Modern Monetary Theory and the crisis of capitalism: Part one

The Deficit Myth by Stephanie Kelton

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This is the first part of a two-part article.

Throughout the history of capitalism and its recurrent crises, various theories have been brought forward by “left” theorists who maintain that these crises and the social ills they generate can be ameliorated, if not entirely eliminated, by changing the monetary system without touching the foundations of capitalist production itself.

While presenting themselves as “leftist” and “progressive,” advocating reform of the capitalist system, history shows that in periods of great crisis they seek to divert the working class from the program of socialist revolution while at the same time providing the ideological foundations for political forces that advance a counterrevolutionary solution to the crisis.

Modern Monetary Theory (MMT), the essential principles of which are outlined in this book by one of its foremost advocates, is the latest expression of this phenomenon.

The struggle against such tendencies goes back to the very origins of Marxist political economy.

In the winter of 1857–58, in the midst of a global economic crisis, Marx wrote the initial draft of the work that was to become *Capital,* published in 1867. His initial work has come down to us in the form of the *Grundrisse,* first published in English in 1973. It has a particular relevance for a grasp of MMT.

Marx’s starting point was an analysis of money and the refutation of the theories of the French anarchist Proudhon, at that time regarded as a leading socialist theoretician. The *Grundrisse* begins with a citation from one of Proudhon’s followers Alfred Darimon:

“The root of the evil is the predominance which opinion obstinately assigns to the role of the precious metals in circulation and exchange.”

According to the Proudhonists, the social diseases of capitalism could be overcome if only gold and other precious metals were removed from their privileged status as money and reduced to status of ordinary commodities. If that were done, the inequality of the exchange between capital and labour could be ended and the natural equality of all forms of labour restored.

The essence of Marx’s refutation consisted in showing that money was not some device invented for the purpose of facilitating exchange, but arose from the system of commodity production itself, in which the labour of private individuals engaged in production for the market, that is social production, has to find some independent measure. Money, Marx insisted, does not arise out of convention any more than the state does, but develops out of a society based on the exchange of commodities.

The essential point Marx established, through a detailed analysis of the Proudhonist conceptions, was that money did not create the conflicts and contradictions of capitalist society, which assumed ever more violent forms when labour power became a commodity in the form of wage labour, but rather it is “the development of these contradictions which creates the seemingly transcendental power of money.” [*Grundrisse*, Penguin Books, 1991, p. 146]

The aim of the Proudhonists was to do away with the social evils of capitalism, then becoming increasingly apparent due to its recurrent crises, by changing the relations of distribution and circulation, facilitated by money, without touching the underlying social relations of production, based on commodity production.

Here Marx raised what he called the fundamental question: “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, in the organization of circulation.” And further, “can such a transformation of circulation be undertaken without touching the existing relations of production and the social relations which rest on them?” [*Grundrisse*, p. 122]

The Proudhonist scheme, which was based on the continuation of commodity production, the foundation of the capitalist economy, was a utopia. It was, as Marx characterised it, akin to abolishing the Pope without doing away with the Catholic Church.

The Proudhonist theories of the 1850s, which sought to resolve the crises of capitalism through what Marx called the “tricks of circulation,” have been repeated in various forms in the period since.

In the midst of the social distress afflicting workers and small farmers in the US during the 1890s—resulting from a severe economic downturn that saw unemployment rise to an estimated 25 percent in 1893—William Jennings Bryan won endorsement as the Democratic Party’s presidential candidate in 1896 by promising to remove the “cross of gold” from mankind.

The gold standard, it was held, was the cause of the deflation, and the money system had to be changed by making silver part of its basis, which would promote a return to economic prosperity.

The deepening economic crisis of global capitalism following World War I led to the advancement of a number of theories that claimed the crisis could be alleviated through changes in the forms of economic distribution and the monetary system.

In the 1920s, C. H. Douglas put forward the theory of social credit. Contrasting the gap between the value of factory output and payments made in the form of wages, salaries and dividends, he proposed the payment of a national dividend to make up for this deficit. Douglas’ social credit theory and its notion of insufficient demand found expression in the views of Keynes, who maintained that the problems of the capitalist economy resulted from insufficient effective demand, a gap that should be closed by government spending.

During the 1920s, major currencies were still tied to gold—a situation that came to be viewed by some critics as responsible for the continuation of depressed economic conditions.

In 1924, the German economist Georg Friedrich Knapp advanced a new theory of money. He maintained that money did not arise from commodity production and did not have any intrinsic value. It was a token created by governments as means of payment for the tax obligations they imposed. This theory, known as chartalism (derived from the Latin word *charta*, meaning token), is the basis of MMT.

