

Class, Race and Corporate Power

Volume 7 | Issue 1

Article 1

2019

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Recommended Citation

Roberts, Michael (2019) "Modern Monetary Theory: A Marxist Critique," *Class, Race and Corporate Power*. Vol. 7: Iss. 1, Article 1.

DOI: 10.25148/CRCP.7.1.008316

Available at: <https://digitalcommons.fiu.edu/classracecorporatepower/vol7/iss1/1>

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Modern Monetary Theory: A Marxist Critique

Abstract

Compiled from a series of blog posts which can be found at "[The Next Recession](#)."

Modern monetary theory (MMT) has become flavor of the time among many leftist economic views in recent years. MMT has some traction in the left as it appears to offer theoretical support for policies of fiscal spending funded by central bank money and running up budget deficits and public debt without fear of crises – and thus backing policies of government spending on infrastructure projects, job creation and industry in direct contrast to neoliberal mainstream policies of austerity and minimal government intervention. Here I will offer my view on the worth of MMT and its policy implications for the labor movement. First, I'll try and give broad outline to bring out the similarities and difference with Marx's monetary theory.

Keywords

Modern Monetary Theory, Marxist Critique of Monetary Theory

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Modern monetary theory (MMT) has become flavor of the time among many leftist economic views in recent years. The new left-wing Democrat [Alexandria Ocasio-Cortez is apparently a supporter](#); and a leading MMT exponent [recently discussed the theory and its policy implications](#) with UK Labour's left-wing economics and finance leader, John McDonnell.

MMT has some traction in the left as it appears to offer theoretical support for policies of fiscal spending funded by central bank money and running up budget deficits and public debt without fear of crises – and thus backing policies of government spending on infrastructure projects, job creation and industry in direct contrast to neoliberal mainstream policies of austerity and minimal government intervention.

Here I will offer my view on the worth of MMT and its policy implications for the labor movement. First, I'll try and give broad outline to bring out the similarities and difference with Marx's monetary theory.

MMT has its base in the ideas of what is called Chartalism. [Georg Friedrich Knapp](#), a German [economist](#), coined the term Chartalism in his *State Theory of Money*, which was published in German in 1905 and translated into English in 1924. The name derives from the [Latin *charta*](#), in the sense of a token or ticket. Chartalism argues that money originated with state attempts to direct economic activity rather than as a spontaneous solution to the problems with [barter](#) or as a means with which to tokenize debt.

Chartalism argues that generalized commodity exchange historically only came into being after the state was able to create the need to use its sovereign currency by imposing taxes on the population. For the Chartalist, the ability of money to act as a unit of account for credit/debt depends fundamentally on trust in the sovereign or the power of the sovereign to impose its will on the population. The use of money as a unit of account for debts/credits pre-dates the emergence of an economy based around the generalized exchange of commodities. So Chartalism argues that money first arose as a unit of account out of debt and not out of exchange. Keynes was very much a fan of Chartalism, but it is clearly opposed to Marx's view that money is analytically inconceivable without understanding commodity exchange.

Can the Chartalist/Modern Monetary Theory (MMT) and Marxist theory of money be made compatible or complementary or is one of them wrong? My short answers would be: 1) money predates capitalism but not because of the state; 2) yes, the state can create money but it does not control its price. So confidence in its money can disappear; and 3) a strict Chartalist position is not compatible with Marxist money theory, but MMT has complementary features.

Let me now try to expand those arguments.

Modern monetary theory and the Marxist theory of money are complementary in that both are endogenous theories of money. They both reject the quantity theory of money, namely that inflation or deflation is dependent on the decisions of central banks to pump in credit money or not. On the contrary, it is the demand for money that drives the supply: i.e. banks make loans and as a result deposits and debt are created to fund the loans, not vice versa. In that sense, both MMT

and Marxist theory recognize that money is not a veil over the real economy, but that the modern (capitalist) economy is a monetary one through and through.

Both Marx and the MMT guys agree that the so-called quantity theory of money as expounded in the past by Chicago economist Milton Friedman and others, which dominated the policy of governments in the early 1980s, is wrong. Governments and central banks cannot ameliorate the booms and slumps in capitalism by trying to control the money supply. The dismal record of the current quantitative easing (QE) programs adopted by major central banks to try and boost the economy confirms that. Central bank balance sheets have rocketed since the crisis in 2008, but bank credit growth has not; and neither has real GDP growth.

But the Marxist theory of money makes an important distinction from the MMT guys. Capitalism is a monetary economy. Capitalists start with money capital to invest in production and commodity capital, which in turn, through the expending of labor power (and its exploitation), eventually delivers new value that is realized in more money capital. Thus the demand for money capital drives the demand for credit. Banks create money or credit as part of this process of capitalist accumulation, but not as something that makes finance capital separate from capitalist production. MMT/Chartalists argue that the demand for money is driven by the “*animal spirits*” of individual agents (Keynesian) or by the state needing credit (Chartalist). In contrast, the Marxist theory of money reckons that the demand for money and thus its price is ultimately set by the pace of accumulation of capital and capitalist consumption.

