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The Open (Economy) Flank of Modern Monetary Theory (MMT)

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Abstract

Modern Monetary Theory (MMT) is an approach that is now intensively discussed also outside the USA. This paper argues that MMT has an open flank in its treatment of open-economy problems: it discusses these topics in a very simplistic manner and, in doing so, also falls short in many respects of essential insights that are dealt with in the literature.

The paper takes a closer look at MMT's foreign trade arguments: Specifically, it will look at the arguments put forward by MMT proponents with regard to exchange rate determination, the exchange rate regime and the handling of balance of payments problems. The main source of MMT arguments is the textbook by Mitchell et al. (2019), as this can be regarded as the current state of the MMT position.

It turns out that MMT's argumentation has some inconsistencies and blind spots: the former mainly in connection with the allegedly non-existent problem of a current account deficit, the latter are shown by the absence of an exchange rate theory. Finally, the paper draws on the positions of two economists who have dealt extensively with exchange rates: Friedrich A. von Hayek and Wolfgang Stützel. Their reflections make it clear that MMT, with its advice on the exchange rate system and on how to deal with balance of payments problems, practices what Hayek and Stützel called monetary nationalism – that is, the attempt to detach oneself from economic developments in the world by means of certain monetary arrangements – and that this approach will lead to international stability problems when it is practised by a greater number of countries.

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1. Introduction

MMT has meanwhile become an intensively discussed approach outside the U.S. as well. A number of aspects of this approach have been and continue to be subjected to extensive criticism: the treatment of the state, including the central bank, as a single integrated organization; the possibilities of a state with its own - sovereign - currency to finance projects and measures that seem sensible to it; the levying of taxes not as an instrument for financing government spending but as a measure to ensure the acceptance of the state currency; the dangers of inflation that are allegedly or actually associated with the implementation of the MMT proposals; and other issues. It is striking that the focus of the discussion is on conditions within a country, while foreign economic issues such as exchange rate determination or balance of payments problems are (so far) dealt with to a much lesser extent. Foreign trade issues come to the fore most clearly when the question is discussed whether the MMT approach is applicable to every nation or whether differences have to be made here.

In contrast, this paper argues that it is precisely here, in the foreign trade questions, that MMT has an open flank, discusses these issues in a very simplistic way and thereby also falls behind in many respects essential insights that are dealt with in the literature. It has to be admitted, however, that even the so-called mainstream does not (or no longer) present a number of valuable considerations, especially those relating to the pros and cons of certain exchange rate regimes - once again proof of the need to know the history of economic thought and to keep it alive.

The following pages will therefore take a closer look at MMT's foreign trade arguments: Specifically, we will focus on the arguments put forward by MMT proponents with regard to exchange rate determination, the exchange rate regime and the handling of balance of payments problems. The main source of MMT arguments here is the textbook by MITCHELL ET AL. (2019), as this can be seen as the current state of the MMT position. The fact that other MMT proponents may advance slightly different views on the issues discussed will be left out of consideration here.

The procedure is as follows: section 2 first presents the MMT position on exchange rates and balance of payments, leaving aside the other elements of MMT. Section 3 subjects this argument to a critical appraisal. Section 4 then draws on the positions of two economists who have dealt extensively with exchange rates: Friedrich A. von Hayek and Wolfgang Stützel. Their reflections make it clear that MMT, with its advice on the exchange rate system and on how to deal with balance-of-payments problems, practices what Hayek and Stützel called monetary nationalism - that is, the attempt to insulate itself from economic developments in the world through certain monetary arrangements. Section 5 ends with some concluding remarks.

2. MMT's position on Foreign Trade and exchange rates

2.1 The contents of the textbook by MITCHELL ET AL. (2019)

In the textbook by Mitchell et al. (2019), foreign economic issues occupy very little space in 561 pages of text: apart from two brief treatments of net exports in the context of national accounts and the revenue-expenditure model, the main statements on foreign trade and payments are found in four sections, which together account for only 37 pages:

- A brief comparison of flexible and fixed exchange rates in the context of the concept of monetary sovereignty (pp. 140-142).
- the thesis of flexible exchange rates as a necessary component of independent policy (pp. 325 f.)
- a chapter on exchange rates, balance of payments, and competitiveness (pp. 374-391)
- a survey of currency crises and a more detailed discussion of various currency systems (pp. 507-520).

