Michael Roberts Blog

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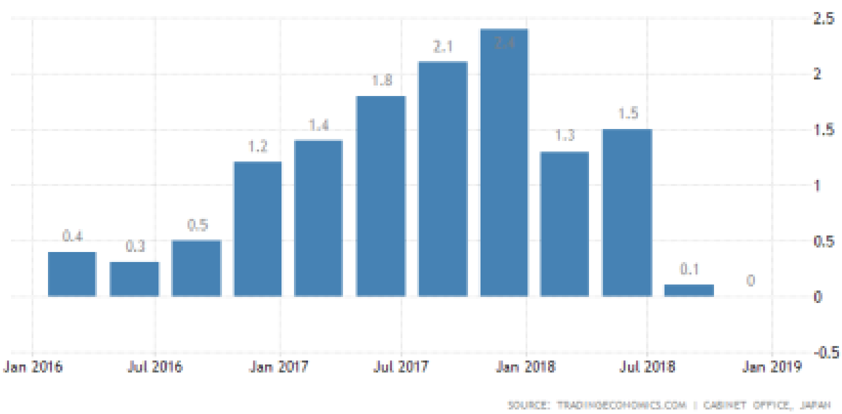
MMT, Minsky, Marx and the money fetish

February 26, 2019

Recently the former deputy governor at the Bank of Japan Kikuo Iwata argued that Japan must ramp up fiscal spending with any increased public sector debt bankrolled by the central bank. This ex-governor seems to have adopted Modern Monetary Theory (MMT), or at least a version of Keynesian-style deficit spending as a 'radical' (or is it desperate?) answer to the continued failure of the Japanese economy to grow anywhere near its pre-global crash rate.

The very latest data on the Japanese economy make dismal reading. The best measure of activity in manufacturing, the Nikkei manufacturing PMI, declined to 48.5 in February 2019, the lowest reading since June 2016, as both output and new orders declined at faster rates. Meanwhile, business confidence weakened for the ninth straight month. In Q4 2018, Japan's national output stagnated. There has been zero growth compared to the end of 2017. That compares with average annual growth of 2% since the 1980s.



Iwata was originally the architect of the BOJ's massive bond-buying programme dubbed "quantitative and qualitative easing" (QQE). This was supposed to boost the economy through a massive injection of money supply. But although the Japanese government continually ran annual government budget deficits, it was to no avail in reviving nominal GDP growth or real household incomes.

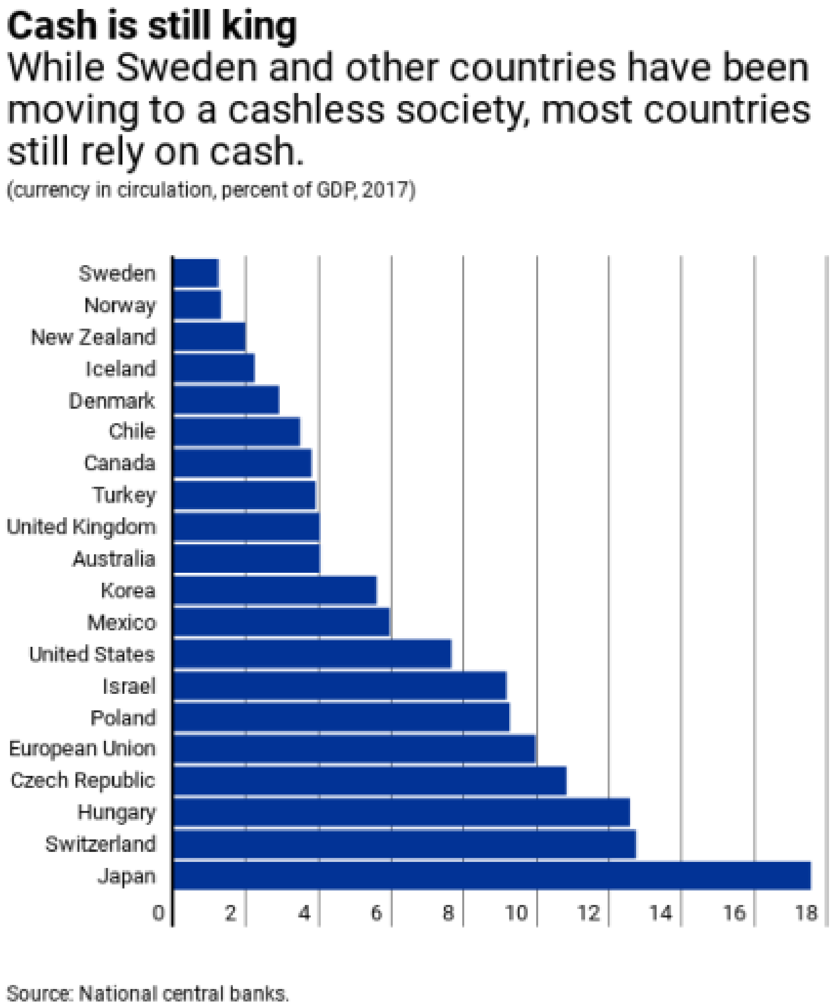
Japan's per capita GDP has been rising, but that's only because the population is declining and the workforce too. Personal disposable income has not risen as fast as the economy as a whole in many years—at 1 percentage point less than average GNP growth in the late 1980s. Japan may have 'full employment' but the percentage of the workforce employed on a temporary or part-time basis is up from 19% in 1996 to 34.5% in 2009, together with an increase in the number of Japanese living in poverty. According to the OECD, the percentage of people in Japan living in relative poverty (defined as an income that is less than 50% of the median) from 12% of the total population in the mid-1980s to 15.3% in the 2000s.

