MMT as an analytical framework and a policy lens: An African perspective

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Introduction

Modern Monetary Theory (MMT) is a macroeconomic approach which describes how the monetary system and government fiscal operations work in countries that issue a sovereign currency. Although the literature has mostly focused on developed countries, its insights, implications and relevance for developing and emerging economies are increasingly debated (see for example Bonizzi et al. 2019; Grey 2017; Kaboub 2008, 2012; Liang 2020, 2021; Mitchell, 2009a, 2009b, 2017a, 2019; Murray and Forstater 2013; Oberholzer 2020; Prates 2017; Rezende 2009; UNCTAD 2019a, 48-49; Sylla 2020). One claim by critics is that MMT does not "apply" to developing countries (see for example Vergnhanini and Conti 2017; Aboobaker and Ugurlu 2020), and that it only "applies" to developed countries, or worse yet, to the few countries that issue an international reserve currency (see for example Epstein 2019). The present chapter counters this claim.

Critics do not always make the distinction between MMT as an analytical framework and specific policy proposals that derive from it. To the extent that most critics focus on the latter, they obscure MMT's usefulness to the scientific study of issues relevant to developing countries. MMT, as a research program, is built on a number of theoretical pillars like chartalism, endogenous money and the sectoral balance approach. Each of these could be used to study all economies, regardless of their level of development. From this specific point of view, there is no basis at all to the claim that the MMT framework cannot be "applied" in developing countries. However, whether certain policy proposals informed by MMT – like the adoption of a flexible exchange rate regime, functional finance, a Job Guarantee, etc. – are relevant in peripheral countries is a distinct issue worthy of consideration.

How relevant is MMT as an analytical framework and as a guide for economic policy for developing countries? This chapter answers that question as follows. First, MMT provides an original understanding of colonialism's monetary and fiscal dimensions, which is no doubt important to developing countries, as most of them were former colonies. Second, the concept of monetary sovereignty articulated by MMT can serve as a compass for the latter's governments in their quest for financial independence and for enhanced policy space. Third, MMT helps to clarify the nature of the constraints facing peripheral countries and the possible development options. Fourth, the development orientation recommended by MMT for peripheral countries, namely a development based on the mobilization of their domestic resources, and in particular on the full employment of their labor force, is relevant to the urgent challenges facing their populations. These four points are addressed respectively in the following sections. The discussion uses as empirical background the experiences of African countries, most of them being currently ranked among Least Developed Countries.

Chartalism in a colonial context

According to chartalism, money is a creature and an instrument of the state. As it has a monopoly on issuing its currency, the state does not rely on taxes for its spending. It must spend first before other economic agents can pay their taxes in the state's own currency. Taxes can serve many purposes, one of which is to generate demand for the currency issued by the government. These chartalist principles were known to the European powers that colonized most of the African continent at the end of the 19th century.

Money was a territorial marker (Antoine 1986: 176) and its wider use reduced transaction costs within colonial empires (Helleiner 2002). However, it was above all an indispensable lever for the peripheral integration of the colonies into the international division of labor (Amin 1974a). The European colonizers had understood that without control over the monetary organization of the conquered territories they could not reorient their structures of production, consumption and exchange in the direction they wanted. This is why they tried to impose their own currency in place of African currencies.

The replacement of the latter by colonial currencies - what anthropologists call "monetary transition" - was not always complete. At times, the colonial currency had to coexist with African currencies (Pallaver 2015, 2019). In all cases, in order for African populations to accept the colonial currency, colonial administrations had to alternately resort to law, physical force and taxes, especially direct taxes.

For example, following the formation in 1895 of the Federation of French West Africa, one of the first measures taken by the colonial administration was to ban African currencies. This was the case with the manilla (a bracelet) in Côte d'Ivoire as early as 1895. In 1907, it was the turn of the cowries, a shell from the Indian Ocean (Johnson 1970). The importation of cowries and the payment of colonial taxes in this currency were forbidden. African populations were required to pay taxes and settle commercial transactions in the colonial unit of account under the threat of legal sanctions (Şaul 2004; Diallo 2005; Pigeaud and Sylla 2021, ch.1). As Guyer and Pallaver (2018) observe: “The circulation of colonial money was promoted by the introduction of taxes, the payment of wages in colonial money, and the demonetization of African commodity currencies.”

