

Marxist Monetary Theory

TLDR: MMT correctly sees the state's power over its own currency but misses how the law of value reasserts itself through world-money, the constraint reappears at the FX/bond-market level

Modern monetary theory is a synthesis of 20th century views about money in relation to the state which was popularized by various center-left, post-Keynesian economists. The main idea is that since paper and digital money is not tied to gold and governments can issue an arbitrary amount of their own currency (through central banks), the crisis of capitalism can be solved by creating and distributing money to guarantee full employment, welfare, *and capitalist profits*. The deficit in the national balance sheet is simply the money the government spends on goods and services minus taxation, and since it can always create more of its own money to cover debts, there is no risk of default. MMT advocates for reformism by abusing the common misconception of money being a mere ‘social construct’, which Marx was well aware of and criticized in the 1860s:

The illusions concerning the miraculous power of the credit and banking system, in the socialist sense, arise from a complete lack of familiarity with the capitalist mode of production and the credit system as one of its forms - vol. 3 ch. 26

This view goes a lot further than Keynes, who still thought paying back government debt was a real constraint. For MMT the only real limit is inflation— spending that outruns the economy's productive capacity— which the state can pull back by taxing money out of existence, like the One Ring returning to Mount Doom. It emphasizes the formal origin of money over its materialist basis in exchange, as Georg Friedrich Knapp (MMT-precursor) wrote in 1905: "money is a creature of law" rather than a commodity. This view of money therefore precludes the analysis of capitalism on a world scale, as Marx explains:

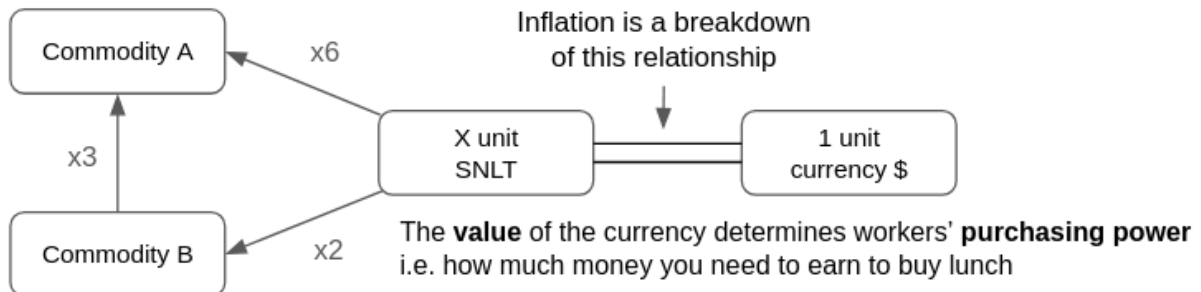
*When money leaves the home sphere of circulation, it strips off the local garbs which it there assumes, of a standard of prices, of coin, of tokens, and of a symbol of value, and returns to its original form of bullion. In the trade between the markets of the world, the value of commodities is expressed so as to be universally recognised. Hence their independent value-form also, in these cases, confronts them under the shape of universal money. **It is only in the markets of the world that money acquires to the full extent the character of the commodity whose bodily form is also the immediate social incarnation of human labour in the abstract** - vol. 1 ch. 3 sec. 3C*

As we shall see, this relation between the national economy and world market, through which the law of value exerts itself on state money, is also why we can't have socialism in one country.

Review of Money in Marx's Capital

It is because all commodities, as values, are realised human labour, and therefore commensurable, that their values can be measured by one and the same special commodity, and the latter be converted into the common measure of their values, i.e., into money.

D. The Money-Form: 2 gold coins = X units of SNLT = 20 yards of linen | 1 coat | 10 lbs of tea | 40 lbs of coffee | 1 quarter of corn | 2 ounces of gold | 1/2 ton of iron...



It's not that gold became money, but rather that money was crystallized in gold as the form of universal equivalent, its independent value is merely a 'transient apparition' in the metamorphoses of circulation (C-M-C). **Hence, in this process which continually makes money pass from hand to hand, the mere symbolical existence of money suffices.**

Marx traces the development of money from a **means of purchase in circulation**, through the commercial capital of the merchant (M-C-M'), to money as a means of payment, giving the example of paying rent: *Here, it is only at the end of the term that the buyer has actually received the [full] use-value of the commodity. He therefore buys it before he pays for it. The vendor becomes a creditor, the purchaser becomes a debtor. Since the metamorphosis of commodities, or the development of their value-form, appears here under a new aspect, money also acquires a fresh function; it becomes the means of payment* - vol. 1 ch. 3 sec. 3B