The theory and history of money

That raises the underlying issue between Modern Monetary Theory, its Chartalist origins and the Marxist theory of money. Marx’s theory of money is specific to capitalism as a mode of production while MMT and Chartalism is ahistorical. For Marx *under capitalism* money is the *representation of value* and thus of surplus value. In M-C-P-C’-M’, M can exchange with C because M *represents* C and M’ represents C’. Money could not make exchange possible if exchangeability were not already inherent in commodity production, if it were not a representation of socially necessary abstract labor and thus of value. In that sense, money does not *arise* in exchange but instead is the monetary representation of exchange value (MELT), or socially necessary labor time (SNLT).

Marx’s theory analyses the functions of money in a capitalist-commodity economy. It is a historically specific theory, not a general theory of money throughout history, nor a theory of money in pre-capitalist economies. So if it is true that money arose first in history as a unit of account for taxes and debt payments (as the Chartalists and Keynes argue), that would not contradict Marx’s theory of money in capitalism.

Anyway, I have considerable doubts that, historically, state debt was the reason for the appearance of money (I’ll return to that in a future post). David Graeber, the anarchist anthropologist, appears to argue this in his book, *5000 years of debt*. But it does not wash well with me. Marx argues that money emerges naturally as commodity production is generalized. The state merely validates the money form – it doesn’t invent it. Indeed, I think Graeber’s quote from Locke on p.340 in his book summarizes the argument well. “*Locke insisted that one can no more*

make a small piece of silver more by relabeling it a 'shilling' than one can make a short man taller by declaring there are now fifteen inches in a foot."

In the classic statement of Chartalism, Knapp argued that states have historically nominated the unit of account, and by demanding that taxes be paid in a particular form, ensured that this form would circulate as means of payment. Every taxpayer would have to get their hands on enough of the arbitrarily defined money and so would be embroiled in monetary exchange. Joseph Schumpeter refuted this approach when he said: *"Had Knapp merely asserted that the state may declare an object or warrant or token (bearing a sign) to be lawful money and that a proclamation to this effect that a certain pay-token or ticket will be accepted in discharge of taxes must go a long way toward imparting some value to that pay-token or ticket, he would have asserted a truth but a platitudinous one. Had he asserted that such action of the state will determine the value of that pay-token or ticket, he would have asserted an interesting but false proposition."* [History of Economic Analysis, 1954]. In other words, Chartalism is either obvious and right OR interesting and wrong.

Money as a commodity or out of thin air

Marx argued that money in capitalism has three main functions: as a measure of value, as a means of exchange, and "money as money" which includes debt payments. The function of measure of value follows from Marx's labor theory of value and this is the main difference with the Chartalists/MMT, who (so far as I can tell) have no theory of value at all and thus no theory of surplus-value.

In effect, for MMT exponents, value is ignored for the primacy of money in social and economic relations. Take **this explanation by one supporter of MMT** of its relation to Marx's value theory: *"Money is not a mere "expression" or "representation" of aggregate private value creation. Instead, MMT supposes that money's fiscal backbone and macro-economic cascade together actualize a shared material horizon of production and distribution...Like Marxism, MMT grounds value in the construction and maintenance of a collective material reality. It accordingly rejects neoclassical utility theory, which roots value in the play of individual preferences. Only, in contrast to Marxism, MMT argues that the production of value is conditioned by money's abstract fiscal capacity and the hierarchy of mediation it supports. MMT hardly dismisses the pull of physical gravitation on human reality. Rather, it implicitly de-prioritizes gravity's causality in political and economic processes, showing how the ideal conditions the real via money's distributed pyramidal structure."*

If you can work through this scholastic jargon, I think you can take this to mean that MMT differs from Marx's theory of money by saying that money is not tied to any law of value that drags it into place like 'gravity' but has the freedom to expand and indeed change value itself. Money is the primary causal force on value, not vice versa!

In my view, this is nonsense. It echoes the ideas of French socialist Pierre Proudhon in the 1840s who argued that what was wrong with capitalism was the monetary system itself, not the exploitation of labor and the capitalist mode of production. Here is what Marx had to say about Proudhon's view in his Chapter on Money in the Grundrisse: *"can the existing relations of*

production and the relations of distribution which correspond to them be revolutionized by a change in the instrument of circulation?” For Marx, “*the doctrine that proposes tricks of circulation as a way of, on the one hand, avoiding the violent character of these social changes and on the other, of making these changes appear not to be a presupposition but gradual result of these transformations in circulation*” would be a fundamental error and misunderstanding of the reality of capitalism.

In other words, separating money from value and indeed making money the primary force for change in capitalism fails to recognize the reality of social relations under capitalism and production for profit. Without a theory of value, the MMTers enter a fictitious economic world, where the state can issue debt and have it converted into credits on the state account by a central bank at will and with no limit or repercussions in the real world of productive capital, **although it is never as simple as it seems.**

For Marx, money makes money through the exploitation of labour in the capitalist production process. The new value created is embodied in commodities for sale; the value realised is represented by an amount of money. Marx started his theory of money as a commodity like gold or silver, whose value could be exchanged with other commodities. So the price or value of gold anchored the monetary value of all commodities. But, if the value or price of gold changed because of a change in the labour time taken for gold production, then so did the value of money as priced in other commodities. A sharp fall in gold’s production time and thus a fall in its value would lead to a sharp rise in the prices of other commodities (Spain’s gold from Latin America in the 16th century) – and vice versa.

