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Reinterpreting Modern Monetary Theory Through an Islamic Lens: Insights from Indonesia's Economic Thought

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Abstract

Modern Monetary Theory (MMT) has gained attention, particularly following the crisis caused by COVID-19, which led every country to experience a significant decline in economic growth. This concept proposes the idea that a central bank can create money to finance real sector activities without having to borrow from specific parties, which is then believed to solve various economic problems. This theory has sparked various disagreements within conventional economics. Therefore, in countries that adopt dual economic systems, they certainly have their own perspectives when considering this monetary theory. This research utilizes library documentation or collected reading sources as data sources. The research findings suggest that the concept of MMT is not in conflict with Islamic Sharia, as the MMT concept aligns with the functions of money described by Al Ghazali and Ibn Khaldun. Hence, the MMT concept is not expected to lead to excessive inflation, as it conforms to the Islamic theory of the function of money, where money serves as a medium of exchange rather than a tradable commodity. With this concept, the quantity of goods in a country will be accompanied by the Money Supply. However, the application of economic theories like MMT must be adapted to the conditions and economic concepts of a given country. Despite MMT's compatibility with Islamic monetary concepts, Indonesia is not yet ready to fully implement MMT, which is why the predicted level of moral hazard risk is higher.
Keywords**:** *modern monetary theory; islamic monetary; islamic thought.*

A. Introduction

Covid-19 has had a negative impact on the global economy, including in Indonesia. Every country has experienced a significant decline in economic growth, Indonesia included. In the first quarter of 2020, Indonesia's economic growth contracted by 2.97% compared to the previous quarter. Then, in the second quarter, economic growth declined further to minus 5.32% (BPS, 2020). The Budget Deficit of the State Revenue and Expenditure (APBN) in 2020 also exceeded the maximum deficit limit of 3% of Gross Domestic Product (GDP), reaching 6.27% or Rp1,028.6 trillion (state spending of Rp2,720.1 trillion and state revenue of Rp1,691.6 trillion) (Frensydi, 2020).

The proposals put forth by the Budget Committee of the People's Consultative Assembly of the Republic of Indonesia (Banggar DPR RI) in 2020 became a starting point for the issue, initially aimed at urging Bank Indonesia (BI) to take steps to address the impact of the COVID-19 pandemic. One of the proposals was to print money amounting to Rp 600 trillion. This proposal was considered by Banggar DPR RI to be reasonable, particularly in terms of concerns about the recurring inflation. Due to the perceived urgent situation, the government carried out budget refocusing and reallocation amounting to Rp 405 trillion for that year, in line with the stimulus targets set by the government. Therefore, the role of the central bank, Bank Indonesia (BI), was deemed crucial in addressing this situation. The proposal put forth was the printing of Rp 600 trillion with an interest rate of 2.5% (Sembiring & Siburian, 2020; Ulya, 2020; Warta Ekonomi, 2020). The DPR's proposal emerged by reflecting on the policies of several countries that implemented economic stimuli through money printing, as seen in the actions of the United States and China, who often adopt such measures during economic downturns (Nuraedah et al., 2022). The method of money printing by the central bank is known as the Modern Monetary Theory (MMT).

Although the proposal put forth by the Budget Committee of the People's Consultative Assembly of the Republic of Indonesia (Banggar DPR RI) was rejected, Bank Indonesia Governor Perry Warjiyo stated that printing money to increase liquidity is not an appropriate approach. Such views are not in line with common policy practices, not a common monetary policy practice, and will not be implemented by BI (Sembiring & Siburian, 2020). The policy of printing money to address deficit financing was previously implemented during the old order. At that time, the country was grappling with numerous flagship projects, and BI was instructed to print money. As a result, Indonesia experienced hyperinflation, leading to a devaluation from Rp1,000 to Rp1 on December 13, 1965, as its peak. Not only Indonesia was adversely affected by the policy of printing money to reduce budget deficits, but Zimbabwe is also a country where its currency value plummeted significantly due to the policy of seigniorage or printing excessive money amid the crisis it faced in 2008 and 2009 to cover the budget deficit. Besides Indonesia, Zimbabwe is one of the countries that experienced devaluation due to the seigniorage policy or money printing in the midst of the 2008 and 2009 crisis to cover budget deficits (Mankiw, 2006). As a result, the country faced significant inflationary pressure compared to other crisis-affected nations, with Zimbabwe's monthly inflation rate reaching 7.9 billion percent (Nuraedah et al., 2022). However, the topic of Modern Monetary Theory continues to evolve as a recent critical study among economic observers, especially in online discussion platforms.

