Modern Money Theory: rise in the international scenario and recent debate in Brazil

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Abstract:

This paper has a two-fold purpose. The first is to present the core ideas of Modern Money Theory (MMT). The second is to explain the recent rise of MMT's ideas in Brazil with the publication of a series of articles by Andre Lara Resende in the press. In order to do that, the paper is organized as follows. In the first session the core ideas of MMT are presented: i) chartal money, or tax-driven money; ii) functional finance; iii) Minskyan financial fragility; iv) sectoral balances approach; v) employer of last resort. The second section discusses the particular way in which MMT's ideas have recently arrived in Brazil, considering peculiarities of the economic and political scenario. The final session summarizes the main ideas presented in the paper and raise critics to Lara Resende's contributions from a political economy perspective.

Keywords: Macroeconomics, Monetary Economics, Modern Money Theory

Introduction

The economic debate in Brazil has been recently shaken by Modern Money Theory's (MMT) ideas. Until then, MMT was only known and discussed in the academic arena by a few economists. But a series of pieces written by Andre Lara Resende [1]in the first half of 2019 in the main business newspaper in Brazil – Valor Econômico – has moved the debate beyond academia. Lara Resende presented the core ideas of MMT – money as a unit of account and money as debt issued by the State debt, accepted because it is needed in order to pay taxes., when the debt is then redeemed. Being money an unit of account and not a "thing" with intrinsic value, the State has no financial constraint, only a "reality constraint."

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[1]Andre Lara Resende is a well-known economist in Brazil. Back in the 1980s, he was a leading economist engaged in the debate on inflation in Brazil, supporting the idea that inflation was mainly inertial, or expectational. In 1994, he was part of the team which implemented the stabilization plan – the Real Plan - which successfully brought inflation back to low levels in Brazil. He was also head of Monetary Policy in the Brazilian Central Bank (1985-1986) and President of the Brazilian Development Bank (1998).

Only recently introduced in the Brazilian public debate, MMT has been the focus of study and discussion of a group of heterodox economists for a few decades, being Randall Wray (Wray, 2003 e Wray, 2012) one of the leaders. It is important to notice that these economists gained public attention – probably for the first time – when the Global Financial Crises erupted, and Minsky – which is an important theoretical reference among this group – gained momentum. MMT's economists were pioneers critiquing the Euro, which was for them an idiosyncratic creation in which countries gave up their own currency and monetary sovereignty. And again, when the Euro crisis erupted and the whole Euro project started to be questioned, MMT's authors again gained attention.

At the international level, and especially in the US, there has been a growing perception that mainstream macroeconomic theory is facing a crisis (Blanchard et al 2010 e 2018; Blanchard e Summers, 2018; Stiglitz, 2018), for the failure of its forecasts – not anticipating the Global Financial Crisis (GFC) being the supreme case, since until the last minute the leading mainstream macroeconomists didn't see it coming – but also because of the its inefficient policy proposals. In the current macroeconomic scenario, with deteriorated public finances and the enlarged balance sheet of central banks - results of the post crisis' rescue policies, mainstream theory could not prescribe expansionary fiscal policies in order to stimulate the economy. So, in this scenario, it would be up to monetary policy to boost the economies. And although monetary authorities have been innovating since the GFC, with interest rates at very low levels, even reaching negative rates, the impacts in real economy have been, at best, not sufficient. According to Blanchard and Summers (2017), taking in consideration the limits of monetary policy, fiscal policy becomes important, contrarily to the mainstream macro model.

Thus, in the aftermath of the GFP, macroeconomic theory and its models - synthetic representations of reality – as well as policy prescriptions coming from it, started to be questioned:

> *The crisis was not triggered primarily by macroeconomic policy. But it has exposed flaws in the pre-crisis policy framework, forced policymakers to explore new policies during the crisis, and forces us to think about the architecture of post-crisis macroeconomic policy* (Blanchard et al, 2010, p.16).

In this context, theoretical issued which have always been crucial from a Keynesian-Minskyan perspective, and were not relevant to mainstream macroeconomics up to that moment – such as bank money and finance, endogenous financial fragility, as well as the key role of fiscal

policy and financial regulation –were brought into the picture, but sometimes in a somewhat clumsy way.

