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Invited Article

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Fiscal and monetary policy for difficult times: MMT solutions*

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This article considers the current economic situation from the lens of modern money theory (MMT) and expresses a policy response rooted in post-Keynesian theory and empirical data for the US and the euro area. First, MMT supports targeted deficit spending to promote production. Increasing domestic supply will reduce the prices of goods and energy. Second, MMT advocates for reducing the interest rate to make production more profitable. Third, MMT pushes for a job guarantee and increased unionization to alleviate wage pressure. Fourth, MMT believes in rationing, postponed consumption, patriotic saving, and regulation. Increasing interest rates and limiting government deficit spending are not the only ways to address the post-COVID-19 period. We show there are better ways to restore price stability.

Keywords: *modern money theory, monetary policy, fiscal policy, government debt, interest rate, inflation*

JEL codes: *E12, E42, E43, E44, E63, G18, H63*

1 INTRODUCTION

The current economic climate characterized by low unemployment, high interest rates, higher inflation, and war in Ukraine brings economists new challenges with regard to policy-making. This article analyses the current economic situation from the lens of modern money theory (MMT). Using post-Keynesian theory and institutional analysis of the economic and financial structures that are responsible for prices and inflation and supported by empirical data for the US and the euro area, the article provides an alternative to the current dogma of increasing interest rates to fight inflation. The MMT alternative effectively treats shortages and values work and productivity.

The article first, in Section 2, addresses the MMT view that targeted government spending in the context of supply chain blockages can reduce inflation, contrary to the commonly held belief that government spending must be constrained to alleviate inflation. Specifically, MMT supports the use of targeted government spending to increase production of key goods, including energy, to reduce prices in bottleneck areas, in both the short and long term by increasing supply and reducing dependency. In Section 3, the article explains why MMT policy is in favour of keeping interest rates low and stable to encourage new

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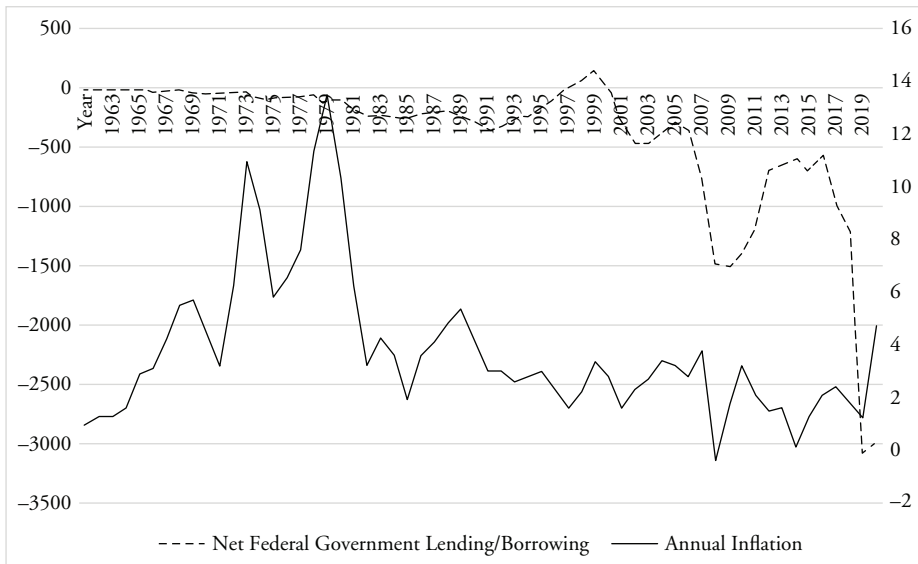
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investment in key areas to help release the blockages that are causing inflation. In Section 4, it is explained that MMT supports a job guarantee programme and increased unionization as a method to increase well-being but also to prevent spikes in wages that could increase inflationary pressures further in future events. In Section 5, the article looks at other ways to reduce inflation, which have their origin in Keynes but are also consistent with the MMT views on saving as a means of reducing current demand and regulation to stop further unwarranted price increases. Section 6 concludes.

