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Reviving Value Theory

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Abstract: This paper argues that heterodox economists should put more emphasis on value theory in their analysis. While value is generally associated with price and thus indirectly with the "value of money", this paper adopts the approach recommended by Robert Heilbroner: "The general problematic of value… is the effort to tie the surface phenomena of economic life to some inner structure or order." Money's value is not what it can purchase, nor is it simply derived from the labor embodied in the commodity used as money. As Heilbroner put it, "Value 'theory' is … indispensable for understanding how the capitalist system, largely guided by price stimuli, tends toward some kind of determinant outcome." This paper will synthesize contributions of Duncan Foley and David Graeber on the labor theory of value, Hyman Minsky's approach to the relation between prices and production and allocation of the surplus, and the Modern Money Theory approach to the role of the state in the monetary system to demonstrate how value theory sheds light on the capitalist system, which is fundamentally a "monetary system of production".

Key words:
Value, Price, Modern Money Theory, Labor Theory of Value, Instrumental Theory of Value

I. What is value and what is its link to money and price?[1]

Before proceeding, this paper will examine what economists mean by value theory. Neoclassical economics adopts a utility theory of value (although its perceived importance has faded); Marxists and some others adopt a labor theory of value; Institutionalists adopt an instrumental theory of value; but most heterodox economists (and, indeed, most economists in general) do not seem to consider value theory very important. Most heterodox economists are united in their belief that money is important in the capitalist economy—but to the extent that money has value, for many its value is related to, determined by, or even is the same thing as prices (of both output and of financial assets or debts). Orthodoxy distinguishes value (utility) from *relative* price but there is no objective measure of value as utility is subjective. Nominal price, in turn, simply measures relative price in terms of money but has no importance in equilibrium. Money, itself, has no value—it is neutral, at least in the long run.

First, this paper will try to detangle "value" from "price". Modern economics began as an exercise in moral philosophy, and outside economics—as David Graeber argues—the concept of value is closely connected to normative concepts such as what is "meaningful, desirable, or worthwhile":

> "[w]ithin 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." (2005 p.444)

Early economics used ideas such as "intrinsic worth", and "just" or "fair" price. Today, as discussed below, discussion of "value" is largely relegated to social spheres other than economics. And, indeed, most economists would probably agree that good economics is "value free"—objective, not normative.

However, the goal of economics has long been more than to produce a theory of price:

> "It has been to understand the workings of any system of exchange (including free-market capitalism) as part of larger systems of meaning, one containing conceptions of what the cosmos is ultimately about and what is worth pursuing in it. Such systems of meaning meant that the kind of moral and ethical questions that Aquinas or Smith felt were at the heart of the matter could not simply be pushed aside." (Graeber 2005 p. 443)

As Heilbroner put it,

> "*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.* This problem arises because economics is unavoidably involved in two intimately related but essentially distinct tasks. One of these is the investigation of various empirical

[1] I would like to thank Duncan Foley for his feedback on an earlier draft.

> aspects of the process of social provisioning…. Equally necessary for the existence of what we call economic thought is a level of abstract inquiry—an inquiry directed not at the "facts" of economic life but at some structure or principle "behind" the facts…. 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." (Heilbroner 1988 pp. 105-106; emphasis in original)

Economists have variously sought "laws" of the behavior of individuals (utility maximization; rationality) or of the system ("laws of motion"; forces that lead to a general equilibrium). Given the importance of prices in a capitalist system, they have been the focus of economists of all traditions. "Value 'theory' is therefore indispensable for understanding how the capitalist system, largely guided by price stimuli, tends toward some kind of determinant outcome" (Heilbroner p. 107). Heilbroner quotes an insightful thought experiment posed by Adolph Lowe: "Suppose that a universal amnesia were to wipe out the knowledge of all present prices, would there be a rule for reestablishing them?" (ibid p. 108). Most economists would presumably answer in the affirmative. One's theory of value informs their beliefs about how the deep structure of the economic system would restore a system of prices.

In orthodoxy, money plays no important role in those processes. Prices are relative—measures of scarcity. However, in most heterodoxy, money plays a role beyond that of medium of exchange—although exactly what role(s) it plays varies across traditions. For at least some, money is part of that deep structure of the capitalist system. As Heilboner (1985)[2] explains, money is central to the *internal logic* of the capitalist system. The drive to amass capital in money form is the single most important element of the system. It is what makes capitalism truly different from other social organizations, and to a great extent makes it possible to examine capitalism as an *economic system* that is somewhat disembedded from the social system as a whole—operating according to a *logic* that is capable of economic analysis.

