MARXISM AND MMT

How Modern Monetary Theory Can Enrich the Debate among Marxists

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Abstract: As of now, there has been a relatively insufficient amount of scholarship tying Marxist theory to Modern Monetary Theory (MMT). This article argues that Marxists should take a closer look at the economic theory. MMT is a normative theory and could be used to promote any worldview or theory. Marxists should use it to argue for and, if implemented, manage non-reformist reforms such as a Job Guarantee and publicly funded elections. These reforms could raise the material and working conditions of the working class, strengthen class consciousness, and condition society for a post-capitalist economic system.

Keywords: Modern Monetary Theory; Marxism; Job Guarantee; publicly funded elections; non-reformist reforms

1. Introduction

In recent years, Modern Monetary Theory (MMT) has gained traction among left-leaning economists and policymakers. As of now, there has been very little scholarship written on its relationship to Marxist theory, though Marxist publications such as *Jacobin* have been relatively cold on the theory as of yet. Doug Henwood writes,

> Absent from . . . MMT literature, is any sense of what money means in the private economy, where workers labor and capitalists profit from their toil and compete with each other to maximize that profit, a complex network of social relations mediated by money. (Henwood 2021)

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His complaints are not in line with the scope of the theory. MMT and Marxist thought exist to help us understand two different things; one is how the monetary system actually works, and the other is to help us analyze, with historical relevance, the relationship between classes. Rejecting MMT because it has almost nothing to say about class struggle would be a mistake. MMT is a rather normative theory, not a positive one. This article will argue that a better understanding of the theory will do good for the Marxist debate, and help them realize their goals in the real world. The second section of this article will explain MMT, the third section will cover non-reformist reforms, reforms made possible by MMT to help push society past capitalism, the fourth will deal with critiques of MMT by both Marxists and post-Keynesian economists, and the fifth section serves as a conclusion.

2. What Is MMT?

MMT's roots could be traced back to the German economist Georg Friedrich Knapp's 1905 book, *The State Theory of Money* (Knapp 1924), which was translated into English in 1924. Chartalism, the theory laid out in his book, argues that money's origins begin with the state's will to direct economic activity, not as a creation of bartering. What gives a fiat currency its value is that it is the only store of value in which you can pay taxes. So, people living in a state with a fiat currency must acquire that currency somehow to pay the tax they owe, making it rather reasonable to accept that fiat currency as payment. MMT started with Warren Mosler's *Soft Currency Economics* (Mosler 1995), Randall Wray's *Understanding Modern Money* (Wray 1998), and Stephanie Kelton's "Can Taxes and Bonds Finance Government Spending?" (Kelton 1998). What they show us is that, as long as the state has a high degree of monetary sovereignty (more on this below), taxes do not fund spending, as to tax a dollar out of circulation is to destroy it. A dollar can only be taxed if it is first issued or spent into the economy. This makes the traditional understanding of government finance that taxing and borrowing must happen before spending (TAB)S inaccurate, and the true model looks like S(TAB), in which spending must come first (Kelton 2020).[1] The purpose of taxes, if not to fund spending, is to give the currency value, since you must earn it first to pay your taxes, and to direct incomes and behavior.

The old neoclassical belief that higher government deficits will lead to higher interest rates, is rejected by MMT. The belief of the "crowding out effect," states that when the government runs a deficit, it increases the demand for (or lowers the supply of) loanable funds, causing the interest rate to rise. Data from the United States, the United Kingdom, and Japan (states that all have high degrees of monetary sovereignty) between the years of 1993 to 2014 on their debt to GDP ratios

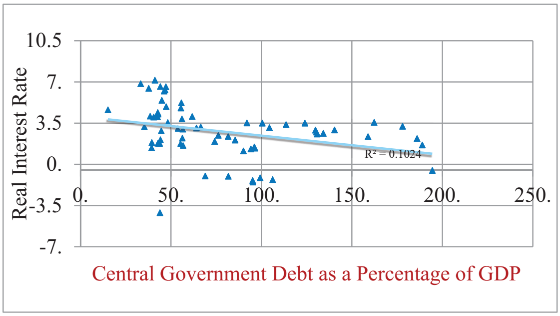

Figure 1. The Relationship between Real Interest Rates and Central Government Debt as a Percentage of GDP

Source: https://databank.worldbank.org/source/world-development-indicators.

and real interest rates show that the relationship does not function in such a manner (Figure 1). The MMT response is that deficits increase the money supply and bank deposits, thus increasing the supply of loanable funds and causing the real interest rate to fall. The data collected is more in line with the MMT view.

