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# Public Goals and Government Expenditures: Are the Solutions of the “Modern Monetary Theory” Realistic?

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## ABSTRACT

The **relevance** is determined by the presence of discussions among economists and political scientists about the state regulation role, especially during crises when governments are expected to provide an economic miracle solution or new measures that are not thought about during periods of growth. The **subject** of the study is government expenditures, which should be fairly distributed by governments in crisis times with a clear vision and understanding of public goals, for the achievement of which it is necessary to undertake economic changes. Therefore, the **purpose** of the study is to generalize the results of the discussion about the possibility of changing the economic “mainstream” to the “modern monetary theory” (MMT) and its prospects in public finance management. The research **methods** include systematic, critical, comparative and cross-country analysis and verification of the realism of the MMT’s proposals. The **results** of the study made it possible to analyze the economic solutions of the new theory based on the political subtext of the theory itself: is it possible to entrust governments with an unlimited budget filled with the issue of national currency; has there been a need to update public goals; what are the prospects for full employment with government funding of jobs; is it possible for society to subject taxes to increase or is there enough transparency and collection; is inflation dangerous in the current situation and in the future; is the MMT really an economic recipe for politicians focused on achieving public goals, including ecology and inequality. It is **concluded** that all-round criticism and all-round approval are equally unacceptable in relation to the new theory from the standpoint of practical state regulation. Some elements of the MMT have already been implemented in various countries, both successfully and with negative consequences. Therefore, when considering the MMT in unity with public goals, the criterion of choice should not be the quality of economic decisions, not their elegance and validity, but enforceability in accordance with urgent and strategic tasks that need to be solved by politicians.

**Keywords:** modern monetary theory; government expenditures; public goals; values; economic policy; fiscal policy; money issue; employment; crisis; inflation

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## INTRODUCTION

### Crises and renewal of economic theories

A new wave of active discussion of the “Modern Monetary Theory” (hereinafter referred to as “MMT”) coincided with the growth of economic and social challenges facing the governments of almost all countries. The crises provoke mass discussions of new economic theories and influence policymakers’ decisions to change the economic strategy of society.

Modern discussion has been caused by four books that give the most complete understanding of MMT, and in many respects, when disclosing its provisions, we turn to them:

- Wray L. R. Modern monetary theory: A primer on macroeconomics for sovereign money systems [1];
- Wray L. R., et al. Public service employment: A path to full employment [2];
- Mitchell W., et al. Macroeconomics [3];
- Kelton S. The deficit myth: Modern monetary theory and the birth of the people’s economy [4].

The terms “monetarism” or “monetary policy” have long been accepted in Russian-language articles and documents, but in the domestic scientific discussion MMT is defined as “modern monetary theory” (for example, [5]), and not “modern monetarism theory”. Therefore, in order to avoid ambiguity, we use the wording “modern monetary theory” adopted in Russian publications.

The concept of MMT after the crisis of 2007–2009 has not received enough discussion over the past ten years, but has proved to be in demand in two current situations: in the political struggle in the United States (including the ideology of the Green New Deal) and in the global fight against the pandemic, more precisely, with the socio-economic consequences of the pandemic. During the pandemic crisis the governments of many countries (regardless of the state of their economies) made decisions on financial assistance to support households and businesses from the state budget (*Fig. 1*), which was not even discussed

during the financial crisis. In general, the situation with the pandemic has exacerbated the discussion on the need to improve public administration, postponing for a short time the issues of decarbonization of the economy. According to S. A. Afontsev, “the problem of state regulation, unlike the problems of individual choice or the investment behavior of a company, is not purely economic, but economic and political in nature ... this is not surprising, that the mainstream economic models turn out to be inadequate in this case: they completely ignore the political side of the problem, which is why the study built on their basis inevitably turns out to be one-sided” [6, p. 74]. The same happened (or rather, is happening) with the “modern monetary theory” — a new solution for monetarists.

MMT is a heterodox theory and therefore is attractive [7]. According to MMT a government does not need to worry about budget constraints and excessive inflation until society achieves its goals of full employment, first-class healthcare, and other public goals.