This *implicit* relation between creditor and debtor is what allows money to become **money-capital**, the form which can fulfill both "*the functions of a universal means of purchase and universal means of payment*" (vol. 2 ch. 1). The industrial capitalist has to continuously pay and receive money from many persons, borrowing money to purchase labour-power before surplus has been realized in the production process, creating a persistent demand for idle money. *The care of the reserve funds of businessmen, the technical operations of receiving and disbursing money, of international payments, and thus of the bullion trade, are concentrated in the hands of the money-dealers* - vol. 3 ch. 25

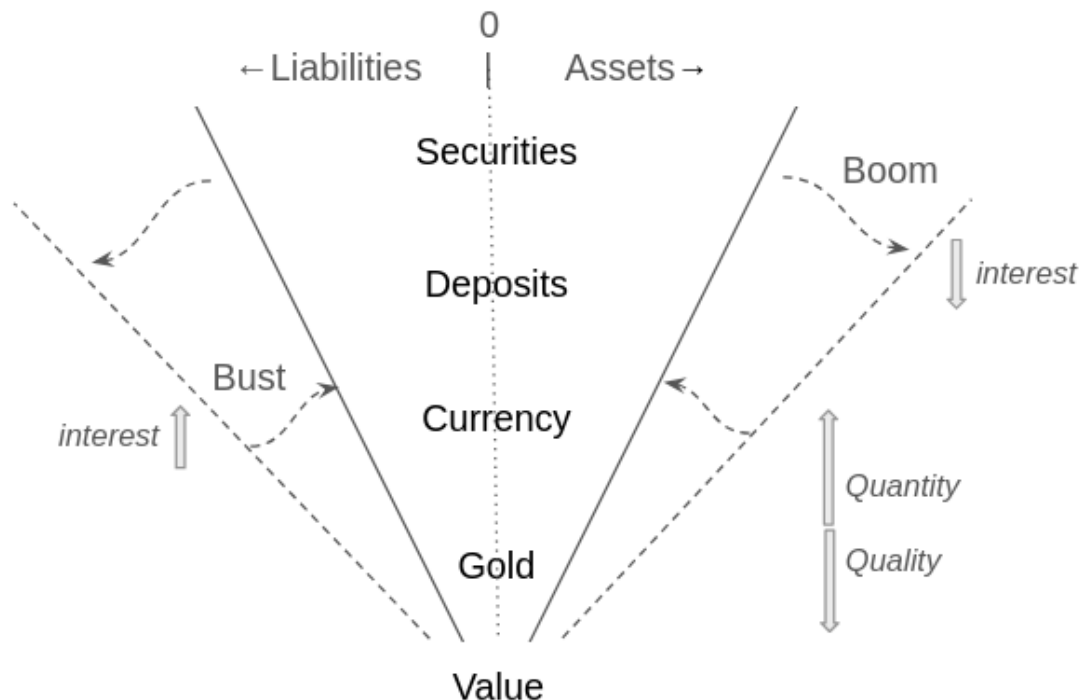
The Hierarchy of Money

*Ever since different national coins have existed merchants buying in foreign countries have had to exchange their national coins for local coins, and vice versa... **Money-changing and the bullion trade are thus the original forms of the money trade, and spring from the two-fold functions of money — as national money and world-money** - vol. 3 ch. 19*

Marx used his analysis of the value-form to criticize the two sides of the money debate of his time: The Banking School (Tooke, Fullarton) who held elastic credit as the key to stability, and the Currency School (Overstone) who pushed for pegging reserves to gold with the 1844 Bank of England Act. The deficit in national balance and clearing of payments then caused a drain of gold out of the country and a rise in interest rates, which was unsustainable and eventually had to be suspended — the same sequence as the collapse of the Bretton Woods system in 1971.

***In times of normal activity, it may happen that the Bank cannot prevent a moderate drain of gold from its bullion reserve by raising the discount rate because the demand for means of payment is satisfied by private banks, stock banks and bill-brokers, who have gained considerably in capital power during the last thirty years** - vol. 3 ch. 33*

During expansion the money (and derivatives) supply grows, the price of money (interest rate) falls, and money-capital (value) exits domestic circulation in search of higher profits.



During contraction the money supply shrinks, interest rates rise, capital is repatriated.

