NEOCHARTALISM: A HERESY OR A CONTRIBUTION TO A NEW THEORETICAL SYNTHESIS FOR THE REPRODUCTION OF THE RULE OF MONEY AFTER 2008?

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ABSTRACT

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This thesis examines a heterodox economics theory named Neochartalism, or as widely known, “Modern Monetary Theory” and the status it has acquired in policy debates after 2008 with a specific focus on whether it aligns with the conventional goals of economic policy. Utilising a critical perspective informed by Marxist political economy, the study examines the theoretical backdrop and the historical context that gave popularity to Neochartalism. Moreover, the study problematises the heretic status of Neochartalism and tries to provide an insight into whether or not the theory could be a basis for future conduct of economic policy. In consideration that Neochartalism is only apparently heretical as its preoccupations in terms of policymaking are not completely different from the conventional form of policymaking and, indeed, Neochartalism shares the methodologically liberal assumption of the contemporary economic mainstream regarding the real separation of the state and the market, the study argues that such a possibility is quite real in the post-2008 world. Integration of Neochartalism into the mainstream in the current global conjuncture has the political offer of reproducing class rule with a new form of the rule of money which would be complemented by more frequent recourse to the coercive powers of the state.

Keywords: Neochartalism, Modern Monetary Theory, Crisis of 2008, Heterodox Economic Policy, Central Banking

ÖZ

NEOCHARTALIZM: HERETİK Mİ YOKSA 2008'DEN SONRA PARA EGEMENLİĞİNİN YENİDEN ÜRETİMİNE YÖNELİK YENİ BİR TEORİK SENTEZE KATKI MI?

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Bu tez, Neochartalizm veya yaygın olarak bilinen şekliyle "Modern Parasal Kuram" olarak anılan heterodoks bir iktisat teorisini ve bu teorinin 2008 sonrası politika tartışmalarında kazandığı konumunu ekonomi politikasının geleneksel hedefleriyle uyumlu olup olmadığına özel olarak odaklanarak incelemektedir. Marksist ekonomi politikten mülhem eleştirel bir perspektif kullanan bu çalışma, Neochartalizm'e popülerlik kazandıran teorik zemini ve tarihsel bağlamı incelemektedir. Buna ek olarak çalışma, Neochartalizm'in heretik statüsünü sorunsallaştırmakla beraber bu teorinin gelecekte ekonomi politikası yapım süreçleri için bir temel oluşturup oluşturmayacağına dair bir fikir vermeye çalışmaktadır. Neochartalizm'in politika yapımına dair kaygıları geleneksel politika oluşturma biçiminin kaygılarından tamamen farklı olmadığı için Neochartalizm yalnızca görünüşte heretiktir, nitekim 2008 sonrasında ekonominin durumu ve alışılagelmiş politika yapım süreçleri giderek Neochartalizm'in kaygılarını paylaşmaya başlamıştır. Dolayısıyla, çalışma Neochartalizm'in ana akım için bir temel olabileceğini savunmaktadır. Mevcut küresel konjonktürde Neochartalizm'in ana akımla bütünleşmesi, sınıf egemenliğinin, devletin zor gücüne daha sık başvuran yeni bir para egemenliği formuyla yeniden üretilebileceğine ilişkin siyasi bir anlama sahiptir.

Anahtar Kelimeler: Neochartalizm, Modern Parasal Kuram, 2008 Krizi, Heterodoks İktisat Politikası, Merkez Bankacılığı

To my mother,

my family,

our beloved Aras and Öykü

and hopes for a common emancipation…

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What we do reflects how we live, whom we are influenced by, and our environment. These influences affect the way we think, what we are interested towards, and how we perceive the things we are drawn to. Each study bears the marks of those influences: our past experiences, current struggles, and future hopes…

This study is not an exception. It is owed to those influences, and though I cannot mention all of them here individually, I can express some which were important. My beloved family is the most important one. I could not have written this study without their emotional, practical, and material support. They had to stand my mood swings, and I cannot express how much their existence means to me.

However, undoubtedly, the support of my mother supersedes everything else. We shared and continue to do so, a house, both as a family and as two friends. She knows how this study was written, and perhaps this is the most important thing to me. I share with her not only bonds of family, but bonds of intellect and conscience. So, her meaning for me, not only as her son, but as a person, cannot be overemphasised.

Of course, the support of my family was necessary but not sufficient. My dear advisor Assoc. Prof. Dr. Pınar Bedirhanoğlu guided me by providing insights on what I was trying to do without much awareness with her worldly prowess. She too was greatly influential on the course of this study and my intellectual trajectory which greatly changed since I asked her to be my advisor. The patience she had for me was very important for me throughout this study.

I must also thank Assoc. Prof. Dr. Hasan Cömert for showing me what I sought was not a niche endeavour and was significant. I should also say that I am happy to have met him and Assoc. Prof. Dr. Şerif Onur Bahçecik, and have listened the valuable insights they extended.

I also want to thank Ambassador (ret.) Gürcan Türkoğlu and economist Yusuf Işık. Without them, I would not have been informed for a long time that the subject of my study even existed. Gürcan Türkoğlu was important to me not only for this study, but for the conversations we engaged concerning life and intellect.

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CHAPTER 1

INTRODUCTION: NEOCHARTALISM AS HERESY

> *The bygone and the marginalised always look strange. But would it not also be strange to imagine that, in 30 or 50 years, economic historians will look back on the current crisis and say that mainstream macroeconomics offered the best analysis and prescriptions that could have been conceived? If they agree that it did not, then there seems a chance that they will think perspectives outside the mainstream might have helped.*[1]

Think of Christmas rituals: decoration of pine trees, gift exchange, alcohol consumption and other festive activities… All of these are considered distinctly Christian. However, they were actually pagan traditions celebrating pagan gods. Christians appropriated them as part of their own cult due to their widespread acceptance. This adoption gave them new meanings which roughly reflects what we know as Christmas today. Nowadays, divine beliefs are mostly impervious to secular criticism as they froze their doctrines to a level of irrelevancy. Secular doctrines on the other hand do not share the same indifference. Reasonings underpinning them are easily discernible, but to map the routes through which a certain unorthodoxy finds its way into the convention thereby shape it undetectably is harder. It requires a thorough analysis to reduce the dogma into simple axioms. Remembering ironically what Margaret Thatcher said, analysing what are deemed as heresies could help acquire an insight into what might be the future trajectory of intellectual roots of convention: *"[…] heresies of one period became, as they always do, the orthodoxies of the next"*.[2]

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[1] "Marginal Revolutionaries" (2011). *The Economist*. https://www.economist.com/briefing/2011/12/31/marginal-revolutionaries (last accessed on 04. 07. 2023)

[2] Thatcher, Margaret (1979). "Speech to Conservative Rally in Bolton" https://www.margaretthatcher.org/document/104065 (last accessed on 03.07. 2023)

Transformation of the convention does not occur in an empty space: arguments which guide or start to penetrate policymaking are responses to material conditions via the mediation of the ways they are perceived. In that sense, one should be aware of the ways in which apparent transformations undergoing across the globe affect policy epistemology. Military engagements and political turmoil in relation to the "populist surge", the pandemic which left its marks on international trade, and the ensuing inflation which was already the crux of debates surrounding the post-2008 economic environment defined by an ever-increasing wealth gap amounted to the efforts which arguably indicate an epistemological turn away from existing institutional practices and the underpinning paradigms. In that context, what we are presented as "heterodoxy" in juxtaposition to the "orthodoxy" surge as epistemological responses to ontological developments.[3]

Indeed, what we are faced with are "a series of calls for rethinking and problematizing the nature of the crisis so as to pave the ground for the development of appropriate strategies of transformation" (Yalman, 2021: 21-2). The current crisis roughly consists of unsatisfactory real economic prospects, surging speculative behaviour against productive investment which harms labour's share of the GDP that in turn reduces aggregate demand and profit expectations in a vicious cycle. Reducing costs and creating demand are two contradictory goals which now are increasingly harder to find a compromise between. Established ways are not useful, and the useful ones are politically dangerous against what mainstream scholars call "secular stagnation". Thus, it seems that we are in a policy purgatory. A profound paradigmatic shift "about the ways in which the capitalist social orders could be contemplated so as to provide the theoretical underpinnings for political strategies, whether to transform or perpetuate them" has not completely occurred (Yalman, 2021: 22). Epistemological pragmaticism in the form of eclecticism is heuristically utilised as an incoherent policy mindset.

Of course, these are not only scholarly issues. Diminishing prospects about employment and aggregate demand translates into political discontent. As Clarke puts

[3] Yılmaz, Koray R. (2023). "Şu "Heterodoks" sözünü biraz dikkatli mi kullansak?" *Evrensel*. https://www.evrensel.net/haber/493772/su-heterodoks-sozunu-biraz-dikkatli-mi-kullansak-2 (last accessed on 04.07. 2023).

it, “in each crisis the subordination of the state and civil society to the power of money became not only a matter of scholarly debate, but also of intense struggle as demands arose for the state to intervene to curb the destructive power of money” (Clarke, 1988: 119). Different movements have begun to rally for what they have been presented, and actively present, as causes of daily problems such as lower wages, unemployment, and dead-end jobs, engendering a highly mobilised political arena in which alternative movements loosely termed populist, post-fascist, or simply authoritarian gained audience (Yalman, 2021: 15, 17). Mainstream analyses tend to explain this “turn” with changing political coalitions and elections, and focus on the ways in which masses are mobilised, a rather “politicist” interpretation of events (Bedirhanoğlu, 2021: 70). Due to dissatisfaction with existing conditions, these movements present themselves as anti-establishment and argue for unconventional policies which the mainstream finds itself in a position to address these challenges due to their politicised nature. Therefore, calls for unconventional policies which are assessed as “the return of Keynesian thinking and the resulting reinvention of the role of the state in the economy” are made in line with the political trends (Dönmez & Zemandl, 2019: 131).

This politico-epistemological trajectory can be related to the crisis of 2008. Since then, we have witnessed “an emerging trend of a re-consideration, critique and, in certain cases, reversal of the prior orthodox strategies pursued in economic management” (Dönmez & Zemandl, 2014: 128). One commentator notes that the post-2008 policies that yielded arguable success “set many economists casting about for non-standard policy solutions”.[4] Another commentator at *The Economist* makes the same point[5]. Moreover, this has manifested itself throughout the globe. For example, in the US, the former president Trump had often meddled in monetary

[4] “Neo-Chartalists or Neo-Charlatans? A dive into modern monetary theory”. (2019) *Room151*. https://www.room151.co.uk/blogs/neo-charlatists-or-neo-charlatans-a-dive-into-modern-monetary-theory/ (last accessed on 27. 07. 2023). In its website Room151 is described as a news service but also “a platform for local authority finance discussion and opinion” currently edited by Jason Holland. The website is owned a London-based production company “Longview Productions”.

[5] A 2011 article on The Economist website is exclusively dedicated to tracing the prevalent forms of these non-standart policy solutions and their intellectual roots, see “Marginal Revolutionaries” (2011), *The Economist*, https://www.economist.com/briefing/2011/12/31/marginal-revolutionaries (last accessed on 27. 07. 2023).

policy, pushing the Fed Chairman Jerome Powell to lower the bank's lending rates and fund the efforts of his administration.[6] In Turkey, economic policy has been put under constant pressure in a way antithetical to the apparent independence the economy once operated (or was said to operate) in reference to a set of neoliberal principles, such as central bank independence. Heads of government watchdogs and state banks are now employed on the basis of whether they align with the repoliticised economic agenda.[7] Turkey is witnessing, a post-2008 "*process of (re)politicisation* with a characteristically repressive drift" (emphasis in original, Dönmez & Zemandl, 2019: 125). These developments are reflecting a global trend of repoliticisation in economic policymaking by "direct state intervention [besides the state's direct] management and control of the economy and society" (Flinders & Buller, 2006: 297). The pandemic flared some of these already heated debates about the role of state in managing the economy (Yalman, 2021: 24). For some, established norms are "being rapidly replaced by statism – a form of political economy in which the state exercises substantial centralised control over social and economic affairs". Perhaps the most striking epistemological example of this trend is Neochartalism, or Modern Monetary Theory (MMT) as it is called among netizens.[8] Its allure is primarily due to the arguable power the state wields over civil society that led many to embrace the state as the secular god that would solve all economic problems that materialised in secular stagnation. This resonated in Neochartalism as an adherence to the efficiency of fiscal

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[6] See Yglesias, Matthew (2019) "Donald Trump's escalating war of words with Fed Chair Jay Powell, explained". *Vox*. https://www.vox.com/policy-and-politics/2019/8/29/20836652/donald-trump-jaypowell-fed-feud (last accessed on 16.01.2023)

[7] Despite the wide-spread enthusiasm around Mehmet Şimşek's reappointment as the Minister of Treasury and Finance that he will quickly re-establish "rationality" in policymaking, it is too early to say that his trajectory of policy will be drenched in economic orthodoxy. Indeed, many real and financial sector agents and commentators have claimed his return to sound policies has been quite timid. For example, see Aktaş, Alaattin (2023). "Bu faiz artışıyla mı enflasyonun üstesinden gelinecek?". *Ekonomim*. https://www.ekonomim.com/kose-yazisi/bu-faiz-artisiyla-mi-enflasyonun-ustesinden-gelinecek/701502 (last accessed on 27. 07. 2023)

[8] "Neo-Chartalists or Neo-Charlatans? A dive into modern monetary theory". (2019) *Room151*. https://www.room151.co.uk/blogs/neo-charlatists-or-neo-charlatans-a-dive-into-modern-monetary-theory/ (last accessed on 27. 07. 2023). The Economist article of 2011 reiterates that exact point. See "Marginal Revolutionaries" (2011), *The Economist*, https://www.economist.com/briefing/2011/12/31/marginal-revolutionaries (last accessed on 27. 07. 2023).

policy, for which after 2008, monetary policy was unable to stimulate spending and growth as it reached the zero lower bound. Neochartalism was one of the few systematically developed assessments that prioritised fiscal policy against the monetary policy unlike the "market monetarists" and "the Austrians" as they were called in one *The Economist* article[9].

Hence, its emphasis on the state in managing the economy. Neochartalism owes its power not to the academic community but the internet that helped its priests to spread the gospel. The divine word urges that states are able to alleviate real economic problems by the virtue of their power to create and spend money independently inasmuch as they have monetary sovereignty which roughly means the power to print money and being able to borrow in that currency directly from their central banks, not from the domestic bond markets. The only factor that could hinder these efforts is inflation which the state can also alleviate via fiscal policy instead of monetary policy (Ritz, 2023). Fiscal policy should be used by states to *generate* bottlenecks to force funds out of particular sectors via taxation and allocate these freed-up funds to achieve full employment and price stability at the same time, arguments that articulate with what Dönmez and Zemandl (2019: 131) said about the Keynesian influence after 2008. Neochartalists argue that the state should monetarily engineer the real economy to the material level allowed by real resource constraints. So, money is taken as a non-factor and real economy is ontologically prioritised in a methodological perspective in which the state is accepted as ontologically prior to economy, or in different terms to the civil society.

These prescriptions were undoubtedly unconventional to the level of heresy, as they reinstated a political rationale to the echelons of economic policy. Given that the mainstream has been contempt with the idea that states could have anything constitutive to do with markets, they led to heated debates concerning the extent the MMT inspires policymakers. The statolatry of Neochartalism has hence led it to be targeted by mainstream scholars including Nobel laureates. As one prominent Neochartalist writes, "Krugman cannot talk about anything else but MMT. Everyone

[9] "Marginal Revolutionaries" (2011). *The Economist*. https://www.economist.com/briefing/2011/12/31/marginal-revolutionaries (last accessed on 04. 07. 2023)

from Summers to Powell, from Henwood to Epstein, has to join ranks to attack a theory created by half a dozen economists" (Wray, 2019). Different political movements are interested in it, many politicians are either accused of or endorsed for employing it (Henwood, 2019). Larry Summers once called the Turkish president as the "world's first practical Modern Monetary Theorist"[10]. Trump is accused of utilising it (Dmitrieva, 2019), while one important MMT scholars says that she advised a developing country president along with many others in the US Congress (Weisenthal & Alloway, 2021). Writing for *the Forbes*, Ritz, a self-proclaimed centre-leftist, says that "far-left" politicians used MMT to justify their proposals. Pandemic spending spree "provided policymakers a natural experiment to evaluate the claims proponents of MMT made" (Ritz, 2022). Many scholars in the tradition participate in the events and studies conducted by left-wing institutions such as the Rosa Luxemburg Stiftung and the Progressive International. It seems as if the Neochartalists' political preferences span across the conventional political spectrum, creating more confusion. One commentator, aware of this confusion states that "an inherent issue with MMT is that it is an ever-changing theory with multiple meanings depending on which proponent you are speaking to".[11] Hence, the same commentator "puns" it as "neo-charlatanism".

Despite criticisms, there seems to be a great deal of convergence between policymaking and the Neochartalism. An important instance of that is noted by some as the erosion of the Washington Consensus[12] principles into new ones that prioritise government incentives to corporations, capital controls, more public investment in what Janet Yellen advocates as "modern supply side economics" (Belli, 2023), a term

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[10] '"President Erdogan is the world's first practical modern monetary theorist," says @LHSummers when reacting to Turkey's interest rate cut. *Bloomberg*. https://twitter.com/BloombergTV/status/1560292116135288838 (last accessed on 21. 01. 2023)

[11] See, "Neo-Chartalists or Neo-Charlatans? A dive into modern monetary theory". (2019) *Room151*. https://www.room151.co.uk/blogs/neo-charlatists-or-neo-charlatans-a-dive-into-modern-monetary-theory/ (last accessed on 27. 07. 2023).

[12] Washington Consensus implied the market-centric policies advocated by IMF, The World Bank Group, and the US Treasury at the turn of 1980s. These policies consisted roughly of liberalisation of trade, privatisations of state-led industries, and dergulation of production. These were said to alleviate the balance of payments problems experienced by developing countries and ensure the accessibility of funds to their states.

critics use to target Neochartalism (Summers, 2019). In that framework, the state is asked to actively set taxes and incentives to precipitate and channel investment into politically desired programmes including green transition, higher workforce participation, more public infrastructure. Belli, sceptic about the possibilities of this approach, says that its attempts to steer investment to the "right direction" neglects the fact that the appetite for investment is determined by profit rates of capital. He considers these "protectionist" policies to be the ways in which Western countries try to defend their economies that they found to be in secular stagnation.

For its mainstream critics Neochartalism is a "theory that states that the government can simply print money to fund projects to bring an economy to full capacity, without necessarily suffering the repercussions of hyperinflation".[13] It does not have to borrow as *it* creates money. All economic problems could be offset with a simple offer of what might be seen at the first instance a free lunch: "Medical care for everyone in the economy? Much more feasible when you can simply print money!" These critics raise examples of Weimar, Venezualla, Zimbabwe, countries that experienced hyperinflation as a result of printing money, and that it is not politically feasible in a somewhat democratic system as not a single "politician beholden to election cycles will increase taxes to tame inflation" as a fiscal response advocated by Neochartalists. Moreover, Neochartalist arguments are said to be reliant on the assumption that states are the omniscient utilisers of capital, capable of knowing all about adequate economic management.[14]

A closer look at this assumption narrows, however, the distance between the mainstream and the MMT, as the latter's argument "that development of private (domestic) markets took place after, and as a result of an introduction of money by the state" (Semenova, 2011: 53-4) is in direct contradiction with another claim of MMT that money has a "social" nature (Tymoigne & Wray, 2006: 3). Neochartalism

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[13] See, "Neo-Chartalists or Neo-Charlatans? A dive into modern monetary theory". (2019) *Room151*. https://www.room151.co.uk/blogs/neo-charlatists-or-neo-charlatans-a-dive-into-modern-monetary-theory/ (last accessed on 27. 07. 2023).

[14] See, "Neo-Chartalists or Neo-Charlatans? A dive into modern monetary theory". (2019) *Room151*. https://www.room151.co.uk/blogs/neo-charlatists-or-neo-charlatans-a-dive-into-modern-monetary-theory/ (last accessed on 27. 07. 2023).

appears to present its state-centricism as an emphasis on the "social" whereas the Neochartalist emphasis on state as the agent to engender contemporary macroeconomic goals is underpinned by its naturalisation of markets as an ontological function of states. Ultimately, states can allocate resources better than markets by the virtue of their ability to enforce a unit of account underpinned by its coercive powers. Thus, insightfulness of an assessment by Yalman could not be more obvious if Neochartalism is contextualised in the post-2008 environment: "economic crises of capitalism" cripple the established norms of governance and precipitate a "recourse to the more direct or more concealed forms of authoritarianism and coercion"' (2021: 15). Neochartalism articulates with the economic policy necessities implied in the problems of enhanced capital accumulation, hence entrenches its position as an apparently epistemological heresy that offers an alternative to the mainstream policymaking. However, this thesis argues that Neochartalism only *appears* to be a heresy since it is preoccupied with engendering the conditions for enhanced capital accumulation in the context of secular stagnation by the virtue its ontological position that relies on naturalisation of capitalist markets. In that sense, Neochartalism reproduces the "experientially real" historical separation between state and society that distinguishes capitalism from other modes by considering the society an ontological function of states.[15] So, despite its heretic outlook compared to the Neoclassical assumptions, it becomes, in practice, complementary to efforts that aim to address the contemporary problems of capitalism.

1.1 Methodology of the Thesis

This study hence will examine Neochartalism as an apparently epistemological heresy that is not completely out of line with the political goals of orthodox economics but challenges the latter only with its analysis and methods. Utilising a critical political

[15] Bedirhanoğlu (2021: 102) elaborates further on that issue. For her, "the appearance/reality dichotomy of the capitalist state and the market is not simply a discursive phenomenon but has material roots as well as material implications due to its constitution by class struggles." That's why she prefers to define it as 'experiential reality', following Corrigan, Ramsay and Sayer (1980). For her, "current discursive and institutional economic management strategies need to be rethought within the context of the intensified financialised discipline of the capitalist market over political relations". Similarly, Neochartalism is not a simple theory of how money operates, but its prevalence in this particular historical period tells a lot about the ontological features of capitalist society that manifest itself in particular forms.

economic framework towards money, it will detect whether or not different epistemologies that articulate money in the context of economic management are contrasting or complementary. It will examine how the “rule of money”, as is coined by Simon Clarke, is reproduced in different epistemological positions. This is important since reproducing the rule of money means reproducing capitalism which also means prioritising capital accumulation. In capitalism, enhanced capital accumulation is important as it also means to reproduce the society itself. Moreover, the study is influenced by Simon Clarke’s framework which examined classical liberalism, Keynesianism, and Monetarism as epistemological reflections to ontological developments. Using a similar methodology, it will try to investigate Neochartalism as an epistemological manifestation of the ontological reality of cyclical crises and contradictions of capitalism, which are themselves embodied in the rule of money. In that sense, MMT propounds a way to reproduce capitalism in the context of post-2008 global developments, such as social unrest, stagnating growth, income inequality, and climate change, hence a goal which is not heretic to those of the mainstream policy epistemology. However, the study confines itself with the period that lasted until the end of COVID-19 pandemic, the subsequent surging of inflation and the interest rate hikes that followed. Indeed, these new developments raise new questions that should be dealt with in further studies.

The study utilises both online and printed sources. Until the fifth chapter, as the debate is mostly theoretical and historical, printed sources are used. However, in the fifth chapter, online sources are heavily used since MMT is still a fringe movement that hampers its ability to print in mainstream journals. Per Wray, MMT finds audience through online blogs where MMT increased its influence after 2008 in a context that proved still hard to publish apparently heretic opinions (Matthews, 2012).

1.2 Structure of the Thesis

With the goal of deconstructing MMT as only an apparently heretic epistemology, the second chapter will analyse the Neoclassical monetary epistemology, its Chartalist critique that would find its way into MMT, and the Marxist critique of both of these, in other words the three main epistemologies of money (Lapavitsas, 2017: 269). These will be categorised as market-centric, state-centric and social theories of money that correspond to Neoclassical Metallism/Monetarism, Chartalism, and Marxism, respectively. The second chapter basically explains these different currents individually, but not in a monographic manner, for the sole purpose of later showing how policy-oriented theories of Metallism and Chartalism conceive of money, the crux of economic management, and how Marxism criticises these currents. For, Marxism is a criticism of both Metallism and Chartalism as they rely on an epistemological particularism of thinking states and markets as distinct realms. That is why it is deemed appropriate to present Marxism as both the preferred methodology of this study and an individual monetary epistemology to be discussed in the second chapter.

The Neoclassical argument of Metallism expresses the conventional wisdom that money is a commodity which is saleable, and inherently and asocially valuable. Chartalists criticise this argument by saying the mainstream "utterly fails to recognize that money necessarily consists in social relations between economic agents and between them and a monetary 'authority'" (cited in Semenova, 2011: 55). For Chartalism, money and markets are an ontological function of the state, and the state can address the problems of economic performance better than markets. Indeed, Chartalism is correct in showing the role of states in markets, but it does not extend the reflection to its logical conclusion that money is a social relation beyond states despite its own emphasis on the "social".

Marxists criticise Chartalism for reducing the social into political, and conflating the political with the state. For Marxism, money is social power, not a "thing" as conceived by Metallism and Chartalism. So, Marxism deconstructs capitalist class relations in which power is unequal due to the rule of money that underlines the process of surplus appropriation as a wage relation, which is itself kept socially intact by the coercive power of the state. Marxism redefines the Chartalist critique directed at the mainstream by finding to be state-centric and linear. So, Marxist methodology shows that the Chartalist emphasis on the "social" nature of money (Tymoigne & Wray, 2006: 3) is employed pragmatically against the economicism of the economic convention. Chartalism too relies on the same ontological assumption that naturalises the separation of states and markets in capitalism. Ontological holism of Marxism is crucial for showing the ways and processes in which heresies are incorporated into the mainstream in the context of practical problems. Such incorporations manifest as eclecticism in policymaking. This will be shown in the debate between endogeneity and exogeneity of money in chapter two, where the methods of management of money in the context of its supply will be discussed. The clear contrast with the assumptions Metallism and Chartalism concerning the origins of money will be highlighter here. Later the debate on the global constitution of money will problematise the inanity of utilising linear vectors of determination between states and markets as done by Metallism and Chartalism in their emphases on the endogeneity and exogeneity of money.

The third chapter will start where the second historically left off. It will problematise the hybridisation of state-centric and market-centric epistemologies in the context of policymaking which is characterised by the same problems of enhanced capital accumulation created by the preceding conventions of economic management after the 1970s, to reiterate practical necessities of capital accumulation result in eclecticism. These problems were precipitated by the "New Monetary Policy Consensus" (NMPC) (Saad-Filho, 2010: 90) that was created after the failures of implementing a rigid quantity rule informed by a staunch Monetarism. NMPC was a hybridisation of Keynesian practices and Monetarist assumptions such as the natural rate of unemployment. NMPC consisted of central bank independence and inflation targeting which created low interest rates and low inflation. It incorporated the rules which fixed policymaking in a certain direction while giving central banks enough leeway in countering possible problems of liquidity. NMPC was beneficial for enhanced capital accumulation as it freed credit opportunities. However, as monetary policy turned out to be ineffective to generate employment and growth after the crash of liquidity in 2008, fiscal considerations came to fore. Just as the NMPC was a consequence of practical renegotiation of policy guidelines adopting state-centric and market-centric principles, when monetary policy became allegedly ineffective against real economic problems precipitating a reconsideration of central bank independence and inflation targeting, interest in MMT fuelled as it has argued for a similar reconsideration of the role of monetary and fiscal means in managing the economy. So, post-2008 was a breeding ground for the MMT audience.

Afterwards, the fourth chapter will briefly examine Neochartalism and its policy prescriptions. It will show that the MMT's unconventional prescriptions somewhat resonated with the post-2008 context of policymaking. Basic tenets of MMT are identified by Sylla (2020) as "chartalism, endogenous money, sectoral balance approach, functional finance, and the job guarantee" (Sylla, 2020) and perhaps monetary sovereignty. In summary, MMT assumes an abstract market equilibrium that could be generated with monetary engineering by the virtue of its assumed vector of determinacy from the state to markets. The argument of sectoral balances is striking in that context. It says that for private sector to be in surplus and making profits, the state must be in deficit. So, MMT is not revolutionary as it claims it to be (Hutchens, 2020). It is preoccupied with conditions of profitability. MMT is in line with the "idea that the worst ills of capitalism can be remedied by tinkering with money, credit, and government debt" (Ivanova, 2020: 147). So, its heresy is up to debate.