Social theory has two distinct approaches to society.

> "The first begins by imagining some total system or structure—a society, a world-system—and then trying to understand how it is maintained and reproduced over time. The other starts with individual actors pursuing something, and sees society largely as the effect of their actions (here economics and its derivatives, like rational-choice theory, have been the paradigm)." (Graeber p. 445)

The individualist, rational choice theoretic begins with the utility maximizer who takes prices as given data; an invisible hand then produces a harmonious outcome at the aggregate level. In the orthodox tradition, the claim is that economics is "value-free" and there is "no standard of justice outside of the market itself" (Graber p. 443). Economics is above morality. Value *is* price that efficiently allocates scarce resources among alternative competing uses. All factors of production get their "just" rewards. This paper will not go through the utility theory of value except to note

[2] See also Wray 1990, p.56.

that it is based on subjective utility generated in use. The following sections turn to alternatives to the utility theory of value.

The heterodox approach generally—but not always—begins with macro forces, outcomes, and constraints within which individuals make decisions. Values in the general sense of that term are important, and for some of these approaches, value in the specific sense of economic value that structures the systemic properties of the capitalist system is the basis of analysis.

II. Marxian Approaches

There are two competing Marxian approaches to the value of money (Foley 1983). The first interprets Marx as arguing that the labor hours required to produce the commodity money determines the value of money—hence money is just like any other commodity produced by labor. While there is evidence to support this interpretation, it conflicts with other discussions by Marx. Further, with the abandonment of gold standards (and the limited use of them throughout money's history) this would be problematic when it comes to so-called "fiat money" systems. For those reasons, this contribution will focus on the second interpretation of Marx: money's value is determined by socially necessary labor time--not at the level of production of any particular commodity but rather at the aggregate level. Nor is money's value determined (in an inverse way) by price of output. Labor value does not equal price, and indeed, labor values must deviate from prices (the so-called transformation "problem") (Foley 1982, 2018).[3]

Whether or not this really was Marx's view is not important. As Foley (1983) argues, Marx like other classical economists had trouble conceiving of abstract properties, such as money as a pure measure of abstract value. He may have believed that one commodity must take on the role of measuring and expressing value—even if it was not consistent with his general argument. Like the classicals (and neoclassicals) that method begins with a non-monetary economy and tries to find a logic for the use of money (Levine 1983). Since in that logic, the use of money comes out of pre-existing commodity relations, one commodity becomes money to resolve a technical problem (the double coincidence of wants).[4] But, as Levine argues, production for market exchange already presumes specialization and separation of producer from consumer that would have been far too risky in the absence of markets and money. Production for market is "commodity production" and requires a system of commodity relations with an external measure of value. While a single commodity can be valuable to satisfy an individual need, for relative values one needs to measure in terms of something that is not a commodity—one needs a universal measure of value. Money is the external measure of value and has no "value" itself in

[3] As Foley 1982 argues, while it is possible to come up with the assumptions required to ensure that labor values can be transformed directly into prices, in the general case labor values must deviate from prices. The most important reason is that prices need to redistribute surplus value to equalize profit rates on capital (as a trend, not necessarily at any given point in time), which causes price to deviate from value because labor-capital ratios vary across firms. In addition, market pricing power as well as what Minsky called "business style" varies across firms and sectors. See below.

[4] Such a view, of course, informs neoclassical theory and its focus on money as a medium of exchange.

terms of satisfying *individual needs*. In Levine's view, money *is* value, "emancipated" from individual needs.

Similarly, Foley (1983, 2018) argues that money is an expression of abstract labor. It is not derived from a commodity, indeed the source of money is credit—money is the unit in which promises to pay are measured. This stands classical economics on its head: first there are debt relations, denominated in a money of account, and then commodity markets with prices set also in terms of the money of account.[5] At the aggregate level, money value exactly measures the aggregate of labor value—and money values are the only pure form of value that one can observe.

Labor values are preserved in exchange, but exchange occurs at money prices. Money prices redistribute value to equalize money profit rates across processes with different organic compositions of capital.[6] While all value is created by labor, money values drive production decisions—production starts with money to end up with more money later. Money value (of profits) is the only measure of success (from the point of view of capitalists that organize production).