In the latter section, the authors first describe various currency crises - all of which they see as being caused by fixed exchange rates, possibly supplemented by a lack of capital controls - and then discuss the theory of optimal currency areas, the demise of the gold standard, Keynes' Bancor Plan and the Bretton Woods system. As a result, the authors favor a system of flexible exchange rates; the European Monetary Union is also seen as an example of the negative consequences that can result when a state gives up its monetary sovereignty by fixing the exchange rate or entering a monetary union.

2.2 The Substantive Position of MMT

MMT's position concerning open economy macroeconomics – as far as it is elaborated in MITCHELL ET AL. (2019)-is very simple in its conclusion: it sees current account deficits as unproblematic or even beneficial and advocates a system of flexible exchange rates. A country should keep open for itself the widest possible margin to strive for the goals necessary for internal stability: Full employment, sufficient growth and price stability. For this – as is clearly argued in several places – a system of flexible exchange rates is a necessary (though not necessarily sufficient) condition (MITCHELL ET AL. 2019, p. 142).

In the income-expenditure model, imports are modeled as a leakage of expenditures from the domestic economic cycle; however, imports are also seen as an advantage for the importing country, because in this way a country gains access to goods and services that it could not produce itself, or only at high cost or reduced quality (MITCHELL ET AL. 2019, p 224 f.). Exports, on the other hand, are a burden or they mean costs for the own country, respectively, since the resources used for exports are not available for domestic consumption. They are undertaken only to obtain the foreign exchange needed for imports. This results in an almost unreservedly positive assessment of a current account deficit, because it enables a country to achieve a higher material standard of living by consuming more goods and services than it produces for foreign use (MITCHELL ET AL. 2019, p. 375).

In MMT's view, flexible exchange rates are a necessary component of government policy primarily because they allow the government to pursue its chosen interest rate policy without regard to external restrictions. This is because, in MMT's view, interest rates on government debt securities are not dependent on market forces, but can be set by the government according to its wishes. Since the government does not actually need to issue debt securities to finance its spending, but can simply spend by issuing central bank money directly or by crediting a private bank account (central bank and government are treated as a single entity by MMT, which is why there are technically no obstacles to government spending that is not covered by tax revenues), (short-term) debt securities can be issued at any interest rate the government wishes. Since, in the absence of government debt securities, the overnight interest rate would be zero if there were excess reserves in the banking system, the government would not have to worry about finding no takers if the interest rate were low (but positive), because the alternative would be a zero interest rate (MITCHELL ET AL. 2019, p. 326).¹ A flexible exchange rate is a necessary prerequisite for this, since with a fixed exchange rate, the capital flight resulting from a low interest rate policy would force the state to use its foreign exchange reserves and ultimately to abandon its low interest rates. With flexible exchange rates, MMT argues, this external restriction can be disregarded.

As for the determinants of the exchange rate itself, MMT remains comparatively indeterminate: MITCHELL ET AL. (2019, p. 381) point out that using the simple supply-demand scheme can at best explain spot prices in goods markets – and even that only in a very limited sense. The foreign exchange market, in contrast, is much more complex and influenced by expectations about future exchange rates and interest rates. MITCHELL ET AL. (2019) then (p. 382) briefly review the two common theories of exchange rate determination, purchasing power parity (PPP) theory and interest rate parity theory. With regard to the usefulness of the theories, they state that PPP - which also forms the background for the simple supply-demand model of the foreign exchange market - only focuses on goods transactions as determinants and therefore has little explanatory power, while interest parity has comparatively good explanatory power.

