# MMT ON INTERNATIONAL TRADE

Posts in this series


Chapter 5 of Stephanie Kelton's *The Deficit Myt*h takes up international trade. Trump thinks the US is losing at trade simply because we import a lot more than we export. He promised to bring manufacturing jobs back to the US. This won him votes in many states where corporations closed US operations and moved production offshore. But it's a lot more complicated than just the dollars. I'm only going to address a few of the points Kelton raises.

**1. Trade has good and bad results**

It's true that for a number of years the US has run a trade deficit with the rest of the world. We import more than we export. This means we send other people dollars and they send us stuff we want, like oil, computers, cars and cars with computers in them that run on oil. That seems like a good trade.

Many poorer countries do not produce enough food, drugs and advanced equipment to meet their needs. [1] Their currencies are weak, so they need dollars to pay for those shortfalls. Giving them dollars for their goods is a partial fix. Also, it means their workers have jobs and can hope for better lives.

It's a fact that we have lost a lot of good jobs, those with benefits and middle-class pay, and replaced them with poor jobs. Supposedly we get lower prices as a result, though people buying iPhones might wonder. However, most of the benefits from trade go to the richest among us, corporations and their top executives and the lawyers, accountants, and consultants hired to minimize their costs, taxes, personnel, and unions. [2]

Maybe someday foreign holders of US dollars will want stuff themselves, instead of dollars. They might buy stuff from us. If that means increasing our exports of goods and services, then it seems good. If they buy up our land, buildings and equipment, that might not be so good. If they buy our oil and export it to their countries, we might not like that. Its complicated.

**2. What about the money?**

This seems to bother Trump a lot. He seems to think sending dollars abroad is bad, even if we get useful stuff in exchange, which sounds stupid when you write it down. One real problem is that money spent abroad doesn’t circulate in the US. Your spending is someone else’s income. If American Airlines buys jets from AirBus, that’s money not spent in the US, and less money for Boeing employees to spend here. The result is lowered economic activity here. Kelton has an answer for this.

Let’s start with the two-bucket accounting system from the previous post. Deficit spending by the Federal Government creates a surplus in the hands of Everybody Else. So, if the FG spends $100 and taxes back $90, then FG has a negative balance of $10. EE has a surplus of $10, which is available to increase demand for goods and services.

Let’s now split the EE bucket into two pieces: US and Other Countries. Now suppose people in the US spend $5 on goat cheese from France, part of OC, and French people spend $3 on US movies. The US surplus drops by $5, and increases by $3, for a loss of $2, leaving $8. Those 2 dollars won’t be available to buy stuff in the US, reducing economic activity.

Trump’s solution to this problem is tariffs on imports from OC. Tariffs are taxes. They put money in the FG bucket, and remove it from the funds available to support domestic demand. Suppose the FG imposes $1 in tariffs on imports. The US bucket drops by $1, to $7. If the problem was reduction of demand, that's perverse.

The real solution is more deficit spending by the FG on US goods. If the FG spends another $2 buying US goods, those two dollars add to the US surplus, returning it to $10. Problem solved, especially for people who like Crottin de Chavignol. [3]

**3. It's the jobs, not the dollars.**

The real problem is not the dollars, but the good jobs that disappeared. Kelton doesn't say so, but in fact sending jobs overseas is the result of corporate decisions, made solely in search of profits. The federal government does not explicitly support this corporate decision, but its policies do not discourage shipping jobs overseas, and in many ways support offshoring of jobs. For example, modern trade treaties contain provisions designed to protect US businesses in foreign countries, and the government is often willing to use force to protect US assets abroad which can cost the lives of our military people to protect the interests of the rich.

Mainstream economists have always praised trade deals as benefiting Americans, despite the fact that the benefits of trade for the most part flow to the rich while the burdens fall mostly on the poor and the middle class. The middle class is shrinking. Part of that is due to the loss of well-paying jobs. The response of Congress has been worthlesss, mostly job retraining and minimal recompense. [2]

Kelton once again offers the job guarantee as a solution. The proposals for legislation contemplate that all jobs will pay at least $15 per hour with benefits, which will keep people reasonably safe. But these are not an adequate replacement for good middle-class jobs. We need more effort put into solving that problem.

I'll offer one idea. The pharmaceutical business model is to raise the price of their drugs at least annually, so as to increase profits, and thus the price of the stock. As part of the jobs guarantee, the federal government could build plants to manufacture drugs and compete directly. There would be no problem doing this with generic drugs, but the government could also do it with other drugs bearing extortionate prices, like insulin and coronavirus treatments like Remdesivir. Also see this.

The expertise is out there, and the government can buy it. People can be trained to operate these plants, and make an enormous contribution to their fellow citizens. I see this an an illustration of one of Kelton's normative policy assumptions: the point of the economy is to make our lives better. This is a political choice. It's not a choice we should abandon to the rich and powerful.

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[1]Kelton knows this is a problem. In short, it's the result of a number of factors, including weak or corrupt governance. The Washington Consensus perpetuates this problem. With better governance and careful attention to some of the ideas in this book, that problem might be slowly corrected. See p.141 et seq.

[2] This entire problem was the result of a consensus among economists on the benefits of trade, a consensus that supported the desires of capitalists and giant corporations. Both liberal and conservative economists and politicians joined the chorus of assent. I discuss the impact of this disaster in four posts you can find here, beginning with *The Problem Of The Liberal Elites*. TL;dr: liberal elites squandered their influence pushing a bad economic theory. We have no reason to trust their judgment after the damage their advice created.

[3] Alternatively we could try to reduce the

trade deficit. Kelton discusses this, but it raises several complicated issues, and I'll just refer interested readers to pp. 135-6.