***Once the crisis has broken out... every one is dependent upon someone else for the receipt of means of payment, and no one knows whether the next one will be able to meet his payments when due, a regular stampede ensues for those means of payment available on the market, that is, for bank-notes. Everyone hoards as many of them as he can lay hand on, and thus the notes disappear from circulation on the very day when they are needed most** - vol. 3 ch. 33*

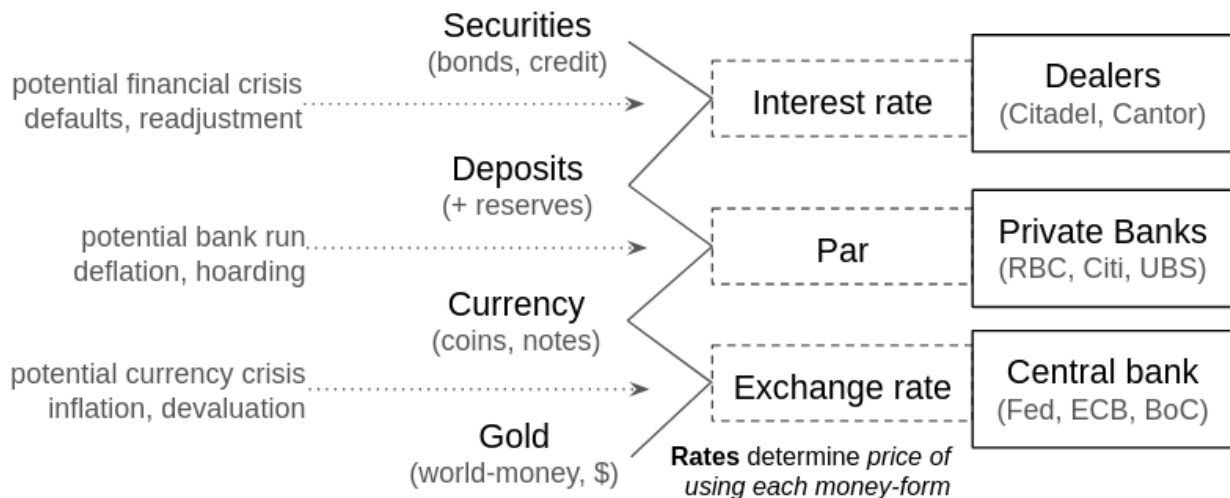
Money Markets and Acceleration of Capital

It should always be borne in mind that, in the first place, money – in the form of precious metal – remains the foundation from which the credit system, by its very nature, can never detach itself. Secondly, that the credit system presupposes the monopoly of social means of production by private persons (in the form of capital and landed property), that it is itself, on the one hand, an immanent form of the capitalist mode of production, and on the other, a driving force in its development to its highest and ultimate form - vol. 3 ch. 36

Commercial banks are like supermarkets for money: they have their own institutional suppliers, they buy wholesale and sell retail, warehousing money (what Marx calls a hoard) to absorb daily fluctuations in supply and demand, offering customers a stable price, reducing the cost of transactions, and accelerating the medium of circulation. *With the same magnitude and number of actual turnovers of commodities for consumption, a smaller quantity of money [gold] or money tokens performs the same service - vol. 3 ch. 27*

The substitution of gold with paper money frees value from its attendant use in circulation in order to accelerate the metamorphoses of capital, the turnover rate of capital (thus the annualized profit rate), and the process of reproduction in general. *All capital seems to double itself, treble itself, by the various modes in which the same capital, or perhaps even the same claim on a debt, appears in different forms in different hands - vol. 3 ch. 29*

Banks convert forms of money in the hierarchy by offering to buy/sell each side



Money-capitalists in the hierarchy can only increase the quantity of the forms of money at a (lower quality) level above their own. The availability of higher quality money from the level below serves as a disciplinary constraint that prevents expansion.

All the deposits, with the exception of the reserve fund, are merely claims on the banker, which, however, never exist as deposits. To the extent that they serve in clearing-house transactions, they perform the function of capital for the bankers – after the latter have loaned them out - vol. 3 ch. 29