Towards the end of the book, the MMT position is again summarized and contrasted with the currency crises of the 1980s and 1990s (Mitchell et al. 2019, p. 507 ff.). The conclusion, however, is always the same: In their view, currency crises have their core cause in that countries expose themselves to the risk of speculation against their currency by fixing their exchange rate; moreover, they lose their policy space in terms of creating internal stability, which is an absolute priority for the MMT authors. With a flexible exchange rate, on the other hand, as described above, the government or the central bank could set the (short-term) interest rate at will (in MMT's view, ideally just above zero). In addition, it would then be possible to use unused domestic resources through appropriate fiscal policy. This is also explicitly recommended to developing countries:

„A regime of floating exchange rates is important for developing countries in particular. They are rightly concerned with the financial and exchange rate crises suffered not long ago by Asian (1990s) and Latin American (1980s) nations [...] that were triggered by large

¹ The yields on other investments would be higher, of course, but they are risky; since the government issues the bonds in its own currency, MMT believes that there is no corresponding risk of default on government bonds.

external debts, declining foreign currency reserves, and market expectations that exchange rate pegs could not be held.” (MITCHELL ET AL. 2019, p. 517)

A problem with flexible exchange rates is only seen if a country pursues a development strategy (MITCHELL ET AL. 2019, p. 390 – although it is not specified in more detail what is meant by such a development strategy and what, if any, is the difference to a developing country in the traditional sense). Such a country could face the danger of strong appreciations (!): These result from the fact that investors see attractive investment and profit opportunities due to the country's development, which leads to (short-term) capital imports. This, however, worsens the country's export opportunities, since the prices of goods in foreign currency rise. In this case, the authors recommend capital controls to limit short-term capital movements and the associated appreciation.

3. Contradictions and Blind Spots of the MMT position

The considerations of MMT concerning open-economy macroeconomics boil down to the claim that, with flexible exchange rates, a country does not have to worry about financing a possible current account deficit on the one hand and gains the freedom to pursue its own economic policy objectives on the other. However, this argumentation is characterized by some inconsistencies and blind spots - the former mainly in connection with the allegedly non-existent problem of a current account deficit, and the latter in the absence of an exchange rate theory.

3.1 Current Account Deficits – No Problem?

At first glance, it seems that MMT, with its assessment of exports as costs - which have to be incurred in order to obtain foreign exchange - and imports as the actual goal of international trade, is expressing itself entirely in line with traditional foreign trade theory. For PAUL KRUGMAN stated as early as 1993:

“[W]e should be able to teach students that imports, not exports, are the purpose of trade. That is, what a country gains from trade is the ability to import things it wants. Exports are not an objective in and of themselves: the need to export is a burden that a country must bear because its import suppliers are crass enough to demand payment.” (KRUGMAN 1993, p. 24)

However, MMT's conclusion that current account deficits should be treated with benign neglect, or even as almost unqualified positives, is premature. It is based on the assumption that a current account deficit can be financed by the provision of domestic currency; for a current account deficit is causally explained by the fact that foreign investors prefer to receive financial assets in domestic currency instead of using them to buy domestic goods and thus ensure a balanced trade account. Indeed, the example of Australia's current account deficit states:

„A trade deficit means that increasing quantities of Australian dollars are being accumulated by non-Australian residents. In return, the non-Australian residents have supplied goods and services (imports) to Australian residents. Clearly, the foreigners have allowed Australia to run a trade deficit *because they preferred to accumulate financial assets denominated in Australian dollars*. [...] A trade deficit thus means that the foreigners are increasing their nominal savings (which in this case manifests as Australian dollar-denominated financial assets).” (MITCHELL ET AL. 2019, p. 381, italics added)

However, it remains completely open why this should be the case: no doubt there are countries which are able to pay for imports with domestic currency, but this should by no means be the rule; for this is possible more or less without restriction only for those countries whose currencies belong to the recognized reserve currencies - and even among these the dollar still has the dominant position. Moreover, this view contradicts the initial statement that exports are necessary to obtain foreign exchange. After all, if all imports can be paid for with domestic currency, why does a country need to worry about obtaining foreign currency?

