# Modern Monetary Theory and the problem of liquidity preference in the Circuit Theory

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## 1. Introduction

In this paper, I would like to show how, through a series of successive confusions, Modern Monetary Theory (MMT) separates money from the market and, in so doing, frees it from any market constraint so as to promise monetary policy a freedom of action that is properly extravagant in relation to the role and functions of money in a monetary production economy. These functions are tirelessly repeated in handbooks on monetary economics: in a market economy, money fulfils the functions of unit of account, means of exchange and store of value. And sometimes the function of means of payment is added, which distinguishes money from other credit instruments. But most often, these functions are just listed, without being referred to the two deeper dimensions of money which are rarely thought of together in the history of monetary thought: money is in fact both the form of general exchangeability - which makes it the medium of exchange par excellence - and the general form of value - which makes it the most liquid store of value. These two dimensions of money determine what Marx called the character of general equivalent of money (Marx, 1867) and imply a specifically monetary constraint to the market economy (de Brunhoff, 1976), whatever the particularities of the existing monetary regime (gold standard, fiduciary money, central bank e-money).

For MMT, however, money is something very different: it is a debt issued by a sovereign state whose character as a general means of payment lies in the obligation to pay taxes by means of this money itself (Wray, 2000). Insofar as this definition shares a certain number of characteristics with that developed by the theory of the circuit, we will have the opportunity to examine the relationship that MMT has with this theory by showing how they agree on a *political theory of value* as opposed to theories of economic value. Finally, I will address the problem of liquidity preference in MMT by comparing it to Keynes' approach in order to assess the promise of MMT for monetary policy. But before addressing the first point, a word on the historical context and theoretical framework of MMT.

## 2. Historical context and theoretical framework of MMT

The end of the gold exchange standard and the reinforced hegemony of the dollar from the 1980s onwards led to the return of the concept of money as a debt issued by a sovereign state, whose character as a general means of payment lies in the obligation to pay taxes with the money itself. On the theoretical level, Keynes had given the impetus to this conception, by refuting the theory of loanable funds, which made investment, and therefore the credit granted by banks to firms, depend on savings previously accumulated and deposited in the banks (Keynes, 1936; Bertocco, 2013). Thanks to bank credit, Keynes objected to the classical theory, it is investment expenditure that, on the contrary, determines the level of savings, understood as the difference between the income created by investment and the consumption expenditure of the holders of this income. On the basis of this principle, money is presented as a debt issue that is fundamentally endogenous to economic activity and that thus reverses the traditional causality between credit and savings. As the post-Keynesians have made their credo: loans make deposits, deposits make reserves and the demand for money induces the supply of money (Lavoie, 2014). But the experience of the US' "deficits without tears" has pushed monetary heterodoxy to be bolder. Since modern bank credit relies on a fiat money payment system that is entirely free of its metallic base, why impose artificial liquidity constraints on banks if the government, whose legal tender is money, can issue unlimited money, since it is assured that its debt will be financed by taxation and that it satisfies the desire of private agents for cash? Thus, MMT has resurrected Knapp's old chartalist theory, according to which, since money is a creature of the law, only the state determines, by fixing the unit of account and describing its material support, the "valuableness as one" of money (Ellis, 1934, p. 15).[1] But above all, since the State has always intervened to regulate the unit of measurement, to fix the monetary name of precious metals and to guarantee their weight and fineness, neo-chartalism, like most monetary theories since the formation of modern States, has confused the value-measuring function of money as it arises from trade with the unit of account as it results from the State's fixing of the price standard. Now these two functions must be distinguished, even in a regime of inconvertible state money.