2 GOVERNMENT SPENDING IN THE CONTEXT OF SUPPLY CHAIN BLOCKAGES CAN REDUCE INFLATION

Government spending in the context of supply chain blockages can reduce inflation by increasing supply of goods in targeted bottleneck areas and in energy. Right now, in the aftermath of COVID-19, we are living a new reality. Unemployment rates are very low, interest rates are much higher, inflation is higher, and we have a war in Ukraine that has serious global economic consequences, especially on energy. The current situation might seem to pose somewhat of a conundrum for Keynesians due to the combination of low unemployment and high inflation, but we show that Keynesian policies can be effectively used to alleviate inflationary pressure while continuing to support low unemployment. The first of these policies is to increase government spending, especially targeted toward key areas where production shortages exist due to either COVID-19 restrictions or the Ukraine war. This policy might seem counterintuitive because the effects of government spending are typically and erroneously considered to be inflationary. We look at the MMT view of the uses and limits of deficit spending to address aggregate demand and its effects on balance sheets. This is done specifically in order to show that there are conditions, like the ones we are in right now, where more government spending can lower prices. In areas affected by production chain blockages and sensitive areas, including energy, targeted government spending can boost domestic production and economic security. Looking closely at the technical aspects of how government spending takes place helps bring this forward and indicates how more spending targeted at specific areas is the best way to lower prices.

The argument that government spending leads to inflation is not borne out in the data. Historical data for the US does not show a relationship between government spending and inflation (see Figure 1). We see that from 2020–2021 increased deficit spending is associated with increased inflation, but this is far from the norm across the entire period from 1962–2021. The MMT view is that deficit spending can increase aggregate demand but does not directly cause inflation. The only causes of inflation are cost-push and demand-pull. While increased spending does not directly increase prices, it contributes to aggregate demand, which could result in increasing prices when increased demand pushes up against capacity constraints. A second aspect of government spending is the effect of deficit spending in creating new incomes and wealth, which show up on the balance sheets of the private and foreign sectors. Money spent by the government on new goods and services creates new deposits in the hands of private sector actors, as shown by the financial sector balances model (Kalecki 1971: 84–86; Godley 1999: 8; Godley/Lavoie 2007: 26–37). When the government sector balance is in deficit, the flow of government spending exceeds the reflux of taxes. The result is a new stock of assets in the economy, which show up as a combination of new deposits, reserves or bonds held by the private sector and the foreign sector. A government deficit means there is a surplus in one or both of the other sectors, as shown for the US in Figure 2.



Sources: BLS (2023b) and BEA (2023b).

Figure 1 US inflation and net federal government lending/borrowing 1962–2021



Sources: BEA (2023a) and author’s calculations.

Figure 2 US financial sector balances 1960–2021

In the US case, the government balance is mirrored not quite equally in the private sector and foreign sector balances. Government deficit spending increases the demand for the goods and services it purchases and results in new deposits, reserves, or bonds for private or foreign sector households and firms. In the eurozone, the situation is complicated by the necessity of eurozone member states to finance expenditures by selling Treasury bonds to commercial banks, central banks outside the eurozone, and sovereign wealth funds, with the ECB unable to purchase those member state bonds until they hit the secondary market (see Ehnts 2017: 118–121, 180; Lavoie 2013: 13–22). The result of government spending, however, is the same as in a currency sovereign country like the US. New government consumption and investment add to aggregate demand. Increased aggregate demand can cause prices to increase if firms face constraints in their ability to meet new demands in the short term. Balances spent by the government end up as new balances in the domestic private sector or foreign sector. Ehnts (2017: 121) indicates how higher levels of government spending financed by an increase in European public debt results in higher levels of private sector wealth.

