The National Debt is Irrelevant: Some Unsettling Questions Regarding Government Budget Deficits

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1. INTRODUCTION

According to Aristotle in the *Nicomachean Ethics* 'virtue is a mean between two extremes' (Aristotle, 1998, 39). In economics the two extremes are Libertarianism and Marxism. Libertarians believe in the freedom of the marketplace and a minimal state. Marxists believe in the state ownership of the means of production and distribution. Neither Libertarian nor Marxist models exist in reality, but they are helpful to establish the boundaries of relevant public policy. In the real world an important issue is the appropriate mix of public and private goods and services. An essential component of that discussion is how to pay for government spending either *via* taxation or borrowing, and the effects of public sector debt.

The contemporary school of 'modern monetary theory' (MMT) suggests an approach whereby taxation is detached from public sector expenditures. Taxation would be used to address such things as the distribution of income, to control inflation, and to create a demand for government base money. Public-sector spending would be financed, in part, by the sale of government bonds (Kelton 2020, Mitchell, Watts & Wray 2019, Wray 2012) which implies rising government debt and its economic impact. The genesis of MMT can be found in the writings of Keynes and Lerner. Governments have run large deficits at various times in history, including very recently, but not necessarily informed by MMT. Instead the deficits seem to have arisen spontaneously due to practical necessities.

This chapter evaluates the implications of MMT-style public policy with specific reference to the relationship between national debt and the rate of inflation. For MMT the answer to the question 'Should the central (federal) government always try to balance the budget' is no.

It concludes with recommendations for the implementation of a modified version of MMT.

2. THE PHILOSOPHY OF DEBT

Analysis of the public debt has two components, scientific and emotional. The emotional component is based upon perceptions concerning the role of the state. On the one hand, the state is seen as an extension of the 'family or community'. In this context, the state is benign, friendly, helpful. The alternative viewpoint portrays the state as distant with dominating and dictatorial tendencies. The argument that governments must 'tighten their (our) belts' as a necessary policy response to higher indebtedness is based upon the fallacy of composition. This assumes national governments and household debts are in some sense analogous. There are various reasons why this comparison is incorrect (Kelton 2020). For example, a household does not have the power to raise money through taxation or by owning a bank and lending money to itself.

Two Harvard philosophers debated the configuration of a just society in the context of inequality. John Rawls was a proponent of contemporary liberalism (Rawls 1971). Citizens do not 'deserve' to be born into an affluent or low-income family, or to be born more or less gifted than others. The initial distribution of natural assets is undeserved. Wealth creation is a cooperative enterprise, and all social goods are to be distributed equally. Wealth and power should be distributed equally except where inequalities work to the advantage of all. Rawl's theory of justice is within the social contract tradition of Locke, Rousseau, and Kant. Robert Nozick (1974) believed in the minimal state. In this approach, the legitimate use of state power is limited to preventing fraud or the use of force. It does not include the power to tax or to confiscate property. The individual has the right to decide how one's property is disposed of. Taxation without consent is equivalent to forced labour. Socialism and liberalism redistribute wealth to achieve social justice, ignoring how the goods have come to be produced and distributed through trade, labour, gifts, *etc.* To take goods away from people would be unjust, as long as the initial acquisition of the goods was just. The state should protect property and punish those who violate property rights

Empirically, however, the elimination of inequality is impossible. Concerning the distribution of wealth in a society, a fitted trend will indicate (history shows) that typically a small fraction of the population holds a large portion of wealth. This 'Pareto distribution' has become known as the Pareto principle, or the 80-20 rule. This rule states that 80% of the wealth of a society is generally held by 20% of its population.