Foley presents the "labor theory of value as 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…" (1982 p. 37). "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). However, money prices for individual commodities are not equal to the money equivalent of the embodied labor value: "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" (ibid).

Money prices cover wages, non-wage costs, plus profits. The money price of a commodity less the non-wage costs is the value added to the commodity in production; the non-wage cost is Marx's constant capital, the wage cost is variable capital, and the profit is surplus value—or unpaid labor value. Like Keynes[7], Foley adjusts measured labor time to correct for "differences in the intensity of work, the skill of workers, and the relation of the technique of production to the current social standard"—that is, he uses "simple, abstract, socially-necessary labor" (Foley 1982 pp. 38-39). The value of money is then defined as the "ratio of aggregate labor time to aggregate money value added" (1982 p. 41). All value is created in production and it is conserved in the sphere of circulation—at the aggregate level. 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" (1982 p. 41), with losers in exchange exactly matched by winners.

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[5] This is also the MMT view discussed next.

[6] Only living labor produces surplus value; the money price system redistributes surplus value to processes with high capital-to-labor ratios ("dead labor-to-living labor ratios"). In other words, firms with high capital ratios will need higher money prices relative to the value of labor embodied in the commodities produced. Note the similarity to Minsky's argument: high capital ratios require higher profits to validate the investment.

[7] See Keynes's *General Theory*, Chapter 4.

The level of the money wage is taken to be the cost of the socially-determined standard for subsistence of workers. At the aggregate level, "profits are proportional to aggregate unpaid labor time" although individual prices can deviate from labor value to redistribute profits (Foley 1982 p.42). Thus "in general the price of any commodity multiplied by the value of money as defined here will not be equal to the labor value of the commodity" (p. 43). Money plays a role not only in distributing surplus value but also in exploiting labor—as workers and capitalists struggle over the level of money wages. The wage is a claim on a share of the labor embodied in commodities; workers bargain over a money wage, not a bundle of commodities.

Following the Smithian and classical school's long period approach, mobility of capital and labor ensures a tendency for market prices to move toward natural prices that will equalize the rate of profit on capital and also equalize the rate of exploitation of workers across employments. The profit rate is determined as net money revenues relative to money capital invested and is a portion of the surplus value which is realized in money form and created by unpaid labor power. This is extracted at the aggregate level and forms a social fund that is distributed among individual capitals through competition. The aggregate money surplus (what Minsky 1992 called gross capital income) also supports other incomes such as rent, royalties, interest, commercial activities that do not generate surplus, and the financial sector (interest, capital gains).[8] It is the money price system that distributes the surplus among claimants. This presupposes a monetary production economy for otherwise there would be no way to distribute the surplus to equalize profit rates. The price system provides the signals that mobilize capital movements to ensure this tendency. Unlike the view of neoclassical economics, prices are not determined to equalize "supply and demand" but to distribute a surplus in money terms that will tend to equalize the rate of profit.

Similarly, money wages mobilize the movement of labor so that the rate of exploitation, which is the ratio of the money value of the surplus to the money wage, tends to equality across employments—rather than to equate the "supply and demand" in a labor "market".[9] This makes money wages proportional to labor effort across all lines of production. While the wage is proportional to effort, it only rewards a part of the effort. The natural (long period) price of commodities is also proportional to labor effort, a proportion that Foley labels MELT: the monetary equivalent of labor effort. The ratio of MELT to the money wage is a measure of the degree of exploitation, which tends to equality across lines of production as commodity market prices tend to the natural prices. Hence, the same competitive processes that redistribute surplus value to equalize the rate of profit also tend to equalize the rate of exploitation. Labor effort and labor values are unobservable but underlie the money wages, money prices, and money profits that are the bases of decisions.

In the Marxian approach, all the wages paid represent a claim on subsistence commodities equal to money's value multiplied by hours of paid labor on all production. Since the aggregate money value of subsistence commodities is equal to aggregate wages paid to produce them, plus non-wage costs and the money value of surplus labor, wages from producing other commodities

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[8] Owners of scarce resources can obtain monopoly rents. See Minsky 1992.