As a state with a high degree of monetary sovereignty can always print more money, it can never run out of that currency, so it can always afford to pay its debts. Because government spending is not constrained by financial or debt servicing concerns, the true constraint is resources and the productive capacity of the economy, or better put, inflation. Just as long as there is enough spare capacity within the economy to absorb a given amount of new government spending, the MMT view is that there will be no negative effects on inflation. If the deficit is too high when compared to the slack in the economy, and the government tries to run the economy beyond its productive capacity, you will get inflation. When the economy is at overcapacity and demand outpaces the productive capacity of the economy, MMT suggests fiscal tightening in order to cool down the economy.

The caveat is that this only applies to states that have a certain level of monetary sovereignty. Monetary sovereignty can be looked at in three aspects. The first is that the government must issue its own currency with a floating exchange rate and solely accept payment for taxes in that currency. The second is that the government must issue debt only in that currency. It complicates matters if private firms or banks have notable amounts of debt denominated in foreign currencies, since a dip of their state's currency in the foreign exchange (FX) market could upset their operations, seeking into their productive capacity. The third is how mature certain crucial domestic industries are, such as energy and agriculture. If a state needs to import these critical products, they must worry about how their currency will fare on the FX market when compared to other currencies. Being reliant on foreign suppliers of these goods will eat away at a state's ability to independently create fiscal and monetary policy.

Government deficits are private surpluses; either domestic private surpluses or foreign private surpluses. Government deficits are always good for someone. The question is who? Marxism can help make sure that they are good for the working class, marginalized communities, and society at large.

3. Non-Reformist Reforms

A grasp of MMT could make the implementation of reforms that could push society past capitalism more feasible. For those who wish to do away with capitalism, not just reform it, there are certain reforms that can help lead us to the economic system that will succeed capitalism. These reforms would not stagnate us into perpetual capitalism; they could change the way we think about work, the way we produce, and the way we live. It could help democratize the economy in multiple ways. This section of the article will explore a Job Guarantee and publicly funded elections. The cost of the programs inhibits a true political discussion in the United States, yet an understanding of MMT could allow these ideas to become a reality. By no means are these two policies the only non-reformist reforms that could help society evolve from capitalism, yet they are looked at since the first could enhance the economic power of the working class, and the second could increase the political power of the working class and other disadvantaged communities.

3.1 Job Guarantee

The logical conclusion of MMT is a Job Guarantee (JG). In Kelton's *The Deficit Myth*, the JG acts as its centerpiece policy prescription (2020). A JG would establish and institutionalize an extensive public option for employment. A JG would codify the right to a job in law and make the government the employer of last resort (ELR) for any resident willing and able to work, thereby eliminating both involuntary unemployment and poverty (Paul et al. 2018). A JG would ideally work by being centrally funded (or at whatever governmental level issues the currency) and be locally administered. A JG would set up a two-tier labor market, a private and public one, where the government would set the lowest acceptable wage and working conditions for labor. Most of the time, the JG wage would be fixed as a means of price stability, yet it would need to raise gradually as time goes on. The government would be able to exercise full control over the public sector and by competition, would influence the private-sector labor market. Since labor in the private sector could always quit and get a guaranteed job in the public sector, it would raise workers bargaining power when negotiating with their employers, especially those whose wages are closest to the floor set by the JG. A JG could do away with minimum wage laws for full-time employment, as there would be no need. The government would set the floor for both wages and working conditions, so in order for private employers to attract workers, they would have to compete with the public sector. It could help Marxists achieve goals such as raising the material conditions and working conditions of many lower-wage workers and ending involuntary unemployment (Tcherneva 2018). Argentina's experiment shows that a JG can have positive effects (Wray 2006). As well as empowering labor, it could work to fight racial inequality within states that would adopt it. In the United States, black unemployment is consistently double that of whites, and in some months, college-educated black Americans have a higher unemployment rate when compared to white Americans without a college degree (Paul et al. 2018).