In response to inflation, the US Congress enacted the *Inflation Reduction Act of 2022*, much of which targets sectors where shortages exist in goods production due to COVID-19 but also energy where prices have increased due to the Ukraine war and speculation in oil prices. Government deficit spending aims to ease shortages by increasing supply and in turn reduce prices. Many of the policies in the act are synonymous with policies any Keynesian including MMT recommends. The *Inflation Reduction Act Guidebook* released by the White House indicates that:

The Inflation Reduction Act’s \$370 billion in investments will lower energy costs for families and small businesses, accelerate private investment in clean energy solutions in every sector of the economy and every corner of the country, strengthen supply chains for everything from critical minerals to efficient electric appliances, and create good-paying jobs and new economic opportunities for workers. (White House 2023: 5)

In the EU, a similar pandemic recovery plan was adopted called NextGenerationEU, having a total potential economic impulse of €806.9 billion with the same objectives (European Commission 2022: 4). Here the money for stimulus however is financed by selling EU-bonds on primary markets (Ibid.: 7).

Summing up, deficit spending is never in and of itself inflationary or deflationary but it can influence prices through its influence on supply and demand. The effects of government deficit spending are two-fold. Deficit spending adds to aggregate demand, which can in turn contribute to demand-pull inflation when firms’ capacity to produce is constrained. This effect depends on what the level of capacity utilization was at the time of increased government consumption and investment. The second dimension of government spending is the increase in wealth that results from the new income created by government deficit spending and new bond sales. In this way, government consumption and investment have an effect on both aggregate demand and the balance sheets of the government, private and foreign sectors.

3 MMT POLICY IS TO KEEP INTEREST RATES LOW AND STABLE TO ENCOURAGE NEW INVESTMENT IN KEY AREAS TO RELEASE THE BLOCKAGES THAT ARE CAUSING INFLATION

In addition to increasing deficit spending in specific areas, the policies advocated by MMT also include keeping interest rates low and stable (Wray 2020: 33–34, 2007: 138).

Low and stable interest rates encourage real production over financial speculation, and high interest rates have not been found empirically to discourage consumer price inflation (Hudson 2012: 419; Wray 2020: 33, 2007: 133–134). Low and stable interest rates support existing production, including production in areas where bottlenecks exist due to COVID-19 restrictions or the war in Ukraine. This runs contrary to existing policies that have pushed interest rates up to quell inflation. Long-term price stability would be reinforced by a stability in supply chains, including energy.

In the US, inflation remained stable and very low at 2.7 per cent on average from 1983 to 2021 but the inflation rate in 2022 was much higher at 8 per cent. Up to 2021, inflation expectations were stable and central bank policies on interest rates supported this low and stable inflation rate (BLS 2023b). The effective Federal Funds rate was on average 3.67 per cent, with the years in the early 1980s having much higher interest rates (about 7–10 per cent) and those after the financial crisis of 2007–2008 never exceeding 2 per cent except in 2019 (Federal Reserve 2023). Zero or very low interest rates encourage more investment in production by keeping the interest costs paid by firms low (Wray 2007: 132; Leclair 2022: 7).

The current policy of increasing interest rates discounts the negative consequences of high interest rates, which in the eyes of MMT are detrimental to lowering inflation. Increasing interest rates increases the costs of production, making it harder for firms to remain profitable. Less efficient firms will not be able to produce profitably under conditions of high interest rates and will fail. This increases unemployment and reduces total production with the aim of reducing inflation. It is the worst way to reduce inflation because the social and personal costs are so great. Moreover, it is not empirically clear that increased interest rates will reduce inflation in consumer goods because housing, transportation, and food, which make up most of the CPI, are importantly influenced by international markets. Increasing interest rates domestically does not address inflation in international markets for oil, which means that increasing interest rates cannot reduce domestic prices that depend on foreign market inputs to production (Wray 2007: 134).