The next stage in the nature of money was the use of paper or fiat currencies fixed to the price of gold, the gold exchange standard and then finally to the stage of fiat currencies or ‘credit money’. But, contrary to the view of MMT or the Chartalists, this does not change the role or nature of money in a capitalist economy. Its value is still tied to the SNLT in capitalist accumulation. In other words, commodity money *has/contains* value while non-commodity money *represents/reflects* value, and because of this both can measure the value of any other commodities and express it in price-form.

Modern states are clearly crucial to the reproduction of money and the system in which it circulates. But their power over money is quite limited – and as Schumpeter said (and Marx would have said), the limits are clearest in determining the value of money. The mint can print any numbers on its bills and coins, but cannot decide what those numbers refer to. That is determined by countless price-setting decisions by mainly private firms, reacting strategically to the structure of costs and demand they face, in competition with other firms.

This makes the value of state-backed money unstable. Actually, this is acknowledged by the Chartalist theory. According to it, the main mechanism by which the state provides value to fiat money is by imposing tax liabilities on its citizenry and proclaiming that it will accept only a certain thing (whatever that may be) as money to settle those tax liabilities. But **Randall Wray**, one of most active writers in this tradition, admits that if the tax system breaks down “*the value of money would quickly fall toward zero.*” Indeed, when the creditworthiness of the state is seriously questioned, the value of national currencies collapse and demand shifts to real commodities such

as gold as a genuine hoard for storing value. The gold price skyrocketed with the start of the current financial crisis in 2007 and another rise of larger scale was propelled in early 2010 when the debt crisis of the southern Euro countries aggravated the situation.

The policy conclusions

I often hear various MMTers saying that “**money can be created out of nothing**”. *‘Bank money does not exist as a result of economic activity. Instead, bank money creates economic activity.’* Or this: *‘The money for a bank loan does not exist until we, the customers, apply for credit.’* (Ann Pettifor). The short reply to this slogan is that “yes, the state can create money, but it cannot set its price”, or value. The price of money will eventually be decided by the movement of capital as fixed by socially necessary labour time. If a central bank ‘prints’ money or deposits credits with the state accounts, that gives the state the money it needs to launch programmes for jobs, infrastructure etc without taxation or issuing bonds. This is the policy conclusion of the MMT. It is the ‘way out’ of the capitalist crisis caused by a slump in private sector production.

The MMT and Chartalists propose that private sector investment is replaced or added to by government investment ‘paid for’ by the ‘creation of money out of thin air’. But this money will lose its value if it does not bear any relation to value created by the productive sectors of the capitalist economy, which determine the SNLT and still dominate the economy. Instead, the result will be rising prices and/or falling profitability that will eventually choke off production in the private sector. Unless the MMT proponents are then prepared to move to a Marxist policy conclusion: namely the appropriation of the finance sector and the ‘commanding heights’ of the productive sector through public ownership and a plan of production, thus curbing or ending the law of value in the economy, the policy of government spending through unlimited money creation will fail. As far as I can tell, MMT exponents studiously avoid and ignore such a policy conclusion – perhaps because like Proudhon they misunderstand the reality of capitalism, preferring ‘tricks of circulation’; or perhaps because they actually oppose the abolition of the capitalist mode of production.

Of course, none of this has been tested in real life, as MMT policy has never been implemented (nor for that matter, has Marxist policy in a modern economy). So we don’t know if inflation would explode from creating money indefinitely to fund investment programmes. MMT people say ‘monetizing the deficit’ would be ended once full employment is reached. But that begs the question of whether the private sector in an economy can be subjected to the fine manipulation of central bank and state policy. History has shown that it is not and there is no way governments can control the capitalist production process and prices of production “in such a finely managed” way.

Even leading MMT man Bill Mitchell is aware of this risk. As **he put it in his blog**, *“Think about an economy that is returning from a recession and growing strongly. Budget deficits could still be expanding in this situation, which would make them obviously pro-cyclical, but we would still conclude the fiscal strategy was sound because the growth in net public spending was driving growth and the economy towards full employment. Even when non-government spending growth is positive, budget deficits are appropriate if they are supporting the move towards full employment. However, once the economy reached full employment, it would be inappropriate for*

the government to push nominal aggregate demand more by expanding discretionary spending, as it would risk inflation." (my emphasis).

It seems that MMT eventually just boils down to offering a theory to justify unrestricted government spending to sustain and/or restore full employment. That's its task, no other. This is why it attracts support in the left of the labor movement. But this apparent virtue of MMT hides its much greater vice as an obstacle for real change. MMT says nothing about why there are convulsions in capitalist accumulation, **except that the state can reduce or avoid cycles of boom and slump by a judicious use of government spending within a capitalist-dominated accumulation process.** So it has no policy for radical change in the social structure.