## 3. The confusion between the measure of values and the unit of account in MMT

In its first function, money has a variable value like any other commodity and there is no

[1] Valuableness is thus to be distinguished from its value.

need to go back over the history of precious metals and the differences between the market price and the official price of gold and silver to illustrate this aspect. It is enough to observe the continual variation of exchange rates to be convinced that the variability of the value of currencies has never prevented them from fulfilling their monetary functions. But even if we disregard the foreign exchange market, the exchange value of money considered as a simple unit of account varies constantly with the value of all goods whose price is expressed in this unit. As Marx says, "Gold is a measure of values because its value is variable; it is the standard of prices because it has been established as an invariable unit of weight" (Marx, 1859, p. 309). Ingham claims to prove the historical validity of the nominalist approach to money by quoting Keynes who, in the *Treatise*, declared that "it was not necessary for the talents and shekels to be minted as coin for them to be money. Rather, the state need only define what weight and fineness of silver would constitute a payment expressed in the money of account of talents or shekels." (Keynes, 1930, p. 51). But what does this prove, except that the shekel and the talent as units of account each represented a certain quantity of silver metal? Prices were indeed expressed in shekels and talents, but their magnitude was determined by their exchange value, which was represented in a certain quantity of precious metal broken down into shekels and talents. And what mattered for transactions was the amount of metal contained in the talent or shekel, fixed by law, not the name of the account itself or the number of talents or shekels represented in the price. As units of account, the shekel or talent serve to express quantities of money, but it is money as a measure of value that determines the price of various goods. The law is necessary here because it is imperative that the same amount of fine silver used as a unit of measurement remain invariable, and thus that the shekel or talent always represent the same weight of metal. But this money can only serve as a measure of value because, like all the goods for which it is exchanged, its value can vary. Moreover, as soon as it comes to the exchange rate of money, i.e., the external value of money, chartalism abandons its principles and sticks to a strictly commodity conception of money: "In open capitalist economies under a floating exchange regime, the attempt to manipulate a currency's external exchange rate is a more prevalent means of altering the domestic value (purchasing power) of money. This may be pursued by the central banks' buying and selling on the foreign exchange markets, or by base interest rate changes to attract or deter buyers of currency. In this regard, the value of money is affected by its status as a commodity, and, consequently, it can largely be explained in terms of supply and demand." (Ingham, 2004, p. 83).

But where Knapp had confined himself to state the principle of a hierarchy of means of payment for an inconvertible money system, MMT pretends to discover the state origin of money in all periods of history. Whatever the role of the State in the birth and functioning of the market,

it is immediately clear that, as the organized power of society, it must be based on the prior existence of equivalence relations. Even if we retain Weber's hypothesis that the origin of money lies in the wergild, the pricing of obligations or reparations already implies a system of equivalences that makes it possible to evaluate the nature and amount of compensation in the event of damage. But if one assumes that the market in which these equivalence relations arise does not predate the legally fixed unit of account, by what channel would state money enter into circulation?

Either the function of unit of account refers to a currency that is already circulating in society and fulfils its function of measuring values; or, if we make the MMT assumption that the currencies in circulation are instruments of debt, this unit represents an accounting unit that serves to record the claims and debts between the state and merchants or between the merchants themselves. In both cases, exchange values have been converted into prices that presuppose equivalence relations between heterogeneous goods. Or let's suppose that the state issues the monetary supports for the fixed unit of account. It would still have to create the monetary relationship through which to bring them in before recovering them through taxation. And this would not be enough, since this money derives its character of legal representative from the obligation to pay taxes with it, it is still necessary to suppose that all those subject to the tax manage to obtain the quantity of monetary units required to honor their obligations, and thus participate in some way in the monetary circulation. Moreover, the determination of the amount of the tax presupposes a monetary evaluation of the wealth and income of the taxable members of society, and thus again the existence of market relations. If they were forced to enter into these relationships, they would determine the value of the unit of account, regardless of the amount of tax set by the state and the method of calculation of this amount (percentage, fixed amount, etc.). It is true, however, that one of the modalities of colonial domination was to impose by force the use of the means of circulation of the conquering nation, thus transforming the traditional economy of the colony into a market economy. But these practices already presupposed not only the existence of money but also the trade and banking of the colonizing country (Narsey, 2016).