[9] This is an updated version of the "New Interpretation" of Marx's theory of value. See Foley 2018.

must also be spent on subsistence commodities. And because the sum of the wage bill across all sectors only equals paid labor, the unpaid labor surplus cannot be realized without additional spending—by unproductive labor and government. Foley argues that modern capitalism produces so much surplus—the surplus value is larger than the money value of paid labor—that a large volume of claims on the surplus can be supported, which can be thought of as a kind of overhead cost of capitalism.

There are a number of similarities of this version of Marx to Keynes's approach among which the following are the most important. As in Keynes's theory, there are two measuring units: socially necessary labor time (or "ordinary labor" in Keynes's terminology) and money value (wage unit). Capitalism is a monetary production economy, driven by expectation of money profits. At the aggregate level, Keynes measures output as total paid labor hours—which is precisely Foley's interpretation of Marx. In both approaches, money's value is equal to the wage paid for an hour of (average) labor. Money is the (sole) external measure of value.

III. Modern Money Theory

Modern Money Theory (Wray 1998, 2015, 2022) emphasizes the role of the state in the monetary system. As in Keynes's approach, money is the abstract unit of account in which credit and debt is denominated. The state chooses a money of account, imposes an obligation denominated in the money of account (fees, fines, taxes, tribute, tithes), names what is accepted in payment in the money of account, and if it issues liabilities those are also payable in the money of account. As short-hand, MMT says that "taxes drive money" in the sense that the state's own liabilities—mostly currency plus central bank reserves denominated in the money of account—are acceptable in payment of taxes that are denominated in the same money of account. This creates a demand for the state's own obligations (currency, bonds, central bank reserves) that are redeemed in payments of liabilities (taxes, and so on) to the state.

Private monies also represent debt/credit denominated in the state's money of account. There is a hierarchy of monies, with the state's liabilities serving as the ultimate means of payment and clearing.[10] Private monies are seen as deriving value from the state money system—with the state standing behind some of the private monies and enforcing contracts written in the state money of account. Principles of redemption also apply to private monies; for example, bank deposits are liabilities that are widely accepted because they can be used to make payments on bank loans—simultaneously redeeming both the bank and the borrower (Minsky 1986, p. 258).

MMT adopts the Marx-Veblen-Keynes view that the capitalist economy is a system based on monetary production, where money plays a more central role than it has in any previous economic system. However, MMT argues that money, and state money, long predates capitalism. The basic propositions about a sovereign currency hold for state money systems for "the past four thousand years at least".[11] The typical story about an evolution from a primitive commodity

[10] See Foley (1983) and Minsky (1986).
[11] See Keynes, *Treatise*, 1930, p.4; this is the statement from which the term "modern money" as the name of the MMT approach came.

money created as a medium of exchange to resolve the problem of a double coincidence of wants is rejected for both historical and logical reasons. Money has always been issued as a record of indebtedness, and accepted in redemption of obligations. Money historically predates the existence of market exchange (probably by thousands of years) and indeed is a precondition for prices and monetary exchange.[12]

In summary, MMT emphasizes the state's money as the unit of measure of the value of obligations—the money of account. From inception, it is the measure of the obligation to the state—taxes and so on. Currency is accepted because it is valuable in meeting the obligation imposed by the state. However, that raises two questions: how much demand for the currency can be created through tax obligations, and how much will the currency be worth—that is, what determines the value of money?

If the state imposes tax obligations equal in the aggregate to $1 million, payable in the state's own money, the population will accept at least $1 million in government spending of its own money—so that taxes can be paid. In practice government will probably be able to spend more as the population will want to hoard some for future use. In addition, the state's money can be used in private transactions—and legal tender laws as well as court enforcement of payments made in the state's currency will increase demand. All of this would lead one to believe that demand for the currency could be very much larger than the tax liability. However, it does not tell one directly what the currency will be worth in terms of purchasing power—even if the currency maintains parity in payment of obligations to the state (ie, one dollar can be redeemed in payment of a dollar of tax).

MMT has typically argued that money's value is determined by what one must do to obtain the currency that can be used to discharge the tax liability.[13] This sounds much like Marx's labor theory of value as well as Keynes's discussion of the value of labor determined in the wage unit. However, in the modern economy, people work for wages (including for the government), they produce and sell output (including to the government), they receive transfer payments (social security, welfare), own property that generates rents, realize capital gains on assets, and "beg, borrow and steal" to obtain money that can be used to pay taxes and make other payments. Note also that people can avoid (legally) and evade (illegally) taxes. And today they rarely use currency to pay taxes—they usually use bank money. Most of their income (and other sources of money to pay taxes) also comes in the form of bank money. In sum, there are many ways of obtaining the money needed to pay taxes, and little of the money used takes the form of currency. The value of money must be more complexly determined.