The way in which MMT has us think about unemployment shares similarities to Marxist theory. Through the lens of MMT, unemployment is a policy choice, as the government lowers aggregate demand by the taxes it imposes on the masses (Mitchell 2010). The only way to pay these taxes is by obtaining the currency that only the government can produce. By not having a sufficient fiscal policy that brings the economy to full employment, the government is choosing to have involuntary unemployment. Involuntary unemployment creates the reserve army of labor which Marx wrote about in the first volume of *Capital*. This does serve the capitalist class, as full employment would put pressure on wages, thus eating into the capitalists' profits. A JG would end the reserve army of labor and push power away from employers to employees.

A JG would also act as a price stabilizer, and keep inflation manageable. Currently, capitalist economies rely on the Non-Accelerating Inflation Rate of Unemployment (NAIRU) to control prices. According to this theory, there is a "natural rate of unemployment," and getting unemployment below this rate should spur inflation. Ever since the adoption of this approach, central banks and policymakers have been keeping unemployment above its estimated natural rate of unemployment, which is believed to be about 4.5% in the United States as of 2020 (U.S. Congressional Budget Office 2021). This flawed approach perpetually locks millions out of employment, and the sheer threat of inflation could lead to more losing their job. A JG would achieve true full employment, meaning employing anyone who wants and is able to work, and price stability by shifting to the Non-Accelerating Inflation Buffer Employment Rate (NAIBER) approach (Mitchell 1998). The NAIBER would allow the government to control inflation by adjusting the ratio between private and public sector workers. Instead of using the unemployed as a buffer stock against inflation as the NAIRU approach would suggest, a buffer stock of those employed by the JG would be used.

Since the government would set the wage floor for those in the JG program, in times of bad economic conditions, it would prevent any grave deflation. Though in times of good economic conditions, the private labor market would become tighter, and the pool of those in the JG would shrink, decreasing the Buffer Employment Ratio (BER), which is the ratio of those in the JG compared to total employment. This means that there would be upwards pressure on wages in the private market, but not in the JG as that wage is fixed. If this pressure on wages spurs inflation, the government could impose economic discipline, such as fiscal tightening or raising the interest rate. Though some proponents of MMT would only suggest fiscal tightening as they would like to keep the Fed funds rate at zero (Forstater and Mosler 2005). This discipline would lead to layoffs in private-sector employment, moving workers into the JG program and increasing the BER. This would assuage inflationary pressures as the JG wage would be fixed. Through fiscal and monetary policy, the government can adjust the BER and keep inflation manageable and predictable while maintaining proper full employment at all times.

A JG could help democratize the economy. It would give the government, a public institution, massive influence over the economy. The law could be written in a manner that these public sector jobs could extract less surplus value from workers when compared to private-sector jobs, though avoiding surplus value extraction altogether might be impossible (Mahoney 2021). This could rewrite society's expectations of work, leading to perpetual demands of better working conditions in both the public and private sectors.

A JG could bring the benefit of ending the economic costs of involuntary unemployment, such as a lower GDP, and also the substantial human costs. The human costs of unemployment are far-reaching and are usually understated when discussing this topic. The most obvious is that being unemployed makes finding future employment harder (Ho et al. 2012) and decreases lifetime earnings (Gregg and Tominey 2005). It affects your emotional and mental health for the worse (Farré, Fasani, and Mueller 2018). It damages relationships and your family life (McClelland 2000). It makes you more likely to use drugs (Peck and Plant 1986) and commit acts of violence (Cramer 2011). It also leads to an increased likelihood of injury, suicide, and death in general (Voss et al. 2004). The human costs of involuntary unemployment are detrimental to both society and the individual. These costs of unemployment coupled with the benefits a JG would bring such as ending the reserve army of labor, empowering workers and marginalized communities when bargaining for wages, raising working conditions and wages, stabilizing prices, and democratization of the economy should make implementing a JG a priority for Marxists.