This raises two questions (more precisely, two doubts):

- 1) if MMT is good, then why hasn’t it been adopted by policymakers yet?
- 2) if MMT is bad and its shortcomings are obvious, then why have leading economists joined the discussion (for example, G. Mankiw, P. Krugman)?

After all, MMT is to define both political goals (what the government spends its resources on), such as employment, and means for those goals (how the government finances its expenditures), such as money printing. Without trying to give an unambiguous answer to the questions posed, we have defined the aim of this paper as finding out whether a “modern monetary theory”, which is no longer so modern, can benefit society since many of its provisions have been known for decades [5].

Undoubtedly, the coronavirus pandemic fully revealed the lack of public administration tools in the framework of

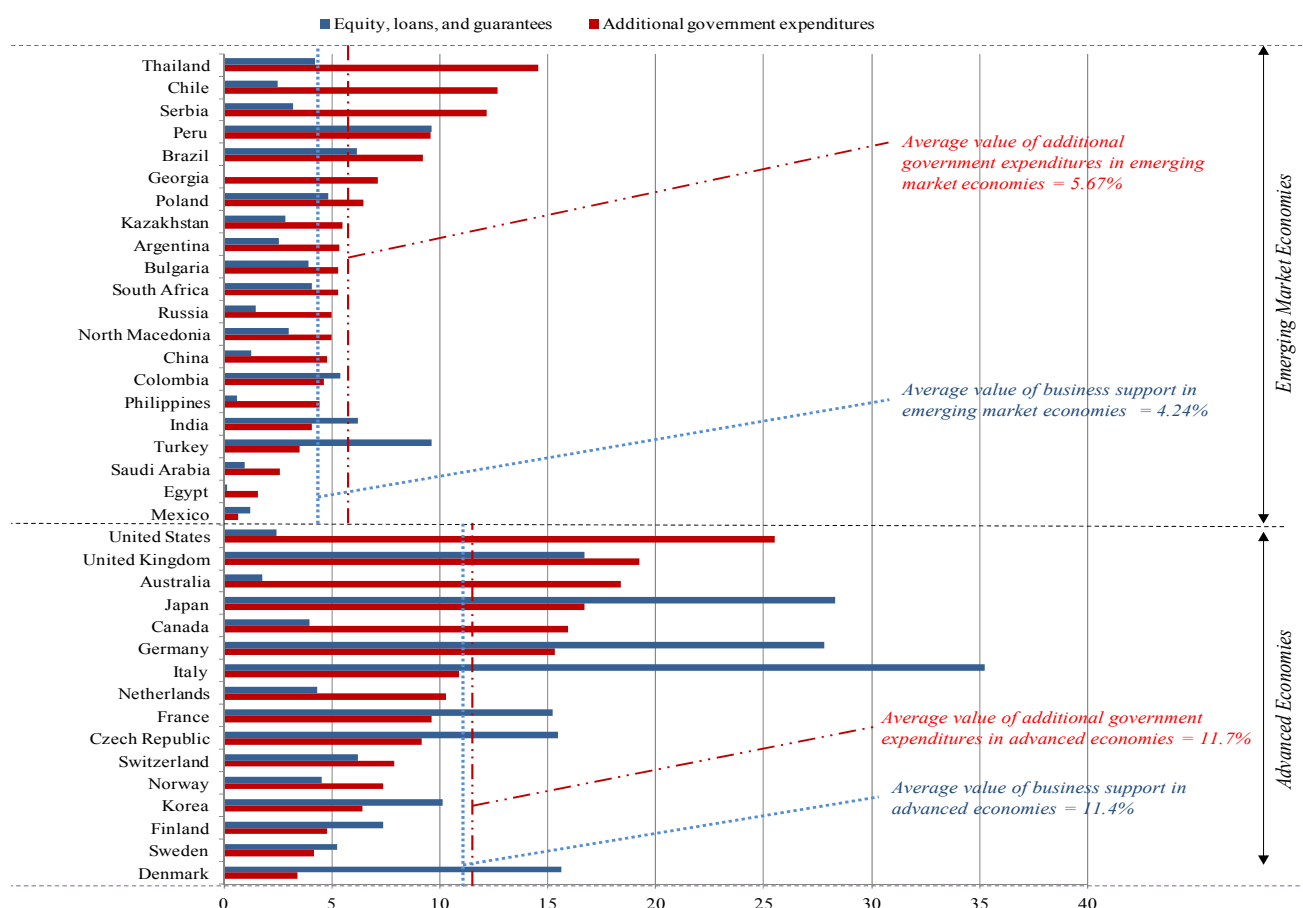


Fig. 1. Additional government expenditures January 2020 – October 2021, % of the country's GDP