Colonial administrations, as Forstater (2005, 60) specifically points out, "did not need the colonial currency held by Africans. What they needed was for the African population to need the currency, and that was the purpose of the direct tax". Indeed, the purpose of imposing taxes was to create demand for the colonial currency and to indirectly create a wage labor force, pushing peasants to produce an exportable surplus. In order to obtain the colonial currency or to pay their taxes, African workers had to be active in the sectors favored by the colonial economy. Sometimes this involved mass migration to areas where the cash economy was more developed (Amin 1974b: 92-95). Following the MMT literature that speaks of "tax-driven money" (Tcherneva 2006), it would be just as accurate to speak of "tax-driven labor migration".

The "tax-driven approach" at the heart of chartalism offers an original perspective for understanding the genesis of unemployment and underemployment in the colonies. Unemployment, it should be remembered, is a historical phenomenon that is specific to capitalism.

The way MMT defines it - an unsatisfied demand for paid employment in the government's unit of account (Tcherneva 2020, 2016, 2006; Wray 2015: 217; Kelton, 2020: chap.8) – is particularly heuristic.

In the periphery, unemployment and underemployment originally appeared as the consequence of a proletarianization of the labor force in a context of deindustrialization (craftsmen and small industries were eliminated by the "free trade" that the metropolises imposed on their colonies) and the disruption of the agricultural subsistence economy (which gave way to cash agriculture). By contrast, central/Western countries of the time had a dynamic industrial sector that provided employment opportunities for proletarianized workers (Amin 1974a, vol.1, ch.2).

When workers are under the obligation to pay taxes - and, more generally, see their lives organized by the constraints of a monetary economy - and the private sector does not objectively have the capacity to satisfy their demand for monetary income, unemployment becomes an inevitable situation, unless the monetary sovereign promises to guarantee a job to all those who wish to have one. Of course, guaranteeing full employment and increasing the purchasing power of workers were not objectives pursued by colonial administrations, which instead wanted to drain resources to the extractive sectors with minimal spending. For this reason, they accepted unpaid work as a means of paying taxes.

While chartalism is the most relevant approach to describe the origins of "modern money" in Africa and its articulation with colonial taxation, the functional finance perspective also provides an understanding of the nature and consequences of colonial economic policy.

Once they had been able, to more or less impose their monetary and banking system in their colonies, metropolises[1] were sovereign in monetary terms vis-à-vis their colonies. For example, while Britain evolved under the gold standard, "during the latter half of the nineteenth century, the imperial authorities eliminated most international currencies and gold coins circulating in British West Africa, by undervaluation or demonetization, and, despite colonial opposition, replaced them with British silver tokens" (Narsey 2016: 134). Owing to the imperial constraints to which they were subject, following the establishment of the West African Currency Board in 1912, colonial administrations were not issuers of fiat currency. Rather they had the status of users of a convertible currency.

[1] Metropolis here refers mainly to British (French, etc.) Treasury and Central Bank in contrast with the colonial administrations who ruled the colonies on a daily basis. Narsey (2016) clarifies the significant difference between imperial interests (Treasury and Central Bank/capitalists in the metropolis) and colonial interests (colonial administrations and some businesses operating in the colonies). "All the metropolitan countries recognized that, whatever monetary solution was adopted for them, the colonies should not be allowed to have either gold or bimetallic standards, but must continue to absorb silver… The logic for these opposed British policies in silver for the metropole and for colonies was driven by several inter-related factors: the long-term decline in the price of silver; the possibility of profits for the City interests through the export of silver to the East; the rise to international supremacy of Britain as a world economic and financial power, giving increased control over Spanish silver supplies; and control of an increasing colonial and informal empire where silver could be enforced in exchange for gold, or goods which could be resold for gold or gold currencies." (Narsey 2016, 50-1)

As part of the policy of colonial self-sufficiency, colonial administrations were dependent on tax revenues for their spending. They were expected to balance their budgets. Public deficits were anathema to the Victorian creed of a minimalist state. They were to be avoided as they implied metropolitan financing in the form of grants or loans. “Gladstonian finance”, the forerunner of “sound finance” in the neoliberal period, is a doctrine that at the time consisted of making the colonial endeavor *pay for* itself (Gardner 2012: 33). In the case of both metropolitan France and Britain, public transfers to the colonies were marginal during most of the colonial period (Huillery 2014; Gardner 2012; Narsey 2016; Krozewski 2001). Thus, the imposition of nonsovereign currency on the periphery from the metropolis was accompanied by the imposition of principles of sound finance, which stand in contrast to functional finance advocated by MMT.

