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## Article

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# Invited Article

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## It takes two to tango: a reply to our MMT critics\*

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*We reply to the critics who contributed the other papers in the same issue of this journal. In the first part of the article, we indicate those remarks addressed to us, which we deem inappropriate to answer. The second part deals with the remarks we find useful to answer, which relate to money, monetary policy and central banking on the one hand, and to fiscal policy on the other hand. The third part recalls remarks we made in our previous publications and that our critics did not wish to consider, whereas this might have helped them in amending their theory. In the fourth part, we conclude that an opportunity to engage in a more fruitful debate may thus have been missed: indeed, it takes two to tango.*

**Keywords:** *Fiscal policy, functional finance, Modern Monetary Theory, monetary policy*

**JEL codes:** *B52, E12, E42, E62, E63, H30, H62, H63*

### 1 INTRODUCTION

We wish to thank Marc Lavoie for dedicating a special issue of the *European Journal of Economics and Economic Policies: Intervention* to our twin papers on Modern Monetary Theory (MMT) (Drumetz/Pfister (further DP 2021a; 2021b)) and for giving us the opportunity to reply to our critics.

The first part of this paper presents the remarks we deem inappropriate to answer. The second part deals with the remarks we find useful to answer. The third part recalls remarks we made and that our critics did not wish to consider, whereas this might have helped them in amending their theory. In the fourth part, we conclude that an opportunity to engage in a more fruitful debate may thus have been missed: indeed, it takes two to tango. The reason for the lack of a genuine dialogue may be that our critics are not able to answer our remarks without having to forego some of the main tenets of MMT.

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## 2 REMARKS WE DO NOT ANSWER

There are four sorts of remarks we do not wish to answer.

*Derogatory or even insulting remarks:* ‘The authors do not understand that ...’; ‘The authors make the hysterical claim that ...’; ‘The Groupthink nature of the DP’s critique’; ‘If the authors had read the MMT literature more thoroughly ...’; ‘... a paper which is littered with factual errors and misrepresentations’; the authors ‘repeatedly make claims which are unsustainable’; ‘The article falsely represents MMT as ...’. We view such remarks as disqualifying their authors. Regarding specifically the references we have used, many of our critics write that we should have referred to their publications in refereed journals instead of working papers. However, these journals are not always widely accessible and working papers are often more detailed. In fact, this is precisely why our critics have, for some of them, referred to DP (2021a). The journal article is less detailed, not to mention DP (2022), which was published in a refereed journal which is slightly less detailed than the working paper version and written in French.

*Repetitions of the MMT doxa:* we consider we have exposed this doxa extensively enough and more generally that we do not need to be lectured.

*Arguments of authority:* such as referring to policymakers’ statements, as if such statements were undisputable and the policymakers who made them embraced MMT. In our view, any statement can be debated and should be envisaged in its context. Indeed, any attempt to try to extend past regularities observed in developed economies in the past half-century or so to a situation in which MMT policies would be implemented should be considered with extreme caution. To put it briefly, you cannot change the rules (for instance, adopt MMT policies) and imagine that people are going to behave as they did in the past. Consequently, valid comparisons with economic policies pursued in the past should be made only when these policies were overall consistent with those recommended by MMT advocates. This is what we do in DP (2021b) when drawing analogies between the recommendations of MMT and the policies pursued in some parts of Latin America since World War II (WWII).

*Remarks that tend to oppose authors or schools of thought between them.* This opposition can be drawn between MMT authors, as in Mitchell (2023). Our role is not to put the MMT house in order; we just consider economists who avail themselves of an MMT filiation as representative of the MMT doctrine. It can also be drawn between MMT and other streams of Keynesianism, as in Sawyer (2023); our role is not to put the post-Keynesian house in order. Finally, an opposition can be drawn between MMT and so-called ‘mainstream’ or ‘neoclassical’ economics; our role is not to take sides in the broader economic debate, even though we clearly do not side with MMT advocates.

We see more our role as whistle-blowers in the face of an approach to economics and economic policies we view as flawed, but potentially attractive to decision-makers. This is because the simplicity of MMT and its tendency to offer seemingly ‘free lunches’ can be appealing to some political circles, but can also have very damaging consequences for social welfare.

## 3 REMARKS WE FIND USEFUL TO ANSWER

We follow the same approach as in our twin papers (Drumetz/Pfister 2021a; 2021b) and distinguish two sorts of issues relating to money, monetary policy and central banking and to fiscal policy (regarding structural issues and international aspects which our critics did not really consider, see Section 4).