3. ETHICAL ISSUES

It can be argued that if the duty to pay a debt is ethical, then the 'ought should imply can' rule applies. There is a difference between borrowing (or taking on debt) and repaying that debt. When money is borrowed, both the borrower and the lender should recognize that the debt can be repaid because lenders ought not lend too much and borrowers should not get in over their head. When it comes to repaying debt, however, sometimes people cannot repay their loans. (This is not a problem for the national government, of course, since they can print money to roll over the debt). We cannot be morally obliged to do what it is not in our power to do. Thus any obligation to pay is limited by the capacity to pay. Ethically, the obligation to pay a debt may shrink to the obligation to pay what can reasonably be required. However, one person's debt reduction is another person's asset loss. There is context-dependency in relationships of trust, expectation, and obligation implied by the language of 'credit' itself.

The ancient world exhibited a pattern of high-interest loans to subsistence farmers in times of crisis (war, drought, *etc.*), leading to loss of possessions (and earning potential) and the sale of family members into various forms of slavery. This led to periodic amnesties (such as the

Biblical Jubilee) where debts were canceled and slaves returned to their families. This behaviour was not simply a matter of justice, but was undertaken to prevent revolution. In the fourth century BC Dionysus of Syracuse borrowed from the citizens but 'repaid' the loan only by debasing the coinage.

In the pre-commercial feudal era, princes, landlords, and clerics owned estates or sanctuaries that generated income, not unlike a personal business, but by command-and-control operations, with tribute paid by tenant farmers or serfs in return for military protection. Government funds in the feudal era also derived from conquest and war, the sale of offices, titles and indulgences, or debasing coins at the mint. Before the Renaissance, monarchs, princes, and popes borrowed on their account, pledging personal income and estates as security. They often reneged on their debts. Creditors, initially lured by the prospect of significant financial gains, given their proximity to political power, more often than not were mistreated, whether by defaults, interest reductions, confiscations, or bodily harm.

Governments in ancient and medieval times required funding, as do modern states. But they did not borrow publicly in the sense of drawing funds from a broad populace and making the public ultimately responsible for servicing the debt as a form of deferred taxes. Private borrowing has existed since recorded history and preceded the development of public borrowing by many centuries. Eventually, public borrowing became common but, initially, involved loans in kind (commodities), not money, for shorter rather than extended periods, and for war or personal purposes rather than as a permanent funding source. No debt instruments existed. The notion of sovereign obligation emerged in the late seventeenth century, when the rule of law, security of contract, and parliamentary checks on monarchical power were implemented.

Out of this experience, that is the exploitation of the poor by forcing them to borrow to survive a crisis beyond their control, emerged the ancient condemnation of usury, from the criticisms of Aristotle to the censures of Christianity, Islam, Judaism. From this point of view there is minimal evidence for the utility of the institution of debt and thus limited grounds for an absolute moral obligation to pay in total all interest-based loans. As a result, there is an essential distinction between the legitimacy of 'use' on productive debt and the illegitimacy of extractive and forced debt. This reasoning implies that debt as an institution is morally ambivalent. There may be a 'good' (mutually beneficial) set of debt-related practices. But we cannot insist on an absolute obligation to pay all debt without considering the quality and effects of debt-related activity in society (Salsman 2017).

Eventually, Aquinas was able to provide a qualified defense of lending, coinciding with the origin and growth of modern private banking and lending, which started in Italy and spread quickly to Spain and Holland. With the Reformation came a defense of usury by Martin Luther. The industrial revolution led to the defense of usury by Jeremy Bentham and his contemporaries in the 17th and 18th centuries (Smith, Ricardo, Say, and Mill). They argued that the common good is served by the productive activities of entrepreneurs who require start-up capital that must be borrowed (Douglas 2016).

4. THE PSYCHOLOGY OF DEBT

Max Weber (2002), one of the foundational figures in sociology, argued in his book *The Protestant Ethic and the Spirit of Capitalism* that the development of capitalism in Northern Europe had been profoundly influenced by the Protestant values of prudence and frugality, sometimes referred to as the 'Protestant work ethic'. This 'spirit' of capitalism does not refer to spirit in the metaphysical sense, but rather to a set of values, of hard work, frugality and progress, that was historically associated with Protestantism. However, it is essential to note that, even in Weber's view, these values are not specific to any one religion. He argues that this spirit emerges wherever traditional forms of capitalism based on interpersonal relationships have been replaced by the rationalized organization of labour. The distinction between the ethical and economic notions of prudence and frugality is often blurred.