The carelessness with which MMT treats the relationship between the state and the market stems from its definition of the nature of money. According to MMT, the social nature of money lies not in its function as a representative of social wealth, nor even in its function as a means of circulation, but in its function as a promise of payment arisen from a debt relationship: money is a 'claim' or 'credit' that is constituted by social relations that exist independently of the production and exchange of commodities (Ingham, 2004, p. 12). MMT conceives any society as a multitude of personal obligations, of debt relations, of which market relations are only the generalized and

systematic form. The idea is that, in order to appear, the market requires a universally accepted means of settling the debts contracted by individuals. But since the market itself cannot be at the origin of debt relations but rather presupposes them, only an authority that is both sovereign and external to the market can impose a debt instrument as the final means of settlement. Hence the role of the State in setting a unit of account and in choosing the material medium representing this unit in transactions. The confusion that this conception causes between debt and money, or what is the same thing, between money and credit, comes from the fact that money is defined both as an instrument of debt and, as a general means of payment, as a means of settling debts. Ingham states: "Money is a 'promise' to pay - in other words, a 'social' relationship. Over the centuries, money has taken a multitude of forms determined by the state of technology: clay tablets, coins, paper, writing sets, plastic cards, electronic messages. However, all these forms of money, including precious metals, only really became money when they were expressed in relation to an abstract unit of account." (2002, p. 143). However, even if the unit of account is to be distinguished from all forms of money in circulation as well as from all forms of credit, credit is distinguished from money by the fact that payment in money defines not a promise of repayment but the unwinding of a debt relationship. But Ingham, like all MMT magicians, confuses money with the promise of payment, because in contemporary societies there are two forms of debt that combine these opposite qualities. Either the State issues fiat money to finance its expenditures and decrees that this money will be accepted in payment of taxes: it then constitutes both a means of purchase (of expenditures) and a debt instrument, a promise of payment that is extinguished by the payment of taxes with itself. By issuing money, the state redeems its debts by accepting them as a means of payment of its claims. As one of the most fervent followers of MMT puts it, "money is a creature of the state and a tax credit for extinguishing this debt" (Tcherneva, Chartalism..., p. 69). Either it is the bank that issues bills or checks in exchange for the credit granted to the borrower with the promise to accept them in settlement of the debt thus contracted by the borrower. In these conditions, bank money is indeed a means of purchasing goods in circulation and a debt owed by the bank to itself.

## 4. The role of the confusion between money and credit in MMT

In both cases, the confusion between money and credit stems from the fact that government money and bank money both represent a debt on oneself issued on the occasion in exchange for a claim against one's debtor, a debt on oneself that a creditor issues in order to assign it to his debtor. "Contrary to usual financial assets, credit money is not supposed to constitute a claim to anything lent by the bearer and due to him: money and claims to money are supposedly one and

the same thing." (Gnos, 2006, p. 25). Money is a debt with which the creditor pays his debtor. It thus forms both a means of payment between buyers and sellers of goods and a promise of payment which, unlike the bill of exchange, is drawn on the creditor himself, who undertakes to accept it in order to extinguish the debt of his debtor. This is why, as Parguez and Seccarecia point out, "it would be wrong to conceive holders of bank liability as bank creditors" (Parguez and Seccareccia, 2000, pp. 105-6). And since in a banking economy all social production is financed by credit money and the payment system is based entirely on fiat money, all economic agents are involved in debt relationships between which IOUs circulate as means of payment, debt-monies. Victoria Chick (2000) notes that the mystery of modern banking lies in the fact that "expenditure against a bank credit agreement gives rise to deposits, which transforms a bilateral contract into a liquid, multilaterally accepted, asset." (p. 131). It is equally mysterious from this point of view that this credit relationship leads to the mere issuance of bank bills and that this gives rise to a multilateral monetary relationship. The deposit is in fact only a developed form of means of circulation issued by the bank. In reality, the real mystery of contemporary banking practice is not that a monetary relation is based on a credit relation but, as is also the case with the State, that the creditor assigns to his debtor a debt on himself. And this mystery, like Chick's, dissipates as soon as we understand that the bank and the State are the only economic agents whose debt hold for money.

