can, if required, issue the money to meet the interest and principal payments. The claim is made that "a monetary sovereign government does not need foreigners for its finances" (Tymoigne and Wray, 2015, p.38). It is though relevant to consider the limitations of government spending and borrowing which arise in the context of an open economy. It is, of course, the case that such limitations are much more severe for many countries whose currency is not widely accepted as compared with the USA.

An expansion of government expenditure can be expected to lead to an expansion of private expenditure. In both cases, initial finance has to be available coming in the form of central bank money and commercial bank money respectively. Further, in both cases, the expenditure will have funding implications. In the context of an open economy, I look at the implications for initial finance and final finance (funding) in turn.

When government expenditure involves imported goods and services there is the question of the currency in which payment is made and whether foreigners will accept the domestic currency. In general, this involves somewhere along the line exchange of domestic currency for foreign currency. In a flexible exchange rate world, that currency exchange can occur though possibly involving some depreciation of the domestic currency. Any limitations on the initial financing of public expenditure then comes through potential effects on the exchange rate.

In terms of funding, the size of the current account position changes (directly from the government expenditure on imported goods and services and indirectly through multiplier effects on the private demand for imported goods and services. From a funding perspective (and the sectoral balances): $G - T = S - I + CA$, where CA is capital account inflow, which is required to cover the current account deficit. A (perhaps key) constraint on the expansion of public expenditure comes from a resulting increase in the current account deficit (reduction in surplus) and the requirements for additional borrowing (whether by private or public institutions). A government which is able to undertake borrowing denominated in its own currency faces an easier time than one that is not able to do so. Even so, there may still be the threats of partial default arising from inflation and currency depreciation, with effects on the interest rates. There would also be limits on the ability of the private sector to borrow from abroad whether the debt is denominated in domestic or foreign currency. The general

[8] See, for example, Vergnhanini and De Conti (2017) for arguments that MMT does not apply in "peripheral economies".

proposition is that a country may be limited in the level of economic activity which can be achieved through the implications for the current account position and the requirements to fund any deficit.

7. Concluding comments

In Molière*'s The Bourgeois Gentleman*, Monsieur Jourdain remarked, after the word prose had been explained to him, "Well, what do you know about that! These forty years now I've been speaking in prose without knowing it!" There is a sense in which macroeconomic analysis has been deploying the relevant part of MMT analysis for more than 70 years without fully acknowledging it. When the effects of government expenditure are analysed, it has to be taken that the government expenditure has been financed by the availability of money, and by central bank money which is what government spends. The MMT school is correct to point out that government expenditure need never be limited by the lack of initial finance as the central bank can create (or permit) any required central bank money. The emphasis on that point distracts attention from the key issues of the social desirability of the proposed expenditure, the availability of resources to meet the requirements of the intended expenditure and the funding of any resulting budget deficit, and it is from the latter two that the economic limitations on public expenditure arise. It is not responsible to foster the idea that (central bank) money can be made readily available to finance an expansion public expenditure without taking account of the funding implications for the budget deficit and the availability of resources. It is, of course, often the case that (*ex post*) funding would be available following an expansion of public expenditure, and that unemployed resources are available, and that a fiscal stimulus would be appropriate in order to promote higher levels of employment. In the approach to fiscal policy and budget deficits, the MMT approach adds nothing to the Kaleckian approach of the use of the budget position to seek to secure full employment (Sawyer, 2019).

The MMT approach is damaged by its close association with employer of last resort/job guarantee with the provision of unskilled work at minimum wage. It would be a much better approach to plan public expenditure to satisfy social needs, to design a fair and equitable tax system and to vary the balance between levels of public expenditure and tax revenue in response to (anticipated) variations in private demand.

The answer I give to the question posed in the title of the paper is that MMT has made explicit what was often previously left implicit – namely that government expenditure is (initially) financed through central bank money. But MMT has not added to the basic Kaleckian insights that budget deficits are often required to secure full employment and that fiscal policy should be operated with the aim of securing full employment.

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