### 3.1 Money, monetary policy and central banking

On money, monetary policy and the role of the central bank, with a view to clarifying the differences between our views and those of our critics, we wish to offer remarks on three groups of issues:

- the sources of inflation and the role of the central bank;
- the monetisation of public debt, backing and holding of money, and currency competition;
- the presumed similarity of our approach to monetarism.

Regarding the sources of inflation and the role of the central bank, our critics, in particular Mitchell (2023) and Sawyer (2023), refer in very general terms to the possibility that excess demand may generate inflation because of ‘a lack of real resources’. However, as reminded in DP (2021a), the notion of structural unemployment does not exist in MMT, which makes such a scarcity of resources very unlikely within the MMT framework. Our critics point rather to the role of class struggles, notably in the examples relating to Latin America that we provide, as well as to global struggles. This approach, referred to as ‘structuralist’ in the 1970s, as we also note in DP (2021a), leaves hardly any role to monetary policy as we – and most people – understand it, i.e., in the absence of the ‘effective lower bound’ constraint, setting a level of short-term interest rate that stabilises the economy. In our view, the economy is hit by shocks that can lead to price increases (e.g., a depreciation of the exchange rate) or decreases (e.g., a positive productivity shock). Whether such shocks lead to inflation – or to deflation – and not essentially to relative price adjustments, depends on how they affect expectations and on the monetary policy reaction. As we also view monetary policy as acting on the economy through its impact on demand, monetary policy decisions by independent policymakers will, of course, be easier if prices and demand move in the same direction. However, even if this is not the case, a monetary policy reaction may still be warranted if inflation expectations threaten to become ‘disanchored’ (i.e., moving away from the inflation target). We thus see a much more important role for monetary policy in stabilising the economy than MMTers do. We return to this issue in Section 4, when we recall the absence of descriptions of a monetary policy strategy and of a transmission mechanism in MMT.

Tymoigne (2023) concurs with us about the inability, according to MMT, of monetary policy to stabilise the economy. However, this begs the question of the meaning of the phrase ‘monetary policy’ according to MMT. He also provides some indications that ‘central banks should refocus their operations and goals on the purpose for which most were created (Capie et al. 1994), namely ensuring an elastic currency for the economy’, which would imply ‘reliable financing and refinancing channels for banks and the national government’ and ‘proactive regulation and supervision of the financial industry (instead of mere reactive regulation à la Basel Accords)’ (ibid.: 16). This is very allusive but he makes things more concrete later in his text, when he proposes a scheme that would completely administer the credit market. We return to this point in Section 4, when discussing the reliance by MMT on constraints, rather than incentives, to implement its policies. At this stage, we note that administering credit is not part of monetary policy, as we understand it and that ‘regulation and supervision of the financial industry’ are prudential policies, not monetary policy. Furthermore, the administration of credit and bank supervision and regulation do not have to be within the purview of the central bank. The administration of credit can be provided by State-sponsored banks and the relevant ministries, while bank supervision and regulation can be with one or two other entities, as is frequently the case. In a similar vein, Leclaire (2023: 38) suggests

that, as part of monetary policy, the central bank ‘can keep the interest rate target low and steady or zero’. But then, there is no monetary policy in our view. And suggesting that the central bank ‘can buy Treasury bonds or other securities across the term structure’ (ibid.), as she goes on writing, is more the role of a public debt agency, that customarily does so, than that of a central bank, at least in normal times, or else it is part of a systematic use of constraints (more on this in Section 4).

Carnevali and Fontana (2023), Leclaire (2023) and Watts and Juniper (2023) refer to the monetisation of debt, but give it a meaning that differs both from ours and from the general use. As we wrote in DP (2021a), ‘To remind, “monetisation” refers to the process through which a monetary institution (a commercial bank or the central bank) transforms a financial or real asset into a monetary asset when purchasing it, providing its previous holder with money in the form of a bank deposit or reserves’. MMT economists, who are fond of accounting, can check this through the construction of the counterparts to monetary aggregates, which trace the creation of money. From this point of view, we can only agree with Carnevali/Fontana (2023: 59) that ‘the Fed *did* monetise the debt’ (emphasis in original): it did so when it purchased the debt. However, our critics seem to confuse the monetisation of debt with what is more usually referred to as ‘monetary finance’ (Agur et al. 2022). ‘Monetary finance’ is provided through a non-interest-bearing perpetual credit by the central bank to the Treasury (the cases in which the government defaults on its debt vis-à-vis the central bank or there is no prospect that it will ever reimburse it, or the central bank accepts to drop helicopter money, also boil down to ‘monetary finance’). The credit has to be perpetual and free in order to improve public debt sustainability, otherwise the Treasury might just as well borrow in the market. We thus have to disagree with Carnevali/Fontana (2023) when they identify the shift of the Fed to a system of large reserves with a perpetual commitment, since the Fed declared nothing of the sort. Granting such a credit has two consequences.