Nevertheless, behind the apparent similarity of their forms (Lavoie, 2019, p. 100), the debt relations described by bank money and state money actually hide major differences in their role and functions in monetary circulation. Consider first bank credit money. A bank makes a loan to a firm and, in so doing, creates monetary facilities to carry out the firm's investment expenditures. These means of circulation cover deposits as well as checks and banknotes. For simplicity, let us assume that the bank issues only banknotes. These notes, which form a debt owed by the bank to itself, circulate as a means of purchase between buyers and sellers of goods until, at the end of the loan period, they flow back to the creditor bank. From that moment on, the debt relation is undone: the firm has repaid its loan with the bills that the bank has advanced as a promise of payment. But what kind of payment? In a system of pure credit money, payment is made in units of account equal to the amount lent by the bank itself. As Schmitt and his followers have clearly shown, the debt relationship is here reduced to a pure game of bookkeeping entries between the bank and itself, mediated by a currency fulfilling a simple circulatory function. Here, money regains its role of "great wheel of circulation" that Smith had assigned to it. It is in this sense that Schmitt's circuit theory forms the very essence of any demand-based approach to endogenous money. For in reality, the entire operation is reduced to a distribution of the product among the various parties involved

in the debt relationship (Schmitt, 1982). Money is not demanded for its own sake, either by the firm, for which it is only a debt repayable in itself, or by the bank, for which it is only a debt issued against itself.

Let us now turn to the State's money. Here it is the State itself that, by hypothesis, issues its own banknotes through the intermediary of the central bank, in order to finance its own expenditures. Unlike the bank, therefore, the state does not lend the money it creates directly, but instead buys goods and services from the producers themselves. The latter in turn use it to make purchases among themselves and thus to make their investments as well as to satisfy their consumption needs. These banknotes therefore function here as a means of circulation. But they were issued with the promise of being accepted in payment of taxes. Here again, therefore, money is only demanded for its own sake in order to pay taxes. But for the State, it ensues from the money flowing back that it finances its expenditures without equivalent. There is a demand for money by the state because it is thanks to the money it creates that its needs are satisfied (unlike the firm, which satisfies its needs only by borrowing). The State directly creates the purchasing power on the appropriate goods without equivalent; moreover, it creates the market itself – if by hypothesis it creates all the money in circulation.

In the case of bank debt, money is advanced as a means of financing, as money-capital; in the case of state debt, money is spent as a means of purchase, as anticipated income; in the first case, the bank merely interposes itself between the firm and the worker (the employee) and takes in the form of interest a part of the product realized by the worker without an equivalent; in the second case, the state confronts society as a whole and directly appropriates part of the social product. In the first case, money is issued as credit money before flowing back as a means of payment; in the second case, it is advanced as a general equivalent before flowing back as a means of settlement. For sure, in both cases, money is issued on the basis of a prior debt relationship (bank loan on the one hand, tax obligation on the other). But in the first case, the bank issues a debt on itself that it transfers to its debtor; in the second case, the State issues a claim directly on its debtor. It is in this sense that, in a fiat money payment system, the general equivalent character of money results from taxation: "A dollar of money is a dollar, not because of the material of which it is made, but because of the dollar of tax which is imposed to redeem it. In other words, what 'stands behind' the state's currency is the tax system, and the state's obligation to accept its currency in tax payment. There is sovereign power behind state money - the power to impose fees, fines, tithes, or, ultimately, taxes." (Wray, 2010, pp. 44-45. See also Heinsohn and Steiger, 2000, p. 92). What places state money at the top of the payment system, then, is that the state resorts only

to itself to repay itself: "To settle debts, all economic agents except one, the state, are always required to deliver a third party's IOU, or something outside the credit-debt relationship. Since only the sovereign can deliver its own IOU to settle debts, its promise sits at the top of the pyramid. The only thing the state is 'liable for' is to accept its own IOU at public pay offices" (Wray, 2003, p. 146, n. 9).

But MMT, which focuses solely on the debt-form, confuses bank debt with state debt and, in so doing, transforms the banking system into a purely transmission mechanism for state expenditure and tax collection: "In modern economies, the banking system operates as an agent of government, as almost all government payments and tax receipts flow through banks. In a floating rate regime, the government that issues the currency spends by crediting bank accounts. Tax payments result in debits to bank accounts. Deficit spending by government takes the form of net credits to bank accounts." (Wray, 2006, p. 277). It could be said that MMT simply systematizes the practice of the CB, which also consists of issuing general-equivalent debt-money. But precisely, as the Bank of the Banks, it must limit itself to converting the private money of commercial banks into the ultimate means of payment, and the whole debate about its function as lender of last resort concerns the boundary between the creation of money without equivalent and the creation of money that ensures the unity of a payments system that is not initiated by the CB.