Source: compiled by the authors based on the data: IMF Fiscal Affairs Department. Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic. October 2021. URL: <https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19>.

the choice between “life” and “livelihoods” [8] and required a compromise between conflicting public values, and different approaches in different countries.

The economic impact of the (still ongoing) pandemic has shown that price signals are no longer the main determinants of supply and demand, limiting the effectiveness of traditional theories' recommendations. As a result, the economy entered a state far from equilibrium [9]. Policymakers have been given a choice: to focus on initial responses that are to help mitigate current challenges or to focus on accelerating post-pandemic economic recovery.

At this point in time, MMT is claimed to have in store drastic measures to respond to current economic challenges such as public debt and unemployment. Therefore,

in the ongoing discussion (M. Adil, A. Baker, R. Murphy, L. Baronian, G. Brady, G. Epstein, Y. Huang, G. Menkiw, G. Tavlas and others [7, 9–19]) active attempts have been made to assess the MMT provisions. Obviously, the criterion for such an assessment should not be the uniqueness of economic models, but their political feasibility. In other words, the question is whether MMT can help to get out of the crisis with minimal losses and not face rising inflation and unemployment in the future, not burden the next generations with the need to fulfill debt obligations — i.e. realize public goals or disavow them?

The foundations of MMT include five key provisions [13].

First, sovereign governments can issue as much currency as they want, and have

unlimited ability to fulfill promised future payments.

Second, unlimited public spending is allowed until the goals are met.

Third, the budget deficit, which precedes tax payments.

Fourth, a growing national debt is not dangerous for the economy as long as inflation is contained.

A fifth feature, the Internet shaped the spread of MMT and its influence on public opinion in the absence of the traditional channels of economic policy making.

It is worth noting that the recently published textbook “Macroeconomics” [3] does not contain sections on the theory of economic growth and the analysis of aggregate demand and aggregate supply. Therefore, we agree with C. Mann [20] that MMT presents both correct and simplified and incorrect conclusions, for example, in relation to the financial sector and financial intermediation.

Thus, in practical terms, it is not the economic decisions that served as the basis of the new theory that are of interest (more precisely, a new combination of well-known provisions in a holistic concept, although it has significant gaps), but political overtones: the new theory capable of ensuring the full implementation of public goals, or its effectiveness is not as high as its proponents try to prove. Is this true?

## RESEARCH RESULTS

### Economic decision making in political markets and public goals

The complexity of economic policy is largely determined by the heterogeneity of the participants in social and economic processes in society, according to S.G. Kirdina-Chandler [21], due to the lack of microeconomic ideas about economic entities and their relationships with the inefficiency of macroeconomic analysis. MMT uses this contradiction and tries to build a large economy on microeconomic approaches [10], excluding the need for economic growth, which, in our opinion, is controversial.

For a long time, welfare and economic growth were treated as synonyms, with the latter being seen as the main (if not the only) source of growth in welfare, which aimed policymakers at the pursuit of economic growth, without giving any opportunity to think about the alternative: is it possible to increase welfare without economic growth?

According to V. A. Mau [22], MMT uses its own vision of economic growth, but, like the well-known neoclassical theories of economic development and the theory of macroeconomic equilibrium, it does not provide for the growth of welfare without economic growth. MMT, focusing on left-wing politics, chooses the basis of demand stimulation mechanisms as a source of economic growth, which allows us to conclude that it is opposed to supply-side economics during the period of dominance of liberal economic doctrine [22]. MMT supporters argue that economic growth can be zero without consequences for the social welfare [4]. The latter is an unsubstantiated and contradictory assertion.