First, in case the banking sector finds itself with a structural surplus with the central bank, because of the creation of reserves for the government, interest rates on excess reserves have to be maintained at zero, thereby invalidating monetary policy as a tool to stabilise the economy (Borio et al. 2016). Otherwise, the seigniorage would be reduced and recourse to monetary finance would be of little interest to the government. Second, the credit on the government acquired by the central bank is valueless. This is where the issue of the backing of money kicks in: if, as contended by Carnevali/Fontana (2023: 63), ‘Money denominated liabilities are ... liabilities from the point of view of the debtor and assets from the point of view of the creditor’, currency created as a counterpart to valueless assets should be valueless itself, or else money (or at least public money) must be a pure asset, a contention that we attributed to MMT in our earlier critique. Indeed, the point we make is that any sort of money, be it private or public, has to be backed. This point has no relation with the issue of convertibility, which our critics put forward, furthermore unnecessarily since, in their view, public money can be produced at virtually no cost and just has to be accepted in payment of taxes to have value, hence does not have to be backed. In fact, currency may not be convertible but it still has to be backed for the domestic private sector to accept to hold it (to keep ‘confidence’ in it, as is customarily said). Consequently, as we then explained, the issuance of unbacked central bank money should lead to a loss of trust in the domestic currency and to high inflation, and has indeed done so in historical examples, which we refer to. Hence, in our view, there can be monetary causes to inflation (more precisely, fiscal-monetary causes), which have very little to do with the quantity theory of money, a point we discuss below. We wish to stress that our view differs from the one of our critics, as we do not consider private agents as passive: they will at some

point ‘dollarize’ the economy and thus deprive the government of most of its seigniorage revenue (there could be some small part of it left if the government still allows the citizens to pay their taxes in the domestic currency). As a result, in our view, currency competition is always a threat and serves as a healthy device to discipline bad policymakers.

Many of our critics, in particular Carnevali/Fontana (2023), Sawyer (2023) and Watts/Juniper (2023), present us as monetarists. This is strange, as we clearly express the view that the debate of the 1970s between Keynesians and monetarists is a thing of the past. Indeed, in New Keynesian models, which have provided the matrix for ‘mainstream’ economic analysis in the past 40 years, money is endogenous. Instead of referring to Milton Friedman, as Watts and Juniper (2023) do, we refer to Sargent (1982) regarding the necessary backing of central bank money. We refer as well to work co-authored by Pfister (Bussière et al. 2020), covering periods of ‘quantitative easing’, that points to an absence of relationships in the short and medium term between reserves, money and inflation in the euro area and the U.S. However, Carnevali/Fontana (2023) bafflingly use a quote from DP (2021a) in which we express not our view, but the view of MMTers, to implicitly represent us as monetarists.

### 3.2 Fiscal policy

In DP (2021a), we analysed three types of statements made by MMT. First, a sovereign currency issuer (i.e., with debts denominated in its own currency and a floating exchange rate) does not face a budget constraint, can always meet its obligations by paying in its own currency and can set the interest rate on any bond it issues. Second, in such a setting, provided there is fiscal space available (i.e., real resources that can be brought back into productive use), a fiscal expansion is not inflationary because there is no crowding-out effect on private spending. Third, fiscal policy is more effective than monetary policy at managing aggregate demand. We now examine in turn the arguments brought forward by our critics regarding these three types of issues to clarify the differences between their views and ours.