The Marxist explanation is the most comprehensive as it integrates money and credit into the capitalist mode of production but also shows that money is not the decisive flaw in the capitalist mode of production and that sorting out finance is not enough. **Thus it can explain why the Keynesian solutions do not work either to sustain economic prosperity.**

The Tricks of Circulation

As I have detailed thus far, MMT is the child of what is called Chartalism, namely that money is historically the creation of the state and not, as mainstream neoclassical theory claims, an extension from barter trading; or in the Marxist view that money appears with the emergence of markets and commodity production (*"Money necessarily crystallises out of the process of exchange, in which different products of labor are in fact equate with each other, and thus converted into commodities.... as the transformation of the products of labour into commodities is accomplished, one particular commodity is transformed into money."* – Marx Capital Vol 1).

I won't tackle whether Chartalism is an accurate historical account of the emergence of money. Instead, let me refer you to an excellent short account of the history of money by Argentine Marxist economist, Rolando Astarita, [here](#). Astarita has also analyzed MMT in several posts on his blog, and I shall draw on some of his arguments. Suffice it to say that to argue that money only arose because the role of the state in pre-capitalist economies is not borne out by the facts.

Nevertheless, MMT starts with the conviction that it is the state (not capitalist commodity relations) that establishes the value of money. Leading MMTer Randall Wray argues the money takes its value not from merchandise *"but rather from the will of the State to accept it for payment"*. Chartalist founder Knapp says: *"money is a creature of the law"*; *"The denomination of means of payment according to the new units of value is a free act of the authority of the State"*; and *"in modern monetary systems the proclamation [by the State] is always supreme"*. Thus the modern monetary system *"is an administrative phenomenon"* and nothing more.

Keynes also backed this Chartalist view. In his Treatise on Money, Keynes says: *"the Chartalist or state money was reached when the State assumed the right to declare which account money is to be considered money at a given moment"*. So *"the money of account, especially that in which debts, prices and general purchasing power are expressed, is the basic concept of the theory of money"*. I don't think it is correct to say that MMT bastardizes Keynes (as one comment

on my first post argues) – on the contrary, MMT and Keynes are in agreement that money is a product of state creation as the state decides the unit of account for all transactions.

But deciding the unit of account (eg whether dollars or euros) is not the same as deciding its value for transactions ie as a measure or store of value. MMT supposedly supports the ‘endogenous’ money approach, namely that money is created by the decisions of entrepreneurs to invest or households to spend, and from the loans that the banks grant them for that purpose. So banks make loans and so create money (as issued by the state). Money is deposited by the receivers of loans and then they pay taxes back to the state. According MMT, loans are created by banks and then deposits are destroyed by taxation, in that order. At a simple level, MMT merely describes the way things work with banking and money – and this is what many MMTers argue: ‘all we are doing is saying like it is’.

But MMT goes further. It argues that the state creates money in order to receive it for the payment of taxes. The state can force taxes out of citizens and can decide the nature of the legal tender that serves for money. So money is a product of the state. Thus MMT has a circuit of money that goes: state money – others (non-state entities) – taxes – state money. The state injects money into the private sector, and that money is then reabsorbed with the collection of taxes. According to MMT, contrary to what most of us simpletons think, issuing money and collecting taxes are not alternatives, but actions that merely occur at different times of the same circuit. So if a government runs a fiscal deficit and spends more than it receives in taxes, the non-state sector has a surplus which it can use to invest, spend and employ more. The state deficit can thus be financed by creating more money. Taxes are not needed to finance state spending, but to generate demand for money (to pay taxes!).

But the MMT circuit fails to show what happens with the money that capitalists and households have. In MMT, M (in value) can be increased to M’ purely by state *dictat*. For Marx, M can only be increased to M’ if capitalist production takes place to increase value in commodities that are sold for more money. This stage is ignored by MMT. The MTT circuit starts from the state to the non-state sectors and back to the state. But this is the wrong way round, causally. The capitalist circuit starts with the money capitalist and through accumulation and exploitation of labour back to the money capitalist, who then pays the state in taxes etc. MMT ignores this. But it shows that money is not exogenous to capitalist economic activity. Its value is not controlled by the state.

MMT creates the illusion that this whole process starts and ends with the government when it really starts within the capitalist sector including the banking system. Taxes cannot destroy money because taxes logically occur after some level of spending on private output occurs. Taxes are incurred when the private sector spends and governments decide to use those taxes to mobilize some resources for the state. Private incomes and spending on resources *precede* taxes.

Another Chartalist, [Tcherneva](#) writes: “Chartalists argue that, since money is a public monopoly, the government has at its disposal a direct way to determine its value. Remember that for Knapp the payments with currency measure a certain number of units of value. For example, if the State required that in order to obtain a high-powered money unit a person must provide one hour of work, then the money would be worth exactly one hour of work. As a monopoly issuer of

the currency, the State can determine what the currency will be worth by establishing the terms in which the high-powered money is obtained“(page 18). Tcherneva’s policy of State ‘exogenous pricing’ is pretty similar to the views of [19th century utopian socialist John Gray](#) who reckoned that by issuing bonds that were [exogenously priced to represent working time](#), so economies could deliver growth and full employment – a view that Marx criticised.