If we mobilize the sectoral balance approach, we realize that a policy of balanced public budgets had an important implication: colonial administrations did not create net financial wealth for the private sector, and in particular for the African private sector. Consequently, the accumulation of financial wealth in the private sector - and thus the growth of domestic income and taxes - was made dependent on the possibility of obtaining external account surpluses. Given that foreign trade was generally dominated by metropolitan capital, which therefore captured any external surpluses, the policy of balanced budgets was bound to lead to underinvestment in local productive capacities. This was all the more so because the colonial banking sector aimed to protect metropolitan enterprises from competition from African entrepreneurs, finance activities related to the extractive sectors, facilitate foreign exchange transactions, and repatriate local economic surpluses to the metropolis (Dieng 1982; Austin and Uche 2007). The absence - or the low levels - of *targeted* public deficits created their counterpart real "deficits" for African populations and economies: low levels of education, unemployment, underemployment, low capital accumulation in non-extractive sectors, etc.

In sum, colonialism offers an unequivocal example of the *imperialist* application of chartalist principles. It is then curious that the approach that best allows us to understand the monetary and fiscal dimensions of colonialism is considered by some economists (e.g. Epstein 2019; Aboobaker and Ugurlu 2020) "not applicable" in countries that were formerly colonies.

The spectrum of monetary sovereignty

The dismantling of colonial monetary blocs in Africa led to the creation of national currencies for most independent countries except those belonging to the franc zone (Mensah 1979). To account for this historical evolution, the orthodox literature - that on "optimal currency areas" - is singularly flawed, to the extent that it describes it as the result of a process of minimizing transaction costs by private agents. By contrast, MMT is in a position of strength on this ground. Monetary decolonization in Africa has been another illustration of the chartalist principle of money as a creature of the state because this process did not depart from the established relationship between political sovereignty and currency (Goodheart 1998; Tcherneva 2016).

Issuing one's own currency is a symbol of national independence and an important condition of monetary sovereignty. From an MMT perspective, governments must meet three additional conditions to have a fully sovereign currency: impose taxes denominated in their unit of account; not issue any obligations denominated in foreign currency (no sovereign debt in foreign currency); and adopt a flexible exchange rate. These criteria make it possible to speak of a "spectrum of monetary sovereignty" (Tankus 2018).

At the one end of the spectrum we find countries with fully sovereign currencies (like the United States, Japan, United Kingdom, etc.). At the other end, we have nations with no monetary sovereignty because they have the status of currency users (like the eight countries sharing the West African CFA franc as well as their six central African counterparts sharing the Central African CFA franc; countries like Ecuador and Montenegro that use the currency of foreign countries; countries that operate under a currency board like Djibouti and Hong Kong SAR; and countries under a gold standard-like regime).[i] African countries, like most developing countries, are in an intermediate position on this continuum. MMT makes it possible to understand why this is so.

The monetary sovereignty of African governments is sometimes constrained by their weak fiscal command on their economies: the tax base may be reduced and/or tax collection capacities may be limited. Governments cannot withdraw enough demand through taxation in order to prevent inflation as they spend. For MMT, taxes do not finance the spending of a monetary sovereign but they help to guarantee the domestic value of the currency and control inflation.

Some African economies are partially dollarized. This means that a foreign currency is concurrently used by economic agents to pay goods, services and wages. In such circumstances, governments struggle to collect the payment of taxes in their own currency. They have a more limited fiscal clout and their ability to issue bonds in their own currency may be reduced. Investors might have a preference for sovereign bonds denominated in the circulating foreign currency. In such cases, monetary policy is constrained and it is difficult for the central bank to play the role of lender of last resort, as the banking sector receives deposits as well as extends loans in foreign currency (realities referred to respectively as bank deposit dollarization and bank loan dollarization). Economic actors are also exposed to exchange rate risk (Mecagni and al. 2015).