Iwata's answer to Japan's 'secular stagnation' is to continue with government deficits and spending, but this time financed by just printing money, not issuing bonds. "*Fiscal and monetary policies need to work as one, so that more money is spent on fiscal measures and the total money going out to the economy increases as a result,*" That's the only remaining policy option because *"the BOJ's current policy does not have a mechanism to heighten inflation expectations. We need a mechanism where money flows out to the economy directly and permanently."* BoJ bond purchases are just not working, because the banks are hoarding the cash in deposits and reserves and not lending. They must be by-passed, says Iwata.

This proposal resembles the idea of "helicopter money" – a policy where the central bank directly finances government spending by underwriting bonds. Iwata's solution to low growth and weak real incomes is just one more variant of the idea that demand must be stimulated to get a capitalist economy going, in this case by just printing more money.

Another variant now in the offing is to create a cashless economy. You see, people keep hoarding their cash (under the mattress) and not spending while small companies get paid in cash and then hide it from their declared profits by hoarding. So central banks and governments, in the world of digital and crypto-currencies, have now come up with the idea of abolishing or devaluing cash in favour of digital transactions.

The latest version of this comes from the IMF. Having tried quantitative easing, as in Japan and elsewhere, and then 'negative interest rates' (ie people get paid to borrow money) to boost economies, the idea now is devalue cash. This is how it goes: *"In a cashless world, there would be no lower bound on interest rates. A central bank could reduce the policy rate from, say, 2 percent to minus 4 percent to counter a severe recession. The interest rate cut would transmit to bank deposits, loans, and bonds. Without cash, depositors would have to pay the negative interest rate to keep their money with the bank, making consumption and investment more attractive. This would jolt lending, boost demand, and stimulate the economy. One option to break through the zero lower bound would be to phase out cash"* How? Make cash as costly as bank deposits with negative interest rates, thereby making deeply negative interest rates feasible while preserving the role of cash.



INTERNATIONAL MONETARY FUND

The proposal is for a central bank to divide the monetary base into two separate local currencies—cash and electronic money (e-money). E-money would be issued only electronically and would pay the policy rate of interest, and cash would have an exchange rate—the conversion rate—

against e-money. Shops would start advertising prices in e-money and cash separately, just as shops in some small open economies already advertise prices both in domestic and in bordering foreign currencies. Cash would thereby be losing value both in terms of goods and in terms of e-money, and there would be no benefit to holding cash relative to bank deposits. *"This dual local currency system would allow the central bank to implement as negative an interest rate as necessary for countering a recession, without triggering any large-scale substitutions into cash."*

This IMF idea comes hard on an actual attempt by a government to 'devalue' cash. Two years ago, the Indian government under Modi overnight abolished high-denomination banknotes. The government claimed the aim was to flush out ill-gotten gains by rich Indians hiding their earnings in cash to avoid tax. But it was the Hindu poor, in the rural areas particularly, who were most hit by this 'demonetisation'. Two-thirds of Indian workers are employed in small businesses with less than ten workers – most are paid on a casual basis and in cash rupees The demonetisation was supposed to attack corruption and tax evasion, but it seems to have had little effect on that. Indeed, lots of rich Indians made 'private arrangements' to obtain new bank notes and avoid having to declare monies into bank accounts..

