The Value of Money: Implications for MMT

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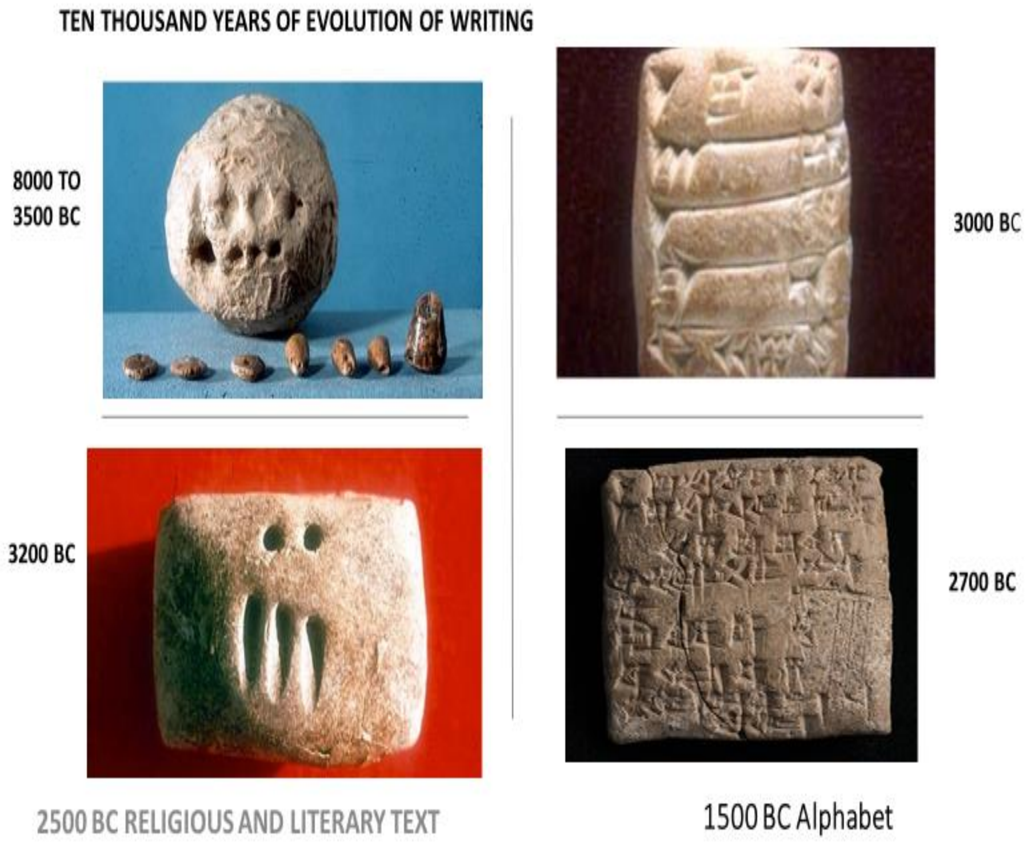
Introduction

- MMT is well-known for claiming taxes-drive-money. From inception, obligations create a demand for currency.
- But that leaves open the "value" of money: what is it worth? MMT answers: money's value is determined by what one must do to get it.
- Related to labor effort—similar to labor theory of value?
- In simple models, government can control wages with a Job Guarantee; or more generally, can control prices by setting the prices it pays. As monopoly supplier of money, government names its price.
- But can it do so in a capitalist system? We need to dig deeper into the nature of capitalism, the relation between prices and value, and determination of each.
- A synthesis of various strands of heterodox economics can point us in the right direction.

The Logic of Money and Markets



- Money long predates capitalism and almost certainly predates markets
  - Historical record: co-evolution with writing over 10,000 years
  - Modern Money: Keynes 4000 yrs; Graeber 5000 years.
- Money originated as a unit of account in which debts were denominated
  - None of that requires mkts and almost certainly predates them
- **Levine**: specialization required for markets would be far too risky without prices and money
  - Markets likely developed in long distance trade, not locally, in a money of account with negotiated prices
  - Debts were settled in commodities at official prices
  - Transferability of money-denominated debts developed later
- Logic: social debts→debts denominated in money of account→prices in money of account→transferable nominal debts (“money things”) and use in markets

Capitalism: What is it?