This fifth chapter examines who said what about MMT in terms of its intellectual practice and policymaking. After 2008, it is witnessed that policymakers and capital groups started to converge around the opinion that there should be more fiscal activism despite the continued of fear inflation. More fiscal activism is now deemed necessary to escape the low investment trend of secular stagnation. In that context, MMT's advocacy of deficit spending to the level of inflation to jumpstart investments, growth and employment found a great audience. Some even argued that "MMT's ideas have insinuated themselves deep into government, central banking and even Wall Street" (Mackintosh, 2021). This chapter is an extensive critical inquiry of the policy debate around the MMT, providing and one of the main contributions of the study to the literature.

Interest on the MMT did not of course mean that everyone became an MMT supporter. Three general views on Neochartalism are categorised here as pro-Neochartalist, somewhat Neochartalist, and anti-Neochartalist. The somewhat Neochartalist group thought MMT is useful inasmuch as it is only a response to counter-cyclical crises. The former two detected deflation as a threatening possibility, so they advocate more deficit spending. However, third group, anti-Neochartalists fear inflation and crowding out of investments. In that sense, the dissonance between the arguments for inflation and deflation overlap with the distinction between the state-centric Chartalism and market-centric Neoclassical Metallism-Monetarism. On the other side, rather critical scholars have argued that MMT is not antithetical to mainstream economics as the way MMT sees taxes remove the redistributive capacity taxes are thought to have. That debate showed the extent of eclectic articulation between state-centric and market-centric arguments in the context of policymaking when deflation and inflation underpinned by secular stagnation are concerned.

The sixth chapter will summarise the main arguments of the thesis and conclude it. It will underline that a great part of MMT's heresy is mainly its attempt to change the tools to reach established goals. Thus, the goals themselves are not different from the mainstream preoccupations such as profitability, growth, employment, less taxes as well as other macroeconomic goals. So, the MMT is not a wholesale stand against the established social relations of power nor a revolutionary current. It reproduces the separation of states and markets/society and naturalises the rule of money epistemologically. So, the "heresy" is not an essential one, but a formal one. It would not be a surprise to see more MMT-related arguments in the future.

CHAPTER 2

THE RULE OF MONEY AND MONETARY EPISTEMOLOGIES

Despite the notoriety in distinguishing what is money and what is not (Koddenbrock. 2017), it is often said that monetary epistemologies can roughly be categorised in three traditions: “Neoclassicism, the German Historical School, and Marxism” (Lapavitsas, 2017: 269). This chapter systematically examines these three accounts of money to highlight their fundamental assumptions and ultimately reflect on the eclectic character of contemporary economic policymaking fed by the former two approaches. What this chapter does basically is first explaining these different currents individually. Among them, Metallism and Chartalism are the two mainstream approaches to money in the political economy literature that function as ammunition to practical policy debates. On the other side, Marxism is a theoretical and methodological criticism of these two approaches, besides being the methodological approach adopted in this thesis. As it could be better comprehended as a criticism of the two, Marxism is discussed in this chapter in detail rather than in the first introductory chapter of the thesis as would be expected.

Different approaches to money characterise different forms of policymaking. As the mainstream perception of money as a commodity is also the common sense, it might be hard to understand money, not as a thing, but as a social relation with different forms and functions. Delving deeper into the established analyses and the ways in which they are criticised could help us acquire a better insight of the contradictions and inner workings of money. Indeed, the Neoclassical emphasis on the scarcity as a feature that created the value of money is criticised by Chartalism which sees the value of money as something created by the state. So, for the former, money should be managed in line with the implications of scarcity whereas the latter state that money is managed by the state, in relation to the demand from society. So, scarcity is not an integral feature of money, rather Chartalists are audacious in their emphasis on the “social” nature of money (Tymoigne & Wray, 2006: 3).

The Chartalist emphasis is correct that the Neoclassical tradition "utterly fails to recognize that money necessarily consists in social relations between economic agents and between them and a monetary 'authority'" (cited in Semenova, 2011: 55). However, it seems that the Chartalist do not take this emphasis on the social to its logical conclusion. They seem to be over-occupied with showing the significance of the state in economic affairs while overlooking the ways in which markets constituted states. A holistic understanding concerning the total constitution of the social could have helped overcome this theoretical error, but the very ontological basis of both Neoclassical Metallism and Chartalism that see markets and states to be external realms prevented them from employing that understanding. A Marxist understanding of money appears more useful as it does not think markets and states externally determine each other, and show the ways in which they are constituted as social phenomena. In that context, money becomes a disciplinary factor over states and markets. This "rule of money" is characterised by the fact that money is the unifying feature in capitalist society in which different parts of the social order appear as if they were ontologically distinct entities, while all are disciplined by the monetary constraint.

The ways in which Metallism and Chartalism understand the separation between markets and state, a separation mediated by the existence of money, in that sense, is not antithetical. Concerning the origin of money, Metallism and Chartalism offer apparently contrasting analyses. The former considers markets determine states as money emerges as a cumulative consequence of rational agents in markets. The latter criticises that by saying states create money because all money is actually debt. In the second instance about what gives value to money, they begin making arguments not too dissimilar. Indeed, in that context Chartalism sees the value of money as endogenously created. This means demand emerges in markets, while Chartalism is rather silent on what determines that demand. The debate on the endogeneity and exogeneity of money, elaborated on below, seems to offer a fruitful context in which the similarities between Metallism and Chartalism as manifested. In summary, this chapter will question the theoretical underpinnings of seemingly different Metallist and Chartalist arguments from a critical perspective informed by a Marxist understanding of money.

2.1 An overview of money in Metallism, Chartalism, and Marxism

This section critically analyses these three main monetary perspectives. Inspired by the categorisation provided by Beggs (2017: 464), it presents the Neoclassical argument of Metallism-Monetarism as market-centric, and Chartalism as state-centric. This categorisation is pedagogically useful as it highlights these perspectives' theoretical leverages as much as their politics of epistemology. It also resonates with the conventional categorisation of main strands in political economy as they are propounded by Eren (2022) as individualistic for Metallism, and nation centric for Chartalism. However, the section does not aim to provide a monographic examination of these approaches. Instead, it critically problematizes the ontological assumptions of these monetary epistemologies in order to show later how their arguments articulate with the ways in which social relations are reproduced epistemologically, the primary one being the separation of the civil society and the state. Methodologically, it starts with the mainstream monetary epistemology after which Chartalist critique is provided. Then, the problems with the ways in which Chartalists present their critique as social will be elaborated from a Marxist monetary perspective. The part on Marxism is especially critical since it also lays down the methodology of this study that guides the analysis throughout the chapters.

2.1.1 Money as means of exchange, or Metallism as "market theory of money"

Neoclassical arguments of metallism/monetarism are the dominant paradigm in economics (Semenova, 2011: 45). Its arguments which could be traced back to Adam Smith (Lapavitsas, 2017: 269) consider money as a neutral facilitator (Wray, 1998: 1; Akçay, 2008: 43; Winczewski, 2021: 410; Beggs, 2017: 465; Konings, 2022) of transactions crippled by the problem of having to coincide the wants of two parties under barter exchange. In Smith we find a "model of a society of independent petty producers, each free to enter any branch of production, entering the market with the products of his or her own labour, and bartering them for the products of others" (Clarke, 1988: 30). Marginalist scholars like Carl Menger, who propounded Metallism (Semenova, 2011: 55), and Leon Walras, whose general equilibrium which is "a model of direct commodity exchange between market participants" in which money is a non-factor influenced economics and made barter-derived money mainstream (Lapavitsas, 2003: 61). Furthermore, "Say's Law" underpins neoclassical models with the dictum that “what [is] bought is sold, and what is sold is bought” and presents money and prices as non-factors (Nalbantoğlu, 2022: 61).

For Menger, money was a functional outcome of barter in which individuals' wants must match what the other party offers (Semenova, 2011: 60-2). A demand for something that another individual does not offer is a direct impediment to efficient trade. This is naturally overcome as individuals begun accepting more "saleable", or "marketable" goods (Lapavitsas, 2017: 270). These goods were originally metals, or highly saleable and scarce commodities (Wray, 2001). They also had properties underpinning efficient trading like durability, preservability, and portability (Semenova, 2011: 63). Therefore, saleable goods became money as a cumulative consequence of individual rational behaviour (Semenova, 2011: 58). For metallism, because money derives strictly from individual rationality, it is a market relation in the purest sense that later becomes a “social contract” between equal individuals. Naturalising value as a metallic quality reflected in saleability, this perspective excludes states and broader power relations from those which are economic (Schumpeter, cited in Bell, 2001: 151). It assumes that market transactions occur between parties of equal social power (Lapavitsas, 2003: 63) who reached the conclusion of money by the virtue of a transandental and all-encompassing rationality. In ontological terms, this means that Metallists prioritise the determinacy of markets.

As money is analysed at the same level as all other commodities and it spontaneously emerges in market relations, all transactions, monetary or not, become essentially barter. In fact, money becomes a theoretically neglectable technical improvement on the previously inefficient mode of transaction characterised by having to coincide demand (Bell, 2001: 151). Because money is seen as a non-factor, Neoclassicals do not incorporate money into their models as a variable (Wray, 2014: 24). Therefore, “modern neoclassical microeconomics finds itself in the bizarre position of treating capitalism -the most heavily monetised society ever- as a society of direct exchange, or barter” (Lapavitsas, 2005: 36).

In a nutshell, the Neoclassical epistemology on money is an emphasis to money as a neutral means of exchange, hence Clarke’s argument that the mainstream sees money as a means of exchange (Clarke, 1988: 27). This is also in conformity with the

Chartalist elaboration of the mainstream as Semenova (2011: 44-5) characterises the Neoclassical monetary epistemology as the "exchange theory of money". It assumes that there is an overarching market rationale which incentives all market agents to the logical conclusion of using money between free and equal transactions situated in markets characterised by barter (Beggs, 2017: 464; Clarke, 1988: 31) and ontologically superior to states. Thus, it could also be seen as a “market theory of money”.

2.1.2 Money as unit of account, or Chartalism as “state theory of money”

2.1.2.1 Formalisation of the unit of account by the state

Finding its roots in the "German Historical School" (Lapavitsas, 2017: 270), Chartalism opposes the Neoclassical metallist/monetarist perspective -the "M theory" (Goodhart, 1998) of "the Austrian School" (Lapavitsas, 2017: 270)- that naturalises barter exchange under a monetary appearance. A loose tradition influenced by figures such as Adam Smith and John Maynard Keynes (Rochon & Vernengo, 2003: 58), Chartalists offer a "state theory of money” (Lavoie, 2013: 3) in which money is presented as a creation of the state, which is accepted as a naturally coercive entity separate from the civil society. Chartalists emphasise the unit of account function against the means of exchange (Tymoigne & Wray, 2006: 1). For them, the determination of the "unit of account within a territory and the assignation of some forms of money as representing the unit of account" (Beggs, 2017: 464) creates markets and it has been an exclusive state function for "some four thousand years" (Keynes, cited in Bell, 2001: 156).

Therefore, barter-origin is a “folklore” (Wray, 1998: 40). Metals were far too valuable for the conduct of everyday exchange (Wray, 1998: 42; Bell, 2001: 161; Tymoigne & Wray, 2006: 7), and it does not hold “historical proof” that their use progressively took the place of commodity money because this was more efficient compared to simple barter (Tymoigne & Wray, 2006: 3). In that sense, saleability underpinned by a market rationality also becomes a folklore: “the monetary unit almost certainly required and requires some sort of authority to give it force” (Tymoigne, 2006: 3). Indeed, metallic money in the form of coins had not emerged out of private transactions, they were minted by the state to pay for its own debt, say to privateers and mercenaries (Wray, 1998: 44; Goodhart: 1998: 415). They were tokens of states’ debts (Wray, 1998: 45).

That debt was denominated in the unit of account set by the state. Pound, drachma, and shekel were all weight standards of money “based on either wheat or barley grains" (Wray, 1998: 48). However, nominal value of metals did not necessarily correspond to the value of the thing that denominated the unit of account. The price of the peg, the metal, and the money could fluctuate independently. To be in circulation as a state obligation, the value of the money had to be more than the metal (Wray, 1998: 49). Otherwise, it could be melted and used as bullion. In that sense, independent value of the unit of account is only represented by a certain weight and purity of metal, which itself had an independent value, and the use of metal is essentially arbitrary (Wray, 1998: 50). The emphasis on the political constitution of money is a strong critique of the metallist mindset of Neoclassicals who assume a correspondence between the value of money and the scarcity of metal.

The discrepancy between value of the unit of account and the scarcity of the metal implies that standardisation of money as the unit of account, frees the money from its physical boundaries (Akçay, 2008: 29). Money might be gold, silver, pieces of paper, or even numbers on a digital screen as long as it is supported by the coercive powers of the state. It can circulate as symbols denominated in the unit of account independent of the money itself (Akçay, 2008: 49). Chartalists substantiate their argument with the example that in medieval European fairs, the unit of account function provided the writing off of debt without any use of coins similar to clearing houses which were proto-central banks (Wray, 1998: 42).

2.1.2.2 Monetisation of private transactions

For Chartalists, debt ensures that money holds value without the necessity of scarcity attached to metallic or calculational standards (Tcherneva, 2006: 72). This underpins different monetary forms. In ancient times, clay tablets inscribed with particular debts were monetised (Ferguson, 2008: 30). Similarly, tally sticks which indicated a particular debt relation were used as a means of circulation even until 19th century Britain. Tally sticks serve as one of the most illuminating examples of how money works in the Chartalist epistemology which underlines the monetisation of debts (Wray, 2014: 13). Holders of the part of the tally stick which was called the stock, given to whom the obligation was due, could use it in their payments to third parties.

Nevertheless, “introduction of the chartal means of payment by the state does not yet explain its general acceptance among the population” (Semenova, 2011: 48). Indeed, while many post-Keynesians also accept the state's role in determining the unit of account, Chartalists try to explain why that unit of account is adopted in private transactions (Rochon & Vernengo, 2003: 59). For the latter, the tax relation between the state and private agents, which is a relation of coercive extraction, ensures the usage of the state-money. Because all subjects need “that which is necessary to pay taxes” -twintopt- (Wray, 1998: 4), accepting state money in private payments becomes practical. At the same time, the state creates demand for its money as an "IOU" (refering to “I owe you”) in exchange for the goods and services it buys so that private agents keep on offering the goods and services in exchange for “twintopt” (Bell, 2001: 150). In different terms, “saleability” of the money is not ensured by the efficiency attributed to a means of exchange but the imposition of taxes which is conceived of as a relation of coercion between the state and society (Sgambati, 2015; Semenova, 2011: 51). Indeed, the Chartalist argument relies on the "ad hoc agency of the state in order to justify the institutional transformations of money and the monetisation of debt relations" (Sgambati, 2015). State money proliferates into all private transactions because it is underpinned by coercion by virtue of which markets are rendered rational inasmuch as state money accelerates and simplifies transactions. As money progressively acquires social acceptance, "the whole cycle of production would arrange itself around state money" (Rochon & Vernengo, 2003: 60). So, the state ensures the rationality in markets, not markets impose a certain logic on social agents.

There is a recurrent emphasis on the role of taxation in monetising economic relations in the Chartalist literature (Goodhart, 1998: 417; Wray, 1998: 57). In that context, penal institutions are often argued by Chartalists to have helped the emergence of money (Wray, 2014: 9). It is contended that proto-state political authorities have set and codified penalties for misdemeanours that necessitated compensation, and what is used as means of compensation. These social obligations of kinship such as wergild and bride price are thought to have implanted debt relations into custom which the state oversaw, and settlement of these obligations are later done through taxes and fines (Wray, 1998: 49-50; Goodhart, 1998: 413). Furthermore, practices of European colonisers are also important instances. For example, stone wheels called *fei* which stood stationary no matter who owned them because they were so big to be relocated after exchange, were used in exchanges by the Indigenous people of the island of Yap. After acquiring the island, the German government found it hard to enforce labour on the islanders. So, they marked the *fei* and declared their confiscation as payments to fines. To remove themselves of this obligation, islanders did the tasks imposed by the administration (Wray, 1998: 58).

For Wray, this indicates the coercive imposition of obligations as fines or taxes to force labour in a way that facilitates monetisation. That coercion restructured “backward” societies as "taxation in the form of money in the colonies not only destroyed the traditional economies, but helped in the development of monetary economies" (Wray, 1998: 60). Their measures eliminated other alternatives to markets in the form imposed by the state with obligations, which in turn made it necessary for the local population to supply labour to the administration (Wray, 1998: 60-1). Therefore, money does not casually emerge as argued by the Neoclassical monetary epistemology. The impracticality of using *fei*, carved in and carried by canoes from the distant island of Palau, shows another problem with the barter myth concerning the so-called rational and efficient nature of money. Impracticalities of *fei* hardly cut costs. Moreover, production of these stones required the permit of the Palau polity in exchange for Yapese labour or goods. In that sense, Palau was integral to monetarisation of Yapese social relations as the stones acquired social context as parts of unequal relations between the inhabitants of Palau and Yap. This historical instance hints how non-convertible and worthless pieces of “money” could be socially accepted (Goodhart, 1998: 417; Wray 2014: 7-8).

Summarising the Chartalist argument, Sgambati (2015) notes that it consists of four parts. The first is their insistence on “displacing ‘medium of exchange’ as a core function of money" (Beggs, 2017: 463). This is perhaps the most critical one: unit of account characterises money more than means of exchange (Beggs, 2017: 467; Wray, 2014: 24). However, political coercion impeded on market relations. States’ imposition of the unit of account creates markets via monetisation, thereby rationalisation. For Chartalists, because the state “chooses the unit of account; it imposes tax liabilities in that unit; and it issues the money-thing that is used by private markets for ultimate clearing” (Tymoigne & Wray, 2006:14), it is "impossible to separate the theory of money from the theory of the state" (Wray, 1998: 23). Second, value too is imposed by the state on society. Third, money represents a particular socio-economic entitlement -debt- which is not a corollary to barter, but unequal power relations. Fourth, money is an autonomous economic force rather than a neutral veil on economic processes as is assumed by the Neoclassical tradition. This last argument also implies money has an ontological priority against society as it is a creation of the state. All in all, it would be appropriate to say that Chartalism is a statolatric monetary epistemology despite its emphasis on the “social”.

2.1.3 Money in capitalism and Marxism as the “social theory of money”

Chartalists criticised the Neoclassical argument by saying that money was autonomous and “constituted by social relations that exist independently of the production and exchange of commodities" (cited in Wray, 2014: 25). However, they also relied on the state to derive money ontologically. So, their analysis of money was actually state-centric, not social. It also epistemologically reproduced the separation between the civil society and the state. Marxism does justice to the claim of social analysis which Chartalism inadequately claimed, by criticising this methodological error, and saying that the perceived dichotomies between state and civil society, and politics and economy are themselves social and historical constructs of social power relations disciplined by money.

For the Marxist epistemology, money spontaneously emerges out of market transactions in a plethora of commodities as one particular commodity becomes the universal equivalent of all commodities, which then monopolises the ability to purchase (Lapavitsas, 2003: 65). Money was originally a commodity that tended to morph into a symbolic form as individuals economise on its use. Money was not originally a purely “chartal” phenomenon denominated by the state and enforced on transactions.

Despite this great difference some authors claim that Chartalist and Marxist monetary epistemologies are in conformity (see Akçay, 2008; Winczewski, 2021; Koddenbrock, 2017). While the Chartalist emphasis on the autonomy of money seems to be similar to the Marxist understanding of commodity fetishism, money is not autonomous in Marxism. Money’s autonomy does not derive from states or civil society, but from the ontological priority of capital accumulation. Money is “the backbone of capitalist society and political economy” (Koddenbrock, 2017: 1, emphasis mine). It is the “*nexus rerum*” (Lapavitsas, 2017: 253) of social fetishes and capitalist society; a material power which “the individual carries his social power, as well as his bond with society, in his pocket” (Marx, 1993: 157). Therefore, the emphasis in Marxism on the social is not built on states, but on the capitalist reproduction process that reproduces the society as a whole, as will be further elaborated on below.

Marxism underlines the contextual qualities and functions acquired by money in different phases of the capitalist reproduction cycle (Lapavitsas et al., 2020: 320; Koddenbrock, 2017:5; Winczewski, 2021: 409). For Marx, money functioned "in strict logical sequence" (Lapavitsas, 2017: 54) as a measure of value (unit of account), means of circulation (means of exchange), and as a store of value pertaining to the hoarding function that ensures domestic and global payments. The first two indicate that money expresses the abstract value of commodities as prices and serves as a medium of exchange for the realisation of values contained therein. As Lapavitsas expresses (2017: 54), these two functions emerge in pre-capitalist markets and are not necessarily created by states. On the other hand, money as money is an exclusive feature of capitalism (Lapavitsas, 2017: 55). This methodological concern to contextualise is not seen in other essentialist epistemologies.

Marx constructed his money theory as a criticism of the inclination to prioritise particular functions (de Brunhoff, 2005: 209). In that sense, Marxism neither sees money as a stand-alone nor as embodying a formally engendered value. It is a real measure of value (Akçay, 2008: 27) reflecting a real social relation (Wood, 1995: 24) which acquires particular forms and functions in certain social conditions. In different terms, while “money is not a specifically capitalist economic phenomenon” (Lapavitsas, 2003: 66; Bryan & Rafferty, 2006: 76), capitalism is “inherently monetary” (Stanford, 2008: 193). Therefore, capitalist social relations and money that characterises it should not be dealt with in “abstract” (Wood, 1995: 22).

For Marx, capitalism appears to be “an immense accumulation of commodities” (Marx, 2013: 49). For that reason, he starts Das Kapital with an effort to unite the monetary and real aspects of capitalist economy and society under a single totality via the critique of commodity fetishism. Commodities are products of particular labour processes which produce particular use-values contained in them. These use-values are incommensurable since each labour (process) is particular. Commensurability is achieved by conceiving each commodity as a product of socially necessary labour time ideally required to produce a particular use-value in a particular historical condition. Abstraction of labour from particular use-values corresponds to the representation of the ideal measure of abstract labour as exchange-value. However, exchange-value too is abstract and requires a concrete embodiment, which turns out to be the universal equivalent of the realm of commodities, money, which is the exclusive signifier of exchange values/commodities. In other words, for Marx, "money is born out of the contradiction between the general character of value and its representation in a particular product"; or "product (or activity) takes the form of a commodity, which becomes an exchange value, and the exchange value becomes expressed in money", and money becomes a means by which values of commodities are measured (Bottomore, 2020: 124; 454). Commodities are not only monetarily measured, but rather, monetary value is a manifestation of the real value of abstract labour contained in them. Whereas concrete labour was particular and produced categorically irrepresentable use-values, abstract labour produced exchange-values/commodities represented by money. As a measure of value, "in principle, anything can be the universal equivalent" (Akçay, 2008: 26). States can set different monetary standards and change what corresponds to money. On the one hand, states might have leeway in determining aspects of its monetary manifestation but do not engender real value by denominating its monetary form. On the other hand, value is not absolute. The commodity has to be realised in the marketplace. Having to realise value disproves the existence of an independent value contained in the commodity: value is a social construct, not of the state, or markets.

Therefore, money as a "value-form" deconstructs commodity relations as a social and historical relation (Bottomore, 2020: 121). Money can represent value not because it is the absolute measure of the use-value contained in commodities, rather, because all commodities are abstractions of particular labour processes, money becomes the measure of exchange-values. Money "is an external form of the [socially necessary] labour-time" (Akçay, 2008: 27), manifesting as prices. Money acquires value not because of the state or an abstract saleability, but as a form of social value, putting discipline on the civil society and the state.

Underpinning money's representation of real value is an analysis of how value is created monetarily in capitalism. Indeed, Marx had "no notion of a dichotomy between the real and the monetary side of the economy" (Ivanova, 2020: 137). The Marxist formalisation that unites these two sides of the economy as reproduction of capital is as such:

$$m - c - (lp+mp) \ldots p \ldots c' - m' - (m+\delta m)$$

[m: money; c: commodity; lp: labour power; mp: means of production; p: production process; δm: profit]

(Lapavitsas, 2017: 65)

Whereas in the pre-capitalist (simple) mode of commodity exchange it was:

$$c\text{-}m\text{-}c'$$

(Lapavitsas, 2003: 67)

Production as "probable monetary expansion" (Akçay, 2008: 54) (m') hinges on using labour-power and means of production to make a commodity with more exchange-value than prior investment (m). This gap, or profit, comes from the surplus value appropriated by the capitalist from the labourer during the production process. The profit is the realised monetary form of the surplus-value embodied in the commodity. If surplus-value cannot be realised, capital accumulation finds itself in a crisis, and the capitalist constantly seeks out ways to curb that possibility. Reversing the argument, surplus-value is the real source of profit. In the latter pre-capitalist model, individuals use money to acquire use values (Lapavitsas, 2003: 67), and economic activity is not entirely monetised, or overwhelmingly real. The peculiarity of capitalism is that social relations of real exploitation are monetary. Indeed, "Marx's value theory is, at the same time, a money theory" (Bottomore: 2020, 122).

Money unites particular exploitation processes fragmented by specialisation and atomisation in the production and consumption of use-values (Akçay, 2008: 51).

Isolated use-value production processes characterised by surplus appropriation do not have a uniting feature other than exchange-value realisation in the market. Production and circulation are parts of wider capital accumulation process that is easily ruptured by crises perceivably external to the way markets are perceived but ontologically internal to capitalism (Clarke, 1990: 16). This is why the analysis ought not to assume an abstract social normal. Indeed, if so, analysis "becomes a science of equilibrium in a world we acknowledge to be characterised (albeit only periodically and intermittently) by disequilibrating ruptures" (Hay, 2014: 295). There is not an abstract equilibrium that could be achieved by abiding to self-contained logics of ontologically differentiated realms like states and markets, or civil society for that matter. A Marxist analysis tries to show that these apparently independent realms, which consist of internally constituted social relations, are in fact moments of class antagonisms (Çelik, 2001: 201) that radiate from the moment of surplus appropriation in a monetary form, are reshaped along the movement of class struggle. To speak of the development of capitalism is nothing but speaking of the movement of class struggle (Çelik, 2001: 193). These contradictory relations are formed historically, and as Clarke (1988: 16) puts it the "historical resolution is always provisional".

The appearance of the state as an entity apparently external to society too is a historical construct of class struggle. The pre-capitalist state was "both class and state at one" as it was "the major direct appropriator of surplus product" (Wood, 1995: 35) whereas in capitalism the political power of the ruling class is alienated from itself in the form of capitalist state. This separation is the result of the "original accumulation" process that divorced the producer from access to means of production while subjecting her to wage-dependency for daily reproduction (Wood, 1995: 21; Harvey, 2006: 153). Wage relation is integral to the appropriation of surplus value in capitalism because it ensures that the labourer must engage in a contract, a legal relationship guaranteed by the state, in exchange for a wage that does not completely compensate the work as mentioned, in order to survive. To maximise profits, the capitalist must pay the worker a wage that would just sustain her and appropriate the rest as surplus. Thus, wage dependency becomes a means to subordinate labourers to capital as a whole (Bedirhanoğlu, 2021: 75). As elaborated by Clarke (1988: 18): "The subordination of social production to the power of money gave rise to antagonistic social relations of production in which the power of money confronted the direct producers in the form of capital, and in which social production was subordinated to the reproduction of capital."

This process of original accumulation broke feudal social ties and subjected all social relations to the rule of money, engendering a social order which is dominated by the "divine power of money" (Burnham, 2015: 73). Wage relation ensures that exploitation is "internal" as the separation of the producer from means of production is perpetuated whereas in feudal society it occurred as outright coercion, hence an "external" imposition of exploitation (Bedirhanoğlu, forthcoming: 4). This distinguishes the feudal mode of production from capitalism as precipitated by the original accumulation process that subordinated the reproduction of the labour to the reproduction of capital. As market relations are reproduced as strictly civil engagements without any imposition by the state, class rule is perpetuated as both the state and civil society becomes dependent on money to reproduce themselves. Hence, rule of money disciplines both of these realms.