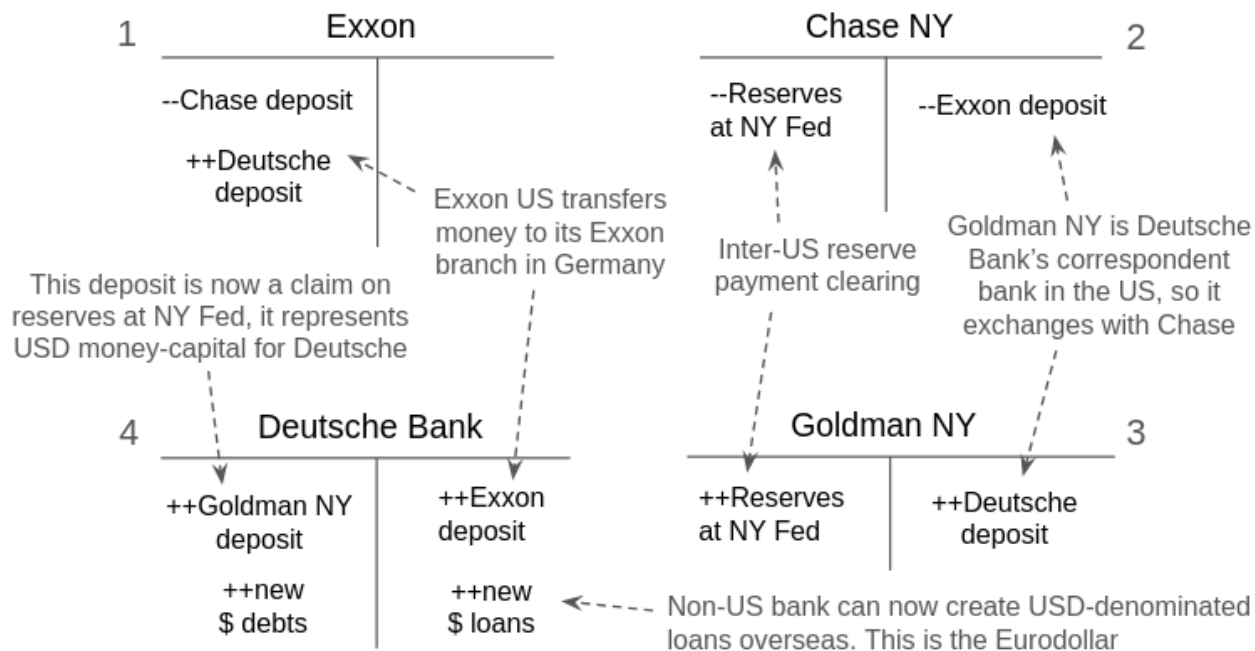
Concentration of Money Power and Dealer of Last Resort

Moreover, with the development of **large-scale industry money-capital**, [money] assumes the nature of a concentrated, organised mass, which, **quite different from actual production, is subject to the control of bankers, i.e., the representatives of social capital** - vol. 3 ch. 22

Money exists in its own distinct market because, unlike other commodities, the buyer and seller confront each other with the same ‘independent value form’, paying money (interest) to get money (loan-capital). As such, the rate of interest is determined by balance of supply and demand, and by the agreed upon division of profit between functional-capitalist and money-lender, which Marx calls a “*purely empirical matter belonging to the realm of accident*”—hence arbitrary and political, the price of money is a matter of leverage and monopoly-power. Because money-capitalists extend credit during a boom by substituting their own reserves for the liability of a bigger bank, the bust propagates reserve-claims back to the original sovereign money issuer, who becomes the dealer (and lender) of last resort. ***In times of extraordinary pressure ... whenever the discounts of the private bankers or brokers become comparatively limited, they fall upon the Bank of England, and then it is that the Bank of England has the power of commanding the market rate [interest rate]*** - vol. 3 ch. 33

The US went through a series of these cycles before the formation of the Federal Reserve in 1913, and the post-war period saw USD overtaking GBP as the universal equivalent currency pegged to gold, what Marx calls world-money. The chain of reserve-claims was reformed with the Fed as the foundation of a new hierarchy extending credit across its sphere of influence. A 1969 CIA report warns “The Moscow Narodny Bank (MNB) has been a principal in the sale of Eurodollar Certificates of Deposit”— signs of money-claim tension rising out of East-West trade.

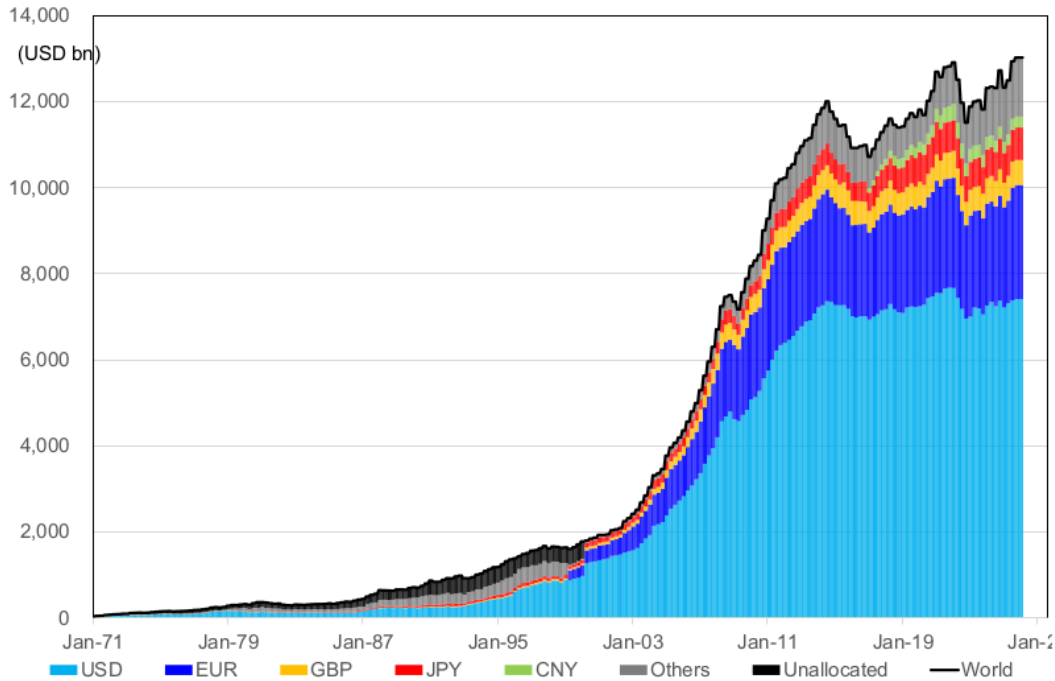
Exxon international operations use Chase in the US and Deutsche Bank in Germany