Yet for MMT, the separation of monetary and fiscal functions and the formal independence of the CB from the Treasury are denied in practice by the various mechanisms through which money creation is akin to the financing of government spending (Tymoigne, 2014, p. 657) and which they observe at different periods in the history of the Fed and the Treasury (Wray, 2014). From there, it would only be a step to the actual consolidation of their status and functions. Lavoie (2013) rightly noted that with consolidation, the debt relationship between the Treasury and the CB would be transformed into a mere internal transaction. In fact, all appearance of exchange would disappear since the issuance of central bank money would no longer be distinguished from government spending through money creation: the latter, which the CB would carry out on behalf of the government, would be equivalent to issuing zero-coupon government bills, and only the obligation to pay taxes in central bank money would distinguish these bills from government debt securities. With consolidation, the financial system would fulfil an exclusively functional role, at the service of the public policies of the issuing state: "Functional finance can be implemented in any country in which the government provides the domestic currency" (Wray, 2003, p. 145). Thus, the issuance of treasury bills would no longer constitute a loan intended to finance government expenditures, but a means of regulating the interest rate by absorbing the excess reserves created

by the government itself: it would no longer be an instrument of fiscal policy, but of monetary policy (Wray, 2007, p. 8). Conversely, monetary policy would be transformed into fiscal policy: the state would become the main employer (Mosler, 1997; Mitchell, 1998) and the general equivalence of its currency would no longer derive solely from the obligation to pay taxes into it, but from the fact that all social labour would be directly paid by it (Kregel, 2019, p. 93; Tcherneva, "Chartalism..., p. 82). As Skidelsky has rightly noted, the state would here simply issue "receipts (tokens of liability) for goods it commandeers. Coins (with the head of the ruler on them) are stamped tokens of state debt." (Skidelsky, 2018, pp. 25-26).

Under these conditions and against all the lessons of history, unemployment would be interpreted as a lack of means of payment issued by the state: "'unemployment' is in a certain sense created by government. From the point of view of households, unemployment is evidence of someone wanting but not being able to obtain the currency. Recall that the tax that creates demand for the currency immediately creates unemployment. The population is required to fulfill a nonreciprocal obligation with currency it does not have. The source of that currency is the government. Thus, the private sector provides real goods and services (labor) to the government in exchange for that currency. The tax creates a demand for government-issued money by creating unemployment in that currency (that is, labor which seeks remuneration). It is therefore incumbent on the monopoly issuer to provide its currency in a manner that is consistent with the objectives of full employment and price stability." Tcherneva, 2016, p. 21. Furthermore, as the employer of last resort, the state would itself set the price of labor power (Tcherneva, 2007, p. 82). Thus, consolidation would transform the state itself into the sole owner of the means of production and the Central Bank into a planning agency for social production.

## 5. The political theory of value versus the theory of economic value

Compared to the circuit theory, the chartalism of MMT restores to the monetary system its hierarchical character, but it does so by providing monetary policy with the conditions for its greatest possible influence on economic activity. For MMT, as for circuit theory, money is fundamentally credit money, debt instrument, but among these instruments, state money enjoys a special status that places it at the top of the pyramid of the payments system. The circuit theory confined itself to place the central bank at the top of the pyramid of the payments system and the central bank money as the ultimate means of payment. The merit of MMT is that it clarified the conditions for issuing this general equivalent and, more generally, the relationship between the State and the central bank. Not only does the state set the legal unit of account in which all debt