In the civil society, the capitalist is subordinated to contradictory appearances of capital accumulation manifest in the rule of money. Indeed, per Clarke, "competition forces every capitalist to seek out means of reducing costs or accelerating the turnover of capital, the better to withstand immediate or anticipated competitive pressure. Thus, the individual capitalist is not less subject to the power of money than is the worker." (Clarke, 1988: 100). First contradiction is between the particular capitalist interests and the general interest of capital. The interest of capital in general underpins the efforts to organise markets into auto-equilibrating realms, and ensure that no capitalist manipulates capital accumulation to its benefit. Particular capitalists see these as impediments to profitmaking thereby utilising different methods to circumvent them such as credits that alleviate the disciplining moment of capital accumulation which is to appropriate value in production and realise profits in markets. As these impediments are circumvented, new contradictions emerge which the capitalist state and capitalists restructure themselves accordingly. As noted by Clarke (1988: 123-4) the general interest and particular interests of capital underpins the separation of state and civil society, and gives the responsibility of maintaining the general interest to the former. The particular capitalist would do much to circumvent that power inasmuch it translates into policies that are against the immediate interests of the particular capitalist. The state regulates these relations by virtue of its institutional power over money where money is the “supreme social power through which social reproduction is subordinated to the reproduction of capital” (Clarke, 1988: 14) . So, there is a configuration of state and civil society in the context of monetary reproduction of capital and of social order itself which is contradictory and conforming at the same time.

As noted by Bedirhanoğlu (2021: 71), “monetary constraint is a specific form of class domination acquiring different contents in the historical development of capitalism in relation to the changing conditions of subordination/insubordination of labour by capital”. Formal epistemological precedents of the rule of money are conditioned by material relations of class struggle and in turn forms the institutional setting in which class struggle occurs (see Bedirhanoğlu, 2021). Indeed, epistemological positions on the rule of money are actually “conflicting class viewpoints that were fought out, and continue to be fought out, in political conflicts around the regulation of accumulation” (Clarke, 1988: 115). All epistemological positions reflecting on policy are introduced to deal with the “problems that have their roots in labour/capital conflict” (Burnham, 2000: 10). These positions try to influence state action inasmuch as they are translated into political power, restructuring the state inasmuch as they are heuristically found useful for politically-defined goals. Therefore, class struggle is not something that occurs between sociologically detectable classes “but a struggle over the form of the state, conducted in and against the differentiated institutional forms of capitalist domination.” (Clarke, 1988: 142). Bedirhanoğlu also notes that point: “as capitalist relations of production are persistently redefined within crisis-ridden processes of capital accumulation – in which states play a crucial role in managing class contradictions while trying to reproduce themselves – there is always the possibility that moments of concentrated crisis in this process could also give way to new political forms in capitalism” (2021: 71).

Class struggle that manifests in the rule of money underpins the changing institutional forms of the capitalist state. The state is “involved in [,] and itself subject to, a constant process of restructuring and reorganisation to enhance the accumulation of capital” (Burnham, 2015: 77). The question is therefore that of problematising the “social power of money and the political power of the state” together (Clarke, 1988: 17). In reconsideration with the assessment that the rule of money subordinates social relations to vicissitudes of accumulation, epistemologies of the rule of money are constantly renegotiated into policymaking (Clarke, 1988: 17). Therefore, epistemological positions assuming the forms of political and economic institutionalisation of capitalist power as ontological givens fail to show that they are complementary forms of the social power of capital (Clarke, 1988: 15). Thus, both the Neoclassical epistemology and Chartalism are not social, despite the latter's claim that it is. They assume a single and linear vector of determination between economic and political realms.

2.2 Vectors of Money: Endogeneity and Exogeneity

This section will try to problematise the vectors of ontological determination in the Metallist and Chartalist approaches to money from a critical perspective to underline the multiplicity of causes that necessitate a Marxist holistic approach instead of a "causalist" one (see Çelik, 2001) to money. It will be argued endogeneity and exogeneity might be misleading since these terms are often used without proper definition (Sieroń, 2019: 335). Roughly, to be endogenous to something implies to be contained by the practical operation of an abstract logic, markets, whereas exogeneity means to be determined by an external logic, the state. Defined as such, the debate provides insightful comments on different epistemological positions on money throughout history. It will be shown that different phases of the social existence of money are said to be determined by different factors in Metallism and Chartalism. However, inasmuch as they perpetuate the distinction between the state and society, they cannot grasp properly the many vectors of determination between the state and civil society/market, a limitation that can only be overcome with a holistic approach to money as a social relation.

The first subsection examines what these different epistemological positions say about the origin of money; the second one does the same for the supply and value of money; and the third one in terms of the global constitution of money in relation to the question endogeneity and exogeneity. In that process, the section is informed by what Mehrling (2012) expresses: the debate as to what principle should guide the generation of money could be traced back from the “Currency Principle to Banking Principle, from monetarism to Keynesianism, from Metallism to Chartalism, and back again.”

So, discretion and rules (see Glasner, 2017) in economic management, despite their apparent manifestation as a dialectic tension between elasticity in policymaking and trust to policymaking (Braun, 2016: 1067) are not antithetical if they are considered as different methods of policy underpinned by the state-centric and market-centric monetary theories which ultimately based on the separation between the state and society. Again, as Mehrling (2012) argues, neither stance wins out completely because the system trying to be understood requires rules and discretion all times due to the nature of money creation. The level of endogeneity or exogeneity can vary in relation to the institutional setting and historical conditions of the central bank and of finance in general (Cömert, 2013: 8).

2.2.1 Origins of Money

"The relevance of any monetary theory to actual monetary phenomena derives in part from the answer it gives to the question: What is money and how does it emerge?" (Lapavitsas, 2017: 267). The Chartalist emphasis on the “political” nature of denomination and taxation implies that money has origins exogenous to markets. By contrast, the assumption that money is a market creation and is valuable due to scarcity means that the Neoclassical Metallist tradition derives money endogenously. The contrast between these two traditions, Bell argues, can be traced in debates concerning the nature of money (Bell, 2001: 151). Marxism appears to be a third way of pondering on money as it emphasises endogenous creation, and the state as a social relation at the same time. The spontaneity of money as a metallic means of exchange has led many to also consider Marx a Metallist (Vasudevan, 2017; Lapavitsas, 2017: 25; 266; Winczewski, 2021:412) while many considered Chartalism to be compatible with Marxism (Akçay, 2008; Winczewski, 2021; Koddenbrock, 2017). However, the wider corpus of his and his followers’ works do not present anything that could easily fit into Metallism or Chartalism.

Bell (2001) focuses on the genealogy of the mutually excluding assessments of Chartalism and Metallism. The Chartalist argument suggests that there is "nothing special or elusive about money"; money denominates a transaction in which one side is the creditor, and the other is a debtor (Bell, 2001: 151). Since money is essentially an IOU as mentioned before, private money creation beyond states is a possible, provided that parties to the transaction accept it in payment (Bell, 2001: 151). Since money's emergence is related to the reliability of the debtor, state money is arguably the most preferable one because it has a strong asset position underpinned by taxing capacity. In that sense, money exogenously emerges out of the coercive capacity of the state. By contrast, the metallist-monetarist lineage of Neoclassicalism does not account for the state in the origins of money. It understands market relations as purely economic, hence money is a spontaneously emerging as means of exchange underpinned by a "social contract" between equal individuals. Therefore, money emerges endogenously (Sieroń, 2019: 330).

Utilitarian epistemology of the Neoclassical metallist-monetarist tradition fetishises the historical forms of money, failing to account for the contingency of money as a medium of exchange, as pure or amalgamated metal or completely irrelevant objects. Chartalists overcome this problem by an emphasis to money's "identifiability" (Bell, 2001: 152; Goodhart: 1998). Indeed, the state ensures the social trust to money, which metallists overlook with their assumption that universal principles of rationality create a social contract of money without any external facilitator. The changing forms of money imply that it is a manifestation of changing social relations rather than unchanging principles. Therefore, for Metallism-Monetarism, economic relations are determined by their internal logic, which is non-monetary, meaning that they are strictly determined by real economic processes. Within that internal logic money emerges as a manifestation of categories of human rationality within markets, hence it is nothing more than an innovation to formally measure natural qualities of goods and services (Bell, 2001: 153; 161).

In contrast to the Metallist assumption "that the precious metals naturally became the economic form of money in the ordinary trading relations of civilised peoples" (Menger, cited in Semenova, 2011: 63), Chartalism underlines the exogenous role of the state in the emergence of money. Because for Chartalism money is a "debt-settling unit of account" (Sgambati, 2015) requiring only the consent of those who use it, it does not have to be metal or even made out of any valuable material per se. Chartalism acknowledges that even pure gold is useless unless it generates that consent. Therefore, money could not have emerged endogenously as its social acceptance is underpinned by something external to the innate qualities of that which will be used as money. The mechanisms by which this social acceptance is created for money should be found is its "non-market-based" nature (Bell, 2001: 154). Indeed, Chartalists often quote Adam Smith who said that "a prince, who should enact that a certain proportion of his taxes should be paid in a paper money of a certain kind, might thereby give a certain value to this paper money" (cited in Wray: 1998: 22; Bell, 2001: 154; Tcherneva, 2006: 74).

Following that insight, arguably the first scholar who propounded Chartalism "in opposition to the 'metallistic view' of money advanced by Carl Menger" (Semenova, 2011: 45) was George Friedrich Knapp. Knapp argued that the state defines value which was falsely attributed to the scarcity of metals (Wray, 2014: 2). Indeed, money can simply be a charta , if the state proclaims it to be the denomination of taxes, since money represents an entitlement over the aggregate output in a monetary form whether gold or silver, in the same way a stamp represents the right to have a letter carried, and the cloak-room disk gives the bearer the right to obtain the coat in exchange for the disk (Bell, 2001: 155).

However, Chartalists accept that their argument on money as "an exogenous creation of law and the state" (Sieroń, 2019: 330) is a mere "speculation" (Wray, 1998: 54), pedagogically built to underline the political constitution of money in the same way Metallists employ the barter argument to underscore the economic constitution of money. This methodological backdrop entails superficial descriptions of functions performed by money. This leads, on the one hand, Chartalists to overlook the existence of money as generic means of transaction, while making on the other hand the Metallists fail to incorporate the state's constitutive role. Acceptance that the value of money is a corollary to taxation confuses the state-engendered particular form with the metal's social relevance which is beyond states. In other words, the state can set the form of money exogenously, but this does not say anything about the endogenous valorisation of money. As put by Beggs, denominating the unit of account does not create the context in which money acquires the capacity to act as the unit of account (Beggs, 2017: 469). Money does not require states to exist generically. Money and markets have a social history before and beyond states, whereas Chartalists assume "that development of private (domestic) markets took place after, and as a result of an introduction of money by the state" (Semenova, 2011: 53-4) and money as unit of account "predates" markets (Wray, 2014:2). In that sense, Chartalism seems to be an elaboration on the form of money instead of the reason of its existence as done by metallists, or "Mengerians" as Beggs calls them (Beggs, 2017: 469).

Relatedly, some post-Keynesians criticise Chartalism because they negate money to its formal existence (Beggs, 2017). These post-Keynesians argue that state-money is not accepted because of taxation (Rochon & Vernengo, 2003: 61). States are not potent enough to determine the social validity of formal standards to the absolute level. Underground markets exemplify that incapacity (Beggs, 2017: 472). Therefore, there is a difference between a staunch Chartalism and acknowledging the monetary role of states (Beggs, 2017: 470) which doubtlessly affect monetary standards, unit of account and the corresponding thing. However, this does not mean complete control over the real aspects of money. Existence of states alone cannot answer the question of why a particular commodity is at a particular price. Individuals accept money due to endogenous production and consumption patterns underpinned by different methods of payment. Therefore, even though states insert monetary rule exogenously to the domestic realm, they must draw on patterns that already emerged endogenously.

The synthesis between endogeneity and exogeneity on the origins of money is provided by the Marxist monetary epistemology which are not concerned with its pre-historic origins (Ivanova, 2020 138). Indeed, what the pedagogical efforts to underline some theoretical assertions on money are irrelevant to money as a social relation. Remembering that Chartalism too "speculates" (Wray, 1998: 54) on money for pedagogical purposes, it becomes clear that Chartalism sacrifices analysis to pedagogy. As Lapavitsas (2017: 25) notes, "Marx's finished writings on monetary issues were mainly concerned with the theoretical determination of the essence of money". It does not conceive money with statolatric speculations or functionalist terms as something that "enables rational economic calculation" (Sieroń, 2019: 330). Critical political economic approach to money "is not a commodity theory of money; neither is it a noncommodity theory of money" (Ivanova, 2020: 138). Because it treats money as an extension of the logic of commodity-exchange, money becomes a matter of social analysis. Without commodity exchange money does not emerge, independent of the question whether its origins are endogenous or exogenous. It is correct that money enables commensuration for Marxists (Ivanova, 2020: 138), but this is not done by attaching inherent qualities to commodities, or relying on valorisation processes underpinned by coercive extraction, but by simply approaching commodities as products of human labour in certain historical conditions. Therefore, Marxism does not treat money as something generic nor prioritise one of its functions. Its origins could be exogenous (state-determined) or endogenous (market-determined), but on a more systemic level dissemination of money is due to commodity exchange. As such, while Marxism appears to be similar in its emphasis on the original endogeneity to metallism-monetarism, and to Chartalism with its emphasis on the social, its theoretical implications are quite different. Indeed, Marxist elaboration demystifies what Chartalist and Metallist conceptions assume, by understanding money as a material relation beyond the state and markets, both of which are reproduced along with capital accumulation, within thus class relations. In different terms, Marxism rejects the endogeneity-exogeneity dichotomy, considering them epistemological positions ontologically separating states and markets which is actually a historically constituted phenomenon.

2.2.2 Supply of Money

Origin of money does not explain the particular processes in which its value is reproduced. As with commodities, money's value is related to its how scarce or abundant it is. So, the ways in which money is supplied is influential in its valorisation. Ceteris paribus, a greater monetary base would create inflation, reducing the value of money. Maintaining the desired supply of money is a practical matter of economic policy which is implemented by the state. Thus, the question becomes in reference to what the state should increase the emission or not. Supply of money becomes a question of the desired purchasing power of money, its value. In that sense, the debate of supply is integral to how money is valorised.

Valorisation of money has troubled many thinkers since the nineteenth century. Many thought that money was valuable because of its quantity in line with the neoclassical argument of scarcity (Foley, 1983: 15). David Hume propounded the quantity theory of money saying that more money meant more demand, and relative scarcity of supply translates to higher prices (Clarke, 1988: 27), arguments that underpinned the Neoclassical tradition. Criticising this view, Chartalism said the value of money was determined by the real resources instead of the quantity of money. Marxism, on the other hand, extended this criticism by underlining that different functions of money at different phases of capital accumulation determined its supply and value (Lapavitsas, 2017: 24).

Despite its emphasis on original exogeneity however, Chartalism arguing that states create and sustain markets by printing money provides an argument for endogeneity at the second instance. Markets demand that the state provides them with enough liquidity to operate and the state provides them with this. The latter assertion is propounded by Metallist-Monetarists who see a corelation between exogenous increases and decreases in the quantity of money and its value. In that sense, Metallist-Monetarists are preoccupied with the effects of what they deem to be harmful increases in the monetary base whereas Marxism and Chartalism underline to endogenous demand patterns that determine the supply and value money.

Despite this similarity, Chartalism -as it methodologically prioritises debt- believes that money is credit, hence it is a "credit theory of money" (Bell, 2001: 150). On the other side, Marxism which methodologically prioritises commodity exchange provides a "monetary theory of credit" (Lapavitsas, 2017: 256; 263). It also criticises the quantity theory of money as increases in the monetary base do not automatically cause a change in the value of money (Lapavitsas, 2017: 34; Vasudevan, 2017). According to Irving Fisher, who made a great contribution to Hume's the quantity theory of money, nominal prices were determined by the monetary base multiplied by monetary circulation velocity, and this relation was formalised as MV=PQ (de Brunhoff, 2005: 214). This meant an inverse relationship between the purchasing power of a single unit of money and its quantity and circulation velocity. Therefore, quantity and credit theories of money were blind to different functions of money acquired in certain phases of capitalist accumulation.

For Marx, money as means of payment is a peculiar feature of capitalism, as mentioned. Money as means of payment also functions as "money as money" which implies the hoarding function that discards a part of the monetary base for future investment (Lapavitsas, 2017: 59). David Ricardo and other quantity theorists were criticised by Marx who sought to address these mechanisms by which money entered and exited circulation endogenously in contrast to the Neoclassical apprehension of exogenous determinants of money supply (Lapavitsas, 2017: 62). Savings are consolidated by a section of capitalists who play a crucial role in separating the total money stock as circulating and hoarded. Banks undertake the responsibility of maintaining endogenous savings patterns. Hence, they operate over the monetary base and influence the real value of a single monetary unit. An increase or a decrease in the monetary base does not directly determine the value of the currency, because only circulating money is inflationary.

Other than hoarding, money as means of payment is related to the function of capitalist money to work as "world money", which also determines the value of money through international flows of capital. Before capitalism, any commodity money could be used for payments beyond a political jurisdiction and act as world money in a way that curbs the inflationary pressure by reducing the monetary base. In different terms, all metallic money was world money which could fly away "haphazardly" (Lapavitsas, 2017: 29). However, with the advent of convertibility with which precious metals were economised and monetary base was increased to address enhanced capital accumulation, money became trapped in the jurisdiction of its issuer with possibly inflationary outcomes. Fiat money is prone to inflation, and it was arguably an innovation to inflate the monetary base, while commodity money could fly away. Commodity money became an impediment on international trade by the development of capitalism due to the need for expanded capital accumulation on a global scale. To precipitate global trade, one national denomination was crowned with the function to act as world money in line with global political and economic power of its issuer. Fiat money became world money similar to gold, and global money flows were mediated by the issuer of the fiat world money which was used for global payments. Therefore, money as means of payment (money as money and world money) developed as a distinctly capitalist function that has reflected the correlation between the quantity of a particular form of money and the value of the denomination. Separating analytically the functions of money help us discern the ways in which different epistemological positions articulate with efforts to alleviate capitalist crises as states become unable to jumpstart the halted accumulation process due to the contradictions in the rule of money.

“The gradual elevation of means of payment into the dominant function of money corresponds to the emergence of specifically capitalist money, i.e. credit money” (Lapavitsas, 2017: 37). Credit money was created by issuance of documents of entitlement to a part of the issuing banks’ reserves. These entitlements, fiat monies which were printed on the basis of metallic hoards, entered, and exited circulation along with the endogenous demand patterns for credits. This "circular" motion from and to the creditor started with the endogenous creation of credit money and destruction after the debt is settled. Therefore, its creation presupposed its destruction at where it originated, or it can inflate the money stock as it is generated on the basis of a particular and real demand and ultimately destroyed after that particular and real demand is met. This circularity, underpinned by the maturing of obligations, is termed the “law of the reflux" and distinguishes credit money from other forms of inflationary money (Lapavitsas, 2017:38). Therefore, credit money might not categorically precipitate a change in the value of the denomination provided that credit money returns to the issuer.

Credit money emerged hand in hand with capitalist banking practices. These banks discounted bills of exchange for the issue of private banknotes. However, different banknotes were not convertible to each other but only to the amount of metal they were issued against at their respective bank. In these free banking systems where demand for different banknotes was endogenously determined, the rule of convertibility to gold created successive crises, and progressively appeared more like a "straitjacket" for the growing liquidity needs of enhanced capital accumulation (Aglietta & Mojon: 2010: 237). Hysteric bank runs created recurring crises. The particularity of privately created banknotes via discounting bills of exchange and the generality of production in capitalism meant a fundamental contradiction facing the enhancement of capital accumulation.

These contradictions necessitated centralising debt-settlement and led to emergence of clearing houses which accepted deposits from their member banks, and worked as a "surrogate" to modern central banks (Aglietta & Mojon, 2010: 238). However, this created new contradictions: clearing houses were private banks that operated for profits. This conflict of interest prevented them from acting as unbiased institutions preserving the interests of the banking community under a sovereign realm as a whole, leading to the emergence of central banks as state institutions superior to private banks as "bankers' banks" (Aglietta & Mojon: 2010: 233) or "the bank of all banks" (Akçay, 2008: 61) prioritising the interests of the banking sector as a whole (Bordo, 2007). Central banks were the “third party between single banks so far as their reciprocal payments are concerned" (Graziani, cited in Gnos et al. 2002: 45). Therefore, issuance of credit money was made with exogenous central banking operations which in turn created the conditions for private banks to meet endogenous demand, implying that the supply and value of money were determined by neither states nor by markets themselves, but in a dialectic process.

However, this dialectical process is neglected by both Chartalist and Metallist-Monetarist epistemologies. Chartalists think that states’ supplying of money is guided by endogenous demand patterns. The sovereign function of "lending in last resort" gives exogenous discretion to the state over the supply and value of money (Aglietta & Mojon, 2010: 240-1). The Metallist-Monetarist tradition understands the power to issue money to be threatening as it could pave the ground for political manipulation that would infringe economic operations in the market. However, “discretion” becomes a necessity to prevent a wholesale collapse of capitalism during financial crises that necessitate active maintenance of liquidity. The founder of modern central banking, Walter Bagehot tried to develop a framework to address this contradiction. He understood lending in last resort as a fail-safe device for the possibility of a spill-over of insolvency during a crisis of liquidity. By extending funds to solvent but illiquid agents, central banks provide the support of the sovereign to markets. In exchange for this safety net provided by the central bank, private banks have to accept the supervision of state institutions in their private lending activities to prevent a systemic failure of the economic structure. This safety net might induce a “moral hazard” due to risk-free investment and lending, as a preventive measure to which Bagehot prescribed lending unpredictability at punitive rates. Therefore, it can hardly be said that the so-called “discretionary policies” are implemented as infringements to capital accumulation; they serve indeed to the sustainable reproduction of capitalism as a whole. State discretion involves “extrapolitical” calculations, and “markets” cannot maintain their own contradictions alone but only with the help of the state’s capacity over managing the rule of money through central banking practices.

Monetary policy is configured in line with the specific requirements of crises. Inflationary conditions are understood to be necessitating a strict monetary policy to shrink the base of money to revalue the currency. Deflationary conditions such as bank runs, and credit crunches might necessitate the opposite response to ensure that money is revalued not too much. Fiscal tools could be used in tandem to achieve wanted results. A well-configured economic policy becomes integral to healthy markets, making the state integral in ensuring those conditions as it conducts policy. In mainstream lexicon, this means that the state ensures the economy runs not too hot, but also does not freeze.

Epistemological confrontations between “quantity theory” and “credit theory” of money have direct implication on policy preferences as inasmuch they translate into the debate between rules-based and discretion-based policies (Aglietta & Mojon, 2010: 245). Those who tend to underline the endogeneity of money supply like Chartalists tend to favour “discretionary” policies, suggesting that rigidity could prove detrimental in a financial downturn. By contrast, those who accept that money has an exogenous supply, and value that it is naturally determined, and the state should find and set its policy accordingly, advocate that the emission of liquidity must follow strict rules so as not to be highjacked by political motivations manifesting as an “inflation tax” (Aglietta & Mojon, 2010: 245).

The rules and discretion debate first manifested as the debate between “Currency” and “Banking” schools which practically dealt with questions of inflation and deflation. The common aspect of these schools was that they both assumed maintained generating the optimum supply of money could solve all economic problems. It could be said that Metallist and Chartalist perspectives on money find their resonation in that debate which was concerned with price stability in the context of Britain during after the Napoleonic Wars. Thus, setting this debate as the starting point, we can trace the economic policy dialogue between Chartalist and Metallist arguments and the extent to which they altered the practical standpoints of one another while maintaining the kernel of their epistemologies faced with material problems. Discretion and rules are renegotiated throughout history in which this debate could be set as a starting point.

The Currency School argued that all issued banknotes had to be supported in metallic reserves. Issuance of unsupported money was artificially inflating the monetary base. Thus, the Currency School believed that a gold peg would prevent an economic turmoil because markets, if uninterrupted, would find equilibrium on their own. Inasmuch as the argument rested on finding an equilibrium rate of money issuance, the Currency School argument for a rule that ensured the quantity of money can also be "formulated independently of a gold standard or of any price rule" (Glasner, 2017: 29). Hence, it is a part of the Metallist-Monetarist tradition (Aglietta & Mojon, 2010: 245). The counter argument of the Banking School is a Chartalist one. Following the discretion line, the Banking School thought that the money supply should accommodate the endogenous demand to money. Discretion did not necessarily precipitate inflation because excess note issuance without reserve backing would "reflux" back to banks as they were credit money. Due crises in which "shortage of metal limited the expansion of output" (Aglietta & Mojon: 246) during the 19th century saw the limits of the rule of convertibility and the Currency School argument. That indicates the epistemological dogmatism in support of economic policy rules and discretion are practically renegotiated in reference to material problems.

There are significant parallels between Marxist monetary epistemology and the Banking School (Lapavitsas, 2017; Wray: 1998; Vasudevan, 2017). Marx too had assumed that law of the reflux would prevent inflation (Lapavitsas, 2017: 58). Both the Banking School and Marxism had opposed the argument concerning the quantitative exogeneity of money (Lapavitsas, 2017: 59; Braun, 2016: 1076). However, Lapavitsas assesses (2017: 69) that Marx's money theory goes beyond the Banking School which "recognised neither a clear order nor the existence of logical and real connections among the functions of money" as it conjoins real and monetary considerations as moments in the enhanced capital accumulation process through different functions. In that sense, their arguments differ in that Marxism distinguishes between different forms of money. Chartalism extends the definition of credit to include all monetary relations because the market is simply a "clearing house for debts and credits" (Wray, 2014: 11). They make no analytical distinction between different forms and functions of money. For example, Knapp considers the convertibility of notes irrelevant (cited in Wray, 2014: 6). However, convertibility is crucial for the global mobility of money and thus inflation. If the state deems to accept it in payments, private agents confide it in private banknotes regardless of their form. The only determinant of functions of money is the state. If the state withholds to use its money in its payments to the "private pay community" this would lead to a net private reserve drain. Hence a lack of funds for credits, and economic activity. Wray (2014: 7) assesses that states use this mechanism of draining the money supply to discipline banks. In extreme instances which states abolish convertibility to secure reserves with which they fulfil their obligations, bank money totally becomes fiat. Supply of money thereby is freed to be "discretionarily" controlled for predetermined objectives, as it were. However, banks innovate new mechanisms built on the means of payment function whereby to circumscribe the control of states on their lending activities.

The Chartalist emphasis on state control and endogenous demand appear to be contradictory (Rochon & Vernengo, 2003: 60). Indeed, Chartalists argue that "while the state defines money, it does not control the quantity" because of endogenous creation of deposits and credits (Wray, 2014: 18). In different terms, this means that the state should abide a certain market logic in managing money that it does not control. For Chartalists, the state supplies money through what it buys and sells, i.e., fiscal policy. Afterwards, monetary policy "drains excess reserves, removing them from member bank accounts, and replacing them with bonds voluntarily purchased" (Wray, 2014: 18-9). So, traditional monetary-fiscal policy functions are transposed in Chartalism whose adherents claim that states engender a monetary economy vertically at the first, or "original" instance (Rochon & Vernengo, 2003: 61). In the second instance of maintaining the supply and value, state money is leveraged by private banks to meet the demand for credits. Monetary policy accommodates and regulates endogenous demand patterns. For Chartalists then, states do not hold an absolute power of discretion over markets after a monetary economy is created. They are still disciplined by vicissitudes of capital accumulation.