It was in this environment of increasing dissatisfaction with mainstream economics that MMT crossed the borders of academic debate and started to be discussed in important newspapers, even business newspapers, all over the world. Contributing to this was the fact that important members on the left side of Democratic Party in the US have explicitly assumed that MMT ideas are behind their policy propositions. Also, MMT theoretical founders are very active not only in academic outlets, but also in the web[2].

This paper has a twofold purpose. The first one is to present the core ideas of Modern Money Theory (MMT). The second is to explain the recent rise of MMT's ideas in Brazil. In order to do that, the paper is organized as follow. In the first session the core ideas of MMT will be presented: i) chartal money, or tax driven money; ii) functional finance; iii) Minskyan financial fragility; iv) sectoral balances approach; v) employer of last resort. The second section presents the particular way in which MMT's ideas have recently arrived in Brazil, considering peculiarities of the Brazilian economic and political scenarios. The final session brings back the main ideas presented in the paper and raises critics to Lara Resende's contributions from a political economy perspective.

1 - What is Modern Money Theory?

The so-called Modern Money Theory (MMT) started to take shape in 1998 when the book "Understanding Modern Money", written by Randall Wray, was published. The expression "*modern money*" - ironically utilized by the authors, in a reference to Keynes – was related to the way monetary systems have been working in the last 4.000 years, marked by the presence of state money (Wray, 2012). In the recent years, MMT gained prominence in the economic debate in the United States as Stephanie Kelton - now professor of the Stony Brook University and one of the most important defenders of the MMT ideas - became economic adviser to the US Senator Bernie Sanders' campaign for the Democratic Party primaries in 2016. That prominence increased with the support of Alexandria Ocasio-Cortez (AOC) – Congress woman

[2] See http://bilbo.economicoutlook.net/blog/ and http://neweconomicperspectives.org/category/l-randall-wray.

elected by the State of New York in 2018 – to the MMT ideas, in order to implement progressist policy proposals, such as *free college, Medicare for all, federal jobs guarantee* and *Green New Deal*. "*She said the idea, which holds that the government doesn't need to balance the budget and that budget surpluses actually hurt the economy, 'absolutely' needed to be 'a larger part of our conversation*"[3].

Even being considered by its founders as part of the Post-Keynesian school, MMT incorporates other theoretical lines within the heterodox field, such as the Institutionalists (Veblen), the Chartalists (Knapp, Innes, Charles Goodhart, Hyman Minsky), the Functional Finances (Abba Lerner e Hyman Minsky) and the Sectoral Balances (Wynne Godley). MMT starts from heterodox assumptions in order to: 1) describe the way capitalist economies work, with monetary arrangements at its center[4]; and to 2) prescribe public policies to avoid financial instability and ensure that full employment is achieved.

The State plays a fundamental role for MMT. Besides the discussion of the historical evolution of money and its intrinsic relationship with the State, MMT advocates try to understand: 1) how public spending is actually implemented; 2) the relationship between the Central Bank and the National Treasury; and 3) how State money is created. Starting with the understanding of the nature of money, MMT advocates refute the thesis that money was "born" from barter, as there is no historical evidences of the existence of barter-based economies. The modern money emerged, in fact, as a unit of account, which is its primary function. The monetary relations are anchored in State sovereignty and monopoly. According to Keynes, in his Treatise on Money, the State:

> *claims the right to determine and declare* ***what thing*** *corresponds to the name, and to vary its declaration from time to time—when, that is to say, it claims the right to re-edit the dictionary. This right is claimed by all modern States and has been so claimed for some four thousand years at least.* (Keynes, 1971, p. 4, ênfase no original):

Therefore, money and the State are inseparable. The State - by imposing obligations in the form of taxes, taxes to be paid in what it has termed as money, and money issued by itself - guarantees the demand for money (taxes drive money). This money is a State debt, created

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[3] https://www.businessinsider.com/alexandria-ocasio-cortez-ommt-modern-monetary-theory-how-pay-for-policies-2019-1

[4] It is important to highlight that it is impossible for a country to "follow" MMT principles – once MMT is exactly a description of modern monetary economies.

whenever the State makes an expense and redeemed whenever an agent makes a payment to the State.