The MMT view is that a better way to achieve the same goal of lowering inflation is to bring interest rates down and target the prices that are inflated directly by direct government spending to increase production. Bringing interest rates back down will encourage production and employment to continue where it has already been profitable. It will also help free up resources to tackle the true underlying issues causing price increases, which are shortages in production due to COVID-19 and the Ukraine war. Because reducing inflation by increasing interest rates lowers well-being by destroying production and jobs, the preferred policy action is to lower interest rates and target production shortages directly by government spending.

The way lower interest rates are achieved is via monetary policy action by the central bank in the US and the ECB in the eurozone countries. In the US, the Federal Reserve sets three key interest rates: the rate on reserve balances (IORB), the Federal Funds rate, and the discount rate. The three rates form a corridor that ensures interest rate stability. In the eurozone, the European Central Bank (ECB) similarly sets three rates to form the interest rate stability corridor: the deposit facility rate, the main refinancing rate, and the marginal lending facilities rate. Although the rates are a little different in the US and eurozone, the operation of the corridor system ensures that short-term interest rates stays within boundaries in both monetary environments.

Right now interest rates in the US hover around 1.5 points higher than the equivalent rate in the eurozone, as seen in Table 1, but the spreads between the rates are very similar as are the functions of each of these rates in the bank market for funds. The idea is that environments characterized by modern central banking systems such as the US and the

Table 1 Monetary policy corridors: US and eurozone as of 9 February 2023

United States		Eurozone Countries	
Rate on Reserves	4.65	Deposit Facility Rate	2.5
Federal Funds Rate	4.5–4.75	Main Refinancing Operations Rate	3.0
Discount Rate	4.75	Marginal Lending Facilities Rate	3.25

Source: YCharts.com (2023).

eurozone, target the desired interest rate and are able to achieve that rate through the operation of the corridor mechanism (Lavoie 2011: 11; Wray 2012: 114–117). From an MMT perspective, as with all post-Keynesians, short-term interest rates are a policy variable targeted and achieved via monetary policy mechanisms. Thus, bringing short-term interest rates up or down can be done by the central bank via existing structures. Long-term rates are determined by expectations of the future spot rate, which is the short-term rate modified by the liquidity premium and a risk premium. Central banks can influence long-term rates by buying Treasury bonds at different maturities to modify the shape of the yield curve.

3.1 Policy coordination between the central bank and fiscal policy

A study of the institutional structures of the US and the euro area demonstrates how monetary policy is influenced by the fiscal policy actions of spending and taxing by governments. MMT emphasises that a lack of currency sovereignty, such as in the countries using the euro, limits the scope for policy action. The mechanism describing the interaction between fiscal and monetary policies are different for currency sovereign and non-currency sovereign countries.

Fiscal and monetary policy act in concert to achieve either the goals of government in its funded policy choices or monetary policy in aiming for maximum employment and price stability for the US, and price stability only in the eurozone. In the US, the treasury and the central bank work together to make sure the entire financial and economic system runs well enough to allow the investment, production, and distribution of the social resources. The relationship is essential to the economy's functioning (Bell 2000: 607; Wray 2007: 12; Tymoigne 2016: 1331). In the eurozone, the treasuries and central banks of every eurozone member state work in conjunction with the ECB to the same end: to achieve price stability while funding individual eurozone state priorities within limits defined by law (see Ehnts 2017: 118–121 for an elaboration of the German case).

Once the government and Congress in the US, or in the eurozone, each parliament of the eurozone member states, decides to fund a policy, the treasury of the country pays the needed vendors for the materials and services using its account at the national central bank. When the new money is deposited into the vendor's account, this adds to the existing deposits of the banking system. As this new income increases the demand for money, reserves in the system increase. Thus, as income is created through government spending, systemic reserves increase (for the euro area see Ehnts 2017: 89; Lavoie 2013: 13–22). For the US, banks will borrow reserves from the Federal Reserve. For the eurozone, commercial banks will borrow reserves from the ECB. Pressures exist which anticipate movements in interest rates and in the corridors, themselves originating in the reserve creation process in both monetary environments. To understand these pressures, we now turn to the coordinating between fiscal and monetary policy (Lavoie 2011: 11–13; Wray 2012: 106–109; Tymoigne 2016: 1325–1330).