Credit money does not operate independently from real economic patterns as Neoclassicals assume. While correct in that emphasis, Chartalism overlooks the fact that these patterns are not exclusively determined by states. Thus, it fails to truly account for money socially. Deriving money ontologically from states, Chartalism fetishises both of them at the same instance as put forth by Winczewski (2021: 414) in a similar manner to the Metallist-Monetarist fetishisation of markets as a stand-alone realm. From the standpoint of Marxism, this means that they assume capitalism as a transhistorical feature of the social order. Relatedly, even though Chartalism and Metallism differ in their references of how money is supplied, it appears that both consider macroeconomic aggregates to be engineerable through the management of money which is taken as an independent variable due to the linear determination between state and markets. The “idea that the worst ills of capitalism can be remedied by tinkering with money, credit, and government debt” (Ivanova, 2020: 147) characterise these currents. Money supply is governed by institutions mimicking the “reified or naturalised” (Braun, 2016: 1070) ways in which markets operate. What these epistemologies do is consider their models to be perfectly reflecting the reality. Hence, puns such as the “20 dollar bill”. In that sense, epistemological positions that start from abstract models and not the reality itself such as Metallism and Chartalism become self-fulfilling prophecies.

The role of state in the Metallist-Monetarist epistemology is to maintain the natural and self-contained workings of the economy and to prevent any "artificial" interference in markets. The tradition relies on the assumption that politics is antithetical to economy, thus it is an epistemological foundation for sound polices that depoliticise market relations (Knafo, 2013: 44). Knafo (2013) points to the contradiction in the Neoclassical epistemology in which states are considered essentially detrimental to economic activity while they are rendered guardians of natural market operation. This assessment reflects our own in that the mainstream considers money to have originated endogenously, but states maintain its operation in conformity with the rule of money. Hence, the mainstream offers a purely economistic argument groundless inasmuch as it does not employ any social analysis of the form that states acquire to accommodate such economic processes. Indeed, Menger too had used "natural" and "social" interchangeably in a way that excluded anything related to the state (Semenova: 2011: 58-9). Metalist-Monetarist lineage attributes to the state the role of maintaining "'individuals' natural economic propensities" (Semenova, 2011: 57). Because the regulation of metallic standards, ensuring their content, dividing them into different quantities and certifying them- is an inefficient and possibly fraudulent process for individuals to undertake, states institutionalise coinage (Semenova, 2011:

65). Hence, exogenous control over the money supply is a function with great importance for economising individuals to have trust in the markets. For the mainstream, the states should be under a monetary rule of quantity, but this is in contradiction with the understanding that states are ontologically secondary to markets, why politically bother to contain states? Furthermore, "it is essentially to preserve this trust that central banks have developed their functions" (Aglietta & Mojon: 2010: 234). Chartalism, on the other hand, aims to engineer monetary conditions conducive to a real economic rule. Even though the state ultimately supplies money, it does so on the basis of endogenous demand driven by real economic patterns. So, both in effect reproduce the rule of money in different means with contrasting epistemological positions. Marxism, on the other hand, outperforms the other two by going beyond real-monetary, endogenous-exogenous, and state-market dichotomies by deconstructing capitalist money as an instance of class relations.

When a capitalist crisis strikes, Akçay (2008: 61) indicates three scenarios. In the first, banks and enhanced capital reproduction are generally unaffected. In the second, credit money continues to circulate, creating an inflationary pressure since some of the underlying assets have defaulted and banks' losses are socialised by the state. In such cases, central banks can deflate the money stock by simply increasing lending rates. In the third, productive capital cannot expand either and increasing the possibility of a bank-run and deflationary spiral. In that case, as the "lender of last resort", central banks guarantee a stable liquidity flow, to prevent such forms of crises.

Therefore, the forms and functions of money mediated by central banking can be logically and theoretically derived from the "system's innate crisis tendencies" as they are chartered for "setting up relations between monies on different scales" (Akçay, 2008: 62). These crisis tendencies are created by lending on the expectation that the debtor will be able to extract enough surplus-value from the labourer to settle the debt and still have more money than that had entered the production process. During crises, capitalism becomes vulnerable for political contest as capital accumulation faces impediments. This is important since reproduction of capital corresponds to daily reproduction. So, states force the confines of economic policy in such circumstances by tinkering with the supply of money to ensure sustainability of accumulation. However, states’ power over the supply of money is not absolute. In different terms, neither states nor markets alone determine the supply and value of money endogenously or exogenously. Instead, there are multidirectional and hierarchical determination vectors that channel policy in capitalism (Beggs, 2017: 464). In ensuring sustainability of capital accumulation, states are confined with existing class relations, but they also reproduce these class relations in forms that correspond to historical conditions of accumulation. So, accumulation is not determined by exclusively market conditions. Practically forcing the policy implications of such assessments can be detrimental for reproduction of capital, creating distress in markets, instability, and a breeding ground for contentious politics and threaten politicisation of economic relations risking the separation of civil society and the state. In relation to supply and value of money, endogeneity and exogeneity are methodological impediments more than explanatory tools since "money makes the state even as the state makes money" (Beggs, 2017: 470).

2.2.3 Global constitution of money

So far, endogeneity and exogeneity of money as problematised by the Neoclassical tradition and Chartalism were critically examined. It was shown that these positions saw states and markets as externally related realms. Money was an ontological derivation of states or markets. So, these two realms were understood as geographically contained inasmuch as money was valid in a certain polity. In that sense, different monies were ontologically equal. However, that is never the practical case, different states and national currencies "have unequal positions" in relation to each other (de Brunhoff, 2005: 218). In that sense, their constitution on the domestic level cannot be ontologically differentiated from their global constitution. At that level, endogeneity and exogeneity further lose their methodological value. Global vectors of money management, flows of trade and finances underpinned by hegemonic factors are too complex to be understood with linear vectors of determinacy between states and markets. Indeed, inasmuch as endogeneity and exogeneity are concepts that assume an ontological separation between states and markets they lack the methodological value as money globally is not determined by any single state, nor states are unable to effect money.

However, dominant approaches to the global constitution of money seem to be characterised by methodological nationalism (Hampton, 2006: 134): He detects that "crises, flaws, or contradictions within GMSs [global monetary standards] are seen as signs of hegemonic decline, rivalry, malignance, or non-formation, rather than as the most generalised social expression of the contradictory and antagonistic relationship between labour and capital”. These approaches fetishize the political plurality by treating these empirical phenomena as "theoretical categories" indifferent to class relations (Hampton, 2006: 138).

Metallism-Monetarism and Chartalism exemplify that tendency. Statolatric ontological arguments of Chartalism neglects global relations while Metallism-Monetarism reduces global relations to international economic relations. Implicit acknowledgement of global relations in Knapp’s assertion that “no metal is needed domestically" (Wray, 2014: 8, emphasis mine) led his followers to neglect the theoretical necessity to incorporate metallic money as part of global relations. They try to justify that neglect by arguing that it "necessarily takes us beyond state money because sovereign government cannot generally use its sovereign power to impose liabilities in foreign nations" (Wray, 2014: 9). It is true that, there is no international monetary leviathan (Lapavitsas, 2017: 245), and the Chartalist methodology is consistent. However, then how the usage of metals in international payments are to be explained if the unit of account is an ontological derivation of states? Global accumulation patterns are underpinned by established "global monetary standards" which embody the "parameters governing the global money supply (a pyramid formed by private, state and 'world' monies), its integration (exchange-rate mechanisms), and its distribution (capital flows) between 'national' economies that subsist in and through the world market" (Hampton, 2006: 140). The network of monetised assets and liabilities engenders a hierarchical structure beyond sovereign realms (Sgambati, 2015; Hampton, 2006: 140).

Hoarding is not a nationally bounded function of money. It is a global one as it underpins the environment in which states reproduce themselves in relation to other states and market agents. Capitalism generates powerful financial agents operating and hoarding money on a world scale such as Rothschilds, and Morgans. These agents make or break states by the virtue of the disciplinary power of the money they hold. They choose to lend or not to lend them as the “master of unbounded wealth” and “arbiter of peace and war” (cited in Ferguson, 2008). Financiers collect information about the financial positions of their possible debtors, and impose certain conditions on them against default risks, or circumscribing possible losses due to a devaluation (Lapavitsas, 2017: 257). Under this hierarchical structure, industrial capitalists and polities are deemed creditworthy or not according to whether they accommodate financiers' conditions. Indeed, capital outflow became a means by which capital disciplined political agency with sound policies (Hampton, 2006: 145). Imposition of sound policies to ensure the "domestic and international value of the currency" (Clarke, 1987: 421) curbs or enhances states' room of manoeuvre. Rochon and Vernengo (2003: 65) assess that international lending practices endow a national currency with world money functions. This enhances the power of the issuer, while making the debtor reliant on foreign currency. In that sense, transnational lending becomes a means by which capital allocates scarce funds of money on global scale.

Global allocation of funds in line with the implementation of sound policies gave domestic monetary institutions great importance for the reproduction of capitalism and the capitalist state. Central banks are primarily responsible for the implementation of monetary policy by which soundness of the national currency which the whole economic structure is built on is ensured. Therefore, they are perhaps the most critical agents in economic management (Stanford, 2008: 207). Guiding monetary policy is Neoclassical epistemology which directs central banks by "framing and legitimising sound monetary policy" (Sgambati, 2015).

This illustrates that, in contrast to Chartalism, states have had arguable control over their sovereign supply of money throughout history (Rochon & Vernengo: 2003: 62-3). Historically, different monies, due to their metallic nature, were freely circulated in and among polities as world money. In order to engineer their denomination, states had to lure coins to their mints domestically and from abroad (Knafo, 2006: 86-7). Therefore, states were mostly not able to control monetary flows until non-convertible fiat money emerged. In stages, money was liberated from its physical limitations as "internal circulation based on fiduciary money" was separated "from transnational flows of capital based on gold" (Knafo, 2006: 90). In different terms, as money moved towards becoming fiat, this did not only free the metal base and allowed central banks, i.e., states to hoard these unbound assets to be used for international payments as world money, but enabled banks to supply liquidity at will. The gold standard in the late 19th century set the rules of capital accumulation on which states reproduced themselves along with capitalism, however, this also increased states' monetary capacities in reproducing themselves and capitalism (Knafo, 2006). Hence, the gold standard was a period of consolidation of capitalism and the capitalist state.

Intellectually, the gold standard was rooted in the 18th and 19th century debates about the regulation of money in Britain after the Napoleonic Wars. The British government suspended convertibility in 1797 after banks faced a drain on their reserves due to the war. But bank-money expansion inflated the sterling, and the British government, after the war, started to question whether the currency be remade convertible into gold, or in different terms, whether the government should induce a deflation (Lapavitsas, 2017: 54). Consequently, the value of sterling was pegged to gold to protect the value of the currency which ended bimetallism in Britain (Glasner, 2017: 27).

However, deflation did not create monetary stability. The Currency School, built on David Hume's "price-specie-flow mechanism" (Glasner, 2017: 27; Knafo, 2006: 81) argued that the Bank of England, and other banks, were not maintaining the correspondence between the changes in gold reserves and banknote supply. The 1844 "Bank Charter Act", also known as the "Peel's Act" (Knafo, 2006: 89), legislated that banks must create bank money at the exact quantity of their existing gold reserves. Moreover, the legislation monopolised banknote issuance at the Bank of England. These show that the gold standard was not against state discretion, nor was state discretion an impediment to market rule. State-managed endogenous creation of bank money ensured sustainable accumulation. Nevertheless, because banks were also capitalists, and that this regulation prevented them to acquire more profits, they found new ways to circumscribe this monetary rule. The gold standard was, despite its rules-based appearance, did not exclude the state as it was coordinated first by the Bank of England, and other national central banks.

Looking at this picture from the domestic level further shows the perplexity of using endogeneity and exogeneity as epistemological standpoints. The Banking School which followed the law of reflux saw a circular mode of money creation in line with national demand underpinned by productive performance. It argued that not accommodating demand would mean a deflationary pressure. They were correct in the assessment that the gold standard created a rigid monetary rule. Hence, the Bank Charter Act was chronically suspended and re-enacted after when it was implemented for the first time. This monetary rule was also breached constantly with the issuance of checks to be used instead of banknotes (Knafo, 2006: 89; Aglietta & Mojon: 2010: 237) rendering the Bank Charter Act practically "irrelevant" (Glasner, 2017: 30). Despite the exogenous global constraints of having to maintain the correlation between reserves and money issuance put on polities, money creation on endogenous demand was not hampered due to financial innovation.

Though not deliberate, there slowly emerged an international convergence around the gold standard due to sterling’s strong position in international trade. Different countries started nationally to peg their money to gold, hence to sterling, during the 1870s (Yeager, 1998: 79; Knafo, 2006: 91). Glasner (2017: 30) notes that between 1870 and 1880 the gold standard “rapidly transformed from a mainly British institution into the dominant international standard". The position of sterling as world money was supported by the military and productive power of the British Empire.

Indeed, the political processes also played a great role in making the sterling the world money. One of these processes was the unified German state that started to sell great amounts of silver with their new silver reserves, a development that created inflation and eroded the purchasing power of different national currencies (Hampton, 2006: 147; Yeager, 1998: 78). Second, politically mobilised labour threatened to highjack monetary management against capitalism. Therefore, along these crises, proliferation of the gold standard paved the way for institutions and economic, political and social practices that emerged as a result of particular class struggles that characterised the inception of capitalism in Britain (Knafo, 2006:94).

This convergence around the gold standard was in part a result of the increasing trade which required the commensurability of national monies. The gold standard was practically a sterling standard (Vasudevan, 2009: 480). It provided a peg which helped account for the value of each national currency in comparison to sterling. So, the sterling came to be a global “unit of account” that was precipitated by not a single state domestically, but along the practices of all states globally. This helped economise metallic reserves as states started to use sterling in international payments as world money. Management of the sterling gave Britain great leverage in global economic and political affairs.

However, convertible money brought problems of global monetary stability. Because the issuance of sterling relied on gold reserves, monetary policymakers were occupied with maintaining their gold reserves rather than accommodating changes in line with the price-specie mechanism (Knafo, 2006: 95). Creating further complexity, issuance of sterling, which all countries used in international payments, required Britain to draw much of the existing gold. This made maintaining the value of national currencies contradictory with the use of sterling as world money. This is perhaps the primary contradiction that would culminate in the 1930s crisis.

States' preoccupation with the liquidity straitjacket reached a climax during World War I. The outbreak of the war witnessed the suspension of gold standard in major capitalist powers (Foley, 1983: 16). The war was financed with fiscal expansion which required dismissing sound policies. After the war, therefore, same as before, there was a broad consensus to return to the stability of gold in conditions of global inflation. The arguments of whom Glasner (2017: 30) calls “gold standard fundamentalists” like von Mises and Hayek, whose views were influential on the monetarist surge in the 1980s, reflected the views of the Currency School. These epistemological fundamentalists wanted to return to the pre-war state of the gold standard that subjected money supply to a quantity rule. There were also Fisherians who defended a similar position. They were inspired by David Hume and the Currency School and wanted to enact a "gold standard without gold" in which the state would maintain an abstract quantity rule based on a "political philosophical" rationale liberated from political infringement (Glasner, 2017: 33). On the other hand, a minority group including Keynes considered the gold standard detrimental (Glasner, 2017: 30). After 1929, the minority view disseminated into policy circles due to the deflationary pressure of the gold standard that precipitated liquidity problems. Monetary epistemologies are never only academic issues.

This shows that creating money as self-equilibrating means of circulation is a political matter (Vasudevan, 2009: 478). Between world money inflows and outflows, it was assumed that prices and trade balance find an equilibrium. From a critical political economy perspective, that equilibrium of money stock was preconditioned by the particular functions of money. Credit mechanisms through which international payments pressures are alleviated were crippled during unequilibrated periods which manifest as financial downturn. This was a political problem as the crises of capital accumulation were also crises of social reproduction. Therefore, an indifferent state would not make the situation better but make it much worse by not alleviating the liquidity problems. On a more theoretical level, states are not antithetical to market relations. This was the case after the re-establishment of the gold standard during the interwar period. As British hegemony waned, which was underpinned by the capacity to run deficits thanks to its control over world money, individual countries ran to gold as reserve money, ending the gold standard and the sterling as world money (Vasudevan, 2009: 482-3). World money had become metallic again; and new methods of international payment such as clearing that economised on the use of gold resurfaced during the 1930s.

After the war, policymakers established a financially controlled global economic structure that circumscribed the instability of having constantly to readjust policy in relation to financial movements. The Bretton Woods system dealt with the contradiction of increasing national gold reserves and using the sterling at the same time through a gold-dollar exchange standard underpinned by the gold reserves of the US and the country's leading international creditor position. During the Bretton Woods period, the US dollar was hoarded as reserve instead of gold. The system relieved global liquidity shortages and funded development through dollar issuance. Hence, limitations of gold standard did not exist in the post-war global monetary order, but the stability it provided remained intact for some time.

This stability provided sustainable capital accumulation and the related proliferation and entrenchment of capitalism until late 1960s. The period slowly witnessed resurfacing of the contradictions between US' domestic interests and her global role as reserve money issuer. US deficits were sustained as long as the country was the leading international exporter. Alongside US' war efforts in Vietnam, the increasing prominence of other industrial countries, primarily Japan and West Germany, in international trade during the 1960s led to current account imbalances in the US (Akçay, 2008: 76). The country could not keep its promises to convert dollar to gold, leading to distrust in the power of the US dollar. Capital flew out of the US to Europe, where it created inflation and led European countries to convert their dollars to gold (Vasudevan, 2009: 483). Facing a gold shortage, US President Richard Nixon suspended the convertibility of dollar on 15 August 1971. Nevertheless, it continued to act as a “quasi” world money (Lapavitsas, 2017: 246). Petrodollar financement of the "Eurodollar" markets were the reason for the currency’s continued relevance. Dollar-funded surplus-giving European countries bought US government papers, financing the latter’s deficit, hence fiscal expansion, and this ensured the position of dollar as world money (Vasudevan, 2009: 484).

By comparison, the sterling failed to become world money by itself because other currencies were also stabilised by gold reserves, leading to the collapse of gold standard built on sterling. The non-convertible US dollar took over world markets as reserve money after 1971 due to US’ credibility in ensuring the gold peg. Therefore, world money was not a function of an abstract economic notion of saleability but global political relations. Relatedly, the metallic monetary rule over liquidity partially impaired enhanced capital reproduction which was to roar after World War II. Dollar as both reserve and world money removed the metallic constraint (Wray, 1998: 28-9) and ensured trust at the same time while putting US in a powerful position to tinker with global monetary relations underpinning capitalism. Indeed, usage of dollar as world money implied that the US could run deficits without risking default as long as there was a demand for the dollar. Therefore, the fiscal capacity of the US relied on its political position, but not that which it held over its sovereign territory, as would be argued by the Chartalists, but over the world.

As mentioned, Chartalists do not think global monetary relations to be relevant ontologically for the constitution of money (Wray, 2014: 9). However, Marx had "distinguished national spheres of circulation where the state would establish the standard of price from the international arena" (Vasudevan, 2009: 479; 2017). National currencies are not usually accepted in international transactions, giving the issuer of reserve-cum-world money significant powers. Other states compete with each other to accumulate that to use them to establish and strengthen their position in global capitalist competition, which at the same time reproduces the power of the issuer of world money. To acquire world money, states engage in devaluation of their national currencies to export more. More generally, states maintain the depreciating capital and increasing profits at the same time for a better spot in the global monetary reproduction of capitalism. Therefore, inasmuch as endogeneity and exogeneity assume that states and markets are ontologically separate realms on different geographical levels like national and international, they misrepresent the power of capitalist money that horizontally cuts these dichotomies.

2.3 Conclusion

As emphasised, capitalism is built on the separation of the economic from the political as well as the separation of the state and civil society while its reproduction is enacted through the subordination of both the state and civil society to the rule of money, whose content is historically shaped by class and political struggles. This is so as in capitalism, capital and labour reproduce themselves in a single process in which capital tries constantly to subordinate labour into the monetary requirements of capital accumulation through economic and political processes. This is ensured by not only the coercive powers of the state but also by market discipline, which reflects the labourers' dependence on the wage -hence on her necessity to exchange her labour power with money- to survive. This necessity, which is persistently reproduced through complex dispossession processes, also underpins the separated disciplinary realms of the state and society/markets. Chartalism and the Neoclassical tradition of Metallism-Monetarism reproduces that separation epistemologically in a sense that could be read off of different policy debates such as the Currency School and the Banking School. Indeed, monetary policy "has functioned historically as a means of organising recession to establish a new subordination of labour to capitalist command" (Burnham, 2000: 18).

With a recognition that economic policy in capitalism implemented by states in a monetary form is the nexus between reproduction of capitalist state and capitalist social relations, this chapter has tried to critically analyse different monetary epistemologies and their ontological assumptions that articulate with material relations. Money in capitalism is the organising principle of daily life, as also claimed by Marx (1993: 157). In that regard, these monetary epistemologies are not solely matters of theory, but of policy. Their methodological preferences are in fact preferences of policy. The Neoclassical understanding of Metallism-Monetarism considered economic relations and markets to be ontologically separate from states and that the former have their own purely economic rationale. That rationale used to be characterised by barter and money ultimately was introduced as a thing, to facilitate this process.

Chartalism has criticised this conception by saying that money is a social construct (Tymoigne & Wray, 2006: 3; Wray, 2014: 25). The state created markets through its power over the creation of money, denomination of the unit of account, and enforcement of its use via taxes. It has been argued here that Chartalism reduces “social” to an emphasis on the monetary role of the state. However correct in its emphasis that it is "impossible to separate the theory of money from the theory of the state" (Wray, 1998: 23), it propounds an approach that the state determines money linearly and that its reproduction is not affected by the relations occurring in the ontologically differentiated realm of civil society. In that sense, the Chartalist understanding of the social is not social in even the narrowest, most Weberian, sense while it is actually epistemologically statolatric.

Marxist epistemology on the other hand has a more nuanced understanding of the social. The social implied the totality of the apparently separated markets/civil society and states in which money develops a social relation of class struggle emanating from the moment of production and realisation of surplus-value, while all these realms individually and the separation itself are reproduced under the rule of money. Moreover, epistemological standpoints are not external to material social relations, they imply ontological stances which could be traced from debates of policy and history. Hence, the only truly social position on money, or the social theory of money, is Marxism despite the Chartalist emphasis that it propounds a similar point. With its emphasis on the contradictory development of class struggle, it is able to show the epistemological continuities in capitalism and the ways in which “heretic” currents find their place in the established ways of statecraft.

The second section has tried to show how these currents reproduce their assumptions theoretically in terms of the assumed endogeneity and exogeneity on money, which is the nexus rerum, the unifying element of social fetishizations such as the externalisation of states and markets, as Lapavitsas contends (2017: 253). Chartalists contend that the state ontologically created markets via its power over money, but its actions have been governed by endogenous patterns that emerge within the latter, while the Neoclassical metallist tradition has argued that money emerged in markets endogenously and the state has the power to steer markets by the virtue of its power over money issuance. So, in different moments of the existence of money, they assume linear vectors with which these ontologically separate realms determine one another. In the original instance, their positions are clearly contrary. But in the second instance which implies to how money is supplied, the economic policy level, their dialogue becomes clearer, as their preoccupations are not divergent. Both Metallism and Chartalism are concerned with establishing a sufficient economic performance with price stability. This is visible in the Banking versus Currency debate, defined by endogeneity and exogeneity arguments respectively, where the advocation of rules and discretion has become a matter of practical usefulness. This dialogue does not imply a theoretical deficiency however. It is underlined by the fact that they are concerned with practical economic matters that precipitate eclecticism. Moreover, neither theory explain why the references which the state should govern money in accordance to are constituted in the way they are. In different terms, they do not explain why the nature of the monetary and the real economic rules that they assume should govern in the way they are. So, both of them are ultimately epistemologically essentialist as well.

Marxism deconstructs the perceived essence of these monetary relations in a holistic manner. For Marxism, Chartalism and Neoclassical Metallist-Monetarist epistemology are both epistemological ways through which capitalism is reproduced. The dialogue they engage in terms of policymaking is underpinned by the very fact that they are methods of pondering on economic policy. So, the prevalence of Metallist and Chartalist emphases in different historical periods reflects the pragmatic eclecticism of these theories which separate states and markets. In fact, this very separation disguised as methodology is a political position. The preference to disregard global relations too is a similar preference since accounting for relations that is by nature irrelevant to rules or discretion necessitates debating policymaking on a rather holistic level that is underpinned by the redundancy of the separation of states and markets. Accounting for the global level shows that money is not only a matter of policy, but also a central mediation which it confines states and markets to act in a certain way.

CHAPTER 3

TRANSITION TO MARKET-CENTRIC POLICIES AND THE POST-2008 CONTEXT OF CRISIS

In this chapter, the study will extend on the historical context which the first chapter has brought, namely the period that starts with the 1970s crisis in the world. The so-called neoliberal transition with a specific focus on policy prescriptions that underpinned it, and the consequent 2008 crisis that has emerged as a consequence of these policies will be questioned. The chapter is organised in two main sections. Firstly, it will deal with the epistemological questions that the transition from Keynesianism to Neoliberalism engendered. For Clarke this transition was characterised by "the pre-Keynesian emphasis" of market independence (Clarke, 1988: 1). Relatedly, Keynesians saw Monetarism as a "misguided academic theory" dictated by "doctrinaire economists on bigoted and narrow-minded politicians" (Clarke, 1988: 1). Was this transition generated predominantly by these "doctrinaire economists", if so, why were not Keynesians powerful enough to achieve success against this rather crusade? Policy practices like what Saad-Filho (2010: 90) terms the "New Monetary Policy Consensus" (NMPC) were created in that process in which the practical solutions were negotiated along the Neoclassical and Chartalist lines. So, those who were deemed heterodox were instrumental in creating that outcome. There appeared to be a close dialogue between these epistemological standpoints. How they led to the creation of the NMPC, and the ways in which policy rules and policy discretion were compromised will be a question that this chapter will try to critically address from a perspective informed by scholars influenced by Marx. For that perspective, established ways of understanding the world and money in our context reflect the material reality despite the reified representation of social factors in those theories (Clarke, 1988: 12). So, analysing the context becomes a de facto analysis of theory.

Secondly, it will question the post-2008 environment, and the ways in which it has affected the established policy consensus. After 2008, established ways of thinking have been crippled due to the so-called “zero lower bound” which led policymakers and scholars to discuss whether there should be more fiscal activism. The “zero lower bound” that has crippled monetary powers of the state in managing the economy was precipitated by what different scholars called “secular stagnation” or the “liquidity trap”. This was also the context in which Neochartalist adherence surged. The ways in which this context fuelled interest in Neochartalism is an important question that underpins the nexus between ontological developments and epistemological change, as Thatcher said: “[…] heresies of one period became, as they always do, the orthodoxies of the next” .

3.1 The Return to Market-Centric Policies in the Form of Neoliberalism

1970s’ crisis was characterised by rampant inflation, poor productivity and growth rates, and political upheaval (Saad-Filho, 2010: 94). For Holloway, the period indicated a crisis of the institutional setting and the epistemology that reflected the institutional configuration of class struggle (Holloway, 1996: 7). During the 1970s, the Bretton Woods system of gold-dollar standard became a straitjacket as high energy prices and the political power of labour put downward pressure on the profits of capital. Its abandonment by the Nixon administration unleashed further inflation which in turn gave justification to discipline labour via sound policies of monetarism. Indeed, “after the breakdown of Bretton Woods, capital movements within the international economy began to dominate balance of payment and exchange rate considerations” (Bonefeld, 1996: 41). Imposition of sound policies were in part related to floating exchange rates which put states under the discipline of capital flows to reproduce themselves (Holloway, 1996: 32). After capital accounts were liberalised, short-term capital movements precipitated efforts to provide a stable investment environment with monetary policy that prioritised higher interest rates to have low inflation (Bonefeld, 1996: 42; Saad-Filho, 2010: 95). This changed the focus of policy hitherto centred around growth and employment to price stability.