In this view, capitalism was believed to embody moral justice, like Adam Smith’s ‘invisible hand’ (Smith 1776) rewarding those who work hard and save money and punishing those who do not. This belief explains the continued use of morally weighted, if not downright religious, language by some politicians. For example, the prominent German politician, Armin Laschet wants a return to fiscal orthodoxy and an end to the overly intrusive state that regulates every aspect of people's lives (Financial Times, 2001). He argues that the EU recovery fund, financed by debt taken on by the European Commission was a one-off and should not be repeated. The EU's fiscal rules must come back into force. And Germany must reinstate its limit on deficit spending.

5. FUNCTIONAL FINANCE AND MMT

While others look at the moral and psychological factors affecting debt, economists tend to focus on the economic factors. According to MMT and FF ‘money is a creature of the state’ (Lerner 1947). The state imposes liability in the form of a generalized social unit of account, money, used for measuring obligations. This is based on the ancient Germanic and Anglo-Saxon practice of Wergeld, meaning the amount of compensation paid in law by a person committing an offense to the injured party. The pre-existence of markets is not required. The state chooses and issues the unit of account. The form is determined by the state – gold, base metal, paper, or digitized numbers at the central bank. Inside money is an asset representing, or backed by, any form of private credit that circulates as a medium of exchange. Inside money originated as a transaction, cost-minimizing, innovation.

Central banks were once deemed ‘lenders of last resort’ to private banks. They now act as lenders of last resort to national governments and the private sector. Some public debt analysts consolidate the balance sheets of central banks and national governments on the argument that the Treasury and the state central bank are effectively a single entity.

To many economists and historians, the spread of central banking and fiat paper money systems in the past century has led to ‘market failure’ in private sector banking. However, most central banks originated in a sovereign's need to secure funds that it could not obtain by taxes or voluntary loans. Some central banks began as private banks which were compelled to lend to sovereigns. Upon becoming insolvent due to default, they were nationalized and transformed into government central banks with monopoly control over fiat currencies which eventually displaced gold and silver in private bank reserves. This was the pattern by which most modern central banks were established, including the first two in the late seventeenth century. The Swedish Riksbank was established in 1688 by the takeover of a private bank founded in 1656, which failed. The Bank of England was established in 1694 to finance war with France. England’s, and later Britain's, public debt was launched when William III arranged for the sale of public debt through a syndicate of London merchants. In time, this syndicate became the Bank of England.

5.1 Keynes

After a decade of budget surpluses in the 1920s the US federal government experienced deficits at the start of the ‘Great Depression’. But most politicians and economists believed in the necessity of keeping a balanced budget. In 1931, President Hoover proposed a plan to increase tax revenue by 30 percent, resulting in the Revenue Act of 1932. The Act increased taxes across the board, rolling back the tax cut reduction program of the 1920s. Top earners were taxed at 63 percent on their net income. The Act also doubled the maximum estate tax rate, cut personal income tax exemptions, eliminated the corporate income tax exemption, and raised corporate tax rates. Despite this the USA continued to run budget deficits. Keynes, moreover, put forward a very different view to justify deficits in times of a Depression.

Pigou (1935) published *The Economics of Stationary States* in the static equilibrium tradition of the classical school. When Pigou later wrote against Keynes, in an article using more or less the same analytical setting, Keynes (1937) wrote that this model 'relates to a frozen land remote in its characteristics from all experience'. Pigou's (1943) 'real balance effect' would only work, if at all, in the long term. Keynes made sensible recommendations concerning insufficient aggregate demand to address immediate public policy issues of the 1930s, which Pigou and others had seemed incapable of doing.