This approach, called by Wray (1998) as “tax-driven money” or as chartalist view of money - based on Knapp -, has several implications for macroeconomic policy. Given that the function of taxes would not be to 'finance' public expenditures, but to withdraw money from circulation[5], the State has to necessarily make expenditures in order to guarantee the money needed by the economic agents to pay the taxes imposed to them. In the end, all public spending means a deficit. In other words, a public deficit measured over a certain period of time means nothing more than that the government is putting more money into circulation than it is 'withdrawing' through taxes. Therefore, public bonds, for their turn, do not have the function of financing government spending, being a type of public debt that, unlike money itself, yields interest rates. In ‘modern’ times, they are also used as instruments of monetary policy. That said, the only restrictions faced by State on the issuance of money are self-imposed, political in nature and expressed in the form of legal rules.

A country which issues its own **sovereign money** does not have financial restrictions; it cannot be insolvent in its own money. MMT advocates understand that a money is sovereign when: i) the government has the monopoly of the money issuance and this money is the prevailing unit of account, i.e., it has legal tender; ii) it is fiat money or, in other words, there is nothing backing it, like metal or even a foreign currency; iii) the public debt is issued in the domestic money itself; iv) the exchange rate regime is a floating one. If the country meets these conditions, it issues sovereign money.

An important part of the MMT literature focuses on countries with the highest degree of monetary sovereignty, such as the United States, the United Kingdom, Japan, and Australia, Notwithstanding, peripheral countries which meet the above requirements have sovereign money and they can adopt, even with lower degrees of freedom in the macroeconomic policies they can adopt. Thus, even for these countries, any debate involving prescriptions of “austerity” would be anchored in gold standard and commodity-based money fundamentals.

The balance sheets of economic sectors and the stock and flow analysis have a special role in MMT’s analytical framework. Developed by Wynne Godley, the sectoral balances approach

[5] Despite taxes not having the function of financing public expenditures, they should be nonetheless imposed. Taxes are important because they make the economic system fairer, creating an incentive-and-disincentive system for certain economic sectors and activities and avoiding excessive income concentration.

organizes the economy into three major sectors: domestic government, domestic private sector (households and businesses) and external sector.
For the macroeconomic aggregates of a closed economy, the following is true:

Private Sector Balance + Government Balance = 0

In the case of an open economy, we will have:

Private Sector Balance + Government Balance + External Sector Balance = 0

This identity shows that it is impossible for the three sectors to have the same result (either deficit or surplus). It also shows that the government result will always have the opposite sign of the private sector result (considered as the sum of the domestic private sector and the external sector). Therefore, "*if one sector spends more than its income, at least one of the others must spend less than its income because for the economy as a whole, total spending must equal total receipts or income*" (Mitchell, Wray, and Watts, 2019, p. 14). In other words, if the government runs a deficit, the private sector's net position is necessarily of accumulation of financial wealth. One sector's savings means, logically, that the other sector is spending more than its income, i.e., it has a deficit.
So, in the case of an open economy, we have:

Domestic private sector surplus + External sector surplus = Government deficit

The conduct of fiscal policy - the way the State makes its spending decisions and receives its receipts - is also emphasized by MMT. When the State spends - either paying its employees or the suppliers of goods or services it purchases - these expenditures are operationalized through the National Treasury account at the Central Bank (CB), which, in its turn, will credit bank reserves (created *ex-nihilo* by the CB) in commercial banks' reserve accounts. Commercial banks will then credit checking accounts from the public. Bank reserves are also created by other strictly monetary operations made by the Central Bank - such as open market securities purchases that are not a result of government spending decisions and do not create deposits. In summary, reserves are created with both with public spending on the purchase of goods and services and with Central Bank's monetary policy operations **But only the former, in fact, creates deposits and stimulates the aggregate demand**. The inverse operation, bond sales, made either by the Central Bank or the Treasury - drains reserves from the system. Both should

be viewed in the same way, which reinforces the perception that bonds do not finance the public deficit. In short, government spending always creates reserves and deposits. The payments of taxes by the private sector destroy both.

The endogenous creation of bank money is a central point within the MMT, being aligned with the post-Keynesian structuralist version of the money supply. The idea is: commercial banks create money when they make the decision to create an ex-nihilo loan by recording a credit on the asset side of their balance sheet and a deposit on the liability side. Only after making the decision of lending and, as a result, creating demand deposit, the bank will go the intermarket or to the Central Bank for the needed reserves. Banks do not lend reserves, nor do they lend deposits. Banks create money (but do not create reserves).