What if government wanted to stabilize the value of money relative to prices of a broad basket of goods and services?[14] As both Keynes and Sraffa (1932) argued, indexes of prices are human constructions and imperfect as a measure of aggregate price. Trying to fix an index price would

[12] This is similar to Levine's argument discussed above.

[13] This is similar to Foley's "labor effort": how hard must one work to satisfy the obligation to the state.

[14] Kahn mentions that Keynes corresponded with Benjamin Graham, who advocated stabilizing prices through the operation of a buffer stock program for a variety of commodities. (1974/5 p. 22) In this correspondence, Keynes argued that an alternative to increasing unemployment had to be found to prevent wage pressures from feeding through to inflation.

be difficult and even counter-productive in a dynamic economy as it would interfere with changing conditions of production (such as labor productivity and remuneration of different types of labor) and as well with changing consumer demand and mixes of final purchased product. However, put those concerns to the side for a moment and look at the possibility of stabilizing prices for a basket of consumption goods.

Government typically purchases a relatively narrow range of output on a large scale: oil and other sources of energy, military hardware, and a range of services. Even if government moved toward a fixed price/floating quantity model for such purposes, that would not necessarily stabilize money's value relative to the typical consumption basket. Stabilizing the price of the entire consumption basket would require operating across a broad range of outputs—many of which the government would not need. However, this could be done, for example, through the use of buffer stocks—standing ready to buy and sell to stabilize prices, as has been done for agricultural commodities.

Following the insights of both Marx and Keynes it would make more sense to attempt to stabilize the value of money in terms of the wage unit. This is also consistent with other heterodox approaches that see the unit labor cost as a primary determinant of price. Labor is not homogenous but it is arguably more homogenous than output. Government is a direct purchaser of a wide variety of labor—from relatively unskilled (new army recruits) to highly skilled (FDA researchers). However, trying to stabilize the remuneration for each type of labor is not necessary and probably not desired as it would be very difficult to get relative wages and salaries just right to call forth the right proportions of each type of worker.

Instead, government could set the base rate and stand ready to hire anyone who wants to work at that rate. This is the idea behind Minsky's job guarantee (JG).[15] Market forces would then adjust to that rate with wages for more skilled workers set at a multiple of the base rate. If government sets the JG wage at $15 per hour, that becomes the effective minimum wage; the private sector (as well as the government itself) would pay more than that to attract the kinds of workers desired for particular positions. In recessions, workers who lose their jobs can get $15 per hour in the JG program; in expansions, more workers will be pulled out of the JG program by offers above $15. In this way, the value of money is set equal to the wage rate paid for "ordinary labor"—say, $15 per hour.

At the aggregate level, the total money value produced then equals the total value of hours of paid labor adjusted as Keynes (and Marx and Foley) suggested by quality. On the margin, $15 will buy an hour's worth of ordinary labor (and maybe a half an hour's worth of average labor—and much less time in the case of highly remunerated workers). The marginal value of money will remain at $15 per hour of ordinary labor for as long as that remains the JG wage.[16]

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[15] Minsky called it "employer of last resort". See Minsky 2013.

[16] Levey 2021 presents a simple model in which government "buys" labor and issues a currency that can be used to pay taxes (i.e. a "tax credit") and in which there are also private purchases of labor. The outstanding stock of government money grows at a rate determined by the government's deficit. Government adopts a fixed wage JG policy, but the "private" sector can pay any wage it wants using currency. Levey shows that so long as taxes are greater than zero, government's pricing for labor in the JG will determine the value of money. It turns out that it is not important whether the government is the only "seller" of the currency but only that it is the sole "producer".

And $15 would buy output (weighted appropriately—keeping in mind that prices must redistribute surplus labor) produced with an hour of ordinary labor.

However, money's value will change in terms of output as the labor composition of output changes over time even with a constant JG wage. If the basket of consumption shifts toward output produced by less skilled labor, money's average value in terms of output increases; if the basket shifts toward output of skilled labor, money's value falls. In the second case, the purchasing power of the wage paid in the JG program would fall relative to the price of the new subsistence basket of commodities. So long as the wage paid remains at $15 per hour it is creating a disinflationary force.