The transfer of economic decision-making to political markets is also facilitated by the term “public goal”, which is quite often used by proponents of the MMT [1]. The fundamental proposition of MMT is the idea that public spending plans should be developed on the basis of specific socio-economic powers given to governments, and not on the technical measurement of any financial outcome, such as a balanced government budget. This shift from evaluating the performance of governments to measuring the effectiveness of economic measures in society is an important feature of the new theory and is not always justified.

Governments, according to the creators of MMT, are called upon to serve a public goal and to reconcile private interests with a public goal. The public goal is associated with an increase in the standard of living, and L. Wray directly raises the question of how to define a public goal: “What is the public purpose? It is not easy to define or identify. One of the basic functions of any social

organization are to provide the necessary food, clothing, shelter, education, health care, legal framework, and socialization for the survival of society" [1, p. 196].

The use of the concept of a public goal is pragmatic and creates an attraction for a new theory (not always justified) since public purposes can justify or motivate a particular policy and provide at least a benchmark (not always a clear one) against which the effectiveness of public administration can be judged. Therefore, despite the objectivity of a number of economic prerequisites, the political prescriptions of the MMT are not fully justified [16].

### **Is there a demand to review goals and values in modern society?**

Defining public goals depends largely on the socio-cultural context in a particular society and, therefore, may change over time. The existing set of values in society is stable only for a short period of time, therefore, considering the possibilities of MMT, one should understand: is there a demand for changes in society, what are its goals, and why is "modern monetary policy" not completely rejected? One of the answers to the last question is the assumption that MMT was most accepted by those segments of society whose interests were not included in the current political tasks of the society.

The traditionally socially oriented economy, dealing with issues of values, does not cover all of their dynamics, largely leaving the demands of society for the future even at the goal-setting stage. This approach shapes the growth of inequality in society, and from this standpoint, MMT attracts followers with promises to reverse the process of growing inequality. Interestingly, MMT proponents tend to frame the theory in a positive way, using the terms "employment" and "social welfare" instead of overcoming unemployment and inequality, which is confirmed by comparing the macroeconomic performance of countries with different levels of development and income of the population (*Table 1*).

V. A. Mau notes that a new paradigm of socio-economic policy is now being formed, which will dominate in the foreseeable future, since in history "there is no final state, eternal happiness and truths acquired forever" [22, p. 6]. That is why, spreading the conclusions of S. A. Afontsev [23, p. 377] about the current situation, we agree that even in the case of the hypothetical adoption of MMT, "the ongoing transformations should lead not only to an increase in the efficiency of the economic system but also to the formation of a political mechanism, which provides prospects for their continuation and development", which has not yet been confirmed by MMT proponents.

In MMT, examples of the public goal in its current state so far boil down to two messages: the idea of universal job security and the idea of unlimited government expenditures (including the implementation of the "green economy"). Such a vision is still ideal and rather vague but nevertheless exists as a pragmatic guideline by which policymakers understand the attractiveness of the new approach.

When considering political and public goals, it is necessary to take into account the asymmetry of policy effectiveness, when monetary decisions are well received by politicians, but to a lesser extent by society. It is the unpopularity of measures during periods of unemployment and inflation that is another incentive for a positive perception of MMT.

In the context of the pandemic crisis, many governments are trying to form a mixed fiscal and credit policy. Governments seek to simultaneously support workers and provide loans and financial support to corporations. Special programs to accelerate the economic recovery will also require new spending. Assessing the attractiveness of MMT, it should be agreed that if the above decisions were made within the MMT framework, then such approaches would not require a search for sources of financing in the short term. The main discussion was to be about the criteria for the profitability of



Table

**Macroeconomic indicators of countries group, 2020**

Indicators	World	Advanced economies	Emerging market and developing economies	Low income countries
GDP growth rate, %	-3.267	-4.713	-2.198	1.23
GDP per capita, current prices, USD dollars	–	44190.926	15076.61	2000.70
GDP based on purchasing-power-parity (PPP) share of world total, %	no data available	42.502	57.498	1.29
Unemployment rate, %	5.68	6.621	5.92	5.32
Employment, %	57.24	56.11	63.01	50.42
General government total expenditure, % of GDP	–	47.387	33.977	10.66