3.2 Publicly Funded Elections

Aside from a JG, looking at publicly funded elections through the lens of MMT could hasten the transformation to a post-capitalist society. The price tag would be quite large, even prohibitively large, yet MMT shows us that we could afford it.

For states that practice democracy, privately funded elections could lead toward corrupted public officials that serve their donors over their voters. A switch toward a system of publicly funded elections could change the dynamics and the incentive structure for elected officials and lower corruption, increase the competitiveness of elections, and increase the diversity of elected officials. This could reduce the amount of influence the capitalist class has over the law-making process and lead to the elevation of the workers' voice in government and politics.

Elections and law-making processes in the United States are dominated by the capitalist class. Currently, the average voter has little say over policy, while elites overwhelmingly dictate the legislative agenda of the United States (Gilens and Page 2014). Intuitively, this leads to corruption as one study found a link between private funds in elections and political corruption (Evertsson 2013). By moving away from privately funded elections, corruption could be curtailed. However, more scholarship on this is needed.

There are two states in the United States that have adopted "publicly funded elections," Arizona and Maine; although their version of publicly funded elections is not completely in line with the author's. Their system first requires private donations and then public funds are used to match the dollar amount. The author's concept is the total elimination of private funds, and the sole use of public funds. While these states still have private money, the level of public funds outstrips that found elsewhere in the United States. Studies from these two states could help us infer some of the effects of public funds in elections. Publicly funded elections make elections much more competitive (Malhotra 2008). They also led to increases in the pool of candidates and decreases in the chances an incumbent will run unopposed (Mayer, Werner, and Williams 2007). Publicly funded elections could root out entrenched interests, allowing the introduction of new ideas into the political arena and a truer democracy to form, as it could become more inclusive.

In the United States, elected officials are more male, whiter, and older than the population at large. White males make up 30% of the United States's population, yet they make up 57% of the United States House of Representatives, 67% of the United States Senate, and 76% of state governors (Reflective Democracy Campaign 2021). Publicly funded elections could help make elected officials look more like the people they serve. In Maine, after publicly funded elections were introduced, female candidates were taking advantage of public funds at a much higher rate than men (Green 2001). In Arizona, the amount of Latino and Native American candidates increased by 300% in two cycles after publicly funded elections were introduced (Levin 2006). These results are somewhat modest, yet if scaled up, and private funds were completely replaced by public funds, this could lead to disadvantaged and working-class communities gaining more political power, at the expense of the capitalist class.

In the United States, there would be legal hurdles to implementing fully publicly funded elections. Private political donations are protected as free speech. Yet in their ruling on the 2003 case, *McConnell v. Federal Election Commission*, the Supreme Court has allowed limitations on political contributions to curb corruption, though this ruling was partly overturned by *Citizens United v. Federal Election Commission* in 2010. For publicly funded elections to become legal, the court would probably first have to overturn the Citizens United ruling or a constitutional amendment would need to be adopted. The Supreme Court overturning the Citizens United ruling is possible, yet considering the current makeup of the court, it is unlikely to happen in the near term. A constitutional amendment intending to strike down the ruling is incredibly popular, with about three-quarters of Americans backing it (Balcerzak 2018). To protect free speech, during every election cycle, every voter could be awarded with a bank account with funds that can only be used for political donations. In addition to funds candidates receive from the state, these funds can be used to fund elections. Every voter would receive the same amount of funds and can donate to their preferred candidate as they see fit.