The public understands that MMT (Modern Monetary Theory) is a concept that proposes the idea that a central bank can print money to finance real sector activities without having to borrow from specific parties. Supporters of MMT argue that with this approach, many national issues can be addressed. They contend that creating new money can serve as an alternative to fund the state budget deficit without continuously borrowing or seeking funds, as proposed in conventional economic approaches (Munthe & Imsar, 2023). MMT emphasizes the practical use of fiat money as a public monopoly of the issuing authority, namely the government. The national treasury (ministry of finance) and the central bank are components of a single unit (the state). The central bank is not independent (implicitly), especially when it comes to fiscal and quasi-fiscal operations. The government uses fiscal policy to achieve full capacity (full employment), creating new money to fund its expenditures. Debt can always be financed through money printing. Government spending can grow the economy up to full capacity, support the private sector, address unemployment, and fund strategic programs. Fiscal deficits are not a problem because by definition, these deficits represent a surplus in the private sector. Increased government spending will not result in inflation as long as the economic capacity is not fully utilized (below full employment). When the economy reaches its physical or natural constraints on productivity (at full employment), inflation occurs because at that point, supply fails to meet demand. Increased government spending will not result in inflation as long as the economic capacity is not fully utilized (below full employment). When the economy reaches its physical or natural constraints on productivity (at full employment), inflation occurs because at that point, supply fails to meet demand (Juhro, 2020).

Modern Monetary Theory (MMT), as previously mentioned, has garnered both proponents and critics. Supporters of MMT argue that this theory holds the potential to generate employment opportunities and reduce social disparities, as well as alleviate the burden of public debt and aid governments in fulfilling their expenditure needs. MMT proponents counter that this theory has been tested and proven effective in several countries, such as China and the US, which have implemented aggressive fiscal policies in recent years. They also emphasize that MMT is not a "carte blanche" or unrestricted privilege for governments to spend money recklessly, but rather necessitates stringent oversight and constant monitoring.

On the other hand, MMT critics contend that this theory could lead to inflation if not carefully implemented. Additionally, some critics express concerns that the unrestricted printing of money could devalue a country's currency and trigger an economic crisis. According to Palley (2015), MMT is a blend of old and new monetary theories. The old theory is accurate and well comprehended, while the new theory is fundamentally flawed. Among its numerous shortcomings, MMT fails to address fundamental issues like achieving full employment with price stability, lacks a credible theory of inflation, and fails to substantiate the claim that the natural interest rate is zero. Krugman (2011) critiques that MMT goes too far in supporting government fiscal deficits and overlooks the inflationary impact during periods of economic growth. Rogoff (2019) states that MMT is "Modern Monetary Nonsense." MMT is considered unproven in macroeconomics and politically questionable, lacking models, blind to targets and instrument issues, and exhibiting naive policies. The analysis of MMT is deemed overly simplistic and downplays the risks of its policy implications, disregarding fiscal-monetary conflict issues, exaggerating the importance of government money creation, lacking a reasonable theory of inflation, especially in the context of full employment in the employer of last resort (ELR) policy, and neglecting to acknowledge the financial instability that could be caused by a permanent zero interest rate (Juhro, 2020; Tymoigne, 2021).

This becomes interesting to discuss when viewed from the perspective of Islamic monetary principles. Monetary policy itself is a form of policy that is always linked to the amount of circulating money (Juhr et al., 2020). In conventional monetary policy strategies, interest and speculation are tools that are used, which contrasts with Islamic monetary policy strategies (Juhr et al., 2020). In Islamic monetary policy strategies, interest and speculation are not permitted, as in the Islamic economic system, the function of money is solely as a medium of exchange and a unit of account.

The success of monetary policy implementation can be seen, among other factors, by looking at the level of poverty, unemployment, purchasing power of the society, or in other words, how the real sector can operate and provide employment, ultimately generating profits that can then contribute to tax revenue, which is one of the state's sources of income, besides export earnings, grants, and others (Munthe & Imsar, 2023).

However, the situation in Indonesia and Zimbabwe differs from certain countries like the United States and China, which have been able to address economic crises through money printing. Based on these facts, the study of money printing is a novel, important, and intriguing area. Nonetheless, it has been implemented successfully in the cases of the United States and China. According to estimates from Western economists, the World Bank, the International Monetary Fund (IMF), the International Investment Bank (IIB), and the Major Global Investment Bank, China's success in handling the economic crisis during the pandemic enabled it to officially surpass the United States as the world's largest economy based on Gross Domestic Product (GDP) by the late 2020s. China's GDP is projected to reach $15.6 trillion in 2021, compared to $23.2 trillion for the US. This slight gap is estimated to be bridged in less than two years. In fact, China's value has already exceeded that of the US (Nuraedah et al., 2022). The success of both countries in utilizing MMT, developed by post-Keynesian economics or macroeconomic theories further developed by Jhon (Prinz & Back, 2021), contributes to this achievement.