Getting out of a recession or depression by printing money or reducing the value of holding cash has long been a Keynesian-style idea. Keynes himself was very keen on the ideas of Silvio Gesell, a German merchant, who was minister of finance in the revolutionary government of Bavaria in 1919. Gesell was convinced that the problems of capitalist depressions like the one in the late 19th century were due to the high interest rate on borrowing. This encouraged 'hoarding'. If that could be stopped, then money would flow into spending and depressions would be overcome. Keynes reckoned that Gesell's work contained *"flashes of deep insight and who only just failed to reach down to the essence of the matter."* Keynes was particularly enamored of Gesell's attempt to establish *"an anti-Marxian socialism, a reaction against laissez-faire built on theoretical foundations totally unlike those of Marx in being based on a repudiation instead of on an acceptance of the classical hypotheses, and on an unfettering of competition instead of its abolition. I believe that the future will learn more from the spirit of Gesell than from that of Marx."* (General Theory).

Gesell's main policy proposal to end slumps was stamped money. According to this proposal currency notes (though it would clearly need to apply as well to some forms at least of bank-money) would only retain their value by being stamped each month, like an insurance card, with stamps purchased at a post office. Keynes commented: *"The idea behind stamped money is sound. It is, indeed, possible that means might be found to apply it in* *practice on a modest scale."* The idea was to devalue cash and force people to spend and thus raise 'effective demand' by breaking the 'liquidity trap' of money hoarding.

Gesell's idea has been widely acclaimed by many post-Keynesians. But unlike them, although Keynes was keen on this 'trick of circulation' (to use Marx's phrase), he saw deficiencies. One was that Gesell did not realise that capitalist investment was not just governed by the rate of interest on borrowing but also by the rate of profit on investing (what Keynes called the 'marginal efficiency of capital'). So he *"constructed only half a theory of the rate of interest."* The other worry was that if cash notes were stamped, then those who wished to hoard would just keep money in bank deposits, gold or foreign currency. So we were back to square one. For more on the fundamental differences between Gesell and Marx on money, see here: http://www.unotheory.org/files/2-15-4.pdf

All these money theories of crises – the wider exponent of which is so-called financialisation – have one thing in common. They ignore or deny the law of value, namely that all the things that we need or use in society are the product of human labour power and under a capitalist economy where production is for profit (ie for money over the costs of production), not need, then money represents the socially necessary labour time expended. We see only money, not value, but money is only the *representation* of value in its universal form, namely abstract labour as measured in socially necessary labour time. It is a fetish to think that money is something that is outside and separate from value.

As Marx puts it: *"a particular commodity only becomes money because all other commodities express their value in it"* BUT *"it seems on the contrary, that all other commodities universally express their values in a particular commodity because it is money. The movement which mediated this process vanishes in its own result, leaving no trace behind. Without having to do anything to achieve it, the commodities find the form of their own value, in its finished shape, in the body of a commodity existing outside and alongside them…. Hence the magic of money. …The riddle of the money fetish is therefore merely the riddle of the commodity fetish, which has become visible and blinding the eyes*."

This is important and not metaphysical gobbledy gook. If Marx is right in his characterisation of money, then we can argue that capitalist production is production for more money (value and surplus value) through the exploitation of the labour force. That means unless more value is created by the labour force, money cannot make more money. Marx was always quick to oppose *"the fanciful notions that the contradictions which arise from the nature of commodities, and therefore come to the surface in their circulation, can be removed by increasing the amount of the medium of circulation."* (referring to the work of Physiocrat Jean-Daniel Herrenschwand).

It is precisely in the category of interest that Marx reckons the money fetish is strongest. In interest-bearing capital the *"fetish character of capital and the [conception] of this capital fetish [become] now complete*"19 (CAP III, Penguin, p.516). Then it appears that money can make money through interest accrual with no 'exploitation' or 'production' involved. It is *"form without content"* (CAP III, p.255). *"In M–M' we have the meaningless form of capital, the [inversion] and [reification] of production relations in their highest degree, the interest-bearing form, the simple form of capital, in which it antecedes its own process of reproduction; [...] capacity of money, or of a commodity, to expand its own value independently of reproduction – which is a mystification of capital in its most flagrant form"*(CAP III, p.256).

it is this money fetish that dominates the theories of post-Keynesian gurus like the American economist of the 1980s, Hyman Minsky. Minsky's obsession with money and finance as the cause of crises has been brilliantly exposed in a recent article by Mike Beggs, a lecturer in political economy at the University of Sydney. Beggs shows that Minsky started off as a socialist, following the ideas of 'market socialism' by Oscar Lange. But he eventually retreated from seeing the need to *replace* capitalism with a new social organisation, to trying to resolve the contradictions of finance capital *within* capitalism.