That said, within the MMT ideas, the State money and other private IOUs - such as bank deposits – give shape to a hierarchy of monetary instruments. The IOU issued by the State is always at the top, as it is considered the ultimate and most liquid means of payment; below it, the IOUs are ordered according to their convertibility into the State money. The banking IOU, for its turn, is just below the State money, as its convertibility to the State money is guaranteed by the direct access of banks to the Central Bank's resources.

The Functional Finance approach is another pillar of the MMT. Lerner's central argument is that the government should always make spending decisions when income and employment levels are low, i.e., the government expenditures should be compatible with full employment. Lerner's argument is thus contrary to "sound finance" and the idea that the government should manage its accounts as if it were a family. For the author, the search for a balanced public budget would not be "functional" for the economy to reach full employment. According to Wray (2012, p. 194),

> *The idea is pretty simple. A government that issues its own currency has the fiscal and monetary space to spend enough to get the economy to full employment and to set interest rate target where it wants [...] For a sovereign nation, 'affordability' is not an issue; it spends by crediting bank accounts with its own IOUs, something it can never run out of. If there is unemployed labor, government can always afford to hire it, and by definition unemployed labor is willing to work for money.*

The MMT is strongly influenced by the ideas of Hyman Minsky, who in his 1986 book "Stabilizing an Unstable Economy" presented a theoretical framework that enabled the understanding of the endogenous credit cycle and financial fragility. Minsky's analysis, by

showing the importance of liabilities for agents' spending decisions, opened the way for understanding that crises are derived from the economic agents' rational behavior – including - and maybe especially - banks' decisions - that endogenously increase financial fragility over the economy expansion phase (Deos, 2015). A crisis begins when the financing conditions change and economic agents in debt face difficulties to meet financial commitments assumed in the past or, more often, difficulties to refinance these commitments. As it gets more difficult to access the market for refinancing, those agents need to liquidate their positions ("*sell position to make position*") to get funds, which leads to a decrease in assets' prices. Therefore, the economy gets into a "*debt deflation"* process and only the *Big Bank* - acting as lender of last resource - and the *Big Government* - conducting an anti-cyclical fiscal policy - would be able to stop the deflationist spiral of the assets' prices.

In more recent debates, MMT has been mistakenly – and maybe deliberately - reduced to a theory that advocates for "unlimited state debt." This could not be further from the truth. What is highlighted by MMT is that the fear of deficit spending is irrational and should not be an impediment to achieving full employment (Wray, 2015).

That said and stemming from the perception that the economy does not tend to full employment on its own, MMT proposes a policy of public spending for the pursuit of full employment. More specifically, the public policy prescription is the so-called "employer of last resort", based on Minsky's argument (2013) that the government should act, similar to the '*Lender of Last Resort*', as an *Employer of Last Resort* – ELR, proposing a type of "*bubble up*" policy, in lieu of a "*trickle down*" policy. To Minsky, as it is to MMT proponents, this would have very clear and specific goals: to stabilize the economy and guarantee full employment (Minsky, 1986; 2013; Wray, 1998; 2015).

The ELR as a permanent policy would make the government budget strongly countercyclical, acting as a job supply buffer. On recessions, with workers moving from the private sector to the ELR program, government expenditures would increase. On expansions, the process would be reversed, and the private sector would absorb workers previously hired by the state (Wray, 2015). This would reduce inequality and increase financial and price stability. The government - acting to eliminate involuntary unemployment and setting, exogenously, the "marginal" price of labor - would reduce both the boom's inflationary pressure - dampening wage pressures from the growth on private employment - and the recession's deflationary pressure, setting a floor to wages as the economy slows down (Wray 1998; Burgess and Mitchell 1998).

2 – Modern Money in the Brazilian context

The last two decades have witnessed two very distinct movements for the Brazilian economy: on the one hand, more specifically between 2004-2010, the observed experience was of growth with social inclusion. On the other, the deceleration of aggregate demand, resulting from a reorientation of economic policy, marked the country's entering into technical recession as early as 2014, with rising unemployment rates. Politics itself, in the broad sense, was at the center of the crossroads that marked the trajectory from the expansive cycle to the recessive adjustment.