Note that this works even without unemployment—anyone willing to work at the program wage would be able to get a job. To maintain purchasing power for ordinary labor, the money wage would need to be raised above $15. This would be a policy choice. Similarly, increasing government transfer payments or rising "business style" costs will reduce the purchasing power of the wage unit because a portion of output will need to be shifted to recipients of the transfers and profits need to be redistributed. A price index would record this as "inflation", but it is not necessarily something that *should* be fought.

Taxes can be used to release resources for government use, relieving inflation pressure (that is, reduction of money's value). Imposing taxes in conjunction with transfer spending can reduce purchasing power of workers (by reducing net wages) to free up commodities for consumption by transfer recipients. Government does not need taxes to "pay for" spending but needs to make way for its spending. Taxes on claimants to the surplus (such as recipients of interest or rent) can also release commodities for consumption by transfer recipients, attenuating pressure on prices.

IV. Conclusion: Toward a Revival of Value Theory

As discussed by Graeber (2005, p. 440), the "[m]ercantilists located wealth in precious metals; physiocrats argued…all social wealth was ultimately 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" (ibid p. 442). Value was 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" (ibid p. 442). 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" (ibid p. 443).

The Neoclassical revolution against classical thought replaced the labor theory of value with the marginalist utility theory, where value is a purely subjective measure of individual desire. Value becomes a normative concept outside the scope of economics and in its place is a relative price system that clears markets. Economics is "value free", "there is no standard of justice outside of

the market itself" (Graeber ibid p. 443). Economics becomes an objective "science" of the study of price formation.

The neoclassical notion that the economy seeks a market-clearing equilibrium is rejected by all versions of heterodoxy, however, much of the heterodox tradition also shuns discussion of value in favor of price. An alternative theory of price formation is offered that emphasizes cost and profit and focuses on examining how firms actually set prices. Labor costs play an important role in price formation. However, as production takes the form of "production of commodities by means of commodities"[17] there is a bit of an infinite regress as it is "cost plus markup" all the way back through the stream of inputs.

There are two heterodox traditions that do emphasize value: Marx's and Keynes's.

Marx's approach according to the interpretation adopted by Heilbroner, Foley and Graeber emphasizes the "unique thing about capitalism" is that "it allowed labour to become an abstraction", turning labor power into a commodity that can be bought and sold. That commodity is the "*capacity* to work" (Graeber 2005 p. 450).

> "What makes this possible is the use of a specific symbolic medium of value: money. For Marx, money is a symbol. It represents the 'value' or importance of labour. It can do so by incorporating it into a total market system, because for Marx the real value of a product is not (as Ricardo claimed) how many hours of work went into making it, but the proportion of the total amount of labour in the entire economy that went into making it. This proportion can only be determined through the market; that is through the use of money." (Graeber 2005 pp. 450-451)

Thus, value is tied up with money, but not directly with a commodity's price. Money is the only abstract measure of labor's value that one can observe. While one can count labor hours, these hours are specific to the tasks to which they are employed. The price of a particular commodity produced by labor is not equal to its embodied labor value as prices must redistribute surplus labor.

Keynes's approach to measuring units—money value and labor hours—is somewhat similar to Marx's, as seen above. However, what is perhaps more important is that he brought values in the sense of morality back into (non-Marxian) economics. Keynes does not take wants as given but rather wishes society might make its wants desirable wants. As Skidelsky argued, Keynes believed that "[t]o make the world ethically better was the only justifiable purpose of economic striving," (Skidelsky 2009, p. 133). Keynes saw capitalism "as a necessary stage to get societies from poverty to abundance, after which its usefulness would disappear" (ibid, p. 135). Following Moore, Keynes believed that "good" is objective, that people know what is good, and "that which is to be maximized is not happiness or pleasure, but goodness" (ibid, p. 137). Keynes's view was that the "love of money" is a neurosis to be tolerated only until people achieve the

[17] Sraffa's term. Note however that either the wage rate or the rate of profit must be taken as given outside the system to find the prices of production.

abundance that would allow society to realize the "Economic Possibilities for Our Grandchildren" (ibid p. 144).