Source: compiled by the authors based on the data: IMF. World Economic Outlook Database. URL: [https://www.imf.org/en/Publications/WEO/weo-database/2021/April/weo-report?a=1&c=001,110,163,998,200,511,&s=NGDP\\_RPCH, PPPPC, PPPSH, LUR, LE, GGX\\_NGDP, D\\_NGDPD,&sy=2019&ey=2020&ssm=0&scsm=1&scc=0&ssd=1&ssc=0&sic=0&sort=subject&ds=,&br=1](https://www.imf.org/en/Publications/WEO/weo-database/2021/April/weo-report?a=1&c=001,110,163,998,200,511,&s=NGDP_RPCH, PPPPC, PPPSH, LUR, LE, GGX_NGDP, D_NGDPD,&sy=2019&ey=2020&ssm=0&scsm=1&scc=0&ssd=1&ssc=0&sic=0&sort=subject&ds=,&br=1); The World Bank. DataBank. World Development Indicator. URL: <https://databank.worldbank.org/source/world-development-indicators#>

such investments, i.e. future tax revenues [9]. Some policymakers accept MMT provisions precisely because the new theory would allow them to increase the social attractiveness of political decisions without increasing the collection of taxes that were traditionally considered necessary to finance such expenditures, for example, during the premiership of M. Thatcher in the UK.

Only practice can show whether the choice of such policymakers is correct if at least one country completely adopts MMT. But at present, states are increasingly competing not so much due to cheap labor or an abundance of natural resources, but due to the quality of public administration [22]. In our opinion, it is impossible to assess, based only on the provisions of the theory, whether MMT will provide an opportunity to improve the quality of public administration, focusing specifically on public goals.

Therefore, in the case of hypothetical adoption of MMT ideas by policymakers, they should not only set public goals but also seek a compromise between private and public goals, which the new theory does not cover.

#### **Can the state be entrusted with unlimited budget expenditures?**

MMT supporters argue that expenditures should not be limited to budgetary goals: “A budget deficit is not an issue as long as the deficit does not lead to inflation” [4, p. 4]. Supporters of financial conservatism often say that there is no “magic money tree” and often argue: “How can we afford it?” [24, p. 33]. MMT suggests that the “magic money tree” is the state, emphasizing its fundamental conclusion that money is a product of the state, not the market.

Within the framework of the theories of monetarism and the theory of rational

expectations presented by M. Friedman, and R.-E. Lucas, the state budget deficit is the main fear leading to the abandonment of many programs to expand jobs, improve healthcare, and make a transition to a green economy, etc. At the same time, we should not forget that sovereigns can default in many ways: including inflating liabilities or depreciating the currency [20], avoiding responsibility for exorbitant government deficits. These trends, according to S. Kelton, limit social development, since any ambitious proposal inevitably leads to discussions about how to find money to pay for it [4].

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***Until MMT includes in its toolkit a legally approved set of rules for MMT performers, ideal goals will not be able to keep performers endowed with unlimited powers from possible distortions in the practical implementation of the new theory.***

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Linking unlimited funding and monetary sovereignty, the authors of MMT put forward four conditions for success:

- the country should print its own currency [1, p. 19];
- debt should be measured in its own currency [1, p. 145];
- the currency should be freely exchanged [1, p. 145];
- the exchange rate must be stable without conversion into the currency of another country or gold [1, p. 18–19].

Monetary sovereignty largely corresponds to the global trend of “representations and political imperatives based on the absolute value of sovereignty and the equally absolute predominance of national (country) interests” [25, p. 20].

MMT proponents believe governments should fund spending until the country

achieves its goals of full employment, first-class healthcare for all citizens, and other desirable policies. This approach requires government regulations to act as a set of restrictions for policymakers in order to protect the public from abuse of the powers given to the policymakers.

In addition to political issues, the question arises of how the government will manage an unlimited budget. G. Mankiw agrees that the government can always print money to pay its bills, but this fact does not free the government from budget formation, and, consequently, from indicating its sources [18]. P. Krugman believes that MMT does not solve the problem of government debt, and the introduction of the proposed innovations makes debt a potentially more severe problem than all economic agents now admit [26].