Where MMT differs from Keynesian-type fiscal deficit spending is that its proponents see government deficits as permanent in order to drive the economy up and achieve full employment of resources. In this way, the state becomes the “employer of last resort”. Indeed, the MMT exponents claim that unemployment can indeed be solved within capitalism. So there is no need to change the social formations based on private capital. All that is needed is for politicians and economists to recognize that state spending ‘financed’ by money creation can sustain full employment.

MMT proponent Tcherneva writes: *“Chartalists propose a policy of full employment in which the state exogenously establishes an important price for the economy, which in turn serves as an anchor for all other prices This proposal is based on the recognition that the State does not face operational financial constraints, that unemployment is a result of restricting the issuance of currency, and that the State can exercise an exogenous pricing (exogenous pricing)”* This policy conclusion is rather ironic. It leads to a view that full employment can be achieved by the “exogenous” issuance of currency at a fixed price. And yet MMT is prominent in its rejection of the monetarist argument that an exogenous increase in the quantity of money will lead to a boost in economic activity. It seems that MMT also has an exogenous theory of money!

As [Cullen Roche, an orthodox Keynesian, put it](#): *“MMT tries to reinvent the wheel and argue that it is the government’s fault (and implicitly, the rest of society’s fault) that you can’t find a job... MMT gets the causality backwards here by starting with the state and working out.”* Roche goes on: *“The proper causality is that private resources necessarily precede taxes. Without a highly productive revenue generating private sector there is nothing special about the assets created by a government and it is literally impossible for these assets to remain valuable. We create equity when we produce real goods and services or increase the market value of our assets relative to their liabilities via productive output. It is completely illogical and beyond silly to argue that one can just “print” equity from thin air. Government debt is, logically, a liability of the society that creates it. In the aggregate government debt is a liability that must be financed by the productive output of that society.”*

One comment on my first post queried my claim that MMT exponents reckon that money can be created out of thin air – this was a distortion of MMT, I was told. The real argument of MMT is that government spending can finance itself by raising economic activity and thus more taxes. I did cite some economists who talked about ‘thin air’ but apparently these were not true MMTers. Well, British tax expert/economist, Richard Murphy, is definitely a supporter of MMT. He expounded that MMT first says *“governments can make money out of thin air, at will... MMT then says all government spending is in fact funded by money created in this way, created by central banks on the government’s behalf... MMT logically argues as a consequence that there is no such thing as tax and spend when considering the activity of the government in the economy; there can only be spend and tax.”* Similarly, [Stephanie Kelton](#) is currently the most followed

MMT economist. She argues that governments can expand spending to whatever level necessary to achieve full use of productive resources in an economy by state money because such spending is 'self-financing'.

Money only has value because if there is value in production to back it. Government spending cannot create that value – indeed some government spending can destroy value (armaments etc). Productive value is what gives money credibility. A productive private sector generates the domestic product and income that gives government liabilities credibility in the first place. When that credibility is not there, then trust in the state's currency can disappear fast, as we see in Venezuela or Zimbabwe, and even Turkey right now (I'll come back to this in a future post).

To quote Cullen Roche again: *"productive output MUST, by necessity, precede taxes. In this sense it is proper to say that productive output drives money. And if productive output collapses then there is no quantity of men with guns that can force people to pay taxes... So the important point here is that a government is indeed constrained in its spending. It is constrained by the quantity and quality of its private sector's productive output. And the quantity and quality of income that the private sector can create is the amount of income that constrains the government's ability to spend."* This is Keynesian terminology: but if we alter the word 'income' or 'output' to 'value', we can get the point in Marxist terms.

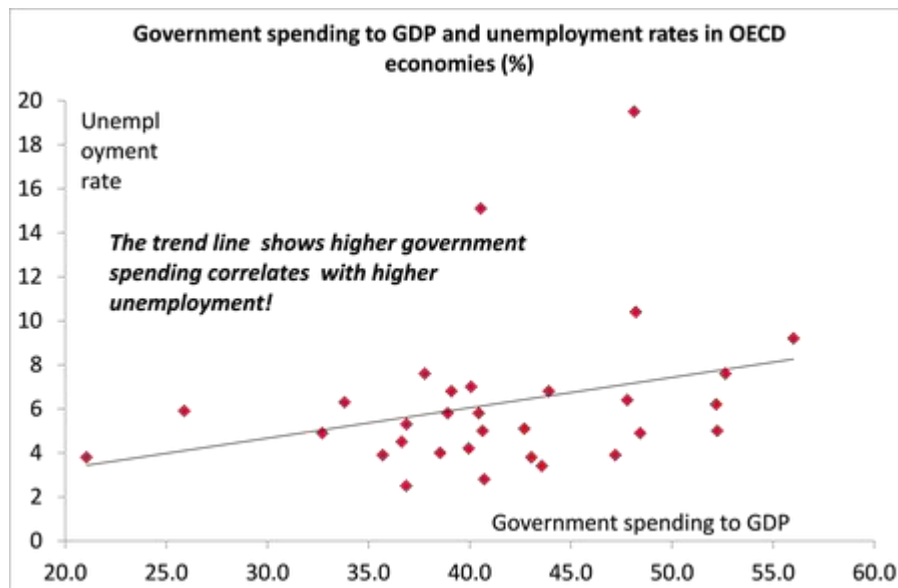
Marx's theory of money concurs with the endogenous approach in so far that it is the capitalist sector that creates the demand for money; to act a means of exchange and a store of value. Banks make loans and create deposits, not vice versa. Indeed, Marx's theory of money is more consistently endogenous than MMT because it recognises the primacy of the capitalist accumulation process (with banks and markets) in deciding the value of money, not any 'exogenous' role of the state. As Astarita puts it: *"the fundamental difference between the Marxist approach to money and the Chartalist approach revolves around this single point. In Marx's conception, money can only be understood as a social relation. In the Chartalist approach, it is an artifice in which essential social determinations are missing.....it "sweeps under the carpet" the centrality of productive work, and the exploitation of work, the true basis on which capitalist society is based."*