Growth of USD Reserves in Post-War Era

Capitalist countries started to use dollar money-claims as the base for their own credit systems

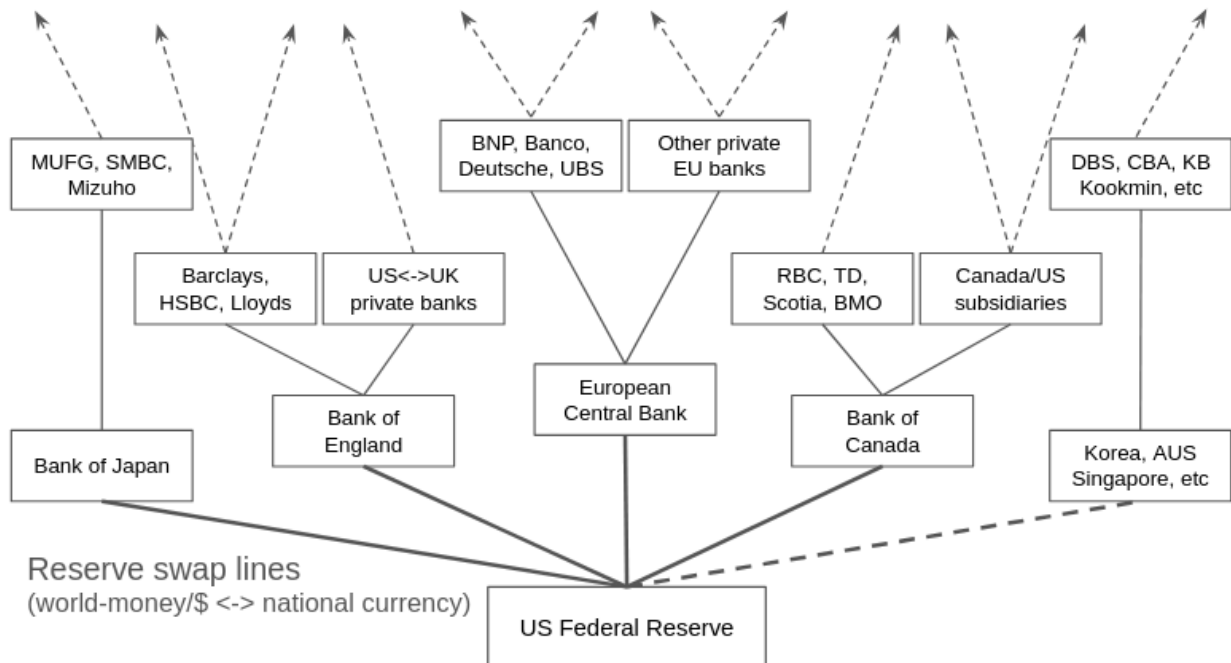
Figure 1. World foreign reserves (by currency)



Source: IMF

After the 2008 financial crisis the hierarchy was officiated with permanent swap lines.