From 2004-2010, government spending directly stimulated aggregate demand with a quite favorable international scenario until 2007-2008. Still respecting primary surplus targets, in a context of commodity boom and with policies to recover and boost wages, there were an expansion of investments by state-owned companies, increased transfers linked to the real increase in the minimum wage, and growth in operating expenses. The private sector response was higher consumption and investment. Those substantial increases in public spending were accompanied by an expansionary monetary policy. Reducing interest rates and stimulating credit for consumption and construction accelerated investment rates, contributing to the expansion of productive capacity necessary to attending to the growing demand (Serrano and Summa, 2015; 2018).

The success of this strategy was overwhelming, so much so that the effects of the 2007-2008 international crisis in Brazil, which were felt by a small contraction in 2009 GDP (-0.1%), was followed by a growth rate of around 7% in 2010. Approximately 10.2 million new formal jobs were created in the period, and real disposable income increased by an average of 5% per year. Improvement in social indicators was also significant. The Gini index of per capita household income reached 0.531 in 2010, and the extreme poverty rate, according to World Bank criteria (income below $ 1.90 per day), fell from 12.35% in 2004 to 5.73% in 2011 (Ipea, 2014).

However, from 2011 on, a new strategy was put in place, changing the orientation of economic policy. The goal was to shift to the private sector the leading role in driving growth. Macroeconomic policy then became oriented towards reducing interest rates and devaluing the exchange rate. However, with private investment and exports already faltering, the most immediate result was the acceleration of inflation. In 2013, facing inflationary pressures, the Central Bank raised interest rates, disrupting the path of monetary easing. The stimulus tools chosen were tax exemptions along with public-private partnerships for public services and infrastructure. But without a significant increase in aggregate demand, private investment made

little progress and the new strategy meant a considerable reduction in economic growth. Rates were 1.8% in 2012 and 2.7% in 2013.

At that time, the view from both ‘markets’ and a significant part of economists was that the fiscal stimulus from the previous period was excessive. The result then was a significant deterioration of public finances: spending had gone too far in the post-crisis, so inflation accelerated. According to the argument, the various government interventions worsened indicators for capital efficiency, and real wages growing above productivity compressed profits and thus the domestic saving rate. It was therefore necessary to promote an explicit fiscal contraction policy, and to have public finances in “order”. Only then the confidence of private investors would increase and they would take on their role as the primary drivers for economic growth (Mesquita, 2014; Barbosa and Pessoa, 2014; Ipea, 2018).

Faced with a scenario of economic slowdown in 2015, and in the midst of a very complex political picture, Dilma Rousseff's reelected government opted for austerity measures. Their ‘recessionary shock’ included reducing public expenditure, increasing administered prices, devaluing the exchange rate, and increasing interest rates. The adjustment has led to a profound change in the labor market, with a rapid rise in the unemployment rate and a sharp contraction in household consumption. Income once again started to become more concentrated and the poverty rate increased (Rossi and Mello, 2017).

If, on the one hand, fiscal subsidies did not stimulate private spending, public spending cuts did it even less. In 2015-2016, real GDP fell by 6.9%, accompanied by a decline in both household consumption (-7.1%) and gross fixed capital formation (-26%). The slow recovery in 2017 did not turn into a cyclical one, and much of the expansion took place in the first half of the year, driven by an agricultural super-harvest and the release of inactive balances from workers’ accounts (the so-called FGTS). The same net result was observed in 2018, even though the year started with optimistic growth expectations.

2019 began with the inauguration of President Jair Bolsonaro. From an economic perspective, the new government was promising to launch the deepest liberal experiment in the country's history. It is important to remember that the Brazilian GDP at the end of 2018 was below the level observed in 2014. In his opening speech, the Minister of Economy, Paulo Guedes, presented his diagnosis on the Brazilian economy:

> "The lack of control over the expansion of public spending is the greatest of evils ... It has been a continuous expansion of public spending in relation to

> GDP that has been uninterrupted for four decades. And we have experienced all possible financial dysfunctions as a result of this process: hyperinflation, external moratorium, foreign-exchange crises and finally, now we are breathing, apparently in the shadow of a tranquility, but it is a false one, because it is in the shadow of economic stagnation. So, a time comes when the phenomenon has to be faced and the time is now." (Guedes, 2019, p.1-2, own translation)

In this difficult situation, he presented the good news: he and his team would have the remedy for this deep and persistent evil: a reform aimed at reducing the size of the state. In this neoliberal journey, the first and greatest challenge to be faced would be pension reform. Also, according to Guedes (2019), the second pillar of the reform would be privatization, and the third simplifying, reducing and, finally, eliminating taxes.