The state cannot establish at will the value of the money that is issued for the very simple reason is that, in a capitalist economy, it is not dominant and all-powerful. Capitalist companies, banks and institutions rule and they make decisions on the basis of profit and profitability. As a result, they endogenously drive the value of commodities and money. Marx's law of value says value is anchored around the socially necessary labor time involved in the overall production of commodities (goods and services), ie by the average productivity of labor, the technologies and intensity of work. The state cannot overcome or ignore this reality.

And it is reality. Let me offer some simple empirical evidence (something MMTers do not do). Government spending in modern economies, particularly the ones that dominate MMT thinking (they don't have much to say on so-called emerging economies – but I'll come back to that in the next post), like the US or the UK or the G7, is around 30-50% of GDP. Government investment is only about 3-5% of GDP. This compares with capitalist sector investment of 15-

25%, while household spending varies between 55-70% of GDP. The quantity of domestically held government bonds in the US is just 4% of private sector net worth.

I did a small empirical analysis of the relation between government expenditure and unemployment. According to MMT, you would expect that the higher the ratio of government spending in an economy, the lower the unemployment. Well, the evidence shows the opposite! Government spending in France is over 55% of GDP, while it is 39% in Japan and 38% in the US. But which of these three countries has the higher unemployment rate? France 9%; Japan 2.4% and the US 4%. Most advanced capitalist economies with higher government spending ratios had higher unemployment rates. This shows is that there are other reasons than the lack of state spending for the level of unemployment in capitalist economies.



So state issuance is hardly a key driving force of the economy and employment. Of course, MMT exponents sometimes argue that this is the problem – just expand government spending, particularly investment, fund it by ‘issuing money’ and then the state will exogenously overcome or bypass failing capitalist accumulation. But this response immediately begs the question, studiously ignored by MMT, that it is the capitalist sector that runs modern economies, for better or worse, not state money.

Is it realistic for MMT to claim that the only reason modern economies have unemployment is because politicians do not adopt MMT and so let governments spend as much as necessary, backed by issuance of state-controlled money? That is certainly not the view of Keynes or Marx. Keynes reckoned unemployment emerged because of the lack of investment by capitalists; Marx said the same (although the reserve army of labor was the result of capital-bias in capitalist accumulation). The difference between Marx and Keynes was what causes changes in investment. Marx said profitability; Keynes said ‘animal spirits’ or ‘business confidence’. Both saw the faultlines within capitalism: Keynes in the finance sector; Marx in capitalism as a whole. In contrast, MMT reckons it is only the failure to allow the state to expand the issuance of money!

But perhaps the most telling critique of MMT is that, because it has no recognition of the capitalist sector in its circuit of money and only the state and ‘the non-state’, it can tell us nothing about why and how there are regular slumps in production and investment in modern economies. On this issue, MMTers have the same position as orthodox Keynesians: that it may be due to a lack of ‘effective demand’ or ‘animal spirits’ and it is nothing to do with any contradictions in the capitalist mode of production itself. But for MMTers this issue is irrelevant. MMTers take the same view as orthodox Keynesian Paul Krugman, namely that it does not really matter what the cause of a depression is; the main thing is to get out of it with government spending – in the case of Krugman through judicious government spending through bond issuance; in the case of MMT by government spending financed by the issuance of money.

Call me old fashioned, but I think science works best by finding out what causes things to happen to better understand what actions can be usefully applied to prevent them (vaccination for diseases, for example). Blindly hoping that government spending will do the trick is hardly scientific. Indeed, much work has been done by Marxist economics to show that it is the faultlines in the profitability of capital that is the most compelling explanation of recurring crises, not lack of demand or even austerity in public spending. And that implies action to replace completely the profit-making monetary economy.

The answer to unemployment or the end of crises does not lie in the simple recourse of issuing money, as MMT claims. MMT relies on what Marx called “the tricks of circulation” – “*the doctrine that proposes tricks of circulation as a way of, on the one hand, avoiding the violent character of these social changes and on the other, of making these changes appear not to be a presupposition but gradual result of these transformations in circulation*”.

MMT claims that it has an endogenous theory of money, but in reality it has an exogenous one, based on state issuance of money. It claims that government spending can be expanded to any level necessary to achieve full employment through money issuance, without any reference to the productive activity of the non-state economy, in particular the profitability of the capitalist sector. Indeed, according to MMT, capitalism can be saved and achieve harmonious growth and full employment by ‘tricks of circulation’. MMT ignores or hides the social relations of exploitation of labor for profit. And by selling ‘snake oil’ (MMT) instead, it misleads the labor movement away from fundamental change.