As emphasised by Lapavitsas (2005:30), the neoliberalisation of policymaking after the 1970s was accompanied by changing epistemological preferences and characterised by a bias favouring capital which, on a superficial level, expressed itself to be the preferable policy mindset (Duménil & Levy, 2005: 9). This is observed in Figure 1 that shows changes in the distribution of wealth during the period of transition. In the US, the wealthiest households' share of national wealth drastically increased after the second half of the 1970s after a progressive decline during the second half of the 1960s. Correspondingly, Figure 2 indicates that unemployment rates also increased. These indicate increasing market discipline over labour through higher unemployment that was precipitated by a disinflationary period which increased inequality and further concentrated wealth (Saad-Filho, 2010: 104).

For these reasons, despite its political success in subordinating states and society to the requirements of enhanced capital accumulation, "monetarist orthodoxy was relegated to the dustbins of history" (Bonefeld, 1996: 38). It became apparent that it did not put forth a "viable system of accumulation" (Saad-Filho, 2010: 99). Consequently, its penny-pinching dictum was replaced with another one that saw the benefits of a credit-induced mode of accumulation which "reduced interest rates sharply and abnegated monetarist 'economic' policies and reinvoked credit expansion" (Bonefeld, 1996: 49). In the US, this policy-line informed by what is called "supply side economics" caused chronic budget and trade deficits driven by military expenditures. An effort to optimise rules and discretion in economic policy for sustainable accumulation (Bonefeld, 1996: 52), this policy-line was a synthesised one in response to contradictions that emerged in the implementation of monetarist policies.

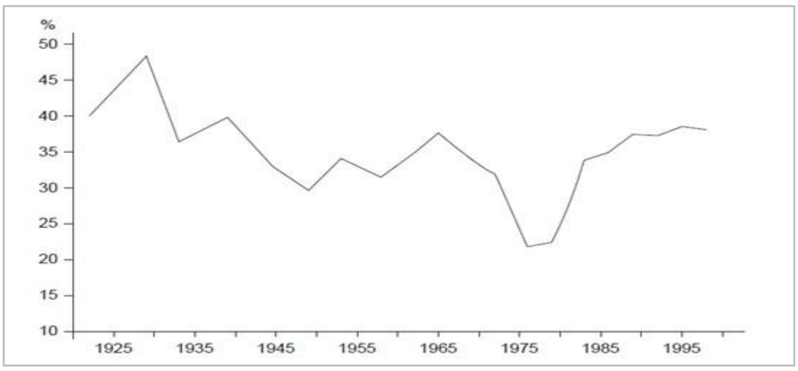

Figure 1: "Share of total wealth held by the wealthiest 1 per cent of US households (wealth includes housing, securities and cash, and durable consumption goods" (Duménil & Levy, 2005: 10)

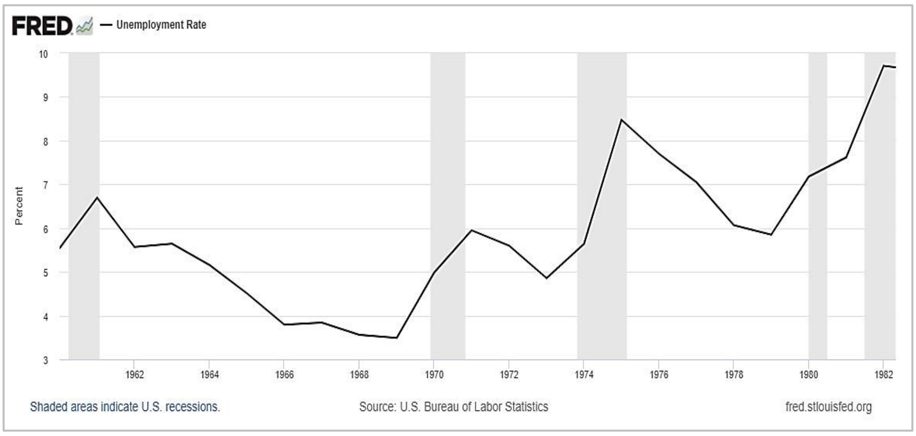

Figure 2: "US unemployment rate between 1960-1982" Source: St. Louis Fed Database (https://fred.stlouisfed.org/series/UNRATE)

NMPC came to be associated with different currents such as New Keynesianism, Neo-Keynesianism, and New Classical Economics, which was affiliated with Robert Lucas whose neoclassical epistemology was preoccupied with assumptions like "rational expectations", "time inconsistency", and "policy-ineffectiveness" (Stahl, 2021: 407). Despite its claim in nascency, it was actually a return to "the pre-Keynesian emphasis on the primary role of money and the market" (Clarke, 1988: 1). It also resurrected the "Say's Law" and drew on the quantity theory of money, both of which were discredited during the Keynesian period[16], and both, since then, became great influences on economic policy (Lapavitsas, 2005: 35). It also meant that Keynesians had started to adopt a microeconomic rational expectations model into their macroeconomic understanding. This synthesised epistemology became the hegemonic alternative to Keynesianism that Monetarism could not be (Stahl, 2021: 411). Per Clarke, these implied, despite the fact that monetarism "has been utterly discredited, and the money supply no longer has the fetishistic significance that it

[16] Keynes provides one of the most influential critiques of neoclassical economics (Lapavitsas, 2005: 31-2). He argued that the economy did not create equilibrium on its own in the long run as implied by Say's Law which said "what [is] bought is sold, and what is sold is bought" (Nalbantoğlu, 2022: 61). This discrepancy was due to systemic asymmetries between aggregate demand and aggregate supply. In different terms, disequilibrium was not an exceptional period. To ensure equilibrium states had to intervene to generate demand which would incentivise new investments. As such, Keynes advocated an endogenous approach to money that rejected the quantity theory. Money would reflux back to banks in time after the demand was satisfied.

briefly enjoyed, the broader contours of the politics and ideology of monetarism remain with us, and have been assimilated by many of those of a Keynesian persuasion" (Clarke, 1987: 393). Monetarism proved to be a fundamental political-epistemological position concerning the rule of money.

Important epistemological convergences between Keynesianism and monetarism were instrumental for the creation of that synthesis. Indeed, Keynesianism was not completely incompatible with neoclassical assumptions (Lapavitsas, 2005:32). Keynesian pedigree had intellectual fault-lines that gave way to this neoclassical synthesis (Palley, 2005: 22-3). One of these were fault-lines were incompatibility between the Keynesian adherence to the "marginal product theory of income distribution" and demand management at the same time. According to the former, workers obtained what their respective marginal contributions were worth to companies. However, inasmuch as the Keynesian argument underlined the lack of aggregate demand as the result of crisis, the crisis was underpinned by the insufficient income generated by the marginal product of labour, necessitating demand generation beyond the marginal worth of labour to firms, a policy-line that infringed the independence of markets.

ejection of economic laws, for monetarists, created inflation. The politically maintained high wages meant downward wage rigidity which kept general level of prices at a high plateau (Saad-Filho, 2010: 91). If nominal wages were allowed to decrease, the monetarist argument went, prices would too. This would in time increase employment and real wages in due process (Forder, 2006: 227). This argument characterised the "labour-market flexibility agenda" of monetarists (Palley, 2005: 22). Despite having nothing new, these arguments paralysed most Keynesians and turned them into Monetarists. The strand within Keynesianism that kept loyal to the demand managing kernel of the theory came to be known as post-Keynesianism. They continued to consider unemployment as a drag on demand and growth which showed markets to be unable to allocate funds effectively in a way that necessitated state action for equilibration of demand and supply. Keynesians were then effectively divided into two camps: a neoclassical one underlining the necessity of sound policies, and a rather Chartalist camp emphasising the power of state to engender market equilibrium.

Prior to the 1970s, deficit financed accumulation started to bring down profit margins as capital started to extend into realms dominated by state industries to which the political power of the working class prevented any capitalist expedition to these realms of potential accumulation. Neoclassical theses of monetarism synthesised with the Keynesian dexterity in internalising worker upheaval via demand generation manifested as selective implementation of austerity and profligacy for different parts of the society (Bonefeld, 1996: 53). Labour was disciplined with sound fiscal policies while capital reaped the political and economic benefits of that subordination as new credit opportunities and government incentives. Keynesian institutions and practices were devoured of their epistemological core and were "used to favour the wealthy and special political interests" (Palley, 2005: 24).

Keynesian policies were targeted by capital not particularly because they were monetarily profligate but because they redistributed wealth to manage the demand problems underpinning booms and busts (Bonefeld, 1996: 54; Stahl, 2021: 415). Indeed, the post-Keynesian period also saw expansionary policies, albeit employed to the benefit of capital accumulation. Putting the blame on expansionary policies, 1970s' rampant inflation was instrumental in justifying the reversal of that redistributive policy-line, thus subject governments, and labourers to the rule of money. In that context, monetary policy became not a way to offset the lack of savings that would otherwise meet endogenous demand for funds, but a tool for price stability. Monetarist dictum that "you cannot spend what you have not earned" which had started to define policymaking as imposing an abstract equilibrium naturally emerging in markets started to give colour to Keynesian institutions (Bonefeld, 1996: 38).

In that sense, disregarding the new role the state had acquired, the conventional view thought that neoliberalism "rolled back the state". As claimed above, practical significance of neoliberalism was that state involvement took a different function. Keynesian demand management was deemed responsible for the crisis of profitability for which the state was targeted as if it was antithetical to markets with a discourse underlining that markets are the most efficient way to allocate factors of production despite oftentimes they generated high unemployment levels and market failures (Palley, 2005: 20). In that sense, as succinctly put by Clarke, neoliberal epistemology was an ex-post apology for implemented policies: they were "not so much the science of capitalism as its theology" (Clarke, 2005: 51). Neoliberal epistemology assumed markets to be inherently efficient, and state involvement created market failures. So, markets ought not to be touched with political means. This was another way of reproducing the separation of the state and civil society. On the other side, neoliberal practice implemented this principle with class-selectivity.

The neoliberal "dare-not-touch-markets" assumption underpins "natural rate of unemployment", or *NAIRU* (non-accelerating inflation rate of unemployment). It argues that *ceteris paribus* "excessive" employment generated by demand management causes inflation. In the long-run the economy would return to the natural employment rate but only with higher inflation inasmuch as real capacity stays the same. Expansionary policies are self-defeating. They criticised the "Phillips Curve" trade-off between inflation and employment. In the long-run, neoliberals argued, markets were able to generate employment provided that the state created price stability. In a different phrase, it was argued that price stability and employment were not mutually excluding goals. This assessment justified higher unemployment and higher average interest rates in the short run, whereas in reality, neoliberal policies represented the "abandonment of full employment under the guise of the natural rate" (Palley, 2005: 25).

Hence *NAIRU* was the epistemological aspect of neoliberalism that justified the discipline on labour through unemployment and generation of further accumulation. Implicit in the formulation of NAIRU is an adherence to a monetary rule that mimicked the rules of the market. Discretion was blamed for the 1970s market failure. This epistemological position underpinned the institutional restructuring that was characterised by fiscal rules, sound policies, and central bank independence as policy-anchors similar to the gold standard (Saad-Filho, 2010: 105). Central banks acquired the role of maintaining price stability, a function which can only be realised if the institution acted as if it were an exogenous force over markets and civil society, imposing economic "soundness". Hence, the rule of money in neoliberalism was characterised by "the strengthening of central banks and the targeting of their activity toward price stability" (Duménil & Levy, 2005: 10).

3.1.1 Imposition of the “Rule of Money”: Reinventing the “Platonic guardian”[17]

Neoliberalism relied on institutional pegs to restructure social relations. The most important among which is perhaps central bank independence that re-established the rule of money. Indeed, neoliberalism surged along the increasing independence and importance of central banks (Wessels, 1997). Their independence was justified with studies that employed complicated mathematical models on how to achieve price stability. However, they were normative rather than scientific (Maxfield, 1998: 20). So, central bank independence was a political matter rather than a simple policy preference.

In neoliberalism, “all traditional ‘capitalist’ tasks are delegated to large staffs of managerial and clerical personnel” (Duménil & Levy, 2005: 13). Reduction of political power to policymaking, then the latter’s delegation to independent committees as technical matters reinforces the rule of money. As such, “central bank independence refers to independence from the executive branch of government” (Maxfield, 1998: 19). This delegation increases the importance of technocrats who present social contradictions of class struggle as apolitical technicalities. In that sense, central bank independence aimed placing the rule of money away from political contest. In the words of Walter Bagehot, “no result could be worse than that the conduct of the Bank and the management should be made a matter of party politics” (cited in Wessels, 1997: 155).

This was related to monetarism (Forder, 2006: 239). However, central bank independence was also not unique to the contemporary era (Bowles & White, 1994: 242). Central banks initially were private institutions wielding institutional independence. That independent status was reinforced as they were more occupied with price stability and less with the task of lending to the government (Hartwell, 2019: 63). Starting with independence before the First World War, then moving to dependence during the period until the 1970s’ crisis only to be replaced with independence after Keynesianism’s demise, Wessels (1997) distinguishes three periods in his historical account of central bank independence, transitions between

[17] Credit for the phrase goes to Bowles & White, 1994: 243.

which are characterised by global business cycles. Thus, their institutional status along with policy epistemologies that underpinned their actions were restructured along the so-called business cycles. In the first period, the private statuses of central banks were reinforced with the price-specie flow mechanism. 1970s' crisis started a period in which central banks became independent again, the justification for which was the new epistemological synthesis that "girds neoliberal macroeconomic policy" (Palley, 2019a: 71; Bowles & White, 1994: 242). As assessed by Saad-Filho (2010: 105), neoliberal central banking rested on a "new monetary policy consensus" which allegedly had superseded the shortcomings of previous policy paradigms by synthesising different strands of monetarist and Keynesian arguments which allegedly created the "Great Moderation" underpinned by the re-establishment of monetary discipline to achieve price stability (Bowles & White 1994: 237).

Prominence of central banks as price-stabilising institutions was achieved in two steps (Palley, 2019a: 70). In the first, discretionary policies were exposed to be crippled by "time inconsistency" (Hartwell, 2018: 61). A corollary to the "rational expectations revolution" in economics, time inconsistency implies the incorporation of microeconomic assumptions into monetary policy analysis (Hartwell, 2018: 65). Blaming democratic processes for inflation, time-inconsistency was developed by two neoclassical economists: Kydland and Prescott (Forder, 1998: 308). They argued that policymakers had short term benefits in lowering unemployment that outweighed the future costs of inflation. By manipulating the business cycle in a way that "the economy grows and contracts in tandem with the election schedule" (McNamara, 2002: 51), politicians, whose actions were informed with the Keynesian "Phillips curve", tended to exploit the time-inconsistency between re-election periods by creating economic surges.

Liberal democratic structure is another justification for independent central banking. Partisan politics force politicians to prioritise employment and growth to get enough votes in a way that augments time-inconsistent behaviour which leads political actors to try to stand out by proposing radical or different policies, especially when left-wing parties are concerned (McNamara, 2002: 52). However, politicians' politically rational behaviour is offset by rational individuals' incorporation of inflation expectations into their actions. This creates a vicious cycle of inflation. "The logic of the Phillips curve works, went the economists' thinking, only if inflation is unexpected" (Maxfield, 1998: 8). The anticipated benefit of politically induced boom does not occur, leaving the economy with inflation and a non-optimal equilibrium (Forder, 1998: 309; McNamara, 2002: 47). This kind of explanation deems it necessary to form a "politics of insulation" (Bowles & White, 1994: 249) that puts policymaking away from reach against time inconsistent behaviour and manipulation of inflation for political gain (Fernández-Albertos, 2015: 227).

In the second step, neoliberal epistemological position presents central bank independence as a solution to time-inconsistent inflation. There are two forms of central bank independence: *de facto* and *de jure* independence (Braun, 2016: 1072). The legal status central banks have, or *de jure* independence, does not say much about the disputed character of policymaking. A central bank might be independent on paper but could be subjected to continuous infringements to its mandate. This impediment necessitates a deeper and practical, *de facto*, examination of central bank independence which recategorize central bank independence in two types (Hartwell, 2018: 65-6; McNamara, 2002: 52; Maxfield, 1998: 20). The first, "instrument independence", implies that the bank is free to choose and develop any tool it wants to reach a predetermined policy objective. This not only provides the bank with exogenous power over monetary relations, but ensures that it is used exclusively for legally defined objectives. However, instrument independence alone might fail to engender private sector trust in monetary decisions provided that the bank is run by a politically appointed policy board. An externally set goal might even be detrimental when central banks face with crises which could hardly be addressed unless the policy objective is overruled. As such, the second, "goal independence," gives central banks great discretion during and before crises, and against the government by endowing them the power to determine the policy objective, thereby appearing more credible to private sector agents. However, as it gives too much power, it risks a political takeover of the bank, the consequences of which is possible detrimental to capital. Indeed, a strict adherence to conservative banking practices can generate central bank credibility under goal independence since it gives the appointer (the government) great initiative over money management (Fernández-Albertos, 2015: 218). The conservative governor was argued by Kenneth Rogoff to be an optimal solution to all these contradictions which reflect the political character of the institutional management of the rule of money. His argument became "the hub of the central bank independence literature" as the "Rogoff-banker" (Forder, 1998: 313).[18]

The mainstream literature is greatly concerned with these problems of how to establish the optima of central bank independence and of the goal independence (Mishkin, 2019: 581). As such this preoccupation assumes a contradiction between popular rule and an adequate money management (Maxfield, 1998: 16) and boils down to whether a quantity or price rule should guide the monetary rule. While the former entails excessive rigidity in the form it was argued by monetarists, the latter optimises discretion and rules, thus entailing more policymaker discretion compared to the former. Monetarism adhered to a strict *quantity rule* built on the idea that a central bank should target an exogenously set increase in the supply of money, known as the Friedmanite "%k rule" (Glasner, 2017: 39). The fixation on eliminating discretion and forming a strictly rule-based and rigid mode of monetary policy was replaced with "inflation targeting", i.e., targeting a level of increase in the general level or prices, which is a critical component of the "new monetary policy consensus" as assessed by Saad-Filho (2010: 90). Indeed, it provided a *price rule* to achieve the goals of the monetarist quantity rule which was self-defeating. The price rule is said to be a compromise between rules and discretion (Aglietta & Mojon: 2010: 247), creating both accountability and flexibility (Mishkin, 2019: 585). From a critical perspective, it "locks government policy into the neo-liberal framework institutionally" (Saad-Filho, 2010: 106), subordinating the reproduction of the state and society to a monetary rule.

Despite this preoccupation with central bank independence, Palley (2019a) argues that central bank independence has biases which need elaboration due to some inner contradictions. Fundamentally, it is contradictory to consider that governments are inflation prone and give the responsibility to governments again to cede that inflationary discretion to an independent central bank (Maxfield, 1998: 11-2). In the

[18] Non-convertible fiat monies lack the materiality and the trustworthiness that it will continue to represent the same value over a certain time as gold. Ensuring stable prices, conservative central bankers function as the high priests of the superior principles of market ideology underwritten by neoclassical economics (Wray, 1998: 12).

Neoclassical epistemology we do not find any elaborate answer to that question. It shows the cynical nature of neoliberal economics as a political discourse serving the sectional interests of a part of the society, despite its focus on the *public*, whitewashed by the Chicago School argument that “independence is a way of increasing *public well-being* if it succeeds in restraining government’s proclivity to higher inflation” (Palley, 2019a: 79, emphasis mine). Practically, central bank independence as an ideal governance practice is inconsistent with the fact that central banks became more susceptible to specific sectional influences, as Figure 3 shows. Central bank independence and financial sector’s share in OECD countries are observed to be correlated, indicating a political bias. Indeed, Hartwell (2018: 69) too notes that there is a correlation between financialisation and central bank independence. This is augmented by the fact that central banks in some countries are partly owned by different financial actors, a fact that casts a shadow on the “public” nature of their policies and the argued “independence” (Bowles & White, 1994: 247).

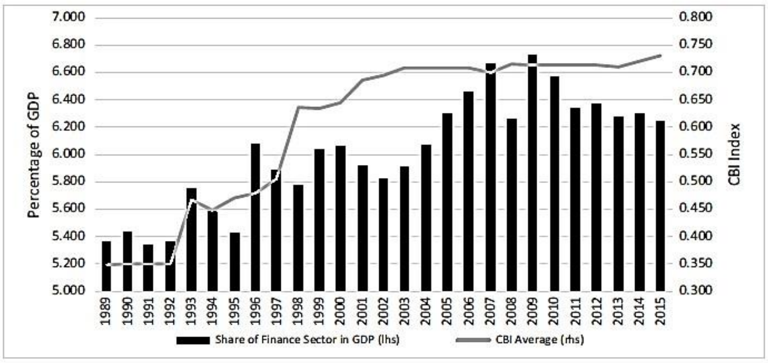

Figure 3: CBI and the share of finance in country GDP, OECD countries (Hartwell, 2018: 69).

Nevertheless, as independent central banks prioritise financial stability defined as banking aggregates, they deal with macroeconomic conditions best suited for sustainable capital accumulation since “getting prices right” creates growth and balance payments. Hence, financialisation of the state and society in neoliberalism implies relative harmony between the particular interests of capitalist classes (Saad-Filho, 2010: 103). As noted before, the state continues to deal with the interests of capital-in-general in the form of central bank independence.

McNamara's (2002: 53) criticism of central bank independence reflects similar arguments. First, she asks whether central bank independence truly removes all political biases from economic management. By nature, as underlined by Bowles and White (1998: 254), central banking is political. This fact is not unacknowledged by neoliberal policymakers. Former Fed Chairman Paul Volcker had expressed that "the Congress created us and the Congress can uncreate us" (Fernandez-Albertos, 2015: 224). Formally, the US and other governments own their central banks "lock, stock, and barrel" (Rogoff, 2019b). Different capital groups control central banks with the state: members of the policy boards of central banks "even when the ruling party is on the left, are from the private banking or investment communities" (McNamara, 2002: 55). They prioritise financial interests over public interests which practically means focusing on price stability against other macroeconomic aggregates like growth and employment, which has "identifiable distributional effects" (McNamara, 2002: 53).

Second, she questions whether the government-central bank nexus is the only thing that influences the management of money expanding on the influences over central banking. Central banks are part of political economic relations within a society in which there are social inequalities of power. Independence could be exploited for political purposes by politicians to provide them another term in the office by removing their responsibility in unpopular policies (Bowles & White, 1994: 243). The opposite scenario too is possible. Price stability underpinned by higher interest rates might induce capital inflows generating further credit opportunities and incentivising investment, thus generating growth to be translated into political gains. So, it is not a question of yes or no posed to the government for good management as it would create or destroy opportunities to stay in office which is the goal of all mainstream parties in liberal democracies. The social constitution of central bank independence in relation to a set of political interests necessitates assuming that central bank independence is not as a free-floating matter of governance that does not require anything other than satisfying economic aggregates to be justified. There are many vectoral forces at work between states and civil society that reshape the relationship between these realms ontologically discerned by the neoclassical epistemology.

Despite the emphasis by the neoclassical epistemology to political manipulation of the business cycle, McNamara (2002: 56) thinks that the evidence for partisan influence over policymaking is questionable as central bank independence is implemented on bipartisan grounds. This implies that there are other mechanisms at work that answer why competing parties do not try to appropriate the alleged success of central bank independence.

Other than that, there is also not much empirical evidence that inflation is detrimental to economic performance, hence central bank independence is something desired. There are considerations that inflation below 40 per cent is costless (McNamara, 2002: 57). Even the Turkish case in which the country grew 7,3 per cent in the first quarter of 2022 against a staggering annual 73,5 per cent inflation in May 2022 supports the assessment.[19] Indeed, inflation could help generate adequate growth by incentivising spending and investment, euthanising the rentier and channelling the funds that would accrue to it to the real sector that creates employment. Even though central bank independence is presented by the neoclassical epistemology as a "one size fits all" (McNamara, 2002: 48) solution, or a "panacea" (Bowles & White, 1994:236) to economic problems, empirical evidence indicates that it does not meet the hype concerning growth (Saad-Filho, 2010: 108; Maxfield, 1998: 13). Price stability might not be integral to satisfying economic performance as is often thought as long as it is at sustainable levels. That further weakens the case for central bank independence. This is accepted by Lawrence Summers, a prominent New Keynesian scholar, concerning growth (Bowles & White, 1994: 239). Alex Cukierman indicates that central bank dependence does not invariably cause high inflation (Bowles & White, 1994: 239). There are no indicators in favour of central bank independence concerning price stability in developing countries (McNamara, 2002: 58). At best, central bank independence might have supported low inflation indirectly, as the commitment to which increased capital inflows that stabilised developing country currencies (Maxfield, 1998: 34), and not through subordination of the monetary base to a monetary rule. On the other hand, in developed countries, low inflation is not a result of central bank independence, but rather the activism of an overfed financial sector

[19] Data are excerpt from Turkish Presidency. For inflation see https://www.sbb.gov.tr/enflasyon/ and for growth see https://www.sbb.gov.tr/buyume/

that uses funds as a carrot for price stability. In that sense, central bank independence is strictly an outcome of the "political effectiveness of a particular interest group coalition" (McNamara, 2002: 58).

These interest groups are international as well as domestic. Collapse of the Bretton Woods system gave reserve money issuers and creditors considerable influence in international trade and money flows where existing studies on central bank independence often assume a closed economy determined endogenously (Maxfield, 1998: 18). Developing country central banks had constantly tried to accommodate their policies with those conducted in the developed world because the latter "generated spillover effects which other monetary authorities had to take into account" (Hartwell, 2018: 76). Global constitution of money restricted macroeconomic management after the transition from the nationally mediated Bretton Woods system to the internationally mobile, volatile, and deregulated capital structure of neoliberalism which benefitted international financial capital.

Central bank independence underpinned the coordination of this globally volatile economic structure in a way that domestic political calculations did not intervene in macroeconomic processes. Domestic financial markets became "integrated into one large international market" in which financial agents imposed policy uniformity and took central banks as institutions signalling domestic policy trajectories (Maxfield, 1998: 9). Therefore, the domesticist discourses surrounding contemporary central banking that emphasises inflation and time-inconsistency fails to do justice to the fact that central bank actions manifest a converging pattern on the global scale, as Figure 4 shows. Indeed, as Maxfield (1998: 44) notes, interest rates increasingly converged during the 2000s. In that sense, central bank independence that underpins global integration of monetary policymaking suggests increasing dependence of central banks to other central banks and macroeconomic institutions, especially in developing countries due to their structurally low level of savings that necessitate capital inflows for investment (Bowles & White, 1994: 256).

As central banks shown in Figure 5 issue the leading reserve currencies with which other countries secure their balance of payments, this international structure is also hierarchic in a way that the US dollar is the king as the ultimate means of payment (Rogoff, 2019a:15). It is also "the world's most frequently used currency in global trade" (Bertaut et al., 2021). Hence, central banks are not independent of the political implications of global rule of money, capital flows and trade, creating further questionability for the concept of independence.

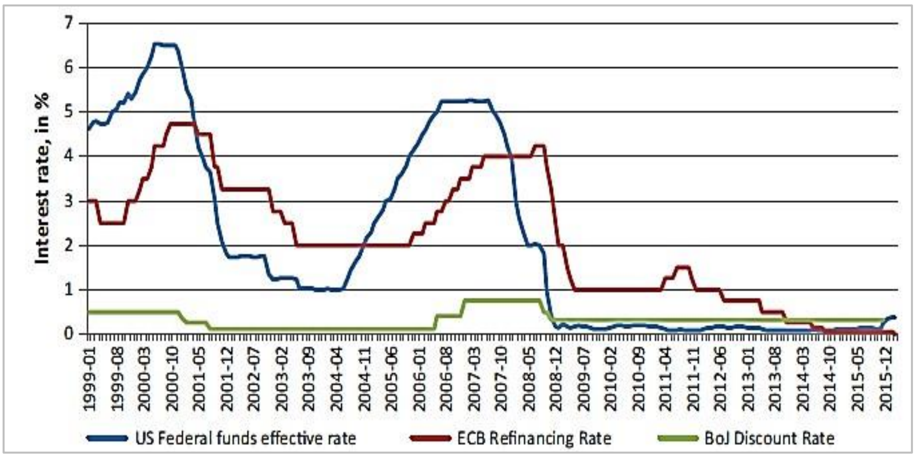

Figure 4: Policy rates amongst major central banks, 1999–2016 (Hartwell, 2018: 76).