From the perspective of the functions of money in Islam, MMT is not inherently contradictory to Islamic principles, as the function of money in Islamic finance serves as a measure of value that can reflect the price of a commodity. According to Al-Ghazali, money is like a mirror that can reflect goodness without assessing itself (Affandi, 2020). It is emphasized that as long as the amount of circulating money is in line with the quantity of output or goods within the country, it will not lead to inflation.

Munthe & Imsar (2023) assert that MMT can be considered as one option to address economic recession, in line with Islamic economics that places greater emphasis on real investment rather than paper-based investment, with stringent criteria. Modern Monetary Theory (MMT) can be adopted to help increase the purchasing power of the society, thereby impacting the rise in national income without resorting to foreign debt. Nuraedah et al. (2022) state that the concepts of MMT and Islamic monetary theory can utilize appropriate mechanisms. The process employed in implementing money printing must be project-based and not used to cover consumptive government spending. Furthermore, it aligns with the concept of the functions of money according to Al-Ghazali and Ibn Khaldun, which emphasize that money's function is solely as a medium of exchange and a standard of value.

The emergence of Modern Monetary Theory (MMT) as a solution to economic challenges presents two distinct perspectives. In countries with a dual economic system, the impact of implementing monetary policies differs (Grais & Rajhi, 2015). How Islamic economics views the workings of MMT becomes an intriguing topic for discussion. Additionally, Indonesia's use of a dual monetary system (Amrial et al., 2019; Herianingrum & Syapriatama, 2016) adds a unique dimension. This research relies on library documentation and gathered reading sources. Subsequently, the data is analyzed using data analysis techniques such as Content Analysis, Inductive Analysis, and Analytical Description. The researcher selects data sources directly relevant to the study. Journal articles from accredited sources are preferred to ensure accuracy and higher data quality (Fageh, 2022).

B. Research Methods

This study employs a qualitative research approach, specifically a type of library research that relies on textual sources and descriptive analysis. The main objective is to elucidate the concept of modern monetary theory within the framework of Islamic economics in Indonesia. The analysis method adopted is descriptive, as outlined by

Sugiyono (2017), which involves explicating the relationship between the theory and the analyzed phenomenon.

The research primarily utilizes library documentation and collected reading materials as its data sources. The data are then subjected to various analytical techniques, including Content Analysis, Inductive Analysis, and Analytical Descriptions. The researcher deliberately selects data sources that directly pertain to the research topic, focusing on accredited journals to ensure precision and credibility. Additionally, supplementary data is derived from relevant books and official policy documents to further enrich the research's depth and breadth.

C. Result and Discussion

Modern Monetary Theory

Modern Monetary Theory (MMT) is an economic school of thought that is based on several economic concepts, such as the General Theory, Chartalist Theory, and Sectoral Balance Approach. It is the synthesis of these concepts that gives rise to MMT.

Modern Monetary Theory (MMT) is a heterodox macroeconomic hypothesis that asserts that monetarily sovereign nations (such as the US, UK, Japan, and Canada), which spend, tax, and borrow in their fully controlled fiat currency, are not operationally constrained by revenue when it comes to federal government expenditures. In simple terms, MMT depicts currency as a public monopoly and unemployment as evidence that the currency monopoly excessively constrains the supply of financial assets necessary to pay taxes and fulfill saving desires. MMT states that such governments do not rely on taxes or borrowing for spending because they can create as much money as needed and are the sole issuers of the currency. Their budgets, unlike ordinary households, should not be shaped by the fear of increasing national debt (Brady, 2020).

The overarching idea of MMT is that a sovereign entity that can borrow in its own currency can print more money when needed to retire all of its debt. The central bank only needs to maintain low interest rates. Essentially, governments like the US, Japan, UK, and Canada, which utilize fiat currency, are not constrained by their tax revenue in relation to government spending and can continuously run budget deficits. This is due to the fact that the central banks in these countries have a monopoly over the money supply. The main principles of Modern Monetary Theory (MMT) are as follows:

1. Government deficit is not inherently bad. According to MMT, deficits are not as critical as commonly believed and do not necessarily indicate an unstable economy. If the government can create more money, then government deficits can be easily rectified. This concept is a hallmark of MMT and one of the most controversial aspects of the theory.
2. The government can create more money without the threat of economic collapse. Given that money is no longer backed by gold and is more theoretical in nature, meaning it can be produced at any time, many MMT proponents believe that money can be created without burdening the economy. In 2005, former Federal Reserve Chairman Alan Greenspan followed this line of thought: "There is nothing to prevent the government from creating as much money as it wants."
3. As the government is the currency issuer, it doesn't need to adhere to the same individual budgeting principles. As individuals, we know that our spending should not exceed our income, or it will lead to debt. MMT supporters argue that the government doesn't need to abide by such standards, as it is also a currency creator and theoretically can create more.
4. A federal job guarantee program is feasible. Again, given the core principle that the government can produce more money, MMT theorists support the idea of a federal job guarantee as a way to stabilize the economy and allocate funds towards human resources.
5. The Federal Interest Rate should be at 0%. Many MMT proponents believe that the "natural interest rate is zero" and that there should be no bond sales. Additionally, MMT supporters aim to eliminate fluctuations in interest rates since they are ultimately not as relevant in terms of long-term growth and business decisions.