In Africa, Liberia has been dollarized since its independence in 1847. The U.S. dollar is legal tender on the same footing as the Liberian dollar (Lodewyk and al. 2009). In the 2000s, Angola, Sao Tome and Principe, Mozambique, Zambia, and the Democratic Republic of Congo were among the most dollarized countries, while Zimbabwe became fully dollarized by law in 2009 (Mecagni and al. 2015). To curb dollarization, in 2013 Angola introduced a law mandating the oil sector to settle all transactions, including taxes and duties, in local currency, in addition to tighter control over importers' demand for foreign exchange (ibid, 46).

Having a fiscal command in its own unit of account is a *sine qua non* of monetary sovereignty in an MMT sense that many countries can satisfy. However, the absence of sovereign debt in foreign currency is a criterion that is rarely met. That's why it provides the main dividing line between fully sovereign and less sovereign currencies.

Over the last six decades, virtually no African government has been able to significantly and sustainably limit its exposure to debt denominated in foreign currency. In 2018, according to the

World Bank, the government's stock of external debt (*public and publicly guaranteed debt*) ranged from a low of 0.9 percent of GNI in Algeria (followed by Nigeria with 6.3 percent and Botswana with 7.6 percent) to a high of 87.5 percent in Cape Verde.[ii] In many cases, sovereign debt is predominantly denominated in foreign currencies.

The structural foreign currency indebtedness of African countries is a symptom of extroverted development models marked by low domestic resource mobilization and the tendency for local economic surpluses to be exported in the form of profits, dividends, interests paid on external debt, illicit financial flows, etc. Moreover, the international monetary system does not offer a mechanism for the free conversion of payments between sovereign countries (Schmitt 2014; Cencini 2017). Developing countries suffer most from the consequences of this "transfer problem". Since their currencies are generally not in demand on foreign exchange markets or, only at large discounts, they are often faced with the obligation (sometimes legal, sometimes imposed by markets) to settle possible deficits in their balance of payments in hard currency.

The question of foreign currency indebtedness is closely linked to that of the exchange rate regime. Countries that are highly dependent on the global economy financially (large external debt) and commercially (supply of essential imports) can often be tempted by fixed exchange rate regimes. A stable exchange rate with a hard currency can help avoid sharp fluctuations in the external value of their currency that could jeopardize key objectives (food security and energy security in the case of net importing countries), increase the burden of external debt service (a larger proportion of GDP in national currency must be spent on external debt service) and ultimately have undesirable macroeconomic effects (imported inflation in particular). However, the fixed exchange rate regime may reduce the degree of financial independence of the government sector.

When a government pegs the value of its currency, it undertakes to make its currency convertible on demand. This choice may constrain the achievement of domestic objectives, and it’s not obvious that it could be sustained over time. As Sardoni and Wray (2007, 16) explain: "A nation that adopts a fixed exchange rate must hope that the conditions that generate external stability will also happen to coincide with those that permit internal stability". It is also likely that "[t]he nation that fixes the exchange rate may not be able to "afford" a trade deficit (because of exchange rate pressures) and will probably have to use domestic unemployment as the means to maintain its peg". (ibid.)

The high external dependence of African countries and their need for macroeconomic flexibility probably explain why most of them are in an intermediate position between pure floats and rigid pegs. In 2019, excluding Somalia, only 9 African countries had a floating exchange rate (IMF 2020, 7-8; 43-45). As a matter of fact, a lasting commitment to a rigid peg often derives from neocolonial relationships. This is particularly the case for the 14 countries that use the CFA franc, the Comoros and Cape Verde. These countries have signed agreements with their former colonizers to maintain the convertibility of their currencies at a fixed peg to the euro (Pigeaud and Sylla 2021: 78-79).

The view that a flexible exchange rate regime gives more policy space has been a frequent point of attack against MMT (see for example Epstein 2019). Vernengo and Caldentey (2020) go as far as to say that flexible exchange rate regimes are "deflationary and contractionary". Empirically, this need not be the case.[iii] Furthermore, there are examples of fixed exchange rate regimes having led to “deflationary and contractionary” outcomes in the periphery (see the case of the CFA franc (Pigeaud and Sylla 2021)).