*Sovereign currency issuers, debt constraints and interest rates:* our critics merely repeat the MMT doxa (see Section 4.1) which confuses solvency (i.e., what is usually referred to as public debt sustainability) and liquidity. However, if a government can force the central bank to print the money needed to service and repay its debt, it cannot force investors to buy its bonds, unless it has recourse to financial repression. As we note in DP (2021a), markets and economic agents’ expectations and feedbacks may limit the ability of a sovereign currency issuer to finance spending. Even the U.S.’s role as a supplier of the world’s leading reserve currency (associated with its deep and liquid markets for government debt) is critically dependent on the credibility of its policymakers. A government deficit may lead to an increase in longer-term rates if financial markets expect higher future inflation. This assessment gives rise to a baffling comment by Leclaire (2023: 39), according to which we would seem to consider that a ‘normal’ yield curve should have a negative slope (‘when today future interest rates are higher than current interest rates, this is a normal yield curve [...]. This is a sure sign of a healthy and well-functioning economy, not an economy which is suffering, as intimated by Drumetz/Pfister’).

*Fiscal expansions and inflation:* according to Tymoigne (2023: 13), ‘... a casual look at the evidence from the United States shows that the automatic association of fiscal deficits with inflation is unwarranted’. Indeed, former empirical studies did not yield very conclusive results. However, more recent research (e.g., Lin/Chu (2013)), which takes into account the fact that the relationship between inflation and deficit is heterogeneous across

countries and non-linear, supports the view that persistent fiscal deficits are inflationary in middle- and high-inflation economies and are less inflationary in low-inflation economies. Moreover, changes in policy frameworks may have a sizeable impact on inflation. According to Banerjee et al. (2022), who use data from 21 advanced economies over four decades, the inflationary effects of fiscal deficits depend crucially on the prevailing fiscal-monetary regime. ‘Under fiscal dominance, defined as a regime in which the government does not adjust the primary balance to stabilise debt and the central bank is less independent or puts less emphasis on price stability, the average effect on inflation of higher deficits is found to be up to five times larger than under monetary dominance’ (ibid.: 1). Obviously, a MMT regime would be a radical fiscal dominance regime.

*Fiscal policy, monetary policy and the management of aggregate demand:* in DP (2021a), we remark that MMT does not meet the challenges associated with the use of fiscal policy as a countercyclical tool. The discarding of interest rates as a stabilisation tool would create an instrument shortage problem, an issue that is neglected by our critics. Moreover, MMT relies on a highly simplified and implausible political economy, which assumes that taxes can be abruptly and precisely increased at full employment to contain excess demand, despite the well-known difficulty of fiscal policy timing and political implementation problems (e.g., the aversion of politicians to raise taxes and cut spending) which introduces an inflationary bias. Over successive cycles, MMT’s fiscal policy could be destabilising. In addition, no institutional arrangements for closing the deficit once the economy is running at full capacity are envisaged by MMT. Yet, if MMT policies were implemented, ex ante rules would be even more necessary since monetisation by the central bank would sever the link with financial markets and the discipline they exert and since the central bank would be under the direct control of the fiscal authority. Despite his claim that ‘MMTers are deficit owls’, the financial ‘policymaking praxis’ envisaged by Tymoigne (2023: 18–19), which aims to ‘promote procedures that encourage rational discussions, accountability and transparency in policymaking’, addresses none of these risks. Following Tymoigne’s (2023) prescriptions, in a ‘monetary sovereignty’ setting (i.e., in the supposed absence of financial constraints), a governmental body, such as the Congressional Budget Office, would assess the feasibility of projects given the current and expected state of domestic resources. Incidentally, the method of assessment of the available ‘fiscal space’, i.e., the ‘idle resources’ that can be brought back into productive use, is not explained. If the government is not monetarily sovereign, ‘a financial constraint further limits what the government can do and an eye should be kept on balancing the government budget and limiting automatic stabilizers’, but Tymoigne (2023: 19) does not elaborate further. However, there is no shortage of examples of ‘not monetarily sovereign governments’ (i.e., emerging and developing countries) that are able to run a budget deficit financed partly by foreign currency debt. In a nutshell, MMT’s approach is grossly exaggerated, giving ‘sovereign’ economies more room for manoeuvre than they have in reality and minimising ‘non-sovereign’ governments’ ability to run deficits and to conduct stabilising policies.

In conclusion, MMT argues erroneously that there is no relation between fiscal deficits and inflation or between fiscal deficits and interest rates. Yet, a shift to a MMT fiscal policy regime would obviously generate these relationships via the impact of changed expectations on financial markets. Therefore, MMT’s preference for public versus private indebtedness (Tymoigne 2023) rests on very fragile foundations. Private indebtedness is supposed to be conducive to financial fragility while a government-led expansion enhances financial stability by providing safe assets and income to the private sector. However, MMT’s key assumption that a sovereign currency issuer is financially unconstrained is grossly overstated.