Money printing is a form of implementation of Modern Monetary Theory (MMT), wherein modern economic theory is part of the study of macroeconomics conducted by governments through fiscal policies. The working system of modern monetary theory is that the government borrows and issues national debt (government bonds) in their own currency. According to Lerner, it portrays the practical use of fiat currency in the public monopoly over money by sovereign monetary authorities and is based on the concept of functional finance (Chohan, 2020).

Modern monetary theory, first developed by Warren Mosler in the 1970s, an American investment fund manager. Currently, a major proponent of modern monetary theory is L. Randall Wray, who teaches regular classes on the theory at Bard College in Hudson, New York. Another academic who has conceptualized and developed modern monetary theory is Stephanie Kelton, whose ideas have recently been heard by politicians like Bernie Sanders and Democratic Party presidential candidate Joe Biden, providing theoretical justification for expanding government spending (Wray, 2015).

MMT was developed to explain the monetary logic behind running budget deficits to support aggregate demand. This logic was popularized in the 1930s by Keynes, based on his idea of a circular flow between employers and wage earners. Deficit spending is seen as providing public employment and thus consumer spending to absorb production sufficiently to allow the economy to continue producing with profit. The policy objective is to maintain (or restore) full employment.

However, production and consumption are not the entirety of the economy. Modern Monetary Theory (MMT) was officially developed in the 1990s, with roots that can be traced back to Abba Lerner's functional finance theory, and by Hyman Minsky and others who sought to integrate the financial sector into the overall economic system in a more realistic and functional way, departing from the monetarist approach of the Chicago School on the right wing of the political spectrum. A key insight in its resurgence was Warren Mosler's observation that currency issuing nations do not "tax and spend," but rather must spend before their citizens can pay taxes in that currency (Wray, 2011).

MMT is also Post-Keynesian in the sense that it advocates government budget deficits as a means to inject purchasing power into the economy to achieve full employment. The explanation behind this approach demonstrates how such deficits create stability, rather than the instability generated by private sector debt dynamics. At its extreme, this approach argues that recessions can be cured simply through deficit spending. However, despite significant deficit spending by the US and the Eurozone after the 2008 crash, the overall economy continued to experience stagnation; only the financial and real estate markets boomed.

What is questioned is the role of government in the economy. Chief opponents of public enterprise and infrastructure, budget deficits, and market regulations are the financial sector. Monetarist and Chicago-style economists are staunch critics of MMT, asserting that government budget deficits will lead to inflation, citing the Weimar inflation of 1920s Germany and Zimbabwe, and characterizing government deficits (and indeed, active government programs and regulations) as "interference" with the "free market" (Newman, 2020).

MMT itself, as mentioned earlier, explains the Keynesian monetary logic that was applied in the 'New Deal' program during The Great Depression, where the government had to provide jobs for the people, and state budget spending needed to be focused on the public through laborintensive projects. In the view of MMT, this program forms one of the foundations of the projectbased money printing theory.

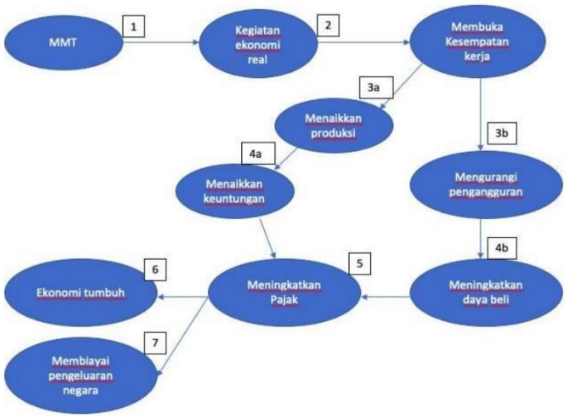
MMT allows for budget deficits through money printing and subsequently controls them through taxes. MMT demonstrates that running a budget surplus, or even a balanced budget, absorbs income from the economy, shrinking the demand for goods and services and causing unemployment. Without government deficits, the economy would be forced to rely on private banks for the credit needed to grow.

Economists behind MMT acknowledge that there are real limits to spending, and efforts to push beyond these limits can manifest in excessive inflation. However, MMT believes there is a better way to manage such inflationary pressures, and it can be done without trapping millions in persistent unemployment. In fact, MMT argues that it is possible to utilize genuine full employment opportunities to help stabilize prices (Kelton, 2020).