Publicly funded elections could transform societies such as the United States. By increasing the political power of the working class, government policy could better suit their needs. It could lead public policy to supply more affordable housing, enact better labor laws, tackle climate change, and so on. It could change the way the working-class views government and politics, as their voice in it would increase, and with that, expand the notion of what society can collectively do, and what we expect out of society.

3.3 The Cost of These Programs

A JG would cost a sizable amount of money. In the United States, some proposals cost 32 billion USD annually, while others would cost up to 543 billion USD (Nunn, O'Donnell, and Shambaugh 2018). Trying to find the real dollar amount would be a fool's errand, since the cost of the JG will change year to year, depending on how the private economy is faring. Through the lens of MMT, the price does not quite matter, as the real constraint is inflation, although the JG has a built-in mechanism to control inflation, the NAIBER.

Publicly funded elections would also cost quite a lot. In the United States's 2016 federal elections, the costs were 6.5 billion USD (Sultan 2017). In 2020, that number more than doubled to 14 billion USD (Cillizza 2020). It would be foolish to believe that with only public funds, the price tag would stay the same, as candidates could be disciplined to use less money, if their competitor must do the same. The United States is a relatively large country; countrywide elections cost a sizable amount of money. Though, by shortening the amount of time a candidate can campaign, the price could be pushed down. The primary reason why MMT is important to publicly funded elections is not because of the economics, but the politics. The amount of resources needed for elections is not particularly large when compared to the federal budget in the United States. In the United States, Americans are rather worried about the federal deficit and debt, with over three-quarters saying they are either a great deal or a fair amount worried about it (*Gallup* 2021). Americans are divided on whether publicly funded elections would be the right choice, yet are rather united on limiting the amount of private funds candidates can raise (Saad 2021). Overcoming fears of public debt, which is what advocates of MMT preach, could make publicly funded elections more politically palatable to Americans. Through the lens of MMT, again, the price tag is not overwhelmingly important, it is the economy's actual resources that matter. Devoting enough resources to having publicly funded elections should be a priority.

With an understanding of MMT, Marxists could make better arguments for these programs, or any program that needs public funds, and quicken the transition to a post-capitalist society. By understanding that the price tag is not the important part, the actual resources within the economy are, these programs could become more palatable to the working class. MMT could aid Marxists to preach class consciousness, both by arguing for these programs, and by how, if implemented, these programs could transform our lives.

4. Critiques of MMT[2]

4.1 Marxist Critiques

MMT's relationship to Marxism is not a topic that has been explored in great depth as of yet. However, there are a few critiques in which some Marxists used to disapprove of MMT, such as the one discussed in Section 1. Michael Roberts (2019) laid them out nicely in his piece, "Modern Monetary Theory: A Marxist Critique." They go as follows: 1) The state can indeed create money, yet it lacks the power to decide its value, so printing money before additional production occurs that matches the expanded money supply could lead to bad consequences, 2) MMT has no theory as to where value comes from, and 3) MMT's role is just to act as a backstop to capitalism, even if it does have anything worthwhile to offer, it will just reinforce and protect capitalism. These are all important critiques, though a deeper understanding of MMT should render these complaints as impotent in the eye of a Marxist. This next section will address these critiques.

4.1.1 The State's Ability to Print Money and the Value of That Money

The statement that "The state can create money, but cannot control its value" is slightly misleading. It implies that if the money supply increases at a greater rate than production in the economy, you should get inflation, as more money relative to things it can buy should lower its value. Recent history suggests that this is not an appropriate view. Roberts goes as far as to say

> 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 . . . Instead, the result will be rising prices and/or falling profitability that will eventually choke off production in the private sector. (Robert 2019)