As Graeber puts it, in this sense of the term, values are "conceptions of the desirable", "ideas about what people *ought* to want" (Graeber 2005 p. 446). The important point is that both Marx and Keynes saw the immorality of capitalism as a system that pursues profit above all else. In Keynes's theory, the result is unemployment and excessive inequality (also instability, as Minsky argued)—both attributed to the use of money. In Marx it is the result of the exploitation of labor (unpaid labor time). Graeber argues that

> "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. For Marx, 'labour' was more or less identical with human creativity…. The unique thing about capitalism, Marx held, was that it allowed labour to become an abstraction. This was because capitalism turns labour into a commodity, something that can be bought or sold, and what an employer who hires a labourer 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." (Graeber 2005, p. 450)

Money is "fetishized" as "wage labourers only go to work in order to get money" (Graeber 2005 p. 451) and capitalists only hire them to get *more* money. As Keynes put it, they have no other desire in the world. The economic system, itself, *values* the money token, not the ability to satisfy basic human needs.

How can the heterodox approaches that derive from Keynes's thought be synthesized with the Marxian approach? Wages owed are denominated in the state's money of account, as are commodity prices. Payment of money clears the wage obligation to workers; money received as wages represents a "claim ticket" on commodities, redeemed for subsistence consumption. If this analysis is expanded to include private money, this too takes the form of credits and debits denominated in the money of account. Banks advance money in the form of deposits to firms to pay wages and other costs, as they produce commodities for sale; receipts allow firms to meet their obligations to banks by redeeming bank money. Market prices determine the quantity of money for which commodities can be exchanged at a point in time, but in the long period they approach natural prices that equalize profit rates and rates of exploitation across commodities. There is thus a proportion between labor hours and money, what Foley terms MELT—the monetary equivalent of (ordinary) labor time.

The state can be brought into the analysis to not only choose the money of account and issue currency redeemable for obligations to the state, but also to issue the ultimate money for clearing of private monetary obligations (i.e. obligations of one bank to another). MMT can also bring in "political economy" aspects of the state's role in primitive accumulation, division of labor, wage labor, and markets (Forstater 2004, 2005).[18] This helps to resolve the problems with the usual

[18] Forstater (2004, 2005) highlights Marx's views on the role the state's taxes played in primitive accumulation and in monetizing labor power and economies.

approach to money identified by Levine (1983): imagining a pre-existing market economy based on commodity exchange but without money.

In the approach favored by many MMT proponents, *money* was there in the very beginning—before specialization, before wage labor, before markets. This view also fits the facts and has the advantage that it can explain the existence of money before capitalism. Money clearly predates commodity production.

This resolves the "beaver and deer" problems in Smith's exposition of exchange. He supposes that if it takes twice as much labor to kill a beaver as it does to kill a deer, then "one beaver should naturally exchange for or be worth two deer." (quoted in Heilbroner 1988 p. 112) As Heilbroner argues, Smith takes it for granted that there are at least two pre-existing conditions: individuals want to (or need to) "maximize" value in exchange. But outside a capitalist system, why should this be so? It certainly is not true of many observed pre-capitalist societies, where exchange was customarily undertaken on an unequal and even competitive basis to force the counterparty to get the better side of a trade. Second, it presumes that there is a disutility in labor. While there are certainly a lot of unenjoyable ways to labor in a capitalist economy, why wouldn't hunting be an enjoyable pursuit in what Smith called "a nation of hunters"? And even if there is some disutility involved, there is no reason to suppose that hunting beaver and deer require the same (undesired) effort for each time period.

Finally, as discussed above, the value of labor is not determined at the individual level but at the level of the economy as a whole: "for Marx the real value of a product is not (as Ricardo claimed) how many hours of work went into making it, but the proportion of the total amount of labour in the entire economy that went into making it." (Graeber 2005 p. 451) This is the difference between abstract labor (economy as a whole) and concrete labor (hunting deer)—commodities do not exchange on the basis of concrete labor hours but rather are sold for money that represents a claim ticket on abstract labor power.

MMT also argues that one should have *the state* in the picture from the very beginning: it creates a money of account, imposes obligations, and issues the currency that can be used to pay those obligations. In this way, one does not have to imagine the operation of a capitalist economy without a state, and then add the state and its currency to a pre-existing, stateless, system. There is no capitalism without a state that chooses the abstract measure of general value—the money of account. There is no capitalism without a state that provides a legal framework, that enforces contracts, and that provides the institutional framework within which capitalism functions. This does not mean that the state dominates or operates separately from capitalist relations, but rather that it plays a socio-political role that goes beyond "spending and taxing".

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