It has often been criticized in the literature that MMT ignores the actual differences in the quality of different currencies and, in particular, largely disregards the existence of currency hierarchies. Also, the fact that the markets for currencies of less developed countries are far less deep and liquid than those for dollars, euros or other reserve currencies is hardly adequately taken into account. Exchange rate swings can therefore be far more severe for these currencies and trigger greater "collateral damage." (BONIZZI ET AL. 2019, p. 113 f.)

3.2 Do MMT Policies Lead to Appreciation or Depreciation?

What actually happens to the external value of the currency when a country's government pursues a policy in line with the MMT approach? Here, too, MMT provides contradictory answers. On the one hand, MITCHELL ET AL. (2019: 507 f.) seem to argue that the pursuit of an MMT policy - in the sense of an expansion of government spending - can be accompanied by a deterioration of the current account and thus lead to devaluation, although the mechanism is not clearly presented; it is initially said only somewhat cryptically:

„[T]he exchange rate absorbs some of the adjustment and the balance of payments absorbs the rest. *There is no consistent historical evidence that fiscal deficits create catastrophic exchange rate depreciations in flexible exchange rate countries.*” (Mitchell et al. 2019, p. 508, italics are bold in the original).

Two paragraphs later, it is argued that an adequate education system that promotes human capital in a country may lead to foreign direct investment, so that a negative current account balance would be offset by a positive capital account balance and the net effect on the exchange rate would be indeterminate. While one-off exchange rate changes may occur - and in the context of the argument, only devaluations can be meant - these are not a source of consistent inflationary pressure; in addition, devaluation stimulates domestic production (MITCHELL ET AL. 2019, p. 508).

Now, as stated at the end of section 2.2, it has been argued elsewhere (MITCHELL ET AL. 2019, p. 390) that a country pursuing a development strategy faces the risk of appreciation. Although it was not explained in detail what is actually meant by such a development strategy, the remarks in the following quote – as well as the generally very weak treatment of the supply side throughout the book – suggest that underdevelopment or the promotion of development is to be understood as a pure demand problem:

„The general principle thus remains as long as there are real resources available in a less developed country, the government can purchase them using its currency power. In particular, this concept of real fiscal space extends to the millions of people who are unemployed in less developed countries. Given that there is no market demand for their services, the government in each country can easily purchase these services with the local currency without placing pressure on labour costs in the country.” (MITCHELL ET AL. 2019, p. 507)

The fact that at one time the possibility of depreciations is considered, at another time the risk of appreciations as a consequence of the same policy, highlights a problem that has been pointed out by PALLEY (2013, p. 8), among others: the extensive absence of a (formal) model that makes clear the relationships described by MMT. In a simple Mundell-Fleming model with interest rate control by the central bank and given exchange rate expectations, expansionary fiscal policy would not lead to any exchange rate change, provided that there is still a negative output gap; if there is no output gap or even a positive one, expansionary fiscal policy in the conventional model would lead to an increase in the central bank's interest rate and thus to appreciation; depreciation would result if, in addition to expansionary fiscal policy, the central bank were to lower the interest rate below the level abroad; in addition, exchange rate expectations would certainly not remain constant. How all these factors interact in MMT considerations, however, remains unclear.

3.3 The Absence of an Exchange Rate Theory

MITCHELL ET AL. (2019, p. 142) cite numerous factors that influence exchange rate determination - for the dollar exchange rate, for example, the demand for U.S. assets, the current account balance, the inflation rate, the interest rate differential or the growth differential with other countries, as well as expectations regarding the future exchange rate - which make exchange rate forecasting extremely difficult. Although the simple supply-demand model of the exchange rate is presented elsewhere (pp. 379 ff.), it is immediately rejected because it focuses too much on goods-related (i.e. current account-related) transactions and neglects financial transactions. For the same reason, the theory of purchasing power parity is rejected, while interest parity is considered to have explanatory power (p. 382). No further-reaching or independent exchange rate theory is developed, and the interaction of the determining factors remains obscure.

The problems involved are particularly evident when one considers the discussion surrounding the collapse of the Bretton Woods system and the embedding of MMT's proposals – in particular, the setting of the interest rate at a level just above zero – in international (financial) relations.