Later Friedman and Schwartz (1963) argued that the Great Depression was caused by the fall in the money supply, stating that, 'from the cyclical peak in August 1929 to a cyclical trough in March 1933, the stock of money fell by over a third'. This failure of government policy is consistent with Keynes's analysis of insufficient effective aggregate demand.

Before his death, Keynes maybe had a change of heart and as quoted by Skidelsky (2001), told Henry Clay of his hope that Smith's 'invisible hand' could help Britain out of post-war economic difficulties , 'I find myself more and more relying on a solution of our problems on the invisible hand which I tried to eject from economic thinking twenty years ago'. Shiller and Akerlof (2009) have discussed Keynes's insight on the importance of confidence and expectations in determining the behaviour of business and other economic agents. Meanwhile, Keynes (1919, 235) was always aware of the dangers of inflation:

Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction and does it in a manner which not one man in a million can diagnose.

5.2 Functional Finance

Lerner embellished Keynes's theory. However, the logic of a theory does not always lead to policy changes. Lerner translated theory directly into policy and, in doing so, added insight into both theory and policy. But he also often arrived at policy proposals that, at the time, seemed politically impossible. Keynes directed his policies to the political environment of that time. He proposed those polices that in his opinion were implementable.

Lerner (1943) argued that government fiscal policy, spending, taxation, loans and the issue of money, should be based upon results of these actions on the economy, rather than on established traditional doctrine about what is sound or unsound. This principle of judging only by effects has been applied in many other fields of human activity, where it is known as the method of science. The principle of judging fiscal measures by how they work in the economy is called ‘functional finance’ (FF). The first responsibility of the government is to maintain the total rate of spending on goods and services at which the current prices would buy all the goods that it is possible to produce. If total spending is allowed to go above this level there will be inflation, otherwise there will be unemployment. The government can increase total spending by spending more or reducing taxes. According to Forstater (1999) Lerner's theory includes;

1. Full employment, price stability, and a decent standard of living, and it is the state's responsibility to promote their attainment.

2. Policies should be judged on their ability to achieve the goals for which they are designed and not on any notion of whether they are ‘sound’, or comply with the dogmas of traditional economics,

3. Money is a creature of the state.

4. Taxing is not a funding operation. The government budget should be judged on its macroeconomic effects. Decisions concerning taxation should be made concerning their economic impact ‘not because the government needs to make money payments’.

5. Government borrowing is not a funding operation.

6. The primary purpose of taxation is to influence the behavior of the public.

7. There are six (or three pairs of) fiscal instruments of government, taxing and spending, buying and selling, and borrowing and lending. ‘Printing money’ is not independent of these. It is not an instrument of policy. It is only a servant of these policies, just like printing the stationery used in the various government departments.

8. Without a full employment policy, society cannot benefit from labour-saving technological advances. With full employment, labour-saving technical advance is beneficial to society,

9. Without a full employment policy, a country must be concerned with its trade balance. With full employment, here is no need to worry about importing ‘too much’ relative to exports. In that case exports, are a cost and imports are a benefit.

10. FF is not a policy. It is a framework within which policies may be conducted.

Concerning Keynes, Lerner, as quoted by Colander (1984), noted that;

I refer to Keynes' timidity. He did not carry his conclusions all the way. I first was hit by this quality - to my great astonishment - when, at a lecture to the Federal Reserve in Washington in 1944, he showed concern that there might be 'too much saving' after the War. When I pointed out that the government could always induce enough spending by incurring deficits to increase incomes, he at first objected that this would only cause 'even more saving' and then denounced as 'humbug' my suggestion that the deficits required to induce enough total spending could always be financed by increasing the national debt. (I must add here that Evsey Domar, at my side, whispered ‘he ought to read the *General Theory*’).