A Backstop to Capitalism

What are the policy proposals that MMTers put forward for the government to do in order to get more jobs at better wages and without provoking inflation?

Since the Great Recession, leftist economists have tried to refute the theories of neoliberal mainstream economics that call for balanced government budgets and a reduction in the high levels of public debt. The policies of austerity that flow from the neoliberal view have meant the slashing of welfare benefits, reductions in public services, real wage stagnation and a rise in unemployment. Naturally, the labor movement wants to reverse these policies that make working people pay for the failure of the banks and capitalism.

The usual alternative comes from traditional Keynesianism, namely that more government spending (by running deficits on annual budgets) can boost effective demand in the capitalist economy and create jobs and increase wages. And here is where MMT comes in. As leading MMTER [Randall Wray puts it](#), what MMT adds to Keynesian fiscal stimulus policy is a theoretical argument that “*a sovereign government cannot run out of its own currency.*” Because the state has a monopoly over fixing the unit of account (dollars or euros or pesos), it can create as much money as it needs, distribute that money to ‘non-state’ entities, and so boost demand and deliver jobs and incomes. As Stephanie Kelton, a leading MMT exponent and adviser to Bernie Sanders, says “*The issuer of currency can never run out of money because it can always print or mint more dollars, pesos, rubles, yen, etc.*”

So running state budget deficits (and hiking up public sector debt) is not a problem. And because there is nearly always ‘slack’ in capitalist economies, ie unemployment and underused resources, there is always room to boost demand, not just temporarily until the capitalist sector takes over again (as in Keynesian policies), but permanently. [This sounds very attractive to the left in the labor movement.](#) Here is a theoretical justification for unlimited government spending and budget deficits to achieve full employment without touching the sticky sides of the capitalist sector of the economy. All that is necessary is for politicians and governments to *recognise* the simple fact that the state cannot run out of money.

The key policy that MMTERS put forward from that theoretical premise is what they call a government job guarantee. Everybody will be guaranteed a job if they want or need it; the government will employ them on projects; or pay for them to get a job. Most people work for capitalist companies or the government, but unemployment remains and can engulf a sizeable section of the workforce. So the government should act as an “employer of last resort”. It won’t replace capitalist companies, but instead sweep up those of working age that capital has failed to employ. As Randall Wray puts it: “*I’d just operate a bufferstock program for labor*”. You could call it a government backstop for capitalism (to use the current word dominating Brexit negotiations between the UK and the EU).

Bill Mitchell is a leading MMT economist from Australia and has campaigned tirelessly for the government job guarantee. [He describes it](#) as “*an open-ended public employment program that offers a job at a living (minimum) wage to anyone who wants to work but cannot find employment*”.... *The Job Guarantee jobs would ‘hire off the bottom’, in the sense that minimum wages are not in competition with the market-sector wage structure. By not competing with the private market, the Job Guarantee would avoid the inflationary tendencies of old-fashioned Keynesianism, which attempted to maintain full capacity utilisation by ‘hiring off the top’.*”

Guaranteeing a job for all sounds great. But apparently, it will not be a job paying a ‘living wage’ (a wage that people can live on). No, it will only be a ‘minimum wage’ to make sure that it is not “*in competition with the market-sector wage structure.*” In other words, the likes of Amazon or WalMart, or small retail and leisure businesses, will still be able to go paying their workers very low wages (at or near the minimum) without interference by any Job Guarantee, because such jobs will be paying less.

Thus the Job Guarantee acts a backstop for the private sector; it does not replace it. Here is Bill Mitchell again: *“The Government operates a buffer stock of jobs to absorb workers who are unable to find employment in the private sector. The pool expands (declines) when private sector activity declines (expands). The JG fulfils this absorption function to minimise the costs associated with the flux of the economy. So the government continuously absorbs into employment workers displaced from the private sector. The “buffer stock” employees would be paid the minimum wage, which defines a wage floor for the economy.”*

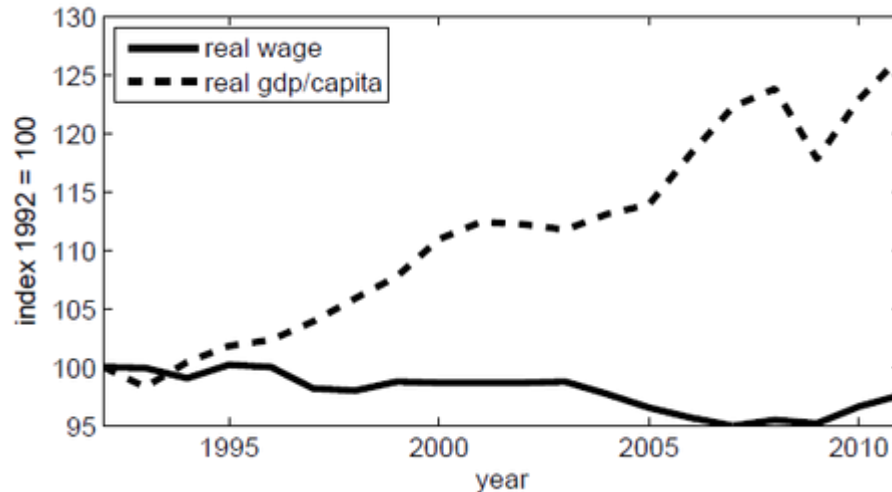
In a way, this reminds me of the Universal Basic Income idea. UBI is also like a backstop to capitalism, providing a basic income to people even if they don't work. The JG offers a minimum wage if you want to work. But both do not threaten or replace capitalist sector wage structure or the decisions of capital over who to employ and under what conditions. As Mitchell says: *“To avoid disturbing the private sector wage structure and to ensure the JG is consistent with stable inflation, the JG wage rate is best set at the minimum wage level”.*