To avoid straw man arguments, it should be pointed out that the MMT literature contains nuances on this specific issue. As Wray (2015, 288) writes: "for many of the world's poorest countries, the exchange rate regime is not the central issue". He also observes that a “managed rate with capital controls” can strengthen the policy space of peripheral countries. Mitchell (2017b; 2016c) stresses that a flexible exchange rate regime does not protect developing countries from financial instability. Developing countries need to implement capital controls if they are to expand their policy space (Mitchell and Fazi 2017; Kelton 2020, ch.5).

Overall, in order to increase their degree of monetary sovereignty, African governments must make efforts to strengthen their fiscal capacity (tax base and tax collection capacities), further promote the domestic use of their currency and reduce their exposure to debt denominated in foreign currency. On this last point, they should be cautious about international agreements that require them to settle in foreign currency any liabilities they may incur (Mitchell and Fazi 2017: 217-218; Tankus 2018). Flexible exchange rate regimes, accompanied by capital controls, could also help them pursue more expansionary monetary and fiscal policies, especially when their debt in foreign currency is limited. Finally, to the extent that African countries are nurturing single currency projects modelled on the Eurozone, they can benefit from the invaluable MMT lessons on the flaws of the euro (Papadimitriou and Wray 2012; Mitchell 2015) and possibly explore proposals such as regional clearing unions (Kregel 2017).

Clarifying constraints and development options

MMT is not a theory of development. Nor does it claim to have the recipe to the economic problems of peripheral countries. However, it offers a heuristic point of view that can help them to consider their development policies differently. Indeed, MMT rejects the monetary and fiscal foundations of the policies that are usually recommended to peripheral countries. These are generally based on the assumption that peripheral countries are not able to contribute significantly to the financing of their development due to a lack of money/finance, owing to low tax revenues and a lack of savings. MMT argues that the governments of peripheral countries have no intrinsic financial constraint on what they can command in their currency. It also maintains that peripheral countries will have more domestic policy space if their development is oriented primarily towards the resources at their disposal or that they can develop locally. This is the reason why MMT recommends a development strategy based on the mobilization of their domestic resources, and in particular, on full employment.

In a fiat monetary system, writes Mitchell (2010a) "fiscal space cannot be defined in financial terms". This implies on the one hand that "a sovereign government is not revenue-constrained" and on the other hand that "the capacity of the sovereign government to mobilise resources depends only on the *real* resources available to the nation". In other words, even governments with limited monetary sovereignty have the possibility to finance in their national currency projects that require mostly locally available resources. They can afford anything that can be bought in the currency they issue without being financially constrained by the amount of taxes collected. Anything that is technically feasible domestically can be financed in national currency. The domestic and international purchasing power of their currency can certainly depreciate, depending on circumstances. But, unless they impose constraints on themselves voluntarily, they cannot be insolvent in their own currency.

As a result, peripheral countries are not constrained by a lack of money or a "lack of savings" (Wray 1990:63), contrary to the postulates of the development literature from its emergence after the Second World War to the present day (see for example Chenery and Strout 1966 and Easterly 1999 for a mainstream critique; see also Kregel 2017:62-65). The "lack of savings" view leaves only two options for peripheral countries (Dullien 2009): abstinence - reducing the consumption of predominantly poor populations in order to generate savings that will finance investment; and recourse to international finance, particularly development aid, foreign direct investment and debt in foreign currency.[iv].

For MMT, austerity is to be avoided while recourse to international finance is not always necessary.[v] Indeed, peripheral governments could use their powers as sovereign currency issuers. Further, investment cannot be constrained by prior savings. Rather, it is investment that helps the formation of savings, through the credit channel. As Wray (1990: 65) puts it: "[c]redit money is the key element which frees investment from savings and which makes capital accumulation possible". Evidence for this is provided by the experiences of rapid economic development observed in Asian countries such as Japan. The latter cannot be understood without taking into account the importance of credit creation directed towards sectors that are conducive to long-term growth (Werner 2005; Edwards 2012).