Because the price of money is the interest rate, the increased reserves in the system put pressure on the interest rate to fall if banks feel like they have excess reserves relative to their desired reserve holdings and in consideration of the reserve requirement (Wray 1998: 87, 2012: 123; Bell 2000: 612–614; Kalecki 1990 [1944]: 361; Lerner 1943: 40; Lavoie and Seccareccia 2013: 78–79). In a corridor system for the US, this means the Fed funds rate may fall to the lower bound of the corridor. In the eurozone, the rate will fall to the floor of the corridor established by the deposit facility rate.

Government spending puts new deposits in the economy. These new assets might take the form of new reserves, new treasury bond holdings, or simply kept as new deposits. In the eurozone, net new assets could be held as new deposits, new excess reserves or new national government bonds. In both cases, government spending takes place as expenditure via the central bank adding to net wealth.

The expectation is that using policy to bring short-term rates down will also bring long-term rates down, given that long-term rates are based on the current spot rates. Liquidity premium and the risk premium on long-term rates will determine whether lowering the short-term rates will effectively influence investment decisions used in deciding to produce more goods, in particular those goods which are currently in low supply. The hope is that lower short-term interest rates also result in lower long-term rates and that these rates foster investment in bottleneck sectors.

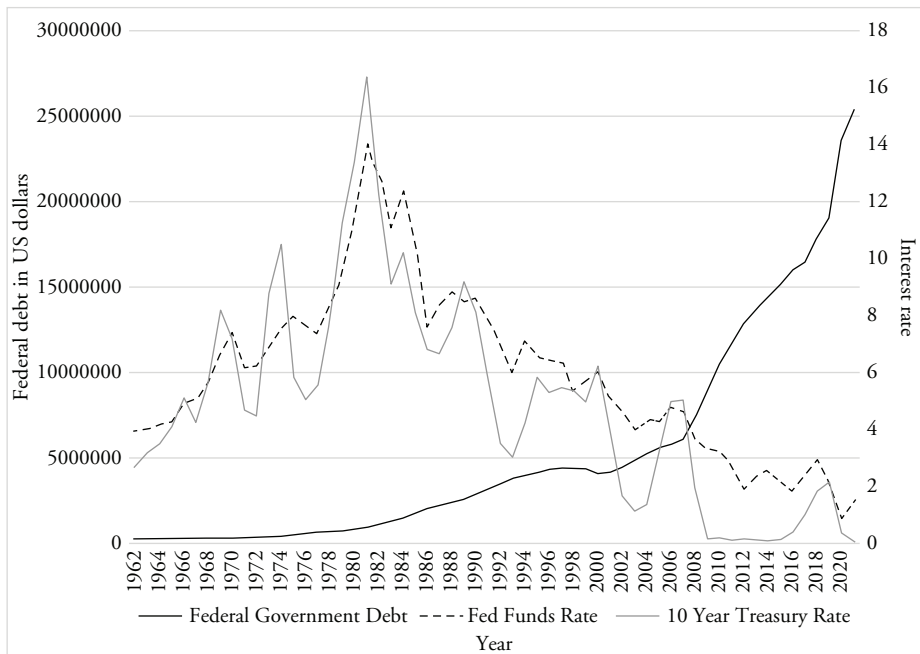
Resolving the kind of inflation the economy is currently experiencing depends on a strong commitment to production increases and economic and energy independence. Governments and central banks in the US and in the eurozone can use fiscal and monetary policy to achieve these goals but will need to monitor prices in the bottleneck areas and in energy closely, because increases in demand for production of goods may also put pressure on energy prices and intermediate products. In the very short term, the government may need to fix prices to prevent future inflation.