instruments are denominated, but the currency issued by the state is the only one that is universally accepted because it is the means of tax settlement. (Lavoie, 2019, p. 97). But in reality, MMT simply draws radical conclusions from what money has always been for PK theory, namely a social relationship of indebtedness based on state power, and in which this power is embodied by the CB (Forstater, 2006, p. 230; Parguez and Seccareccia, 2000, pp. 105-106). And from this point of view, we note how Wray became progressively closer to the post-Keynesian horizontalist current, after having begun to defend a structuralist approach to the money supply and the interest. What Wray now shares with post-Keynesian horizontalism, despite the structuralist inspiration of his beginnings, is not so much the endogenous character of the money supply as the exogenous character of the interest rate (Wray, 2006, p. 271), as well as the perfect elasticity of the supply of reserves from the CB at this interest rate (p. 273): it is this presupposition that authorizes him to substitute the Treasury for the CB in the supply of reserves to private banks. But it is also by virtue of this conception that money becomes the stake of a political balance of power rather than the expression of production relations (Tcherneva, 2018, p. 238). "Control over the monetary instruments and the monetary institutions which operate them, becomes one of the main 'contested terrains' in the struggle for political control and supremacy in the society. In the contemporary era of electronic money, these points should be even more clear than formerly." (Smithin, 2000, p. 6). Since, according to this theory, money enters circulation without value and that value of money can only be derived from the value of the goods and services for which it is exchanged, the setting of a price standard or unit of account is presented as a discretionary operation, and the only instance for which discretion characterizes the very essence of its actions and decisions is the sovereign authority (Ingham, 2004, p. 49). Thus, money is separated from the market twice in MMT: not only has money not arisen from market relations, but there is no money without the state. This is why, in the absence of a theory of economic value, MMT – but this is also true of theories of endogenous money with exogenous interest rate - has developed a political theory of value according to which the price of money and goods results from the conflict between the only social classes recognized by this theory, namely debtors and creditors, issuing institutions and economic agents considered as a heterogeneous whole, but whose elements relate univocally to these institutions, which are the State and the banking system. This conflict finds its privileged expression in the interest rate set by the CB: "the most structurally fundamental struggle in capitalism is not that between productive capital and labor, but rather between debtor (producers and consumers goods) and creditor (producers and controllers of money) classes and centers on two rates of interest - the long and the short. [...] Rates of interest represent benchmarks, or terms of reference, for 'settlements' between conflicting groups. The central banks are the main

mediators of these struggles, and all the recent changes in their organization and operation express the resurgence of money-capitalist creditor power." (Ingham, 2004, p. 150). In the same way, according to this conception, all the contradictions between the State and the banks themselves, or rather between the State and financial capital, and which stem from the fact that there are debt relations between them, are eliminated in favour of the quasi-fusion of the State and the banks.

## 6. The preference for liquidity in MMT

We noted above that, in neo-chartalism, the demand for money was motivated only by the obligation to pay taxes. This means that this demand only arises when the government has made its expenditures and the money spent has not yet been returned to it by taxpayers. This deficit therefore takes the form of claims on the government, which differ from holding Treasury bills only in that these liquid claims do not earn interest: "Governments issue money to buy what they need; they tax to generate a demand for that money; and then they accept the money in payment of the tax. If a deficit results, that simply indicates that the population wishes to hoard some of the money. The deficit is of no consequence to the government; it merely allows the population to save in the form of government money. If the government wants to, it can let the population trade the money for interest-earning government bonds, but the government never needs to borrow its own money from the public. Taxes and bonds, therefore, have nothing to do with financing a government's spending. They necessarily follow spending rather than precede it." (Wray, 2000, p. 62). But why would the government seek to substitute one debt for another by paying interest if it is said that it does not need to borrow to finance its spending? Here is Wray's answer: "the purpose of government bond sales is not to borrow reserves - a liability of the government - but is instead designed to offer an interest-earning alternative to undesired non-interest-earning bank reserves that would otherwise drive the Fed funds' (overnight) rate toward zero." (Wray, 2004, pp. 257-258). Thus the government issues government debt in order not to drive the interest rate to zero. "Bond sales are not really a borrowing operation but are instead an interest rate maintenance operation." (Wray, 2004, p. 258). But why would the state not let the interest rate continue to fall if MMT proclaims full employment as the primary mission of the issuing state and the zero interest rate as the preferred instrument of its policy? (Wray, State credit money…)