Contrary to the widespread belief that government deficits reduce national savings, MMT shows that public deficits contribute to the accumulation of financial wealth in the non-government sector.[vi] As a matter of accounting, a government deficit equals the non-government sector's surplus. MMT also explains why budget deficits (in national currency) should, as a general rule, be the norm for developing countries, i.e. countries that have many real "deficits" that urgently need to be addressed.

Given that permanent financial deficits in the private sector are unsustainable, the sectoral balance approach makes it clear that developing countries are forced to run permanent external surpluses if their governments choose to have balanced budgets. For most African countries, this is unlikely, given that they export primary products with volatile prices.[vii] Even if some of them had this capacity, this would not be necessarily desirable. The accumulation of external reserves is a strategy that some emerging countries use to increase their policy space - their ability to conduct with a significant degree of autonomy various domestic policies designed to achieve specific development objectives - while protecting themselves from global financial instability. But it is relatively costly, especially where the rate of underutilization of the labor force is high, as it implies a net transfer of resources abroad (Kregel 2006; Mitchell 2010b).

As for peripheral countries with structural external deficits, the option of balanced budgets implies permanent financial deficits for their private sector and thus increased dependence on international finance. The bad news here is that any development strategy based primarily on international finance will function like a Ponzi scheme, as Kregel (2017, 65; 2004) points out.

In sum, MMT helps to clarify a number of things. First, peripheral countries do not have a financial constraint in their own currency but a resource constraint (alongside legal-political constraints). Second, a policy of balanced budgets is not necessarily desirable. Countries with large external surpluses can afford it, although it is an economically costly strategy. Third, export-led growth can't be universalized as a model. Finally, a policy of balanced budgets for countries with structural external deficits makes their development dependent on the vagaries of international finance. These considerations constitute the backdrop of the development model based on the mobilization of domestic resources advocated by MMT for peripheral countries (see for example Kregel 2009).

Mobilizing domestic resources

Peripheral countries generally have an abundance of "first-order real resources" - land, labor and raw materials. What they generally lack are "second-order real resources" - more skilled workers, scientific and technical expertise, more efficient methods of organizing production, equipment, intermediate goods, etc. - which they usually import, implying the need to obtain foreign currency.

Under the colonial model, first-order resources were mobilized *within the limits and according to the needs* of the metropolitan economy. They were not mobilized for the needs of economic accumulation at the domestic level. The metropolis was supposed to *bring* "development" to the colonies by exporting its second-order resources (experts, production methods, manufactured goods, etc.). Access to political independence allowed the former colonies to develop their second-order resources (more expertise, skilled workers, etc.). However, it did not put an end to the colonial model which maintains their first-order resources insufficiently mobilized for domestic accumulation and at the same time makes their development dependent on the acquisition of second-order resources produced abroad and which do not necessarily meet their objective/prior needs. Hence the lasting existence of extroverted models of development marked by a strong commercial, technological and financial dependence on core countries, heterogeneous production (and consumption) structures - a small modern sector that coexists with a large informal sector - and by a considerable underutilization of the most abundant resource: the labor force, which is often either unemployed or in disguised forms of unemployment (Sylla 2013). The best illustration of this logic of extroversion of colonial origin is the following paradox: while the majority of African workers are employed in the agricultural sector, the continent has been a net importer of agricultural products for three decades, with a fifth of the population undernourished (FAO and UNECA 2018; 2019).

To move away from this pattern of extroversion, MMT recommends a more self-centered development orientation based on the mobilization of domestic resources. As peripheral countries are mostly currency issuers, they have no intrinsic financial constraint in their own currency.

Instead, they face a real resource constraint. If monetary expansion happens while the supply side does not follow, inflation and probably exchange rate depreciation will be the result. But, as long as the money created is allocated to projects that increase their productive capacities and help them overcome their supply side issues, inflation will be a lesser concern.

The "external constraint" faced by peripheral countries is *also* a real resource constraint, but it is *expressed* in a mainly financial form insofar as the latter are acquired in foreign currency. The development strategy of the peripheral countries will be more constrained if it is mainly focused on external resources that cannot be purchased in their unit of account and if they struggle to generate the export income needed to that end. But they will be able to aspire to more domestic policy space and more external stability if their development is based mainly on the resources they control or can develop. It goes without saying that one of the aims of a domestic resource mobilization strategy is precisely to alleviate the real resource constraint, both domestically and externally. To this end, peripheral countries need to act in three directions from an MMT perspective.