#### 4 REMARKS THAT WE MAKE AND THAT OUR CRITICS HAVE SIDESTEPPED

We distinguish two sorts of issues, relating first to money, monetary policy and central banking and then to structural policy, adding a section on international aspects, which our critics have essentially bypassed.

##### 4.1 Money, monetary policy and central banking

Regarding money, monetary policy and the role of the central bank, we briefly mention six related issues.

*Liquidity management by the central bank:* most of our critics (Carnevali/Fontana 2023; Leclaire 2023; Mitchell 2023; Tymoigne 2023) comment on that issue. However, this is only in very vague and general terms. For instance, Tymoigne (2023: 17–18) writes: ‘No change in existing government finances is necessary because national Treasuries and central banks all over the world already routinely work together’, adding that ‘MMT just points out that the layers of institutional complexity that hide this routine coordination are unnecessary and confuse the policymaking praxis’, a statement that can be viewed as tainted by some conspiracy theory (and also as an approval of CB independence, provided that it remains a moot point). Conversely, we provided very precise indications, such as: the central bank does not have to buy or sell Treasuries to implement monetary policy (DP 2021a: 7); when they have to settle the government bonds they have purchased, ‘banks make it their own business to have the necessary resources to avoid having to borrow at the end of the day from the central bank at a penalty rate’ (DP 2021a: 7); ‘The Treasury does not have to have its account with the central bank ( ... ). In fact, this [not having its account with the central bank] would suppress one source of perturbation in the liquidity management by the central bank’ (DP 2021a: 7); ‘the central bank receives no more than the forecast by the Treasury of the changes it expects to take place on its account with the central bank over the forecasting period of the ‘autonomous factors’ (DP 2021a: 7); ‘by clearing the overnight interbank market, the central bank does not clear the public bonds market’ (DP 2021a: 8), ... The bottom line is clearly that there is nothing valuable concerning subjects of macroeconomic interest (the conduct of monetary policy, its objectives, the level of interest rates, the financing of the budget deficit ... ) one can infer from the fact that the Treasury has its account (usually, in fact, only its main account) with the central bank: it is just a ‘nuts and bolts’ business. However, Mitchell (2023: 24) views the topic as ‘a central precept of MMT’ ... a precept that is so central that our remarks are not discussed. This notwithstanding, one exception is a misquote by Watts and Juniper (2023: 47), according to whom ‘DP (2021a: 7) provide no support for their claim that MMT advocates argue that Treasury should instruct the Central Bank about the amount of liquidity that should be provided or withdrawn’. In fact, we wrote: ‘MMT never explains what this “coordination” [the coordination between the central bank and the Treasury] consists in, instead letting the reader assume that the central bank would receive instructions from the Treasury that dictate the amount of liquidity to be provided or withdrawn’ (DP 2021a: 7), thus falling short of making a recommendation to MMT advocates, and rather pointing at their lack of clarity. The ambiguity we identified has not been dispelled by our critics.

*Central bank independence:* as apparent in the above quote, this point is related to the liquidity management by the central bank by most of our critics, although it is much broader. In DP (2021a), we quote several times Wray (2014), who portrays central



bank independence as a ‘myth’. We also write, in relation to the issue of public debt monetisation and printing money to repay public debt: ‘a central bank must possess a healthy balance sheet in order to issue a credible currency and this implies the government should respect central bank independence’ (DP 2021a: 10). We get no answers on that. Watts/Juniper (2023) describe one of the most widely accepted criteria for central bank independence – i.e., the prohibition of direct credit to the government and more generally of ‘monetary finance’ – as a ‘voluntary constraint’, which shows in our view disrespect vis-à-vis a legal constraint edict issued by democratically elected Parliaments. They also advocate ‘... the removal of Central Bank discretion through the implementation of a fixed interest rate rule ...’, (ibid.: 47) which is tantamount to suppressing central bank independence as well as invalidating monetary policy as an instrument to stabilise the economy. Hence, although they do not answer directly our remarks, we consider that our critics de facto share Wray’s point of view that independence of the central bank is a ‘myth’.