With the collapse of the Bretton Woods system, the world moved to flexible exchange rates. This transition was accompanied, among other things, by the hope that this would lead to a quasi-automatic equalization of current account balances. MITCHELL ET AL. (2019, p. 516) rightly point out that this hope has not become reality, but that numerous countries have high and persistently positive or negative current account balances and, moreover, that the instability of exchange rates, especially between developing countries, has increased rather than decreased. The authors blame this misconception on the explicit or implicit assumption that exchange rates are essentially determined by current account transactions and therefore evolve according to purchasing power parity, while the importance of financial transactions is ignored. They rightly reject this idea and emphasize that, due to the dominance of financial transactions, exchange rate movements cannot be expected to balance current accounts; they also consider capital controls to be neither politically nor technically feasible.

All the more astonishing, however, are the comments on the MMT proposal itself: because here all considerations about the problems of large capital movements are immediately forgotten;

the only problem is that a devaluation of one's own currency could lead to a higher inflation rate, as imported goods become more expensive (MITCHELL ET AL. 2019, p. 518).

In fact, however, the attempt to install a permanently lower interest rate than other countries must lead to a constant and not just one-off currency depreciation; the initial level of the current account balance is immaterial. This follows from interest rate parity, which MITCHELL ET AL. also attribute explanatory power to exchange rate developments. According to interest parity, financial equilibrium requires that a positive difference between foreign and domestic interest rates be compensated by a corresponding appreciation expectation for the domestic currency. However, if the interest rate differential between the foreign and the domestic currency were to remain positive for a long time, capital would continue to move abroad, which would lead to renewed devaluations of the domestic currency and thus cause inflation to rise more strongly at home, which would further increase the devaluation expectation. Thus, it is not quite clear at which exchange rate this process could end. The most likely answer would be that a MMT policy would ensure high growth and full employment, and therefore the expectation would move in the direction of appreciation. However, one cannot be certain about this, and the results in countries that have pursued policies that could be described as MMT-affirmative give little cause for optimism in this regard (EDWARDS 2019).

REY (2013) also pointed out that the well-known trilemma of monetary policy - of the three objectives "autonomous monetary policy", "free movement of capital" and "stable exchange rates", only two can be achieved at a time - is in fact just a dilemma: because there are global financial and credit cycles that affect the economy in all countries and therefore constrain monetary policy in those countries - and this is completely independent of the exchange rate regime in place. The alleged degree of freedom a country gains from exchange rate flexibility is thus a highly dubious proposition if the reality of international financial relations is taken seriously.

And that currency crises can occur even with flexible exchange rates is illustrated by the financial crisis in Iceland (ALIBER/KINDLEBERGER 2015, p. 51 f.): before 2008, the country was characterized by low unemployment, comparatively high inflation, high nominal interest rates and a high current account deficit; the exchange rate of the Icelandic Krona was flexible. This led to very high capital imports, as foreign investors wanted to profit from high Icelandic interest rates, while it was attractive for Icelanders to borrow in foreign currency on comparatively favorable terms; the Krona appreciated as a result of these carry-trade transactions. The financial crisis reversed this process, and the sudden devaluation of the Krona left many households and companies unable to pay their foreign liabilities. MMT's obvious objection, of course, would be that this was not the result of a flexible exchange rate, but of a completely oversized financial sector and the inadequate fight against inflation. But it remains unclear how MMT advocates intend to tackle unwanted capital movements without jeopardizing the other goals of their policy.

Since MMT does not take financial transactions into account in open economy macroeconomics, the authors end up with the position of MILTON FRIEDMAN, who wrote in 1953:

„The sooner a system of flexible exchange rates is established, the sooner unrestricted multilateral trade will become a real possibility. And it will become one without in any way interfering with the pursuit by each nation of domestic economic stability according to its own lights.” (FRIEDMAN 1953, p. 158).

And similarly, MITCHELL ET AL. (2019, p. 142) write:

„The floating exchange rate ensures that the government has greater freedom to pursue other policy goals, such as maintenance of full employment, sufficient economic growth, and price stability.”