If the new President, due to his political trajectory, has created some doubts and concerns among the national elite and the so-called "mainstream media", his economic team was hailed as the guarantor of governability, as it would hold the correct diagnostics about the country's main problems, and be brave enough to pursue the solutions. And it was in this context of a media massacre, in which the need for fiscal balance and the reduction of public spending were ceaselessly advertised with the need to pass the Pension Reform that the new government had sent to Congress -, that André Lara Resende's articles in the Valor Econômico newspaper were published during the first half of 2019, having important repercussions and generating intense debate.

In "The Crisis of Macroeconomics", the first article in the series, Lara Resende presents what would be the core of the new macro approach and joins the economists who, internationally, declare the failure of conventional theory. He points out that in the United States this perception had already moved beyond the walls of academia and invaded politics and the mainstream media. The old ideas were finally dying, and the good news was that new ones were being born. For the author:

> The new macroeconomics that begins to be outlined is capable of explaining phenomena that are incompatible with the old paradigm. This is the case, for example, of stubborn inflation below targets in advanced economies, even after an unusual increase in the monetary base. It allows us to understand how it is possible for the Japanese economy to carry a public debt above 200% of GDP, with interest close to zero, without any difficulty in refinancing it. It helps explain the rapid growth of the Chinese economy, led by an extraordinary level of public debt and high debt. With regard to the Brazilian economy, it gives an answer to the question that has been causing perplexity for over two decades:

> how can we explain that the country has been unable to grow sustainably and remains stagnant without productivity gains for over three decades? (Resende, 2019a, p.1, own translation)

What would be the pillars of this new macro approach? The first would realizing that fiduciary currency is government debt, whose primary function is to be a unit of account, and that agents accept it because it is ultimately what allows them to settle their debts with the government.

The second pillar would follow from the first: the State has no financial constraint, such as that is faced by other economic agents - except as a self-imposed restriction, that is, politically decided and enforced by law. In fact, the state creates (or issues) its currency whenever it makes payments to the public and destroys it upon the receipt of payments. It follows from this reasoning that the macroeconomic role par excellence of taxes is not to finance the state, but to withdraw money (purchasing power) from the economy, preventing it from operating beyond full employment, which would generate inflation. In this sense, the restriction that the government (National Treasury) has is a real one, not a financial (or fiscal) one.

The third pillar is the role of central banks in monetary policy, which is to determine exogenously the basic interest rate with open market operations when it buys and sells reserves/bonds. Central banks do not have the ability to control the creation of money by banks - bank money is endogenously created. Banks first create deposits and then look for reserves. It is clearly stated by Lara Resence, and properly referenced by him, the core of MMT ideas.

In the second article in the series, "Reasoning and Deficit Superstition," Lara Resende rightly points out that laypeople do not accept that the government has no financial constraint because they basically interpret macroeconomics as similar to household finance. Meanwhile, mainstream economists continue to argue for austerity because a deeply-rooted misconception of what money is. Reflecting on the reasons why this happens, Lara Resende takes up the ideas of famed US economist Paul Samuelson, for whom the belief in the need for a balanced budget is a myth, but it serves the function to scare people in order to control their behavior. Without it, civilized life would be at risk. According to Resende:

> Paul Samuelson was one of the leading advocates of reasoning. As a macroeconomist, with his colleagues from the MIT Department of Economics in the second half of the last century, such as Robert Solow, Franco Modigliani, and others, he was a tireless critic of the quantity theory of money and fiscal dogmatism. However, Samuelson acknowledges that without control of public spending and

> rational resource allocation, the result is inefficiency and anarchy. This is the main issue in all the controversy surrounding the realization that the government has no financial constraint. Having no financial constraint does not mean that everything is allowed, that scarcity of resources does not exist and that the opportunity cost can be disregarded. Rather, it means that the relevant concern for public spending is quality, objective assessment of its costs and benefits, its ability to increase productivity and well-being. This is not, of course, an easy requirement to enforce, but it makes sense (Resende, 2019b, p.6, own translation).