First, their governments must make institutional changes in the fiscal, monetary and banking areas in order to increase their degree of monetary sovereignty. For example, they can strengthen their financial reach as well as their ability to guide their country's economic development by setting up development banks, public banks, and banks that target agriculture and small-scale industrial production (Wray 1990, 63; Liang 2021). Similarly, they do not need to take on debt in foreign currency to finance projects that require real resources already available locally. They can cooperate with their central bank to reduce the costs of sovereign debt in national currency and also for "credit guidance": facilitating the long-term financing of development-enhancing projects at affordable rates and discouraging the financing of non-essential projects. A crucial idea in the MMT literature is that the functional separation between the Treasury and the Central Bank should not make us lose sight of the fact that money is a creature of the State that must be used for the pursuit of the public good.

Second, developing countries need to implement policies that reduce their commercial and technological dependency, which always ultimately expresses itself in the form of financial dependence, and thus the need to accumulate foreign exchange. They can, for example, facilitate the financing, in their own currency, of projects that substitute local production for imports and/or create new export opportunities. They can also promote the financing in national currency of projects that increase domestic scientific and technical capacity. All of this can help ease their balance of payments difficulties and contain the inflation transmitted through the exchange rate channel.

At this stage, one might wonder: isn't this *déjà vu*? Is MMT urging peripheral countries to implement import substitution policies that already "failed"? The answer is, not at all. Import substitution policies in Africa following the independences in the 1960s (and also in Latin America decades before) have often been implemented under the aegis of Western transnational corporations.[viii] They have increased rather than reduced imports (through the use of equipment, intermediate goods, expertise, etc. produced abroad) and have adopted capital-intensive techniques. Hence their low impact in terms of net job creation. Rather than alleviating balance of payments problems, these policies have instead aggravated them and put pressure on exchange rates. Imports of intermediate and capital goods at monopoly prices coupled with tariff protection and monopoly prices practiced by transnational corporations in the sectors concerned by the import substitution policies have fueled rather than contributed to reducing inflation. Import substitution policies, insofar as they were mainly based on the acquisition of real resources produced abroad, have rather reinforced the commercial, industrial, technological and financial dependence of peripheral countries. In contrast, an MMT perspective leads to a strategy for reducing the external dependency of peripheral countries, both real and financial, relying first and foremost on their domestic resources.

In addition to the two above-mentioned recommendations, MMT advocates a Job Guarantee program (or Employer of Last Resort (ELR) program) as a key pillar of a strategy of domestic resource mobilization (and price stability). The idea is for the governments of peripheral countries to guarantee employment that provides a living income to all those who wish to work at this rate. The jobs would be targeted towards activities that can enhance productive capacity and community services. They would entitle people to vocational training opportunities and social benefits. As it could also contribute to increased aggregate domestic demand, and thus expand domestic markets, such a program would significantly reduce labor underutilization and have a *direct* impact on people's living standards.

A JG program has the virtue of being financeable in national currency. Its implementation could lead to budget deficits, but that need not be the case, at least over the long run. Though taxes do not finance the spending of a sovereign currency issuer, they can help achieve broad objectives that are consistent with a JG program but that usually transcend it. For example: increase the government's fiscal command and its ability to control inflation, decrease luxury consumption and reduce economic inequality. Furthermore, public expenditures could also be made more efficient through the reduction of wasteful spending (i.e. spending on so-called "white elephants", on the creation and running of public institutions serving no clear purpose except to reward or bribe political allies, etc.)

Beyond the financing aspect, the implementation of a JG program in developing countries raises institutional and economic challenges, which have been reviewed in the MMT literature (Wray 2007; Kaboub 2008, 2012; Mitchell, 2009a, 2016b; Kregel 2009; Murray and Forstater 2013; Nell 2017; Tcherneva 2020). For example, rising average worker incomes could stimulate imports (especially of food products), which could put downward pressure on the exchange rate. This, in turn, could lead to inflation. This explains why this type of program should be designed in tandem with complementary initiatives such as a food sovereignty policy. To this end, all appropriate instruments - such as tariff and non-tariff protection, subsidies, taxes, capital controls, etc. – should be mobilized.