The deeper problem is that any policy that allows for unlimited spending without facing the unpopularity of the high taxes needed to fund that spending is abuse. At the same time, a number of economists resolutely deny the possibility of providing the economy with long money and at the same time federal money through additional emissions. Is this justified by doubts that individuals and legal entities will return money to the banking system [27]. Other economists argue that for a monetarily sovereign country, the real default risks lie in corporate debt, private individual debt, and foreign debt, but never national debt denominated in its own currency [17].

MMT proponents also point out that the government cannot continuously print money and directly pump it into the economy without any attention to the level of employment [28], i.e. it is the level of employment is a budget constraint.

Summarizing the above, we note that until MMT includes in its toolkit a legally approved set of rules for MMT performers, ideal goals will not be able to keep performers endowed with unlimited powers from possible distortions in the practical implementation of the new theory.

### **Are fiscal policy changes acceptable?**

MMT does not directly address the choice or quality of fiscal policy, which can affect the real economy, inequality, and asset markets [20], but offers solutions that reflect changing attitudes towards taxes in society [14]. Taxes are traditionally presented as the main mechanism for financing government spending, and social policy as something determined and limited by tax revenues. Tax changes cannot happen quickly, as P. Krugman [26] says, and must be agreed with all state actors.

The essential proposal of MMT is to change the tax-spend cycle to the spend-tax one [11]. In other words, changing the tax cycle will absolve policymakers of the misappropriation of collected revenues and provide a practical tool for evaluating the performance of governments. But the duration of the spend-tax cycle completely destroys the above advantages.

The impact of MMT results on the sequencing of the tax-spend cycle, when taxes are not limited to revenue generation and tax receipts do not precede government spending, deserves closer examination. To accept the new theory, it is necessary to consider and understand tax policy more fully than is presented in MMT, in terms of a wider range of macroeconomic and social functions.

Therefore, T. Palley, as part of the proof of the inconsistency of the theory, made a calculation of the consequences when using MMT. According to his results, if spending on healthcare, education and climate is planned by the authors of MMT in the amount of 12% of GDP, then when the level of full employment is reached, there should be an excess aggregate demand of 13% of GDP. However, to eliminate it, it will be necessary to raise taxes by 78%. The economist argues that MMT is a simplified Keynesian economics with a tendency to underestimate political risks in implementation [29]. T. Palley points out that the old theses are understandable in MMT, but the new ones are not. In our opinion, despite the fact that the

data of such calculations should be rechecked on other models that take into account the employment under the employment guarantee program and the level of inflation at the time MMT is adopted, T. Palley ended the discussion on the applicability of the new theory from the tax point of view.

### **Full employment as a replacement for unemployment benefits, or the Great Economic Idea**

The creators of MMT and their supporters put forward the program of full employment as the main achievement of MMT, calling it universal. It is undeniable that unemployment increases the power of employers over workers, but MMT critics point out that a new approach is unnecessary given that many advanced economies have achieved full-employment growth without adopting MMT, such as Sweden, Canada, Singapore, and Chile [7].

The basic employment model in MMT is that the government must announce a fixed salary package for anyone who is looking for a job but cannot find one that suits their preferences. MMT recommends that jobs be oriented towards the service sector (healthcare, elderly care, green economy, etc.). Since the market price of the unemployed is zero, the government can create a market for these potential workers by setting the price it is willing to pay to hire them. The federal government will squeeze out a significant part of the labor market and destroy low-paid sectors of the economy. At the same time, MMT does not take into account the professional composition of the unemployed (the training level) and does not take into account the need for additional training. The question arises (which remains unanswered until the proposed measures are put into practice): when potential zero-pay workers are exhausted, will there be a shift from low-wage private-sector jobs to government-guaranteed jobs?

Obviously, this model is not only not universal, but also does not answer the question: will many unemployed people