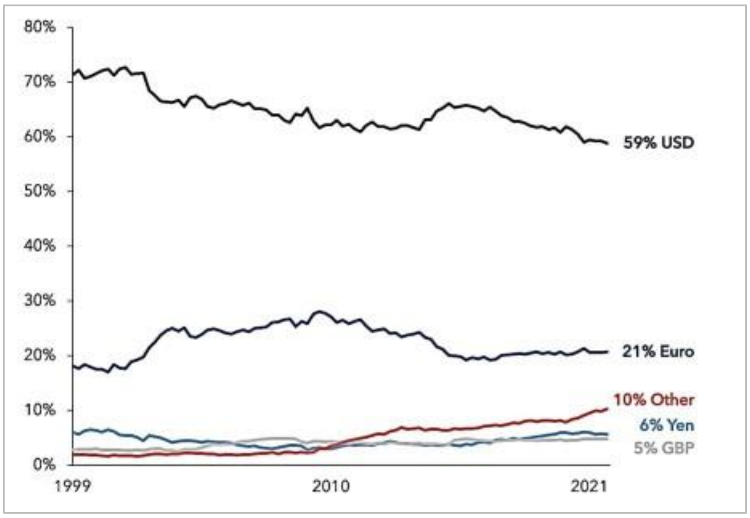

Figure 5: **"**Currency composition of global foreign exchange reserves, percent". Arslanalp, Serkan, Barry Eichengreen and Chima Simpson-Bell (2021). "Dollar Dominance and the Rise of Nontraditional Reserve Currencies", *IMF Blog*. https://blogs.imf.org/2022/06/01/dollar-dominance-and-the-rise-ofhttps://blogs.imf.org/2022/06/01/dollar-dominance-and-the-rise-of-nontraditional-reserve-currencies/nontraditional-reserve-currencies/ (last accessed on 13.06.2022).

Figures 6 and 7 show central bank independence to have increased globally between the 1980s and 2000s. This is partly explained what McNamara calls the transnational policy culture of neoliberalism. Central bank independence is a "way of signalling to investors" (McNamara, 2002: 60) the credibility to "attract and retain capital" (Maxfield, 1998: 35). Globalisation stimulated central bank independence in different countries as a signalling device (Fernández-Albertos, 2015: 223). Governments started to mimic others that exemplified arguably successful macroeconomic management practices. Policymakers learned from interaction or from the *zeitgeist* that central bank independence is a corollary to globalisation and neoliberalism (McNamara, 2002: 61). International organisations and academic institutions acted as the media of accommodation to the importance of neoliberal policies. International financial institutions disciplined domestic institutions by imposing global uniformity in central banking through the globe. Neoliberal prescriptions were forced upon developing countries in the form of what is often called the "Washington Consensus" attached to "conditional credits" and "structural adjustment programmes" sponsored by the IMF, the World Bank (Painceira, 2012: 188), and the European Union conditionalities (Maxfield, 1998: 10). These exogenous forces on policy were imposing certain class relations via tinkering with the institutional setting of the rule of money which disciplined states, reshaping their abilities in and against their economies. Subordination of developing economies to Washington Consensus policies was very coercive as it made these countries' social and formal reproduction dependent on foreign funds that originated in developed countries (Bowles & White, 1994: 245).

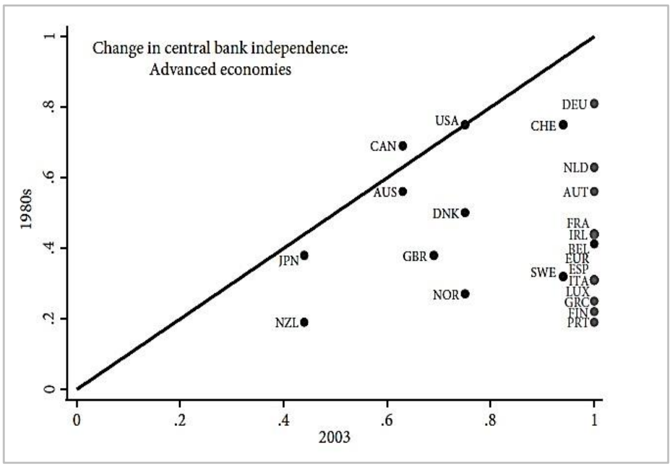

Figure 6: Change in central bank independence in Advanced Economies between 1980s-2003 (Full dependence = 0, full independence = 1) (Palley, 2019a: 72).

Universities and think tanks produced "normative" justifications which underpinned the efforts to enforce this "isomorphism" (McNamara, 2002: 64). These academic institutions served to justify independence after inflation. Central bank independence is “a rational choice in the context of the culture of neoliberalism, but not to address the purported inflationary tendencies of democracy as per the economic literature on central bank independence” (McNamara, 2002: 65) but for political economic ends.

There seems to be financial sector and real sector behavioural divergence in the context of central bank independence. Liquid short-term investment flows increase with central bank independence (Maxfield, 1998: 37). Financial capital tends to favour long-term commitments to price stability in comparison to a fixed-capital owner who might even profit from an inflationary environment that precipitates higher exports. Similarly, fixed capital tends not to lose its value in comparison to liquid investments unless there is a technological leap. Developing countries became dependent on these liquid investments after deregulations and liberalisations. In that sense, they are disciplined by these investors which can precipitate a balance of payments crisis with a sudden capital outflow. Maxfield (1998: 37) suggests that “the greater the elasticity of supply and price of international funds, the more valuable are politicians’ marginal efforts to increase creditworthiness. Other things equal, the elasticities are low for foreign direct investment, moderate for commercial bank loans, and great for bond and equity investments”. Portfolio investors can relocate their investments as states cannot curb their dependence on capital inflows as the rule of money in its neoliberal form imposes increased capital mobility.

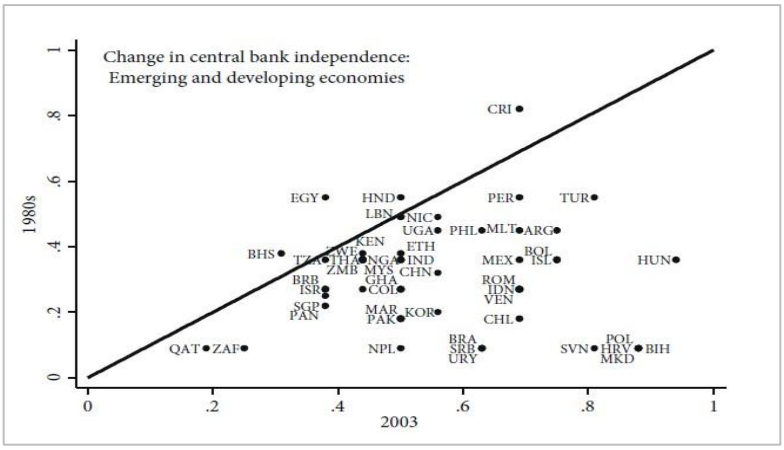

Figure 7: Change in central bank independence in emerging and developing economies between 1980s-2003 (Full dependence = 0, full independence = 1) (Palley, 2019a: 72).

Summarising what has been said so far on the neoliberal management of money, and particularly central banking, Mishkin (2019) notes nine "modern" central banking principles, the latter two of which are rather relevant for the post-2008 context. First, modern central banking assumes that "price stability has important benefits" (Mishkin, 2019: 574), an assumption that emerged out of the 1970s' inflationary environment, which undermined the function of *medium of exchange*, crippling economic agency with information costs. This explains why the mainstream is so concerned with inflation in terms of policymaking as its epistemological premise that money is a means of exchange, crippled by price instability. Second, and relatedly, inflation is a monetary phenomenon as argued by Friedman rather than a real economic one (Mishkin, 2019: 575). Until the 1970s, macroeconomic convention said that crises occur because of underconsumption, against which welfare policies provided counter-cyclical measures. The post-1970 compromise focused on the undesired consequences of expansionary policies and called for sound monetary practices that subordinated the state and society to the rule of money. Macroeconomic arguments had been changing and these claims "had a major impact on the economics profession" and policymaking, particularly in monetary policy. Third, the Keynesian trade-off between unemployment and inflation, the Phillips Curve, implied that politicians could direct their efforts toward one of these goals. However, the monetarist wisdom informed by NAIRU argued that the employment rate has a "natural" level regardless of the monetary base, or expansionary policies (Mishkin, 2019: 576). Economic expansionism could not change that level, but put more burden on the transacting parties by more inflation, muddying the waters. Hence, monetarists claimed that inflation and unemployment were compatible goals as emphasised by Friedman (Forder, 2006: 224). Underpinning this was the fourth point that rational expectations played a crucial role in the course of the economy. Boosting economic activity by monetary means leads households to act on that assumption, reducing the effect of politically enhanced booms, and inducing price instability. Fifth, corollary to the previous point, "monetary policy is subject to the time-inconsistency problem" (Mishkin, 2019: 577). Scholars focusing on this aspect of monetary policy underlined that once individuals are aware of the tendency of politicians to inflate the economy for employment and growth, they act in a way that offsets perceived benefits, leading to a sub-optimal equilibrium. Sixth, central bank credibility equalled inflation targeting which was a third way between rules and discretion that anchored price stability and gave flexibility to policymakers at the same time. This came to be considered “crucial to successful monetary policy outcomes" (Mishkin, 2019: 578). And seventh, the claim that "central bank independence improves the efficiency of monetary policy" is an outcome of questioning how to liberate policymaking from the time-inconsistency problem (Mishkin, 2019: 579).

3.1.2 Central Banking After 2008: Demise of the “Platonic Guardian”?

Until 2008, policymaking was dominated by that epistemological assumption set which was New Keynesian and New Classical (Connors & Mitchell, 2017: 24). Before the crisis neoliberal policymaking subordinated fiscal and monetary authorities to sound policies and price rules. The crisis significantly changed the way economic policy and central banking was done (Fernández-Albertos, 2015: 229) by forcing fiscal and monetary authorities to cooperate for economic stability (Mabbett & Schelkle, 2019: 437). New policies reflecting this monetary-fiscal convergence were allowed by the flexibility of policymakers’ “latitude to act quickly and decisively, unencumbered by the need to pass legislation” (Rogoff, 2019a: 8). Discretion was integrated into the sound rules that guided policy.

The last two of the nine assumptions underlined by Mishkin are related to this post-2008 condition in monetary policymaking (2019: 579-81). The crisis led to more state intervention and raised questions about the functionality of central bank independence concerning the business cycle as governments, especially in the US, found themselves forced to implement fiscal and monetary tools to address the immediate deflationary pressure of the crisis. States supported bailouts and decreased lending rates in a Friedmanite manner that was observed in his critique of the Fed’s policy response to the 1929 crisis that led to a crash in liquidity (Yglesias, 2015; Mishkin, 2019: 580). These were unorthodox policies that showed divergence from the epistemological position of neoclassicalism that emphasised sound monetary principles. That divergence led to criticisms directed at central banks as they were “charged with both excessive complacency and excessive activism” (Yglesias, 2015). Thus, the crisis and its aftermath pushed the idea of central bank independence to its limit (Mabbett & Schelkle, 2019: 436).

The initial outcome of the crisis was deflation precipitated by the realisation that a great part of financial assets were toxic papers relied on real assets that had defaulted and led to a credit crash. Keeping interest rates high would have entrenched deflation. So, policymakers responded to this threat by slashing lending rates to near zero in order to stimulate credits and spending. However, this led to another problem called the "zero-lower-bound" which became a chronic challenge against the deflationary pressure of the 2008 crisis (Mishkin, 2019: 580) after the December of the same year when the "Federal Funds Rate had reached nearly 0 percent and could go no lower" (Yglesias, 2015). More spending had to be generated but forcing real interests below zero drained deposits and crippled the ability of banks to meet endogenous credit demand under a pressure of deflation. Figure 8 shows the interest rates throughout the decade after the crisis. Against this condition that implied the ineffectiveness of monetary policy, unconventional instruments like "quantitative easing" and "forward guidance" were developed. With such instruments, supply of money skyrocketed as shown in Figure 9. However, these too gave dubious results against deflation and higher unemployment (Mishkin, 2019: 581; Yglesias, 2015) as individuals and firms tended to pour their cheaply earned money into speculative investments instead of those that would generate growth. This precipitated an economic path-dependency on easy money. As seen in the Figure 8, the Fed could not increase its lending rates despite its commitment to do so in the "taper tantrum" of 2013 until 2016. And that increase did not reflect a complete commitment as the Fed saw that path-dependency and once again lowered the interest rates in 2019.

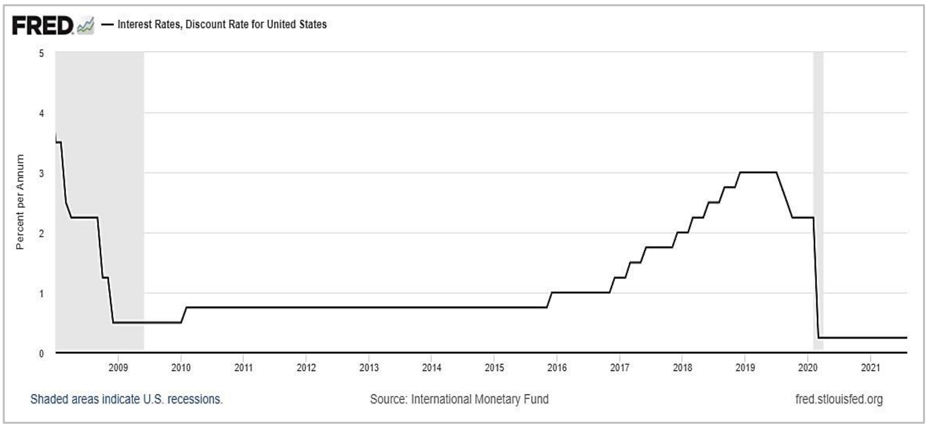

Figure 8: "Interest rates, discount rates for United States" between 2008-2021, Source: St. Louis Fed Database https://fred.stlouisfed.org/series/INTDSRUSM193N

Originated in Japan during the early 2000s[20] "quantitative easing" or "large-scale asset purchases" (Yglesias, 2015) refers to open market purchases of assets by central banks, causing their balance sheets to swell with often non-performing bonds and equities, private and public (Mishkin, 2019: 587; Fernández-Albertos, 2015: 228; Henwood, 2019). Informed with the insight that "successful central bank communication about the monetary policy reaction function would enable the markets to do a lot of the work for the central bank" (Mishkin, 2019: 588), forward guidance refers to central banks' manipulation of markets by signalling to continue with a particular monetary agenda (Fernández-Albertos, 2015: 229). So, while quantitative easing helped policymakers tinker with the monetary base, forward guidance helped them adjust inflation expectations through signalling what might future credit conditions be.

Forward guidance harmonises economic agents' expectations with the path taken by the central bank, negatively or positively. Indeed, consumers are "more likely to borrow and invest than if think today's low rates may vanish soon" (Yglesias, 2015). Manipulating the expectations markets, forward guidance helps to keep interest rates low, facilitate spending and growth (Fernández-Albertos, 2015: 229). Moreover, forward guidance might be a price stabilising tool as central banks can signal to markets that they will hike rates. Forward guidance helps lock in prices. Against a deflationary pressure, these unconventional tools created massive increases in the US money supply (Figure 8). Hence, they were partly successful against deflation but in exchange for creating a economic path-dependency on easy credits. Generation of easy liquidity spurred concerns that quantitative easing might be inflationary as some commentators saw it equal to printing money (Rogoff, 2019a: 6). So, the responses to the crisis created new contradictions such as macroeconomic fragilities attached to a politically maintained and debt-ridden pattern of capital accumulation and the attached concerns of inflation.

[20] Quantitative easing was means to deal with the deflationary pressure in Japan that necessitated pumping liqiudity to ensure growth and employment after the Asian crisis of 1997 "Emerging markets can use quantitative easing, too" (2020). *Financial Times.* https://www.ft.com/content/e5e40252-afdb-11ea-a4b6-31f1eedf762e (last accessed on 17.06.2022).

Problems created by the crash in liquidity were alleviated as the Fed fulfilled its role to function as "lender of last resort". One of the contradictions that emerged was related to Bagehot's assertion that lending should be punitive which the Fed did not adhere to as it lent during the crisis (Mishkin, 2019: 590). Quantitative easing created a "moral hazard" of risk-free lending that precipitated predatory profitmaking (Yglesias, 2015), increasing speculative investments as mentioned. Central banks' prudential oversight aimed to alleviate that moral hazard, where prudential oversight sought to pre-empt, supervise and address volatilities (Mishkin, 2019: 590). However, they were ex-post to crisis. Why create policies that aim to prevent crises after crisis conditions if you had already dealt with the problems that precipitated the crisis in the first place? The answer to that question is that the debt-ridden mode of capital accumulation was not removed. Neoliberal central banking practices focused solely on price stability and ignored predatory lending and real-estate bubbles prior to the 2008 crisis (Fernández-Albertos, 2015: 228). This did not change after the crisis as the system relied increasingly on easy liquidity.

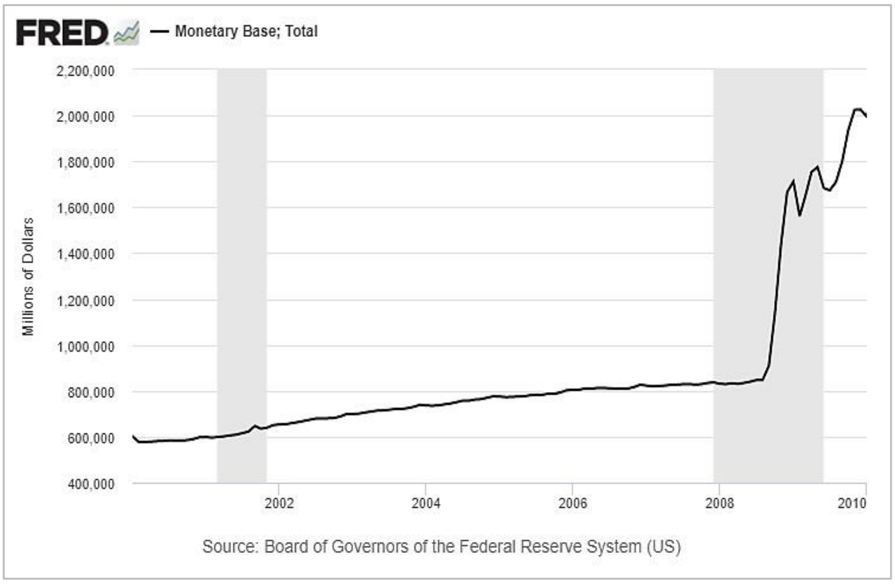

Figure 9: "Monetary base; total", Source: St. Louis Fed Database https://fred.stlouisfed.org/series/BOGMBASE#

3.2 Post-2008 Macroeconomic Environment as the Midwife of Neochartalism

Neoliberal central banking practices precipitated the crisis with loose monetary policy before 2008. As mentioned before, implementation of monetarism created problems after the 1970s which led to the synthesis of monetarism with Keynesian practices which created new paths of accumulation characterised by debt and easy credits. Despite the fact that it started before the 2008 crisis, this trend accelerated in a fashion what various critical authors considered to be an entrenchment of neoliberalism in dealing with the fallout. Others argued that the period marked a break from neoliberalism as what the adherents of ensuing policies predicted as consequences of policy profligacy, such as inflation, did not happen. However, implemented unorthodox policies did not generate satisfying results (Cömert, 2013: 2).. The failure of the neoliberal epistemology and the questionable results of the unorthodox policies, it is often argued, forced, as Cömert (2013: 2) emphasises, practitioners and theoreticians of money and central banking were forced to rethink their assumptions. This reconsideration marked the popularity of Neochartalism as a theory that advocates entrenching practices of easy money (Weisenthal & Alloway, 2021).Developments of 2008 revealed errors of the orthodox macroeconomic thinking (Benlialper & Cömert, 2016: 25). The change of opinion in the mainstream started to correspond with what critical scholars thought about money and central banking before 2008.

Mainstream thinkers started to show similarities with the criticisms extended by critical scholars. In another sense, this shows that capitalism is a flexible system that gives way to eclectic incorporation of different epistemological positions that may seem contradictory. Some may appear to be even heretical by existing standards. For example, higher government spending was a unacceptable thing for the mainstream before the crisis. However, due to the practical problems posed by the deflationary pressure, the mainstream started to advocate more government spending.

In this section, the study tries to draw attention to some of the important problems that defined the post-2008 context, such as negative interest rates, deflation, and stagnation. In doing so, it also draws attention to the similarities between the critical scholarship and the mainstream that emerged after the 2008 crisis, to which MMT generated its arguments in that context. That section still continues the historical analysis but in doing so tries to show how the mainstream position has changed, with reference to important mainstream scholars including Larry Summers, Paul Krugman, and Ben Bernanke.Their studies centred around somewhat similar but diverging positions such as “secular stagnation”, “liquidity trap”, and “global savings glut”, respectively, but the emphases on easy liquidity and credits is the overlapping feature of them all. These analyses will help understand the historical context in which Neochartalism surged in the context defined by what the mainstream argument corresponded in terms of material conditions after 2008.

3.2.1 Negative Natural Interest Rates

Views of Larry Summers who is former Secretary of Treasury during Clinton administration, the head of National Economic Council of the USA during 2009-10 and a Harvard professor of Economics; Paul Krugman, a Princeton professor of Economics who was awarded with a Nobel Prize in Economics; and a former Fed Chair during the Bush era and the 2008 crisis, Ben Bernanke are important precursors for economic convention. First of all, Summers, tried to explain the reasons as to why the post-crisis recovery was not satisfactory despite governments engaged in expansionary policies including deficit spending and low interest rates that did not precipitate higher levels of inflation which would push interests higher. For Summers, a beacon of mainstream economics, the problem was the inability to generate sufficient inflation that would later precipitate an escape from the zero-lower-bound. For Summers, the inability to politically induce inflation implied that the Friedmanite consensus, prioritising monetary policy over fiscal, and inflation over economic growth, had become "obsolete" due to what he calls "secular stagnation" (Levitz, 2022a).

Incentivising capitalists with tax cuts to produce more and decrease inflation during the late 1970s and early 1980s, the rise of supply side economics was underpinned by the Say's Law. Supply side arguments were underpinned by the neoclassical theory of monetarism against which Summers argued that "the main constraint on the industrial world's economy today is on the demand, rather than the supply, side" (Summers, 2016). An emphasis showing the convergence between the mainstream and the wider critical scholarship emphasising demand generation. A chief researcher at the San Francisco Fed (Da Costa, 2018) underlines a similar thing: "the U.S. economy remains significantly smaller than it should be based on its pre-crisis growth trend" after a decade from the crisis which substantially altered the income pattern of US citizens by a "loss of about $70,000 for every American". This was a crisis of demand rather than supply. As such, the post-2008 debate on policymaking slowly became dominated by considerations on how to pull the economic performance to the level of full employment which would stimulate demand and alleviate the deflationary pressure.

Despite these attempts however, interest rates in the developed world were near nominal zero, or real negative inflation remained below two percent after the crisis (Summers, 2016). Complicating the situation, while debt to GDP ratios soared in the developed world interest rate on bonds remained quite low. Together these two developments raised questions about the validity of the "crowding out" argument.[21] Summers tries to explain why crowding out did not happen despite high debts and interest rates stood low with "secular stagnation". The concept which implies that aggregate savings are higher than investment indicating speculative behaviour instead of productive. Higher savings mean less real investment spending in an environment which interest rates are already low. This creates poor rates of growth, reduces demand and entrenches the trend of low spending. Low spending locks in the deflationary pressure which forces interest rates further down due to an increased stock of unwanted funds. This might be called a vicious cycle of savings-deflation, and it could be traced back to what Keynes called "the paradox of thrift".

Therefore, secular stagnation means that increases in the monetary base with unorthodox measures such as quantitative easing and forward guidance are partially offset by the deflationary pressure of high levels of saving underpinned by rentier behaviour. Rentier behavior defines the achieved growth in the context of easy money. Low interest rates generate cheap funds which create speculative bubbles such as the one in 2008, and afterwards, through for example bullish stock markets and cryptocurrencies. Indeed, secular stagnation was characterised by low real interests, creeping demand and low inflation underpinned by over-saving and the ensuing lack of profitable investment opportunities (Summers, 2016). It was an "enigma of profits without accumulation" underpinned by excess savings and rentier behaviour in the

[21] Crowding out means, due to scarcity of funds, government borrowing limits the availability of funds available to the private sector and thus increases interest rates which might lead to cost-driven inflation (see Wray, 1998: 74; Lavoie, 2013: 4). So, for adherents of the crowding out argument, states should not borrow too much as this would put upward pressure on interest rates. In a way, crowding out implies the disciplinary force of markets over states.

developed countries which produced an "asset economy" that came to characterise the post-2008 period (Yalman, 2021: 21).

Due to the lack of private investment, secular stagnation precipitated wider emphasis on the requirement of more government spending. This would generate demand and help increase inflation making saving less desirable and channelling funds to real sector investment which partially euthanises rentier behaviour. In that regard, Summers considers the post-2013 efforts of the Fed to raise interest rates to be a bad judgement, as it raises the cost of borrowing in an environment where even zero interests are not able to precipitate new investment, i.e., natural rate was below zero. Increasing interest rates would incentive new savings, entrenching rentier behaviour. To curb secular stagnation new inflation and spending should have been generated in any way possible.

Fiscal policy was one of the ways to generate spending which Summers adhered to. Against the neoliberal emphasis on fiscal rules and sound policies he contended that "an expansionary fiscal policy by the US government can help overcome the secular stagnation problem" (Summers, 2016). Expansionary fiscal policy could "reduce savings, raise neutral real interest rates, and stimulate growth" since "excess savings tend to drive interest rates down, and excess investment tends to drive them up"[22] (Summers, 2016). He further argued that "future generations will be better off owing lots of money in long-term bonds at low rates *in a currency they can print* than they would be inheriting a vast deferred maintenance liability"[23] (Summers, 2016; my emphasis). For him, secular stagnation created a condition in which active fiscal policy could well "crowd in investment" whereas neoliberal policy mindset assumed that deficits raised interest rates.

As such, it is often noted that secular stagnation indicates structural problems (The Economist Data Team, 2014; Bernanke, 2015c). For instance, as underlined by Krugman, secular stagnation underlines the effect of an aging population: "the Census

[22] Note the similarity of the assessment to that of MMT on the relationship between excess funds and interest rates.

[23] Note the emphasis on monetary sovereignty which perhaps the most important feature of Neochartalism as will be shown below.

projects that the population aged 18 to 64 will grow at an annual rate of only 0.2 percent between 2015 and 2025. Unless labor force participation not only stops declining but starts rising rapidly again, this means a slower-growth economy, and thanks to the accelerator effect, lower investment demand” (Krugman, 2013b). This starkly contrasts with the pre-1980s condition in which Keynesian demand management had generated strong spending and investment patterns. A young labour force, women’s entry into the workforce, and state sponsored repression of finance that channelled funds to investment instead of rentier profiteering generated robust investment. Alongside demographic factors, Krugman (2013b) notes decelerating innovation as a reason for inadequate economic performance. Ailing profit expectations prevents the replacement of existing technology with more competitive ones resulting in reduced output.

Summers (2016) considers his secular stagnation to be in “parallel” to Krugman’s “liquidity trap” which is defined as the condition in which “private demand is so weak that even at a zero short-term interest rate spending falls far short of what would be needed for full employment”, i.e., the natural, or equilibrium, rate (Krugman, 2013a). Indeed, Krugman (2013b) too elaborates on the similarity between these two approaches. Both of these concepts imply the condition in which monetary policy reached the zero lower bound and the natural rate of interest is negative, meaning the economy requires more liquidity to hit full employment but monetary policy is unable to deliver that, rendering fiscal “prudence […] folly” both for the public and the private sector (Krugman, 2013b). Expansionary, not sound policies are necessary: more government deficits and less private saving are necessary to alleviate the liquidity trap. For Summers (2016) this does “not reveal a profound or inherent flaw in capitalism. Raising demand is actually not that difficult”. In that sense, he thinks that pressing problems of contemporary capitalism could be alleviated by state involvement. This is arguably an epistemological break that would lead to some Neochartalist emphases as elaborated on below.