*Printing money to repay public debt:* we cited Kelton (2020) and Felipe et al. (2020) as arguing that purchases of government bonds by the central bank (so-called ‘quantitative easing’) reduces public debt. We also quoted Lerner (1947) as writing that printing money ‘does not increase the debt at all’. These quotes are apparently brushed aside by Carnevali and Fontana (2023: 56) as referring to ‘nuances, important details and institutional caveats’. Tymoigne (2023: 15) just repeats the MMT doxa, ‘... government is always solvent in its own currency ...’, as do Watts and Juniper (2023: 45), ‘... being able to issue fiat currency at will and hence repay debt denominated in that currency, means that a sovereign economy cannot suffer bankruptcy’. Both statements are trivial since, as we all know, there is no remedy action against government, which thus cannot be declared ‘insolvent’ or ‘bankrupt’. The problem is of course that these authors equate solvency with liquidity: a government can always force the central bank to print money (Hitler sacked Doktor Schacht because he refused at some point to continue doing so) but this does not mean that it will find investors willing to purchase its bonds or to hold the legal currency. None of our MMT critiques admits that: Sawyer (2023) makes a distinction between ‘initial funding’ and ‘financing’, which goes to some extent in the same direction as our remarks, but he does so from a Kaleckian, not an MMT, perspective.

*Money demand:* in DP (2021a), we stressed the absence of a money demand in MMT, as well as a lack of relationship between money demand and taxes, implicitly assuming that ‘constraints suffice to create a potentially unlimited demand for money that is posited to match supply: in MMT, the demand for money is exogenous, making it superfluous to exhibit a money demand function’ (DP 2021a: 6). We also reminded that: ‘Some forty years ago, Sargent (1982) emphasized money demand does not necessarily match money supply’ (DP 2021a: 10). Instead, Leclaire (2023: 35) writes: ‘The Drumetz/Pfister article mistakenly indicates that for MMT money demand is based on legal-tender law. On the contrary, MMT is based on the taxes-drive-money theory of money demand’. Econometric evidence on the relationship between money demand and taxes will be welcome by us.

*Monetary policy strategy and transmission mechanism:* we explained that ‘MMT does not provide an explanation of monetary policy strategy or a description of the monetary transmission mechanism from monetary policy decisions to the broader economy’ (DP 2021a: 6). This is apparently, although implicitly, confirmed by Leclaire (2023) and Watts/Juniper (2023). These authors liken monetary policy strategy (i.e., the choice between inflation targeting, monetary targeting, exchange rate targeting, discretion ...) to the setting of the objectives in the statutes of the central bank (price stability, full employment, monetary stability, financial stability) and also liken the transmission mechanism (i.e., how a monetary policy decision affects the economy) to institutional

arrangements for the governance of the central bank. Also implicitly confirming our view is the suggestion supported by Watts and Juniper (2023) that a fixed interest rate rule should be implemented: if interest rates are set forever at a given level, there is no point in studying how their changes can affect the economy.

*Use of constraints to implement MMT policy recommendations:* in DP (2021a), we commented that basing money demand on the payment of taxes implies that this demand is grounded on constraints (to state the obvious, taxes are not paid voluntarily). We also wondered ‘whether MMT wishes such an environment [of financial repression] to be restored in order to implement its recommendations’ (DP 2021a: 8). Alas, although our question does not receive a direct answer, it is clearly the case that MMTers would not hesitate to have recourse to financial repression. This is in fact one of very few topics on which there seems to be consensus between them. Carnevali and Fontana (2023) cynically envisage that the central bank could issue any amount of liabilities since they are not convertible. According to Mitchell (2023: 28), ‘Bond markets can never overpower the financial capacity of government and can only determine yields if governments allow them to’. Tymoigne (2023) proposes a scheme that would completely administer the credit market and Leclaire (2023), as well as Watts and Juniper (2023), suggest an administration of the yield curve, with Leclaire (2023: 41) even considering this as ‘... a normal part of the functions of a responsible central bank’.

## 4.2 Structural policies

In DP (2021a: 21), we observed that ‘in MMT’s view, fine-tuning fiscal policies should be complemented by structural programs aiming at directly controlling the allocation of resources’. We noted too that such programs differ widely from ‘conventional’ structural policies, i.e., measures working on the supply side, designed to ensure the economy is better able to realise its growth potential in a balanced way. For instance, the Job Guarantee Program supported by some MMT economists would provide employment at the minimum wage to all who need work by drawing from the pool of the otherwise unemployed during recessions and shrinking as private sector employment recovers. Few contributors tackle our critiques on this issue.