- To be clear: this analysis is limited to the capitalist system
- Following Marx, Veblen, and Keynes: a monetary production economy where production begins and ends with money: M-C-M'
  - A system that was developed on the slave plantations of the New World and in the triangular trade (obviously, money, states, and markets preexisted capitalism)
  - It is not a "market economy", it is not based on "free labor"; it is based on commodification of labor ("free" and "unfree")
  - There is no capitalism without a state
  - It has both "state money" and "private credit money"; in both cases, money is "endogenous", created "internally"
    - These evolved together, in a mutually reinforcing dynamic to produce modern capitalism
  - Capitalism changes the logic of production: from satisfying economic needs to accumulation of capital in money form

Value and Effort

- Taxes drive money, but what determines money's value?
- Value is commonly attributed to labor "effort"
- **Mosler's** business cards example
- **Graeber**: Mercantilists located wealth in precious metals; physiocrats argued all social wealth is derived from agriculture, but Adam Smith drew on the moral tradition that "argued instead that intrinsic value had to be based in its costs of production, which made labour the main source of value."
- **Smith**: Value is separate from price, however, the "invisible hand" guided by "Divine Providence" would push market prices toward the "natural price", which in turn meant that people would indeed be "justly rewarded for their labours."
- **Marx** took this up, arguing that the capitalist wage system turns "human creativity itself into an abstraction that can be bought or sold, necessarily involving alienation, exploitation and the destruction of what makes life meaningful or worthwhile."

Definitions: What is Value?

- Outside Economics, Value is closely connected to normative concepts
- Smith, early economics = Moral Philosophy, “Just” or “Fair” price
- Classical Econ: Labor Theory of Value
- Neoclassical Econ rejects normative approach, substitutes individualistic, subjective Utility Theory of Value.
  - Relative prices clear markets, reflect relative scarcity;
  - Money determines nominal price; Price ***is*** Value?
- Heterodoxy?
  - Many avoid discussion, reject LTV and UTV
  - But: Marxists adopt **LTV**; Institutionalists adopt **Instrumental Value Theory**; Fundamentalist Keynesians adopt **Liquidity Preference Theory of Value**; Sraffians adopt the **Standard Commodity**;
  - Many Post Keynesians adopt a **markup approach** to pricing, and some adopt a **class conflict** approach to price and distribution (but w/o LTV)
- Is Value Theory necessary, and if so, is there a resolution?

Why Have a Theory of Value?

- **Heilbroner**: *The general problematic of value, as I see it, is the effort to tie the surface phenomena of economic life to some inner structure or order…* It necessarily looks beyond appearances for essences… Economics now becomes an inquiry into the **systemic properties, the structural attributes, the tendencies** and sometimes even the *telos* of the provisioning process. (end, purpose)
- **Graeber**: To understand the workings of any system of exchange as part of larger systems of meaning, containing conceptions of what the cosmos is ultimately about and what is worth pursuing in it.
- **Heilbroner**: "Value 'theory' is therefore indispensable for understanding how the capitalist system, largely guided by price stimuli, tends toward some kind of determinant outcome."
- **Lowe**: "Suppose that a universal amnesia were to wipe out the knowledge of all present prices, would there be a rule for reestablishing them?"
- **Our theory of value informs our beliefs about how the deep structure of the capitalist economic system creates a system of prices. (An alternative to the GET Walrasian mkt)**

Labor Theory of Value

- **Ricardo**: A commodity's value is determined by labor req'd for production (ignores capital)
- **Marx**: Labor power produces surplus value; exploitation appropriates it
- **Keynes**: Labor is the only factor of production
  - The GT adopts only two fundamental units of quantity: "quantities of money-value and quantities of employment"; and two measuring units: the wage unit and the quantity of labor hours.
  - This is the only way to get around problems of measuring the volume of heterogenous output and the general level of prices.
  - Using "ordinary labour as our unit and weighting an hour's employment of special labour in proportion to its remuneration" to make labor time a homogenous measure.
- **Kahn**: In the GT "The money-wage is the fulcrum on which rests the whole structure of everything expressed in terms of money—all prices, incomes of every kind, and all money-values. A higher level of money-wages means that everything expressed in terms of money is higher in the same proportion."

Two Marxian Approaches to Value of Money

1. Labor hours required to produce the commodity money determines the value of money—just like any other commodity
    - Not consistent with other arguments
    - And irrelevant today (and throughout most of history)— “fiat money”

2. Value of money is determined at the aggregate level by socially necessary labor time
    - Money is a pure measure of abstract value; the ***only*** pure form we can measure
    - Money values, not labor values drive production decisions; money is the only measure of success
    - At aggregate, money value exactly measures the aggregate of labor value
    - Prices at micro level deviate from labor value in predictable way: to redistribute surplus value toward more capital intensive processes, among other factors
    - Tendency to equalize money profit rates on capital; and rate of exploitation of labor (unpaid labor hours: ratio of the money value of the surplus to the money wage; given that capital and labor are mobile) [*Foley*]