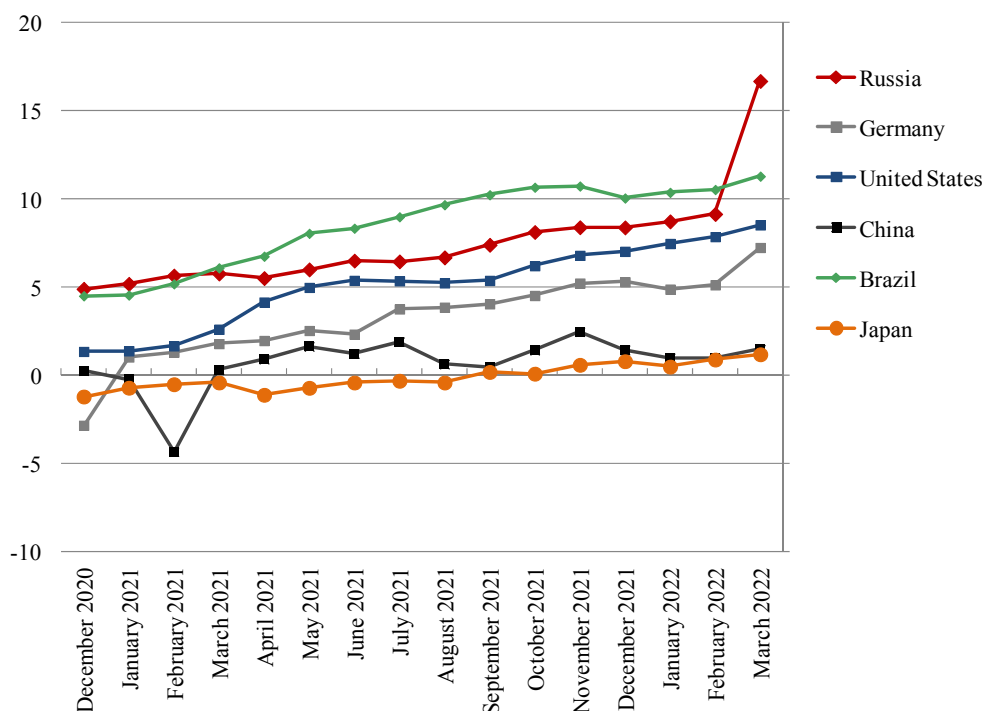


Fig. 2. Inflation dynamics in different countries, %

Source: compiled by the authors based on the data: Triami Media BV. CPI inflation – current international consumer price index inflation. URL: <https://www.global-rates.com/en/economic-indicators/inflation/consumer-prices/cpi/cpi.aspx>

agree to the minimum conditions that will be offered? The answer to this question has not yet been found and is not presented in MMT publications, and, in our opinion, it will be essential in the light of the coming automation of jobs.

Public work is a dream for everyone, but will a busy worker be paid fairly without a market valuation? And won't that lead to even more exploitation? These issues may be identified in future empirical studies rather than theoretical models.

#### Advantages and disadvantages of inflation in modern conditions

The component of government spending in MMT predetermines that inflation will occur only when the domestic economy exceeds the level of full employment. Is this true?

Monetarism suggests a similar inflationary origin but stipulates that inflation is primarily a monetary phenomenon that exists when the money supply grows at a rate that outpaces the growth in output. Over the past year, there has been a clear upward trend in

inflation in most countries, regardless of their level of development (Fig. 2), and when comparing Russian indicators and indicators of a country using MMT in its policy (USA), there is a clear discrepancy between monetary and macroeconomic indicators (Fig. 3).

Proponents of MMT put forward a different approach to the nature of inflation. Thus, MMT considers the problem of inflation as an integral part of the power relations between workers and capital, that is, class conflict mediated by the state within the capitalist system. Inflation is spiraling out of control as workers and business owners step up their efforts to claim a bigger share of the national income. MMT offers state control over wages and prices as a kind of arbitrage in the ongoing struggle. Therefore, according to B. Putnam [9], the fusion of monetary and fiscal policy naturally leads to the need to study the applicability of MMT and its implications for future inflation forecasting. In our opinion, such a view gives an oversimplified understanding of inflation, especially in modern conditions, when

