The chartalist modern monetary theory and Marx

Chartalists argue that generalised 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. But the use of money as a unit of account for debts/credits pre-dates the emergence of an economy based around the generalised exchange of commodities. This idea that money first arose as a unit of account out of debt and not exchange is clearly opposed to Marx's idea that money is analytically inconceivable without understanding commodity exchange.

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.

Can the Chartalist and Marxist theory of money be made compatible/ 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 the confidence in its money can disappear. 3) A strict chartalist position is not compatible with Marxist money theory, but MMT has complementary features.

Let me now try and expand those arguments.

MMT and the Marxist theory of money are complementary in that both are endogenous theories of money. They both reject the quantity theory of money a la Friedman 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: banks make loans and deposits and debt are created to fund the loans, not vice versa. In that sense, both MMT and Marxist theory recognise that money is not a veil over the real economy, but that the modern (capitalist) economy is a monetary one through and through.

But the theories are complementary, not the same. The Marxist theory of money goes onto say that the demand for money and thus its price is ultimately set by the pace of accumulation of capital and capitalist consumption. 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).

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-M, M can exchange with C because 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 abstract labour and thus of value. In that sense, money does not <u>arise</u> in exchange but instead is the monetary representation of exchange value (MELT), or socially necessary labour 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. If it is true that money arose first in history as a unit of account for taxes and debt payments (as Chartalists 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. David Graeber, the anarchist anthropologist, appears to argue this in his new book, 5000 years of debt, which has got a lot of media coverage. But it does not wash well with me. Marx argues that money emerges naturally as commodity production is generalised. The state merely validates the money form – it doesn't invent it.

I think Graeber's quote from Locke on p.340 of his book summarises 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, G. F. Knapp's *State Theory of Money* (1905) 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: measure of value, means of exchange, and "money as money" which includes debt payments. The function of measure of value follows from Marx's labour theory of value and this is the main difference with the Chartalists, who (so far as I can tell) have no theory of value at all and thus no theory of surplus-value. And without a theory of value, the Chartalists 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 (see http://jpkoning.blogspot.co.uk/2013/01/meandering-from-mmt-and-platinum-coin.html).

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 of course, 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 the 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 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. And 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 Wray (1998: 32) 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'. 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. 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. For a Marxist analysis of why Keynesian fiscal policies will not solve the crisis see Carchedi (*http://gesd.free.fr/carch12.pdf).*

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, and thus curbing or ending the law of value in the economy, the policy of government spending through unlimited money creation will fail.

Of course, none of this has been tested in real life as MMT policy has never been implemented, so we don't know if inflation would explode from creating money indefinitely to fund investment programmes. MMT people say 'monetising 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 government 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, "It becomes obvious that if the non-government sector is in surplus at full employment then the budget balance ***has*** to be in deficit to sustain full employment. That might be interpreted as a pro-cyclical budget position given that the economy would be booming (growing at full capacity utilisation) and the budget would be in deficit. But of course, it would be an appropriate fiscal stance. Budget deficits that support growth up to full employment are appropriate. 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. <u>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</u>." (my emphasis).

Ed Dolan from a more orthodox Keynesian position, also argues the same: (http://www.economonitor.com/dolanecon/2013/01/28/debt-sustainability-growth-interest-rates-and-inflation-some-charts-for-discussion-and-some-inconvenient-truths-for-mmt/) *"It seems well established that the central bank could, if necessary, buy up all of the outstanding government debt in exchange for currency and bank reserves. Economists call this procedure "monetizing the debt." when the economy is operating far below capacity and inflation is quiescent, as it has been these last few years, low interest rates and rapid money growth, backed by strong fiscal stimulus, may be just what the doctor ordered. However, what happens when the economy* *approaches full employment and prices begin to rise? That is where I become more skeptical. If the policy produces accelerating inflation as a side effect, it starts to look less attractive, at least to observers outside the MMT camp*."

Indeed, Dolan goes on to show that post-war history of US inflation and employment reveals that inflation comes back well before full employment is reached – so the Phillips curve is steep and against MMT theory.

MMT is really just a tool (Keynes liked to describe economics as providing tools to fix things; it was not political economy) for trying to sustain and/or restore full employment. That's its task, no other. 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. This is naïve and utopian, at least for Marxists. And the evidence from Dolan suggests it is. Indeed once the system is restored to growth, as Marx said, the 'whole crap' will start all over again. Marxist monetary theory tells you why.