Funding the Future

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There is a stock criticism of Modern Monetary Theory (MMT), or modern money as I would rather call it, that goes something like this:

MMT says a country can print money and everything will be fine — even with trade.

This is wrong. And it is wrong because it misunderstands what MMT is for. MMT does not say that trade doesn’t matter. What MMT says is that money isn’t where the trade problem lives.

First, let's be clear what money is. It is:

* A measure of value, or representation of claims owing within a monetarily denominated economy,
* A means to facilitate exchange, and
* A supposed store of value, although I have good reason to question that, because this seems to me to be nothing more than a special case of the measurement of value.

To attribute significance beyond these characteristics to money is inappropriate, and since MMT is about money, to look within it for answers it cannot supply is always going to lead to disappointment.

That said, there are real issues around trade where MMT can help point to answers required if problems inherent within that issue are to be addressed.

First, it is essential to realise that trade is real, and that money is a means of valuing and recording it. These are not the same thing.

Imports are real resources coming in. Exports are real resources going out. What we call “the trade balance” is simply the record of those flows.

But, and this is the critical insight, MMT insists that we do not stop at the record of those flows. What it says we must ask is, why do those flows look like this? In other words:

* Why do we have a trade surplus or a deficit?
* Why do we have movements in the exchange rate as a result?
* And why do we not have that movement if we might otherwise expect it?

These are the real questions. They ask about the real issues that underlie trade that need to be examined. MMT, in other words, is not just a scoring system. It is a way of interpreting the data the scoring system gives us, and of then deciding what matters.

So, what does MMT see when it looks at trade? Four things stand out:

* First, real constraints matter: production, skills, energy, technology. A country that cannot supply what its people need will face trade stresses, whatever the exchange rate.
* Second, a floating currency is a pressure valve. It reveals economic weaknesses rather than hiding them behind a fixed exchange rate that ultimately collapses. It is much better to have a safety valve than an economic explosion or meltdown.
* Third, power dynamics matter. Access to essentials like food and fuel is determined by international relationships, and not by how much sterling is available for trade in financial markets. MMT insists we look at the real issues
* Fourth, markets need discipline. Speculation against a currency is politics by other means. MMT demands that finance serve trade and not the other way round by highlighting this fact, for example, by requiring that issues like hot money flows be looked at as well as trade.

So what does this MMT perspective change? I suggest that it changes the story entirely. Mainstream economists start with money, saying things like:

If the exchange rate falls, the country is failing.

MMT begins with an analysis of production and power, saying, for example:

If the exchange rate falls, what is failing in the real economy that has made this happen?

MMT doesn't solve the trade problem, but it does demand that we diagnose it, and it tells us where to look by asking, for example:

* Why do we import so much energy?
* Why have we abandoned industrial strategy?
* Why do we let speculative financial markets dictate our exchange rate and national priorities?
* Who benefits when we hollow out our productive base?
* Who loses?

My suggestion is that the interpretations that follow lead to better choices than anything that conventional economics offers, at least in the hands of most commentators who ever get to be heard in the media, in politics or anywhere else.

MMT does, in fact, refuse to let panic in the money markets drive policy. Instead, it asks whether the nation can marshal real resources to meet real needs. And if it can't, what it then makes clear is that the problem that must be addressed is not to be found with money. Instead, the problem has been created by:

*
Political choices about what we produce.

*
Failures to invest in capability within the economy, in all its forms.

*
Structural power imbalances in global trade, and

*
The capture of markets by speculators, not producers

In short, MMT does not tell us what to think about trade. It tells us how to think about trade. It says:

* Look beyond the movement of money.
* Look at what the data is trying to tell you.
* Trade balances are the symptoms.
* Issues in the real economy are the causes.

MMT then directs us to the causes, and it is that shift, from blaming the currency to understanding the economy, that is why MMT's contribution to the understanding of trade is powerful, necessary, and long overdue.

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