Nevertheless, Summers and Krugman diverge on whether the condition they describe is temporal (Summers, 2016; Krugman, 2013b). Ben Bernanke For Paul Krugman, a Princeton professor of Economics who was awarded with a Nobel Prize in Economics, liquidity trap is temporary while for Summers secular stagnation is a long-term structural trend. Monetary policy was loose after the 1980s. It precipitated bubbles and a sharp increase in the household debt, but it did not create inflation. Summers explains this confusing situation with being in an economic condition “that needs bubbles just to achieve something near full employment” (Krugman, 2013b). In order to reach the real negative rate of interests, an epistemological transformation away from soundness of monetarism with which central banks could not “credibly promise to be irresponsible” was necessary (Krugman, 2013a). It has been feared that the central banks in developed countries might hinder the post-2008 recovery by suddenly increasing rates and inducing recession at the first opportunity which was the case in the taper tantrum during 2013. Paying real negative rates on deposits, eliminating paper money and more fiscal activism could have yielded wanted results, argues Krugman. However, such proposals would be “met with outrage” that it is unnatural to politically depreciate individual savings: “It’s tyranny!” (Krugman, 2013b). But reducing the level of savings and increasing investments is a must in secular stagnation. Hence, more deficits and more government involvement in monetary affairs appeared to be the correct response.

Former Fed Chair during the Bush era and the 2008 crisis, Ben Bernanke offers a relatively different explanation of the post-2008 condition in which the world had witnessed low interest rates and whether rates will stay that way in four pieces written for the Brookings Institution in 2015. For Bernanke, low rates are not peculiar to post-2008 considering that they have been declining since the 1980s, an argument which is in line with that of Summers. At first instance, this was the outcome of policies pursued by central banks. However, per the Neoclassical argument, central banks do not set the natural, or equilibrium rate, which is the main determinant of investment and spending decisions. Bernanke assesses that, *ceteris paribus*, interest rates would be high in relation to high return expectations, and low in a low return environment. Echoing the crowding out argument, he says that deficits increase the average rate of interest. If a central bank overshoots the natural equilibrium rate a recession might be induced due to the simple fact that interest rates are higher than the possible return on investment, and the opposite condition might create inflation. Hence, detection and implementation of a rate consistent with the natural rate is a critical component of macroeconomic management since interest rates are said to be reflecting the investment and savings patterns of the private sector in line with profit expectations. But the central bank must "set the short-term interest rate *somewhere*", and it should be, Bernanke argues, the equilibrium rate, which is not anything "artificial" (Bernanke, 2015a; emphasis in original). "The state of the economy, not the Fed, is the ultimate determinant of the sustainable level of real returns" (Bernanke, 2015a). Hence, the central bank cannot pursue discretion, the economy has its own rules which are defined after the 2008 crisis by low profit expectations. In more theoretical terms, central banks externally implement endogenously determined interest rate.

Bernanke (2015b) indicates that Summers extends the reach of the concept of "secular stagnation" which was coined by a student of Keynes, Alvin Hansen, and it is not relevant only to contemporary economic analysis (Bernanke, 2015b; The Economist Data Team, 2014). During the 1930s, Hansen concluded that a lack of profitmaking prospects caused excess savings which reduced investments where governments did not invest and spent to prop up demand (The Economist Data Team, 2014). Summers breathed life into the concept when he used it in 2013 at an IMF conference. Secular stagnation underpinned the asset bubble prior to 2008, it certainly stamped the era afterwards, characterised by "a lack of productive investment opportunities" (The Economist Data Team, 2014). A number of factors underlying this low return environment are emphasised by the proponents of the approach as mentioned, such as demographical changes which result in a stagnating spending pattern. Older populations tend to save more. An aging population also means a decline in output, indicating a decline in per worker investment which turns to decrease the need for funds. Furthermore, more savings and less spending are also related to rising income inequalities which is exacerbated by stagnating real wages where the income of "high earners […] soared" (The Economist Data Team, 2014). Rising inequality results in more saving as the well-off are prone to save more, so it "is also likely to dampen consumption and growth". The last factor emphasised is downward interest rate trend. Due to a lack of profitable investment opportunities, investors want more government debt to position themselves at, reducing bond yields, in a somewhat analogous manner to generation of asset bubbles.

When returns on capital are low, so will be investments, putting the natural rate at a lower plateau. Even in the real possibility of high returns due to unutilised capacity, insufficient investment prevents the economy from achieving that. Financial bubbles might induce more spending, but they would also be speculative and create fragility due to higher leverages. To deal with the contradiction between the nominal zero lower bound and real negative equilibrium rates, Bernanke suggests two monetary policy tools (Bernanke, 2015b). The first is that the central bank can increase its targeted inflation thereby acquiring more room to lend more. The second is that the bank can go further down the speculative path of bubble creation to prop up spending and investment. The first one would hamper price stability while the second one would create financial fragilities and risk a speculative bubble. Therefore, he concludes, the three goals of modern macroeconomic policy -full employment, price stability, financial stability- are exceptionally hard to achieve in secular stagnation (Bernanke, 2015b).

Bernanke concurs with Summers on the prescription of loose fiscal policy in principle. However, he considers government debt to be too large. Deficit-financed investments would face low returns due to the crowding out effect and this might hamper profitable investment opportunities, further entrenching the path-dependency on deficits. He is also “sceptical” about the argument that there is a sustained crisis of profitability (Bernanke, 2015b). Real negative interest rates provide that any investment is profitable. In opposition to Summers, this means the economy cannot stay at negative equilibrium rate as a structural condition. It cannot continue to give out free money in exchange for investment.

Low interests were partly due to over-saving in developing economies, primarily in China and oil producing countries whose funds found their way into the US, where they put downward pressure on interest rates and kept the dollar valuable. Strength of the dollar resulted in booming US trade deficits as funds and different countries acquired US government bonds as investment and reserves. In 2006, US trade deficit was 6 per cent of the GDP (Bernanke, 2015c). In that sense, Bernanke emphasises that there was a “global saving glut”. However, there are striking similarities between his approach and Summers’ secular stagnation thesis as they both emphasise excess saving over investment which generates funds that puts downward pressure on interests.

However, there are also important differences. The first is that "secular stagnation works through reduced domestic investment and consumption, the global savings glut through weaker exports and a larger trade deficit" (Bernanke, 2015c). Another difference is in the emphasis to structural, or per Bernanke "*fundamental factors"* (his emphasis). Followers of Summers' argument consider the undesired economic condition as an outcome of elements including "slow population growth, the low capital needs of many new industries, and the declining relative price of capital" while the "global savings glut" argument relies on "*government policy decisions*". Summers advocates active fiscal policy to alleviate the lack of demand while, if Bernanke's argument holds, correct policies to alleviate the pressure of low natural interest rates are more capital mobility and less government maintenance of foreign exchange rates guided to gain an edge in global trade. The US would be better off with more globalisation. The fundamental difference between them is not an emphasis to demand, rather Bernanke contends that governments' deliberate forcing of interest rates further down prevents the realisation of equilibrium.

Underpinning the global savings glut is a criticism of Summers' neglect of globalisation. Profitable investment opportunities anywhere in the world help past secular stagnation due to capital mobility. On that occasion, Bernanke uses the logic of price-specie flow, saying that "if US households and firms invest abroad, the resulting outflows of financial capital would be expected to weaken the dollar, which in turn would promote US exports" (Bernanke, 2015b). A cheaper dollar would help reach full employment. Secular stagnation must be global to effect individual countries in a global economy with high capital mobility. Hence, Bernanke assesses that secular stagnation overlooks the international realm. If secular stagnation had not grasped economies domestically, "at some point attractive investment opportunities abroad will reappear" (Bernanke, 2015c). Secular stagnation in the US, or any individual country, can be rendered ineffective just by international trade and investment. Profitable investment abroad could create more spending in the US while capital outflows could depreciate dollar, leading to more exports.

In a later post (Bernanke, 2015d), Bernanke examines the reasons why long-term rates, bond yields are low in the developed world, as shown in Figure 10. Yields are affected by three elements: inflation expectations -borrowing conditions-, short-term rates -expectations-, and term premiums. The former two are well examined both so far in this study and in the literature. The term premiums on the other hand drew lesser attention. Term premium is a compensation for the risk of changing interests for an asset that has a long-term maturity. Two factors affect term premiums. First is that "changes in the perceived riskiness of longer-term securities" and the second is that "changes in the demand for specific securities (or classes of securities) relative to their supply". Risk perception, the most important influence on which being inflation expectations, raises term premiums. Inflation was not much of a concern, forward guidance helped markets understand that interest rates would stay low, and as safe assets were demanded term premiums stood low. This was augmented by the demand by different countries to US treasuries, and other developed country bonds as safe assets. Other than that, Bernanke says, "the recent decline in longer-term yields and term premiums in the US remains something of a puzzle."

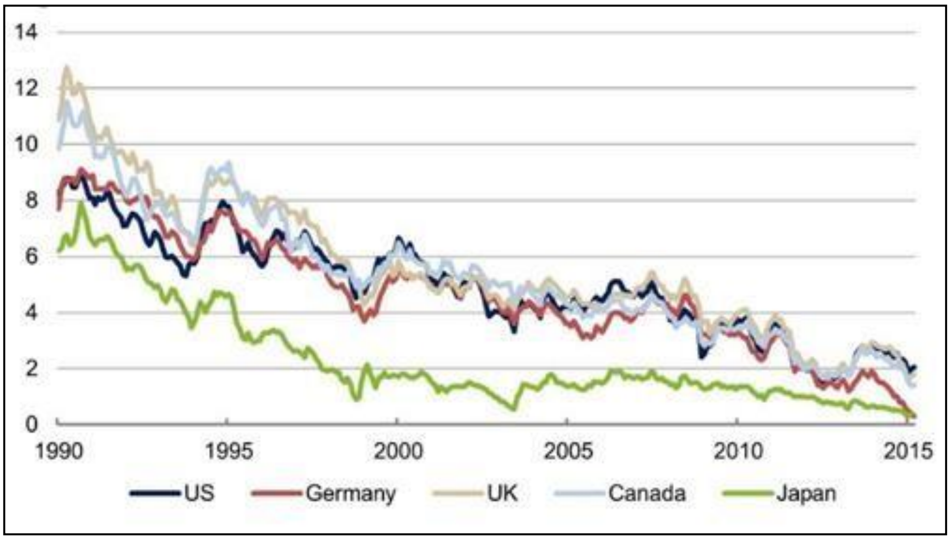

Figure 10: 10-Year Government Bond Yields in the US, Germany, UK, Canada, Japan (%) Source: Bernanke, 2015d.

3.2.2 Deflationary pressure and the COVID-19-induced crisis

The material conditions underneath the assessments of Summers, Krugman, and Bernanke such as free capital movements, aging population, low interests, and low inflation rates caused a shift in policymaking debates, Neil Irwin notes (2019a). In 2018, there were expectations that the global economy was finally shaking off the secular stagnation trend that emerged in 2008 (Irwin 2019b). However, when Fed tried to increase interests, markets reacted in disfavour of that decision, precipitating further rate cuts as shown in Figure 15. This had shown that "the low-growth world was not just a phase. It's the new reality beneath every macroeconomic question and debate for the foreseeable future." (Irwin, 2019b). In 2019, important indicators of the change in policy mindset in the US were witnessed (Irwin, 2019a). "The Phillips Curve is dead; long live the Phillips Curve" says Samuelson (2019a), in an effort to underline the changes in the macroeconomic space where inflation remained low for a decade despite low interests and higher employment. An IMF chief stated that high budget deficits were not particularly a problem, which means that the institution had a drastic change of mind favouring fiscal expansion. A member of the US Congress, Alexandra Ocasio-Cortez talked in favour of what came to be known after 2008 as Neochartalism. Such developments implied that the national debt scare was no longer a driving factor of policy debates, deflation generated by excess saving and bubbles became more of a scare than inflation along with stagnating growth and investment.

The change is said to have started during the Trump era in which the administration used deficits to stimulate the economy, and the Fed accommodated this preference by reducing interest rates after continuous hikes. More deficits showed that the US economy had great room for fiscal stimulus which was thought of as a crowding out factor that would reduce growth and investments. Levitz notes that "by 2019's end, America had embraced a new macroeconomic orthodoxy" that focused on growth instead of inflation, which, in Summers' phrase, marked "the end of Reagan-Thatcher libertarian wave" (Levitz, 2022a). Despite Trump deficits, inflation remained threateningly low during the 2010s (Samuelson, 2019b). While some, mostly the mainstream, have been contempt with that, others have considered it a problem. Perhaps the most important component of the opposing argument is the rightful concern that the central bank is incapable of moving beyond the zero lower bound, worsening policymaking capacity against a crisis that could require a monetary policy stimulus. The central bank might find its hands tied against a crisis that would necessitate more liquidity to alleviate a crisis in demand, which is a deflationary threat. In such a context, rates of profit would diminish, resulting in defaults. Pumping inflation is the cure, however, the method of achieving it is a problem. The Philips Curve model was modified to address the concerns of Monetarism after the 1970s. Inflation could only stimulate economy to a level which was called by monetarists under different names like "'full employment' the 'natural rate of unemployment' and the NAIRU" (Samuelson, 2019a). It was after that theoretical elaboration that central banks became more important as demand-setting institutions via the interest rate. While the "curve" seems to be broken after a decade of decreasing unemployment and low inflation, Samuelson does not accept that in the future that trend is sure to continue (Samuelson, 2019a).

His argument seems to be in line with the environment created by the COVID-19 pandemic which initially floored demand and worsened the threat of deflation. It had a "deflationary outcome" states Yalman (2021: 24), and states changed their preferences in a way that not completely implied a paradigmatic shift from main tenets of the neoclassical epistemology such as price stability to ensuring growth under a deflationary pressure. Similarly, Samuelson expresses his concern about deflation (Samuelson, 2020). He notes that deflation happened during the 2008 crisis and that "we cannot let it happen again". In that vein, the COVID-19 crisis brought responses in most of the world along with the US that "looked impractical, naïve and socialist. Now, they are essential" (Karabell, 2020). Welfare policies started to become mainstream. One self-defined libertarian senator in the US, Rand Paul, said that "even someone like me, the most conservative and fiscally conscious senator in the country, is willing to spend federal dollars to help millions of workers" while a hard-line conservative senator Tom Cotton expressed that "our government at every level has to take responsibility for caring for our people and caring for their health and their material well-being as well" (Karabell, 2020). Karabell (2020) suggests that "the fact that this imperative has been recognized on all sides of the partisan divide will itself change the political landscape, perhaps permanently". In that context, Joe Weisenthal argues that Neochartalism won the policy debate as crowding out and deficit-hawkish arguments were practically refuted during the pandemic (Weisenthal & Alloway, 2021). Now, Neochartalism, or the "modern monetary theory" as is called among netizens is not a "fringe movement anymore" he and his co-host of their economic podcast on Bloomberg Tracy Alloway assess. Fiscal policy and the ensuing concerns on growth and deflation started to dominate monetary policy debates.

This epistemological transition underpinned by ontological developments fuelled deficit spending trends. Against the risk of rising bond yields, the Fed in the US purchased bonds in a ground-breaking development in order to “support smooth market functioning” (Levitz, 2021). As Adam Tooze expresses, states’ borrowing costs were reduced because it was practically accepted that central banks could always finance the government, an argument which is in similarity with Summers’ as he too said that future generations should be better off if policymakers borrowed now in a currency they could print (Summers, 2016). Now “fiscal policy effectively determined monetary policy” precipitating the disillusionment that “the ‘invisible hand’ was attached to Jerome Powell’s forearm (Levitz, 2021).

The only problem was not that the mainstream epistemology did not accept fiscal activism, but monetary policy had truly become an ineffective tool due to the zero lower bound. An inflation would have helped the Fed increase its lending rate thereby remaking monetary policy effective when facing a crisis (Gagnon & Collins, 2019). When COVID-19 struck and caused major supply-side disturbances fiscal policy was utilised to a greater extent which stimulated demand. After the crisis, firms increased prices in a bid to compensate their lost profits which reverberated throughout the world as inflation. This inflation gave major central banks along with the Fed the chance to raise the rate and gain room in which monetary policy could be effective against crises again. Figure 11 shows the changing Fed funds rate that was instrumental in acquiring that room which liberated the bank from the zero lower bound. This helped the Fed re-establish what had been lost after the 2008 crisis: “no credible international monetary regime which could serve as an anchor and justification for recessionary policies” (Burnham, 2015: 81). Now, fiscal and monetary policies could be used in tandem instead of just fiscal policy.

During much of the 2010s governments were not quite ready to break-out of the monetarist consensus despite their fiscal policies were guided by economic stability instead of crowding out. Central banks became critical institutions of economic affairs in that context. The Economist (2022) states that developed world central banks held 15 trillion dollars’ worth of assets before the pandemic. However, this also showed that their conventional tools were ineffective and their sheets swelled due to that particular reason. Fiscal expansion and inflation precipitated by the COVID-19 crisis as well as the war in Ukraine that caused skyrocketing energy prices helped states re-establish the effectiveness of monetary policy which came to be used in tandem with expansionary fiscal policy and drastically altered this trend. Hence, arguing similar things, the increased prominence of Neochartalism.

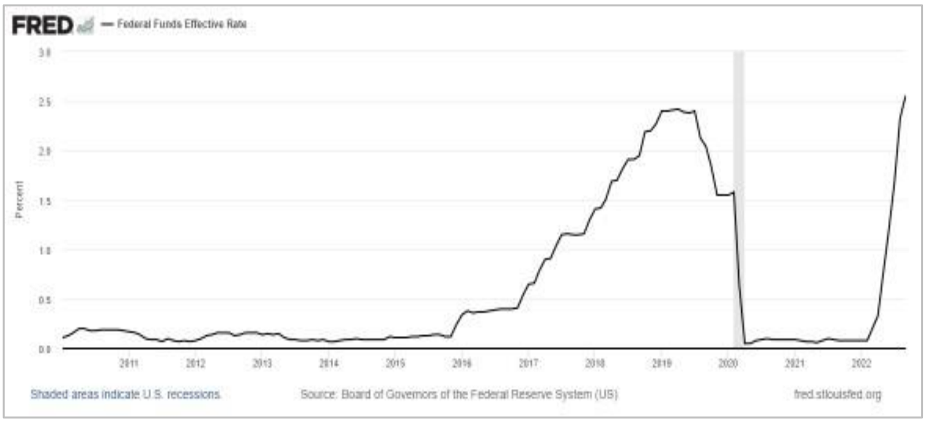

Figure 11: Federal Funds Effective Rate (Fed interest rate) between 2010-2022. Source: St. Louis Fed Database.

Engaging in interest rate hikes are argued to engender some problems. One of which is the increasing cost of borrowing which is a danger in a system that became path-dependent on loose policy. Faced with that risk, for example the Bank of England had bought "bonds again, cutting against its simultaneous commitment to raise rates" (The Economist, 2022). As such, it is questionable that in the future central banks could keep their integrity to a policy path which would further entrench the prominence of fiscal policy. Moreover, active fiscal policy seems to be a source of concern for some (The Economist, 2022). This is not surprising as it implies a great shift from established ways of understanding and making policy. Demographic changes, defensive calculations, and climate change affect the pattern of investments by forcing governments to change their energy considerations, infrastructure, social spending, and industrial policies. The trend seems to be "in the 2020s and 2030s are for bigger government but still-low real interest rates" (The Economist, 2022).

So far, government stimuluses in the US created greater demand and higher employment levels which gave workers great bargaining power. Levitz notes that the US saw in October 2021 the greatest strike wave in a generation (Levitz, 2022a). He further notes that growing demand stimulated investments, S&P 500 companies increased their investments by 11 per cent and US investment in "nondefense capital goods" hit a record high. However, Summers thinks that if stimuluses are "done at too rapid a pace […] demand will outstrip supply, unemployment will fall below its natural rate, and accelerating inflation will undo all of the boom time's gains" (Levitz, 2022a). The ensuing inflation, which is currently experienced, will force the hands of policymakers. To tame inflation, central banks will risk recession via hiking rates. This would not only reduce private spending and investments but also create a political disturbance that would threaten the separation between states and markets. If it is tamed, however, there would be a return to the secular stagnation environment of 2010s which was under-stimulated.

A way out of this conundrum is changing the epistemological position on what the "normal" of inflation is. There are major benefits of higher spending and inflation, the most important of which is that there will not be any big recessions. Central banks would also gain the room of manoeuvre if fiscal policy could offset the contractionary effects of interest rate hikes, placing average interest rates at a higher plateau and giving monetary policy the effectiveness lost after the 2008 crisis. There might also be downsides as The Economist notes (2022): Less credible central banks and the politically distorted investment patterns for electoral and generally political gains which underpin the effort of "populist politicians". So, such concerns reflect the neoclassical argument of time-inconsistency.

However, the same piece (The Economist, 2022) also suggests that a great change is coming and "the biggest mistakes in economics are failures of imagination that reflect an assumption that today's regime will last for ever". A transition perhaps as critical as the transition to Keynesianism from classical liberalism, and from Keynesianism to neoliberalism which could be traced from the underlying epistemological positions is occurring. That transition "promises" that developed countries might be able to evade the problems that defined 2010s: "feeble" economic performance in terms of stagnating growth, and other social problems such as the changing climate. Reflecting the change, Brad DeLong, a Berkeley professor, and a former deputy assistant secretary of the Treasury for economic policy and one in the neoliberal sect of the Democratic Party in the US, expressed that concerning macroeconomic policymaking "the baton rightly passes to our colleagues on the left" (Beauchamp, 2019). This argument implies a striking turn. It is also assessed to be why the upcoming epoch "brings acute dangers, from financial chaos to broken central banks and out-of-control public spending" (The Economist, 2022).

3.3 Conclusion

This chapter aimed to provide a historical analysis of the post-1970s world that gave birth to new policy epistemologies that guided policymaking which were renegotiated along practical problems of capital accumulation. The NMPC which acquired prominence after the 1980s became incapable of addressing the problems of the post-2008 context, a condition that led to an increasing interest in epistemologies which were considered heretic inasmuch as they underlined the constitutive role of state in the management of the economy. Starting with the transition from Keynesianism to Monetarism during the 1970s, and the conditions that led to it, the chapter has underlined that Monetarism was a market-centric epistemology that focused on price stability and underlined the role of monetary policy guided by a rigid quantity rule as a tool to achieve stable prices. However, in its implementation, Monetarism's strict stance on the quantity rule generated liquidity crises that led to a reconsideration of its practice. Its monetary rule transformed into a price rule that focused on a level of inflation instead of a certain supply of money. Nevertheless, as Clarke argued, this did not mean Monetarism was ideologically discredited (Clarke, 1987: 393). Its market-centric tenets continued to guide policymaking in a rather state-centric policy formation. As tightening of liquidity meant slower growth since it limited credit-creation which circumvented pressures of competition on accumulation, transformation from a quantity rule to a price rule not only created a predictable investment environment, but also reinvented the institutional form of the rule of money as inflation targeting and central bank independence. This new framework ensured rigidity for labour, enhanced credit opportunities for capital.

The practical significance of Monetarism was that it advocated generating deflation to subordinate all social institutions and states to the "free" pricing of goods was appropriated by the NMPC that characterised neoliberal policymaking. More theoretically NMPC refuted the Keynesian interpretation of the Philips Curve. NAIRU indicated that inflation and unemployment were complementary, and states could not create employment beyond the natural rate of unemployment by pumping inflation. So, states were ontologically inferior to markets. What this did not see was that markets required the state to ensure that the rule of money was politically intact. However, states were also subordinated to the rule of money via sound principles which were legitimised on grounds that fiscal profligacy was unwanted by markets due the crowding out effect.

Transformation of the quantity rule to a price rule implied a synthesis between the advantages of rules based and discretionary policies. While rules provided a reference according to which economic agents could conduct their practices, discretion was integrated into the ways in which easy liquidity was provided. Credits were selectively applied. Capital was able to acquire credits whereas labour was subordinated through debt. This eased the rule of money on capital, and put more distress on the labour. Indeed, during the neoliberal period, credits have been poured down on capital to ease their burden of competition and reproduction by subjecting them to the discipline of having to accumulate more to pay off existing debt. Now, they could easily roll-over debt as funds have become easier to get.

Hence, accumulation has become path-dependent on credits and debt. Speculative ways of capital accumulation have prevailed in stock markets, or as derivatives, cryptocurrencies, or simple real-estate speculation due to low interests. In different terms, easy liquidity has precipitated predatory profitmaking practices and the share of real economy in the GDP has decreased. This implies a growth pattern that does not generate investment and employment, incentivises savings, and has created what came to be called "secular stagnation". Growth in that environment has become path-dependent on easy liquidity, financial bubbles, and speculation which states have a hard time to curb the fragile effects of. This easy liquidity and low inflation environment ultimately blew up in 2008, but no one is still sure what would follow it.

As concerns on inflation were not heated in the immediate , the post-2008 period, the main interest was on how to generate more growth and employment instead of price stability. This underpinned the convergence of emphases between the mainsteam and the wider critical scholarship. In due process, central bank independence and inflation targeting became also subject to debate. The pressure of deflation heightened concerns that demand and investments were not enough. Furthermore, a greater advocacy of fiscal expansion to alleviate the real economic downturn was something in line with the Chartalist state-centricism. So, interest in Neochartalism grew. Despite the possible side-effects like higher inflation due to enhanced monetary base and higher interest rates in line with the crowding out argument, fiscal expansion was thought to be less risky compared to not doing it. The COVID-19 put further pressure of deflation on the economy in which states engaged in fiscal activism to keep their economies afloat. Despite that, neither interest rates soared in tandem with crisis-induced government deficits, nor inflation increased during the spending-spree of the pandemic. These entrenched beliefs that states should engage in more active policymaking to create growth and employment to address secular stagnation. The once heresy of fiscal activism began to be seen as the remedy to crises in contemporary capitalism.

CHAPTER 4

NEOCHARTALISM: BASIC TENETS AND PRESCRIPTIONS

This brief chapter will examine Neochartalism and its policy prescriptions. The crisis of 2008 has created a disillusionment on the established ways of understanding the economy and economic policy-making, leading to a greater interest in intellectual traditions considered hitherto somewhat heretical. Inadequacies and misjudgements of the market-centric epistemology have proved dangerous in managing the immediate fallout of the crisis, and the context that came after. In that context, Neochartalism (or MMT) started to attract attention from different parts of the political spectrum (Jayadev & Mason, 2018). Its unconventional arguments and prescriptions have proved to be in parallel to what policymakers witnessed and done after the crisis. These are categorised by Sylla (2020) as "chartalism, endogenous money, sectoral balance approach, functional finance, and the job guarantee" (Sylla, 2020) and perhaps monetary sovereignty. The former two were examined extensively in the first chapter. This chapter will examine the rest: sectoral balances approach, functional finance, the job guarantee, and monetary sovereignty.

The analysis here will try to show why Neochartalism is strictly state centric. This will be discussed by problematizing the MMT's assumptions that an abstract equilibrium in the markets could be achieved by fine tuning and that there is an ontologically external relationship between states and markets/civil society that requires state-centric prescriptions like functional finance underpinned by the analysis of sectoral balances. As the MMT proposes that fiscal policy is superior, and monetary policy is no longer significant in the secular stagnation environment, price stability and full employment should be pursued with fiscal policy tools. This indeed implies that the only difference the MMT has with the Neoclassical Metallist-Monetarist epistemology is a prioritisation of fiscal policy for conventional macroeconomic goals. This is why the chapter will highlight how the MMT ultimately agrees with "idea that the worst ills of capitalism can be remedied by tinkering with money, credit, and government debt" (Ivanova, 2020: 147).

4.1 Rethinking the State-Centric Epistemology of Money after Monetarism: Neochartalism, or Modern Monetary Theory

Mainstream scholars Furnam and Summers (2019) note that "the traditional fiscal approach" that prioritises price stability instead of growth and employment, "has often wrong-headedly limited worthwhile investments in such areas as education, health care, and infrastructure". Central bank independence justified by price stability (Braun, 2016: 1069) made monetary policy the ultimate determinant of economic management. The crisis of 2008 showed how detrimental fiscal inertia could be. Consequently, economic policymaking and the fiscal powers of the state became an arena of contention again as noted by different scholars (Fernández-Albertos, 2015: 231; Rogoff, 2019a).