Modern Monetary Theory in Islam Perspective

Research discussing MMT from the perspective of Islamic economics is still very scarce, so up to this point, what can be done is to analyze and compare the basic concepts of MMT and the basic concepts of Islamic economics as a reference. However, in the research by Munthe & Imsar (2023), it is stated that the view is that if referring to the concept of Modern Monetary Theory (MMT), the system introduced by this theory involves money printing to increase the purchasing power of the society. In other words, printing money is used to fund the SME sector, reduce unemployment, alleviate poverty, and achieve broader economic benefits. To aid understanding of this concept, the following diagram illustrates how the MMT system works:

Diagram 1



Source: Munthe & Imsar (2023)

Image Description:

1. MMT utilizes money printing by the central bank to fund real projects.
2. MMT financing can be used to support SMEs in increasing production and creating job opportunities.
3. The resulting increase in employment will reduce the unemployment rate (3b); additionally, with extra funds, SMEs can enhance their production, which in turn will boost labor demand and indicate economic growth (4a and 4b).
    1. Increased purchasing power and profits are outcomes of the above steps.
    2. Increased taxation (number 6) will lead to economic growth and provide a funding source for government expenditures (number 7).

In the view of Ibn Khaldun, he states that one important aspect of economic activity is money printing. This money printing should be the responsibility of the central bank representing the government in formulating monetary policies to oversee the circulation of money (Chaira et al., 2021). Furthermore, the public is not allowed to print money themselves as it can lead to currency value instability. Ibn Khaldun argues that it is essential to maintain the fairness of money by ensuring that money only functions as a medium of exchange and a unit of account, not as a tradable commodity.

According to Chapra, in his perspective, the central bank is allowed to finance the state budget deficit by providing loans. The goal of monetary policy in Islam is to achieve monetary stability by stabilizing the circulation of money. However, it is important to emphasize that the instruments used to achieve this goal are significantly different, as Islamic monetary policy does not use interest rates as its instrument. In principle, the objective of Islamic monetary policy is to maintain the stability of the currency, both internally and externally, thereby achieving equitable economic growth. The stability of the value of money cannot be separated from the principles of sincerity and openness in dealing with humanity (Munthe & Imsar, 2023).

Looking at the flowchart in Figure 2 and comparing it from an Islamic perspective, as long as MMT does not utilize an interest-based system in its financing mechanisms, it can be adopted within the framework of Islamic monetary principles. The financing of SMEs through money printing must ensure its compliance with Sharia rules by investing in SMEs that do not violate Sharia regulations (Munthe & Imsar, 2023). Similar to sukuk, which have clear underlying assets, MMT can employ a similar model to finance SMEs. What needs to be ensured in its implementation is that the funds from money printing are not used for political activities or activities devoid of economic value or benefit, as this could potentially lead to inflation due to an increase in the money supply without corresponding production activities (Rustandi et al., 2021).

In their study, Nuraedah et al. (2022) state that the policy of money printing, which is an implementation of MMT, can serve as a stimulus for economic growth as long as it is conducted in accordance with MMT theory and the concept of money in the Islamic perspective. Several aspects need to be considered to achieve such alignment. Firstly, a comprehensive understanding of both modern and traditional MMT theories, which both agree on money printing as a derivative product of MMT. However, modern MMT is accompanied by project-based policies. Secondly, the use of appropriate mechanisms. The money printing process should be project-based, not used to cover consumptive government spending. This is in line with the concept of money's function according to Al-Ghazali and Ibn Khaldun, where money solely serves as a medium of exchange and a standard of value. This implies that the circulation of money depends on the quantity of goods and services produced and does not lead to inflation. Thirdly, the implementation of money printing can serve as a solution to economic crises by directing money distribution towards productive government needs, in line with money's function as a medium of exchange and a standard of value. Money circulation automatically adjusts to the quantity of goods and services produced (Nuraedah et al., 2022).

In the concept of Islam, money printing aligns with the concept and function of money (Syabir, 1992). Money serves as a unit of value or a standard of value (unit of account). In this context, Ibn Taymiyyah (1263-1328) explained that money functions as a measure and a medium of exchange. Through the quantity of money, the value of goods can be determined. Money is not intended for itself but to measure the value of goods or to be used as an exchange for other goods (Syabir, 1992). Based on the explanation above, money is not a tradable commodity; it exists solely to assess the value of goods. In a barter system, it is difficult to determine the value of a good, for instance, exchanging a cow for rice. It is not easy to determine the quantity of rice to be provided. However, when money is used as a recognized medium of exchange created by the state, buying and selling transactions become easier. This illustrates that money is printed to be used as a standard for valuing goods.