Data collected of the United States's, Japan's, and Canada's ratio between central banks' assets to GDP and inflation rates, show that once central banks' assets grow faster than GDP, inflation goes down, not up as Roberts suggested (Figure 2). This is in line with the MMT view that a larger money supply does not inherently lead to inflation; it is the spending that matters. Central banks' assets of these states grow when the banks "print money out of thin air" to purchase assets (mostly government bonds, keeping interest rates down and financing government investment in the economy), a process known as quantitative easing (QE). While the correlation is not strong, it's enough to assume it does not go in the other way. Yet corporate profits do not follow the path that Roberts has suggested as well. In the United States, corporate profits greatly increased when the money supply expanded (Figure 3). The government can grow its money supply faster than its GDP, just as long as there is spare productive capacity in the economy to safely absorb the additional spending. As long as the government does not overheat the economy, there will not be negative direct impacts on the currency's value. If there is no spare productive capacity in the economy, growing the money supply faster than GDP might lead to the results Roberts had suggested. In short, the state can create money and can protect its value by safeguarding against inflation.

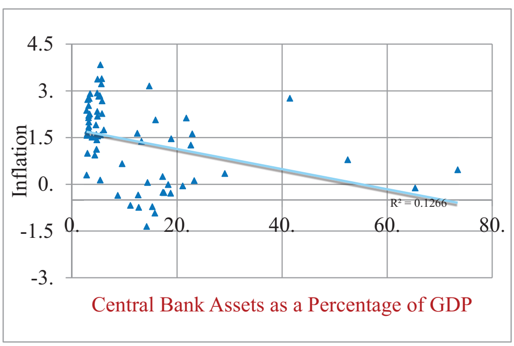

Figure 2. The Relationship between Central Bank Assets as a Percentage of GDP and Inflation

Source: https://fred.stlouisfed.org/.

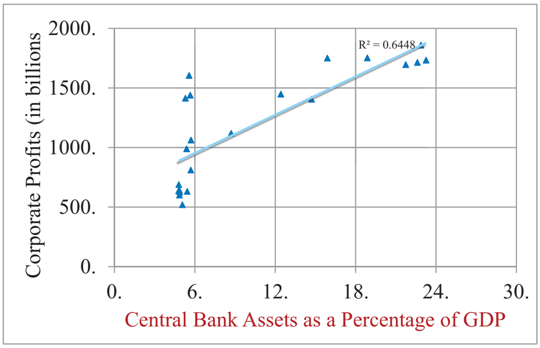

Figure 3. The Relationship between Central Bank Assets as a Percentage of GDP and Corporate Profits

Source: https://fred.stlouisfed.org/.

Of course, there are outside forces that influence what the currency can buy, such as natural disasters, capitalist production, and fluctuations in the FX market. Of course, a state has minimal control over natural disasters (though preparation measures can help mitigate damage), how we can use MMT to mitigate changes in capitalist production was listed in Section 3.1, and as mentioned above, MMT suggests that a government try to increase its level of monetary sovereignty, so fluctuations in the FX markets have less of an effect on production.

4.1.2 MMT's "Theory of Value"

In Marxist theory, value is determined by the amount of labor put into the production process for a given product. This is known as the *Labor Theory of Value* (LTV). Critiques of MMT from Marxists stating that the theory does not have an explanation as to where the value of a product comes from is somewhat true. Though MMT is not there to help us understand where the value of a given commodity or product comes from, what it does provide is where the value of a fiat currency comes from. As mentioned in Section 2, the value comes from the state's ability to tax. Though MMT does not have a theory of value for products or commodities, other theories of value can be applied to it, thus complementing and enriching it. You can use other theories of value to fill in the gaps left by MMT. You can use Marx's LTV to explain where the values of these products come from, just as you could use the *Law of Supply and Demand*. Disregarding MMT for failing to come up with a theory of value is much like disregarding a pig since it is lousy at flying. Surrendering it would be counterproductive for Marxists.