In several places, this position is put into perspective and the possible need to intervene when necessary rather than completely floating the exchange rate is conceded; however, exactly how such “managed floating” is to be implemented and what repercussions this would have on the basic elements of MMT policy remain unclear.

4. Conclusion: Monetary Nationalism in a New Guise

The MMT position amounts to what HAYEK called monetary nationalism in the 1930s: the notion,

„that a country’s share in the world’s supply of money should *not* be left to be determined by the same principles and the same mechanism as those which determine the relative amounts of money in its different regions or localities.” (HAYEK 1937 [1999], p. 41, italics in the original).

HAYEK was convinced that the consequences of such an attempt would not have the consequences desired by its advocates, but would further erode international stability. While some of his arguments arise from Austrian business cycle theory, which is itself problematic, his prognosis at the time that under flexible exchange rates short-term capital movements increase and have a potentially destabilizing effect (HAYEK 1937 [1999], p. 79 f.) is still relevant. The reason for this is that under flexible exchange rates a new element is suddenly added which does not exist under a fixed international standard or (absolutely) fixed exchange rates, or which at least is of much less importance: the expectation of exchange rate changes. This new element provides an additional motive for capital movements; and while, in the case of fixed exchange rates or parities with a narrow fluctuation band, a movement away from the fixed parity is generally associated with the expectation that this movement will soon reverse, capital movements in the case of flexible exchange rates tend to reinforce the original direction of change and thus to increase fluctuations even further.

For this very reason, the German economist WOLFGANG STÜTZEL, who elaborated the importance of balance mechanics for economic theory (SCHMIDT 2011), was a staunch supporter of fixed exchange rates; he left the German Council of Economic Experts prematurely in the dispute over the maintenance of the fixed exchange rate system (SCHMIDT 2021). In his analysis of the experiences with floating exchange rates after the collapse of the Bretton Woods system (STÜTZEL 1983), STÜTZEL stressed that most of the promises of flexible exchange rates had not been fulfilled: on the contrary, central banks were even more dependent on external economic conditions, since they now had to take into account the effects of highly unstable exchange rate expectations in their decisions. And in a sort of direct anticipatory response to the MMT position of forced low interest rates while ignoring the exchange rate effects:

"Who or what, dear advocates of these proposals, will protect us from the [...] spiral being set in motion in the aforementioned way, which is called: DM devaluation intensifies do-

mestic price and wage increases. Increased domestic inflation brings increased DM devaluation, and so on and so forth. So the so highly dangerous vicious circle?" (STÜTZEL 1983, p. 22, own translation).²

For STÜTZEL, the reason why flexible exchange rates did not fulfill these hopes was that international financial transactions do not involve decisions on flows but on the size and structure of asset holdings. An equilibrium of stock distributions, however, depends not only on spot prices (what STÜTZEL calls "simple purchasing prices"), but also on (expected) changes in the value of assets over time, resulting, for instance, from interest rates (what STÜTZEL called "stock equilibrating prices")³. Exchange rates or exchange rate changes alone, therefore, do not ensure financial equilibrium; rather, what matters is how an exchange rate change "affects hitherto prevailing exchange rate expectations, fears of inflation and nominal interest rates ..." (STÜTZEL 1969, p. 17, own translation).⁴ And with regard to exchange rate expectations in particular, STÜTZEL doubted that they could really be captured and determined by any sophisticated modeling technique (STÜTZEL 1983, p. 37).

Moreover, STÜTZEL's advocacy of fixed exchange rates had a second reason: For him, the exchange rate was not a price at all in the traditional sense, but a determinant of the terms of a debt relationship, comparable to the face value of a bond (STÜTZEL 1969, p. 19 ff.). This face value must not be called into question and made more flexible, because otherwise the anchor is missing from which the market price of the bond can be meaningfully determined. The basis for the current market price of a security is the promise that the unchanged face value of the security will be paid out at the end of the term. And the equivalent of this in international transactions at fixed exchange rates is the promise to be able to exchange a given amount of currency A for an amount of currency B that lies within the upper and lower intervention points.

