Alternative economic model – The Abans Perspective

Modern Monetary Theory (MMT) has been in the background, since quite some time now, but has recently moved to the forefront of everyday discussions, especially as the world stares at yet another global recession. However, there are only a handful of economies in the world, which qualify to be considered for MMT, as a realistic policy option.

MMT is a macro-economic framework, in which monetarily sovereign countries are not operationally constrained by revenues, when it comes to federal government spending. They do not need taxes, or borrowing, for spending, since they can print as much as they need, being the monopoly issuers of the currency.

There are 3 sets of conditions or criteria for MMT, as a policy option:

1. Current Account Deficit (CAD) and Fiscal Deficit should be a percentage of GDP over a period of time.
2. The countries, which maintain policy discipline, along with a record of good governance, and which are able to control liquidity, along with the money flow, when inflation heats up, can be considered.
3. Those countries, with their currencies pegged to any other country's currency, and which don't have their own sovereign currency, cannot implement MMT.

Only a handful of countries in the world meet the above criteria for MMT; even the United States does not qualify, but since it has the Greenback, it is considered as a special case. Some other countries, which qualify, are Israel, Japan, Thailand, China, Malaysia, and a few others.

Further, another point to note is that a country, with a fiscal deficit, but a Current Account surplus, can also be considered for MMT, provided that they are well-governed. If a country that has a fiscal deficit, say 10% of GDP, but has a bigger 12% of GDP surplus in the private sector, and business surplus, then it is not a net borrower, but a net lender. This, along with robust institutions, and good governance, ensures that they can control their inflation, along with the exchange rate.

As highlighted above, only a handful of countries can adopt MMT as a standard. Out of the biggest and developed economies of the world, only the United States, Japan, and China, seem to make the cut; none of the European countries make it to this list. Further, the countries which have a significant amount of debt, and a negative Current Account Deficit (CAD), also cannot think of this system. Developing countries, like India, and Brazil, are definitely No-Go countries for MMT. If countries with debt, and negative Current Account Deficits, do go the Debt Monetization route, it would have devastating effects on the economy in the long run. Printing money to fund the gap would also be a very unwise decision, and would decimate the currency against the dollar, and inflation would also skyrocket

Thus, here's our opinion – Country-wise, the list is not a thorough representation of the world map, albeit the United States, Japan, and China, make up 40%+ share of the global GDP. Looking at the scenario, it is highly unlikely that MMT is the solution to the current economic problems, despite the amount of clamour that has been created around it.