Finally, in "Today's Brazil and Victorian Conservatism" (Resende, 2019d), the author criticizes a second fallacy of mainstream economics, widely present in the contemporary Brazilian debate, that public investments compete with (and make them unfeasible) private investments. It would be the so-called crowding-out effect. However, as Resende points out, this "displacement" of private spending by public spending would only happen if the economy was in full employment. With unemployment and idle capacity, public spending would not displace private ones but would serve as a stimulus.

Conclusions

The spreading of MMT's ideas is helping in the task of breaking the siege of neoliberalism over Western countries, which has been lasting for almost 40 years, independently of the parties which are in power, either conservatives or liberals –even considering that there are slight differences between them. And it is important to consider that economists – the ones that have important positions either in governments, multilateral agencies, and also those which, day after day, give their opinions in traditional media – performed a crucial role in order to make sure that people in general think that the neoliberal agenda was the only one possible and correct.

Ten years after the GFC, which has made clear the disruptive effects of financial liberalization in the economies and societies all over the world, with crucial effects in the political dimension – as we are watching democracies progressively deteriorating – there is an increasing perception that macroeconomic theory is flawed. One can notice that by reading pieces written by leading macroeconomists in the world, as Olivier Blanchard and Larry Summers. And

taking into consideration, also, that monetary policies are not up to the challenge of resuming growth in weak economies, in which the labor markets are still suffering either with high unemployment and/or with low quality and low paying jobs, the need of expansionary fiscal policy is back in the debate.

Regarding Brazil, the scenario has specific important points. In a first stage –which lasted during the last years of President Lula's second mandate (2007-2010) and the first years of President Dilma Rousseff 's first mandate (2011-2014) - the government successfully dealt with the spillover effects of the GFC in Brazil, using mainly the federal public banks as a way to boost credit. In a second stage, in the last years of President Rousseff 's first mandate (2011-2014), as a result of the negative impacts over its budget, the government decided to change direction and started to reduce fiscal stimuli to growth. Allegedly, it was time for the private sector to spend. But private investments didn't happen, the economy became increasingly weak and this was the perfect scenario for a political crisis that has led to the impeachment of President Rousseff. And here we are presently in a very dark scenario - GDP has not returned to the 2014's level.

In January 2019, President Jair Bolsonaro took office. For the economy, the purpose is to deepen the liberal agenda in Brazil. This strong neoliberal policy is under the control of Ministry Paulo Guedes, for whom the main purpose is to shrink the role of State in the Brazilian economy, which would allow the decrease the public debt-to-GDP ratio. According to Minister Guedes, public spending has always been guilty in all the crises that Brazil has faced through its history.

In order to change this pattern once and for all, the first task would be for the government to pass the bill that changes the pension system. According to the government and to financial analysts in the beginning of 2019, optimist expectations brought by the pension system reform would lead to a 2.5% growth. However, in the middle of the year, the growth expectation for 2019 – according to the Brazilian Central Bank –is around 0.8%.

This was the scenario in which Lara Resende published his pieces in 2019 in the main business paper in Brazil – Valor Econômico - shaking the consensus and the one-voice debate. In those articles, echoing the discussions that are going on abroad, and inserting specific elements of the Brazilian situation, the author questions the foundations of mainstream economics. He does that by inserting some of MMT's central points. But he does not do that completely, as he leaves aside, for instance, the analysis of financial fragility, an original contribution of Hyman

Minsky that MMT has incorporated. For them, Central Bank's role in economies goes beyond setting the basic interest rate, encompassing also the task of regulating the financial system in order to reduce instability. He also left aside the proposition of an Employer of Last Resort (ELR), a key dimension of MMT and one which reconnects macroeconomics with its main original concern about unemployment. The basic and bold idea of ELR is that the government should provide a job for everyone that is able and available to work and cannot find a job in the market.

As a final remark, one can say that Lara Resende did not considered the political aspects of full employment. For him, enlightenment and persuasion would be enough to destroy the balanced budget dogma. However, in order to avoid this oversimplification of the complex social reality, we should take Kalecki's lessons in consideration. According to this marvelous economist, in a paper written in the 1940s, the idea that governments will keep economies running on full employment only because they know how to do that is misleading. For him, the ruling class can boldly reject State intervention in the economy. They can disagree, specifically, with the type of intervention and can dislike, also, the social effects brought about by full employment. And it is very likely that this power bloc will find economists to finally declare that a full-employment economy is a very unbalanced economy.

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