The world tree of USD credit propagates dollar hegemony to local capitalists

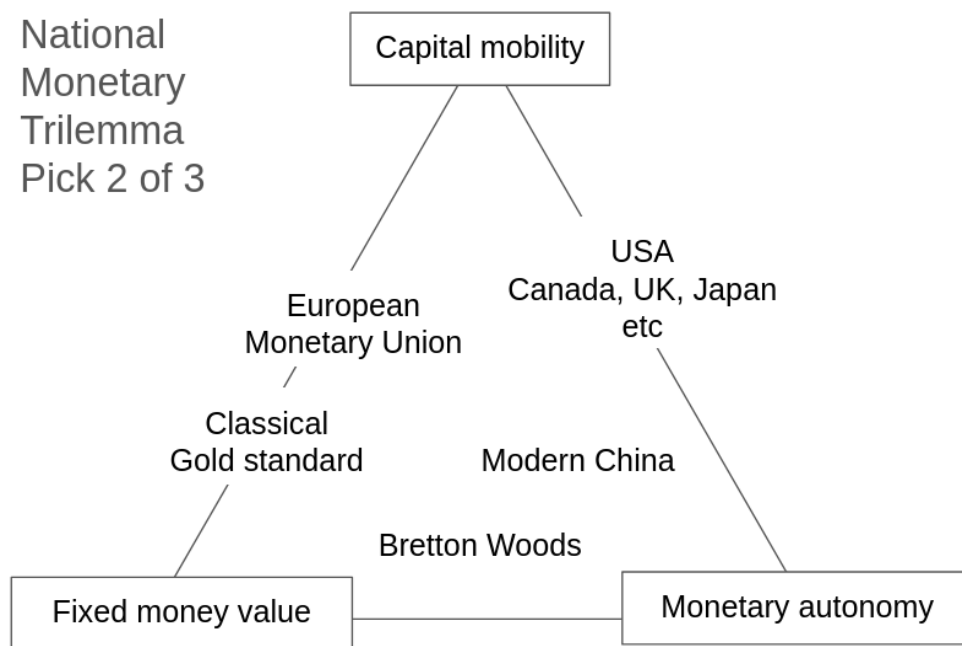


The Monetary Trilemma of Policy Options

The inflow and outflow of precious metals from one national sphere of circulation to another, inasmuch as this is caused merely by a depreciation of the national currency, or by a double standard [a form of fixed exchange-rate], are alien to money circulation as such and merely represent corrections of deviations brought about arbitrarily by state decrees - vol. 3 ch. 19

The Marxist analysis of profit rates across industries extends to the world market in money: equalization of profits drives the equalization of interest rates on (denominated) debt between national currencies, since any discrepancy is an opportunity for arbitrage and re-investment. Under a system of anarchic production there is an irreconcilable tension between international trade and monetary self-determination. Mainstream economics calls this the impossible trinity—the view that a sovereign money issuing nation cannot hold all three at the same time:

- a fixed money value (fixed foreign exchange rate, pegged gold-dollar conversion)
- free capital movement (absence of capital controls, no quotas or planning)
- an independent monetary policy (own central bank controls money supply, MMT)



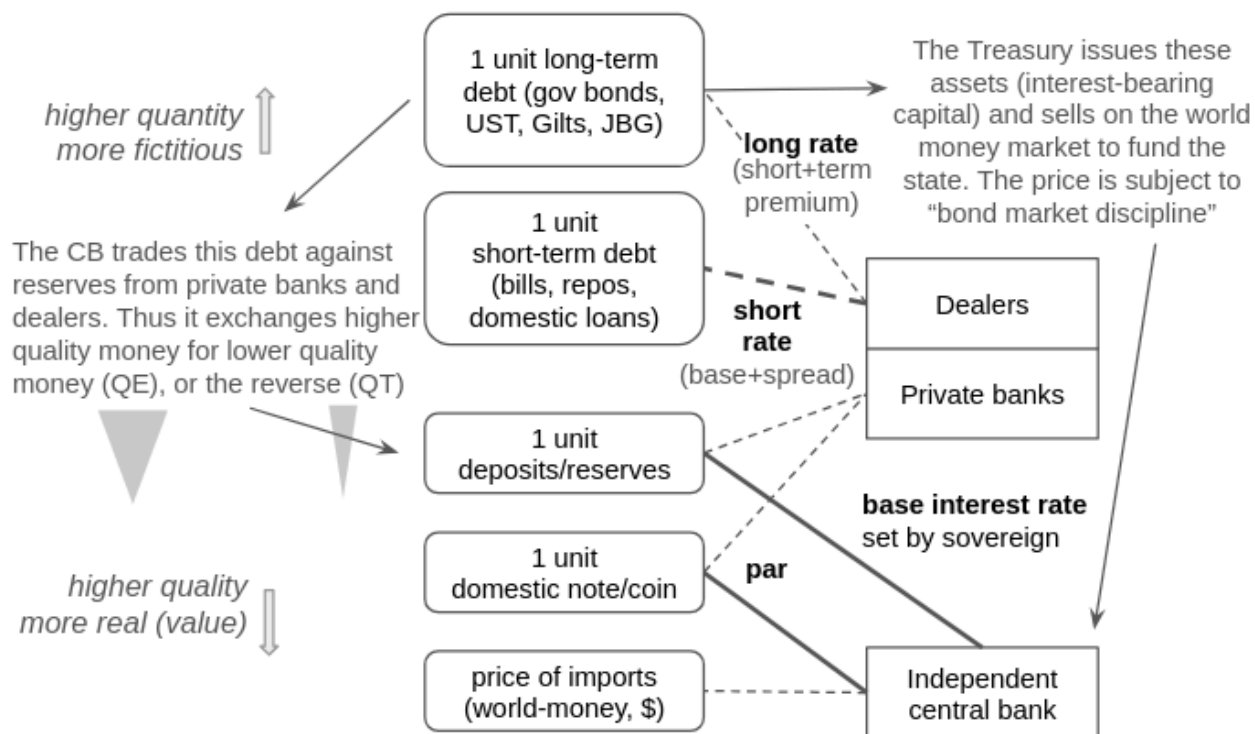
Example: assume a nation adopts an expansionary monetary policy to stimulate its domestic economy. This involves an increase of the monetary supply, thus a fall of the domestically available interest rate (5% -> 3%). Because the internationally available interest rate adjusted for foreign exchange differences has not changed (5%), money-capitalists are able to make a profit by borrowing in the country's currency and then lending abroad. In the absence of controls money-capitalists will do this *en masse*, driving down the nation's currency price due to all the extra supply. If the central bank then allows the exchange rate to fall, increased relative import costs will drive up inflation, but if it defends it by selling world-money, the process will continue until reserves are exhausted. Invariably the purchasing power of workers is reduced.