Implications for Value of Money

- The *value of money* is not the inverse of the aggregate price level. Price indices are arbitrary--heterogenous output cannot be added-up. Each change in the composition of output changes the price index. (*Sraffa, Keynes*)
- We use only two measures of value: labor hours and money wage unit. The value of money equals the amount of labor time it can purchase--at the aggregate level, not at the level of production of individual commodities.
  - The money value of output as a whole is equal to total labor hours multiplied by the money wage unit.
- Minsky: The *price* of output is complexly determined and must be higher relative to wages paid to produce it to cover finance and other overhead costs (advertising, management, taxes) associated with the version of capitalism in which the output is produced. (57 varieties!)
  - At the aggregate the "surplus" depends on the share of I, G, and NX in total output. Gross capital income (profits) must be redistributed through the price system toward firms with higher business costs, higher capital ratios, and more financial debt (business style expenses).
- Foley: All value is created in production and conserved in the sphere of circulation. However, at the individual firm level, money revenue deviates from its labor value equivalent as surplus value is redistributed "where one party gives up more value than it receives in money value added", with losers exactly matched by winners.

The Value of Money

- Foley: the labor theory of value is “the claim that the money value of the whole mass of net production of commodities expresses the expenditure of the total social labor in a commodity-producing economy…”
- “A unit of money, in this approach, can be thought of as a claim to a certain amount of the abstract social labor expended in the economy.” (ibid)
- “Any particular commodity can be seen as embodying a certain fraction of the total abstract social labor expended in producing commodities; it also exchanges for a certain amount of money (its price), which represents a possibly different fraction of the abstract social labor expended.”
- The value of money is then defined as the “ratio of aggregate labor time to aggregate money value added.” (ie: *how much labor effort can be purchased with a unit of money*)

Keynes's Monetary Theory of Production

- Chapter 17 of the GT interprets liquidity preference as a theory of asset prices.
- This is essential to Keynes's theory of effective demand. Money's total return (mostly due to liquidity) is the "rooster" that sets the standard for all other assets, and the terms on which access to external finance is available affects the level of investment.
- Instead of determining prices after production has taken place (that is, in the sphere of circulation), money does its job earlier in the sequence—in the investment decision, not in the pricing of final output
- Investment, in turn, determines **Effective Demand** and the **Wage Bill** in the investment sector, hence, the aggregate of **Profit** (*surplus value in money terms*) available to be redistributed among the capital (*dead labor*).
- Again, money's value is linked to labor hours not to price—money does its work earlier.
- **We need both the liquidity preference and the labor theories of value to analyze a monetary production economy (capitalism).**
  - LPTV→Theory of Investment and EffD; LTV→equalization of profit and exploitation rates

Putting Value Back into Economics

- Economics started as Moral Philosophy; Normative science.
  - **Graeber**: Neoclassical Economics is "value free", "there is no standard of justice outside of the market itself."
  - "Within capitalist societies, the word [value] is normally invoked to refer to all those domains of human action that are not governed by the laws of the market: thus we hear about family values, spiritual values, values in the domains of art and political ideals. In other words, 'values' begin precisely where (economic) 'value' ends."
  - "Marx did not propose a labour theory of value mainly as a way to explain price fluctuations, but as a way of connecting economic theory with broader moral and philosophical concerns… Capitalism turns labour into a commodity… and what an employer buys is an abstraction, that labourer's capacity to work. What makes this possible is the use of a specific symbolic medium of value: money."
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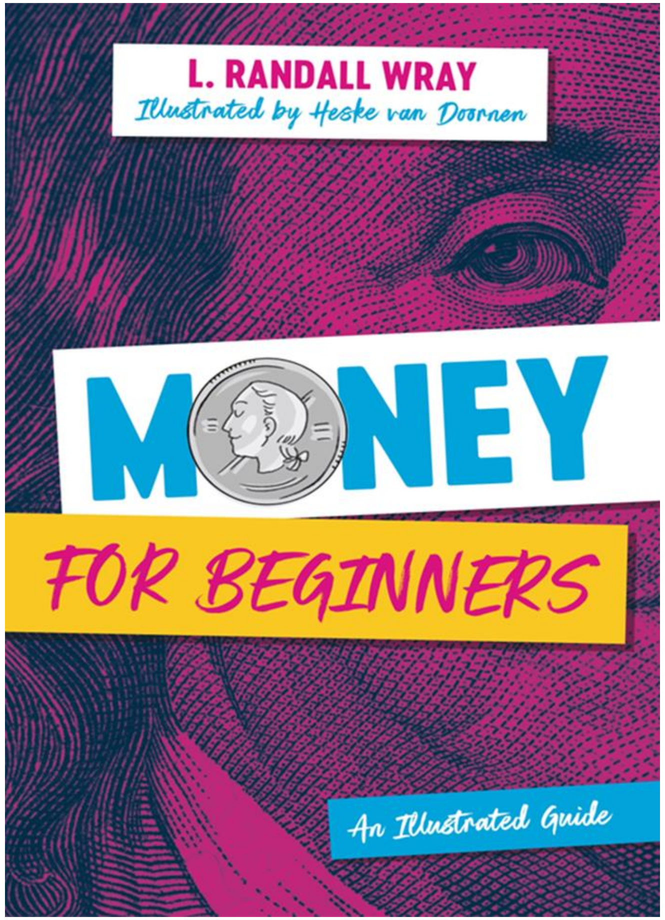
Summing Up