3.2 Concerns about the national debt and its effect on current long-term interest rates

A significant concern that prevents government officials and central bankers from supporting more deficit spending is the fallacious belief that more government deficit spending will increase current long-term interest rates via more government debt. As mentioned, central banks target short-term rates but current long-term rates depend both on the short-term rate and expectations of future interest rates, which includes the risk and liquidity premiums. MMT indicates that while an increase in government deficit spending may result in an increase the national debt, this balance sheet effect is not a negative consequence at all (Lerner 1943: 42–42; Godley 1999: 5). More government debt means more wealth in the economy, since government bonds are held as assets internally by domestic citizens and by foreigners. Moreover, more government debt does not necessarily mean higher current long-term interest rates for currency sovereign countries. This may also be true for non-currency-sovereign countries. In the eurozone, governments first sell national government bonds in the primary markets where the main actors are commercial banks, non-EU central banks, and sovereign wealth funds, in order to deficit spend (see Ehnts 2017: 180). Government spending creates net wealth. In the case of a non-currency-sovereign country, some economists argue that private-sector bondholders might require higher interest rates when they believe the government is ‘overspending’, which could artificially limit euro area governments in both their spending and in their central banks’ ability to target long-term rates and

the yield curve (Lavoie 2022: 641–644; Ehnts 2017: 181–184). It might be more accurate to state that bondholders could increase their interest rate demanded on a non–currency-sovereign bond issuer. Even if commercial banks were to demand higher long-term interest rates, governments are not required to offer them. Mechanisms put in place by the ECB since 2012 makes this pandering to markets less likely moving forward. The combination of the European Stability Mechanism (ESM), the Outright Monetary Transactions (OTM) programme, and the Securities Market Programme (SMP) creates a situation that enables the ECB to purchase eurozone national government bonds on the secondary market from commercial banks to prevent a significant decline in the demand for euro area national government bonds (Ehnts 2017: 199). This is partly in response to the Greek experience during the eurozone crisis. To protect eurozone member states from massive declines in demand for their government bonds, this system of programmes allows the ECB to buy these bonds on the secondary market, which will stabilize prices. No guarantee exists, however, that makes sure the ECB will always make these purchases to safeguard eurozone member states. Thus, even though within the framework of the eurozone short-term interest rates are a policy-determined variable, which can influence all maturities, whether or not the ECB acts to guarantee the long-term interest rates is another matter, even if the mechanisms for it to do so exist.

In the US, increased federal government debt is not linked to higher present or future interest rates. On the contrary, US data indicates that more government debt actually coincides with lower interest rates in both the short and long term. Figure 3 shows that, in the US, from 1962 to 2021, increased government debt has had no relationship, even a negative one with the Federal Funds Rate and the 10-Year Treasury Rate (Federal Reserve 2022a, b, c).



Sources: Federal Reserve (2022a, b, c).

Figure 3 US net federal government debt, federal funds rate, and 10-year Treasury Rate 1962–2021

This helps us see that increasing government debt does not threaten to increase the interest rate in both the short and long term. In the US, because the Fed funds rate is a policy-determined variable decided upon by committee at the Federal Reserve, it can be set at whatever value the committee decides. Once decided, the Federal Reserve acts by buying and selling securities in the open market to hit interest rate targets successfully.

In the eurozone countries, the same is true. There is no relationship between increased government debt and the deposit facility rate and the main refinancing rates, which are targeted by the ECB. The 10-year government bond rate is potentially more likely to be influenced by financial markets but can also be targeted by national central banks with the support of the ECB operating in secondary markets to support policy actions, as explained above.

The real limit to wealth creation is our natural resources, our labour power, and our ingenuity. Under conditions of currency sovereignty, there are no technical financial constraints. In both currency sovereign or non-currency-sovereign countries, new government spending always results in new income creating more goods, services, jobs, savings, and/or Treasury bonds. Table 2 shows how a currency sovereign government spending \$1000 offset by \$500 in Government bonds and \$500 central bank issues of Reserves and Cash, results in a \$1000 Government deficit. The deficit in the government sector creates a surplus of \$800 in the private sector and \$200 in the foreign sector.