Finance Capital and Bond Market Discipline

The class-struggles of the ancient world took the form chiefly of a contest between debtors and creditors, which in Rome ended in the ruin of the plebeian debtors. They were displaced by slaves. In the middle ages the contest ended with the ruin of the feudal debtors, who lost their political power together with the economic basis on which it was established. Nevertheless, the money relation of debtor and creditor [in] these periods reflected only the deeper-lying antagonism between the general economic conditions of existence of the classes - vol. 1. ch. 3

Sovereign states investing in welfare or production have 4 options to expend means of payment:

- 1) raise taxes, cut into capitalist profits and workers' wages, unpopular
- 2) cut other spending, risk inciting class war, privatization for capitalists
- 3) print money, unsustainable inflation without capital controls
- 4) issue government debt, sell to buy money— the preferred compromise

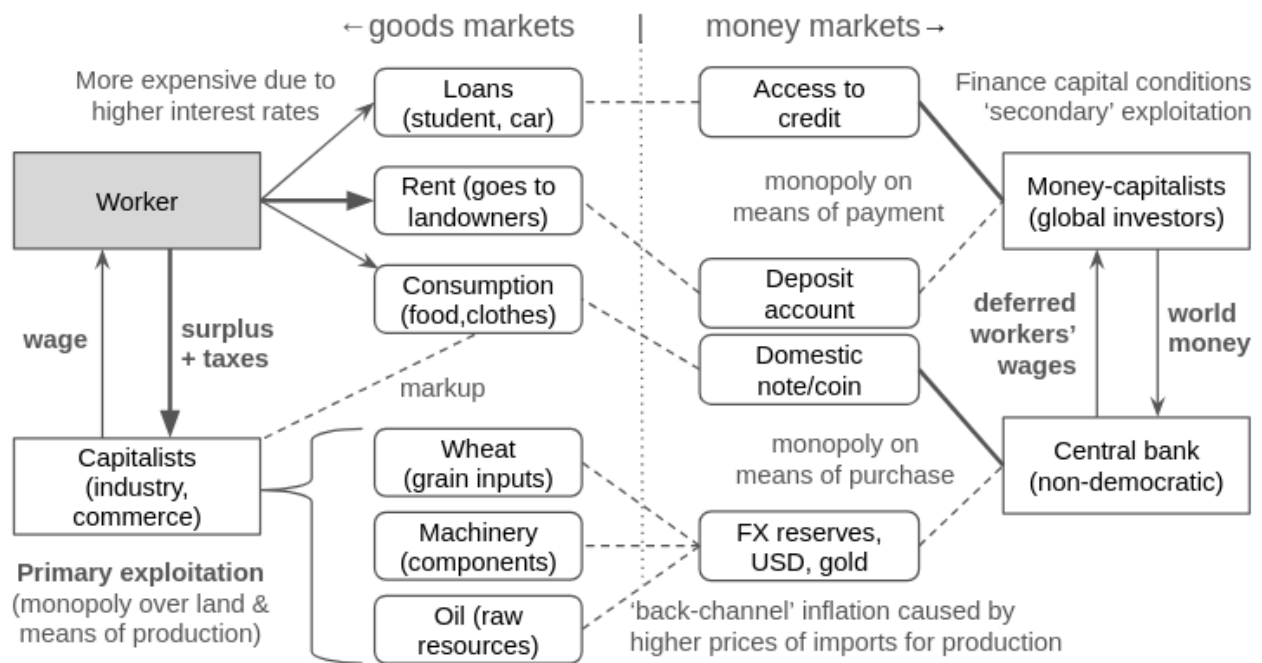


Government debt created ex-nihilo represents claims on the means of payment of workers, which are perpetually extracted as taxes. And states not only facilitate exploitation on behalf of domestic capitalists, but are themselves beholden to global finance under threat of losing access to world-money, foreign commodities, and new technology. This is the hard limit reached by every country manipulating money to socialize production, from Chile to Ghana to Greece, they all face devastating currency devaluation, interest hikes, and capital flight (a capitalist strike) which forces labour leaders to retreat. Even an advanced capitalist country like the UK can't cut taxes without growing debt, as re-pricing by global investors triggers currency debasing sell-offs and rising interest, impoverishing the whole nation, Liz Truss folded in just 44 days. Capital has de facto veto power over elected governments through this financial strangulation of the state.