All of these theories, from MMT going back to those of Proudhon, as well as those of Keynes, have a very definite political perspective. Emerging in periods of economic and social crisis, they are grounded on the position that these crises do not arise from the inherent contradictions of capitalism, rooted in commodity production and the transformation of labour power into a commodity and its exploitation, but can be overcome through a change in government policies and the development of a new monetary and credit system.

They are aimed at diverting the working class from the task posed to it by these crises—that of overthrowing the capitalist mode of production and undertaking the reconstruction of the economy on socialist foundations. Rather, according to these theorists, the task of the day is to convince the powers that be to abandon their incorrect theories and adopt the solutions they propose, which will provide a basis for capitalist expansion and obviate the necessity for social revolution. This is the essential theme of Kelton's book and MMT.

From the outset, Kelton waxes lyrical about the power of MMT, claiming it challenges the status quo with sound economics and "gives us the power to imagine a new politics and a new economics," enabling us to see that "another kind of world is possible, one in which we can afford to invest in health care, education and resilient infrastructure." [*The Deficit Myth*, pp. 12–13]

There is no question that such things are materially possible, because of the vast development of the productive forces, created by the labour of billions of workers, which would be utilised to meet human needs in a planned socialist economy. But they are impossible to achieve under capitalism because of the social relations on which it is based—relations that MMT completely ignores, treating the capitalist economy not as a social system, with irreconcilable class divisions, but as a kind of machine.

According to Kelton, the social ills created by capitalism are the result not of its objective contradictions, but of incorrect thinking. She maintains that economic policies which prioritize human need and public interest are possible within capitalism, if only "our self-imposed constraints" are abandoned.

These constraints, she maintains, derive from the way in which government spending is viewed and equated with household spending. A household has to acquire money to finance its expenditure and must balance its budget. That is, it is a user of money. The government, on the other hand, is the issuer of money and is not subject to such constraints, she argues.

A household cannot create dollars to finance its expenditure, but the government can. This means that the limits to spending that apply to a household do not apply to a sovereign government that issues its own currency. It can always finance its spending by simply printing more money, or simply create it through the press of a computer button at the Federal Reserve which transfers money from the central bank to another bank account.

"The distinction between currency *users* and the currency *issuer* lies at the heart of MMT," she writes. [p. 18]

MMT does not maintain, however, that there are no limits to such spending, but that they are not determined by financial constraints. They arise only when all the available resources of the real economy are fully utilised and further demands upon them, resulting from government spending, go beyond the economy's capacity, thereby leading to inflation. But until that time arrives, there are many social, economic and even ecological problems, such as climate change, that can be solved.

The first point to note is that this is not just an "America First" agenda, but an "America Only" one.

The US Treasury enjoys an apparently unlimited capacity to create more dollars because of the role the dollar enjoys as the world's global currency.

However, Kelton claims that other countries, as issuers of their own currency, including countries such as the UK, Australia and Canada, can do the same thing, and MMT "offers insights" for countries with little or no monetary sovereignty such as Panama, Tunisia, Greece, Venezuela and many more. [p. 19]

Even a preliminary examination demonstrates the falsity of this conception. The currencies of other countries do not enjoy the same position as the US dollar. If, for example, the UK or Australia, not to speak of countries such as Argentina or Venezuela, were to simply create unlimited supplies of money and use them to meet social needs, they would very rapidly find that their currency value had collapsed on world markets, giving rise to inflation and undermining their capacity to repay US dollar-denominated debts.

But notwithstanding the US dollar's privileged role, there are also inherent limits to the creation of dollars by the US Fed, which derive from the nature of money itself.

Commodity production, the basis of the capitalist economy, is carried out by private entities, corporations and individuals. But at the same time it is social production. Every society has to resolve the question of how the social labour available to it is allocated, how the labour resources available to it are distributed, in order to continue to function.

In a socialist society this task will be undertaken through a conscious plan and democratic organisation. In capitalist society it is undertaken through the market. This involves equating the different kinds of labour necessary for the functioning of society. In a commodity-producing society, where labour is at once social but carried on privately, this allocation is achieved through the value system.

The value of each commodity is determined by the amount of socially necessary labour required to produce it. But this value must acquire an independent material form, and that form is money. As Marx put it: "Money is labour time in the form of a general object, or the objectification of general labour time, labour time as a general commodity." [*Grundrisse*, p. 168]

It is through money that the objective social bond that actually exists between the individual private producers is given expression. Economists, Marx wrote, say that people place confidence in a thing, money, because they do not place faith in each other. "But why do they have faith in the thing. Obviously because that thing is an objectified relation between persons; because it is objectified exchange value and exchange value is nothing more than the relation between people's productive activities." [*Grundrisse*, p. 160]

To be continued