The orientation of development recommended by MMT does not presuppose that the current global financial system does not need to be reformed (Kregel 2004; Mitchell 2016a, 2016d; Mitchell and Fazi 2017; Kaboub 2020; Kelton 2020). Nothing prevents the international development community - the countries of the Global North, multilateral institutions, etc. - from supporting a JG program by making available to peripheral countries the foreign exchange necessary to cover any possible import surplus. Actually, a JG program is probably the best test of the international development institutions' willingness to support developing countries' governments eradicate poverty and move towards a post-carbon era. Can the world financially afford both? Absolutely. Real resources are not lacking.

Conclusion: Delinking with MMT

To better appreciate the relevance of MMT as a guide for economic policy in peripheral countries, it may be useful, by way of conclusion, to broaden the discussion and place it in the context of a world facing ecological constraints. On the one hand, not all resources are renewable. On the other, the exploitation of some resources like fossil fuels results in irreversible climate consequences to the point of putting the survival of the human species at risk. An important implication is that the peripheral countries, taken as a bloc, will never be able to reproduce the development trajectory of Western countries and countries like China (Dorninger and al 2021). In other words, their inhabitants will not be able to enjoy the same levels of consumption and *waste* of resources as those living in core countries (Furtado 2020). Peripheral countries are therefore obliged to find another path to achieve an ecologically sustainable shared prosperity. To move towards this path, Samir Amin (1990) has suggested a *delinking* strategy. *Delinking* does not imply autarky but rather "a strategic inversion in the vision of internal/external relations, in response to the unavoidable requirements of a self-centred development" (Amin, in Roffinelli 2013: 149-150). The MMT vision for peripheral countries fits perfectly into this perspective.

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i Birnbaum (1957) referred to currency boards, gold standards and foreign exchange standards as "automatic currency systems", i.e. currency systems in which "there is no monetary authority with discretionary power to issue and retire currency." (p.477) The main specificity of such exchange rate regimes is that "the economy must bear a real cost for obtaining its currency." The real cost is the difference between the accumulated foreign exchange (export surplus) and the interests it might generate (pp.480-481). However, as he rightly observed: "in a poor and underdeveloped area, the return on this mandatory external investment (capital export) may be considerably less than the value to the community of additional imports." (p.481)

[ii] See: databank.worldbank.org

[iii] According to a study by the Bank of International Settlements which covered 36 "emerging market economies" over the period 1998-2014, exchange rate depreciation can have varying effects on firm-level investment. These effects are positive especially for those whose debt is mainly denominated in national currency: "an exchange rate depreciation has an expansionary (contractionary) effect on corporate investment when firms: (i) have issued a large amount of bonds in domestic (international) markets; (ii) hold a large amount of domestic currency-denominated bonds issued in domestic (international) markets; and (iii) have issued a large amount of long-term debt in domestic (foreign) currency regardless of the market of issuance." (Serena and Sousa 2017, 4).

[iv] Dependency theory, in the pioneering formulation of Baran (1957), also rejected the view that economic accumulation in peripheral countries is blocked by a "lack of savings".

[v] The heterodox literature, which argues that MMT can't be "applied" in developing countries, seems to have taken up, with a renewed vocabulary, each of these two options associated with the "lack of savings" view. Thus, Aboobaker and Ugurlu (2020: 2) criticized MMT for obscuring "the consumption-investment trade-off". They claimed that: "for economies that require prolonged periods of rapid capital accumulation to attain higher future living standards,

curtailing current consumption is needed to create space for a high investment share of output." In the same way, Vergnhanini and Conti (2017:27) argued that MMT lacks relevance in peripheral countries because the latter have very little policy space are obliged to follow "market discipline" and to implement "sound finance" if they want to avoid currency depreciation.

[vi] Making the case for the desirability of public spending/deficits is not the same as saying that all public spending is useful or desirable. The ideal, especially in peripheral countries, is for public spending to be effective and targeted to sectors and projects that serve the public interest.

[vii] According to the UNCTAD (2019b), 9 out of 10 sub-Saharan African countries are commodity-dependent, i.e. commodities account for at least 60% of the value of their total merchandise exports.

[viii] This part draws on Nabudere (2009, 160-165).