Putting It All Together: The Workers vs Capital

*It is still more irrelevant and meaningless to drag the lending of houses, etc. for individual use into this discussion. That the working-class is also swindled in this form, and to an enormous extent, is self-evident; but this is also done by the retail dealer, who sells means of subsistence to the worker. **This is secondary exploitation, which runs parallel to the primary exploitation taking place in the production process itself** - vol. 3 ch. 26*

The central bank under capitalism is detached from the government (what they call ‘independent’) in order to protect the accrued value held by domestic exploiters, hence the mandate of ‘low inflation targeting’. But this ability of the bank to dilute or retract means of payment in no way implies a mechanism for the distribution of value itself, which only exists in the *material* realm of class conflict and can't be solved by bureaucratic means.



Even taking over and raiding the reserves of the treasury (Department of Finance in Canada, or most countries) would reveal little more than a trail of money-claims leading back to the US Fed— an unavoidable confrontation with the apex of finance capital the outcome of which depends on the balance of power between workers and capitalists *on a world scale*.

*It is absolutely incontestable that after social democracy had sabotaged the post-war insurrections of the European proletariat against the bourgeoisie, **the active sympathy of the working masses saved the Soviet republic. During these years [1920~28], the European bourgeoisie proved unable to wage war against the workers' state on a large scale. But to think that this correlation of forces will continue for many years, say, until socialism is built in the USSR, is to be so utterly shortsighted as to judge the entire curve of development by one of its tiny segments** - Trotsky, The Third International After Lenin Part 3.9*

Workers of the world have no choice but to fight their primary exploiters, take over the means of production, and eliminate the creditor-debtor relation on which the money hierarchy is based.

Conclusion: A World Without Money

Finally, there is no doubt that the credit system will serve as a powerful lever during the transition from the capitalist mode of production to the mode of production of associated labour; but only as one element in connection with other great organic revolutions of the mode of production itself - vol. 3 ch. 36

In some ways monetary theory has already worked. The post-war era saw massive investments in infrastructure, healthcare, education, and pensions across capitalist nations which used monetary sovereignty in their favour, bolstered by the gold-pegged Bretton Woods system. But this had little to do with the form of money itself; foreign exchange controls, rationing of world-money, quotas and limits on outward investment, ‘window guidance’ for banking, finance separated from trade, restrictions on foreign borrowing and non-resident holdings— these were the *political* means by which capital was constrained, and is indeed a precondition for communism as Engels reminds us in the *Principles: (vi) Centralization of money and credit in the hands of the state through a national bank with state capital, and the suppression of all private banks and bankers.*

Keynes was not ignorant about this political dimension of money either. He proposed the ‘Bancor’ as the new token of foreign currency exchange precisely to keep it neutral, as a form of world-money that would be “*sanctioned by the universal consent of mankind*”. This was struck down by the American ‘White Plan’ that sought to empower finance capital through dollar hegemony (the exorbitant privilege), which was of course never ratified by the Soviet Union, and so money continues dividing the world based on capitalist laws regardless of the form it takes.

As soon as the means of production cease being transformed into capital (which also includes the abolition of private property in land), credit as such no longer has any meaning - ch. 36

The goal of capitalism is to drive the cost of circulation towards zero by driving the value-content of money towards zero, which is accomplished by the *dematerialization* of money—its complete absence from circulation (as paper, then as digital cards, stablecoins) indicates the degree to which relations of ownership and domination become *implicit*. Money is a symptom of a society *unconsciously* planning social production through prices, which is why communists must not be afraid of using the credit system towards our ultimate goal while knowing its limits, to plan for a future where social allocation is conscious and collective, to meet everyone’s needs without making them settle tabs, to dream of a world without money. *If man draws all his knowledge, sensation, etc., from the world of the senses and the experience gained in it, then what has to be done is to arrange the empirical world in such a way that man experiences and becomes accustomed to what is truly human in it and that he becomes aware of himself as man. If correctly understood interest is the principle of all morality, man’s private interest must be made to coincide with the interest of humanity... and each man must be given social scope for the vital manifestation of his being - The Holy Family ch. 6.3.d*