Colander notes that:

According to Evsey Domar, Lerner's account underplayed Keynes's violent reaction to Lerner's statement. Not only did Keynes call Lerner's statement ‘humbug’, he also paraphrased Lincoln's ‘you cannot fool all of the people all of the time’.

5.3. MMT

Lerner appears to have had no students to continue his work. There is no ‘Lerner school’. Lerner never stayed at any one institution for long. He served on the faculties of nearly a dozen universities and accepted over twenty visiting appointments. Nonetheless, today’s MMT is to some degree a revival of Lerner’s ideas.

Lerner's concept of FF did not receive recognition and acceptance in the mainstream economic literature, although some version of ‘Keynesianism’ did seem to prevail in the 1950s and 1960s. The 1960s Kennedy tax cuts reinforced the issue of insufficient aggregate demand. However, the current system continues to permit economic and financial crises leading to large deficits with which the mainstream of the economics profession has difficulties. This has led to a revival of FF rebranded as MMT.

Historically, money was a reward for value creation. Today, money is used to *create* value. Consistent with Lerner, MMT argues that a county's currency is a public monopoly for the government. Unemployment is evidence that a currency monopolist restricts the supply of the financial assets needed to pay taxes and satisfy desired savings.

Smithin (2021, i) argues that:

> The core argument of MMT rests on the logically unassailable proposition that the central government of an economy with its sovereign currency and a floating exchange rate (to which I would also add a 'fixed but adjustable' exchange rate) faces no binding financial constraints. Under these circumstances, fears about 'unsustainable' budget deficits are nonsense. However, none of this applies to jurisdictions with an irrevocably fixed exchange rate or those embedded in a currency union. Nor does it apply to the individual Provinces or States in a federal system. And by no means does this purely financial insight settle any of the debates about macroeconomic policy alternatives, which must still be debated on the merits of the policies themselves. Critically, the core proposition does not settle debates about the correct level of interest rates or about whether to define interest rates in 'real' or 'nominal' terms.

Since leaving the gold standard, money has essentially been backed by faith in the issuing government. No longer fearing the shortage of gold, governments are free to print the money needed to assure full employment and pay for resources to do important things like deal with climate change. MMT views currency as a public good rather than a medium of exchange. As a consequence, taxes do not finance spending. Taxes render the money of account chosen by the state as being acceptable for payments. This is consistent with Lerner's concept of FF. The first financial responsibility of the government is to keep the total rate of spending in the country on goods and services neither greater nor less than the rate which at the current prices would buy all the goods possible.

MMT recommends a ‘job guarantee’ program as a critical component of its policy package. However, as Barrows (2007) has demonstrated, since the Great Depression of the 1930s no developed economy in the world has utilized a nationwide government program as an ‘employer of last resort’. Governments in many transitional economies, however, are reluctantly ‘forced’ to provide job guarantees to university graduates. At the same time MMT appears disinterested in the composition of public expenditures. In my view, this concept is unviable as public policy. No politician can be elected on a campaign of ‘digging holes’. Keynes was concerned with public policy implementation. In the *General Theory* digging holes was not a policy recommendation, it was an exercise in hyperbole (which worked well).

5.4 Piketty

Thomas Piketty (2014, 2020) takes a different view about debt deficits from those of Keynes, Lerner, and MMT. His concern in those two volumes with the distributional consequences of debt, and provides a wealth of empirical data on the topic.

He argues that the new activism of the central banks has also allowed them to buy back a growing share of public debt securities. The most important question is whether we continue along this path. Can we envisage that central banks will in the future hold 50% and then 100% of public debts? From a technical point of view, this would not pose any problem. The difficulty is that by resolving the question of public debt this creates other problems elsewhere, particularly the increasing inequality of wealth. Money creation and the purchase of financial securities lead to an increase in stock and property prices, contributing to the enrichment of the richest. However, if the distribution according to the 80-20 rule is a genuine empirical regularity, as Pareto claimed, Piketty's concerns may seem to be overblown.