In the 1970s, Minsky contrasted his position from Keynes. Keynes had called for the *"somewhat comprehensive socialization of investment"* but went onto to modify that with the statement that *"it is not the ownership of the instruments of production which it is important for the State to assume"* — it was enough to *"determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them."* In the 1970s, Minsky went further and called for the taking over of the "towering heights" of industry and in this way Keynesianism could be integrated with the 'market socialism' of Lange and Abba Lerner.

But by the 1980s, Minsky's aim was not to expose the failings of capitalism but to explain how an unstable capitalism could be 'stabilised'. Biggs: *"His proposals are aimed, then, at the stability problem. ....The expansion of collective consumption is dropped entirely. Minsky supports what he calls "Big Government" mainly as a stabilizing macroeconomic force. The federal budget should be at least of the same order of magnitude as private investment, so that it can pick up the slack when the latter recedes — but it need be no bigger."*

This policy approach is not dissimilar from that of MMT supporters. Minsky even proposed a sort of MMT job guarantee policy. The government would maintain an employment safety net, promising jobs to anyone who would otherwise be unemployed. But these must be sufficiently low-paid to restrain market wages at the bottom end. The low pay is regrettably necessary, said Minsky, because "*constraints upon money wages and labor costs are corollaries of the commitment to maintain full employment."* The discipline of the labor market remains: working people may not fear unemployment, but would surely still fear a reduction to the minimum wage (Beggs).

Thus, by the 1980s, Minsky saw government policy as aiming to establish financial stability, in order to support profitability and sustain *private* expenditure. *"Once we achieve an institutional structure in which upward explosions from full employment are constrained even as profits are stabilised, then the details of the economy can be left to market processes."* (Minsky).

Minsky's journey from socialism to stability for capitalist profitability comes about because he and the post-Keynesians deny and/or ignore Marx's law of value, just as the 'market socialists', Lange and Lerner, did. The post-Keynesians and MMTers deny that profit comes from surplus value extracted by exploitation from the capitalist production process and it is this that is the driving force for investment and employment. Instead they all have a money fetish. With the money fetish, money replaces value, rather than representing it. They all see money as both causing crises and also as solving them by creating value! That leads them to ignore the origin and role of profit, except as a residual of investment and consumer spending.

So much for theory. What about reality? The reality is that the late 19th century depression did not end because money was pumped into the economy. But it did end, so why? In my book, The Long Depression, I explain how Marx's law of profitability operated and after several slumps, profitability in the major economies was restored to enable a recovery in investment in the 1890s (Chapter 2) followed by increased international rivalry in a period of globalisation (imperialism) that eventually exploded into a world war as profitability began to slip again in the 1910s

The Keynesians (including the MMTers) like to say that the Great Depression was resolved by Keynesian-style monetary easing and fiscal spending. But the evidence is against this. In the 1930s, monetary easing (QE etc) failed, something Keynes recognised at the time. New Deal budget deficits were never applied much but, even so, the New Deal work programmes did not really reduce unemployment or get real incomes up until the war 'boom'. Again, see my book, The Long Depression, Chapter 3, where I show that the US economy only recovered once a war economy was imposed with government now dominating investment.

What is different about the Long Depression since 2009 is that, unlike the Great Depression of the 1930s, there are now very low (official) unemployment rates in the major economies. Instead, real incomes are stagnant, while productivity and investment growth is abysmal. Financial markets are booming but the productive sectors of the economy are crawling along. And yet the period since 2009 has been accompanied by all sorts of monetary tricks: zero or even negative interest rates, unconventional monetary policy (QE) and now proposals for 'helicopter money', unending MMT-style government deficits and a cashless economy (Gesell-style).

As Maria Ivanova has shown, there remains a blind belief that the crisis-prone nature of the latter can be managed by means of 'money artistry', that is, by the manipulation of money, credit and (government) debt. Ivanova argues that the merits of a Marxian interpretation of the crisis surpass those of the Minskyan for at least two reasons. First, the structural causes of the Great Recession lie not in the financial sector but in the system of globalized production. Second, the belief that social problems have monetary or financial origins, and could be resolved by tinkering with money and financial institutions, is fundamentally flawed, for the very recurrence of crises attests to the limits of fiscal and monetary policies as means to ensure "balanced" accumulation.

None of the 'money fetish' schemes have worked or will work to get the capitalist economy going. Instead such measures have just created financial bubbles to the benefit of the richest. That's because these "tricks of circulation" are not based on the reality of the law of value.