Then money as a medium of exchange. This indicates that the creation of money is solely used as a means of payment for goods and services. Thus, the amount of money in circulation is based on the quantity of goods and services produced.

Based on the explanation above, the circulation of money in a country will remain stable and there will be no inflation. The situation would be different if the function of money does not align with the concept of Islamic money. Instead of printing money based on the quantity of goods and services in a country, authorities print money disregarding regulations (Nuraedah et al., 2022).

As seen in Egypt, one of the causes of inflation was due to rulers printing money without following regulations to cover budget deficits. They issued money for personal and group interests, leading to unstable money circulation at that time. From Al-Maqrizi's perspective, the policy of massive money printing had a significant impact on the extreme devaluation of the currency (Janwari, 2016).

From the description above, it is evident that several factors need to be considered when implementing money printing. The government is not concerned about budget deficits as long as job guarantees are in place, enabling them to create employment opportunities for the unemployed. They also argue that the purpose of taxation is not to cover government expenses but to inform the public about managing money (Wittaker, 2020).

Modern Monetary Theory as a Solution in the Perspective of Islamic Economics in Indonesia

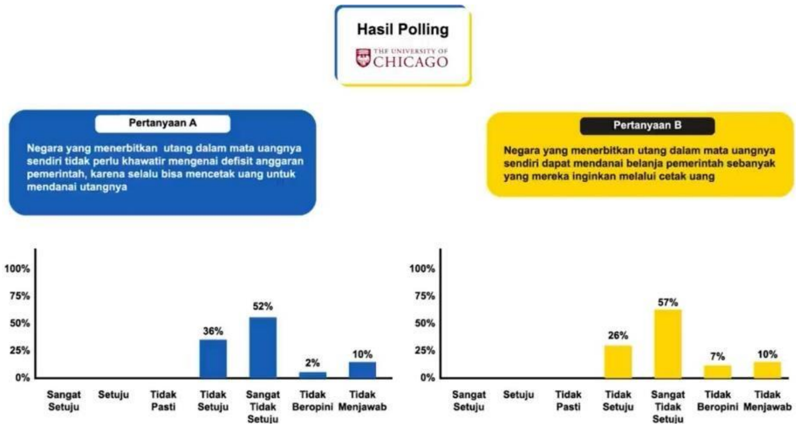
In the context of the concepts discussed above, the implementation of MMT theory in the aspect of printing money can align with the principles of Islamic monetary economics. In Islamic doctrine, the printing of money aligns with the functions and concepts of money itself. Money serves two main functions in Islam: as a unit of value or standard of price (unit of account) and as a medium of exchange. Ibn Taymiyyah, a 13th-century Islamic scholar, explained that money serves as a measuring tool and medium of exchange. Through money, we can determine the value of a commodity based on the amount of money required to obtain it. Money does not exist for its own sake; rather, it is used to measure the value of goods or to facilitate the exchange of value with other goods (Syabir, 1992).

Based on the explanation above, money is not a commodity that can be directly bought and sold. Money exists solely as a tool to assess the value of goods. In a barter system, it is difficult to accurately determine the value of a commodity. For instance, it's challenging to ascertain how much rice is equivalent to the value of a cow. However, with money functioning as an accepted and recognized medium of exchange within society, buying and selling transactions become easier. This illustrates that the printing of money is carried out to establish a standard value for goods.

In Islam, it is important to preserve the value of money and ensure that the printing of money is carried out wisely to avoid disrupting economic stability and triggering inflation. Money should remain a tool that facilitates the exchange of value for goods and should not be used as a traded commodity itself.

Although there are aspects that align with Islamic monetary economics, it does not necessarily indicate that the theory can be effectively applied within a country's economic system. Generally, no country solely relies on one type of monetary theory but instead combines various theories to find appropriate policies to address the nation's economy. The success of policy implementation can be assessed through indicators such as poverty rates, unemployment, and purchasing power of the population. This is because monetary policies aim to stimulate growth in the real sector of the economy and create job opportunities. By boosting economic activity and generating employment, an increase in income and purchasing power of the population is anticipated.

In Indonesia, the notion of printing money, which is a fundamental aspect of MMT, to increase liquidity, is not considered appropriate. These viewpoints do not align with common policy practices, not typical monetary policy practices, and will not be conducted by the Central Bank of Indonesia (Sembiring & Siburian, 2020). The Central Bank does not print money to finance the 2020 State Budget. Printing money to finance government spending would result in inflation that could harm the economic conditions. This illustrates that Indonesia does not engage in money printing accompanied by job creation or project-based initiatives funded by the government. Thus, the government's concern about money printing during crises is the potential for very high inflation. The policy adopted by the government, to refrain from money printing during crises, follows the older monetary theory proposed by Friedman, suggesting that an excessive money supply would lead to strong inflation. Friedman's research in various countries showed that if the rate of money circulation exceeds its transaction capacity, hyperinflation would occur. Hence, Friedman recommended controlling the money supply to maintain stability (Friedman & Goodhart, 2002).