"Those who are not able to distinguish between figures determining the terms of debt and market prices and to link them with each other are like a heating engineer who loosens the slider on the thermostat, which is used to set the target temperature, from its rigidity and links it directly with the pointer that indicates the respective actual temperature. If the heating has just been switched on, the actual temperature will rise. But this also increases the set temperature. People will probably start sweating soon." (STÜTZEL 1969, p. 22, own translation)⁵

Currency parities should therefore be viewed as figures determining the terms of debt rather than current prices. It is true that the promise of a fixed exchange rate may not be kept under exceptional circumstances due to a lack of reserves - just as a merchant may have to declare bankruptcy under certain circumstances because he can no longer serve his creditors at the nominal value of his liabilities (STÜTZEL 1969, p. 28). But this should be the exception, not the rule. For STÜTZEL, renouncing fixed parities is exactly the same as renouncing the invariability of the nominal value of a bond: this can lead to strong and completely unpredictable fluctuations

² In the original: „Wer oder was, liebe Verfechter dieser Vorschläge, bewahrt uns davor, daß auf dem genannten Wege die [...] Spirale in Gang kommt, die da heißt: DM-Abwertung verstärkt die Binnenpreis- und Lohn-Erhöhung. Verstärkte Binneninflation bringt verstärkte DM-Abwertung und so weiter und so fort. Also der so höchst gefährliche Teufelskreis?“

³ STÜTZEL's original expressions were „einfache Kaufpreise“ and „Bestandshaltepreise“.

⁴ In the original: „...inwieweit die bislang herrschenden Wechselkursänderungserwartungen, Geldwertungsbedürfnissen und Nominalzinssätze ... beeinflusst werden.“

⁵ In the original: „Wer Schuldinhaltsbestimmungszahlen und Marktpreise nicht zu unterscheiden vermag und sie miteinander verkoppelt, der gleicht einem Heizungstechniker, der am Thermostat das Schieberchen, mit dem die Soll-Temperatur eingestellt wird, aus seiner Starrheit löst und unmittelbar mit dem Zeiger koppelt, der die jeweilige Ist-Temperatur anzeigt. War die Heizung gerade angeschaltet, so wird die Ist-Temperatur steigen. Damit steigt aber auch die Soll-Temperatur. Die Leute werden wohl bald ins Schwitzen kommen.“

in the exchange rate because the anchor for stabilizing expectations is missing. And the measures that must be taken to avoid extreme exchange rate fluctuations are ultimately not much different from those required in a fixed exchange rate regime:

“Whether fixed, whether gradual, or whether entirely free-floating rates – there is no getting around the peasant's rule that a country whose currency is expected to fall must counteract with correspondingly higher interest rates (and a braking of wage increases) if it wants to maintain freedom of capital movements and avoid a cumulative currency decline.” (STÜTZEL 1983, p. 21, own translation)⁶

5. Final remarks

As valuable as MMT may be in reducing unjustified fears of government deficits, the naiveté of this approach to foreign economic issues appears problematic. This may have to do with its U.S.-centeredness, which has already been criticized elsewhere, because it is undoubtedly true that the U.S. can largely ignore exchange rate movements of the dollar. But this is only because the dollar is accepted as a means of payment all over the world, and this dominance was further reinforced after the financial crisis by the global provision of dollar liquidity by the Federal Reserve. Transferring this idea to other countries ignores the problems that may be associated with it. If the idea were to take hold that every country could be as indifferent to the external value of its currency as the U.S.A. and that the exchange rate would somehow ensure a balance, disappointments would be inevitable - with the consequence that the pendulum would swing back to the other extreme and harsh austerity would again be unjustifiably declared the order of the day in terms of stability policy.

⁶ In the original: „Ob feste, ob stufenweise, oder ob ganz frei schwebende Kurse – um die Bauernregel, daß ein Land, von dessen Währung man einen Kursrückgang erwartet, mit entsprechend höheren Zinssätzen (und einer Bremsung des Lohnanstiegs) gegenhalten muß, wenn es die Freizügigkeit erhalten und einen kumulativen Währungsverfall vermeiden will, um diese Bauernregel kommt man mit keinem Trick herum.“

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