For a non-currency-sovereign country, deficit spending still creates its exact offset in the domestic private and foreign sectors but the internal government-sector counterparts are denominated slightly differently. More specifically, for a country like the eurozone member states, government deficit spending will be offset by the common currency (euro) denominated deposits and reserves and national member government bonds.

MMT and post-Keynesian monetary analysis provides the theoretical foundation to support the empirical finding that government deficit spending and increased government debt are not empirically correlated with higher interest rates. First, an institutional analysis of central banking and government interaction with the private and foreign sectors

Table 2 Net wealth creation via government spending for three-sector whole economy at each point in time with reserves and bonds

Consolidated Government Sector:	
Assets	Liabilities
	\$500 Government Bonds (Treasury Liabilities)
	\$500 Reserves and Cash (CB Liabilities)
	Net worth: –\$1000
Private Sector:	
Assets	Liabilities
\$200 Loans	\$100 Deposits
\$300 Government Bonds	
\$400 Reserves and Cash	
	Net worth: \$800
Foreign Sector:	
Assets	Liabilities
\$200 US Government Bonds	\$100 Deposits
\$100 US Reserves and Cash	
	Net worth: \$200

demonstrates that government spending results in new assets in the economy. Second, MMT and post-Keynesian monetary economics indicates that central banks successfully target short-term interest rates and can set them at whatever rate they desire to achieve policy objectives. Low and stable interest rates and increased government spending in targeted bottleneck areas can thus encourage increased domestic production, lower our dependence on foreign sources, and increase economic security in the long term. If done properly, possibly by fixing prices in the short term, prices in bottleneck industries and energy may not increase further as production increases.

4 MMT SUPPORTS A JOB GUARANTEE AND ENCOURAGES INCREASED UNIONIZATION TO PROMOTE WAGE STABILITY TO PREVENT FUTURE INFLATIONARY PRESSURE

Overall price stability depends not only on the prices of goods and services but also on wages. The MMT position is always to achieve the goals of full employment and price stability. An economy operating below full employment can direct government spending toward investments that favour job creation or direct job creation (Tcherneva 2020: 42–66; Leclaire 2007: 55, 59). Direct job creation helps stabilize prices by putting a floor to wages; by maintaining or improving the productivity levels of the individuals who would be working in the job programme rather than losing their skills while unemployed; and by allowing workers to move in and out of the job programme as aggregate demand decreases and increases, respectively (Minsky 2008 [1986]: 343, 348–349; Wray 1998: 135, 137; Tcherneva 2020: 52). Moreover, MMT also supports and promotes unionization to keep prices stable across time (Leclaire 2023: 451). In the case of COVID-19-related wage increases, the best policy to stabilize wages might be to provide a floor to wages by providing a job guarantee program and supporting unionization so that real wages can be connected to productivity. At very low unemployment levels, wage inflation is possible. Higher rates of unionization, however, will mean that higher wages will need to be negotiated, and this contract negotiation time will help stabilize prices in the short term, as will the link of wages to productivity.

Unions, by representing workers' interests, help link productivity increases with wage increases over time. The rate of unionization in the US was 20 per cent in 1983 and just over 10 per cent in 2022 (BLS 2023c). By way of comparison, in the euro area, the rate of unionization was about 41 per cent in 1983 and had fallen to 26 per cent in 2020 (OECD 2023 and author's calculations). Had unions been more prevalent through the pre-COVID-19 period, we would not have seen the same pressure on wages during COVID-19, which would have made this transitory period smoother. In the eurozone, we see increased nominal unit labour cost growth from 1.9 per cent in 2019 to 4.6 per cent in 2020. Nominal unit labour cost growth did not change in 2021 but grew again in 2022 by 3.2 per cent (Eurostat 2023). In the US unit labour costs also increased by about the same amount since the onset of COVID-19. From 2019 to 2020, unit labour costs increased from 1.8 per cent to 3.5 per cent. In 2021 they increased 2.4 per cent and in 2022, they went up again by 6.5 per cent (BLS 2023d).