- We should not equate price and value. Prices serve a variety of functions, including covering costs (*Minsky: validating investment*) and allocating money profits
- Value theory allows us to better understand the underlying economic forces of the capitalist economy—which is a monetary production economy (M-C-P-C’-M’).
- While profits accrue in money terms, money does not determine price. Money does its work earlier—determining where labor effort will be directed—and later, in determining success of production, realizing value.
- **Value is determined in production**, not in circulation. While money circulates output and redistributes surplus, it doesn’t determine value—which is only maintained in circulation.
- Micro-level competitive advantage, pricing power, and mark-ups over costs do not affect aggregate profits or value of money. They do affect the distribution of surplus value.
- Money wages and prices are not arbitrary; they gravitate to levels to equalize profit rates and the rate of exploitation. (Not to “clear markets”.)

What does MMT Contribute?

- MMT improves our understanding of the role of money in the Monetary Theory of Production Approach
- From the PK tradition: endogenous credit money
  - Bank Money is ***created*** when banks lend (most importantly, to begin production process)
  - Banks are not intermediaries; money is never neutral
- From Knapp/Innes/Lerner: State Money
  - The State ***chooses*** the money of account, the only measure of value we see
  - State Money is ***created*** when state spends or lends;
  - The State uses the monetary system to mobilize resources
- From the Chartalist tradition: both state and credit money are chartal tokens of indebtedness
- Universal Law of Redemption: bank money is redeemed in loan repayments; state money is redeemed in tax payments

Thank you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Illustrated by Heske van Doornen
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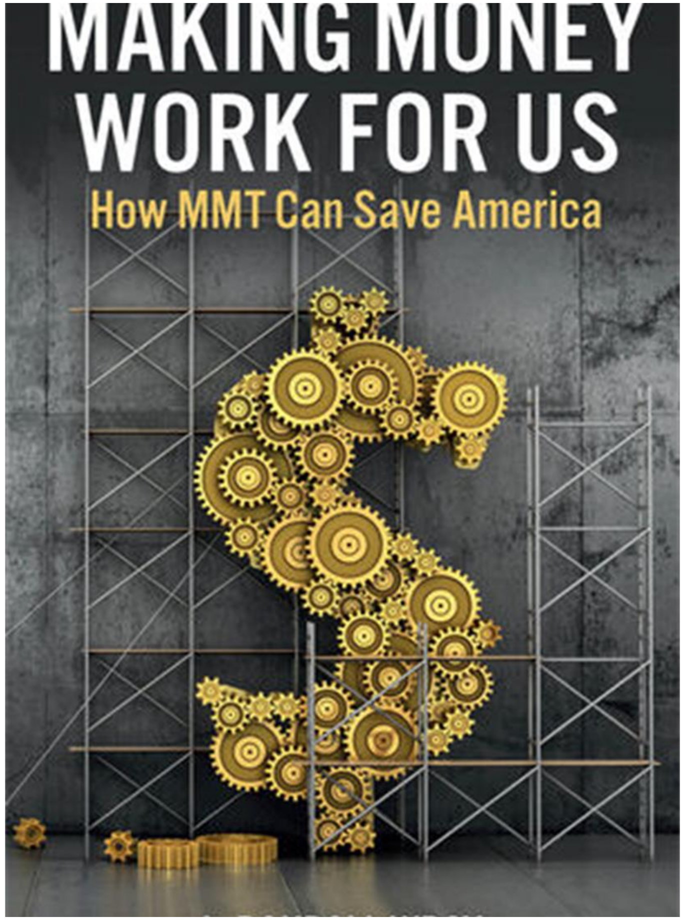
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