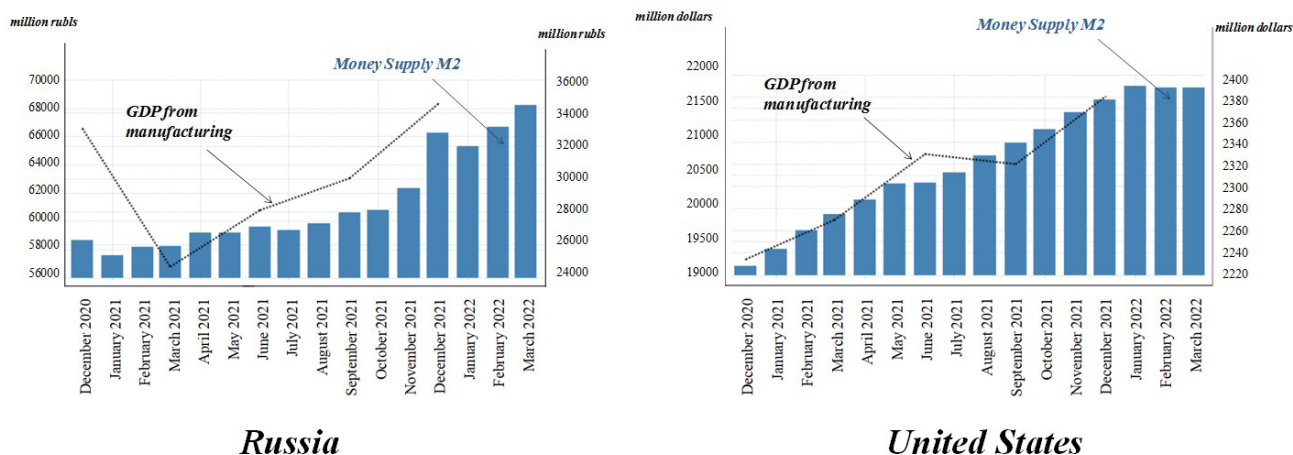


Fig. 3. Monetary and macroeconomic indicators of countries

Source: compiled by the authors based on the data: Trading Economics. Russia – Economic indicators. URL: <https://ru.tradingeconomics.com/russia/indicators>; Trading Economics. United States Indicators. URL: <https://tradingeconomics.com/united-states/indicators>.

inflation growth is required and will take a long time to achieve.

Macroeconomic indicators as an assessment of the effectiveness of public policy have become less popular, but hyperinflation can lead to the fact that public goals will be disavowed. Policymakers should worry about inflation [18], but this does not mean that the government can improve the social welfare by actively participating in the price-setting process.

## CONCLUSIONS

### The world is waiting for an economic recipe

What do we do when the economy is in a recession? Society and policymakers are again waiting for a salvation recipe from economists. Will MMT become such a recipe? There is a gap between the need for action and the recognition of this need by the government. As a result, when an error is recognized and corrective actions are taken, damage can be done, and the corrective actions can turn into an additional error [30].

MMT assumes a renaissance of a number of well-known theories and actualizes this renaissance at a time when the need for new theories is high. Our conclusion is that the most important part of MMT is the political package, not the economic package. Therefore, it is impossible to recommend MMT as a ready-made universal

tool for solving the problems of economic development of states, including Russia. Only upon appropriate political and/or public demand, the proposed MMT tools should not be initially rejected, and some of them may be studied in order to apply them in practice.

Considering the possibility of practical implementation, we note that Greece has formed a negative attitude towards MMT, as it has already tested some of its measures, which has led to significant inflation, higher long-term interest rates, higher risk premiums, and financial crises [19].

We also note that researchers of the Chinese economy argue that MMT elements are partially used in projects that promote industrial modernization (for example, the “Made in China 2025” project), solve the problem of environmental degradation, and create goods production and services that improve the quality of life [17]. Thus, Chinese job security is seen as a political proposal in addition to the new infrastructure and allows to achieve a more complete list of public goals [17].

On the other hand, for example, in Croatia, they believe that it is possible to use the MMT conclusions for small countries [15], but it is necessary to convert all external debt into the national currency, for which there is neither political will, nor leaders, nor money. Therefore, for small countries, this path is closed,

unless the European Bank decides to start experiments. The International Organizations of the Supreme Audit Institutions can be involved in the implementation of this task, contributing to a more objective distribution of World Bank funds to countries where unemployment is critical.

But in any case, the idea of public goals financed indefinitely by the state will remain

attractive for a long time to come. The crisis does not give time for necessary reforms, and MMT can increase the risks by unknown measures and inconsistency in the actions of various government structures, which leads to the conclusion that “modern monetary theory” rather only reveals problem areas of modern economic policy, rather than sets a new agenda.

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