5 OTHER WAYS TO REDUCE INFLATION ORIGINATING IN KEYNES BUT CONSISTENT WITH MMT

Studying Keynes' work in the post-First World War (WWI) and the post-Second World War (WW2) periods suggests further ways that could help with the transition

to a post-COVID-19 economy. These suggestions, some of which were implemented during the post-war periods, include rationing, encouraging postponed consumption, patriotic saving, and regulation (Keynes 1940: 10–11, 80, 1980: 286–288). In the US during WWII, War bonds and savings bonds were sold to the public, which helped increase saving, pulling money out of circulation, and reducing current demand. While MMT views government bonds as a mechanism for maintaining the interest rate, the fact that bonds transfer wealth to bondholders is also considered problematic. In an inflationary environment, bonds sales like War bonds or savings bonds will transform money balances into bond balances and reduce demand-pull inflation. Other anti-inflation measures used during WWII included mass income tax and direct paycheck withholding. Price controls and rationing were also implemented for basics in addition to wage freezes (Wong 2022). Each of these measures pull transactions balances out of circulation and would therefore reduce demand-pull inflation. In this way, the use of these wartime measures to support a return to price stability is consistent with MMT views. While at first glance these might seem a bit extreme today, consider that it is certainly feasible, even desirable, that governments put limits on speculation and regulate prices of the goods and energy needed for our survival. Most post-Keynesians including MMT certainly support these tools to fight inflation, especially as complements to targeted government spending, low and stable interest rates, a job guarantee, and the support of unionization.

6 CONCLUSIONS

At present, the most serious issue is how to resolve the high inflation due to supply chain blockages and the war in Ukraine. In a context of high employment levels and already elevated deficit spending, central bankers in the US and the EU have increased interest rates. MMT offers a different solution to treat the inflation problem, which could have a less detrimental impact on employment and overall production levels. This article shows using theoretical, institutional, and empirical analyses of the current economic and financial – structures that better solutions exist. First, it is argued that because empirical data show no relationship – between inflation and government spending, and because inflation is now caused by supply chain blockages due to COVID-19 and the war in Ukraine, increasing government spending in domestic targeted areas can relieve supply shortages and thus reduce inflation. Second, we explain that MMT, in contrast to the current central bank policy of increasing interest rates in the US and the eurozone, recommends lowering the interest rate to maintain the profitability of current production and more specifically to encourage and support the development of production in areas affected by shortages, including energy. This can be successfully accomplished in both the US and the eurozone using existing mechanisms in a more targeted way. The article explains that concerns about the limits of the ability of central banks to accomplish these goals given increasing levels of the national debt are not based on empirical foundations. We show that growing government debt is not associated in the US with higher long-term interest rates. Moreover, an institutional and financial understanding of the economic and financial structures indicates that increased government debt is also net private domestic and foreign wealth in the form of bond holdings. Thus, higher government debt also means higher net private wealth. Third, MMT supports the use of the job guarantee program and unionization to prevent future wage pressures induced by unexpected events like COVID-19 or the war in Ukraine. Stabilizing prices also means stabilizing wages, which should grow with increases in productivity. Finally, we also brought up other methods that could be used to address inflation due to production shortages as a result of

COVID-19 and the war in Ukraine such as rationing, encouraging postponed consumption, patriotic saving, and regulation. These methods were suggested by Keynes and implemented in the post-WWI and post-WWII periods to help with similar inflationary pressures. Increased targeted government spending, low and stable interest rates, combined with a job guarantee and union support create a policy combination that effectively treats shortages and values work and productivity.

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