Say if a government prints money to hire unemployed workers to build a road. The cash came out of thin air, the central bank printed the cash, bought a government-issued bond, and then the government hired workers to build the road. The road holds value since labor time went into it. What the printing of money enabled was the deployment of workers and the constant capital needed for road building to create value. If not for the printing of this money, the labor and constant capital would have stayed idle, forgoing potential value. The government can print money and create additional value, as money is a store of value, if there is idle productive capacity in the economy, such as constant capital or labor not currently in use. By printing money and deploying idle capital, the state can realize potential value that would otherwise be given up. If there is no idle constant capital or labor available and the economy is running at its productive capacity, printing money should lead to consumption outpacing production, making inflation materialize and eventually lead to the currency diminishing in value, though as seen in Figure 2, this has not happened recently and is unlikely to happen as capitalist economies usually operate at under capacity. Depending on economic conditions, the state cannot always create additional value by printing additional currency. The government's ability to create additional value by printing money is limited by the idle productive capacity in the economy at any given point in time.

4.1.3 MMT Would Not Trap Us in Perpetual Capitalism

The most potent critique of MMT from Marxists is that it would ensnare us into a permanent state of capitalism. The reason why this carries so much weight is because it could be true. Capitalists could utilize MMT to cut their own taxes, fund projects in which most of the benefit goes to the upper class, bail-out businesses, or even fund wars. These policies could entrench and increase the capitalists' political power, allowing them to increase their economic power even more, which would lead to an increase in their political power, and so on and so on. In the same vein, capitalists could use the knowledge of MMT to prop up the economy in times of recessions, using it to save capitalism, but never reform it. In the United States, it seems as though capitalists have already surrendered their fear of deficits to engage in these sorts of policies.[3]

Though on the other side of the coin, MMT could be used to transform society. Again, MMT is a normative theory. Positive theories can use it to achieve their own goals. With an understanding of MMT, reforms that could push society past capitalism could become achievable. These non-reformist reforms, which were spelled out in Section 3, can be possible if Marxists do not solely surrender the understanding of public finances in which MMT brings.

4.2 Post-Keynesians Critiques

Some post-Keynesians believe that MMT, or neo-chartalism as some of them call it, belongs to the post-Keynesian tradition, namely, institutionalist post-Keynesians (Lavoie 2019). Some advocates of MMT would also agree with this assessment

(Fullwiler, Bell, and Wray 2012). As well as Marxists, post-Keynesians have some concerns with MMT. Many of the post-Keynesians critiques are about the JG (Ramsay 2003). While advocates of MMT should view critiques of the JG critically as some have called the JG a core component of MMT, these critiques fall short of damaging the violability of JG.

While Ramsay notes that a JG could provide full employment and price stability and calls a JG economy preferable to the current arrangement, his critique lays within the political implications. He envisions that a JG would bring about a heightened degree of class consciousness. In his vision there would be more collaboration and organization between workers and higher levels of democratic political participation from them. He claims that the current "liberal" political institutional arrangement in Australia (though this argument could be expanded to include other states with Western-liberal political institutions) could not cope with the shift in political power away from capital toward the workers. These new political problems would be based around how a JG economy would control inflation and the pay discrepancy between workers in the private labor market and those in the JG. Workers would want to shift the burden of inflation control toward capital and demand a more equitable income distribution.

Getting a lower paid job in the JG program in times of government-induced economic discipline would be preferable to being without work altogether, and the pay discrepancy between workers in the private labor market and those in the JG would be much less when compared to workers in the private labor market and unemployed workers. Due to this, labor's problems would become less severe thanks to a JG. Though with the heightened class consciousness that might follow a JG, workers might start demanding more. As stated in Section 3, a JG could act as a non-reformist reform. If we look at a JG as a non-reformist reform, we should find that the problems Ramsay stated are not bugs of the system, but features. A JG could act as a bridge to a post-capitalist economy, where workers demand a greater say in the production process and where the profits flow to.

In Lavoie's "The Monetary and Fiscal Nexus of Neo-Chartalism: A Friendly Critique," he lays out his criticisms with MMT (Lavoie 2013). His complaints are not so much with the logic of MMT, as he concedes most of it is correct, but mostly with its framing. His complaint with MMT is that when discussing the theory, MMT consolidates central banks and the government treasury departments into something called the "state." He claims that this phrasing is misleading of the monetary system and could turn off economists and others that would normally be open to MMT. He states that in the United States, spending cannot happen before borrowing, as the Federal Reserve cannot buy government bonds on the primary market directly from the Treasury; it must buy it second hand from a private bank. So private banks must first hold currency before the government can borrow. He claims because of this, the MMT position that the roles of taxes are not to fund government spending and the logic of S(TAB) is wrong.