In DP (2021a), we observed that the success of the Job Guarantee Program rests on a number of conditions that may not all be met. The activities proposed must add economic value or they would be equivalent to unemployment benefits in disguise. If workers prefer the better paid (e.g., full-time) and guaranteed jobs proposed by the Program, this may lead to a displacement of private sector production. Moreover, the fact that the Program sets the effective minimum wage floor on the entire economy may have inflationary consequences and cause job losses in other parts of the economy. Watts/Juniper (2023: 52) acknowledge implicitly the latter risk when they write that: ‘If private sector firms are unable to compete with JG jobs on the basis of carefully set minimum wages and conditions, then they should shut down (Filene, 1923) or restructure’. The difficulty lies of course in the ‘carefully setting’ of the level of the minimum wage. Mitchell (2023: 30) brushes aside these concerns, considering that ‘given it [the Job Guarantee Program] is the alternative approach to an unemployment buffer stock, which is central to the mainstream approach to inflationary control, the criticism is rather lame’. His reply highlights an issue, which we identified in DP (2021a): the central role of the Job Guarantee Program because fiscal policy, as envisaged by MMT, would have trouble fine-tuning the economy, as we explained in Section 3.2.

Sawyer (2023: 73–74) remarks that ‘MMT is largely focused on the demand side’ while Kaleckian and post-Keynesian economists ‘advocate a wide and diverse range of policies’.

MMT's neglect of supply-side policies (e.g., investments in education) is all the more unfortunate that such measures would help attain the objective of full employment and limit strains on the Job Guarantee Program. But MMTers do not believe in the concept and policy-use of a structural rate of unemployment.

### 4.3 International aspects

Regarding international aspects, we briefly mention issues related to closed economy assumptions, U.S.-centric analyses and the dubious applicability of MMT to developing and emerging economies, which we already noted in DP (2021a).

*Closed economy assumptions on which most MMT analyses rely on:* Carnevali and Fontana (2023: 64) implicitly acknowledge this point by noting that 'analyses of open economy issues, particularly those relevant for developing and emerging countries, together with the risks of inflation generated by currency devaluation, is an exciting area of new developments and intense debates in MMT'. Indeed, open economy analyses seem new to MMT and only two contributions (Carnevali/Fontana (2023) and Sawyer (2023)) mention, albeit incidentally, the potential negative consequences of a fiscal expansion on the current account position, the latter from a Kaleckian perspective.

*U.S.-centric analyses:* we also stressed that MMT views current account deficits as a reflection of foreign demand for financial assets, rather than as the result of domestic consumption and investment exceeding productive capacity. The underlying assumption – that the liabilities associated with current account deficits are denominated in the currency of the deficit nation – does not match the reality of the majority of the international trade and financial operations, except for the U.S. and a few other major reserve-currency issuing economies. Mitchell (2023), the only contributor to pick up this issue, claims our assessment to be 'flawed' but does not elaborate further.

*The applicability of a MMT framework to developing and emerging countries:* according to MMT, not only 'sovereign countries' but also developing and emerging countries should adopt its prescriptions. However, DP (2021a) stressed that current policy choices of most developing and emerging economies – i.e., exchange rate pegs, borrowing abroad in a foreign currency – are not self-imposed but reflect their limited macroeconomic policy autonomy (because of sustained current account deficits, exchange rate volatility, potential capital flight, etc.). No contributor deals explicitly with this question. Implicitly, Carnevali and Fontana (2023) acknowledge that development economics is not a strong point of MMT (see above). It is noteworthy too that contributors who quote countries only mention developed economies (the US, the UK and Japan, e.g., Watts/Juniper (2023)).

## 5 CONCLUSION

In this paper, we have aimed at replying to our critics. When applied to issues that are formulated in a correct manner, this attempt leaves us with only a few matters to answer. In particular, it appears that:

- Monetary policy has a much more important role in stabilising the economy than postulated by MMT.
- MMT's fiscal doctrine does not meet the challenges associated with the use of fiscal policy as a countercyclical tool.

More importantly, questions we view as central to MMT are left unanswered. This is in particular the case regarding:

- The erroneous conclusions drawn by MMT about the liquidity management of central banks.
- The confusion between government liquidity and government solvency.

Whether this is because who says nothing agrees or because our critiques disagree with us but cannot raise valid objections, this does not bode well for MMT as a well-grounded economic theory. However, the political programme remains, which may be a much more important stake in the view of MMT advocates.

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