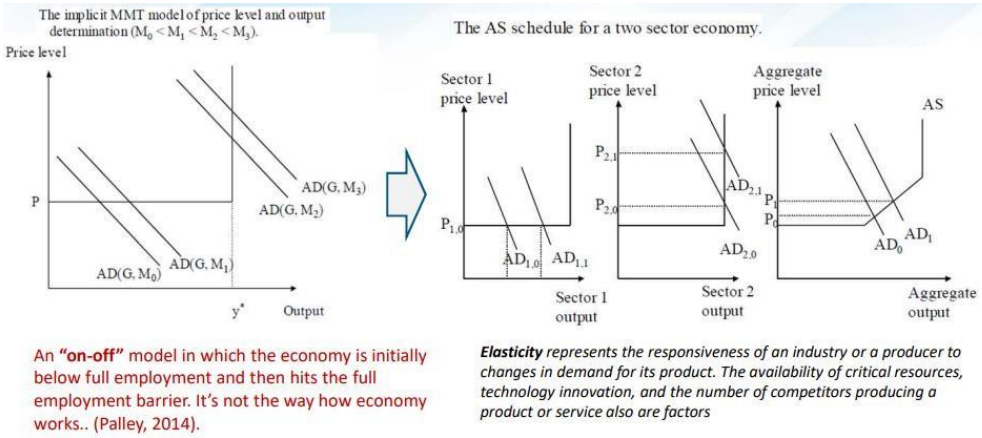


Picture 1

In the above diagram, it can also be observed that the concept of MMT is rejected by economists. MMT is considered to lack a clear theory of inflation (Abdullah, 2020). Comments often arise stating that Modern Monetary Theory (MMT) overlooks inflation, somehow neglecting the risks of inflation. One surprising aspect of the ongoing public debate during the current economic crisis is the persistent concern about inflation. There are echoing worries at a time when the real economy in nearly every country is collapsing, capacity utilization rates falling below 70 percent, and unemployment skyrocketing. Yet, concerns about inflation continue to be voiced regularly. These economists do not believe that increased budget deficits or significant bank reserves necessarily lead to inflation. In fact, voicing such concerns simply indicates a lack of understanding of how the monetary system operates. Moreover, in suggesting that MMT overlooks inflation, those making this claim deny their own lack of research.

Full employment and price stability lie at the core of MMT. The body of theory and policy applications stemming from MMT integrate the understanding of nominal anchors as a fundamental element (Coats, 2019).

Curve 1. *Lack of Formal Modeling to Inflation*



Source: Juhro et al., (2020)

This remains a concern in the rejection of MMT and its policy implementation, even though the economists behind MMT state that there are real limits to expenditure, and attempts to push beyond these limits can manifest in excessive inflation. However, MMT is confident that there is a better way to manage such inflationary pressures, and it can be achieved without trapping millions of people in persistent unemployment. In fact, MMT argues that it is possible to utilize true full employment to help stabilize prices (Kelton, 2020).

Furthermore, in Juhro's research (2020), it is stated that the risks faced are not only related to inflation but also:

1. Political bias: If the central bank "follows" government directives, there is a perception of political bias, which can erode people's trust in financial regulators. Printing money to appease politicians in recent years has led to hyperinflation and economic collapse (Zimbabwe, Venezuela, Argentina).
2. Politically impractical: Relying on taxation to withdraw excess currency from the economy can be politically challenging in countries where tax hikes are highly unpopular. If households feel the pressure of rising prices, politicians might be more inclined to cut taxes rather than raise them.
3. Overlooking the crucial role of tax policy: Taxes play a strategic distributive role. Using them to reduce excess currency might overlook (and reduce the effectiveness of) their role in income redistribution among the population.

4. Exacerbating supply-side shock impacts: Supply-side shocks (such as oil price spikes) can suppress economic growth but trigger price hikes. Raising taxes in such cases could worsen economic growth and increase unemployment.
5. Lack of discipline (time inconsistency): Governments might fail to anticipate when the economy has reached full capacity or lack the discipline to halt expenditures, leading to inflation.
6. Worsening foreign debt: If government debt is substantial, printing money (and currency depreciation) can make debt harder to repay and potentially lead to default.
7. Aggravating money market sentiment: Printing money "recklessly" can make investors jittery about currency volatility and inflation, prompting a "flight to quality."

However, beyond the risks and rejections that have been outlined, fundamentally, this concept is rooted in the Keynesian New Deal concepts that have also been embraced by many economies to this day, albeit in different forms. For instance, the real sector stimuli that have been implemented thus far share the same foundation, which is to stimulate the economy through the real sector (Mankiw, 2020).