6. DOES DEBT CAUSE INFLATION?

The short answer to this question seems to be no, at least for developed nations. Romero & Marin (2017) employ an annual data set for 52 countries over the period 1965 to 2014. They utilize a forward-looking model of inflation based on rational expectations, Cagan-type money demand, and a non-Ricardian regime that takes government bonds as net wealth. They conclude that an increase in the debt-to-GDP ratio is not statistically significant as a cause for inflation for developed countries. However, an increase in the debt-to-GDP ratio is strongly associated with high inflation in indebted developing countries, after controlling for money growth and real output growth. Their findings highlight challenges for price stabilization in highly indebted developing countries because the expansion of public debt affects variables sensitive to economic agents' decision-making, such as inflation, income, and interest rates. Moreover, despite the critical role of monetary policy in managing inflation expectations, they argue that fiscal policy may be a dominant factor for the evolution of inflation in highly indebted developing countries. Supporting this work, an analysis conducted by Bilan & Roman (2014) in 22 countries identified the existence of possible inflationary effects of public indebtedness for developing nations. The research could not establish a direct relation in developed countries.

Neo-Keynesian models additionally incorporate forward-looking behavior and inflationary expectations. The heightened importance of inflationary expectations was initiated and reinforced by the 'Great Inflation' of 1965-1980. Inflation expectations are reflected in financial markets. Adjustments of inflation expectations operate as constraints on the efficacy of countercyclical fiscal policies and straightforward monetary policy (Rockoff 2021).

Bordo & Meissner (2016) find that the relationship between fiscal deficits and inflation generally holds in wartime when fiscally stressed governments resorted to the inflation tax. In the early twentieth century, there were two peacetime episodes when bond-financed fiscal deficits unbacked by future taxes seem to have significantly contributed to inflation, namely France in the 1920s and the recovery from the Great Depression in the 1930s in the USA. In the post-WWII era, a detailed examination of inflation in the 1960s and 1970s in the US and the UK suggests that fiscal influences on monetary policy were important. Fiscal deficits have been long associated with monetary finance in emerging countries with underdeveloped financial systems and weak budgetary administration.

From this empirical literature we can conclude that the size of the national debt is irrelevant for developed countries. The size and composition of the debt can exert inflationary pressures in developing nations. Keynes concluded that we had reached a condition that might be designated as one of 'true inflation' when a further increase in the quantity of effective demand produces no additional output and entirely spends itself on a rise in costs per unit. What Keynes called true inflation, MMT would call 'demand-pull' inflation.

7. THE POLITICAL ECONOMY OF MMT

In Section 6 we noted that MMT seems to work better with respect to inflation in developed nations rather than developing economies. A large part of the reason for this involves political economy, in particular the ability of the central government to collect taxes from the citizens.

Ferguson *et al.* (2020) argue development outcomes come in 'clusters' that seem challenging to exit. This is reflected in the interconnection between state weakness and clientelism. State weakness creates the right environment for 'clientelism'. Clientelism sets a structure of incentives for politicians and citizens that is detrimental to building state capacity and encourages tax evasion. These practices become widely accepted in society, resulting in a deeply entrenched relationship of mutually reinforcing influences. A weak state and widespread clientelism are part of a political equilibrium with multiple feedback loops. State weakness particularly with respect to tax collection is a situation that is likely to be very hard to exit. There is no opportunity to apply MMT in those countries in 'weak state traps'.

8. RULES

MMT suggests that national debt which resides in the central banking system is irrelevant. The national government can simply roll over debt and the central bank will accommodate. There are the standard caveats. There can be too much of a good thing, there is always the law of unintended consequences, such as inflation, and unexpected or unforeseen events. Another significant concern is asset-price acceleration. This is especially relevant in the housing markets. Such real estate price inflation is pure economic rent.