And what sort of jobs will there be? By definition they won't be skilled jobs as the government will be *“hiring off the bottom”*. But they will be in useful non-profit projects like building roads, bridges, etc: *“many socially useful activities including urban renewal projects and other environmental and construction schemes (reforestation, sand dune stabilisation, river valley erosion control, and the like), personal assistance to pensioners, and other community schemes. For example, creative artists could contribute to public education as peripatetic performers”.*

When I read that list, I am reminded of the Roosevelt New Deal of the 1930s. Under Roosevelt's [Works Progress Administration](#) (WPA) many unemployed were put to work on a wide range of government financed public works projects, building bridges, airports, dams, post offices, hospitals and hundreds of thousands of miles of road. This was all on very basic incomes. Did it solve the problem of sky-high unemployment in the Great Depression? Well, in 1933 the unemployment rate reached 25%; in 1938 it was 19%; so not a great success. MMTers will say that this was because it was not done properly as Roosevelt kept trying to balance the government budget, not run deficits permanently.

The JG program is to provide jobs only at the minimum wage. That also reminds me of the notorious Hartz labour 'reforms' in Germany in the early 2000s that created programs for the unemployed at the barest minimum wage. The unemployment rate fell but real wages stagnated. While unemployment is at its lowest since German reunification in 1990, some 9.7% of Germans in work still live below the poverty line – defined as income of around €940 per month or less. Indeed, that working poor figure has grown from 7.5% in 2006 and even surpasses the EU average of 9.5%, according to Eurostat data.

German real wages and per capita GDP



The other issue with MMT-inspired non-stop government spending is inflation. The state may control and issue the currency and governments may never run out of it, but the capitalist sector controls technology, labor conditions and the level of skills and intensity of the workforce. In other words, the productivity of labor (real value) is not in the control of the state with all its dollar printing. So an economy is limited by productivity and the size of the labour force when fully employed. If the government then goes on pumping money in when output cannot be raised further, inflation of commodity prices will follow and/or inflation in speculative financial assets.

MMTers are aware of this problem. Bill Mitchell says: *“when the level of private sector activity is such that wage-price pressures form as the precursor to an inflationary episode, the government can manipulate fiscal and monetary policy settings (preferably fiscal policy) to reduce the level of private sector demand.”* In other words, the government will cut spending or raise taxes and/or interest rates in traditional mainstream style. As Randall Wray puts it: *“The solution is to avoid spending more once full employment is reached; and to carefully target spending even before full employment to avoid bottlenecks.”*

So we are back with traditional Keynesian macro management, something that abysmally failed in the 1970s when capitalist economies experienced stagflation, ie rising inflation and unemployment at the same time. The reason for that was that inflation and employment are not under the control of the state in a capitalist economy, but depend on the profitability of capital and the investment decisions of capitalists. MMT only offers a backstop to capitalist investment and employment, not an alternative.

If there is inflation domestically that curbs exports for a country, the MMTers propose to float the currency. So no capital controls and interference in currency markets. Randall Wray: *“I’d let the dollar float.”* That might be ok for the US, where the currency, the dollar, is the international reserve currency and has to be held by foreign states and companies to do business. But that is not the situation for smaller capitalist economies, particularly so-called emerging economies. If inflation takes hold because the government is printing pesos, lira or bolivaros without stopping to try and maintain full employment while capitalist production is

collapsing, the result will be hyper-inflation. And if those currencies are floating without any controls, then the value of the currencies will plummet – as in Turkey, Argentina, Venezuela etc.

What this shows is that MMT is very much an US/Australia-oriented theory and with policy prescriptions that have no viable application to most economies globally – just like Keynesian theory and policy. The state may control the issuance of its currency but it cannot control its value relative to other currencies or to gold, the world money. If trust in a currency's value is lost by the holders or potential buyers of that currency, then its value will collapse, heightening inflation.

Labor leaders oppose austerity – the policy of the mainstream. But they do not want a policy that means the overthrow of capitalist economic relations – that is too frightening, risky and not 'realistic', so they favor policies that they think can reverse austerity without threatening capitalism – like Keynesian deficit financing. MMT offers a novel theoretical justification for permanent deficit financing – the state controls money as the unit of account and so there is no limit on government spending and rising public debt is nothing to worry about. The only constraint is when resources run out and then inflation may ensue. Then it's time to tax.

In this way, MMT acts as a backstop to capitalism – the state is the employer of last resort but not the main employer. It aims to compensate (patch up) the failures of capitalist production, not replace it.