"There may well be economic or political reasons for keeping the overnight rate above zero (which means the interest rate paid on securities will also be above zero). But it is incorrect to argue that the size of a sovereign government deficit affects the interest rate paid on securities. Not understanding this, treasuries sometimes try to "play the yield curve," issuing longer maturities

when interest rates are low on them, or reversing course and issuing short maturities when the yield curve is steep. While it is perhaps true that market forces of 'supply and demand' enter into maturity spreads, if treasuries understood that the purpose of bond sales is to drain excess reserves so that the central bank can hit its overnight interest rate target, they would not issue long maturity debt at all. Indeed, paying interest on reserves is an adequate substitute for treasury debt issue-as the overnight rate cannot fall below the interest rate on reserves." (Wray, 2007, p. 9). The sale of Treasury bills is therefore not intended to borrow but to help the CB in its interest rate policy. It is an instrument of monetary policy and not of fiscal policy. And Wray goes so far as to claim that it is because Treasuries do not understand that Treasury bills are an instrument for draining excess money reserves or, on the contrary, for injecting money into circulation that they imagine they can influence long-term market rates. The government would be better off paying interest directly on reserves rather than issuing Treasury bills. But why doesn't it do so?

Whenever he is forced to be consistent with himself, Wray backs off by invoking political forces to explain either that the interest rate cannot fall below a certain level, or that treasuries are deluding themselves about the real function of their debt. He evades the consequences of his model because without a positive interest rate, money would no longer be demanded for its own sake and would only fulfill its basic functions as a medium of exchange and a means of settling taxes, and would follow a circuit that would only differ from the banking circuit in that the state would be the final purchaser of the products of social labor and the sole creator of society's net wealth (Wray, 2011, p. 7).

Wray had already cleared the theoretical way for this evasion because for him the demand for money, which is a demand for credit money for spending purposes, is distinct from the liquidity preference that his structuralism retains within a model that excludes it in principle. Indeed, the liquidity preference is not a demand for money (Dow, 1997, p. 51) but a demand for liquid assets determined by portfolio choices. Even when he states the constraints on the supply of money by banks (risk perception, reserve requirements, etc.), he limits the impact to the interest rate, since with a higher rate, reserves that had previously been hoarded would enter the credit market. On the other hand, he admits that the motive of finance, as long as it is a request for cash, has practically no influence on the interest rate in the current conditions of the banking and financial system where the funds remain in their accounts, not to mention methods such as overdraft facilities that do not require any cash advance.

In a sense, MMT draws the consequences of Keynes's own confusions: on the one hand, he

does not separate the demand for money from liquidity preference; on the other hand, he conceives of money for speculative purposes as a financial asset distinct from money fulfilling its classical functions. But whereas for Keynes the speculation motive expresses a form of contradiction immanent to the monetary economy of production, that is, the contradiction between the holders of liquidity and the entrepreneurs (between the owners and the managers of capital) and which manifests itself in the gap between the interest rate and the marginal efficiency of capital, for Wray and in MMT, the preference for liquidity is summed up in regulatory constraints, in maturity spreads, in portfolio choices between assets that differ from each other only in their maturities and their returns. MMT criticizes circuit theorists for neglecting uncertainty and therefore the liquidity preference, but it only includes it as a variable in an economic system that, because it is based on credit, is fundamentally forward-looking. Hence the possibility for the state, whose capacity to issue money is unlimited, to remove uncertainty by anchoring expectations with objectives of full employment, low interest rates and low inflation. MMT says it is ready to achieve the euthanasia of the rentier that Keynes dreamed of, but by removing, with the same stroke of the pen as the banker's credit, all the obstacles that stand in the way of this achievement: the incentive to invest, the liquidity preference beyond a certain interest rate floor, etc. Under these conditions, the exogenous nature of the horizontal interest rate would be verified (Wray, 2007, p. 14). Although it makes debt relations the essence of economic relations in general, MMT evacuates the only debt relation that had fueled Keynes's pessimism about the future of capitalism, namely the relation between holders of liquidity and entrepreneurs. Keynes had kept monetary and fiscal policies separate because, in his view, the interest rate did not merely indicate the level of credit scarcity, but expressed a social relationship of production that the state could not overcome by means of any monetary policy. Hence the necessity of a public works policy requiring the socialization of the strategic means of production of society. But MMT wants to do less and more than Keynes: to preserve existing property relations while aligning interest rates below the marginal efficiency of capital. Since, for MMT, all economic relations are debt relations and all power relations are reduced to the power to incur debt, there are no longer any obstacles to merging monetary policy and fiscal policy, to making the central bank's money issue the sole manifestation of the state's fiscal policy. Since all these obstacles to the full use of resources are summed up in the desire of banks to lend and the incentive of entrepreneurs to invest, it is sufficient for the state, insofar as it possesses both an unlimited capacity to issue money and a sense of the general interest, to substitute itself for the private sector and to become, through the public deficit, the source of all the net wealth of society. In this way, surplus value would be transformed into a claim by society on the state (Wray, 2011, p. 7). The state would become not only the employer of last resort, but the sole employer of first