Lavoie is correct that in the United States, the Federal Reserve cannot directly buy bonds from the Treasury as of 1981, when the Federal Reserve's authorization to directly loan to the Treasury lapsed (Meulendyke 1998), though there are two issues with his complaint. According to Bell and Wray,

> When the government runs a deficit, it can (1) auction new Treasury debt, specifying that note option banks may purchase all or a portion of the debt by crediting a TT&L (Treasury Tax and Loan) account, (2) sell bonds to banks or the nonbank public in exchange for existing deposits, or (3) sell bonds directly to the central bank in exchange for a credit to its primary account. (Bell and Wray 2002)[4]

Option (2) is the only one that does not involve the creation of new money, and Kelton and Wray state that option (1) is the most common. In this option, a private bank will loan the Treasury money by crediting its TT&L account, an account the Treasury has with private banks, with money to "fund" its deficit spending, though this money that was placed into the TT&L account was newly created "out of thin air," as Lavoie agrees that loans create deposits, and deposits create reserves (2013). Banks must first have the authority to operate as banks and create loans. To get this authority, they must request it from the state. The first issue with Lavoie's claim is that he overlooks the fact that banks can create loans and effectively create new money, after getting the authority to do so from the state. It is highly doubtable that private banks would ever refuse to buy government bonds issued by the Treasury (Bell and Wray 2002). In the United States, government bonds will always be a safe investment for banks, even though it is not incredibly lucrative. So yes, private banks must first buy government bonds from the Treasury before the Federal Reserve can buy it, but private banks, after getting the authorization from the state to do so in the form of a bank charter, can create new money to buy bonds. The second issue is that the funds raised by taxes and bonds sales are essentially destroyed when they are transferred to the Treasury's account at the Federal Reserve, according to Kelton's "analysis of reserve accounting at the central bank" (Kelton 1998).

In the United States, the Federal Reserve and the Treasury are separate, yet there is coordination between them. As Bell and Wray put it,

> We prefer to consolidate the Fed and Treasury, and leave the minutiae of coordination between them to the side. By this we do not mean to propose a formal consolidation but rather attempt to lay bare the essentials of the impact of fiscal operations on [the monetary base]. (Bell and Wray 2002)

This theoretical consolidation might confuse some, yet it does not contradict the macroeconomic realities in the United States, or undercut the MMT argument. S(TAB) is the correct way to view government finance. You cannot tax (or loan) something that does not exist; it must be created first.

5. Conclusion

Marxism and MMT are there to help us understand different aspects of the world that we live in. This, inherently, does not make them incompatible, in fact, they complement each other. As MMT is a normative theory, it could be used to advance any worldview or ideology. It would be a mistake for Marxists to reject MMT and cede it to others. Marx tells us that labor creates value, but idle labor and constant capital creates nothing. MMT helps us understand that idle resources can be put under public ownership and used for the public good, with little consequences, if done correctly. There are plenty of non-reformist reforms, such as a JG and publicly funded elections, that could quicken society's transformation to a post-capitalist one. MMT makes the arguments for the reforms stronger, and their potential implementation better managed. It is unclear how a post-capitalist society would take shape, let alone its monetary system, so it is not certain if MMT would still be relevant then. What is certain now is that it could aid Marxists in more ways than one during societal transformation.

Notes

1. (Taxing and Borrowing) Spending—Spending (Taxing and Borrowing).
2. The words "government" and "state" in this section are used to refer to countries with a high level of monetary sovereignty.
3. The wars in Iraq and Afghanistan, the 2001, 2003, and 2017 tax cuts, etc.
4. Stephanie Bell was Stephanie Kelton's previous name.

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