Essentially, MMT does not contradict the old monetary theory. MMT agrees that if the amount of money in circulation exceeds the amount of output, it will lead to inflation, or in other words, the amount of money in circulation must be balanced with the amount of output. MMT has adopted the Neo-Keynesian idea by Minsky that the government and central bank collectively act as 'last resort employers' and create money for this purpose (Huber, 2014). Thus, MMT proposes that any money printing should be project-based or provide government-funded employment to maintain stable money circulation.

One criticism that needs to be addressed is that the MMT literature has provided detailed analysis of how government money relates to the central bank but has somewhat understated the fact that MMT has a limit on money printing, which is the predefined inflation target. Supporters of MMT must understand that the government and central bank are consolidated, ensuring controlled money circulation, and any government projects and expenditures funded by money printing must still adhere to the inflation target, without ignoring the inflationary effects of printing money (Prinz & Back, 2021).

The old monetary theory stipulates that money printing cannot stimulate the economy due to the presence of moral hazard in money printing. However, an unconventional policy must be implemented, namely, money printing. Despite being recognized as contradictory to conventional teachings, a key aspect of distributing money to the public is strengthening the coordination between central and regional authorities in determining the channels for distributing assistance (Nuraedah et al., 2022).

The concept of MMT is not in conflict with Islamic Sharia, as the MMT concept aligns with the functions of money as explained by Al-Ghazali and Ibn Khaldun, stating that money is used by humans as a standard of value, a means of exchange, and a store of value (Karim, 2007). Thus, the MMT concept will not lead to excessive inflation as it adheres to the theory of the Islamic function of money, where money serves as a means of exchange rather than a tradable commodity. With this concept, it means that the amount of money in circulation will be proportional to the amount of goods in a country.

Therefore, the policy of money printing by the central bank (BI) will not occur without being accompanied by government-initiated employment. Money printing is considered the only alternative to fulfill the liquidity needs of the country at present. The government does not need to borrow money in case of a deficit. Because the money that should have been borrowed is already created by the government when injecting cash into the economy through its expenditures, thus everything can be resolved through consolidation with the central bank to cover the budget deficit (Sawyer, 2019).

It should be noted that the implementation of MMT money printing must adhere to the correct mechanism to avoid exceeding the predetermined inflation limits. Money printing must be accompanied by government-realized projects, similar to how President Franklin Roosevelt addressed the financial crisis in America. If not done with the right mechanism, it could lead not to an exit from the financial crisis but a descent into it. If the circulation of money cannot be controlled, extensive money printing can result in high inflation. Circulating money would accumulate, diminishing the value of money, causing prices of goods to rise, and potentially harming society.

To ascertain that money printing is an appropriate policy to implement, it requires experience and techniques for its execution. In line with Ibn Khaldun's theory of money neutrality, it is stated that a country's wealth is not determined by the amount of money it possesses, but by its ability to produce goods and services, as well as its efficiency in producing those goods and services (Karim, 2007).

In the end, the application of an economic theory concept must be tailored to the concepts and economic conditions of a country. Various adjustments are needed to assist the country's economy. Therefore, it is not common to find a country consistently using only one type of economic theory. Additionally, it's not just about successes and losses in terms of numbers, but moral hazards associated with the theory should also be considered. Although this theory aligns with the concept of Islamic monetary principles, Indonesia is still predicted to be unable to fully apply MMT, resulting in a higher level of moral hazard.

D. Conclusion

Fundamentally, MMT is not inherently at odds with traditional monetary theories (excluding the Austrian-Chicago School of Monetary thought). MMT agrees that if the amount of money in circulation exceeds the output, inflation will occur. In other words, the circulating money must be balanced with the output. Therefore, MMT proposes that money printing should be based on projects or government-funded job offerings to maintain stable money circulation. However, there are criticisms of MMT that need to be addressed. The MMT literature lacks detailed analysis of the relationship between government money and central banks and lacks emphasis on the limits of money printing, such as predetermined inflation targets. Supporters of MMT need to understand that government and central banks must collaborate to control money circulation. Government projects and expenditures funded by money printing must adhere to inflation target limits and consider the potential inflationary effects of money printing. Generally, the concept of MMT is not in direct conflict with Islamic principles, as it aligns with the concept of money's functions explained by Al-Ghazali and Ibn Khaldun – that money serves as a standard for pricing, a means of exchange, and a store of value. Therefore, the MMT concept would not directly lead to excessive inflation, as it aligns with the Islamic theory of money's function, emphasizing that money is a means of exchange and not a traded commodity. However, the application of economic theory concepts like MMT must be tailored to a country's economic conditions and concepts. While MMT aligns with Islamic monetary principles, Indonesia is not yet fully prepared to implement MMT, which is why the predicted level of moral hazard risk is higher.

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