resort. The prophets of MMT repeat: the only limits of a sovereign money society are the real existing resources such as technology, skills, population, etc. As MMT guru Stephanie Kelton brazenly claims, "If the deficit has to be 4.7 percent of GDP to create the economy we want, with full employment, low inflation, and poverty going down," who cares? If we can create the economy we want with a deficit of 2.1 percent, that's fine too. The budget outcome isn't the thing that matters, it's the real economic conditions" (Quoted in Epstein, 2020, p. 27). Thus, once the state has injected as much money as it needs to use all of these resources, money, the starting and ending point of the monetary economy of production, will be reduced to what it has always been in the eyes of MMT, i.e., to a pure unit of account fixed by the sovereign authority. Then the financial system will be transformed into a functional tool à la Lerner intended to regulate the price level, stabilize the interest rate, etc.

## 7. The monetary imperialism of MMT

MMT has often been criticized for neglecting the international constraints that, in an economy open to the outside world, would weigh on its deficit policy through money creation, even under a flexible exchange rate regime: imported inflation, flight from money, etc. (Palley, 2019). Add to this the total lack of consideration of the effects of this policy on developing countries (Epstein, 2019, p. 6), and MMT reveals its profound monetary imperialism by attributing to the modern currency all the exorbitant privileges attached to the dollar: deficits indefinitely financed by international savings, indifference to depreciation or appreciation, the former stimulating trade and income from abroad, the latter facilitating foreign investment itself, etc. A close look at the nature of these different constraints shows us that they actually affect the dollar either in its relationship to other currencies or in its role as a reserve asset, i.e. the currency as a commodity. This is what Ingham admits with embarrassment when he observes that in its determination of external value, the commodity character of money regains its rights: "In open capitalist economies under a floating exchange regime, the attempt to manipulate a currency's external exchange rate is a more prevalent means of altering the domestic value (purchasing power) of money. This may be pursued by the central banks' buying and selling on the foreign exchange markets, or by base interest rate changes to attract or deter buyers of currency. In this regard, the value of money is affected by its status as a commodity, and, consequently, it can largely be explained in terms of supply and demand." (Ingham, 2004, p. 83). Now, since the only social relation that MMT considers is the relation between debtor and creditor, the only market quality that it is supposed to attribute to money is the interest rate. And since it neutralizes the binding force of this quality by positing the exogenous nature of the interest rate, the definition of money as a mere IOU allows MMT to

evacuate any market constraint from the borders of its monetary zone and thus to found the possibility of an unlimited budget deficit, through the mere play of money issue and taxation (Wray, 2014, p. 29). Contrary to Conally's statement to cranky Europeans, the dollar is not MMT's currency but it is their problem. This is because on the foreign exchange market and in the savers' portfolios, money immediately presents itself as a general form of value and, in the case of the dollar, as the universal equivalent, in other words, as the equivalent of all commodities, including other currencies. The paradox of all theories of credit money is that, while they conceive of money directly in the form of money-capital, they interpret the supply of and demand for money, insofar as it is presented as credit money, i.e., as a supply of and demand for simple means of circulation.

## 8. References


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