The goal of MMT is full employment of domestic resources. That is, domestic resources are not a constraint. Nonetheless, it is possible that combined international demand based on many countries implementing domestic MMT could reach global limits. A coordinated, multilateral response can address this concern.

In our proposal, domestic inflation would not exceed, say, two percent. This represents a clear, consistent, and easily understood target. Keynes, FF, MMT all agree that inflation is not an acceptable public policy, and to decide whether inflation is excessive or not there has be accurate measure of inflation including the housing component. In February 2021, the New Zealand government formally added a clause to the central bank mandate, instructing it to consider housing prices in making monetary policy decisions (Powell & Wessel 2021).

It will be essential to examine the so-called ‘Smithin rule’. Smithin (2021) argues for a 'low' real policy rate of interest and 'rules’ rather than ‘discretion' in monetary policy. A zero real policy rate (ZRPR) would be a 'near-optimal’ monetary policy. A commitment on the part of the monetary authorities to a real rate rule of some kind (as opposed to simply setting the nominal policy rate) will cause market participants to change how their expectations are formed. Financial actors will not be able to speculate if there is nothing to speculate about.

9. CONCLUSION

Personal and public debts are contentious issues. Emotions concerning debt can be powerful. There may be religious connotations. Is debt incurred for consumption purposes or for productive investment? The emotional issues complicate the scientific exploration of private and public obligations. A fundamental philosophical problem is the relationship of public and private debts to the distribution of wealth in society.

The distribution of wealth raises important ethical issues. Has debt contributed to the imbalance of wealth in society? Philosophers have argued that usury is inappropriate from a philosophical and religious perspective. With the onset of the industrial revolution, a consensus emerged to facilitate more public and private sector investments necessary to enhance productivity growth. Debt will continue to remain a significant psychological issue. The fallacy of composition occurs when analysts conflate household and state debts. Households do not have access to the money creation process. Politicians continue to invoke the analogy of public debt to household obligations. It is argued that public debt may lead to inflation and contribute to income and wealth disparities. The empirical literature is consistent regarding public debt and inflation. Public sector debt has no relationship to inflation in developed economies. Public sector debt in emerging economies does lead to inflationary pressures. The Pareto rule provides an excellent description of wealth distribution over space and over time. This 80-20 rule indicates that 80% of the wealth, generally, is accumulated by 20 percent of the population. This may render concerns about wealth distribution less relevant.

The Great Depression illustrated the inability of neoclassical economics to develop the appropriate public policy responses. Keynes's contribution was to fully incorporate monetary and real variables. Lerner provided a necessary elaboration with the development of FF. Some would argue that FF-MMT represents a logical extension of Keynesian economics, while others would not agree. MMT builds upon Lerner's FF. But MMT includes policy options that do not follow logically from a Keynes-Lerner analysis, such the 'zero interest rate policy' ZIRP, job guarantee, and the Green New Deal. These can all be 'afforded' but must be debated on the merits.

The optimal combination of public and private goods and services is a critical public policy issue. Citizens expect efficient and effective essential public services and insist upon a wide variety of private-sector goods and services. We argue that a modified version of FF-MMT would be an appropriate evolution of the theory of monetary and fiscal policy. This may include the de-coupling of taxation and the resulting revenues from federal government expenditures. In terms of our original question, it may not be appropriate for fiscal policy to always pursue a balanced budget. In particular, the developed nations should borrow and spend what is necessary to achieve full employment, and to meet other important societal goals.

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Bio

David Barrows has extensive global experience in public administration, education and training, business-government relations, and economic analysis. He was a senior executive in the government of the Province of Ontario with responsibility for industrial and trade policy. He retired as the Associate Director of the MPA program at the Schulich School of Business, York University, and is currently Capital Region Director of the Aurora Philosophy Institute (API). He has been nominated for and won numerous teaching awards. David has consulted for the Commonwealth of Nations, the OECD and the World Bank. He has taught in the UAE and

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