At the height of the crisis of 2008, policymakers' distributional priorities disillusioned many especially in the US. Fiscal and monetary authorities favoured aiding financial institutions rather than defaulted sub-prime debtors. This disillusionment lifted "the veil that conceals money during normal times" (Braun, 2016: 1065; Rogoff, 2019a: 18). As established ways of policymaking tremored (Braun, 2016: 1078), one of the primary concerns of economic scholars became the unequal distribution of wealth (Furnam & Summers, 2019). Critique of the neoclassical monetarist epistemology started to make its way into the mainstream through attacks from both right and left of the political spectrum (Rogoff, 2019a: 1).

Figure 12 shows stagnating growth in developed countries after the crisis despite "high-levels of stimulus spending and the incurring of deficits to keep these aging economies from a long-term recession" (Chohan, 2020: 11). This "counter-cyclical turn" was fuelled by the fact that inflation was not much of a concern during the decade after the crisis as shown by Figure 13. Moreover, unconventional monetary policy tools such as quantitative easing (Irwin, 2019a) and progressively increasing budget deficits (Figure 14) did not create an upward pressure on interest rates as assumed by the crowding out argument. These conditions practically refuted crowding out which was the theoretical foundation of fiscal austerity (Furnam & Summers, 2019).

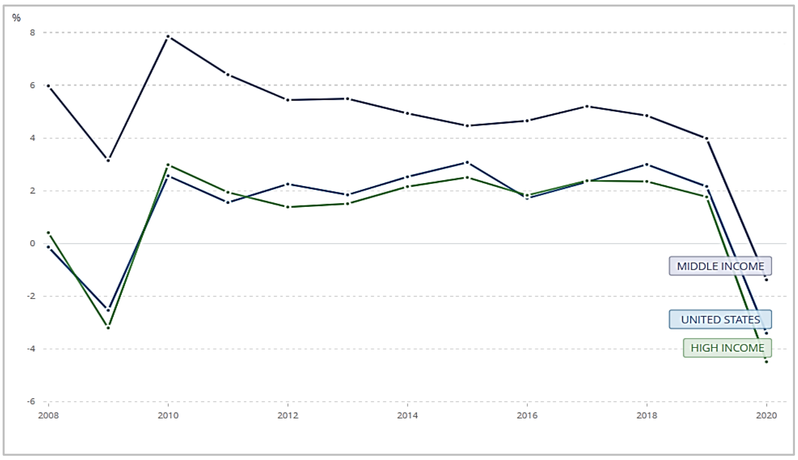

Figure 12: "GDP growth (annual %) in United States, middle income and high income countries" between 2008 and 2020, Source: The World Bank https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2020&locations=USXP&start=2008

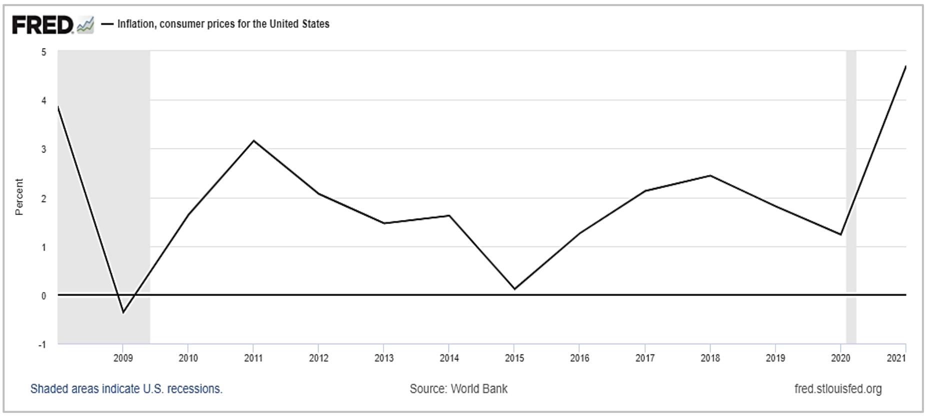

Figure 13: "Inflation, consumer prices for the United States" between 2008-2021, Source: St. Louis Fed Database https://fred.stlouisfed.org/series/FPCPITOTLZGUSA#

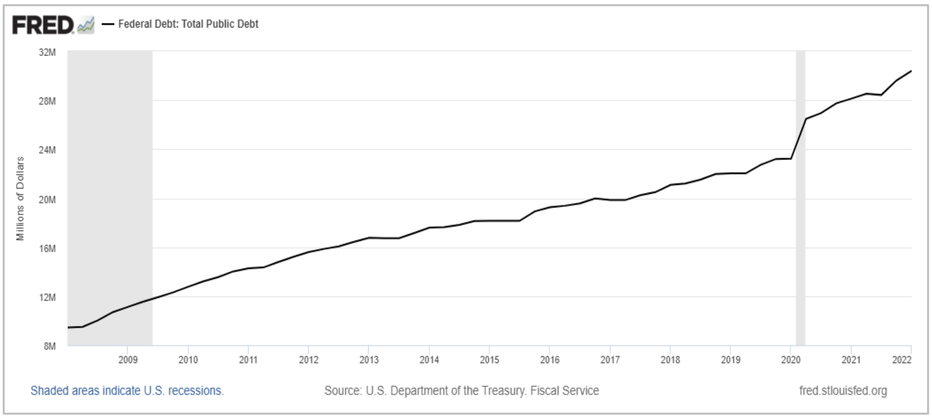

Figure 14: “Federal debt: Total public debt” between 2008-2022, Source: St. Louis Fed Database https://fred.stlouisfed.org/series/GFDEBTN#

The zero lower bound problem had left fiscal policy as the only countercyclical medium after the crisis (Furnam & Summers, 2019). Along with targeted asset purchases, fiscally supported bailouts have blurred the line between "distributive" fiscal policies and "technical" monetary policies (Fernández-Albertos, 2015: 230), which supposedly rested on "political" and "economic" considerations, respectively. Hence, the period underpinned an epistemological transformation in policymaking and central bank independence (Braun, 2016: 1065) that had differentiated fiscal and monetary policies by subordinating the former to the latter through arguments like NAIRU and time-inconsistency.

This "unconventional" policy line "has opened the space for new 'conventions' such those posited by MMT" (Chohan, 2020: 13) as the theory acquired a broad audience (Jayadev & Mason, 2018: 1). MMT is the logical outcome of the epistemological turn despite it being considered by even some post-Keynesians as "overly extreme" (Lavoie, 2013: 5). It argues for a political reconfiguration of the economy (Connors & Mitchell, 2017: 243) piggybacking on the post-2008 fiscal and monetary convergence underpinned by an effort to maintain financial stability (Mabbett & Schelkle, 2019: 437; Rogoff, 2019a: 5; Lavoie, 2013: 12).

Hence, the Neochartalist claim to challenge the "mainstream assumptions root-and-branch" (Connors & Mitchell, 2017: 242) from a "progressive" perspective is rather questionable. First, their understanding of the “social” is rather state-centric. As mentioned before, the distinction between state and markets is a historically constituted phenomenon. Any theory that assumes this distinction as an ontological given is bound to have its claim to be fundamentalist in the sense of challenging “mainstream assumptions” refuted. Therefore, it is not a "cusp of a revolution" (Hutchens, 2020) as its adherents argue. The mainstream makes emphases similar to those of MMT in the context of government debts. There is a growing emphasis that debt might not be against good policy as previously thought (Irwin, 2019a). As Summers (2019) notes, against "traditional fiscal-policy taboos", enacted by the monetarist assumption that to spend, states must tax beforehand (Wray, 1998: 74), Neochartalism might be correct in arguing that they should be "rethought in an era of low real interest rates". Similarly, Rogoff (2019b) considers Neochartalism to have "a grain of truth".

However, the mainstream also tries to set a barrier in front of this gush towards seeing budget deficits as a panacea. In that sense, important figures such as Jerome Powell, Kenneth Rogoff, and Larry Summers, hastily attack what they deem to be "modern monetary nonsense" (Matthews, 2019; Furnam & Summers, 2019; Rogoff, 2019a; 2019b). They fear that overall "gush" (Irwin, 2019a) away from sound principles might lead to "bad" policy outcomes. They claim that Neochartalism is "naïve, simplistic and potentially dangerous" (Hutchens, 2020) and that it might "destabilize the entire global financial system" (Rogoff, 2019b). Nevertheless, it is one of the most elaborate challenges against the economic mainstream (Palley, 2019b), and the democratically unaccountable culture and conduct of neoliberal central banking (Hutchens, 2020; Matthews, 2019). In that sense, the broad coverage it enjoys indicates an underlying reconfiguration of the economic agenda which was against "the conception of the interventionist state in favour of a microeconomic view of the desirability, and a macroeconomic view of the necessity, of subordinating political discretion to the dictates of the market" (Clarke, 1987: 393). As Connors and Mitchell (2017: 243) express, Neochartalist view directly opposes the mainstream economic thought in which nature and people serve an almost deified "economy". Instead, it is said, it favours political discretion as a market-making activity that serves "public well-being" (Connors & Mitchell, 2017: 243). But why the things they prescribe are good for the public are the same of the mainstream macroeconomic goals of full employment and price stability.

Arguing against the monetarist interpretation of the Phillips Curve, Neochartalists consider full employment and price stability as compatible goals while sharing the fears of inflation of the mainstream (Wray, 1998). The dissimilarity is in the means by which inflation is dealt with which is in transposing fiscal and monetary policies (Bell, 2000: 617). Fiscal policy is a tool of price stability by which the state deflates or inflates the money stock (Hutchens, 2020). Therefore, active fiscal policy informed by Neochartalism might not indicate any distributional reconfiguration against existing property relations if utilised as means by which money stock is tinkered with. Indeed, the Neochartalist understanding of fiscal policy is in line with the mainstream preoccupation against utilising taxes as tools of appropriation for redistribution. As Wray notes (Henwood, 2019) taxing rich people for distributional purposes is “a fool’s errand”.

This first section will analyse MMT as an epistemological position with policy reflections (see Wray, 1998: 1. First, it will deal with “sectoral balances” that takes Chartalism to its practical conclusion by saying budget imbalances prevent deflationary pressures. Hence, MMT considers budget imbalances as the natural state of a healthy economic condition. Second, sectoral balances entail an emphasis on “functional finance” according to which the value of the currency is determined by fiscal policy rather than the central bank which conducts monetary policy. In line with the endogenous money argument, that means monetary policy cannot control the money supply which resonates with the post-2008 condition of monetary policy ineffectiveness. Another implication of functional finance is that bond sales are not a way of financing government spending. Instead, they help maintain inflation sucking liquidity out of commission. Therefore, bonds and taxes are “monetary policy” tools rather than fiscal policy. Fourth, a government employment scheme with a “job guarantee” is the best option to simultaneously contain inflation and maintain full employment. The idea is that if the state engages in exogenous pricing of labour, implying that rather than taking a portion of the productive capacity out of operation via disinflationary policy, it can fix the price of labour through a job guarantee and let other prices be set relatively, engendering an effective “labour-standard”.

4.1.1 Sectoral balances

The first important component of Neochartalism is "sectoral balances". It is an extension of the Chartalist understanding that states and taxes drive money and markets. Per Chartalism, to engage in economic activity the private sector requires state money which is "twintopt" (*that which is necessary to pay taxes,* Wray, 1998: 4). Therefore, the total amount of money has to be more than taxes so that private actors have twintopt in hand and markets operate. The amount of money spent by the state to buy goods and services from markets has to be more than the amount of money sucked out of markets in the form of taxes. By implication, deficits are natural and necessary. Addressing the endogenous demand to money alleviates the deflationary pressure and engenders price stability. In different terms, as deficits prevent deflation maintaining a stable supply of money is integral to private sector profitability since public sector deficits amount to private sector surpluses. Indicative of "the accounting relationship between the government and non-government sector" (Chohan, 2020: 7), this natural disequilibrium is analysed under the "sectoral balances" and is the expression of that "fiscal deficits are neither good nor bad and, in accounting terms, equal the nongovernment surplus" (Connors & Mitchell, 2017:248).

Wray argues that in a model that consists of only a government sector and a private sector, "net financial assets held by the private sector are exactly equal to the net financial liabilities issued by the government" (Wray, 2015: 11). Within that model which implies a closed economy, the government is "the only source of net financial assets" (Wray, 2015: 12). This is theoretically consistent. But domestic economies are rarely closed. Hence, states and markets at the domestic level are not the only variables of the approach. Sectoral balances assumes a three-sector macro accounting model in which the foreign sector is also incorporated (Wray, 2015). Foreign sector comprises nondomestic private and government sectors. According to the sectoral balances approach, if one of these three sectors would run a surplus, "at least one of the others must run a deficit" (Wray, 2015: 15). Formal expression of the model is as such:

"Domestic Private Balance + Domestic Government Balance + Foreign Balance = 0" (Wray, 2015: 14)

Deficits and surpluses are parts of the same coin. The liability of one agent is the asset of another. This is a corollary to the Chartalist assumption that all money represents a debt-credit relation (Tcherneva, 2006: 70). For someone to hold a monetary asset (an IOU), another one should be indebted through the sale of goods or services. Therefore, all spending, both private and government, is prior to income (Wray, 2015: 20). This means that states first spend through fiscal means, then levy taxes. The latter is by no means a way of acquiring funds but rather a way of maintaining the supply of high-powered money which settles all debts (Tcherneva, 2006: 78).

States are indebted to themselves by creating money out of thin air to provide the general population with money. "The market demand for currency, therefore, determines the size of the deficit" (Tcherneva, 2006: 78). As observed in the equation above, sectoral positions must offset each other. To further explain this, Wray (2015: 20) uses a tub analogy. Think of money as the water in a tub. The tub is the private sector, and the drain is taxes and bonds, fiscal policy. More government purchases of goods and services means more water in the tub. If the faucet runs too long with the drain plug, one can expect the tub to overflow. This means inflation. On the other hand, when the drain is open, running water should be more than the drainage so that there is still a certain amount of water in the tub. So, no deflationary pressure. The government does not lose anything by flowing more water to the tub, it does not give anything from its own corpus by creating money out of thin air. The only important variable in managing the water flow is doing it according to the preferred level of private sector surplus, the level of water in the tub. Coordination of the drain and faucet is necessary. So, in the two-sector model, private and public, where private surpluses which have not been drained, savings are equal to budget deficits minus taxes plus investments (Wray, 2015: 23). With the foreign sector, net exports should be added. In the three-sector model, private savings equal to government fiscal deficit plus investment plus net exports.

For Neochartalists, crises happen when sectoral balances are poorly managed. Such instances are shown in Figure 15, encompassing a period of US sectoral balances. It shows that fiscal tightening during Clinton administration in the US precipitated the dot.com crash in 2000, creating a deflationary pressure. This forced the administration to stimulate the economy with skyrocketing deficits. The Bush administration took over those deficits, increasing them further. The contradicition in increasing deficits, however, was that even though it alleviated the deflationary pressure, expansionary policies caused too much leveraging in the dollar, making the currency too valuable. Along with government deficits, the high value of the dollar increased the trade deficit in the US (Bernanke, 2015c). Before the 2008 crisis, the US government saw the fragilities precipitated by these conditions and implemented fiscal tightening that drained the savings of the private sector faster than it was supplied with money (Wray, 2015: 25). In critical terms, the private sector had become too dependent on the debt-led form of capital accumulation. This tightening underpinned the crash of 2008 (Wray, 2015: 34-5).

After the crisis, the US fiscal policy was *automatically* reversed as tax revenues plummeted, and deflationary pressure necessitated expansion. Indeed, it is almost a rule that in crises government deficits increase because a significant part of the tax revenue is indexed to individual economic indicators like sales, wealth and income (Wray, 2015: 25-7). This forces the government to create money by indebtment to engage in anti-deflationary policies in an economic condition that its spending cannot be offset with more taxes. In such situations, trying to offset government spending with more austerity would lead to unwanted results in terms of economic performance (Wray, 2015: 26). All this implies that the well-being of a national economy is not indicated by government deficits or surpluses since they are not discretionary or voluntary. Deficits and surpluses are objective conditions which fluctuate along endogenous patterns. Hence, despite their discretionary, thus political, appearance, budgetary preferences imply economic imperatives that endogenously emerge in markets for MMT's sectoral balances. Sectoral balances is the part of MMT epistemology that reproduces the ontological separation between the state and markets by justifying this in Chartalist terms which are claimed to be forcing states to provide liquidity in line with endogenous patterns of capital accumulation. In that sense, while capital seems to be subordinated by the state per Chartalism, the state is actually subordinated to endogenous imperatives that change tax flows, or markets might collapse.

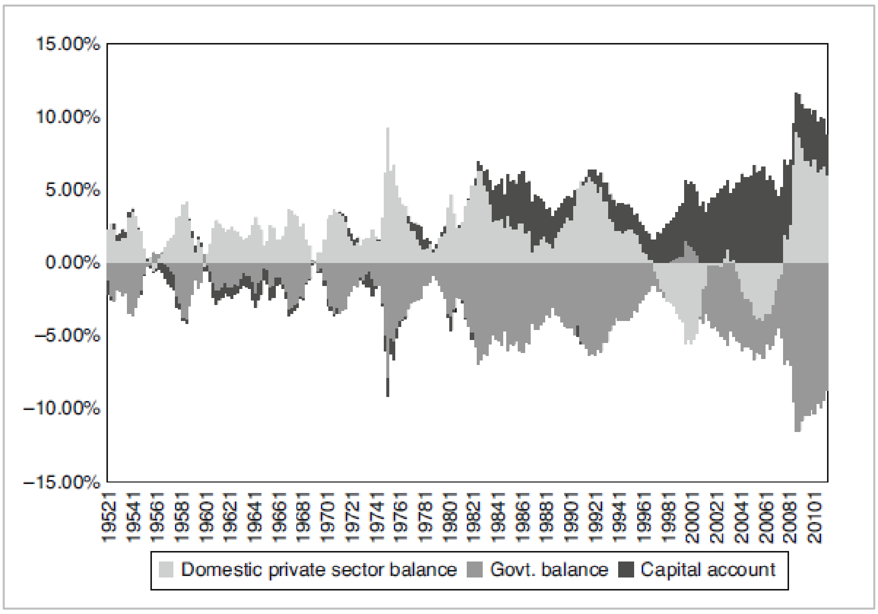

Figure 15: Sector financial balances as a percentage of GDP between 1952 Q1- 2010 Q4, Source: Wray, 2015: 35.

As sectoral balances approach is an accounting insight into crises tendencies, it is proposed not to imply any particular policy concerning the distribution of financial assets. In different terms, it is an "apolitical model of macroeconomic operations" (Connors & Mitchell, 2017: 239). Neochartalists argue that their theory is compatible with a left, conservative, or even a libertarian world view (Henwood, 2019; Hutchens, 2020). This politically-eclectic nature of their epistemological stance helps to explain "the speed with which young activists on both left and right are migrating toward MMT" which "is going to have a profound effect on US politics in the 2020s and 2030s" (cited in Henwood, 2019). Chohan argues that gush in relation to the self-representation of the theory as technical (2020: 15). Indeed, the issue of distribution is not incorporated into the Neochartalist theory. MMT adherents think that questions of redistribution around how to finance welfare policies, which is often said to require revenue offsets, are misleading (Chohan, 2020: 13). They argue that such emphases confuse monetarily sovereign states that print their own currency with monetarily dependent households or private agents.[24] While the latter needs state-money to

[24] At the micro level, household income determines spending. However, at the macro (aggregate) level, "spending determines income" (Wray, 2015: 23). One of the famous examples of that discrepancy is the "paradox of thrift", which indicates that while individuals can increase their wealth by saving, national wealth is a function aggregate national spending (Wray, 2015: 27). Hence the micro level preferences of households are not analogous to macro-level activity. Households need state money to participate in the economic realm, while monetarily sovereign states are not fiscally constrained. They cannot default on their

reproduce itself, the state does not need money to reproduce itself.[25] As such, the popularity which Neochartalism enjoys over the internet is due to the fact that it downgrades political issues around the contradictions of distribution, production and growth to technicalities that surface after the sectoral balances are achieved. However, the very fact that there is a private sector different from the public underlies sectoral balances. So, maintaining the balance between sectors is actually a political preference, not a technical one. Epistemological stance of sectoral balances reproduces the separation between states and markets in policymaking, and this institutionally restructures the confines of social action into maintaining a well-functioning balance between sectors, as if these sectors were natural phenomena.

Briefly put, according to the Neochartalist sectoral balances approach, private sector needs state money created through fiscal means to engage in economic activity. So, "economic growth requires persistent government deficits" (Wray, 1998: 75). This is the "norm" and "do not necessarily cause 'crowding out'" (Wray, 1998: 123). In that sense, deficits are not counter-cyclical measures discretionarily implemented. They are endogenous necessities. This argument is proved whenever a deflationary pressure is precipitated by the US government, or a crisis occurs due to high deficits. In that sense, sectoral balances understanding also refutes the crowding out argument. Wray (1998: 75) suggests that bond market vigilantes or deficit hawks do not discipline states, and that this is a self-imposed constraint rooted in a misunderstanding of government deficits. In that sense, MMT also makes a subjectivist argument that reduces the relations of social power into misconceptions concerning the relationship between states and markets, entrenching its statolatric, not socially-oriented,

debt denominated in the currency which they have the exclusive right to issue due to the "chartal" nature of money. From a dialectic perspective, the paradox also shows the transformation of quantity to quality. As more individuals save, this amounts to a withdrawal of funds.

[25] The argument saying states do not need any money to reproduce themselves seems to have questionable implications. If states do not need any money but just goods and services, they would just require those real economic means to reproduce themselves. States' existence does not explain the need to reproduce themselves through the coercive extraction via taxes from markets. Markets appear to be ontologically redundant as states are said to be self-referenced entities.

epistemological stance that if states are incapable of doing something then it must be because of human error.

4.1.2 Functional finance

Sectoral balances approach has an important policy implication. It naturalises "functional finance" which is notoriously referenced as "deficit financing" (Lerner, 1943: 50). Neochartalism's self-description of itself as an apolitical scientific theory resonates in its conception of functional finance where it claims that it does not stand for or against private property. Functional finance is also said to be politically neutral: "It is applicable to a communist society just as well as to a fascist society or a democratic society" (Lerner, 1943: 50). However, despite this claim to apoliticism, functional finance gives trust to corporations that their profitability will be safeguarded via deficit spending which does not need any revenue offsets such as taxes. So, Neochartalist emphasis on the "functional" part of such policies assumes that deficits serve economic purposes which are characterised by sectoral balances.

Against the sound principles of neoclassical monetarist epistemology that focus on inflation (Forder, 2006: 228), functional finance was developed by Abba Lerner who was a follower of Knapp (Semenova, 2011: 49). Functional finance draws from Chartalism (Tcherneva, 2006: 82) and builds upon Keynesian demand management (Summa, 2022: 29). According to the functional finance argument, when economy does not work at full employment of labour and resources including capital as savings, this creates a deflationary pressure on the economy by ramping up interests. In such instances, the government is able to create the funds to meet the monetary demand left unaddressed due to excess saving (Wray, 1998: 82-3). Therefore, the government is not monetarily constrained, but its monetary capacity is powerful to the extent of real resources (Wray, 1998: 148; Palley, 2019b; Lapavitsas et al., 2020: 308). Understood as such price stability becomes integral to efforts to generate full employment.

According to this argument, accomplishing the dual objective of full employment and price stability means disregarding sound principles which prescribe that state budget should be balanced over a predetermined period along a fiscal rule (Lerner, 1943: 39-40). Instead, the effectiveness of fiscal policy should be measured with whether or not it facilitates real economic results (Lerner, 1943: 39). Budgetary principles are abstract impediments on achieving real economic results. Sound policies and central bank independence should be removed and the treasury should be financed by its national bank since bond issuance is nothing but a drain from the monetary base instead of generating funds to the state. That is the logical conclusion of the Neochartalist argument and sectoral balances approach. The state does not need funding as government assets held by the central bank do not require servicing of those debts by the treasury because the state is a consolidated set of institutions (Lavoie, 2013: 9). So, purchases of bonds via open market operations by the central bank increases private balances (Bell, 2000: 613). These are not dangerous since all it does is funding the market with the money it needs via policies like quantitative easing. The state as a consolidated set of institutions created that money out of thin air.

Functional policy tools include “Keynesian fiscal and monetary policies, by directly changing managing public sector spending or by influencing private sector spending” (Summa, 2022: 8). So, functional finance works beyond the confines of neoclassical understanding concerning fiscal and monetary policies. According to Lerner the “first law” of functional finance says that the government should maintain a spending rate equal to the value of all goods and services produced in its economy (Lerner, 1943: 39-40). Inflation occurs if spending is more than the speed of production. In the condition that speed of production is more than spending a deflationary pressure occurs. So, deflation indicates unutilised capacity. Functional finance expresses that states are external agents that serve endogenous patterns. To achieve the dual goal of price stability and full employment, defined in terms of being able to put to work all those who are willing (Wray, 1998: 14), officials should not have any normative perspective on deficits or surpluses since states are not monetarily constrained. They should also not fear inflation as long as their taxing capacity is intact with which they can drain the money stock (Wray, 1998: 85). Therefore, active fiscal policy becomes a means to serve the needs of the market in contrast to the neoclassical assumption that states are antithetical to markets.

Since a state that issues its own money cannot face any “fiscal” constraint (Jayadev & Mason, 2018: 1), taxing is not a way of creating funds. Instead, it is a way of destroying some of the money stock held by the private sector, which increases demand to a level higher than it could be satisfied with the "natural" level of employment (understood as full utilisation of factors of production). Taxation contains inflation by curbing spending in a portion of the economy. Deficit financing has the opposite effect of taxation. It adds to the money stock, increases spending. In that sense, while rejecting "soundness" in policymaking, proponents of functional finance does not see taxes as a way of redistribution. This squeezes "good" policy between considerations of inflation and deflation. Hence, Neochartalists are interested in to "bury sound finance" and "the neoliberal order" (Ferguson et al. 2019).

The second "law" (Lerner, 1943: 39) relates to reasons why governments issue bonds if their spending is self-referenced. The "law" expresses that the state should "borrow" under conditions in which it is more affirmative for the economy to shrink the monetary base. Conversely, it should retire its outstanding debt when markets need more liquidity because "only through government adding/draining of reserves can a system-wide imbalance be eliminated" (2000: 606).

The logic of bond maturity helps understand this argument. Bonds generate income to its holders over a period. That income is called a "yield". Before the time to service a part of the debt owed by the state to the holder of the bond -maturing of coupons, no new money is created. So, theoretically no new deposits could be generated off these assets. In that sense, bonds help maintain a level of savings and an interest rate in accordance with the predetermined macroeconomic objectives (Bell, 2000: 613-4). So, bonds do not "crowd out" the funds market, or threaten "deficit hawks" and "bond vigilantes". By tinkering with funds and credits that could be generated out of these savings (Chohan, 2020: 8) bonds help engineer a desired rate of interest (Wray, 1998: 87). Bonds and government spending in general should be considered as monetary policy operations instead of fiscal (Wray, 1998: 86; Kelton, 2000: 408) as they maintain the monetary base (Bell, 200: 616). Tymoigne (2020: 53) exemplifies this with two historical instances. First, during the 2008 crisis, the US Treasury engaged in operations to drain reserves to maintain the Fed funds rate at the level desired. Second, despite giving budget surpluses, the US Treasury issued bonds to increase the interest on its borrowing after the Second World War. So, the logic of functional finance is said to be well-established historically.

Moreover, Neochartalists think that interest rates are not necessarily effective in stimulating investment (Chohan, 2020: 7-8). Profitability determines investment decisions, not cheap money. The post-2008 stagnation in which corporations engaged in stock buy-backs rather than investment is a proof of this (Grenville, 2020). Neochartalists argue for zero (or effectively equal to zero) interest rates (Henwood, 2019; Ferguson et al., 2019; Jayadev & Mason, 2018: 8). Implementing rates same as inflation and sometimes below stimulates productive activity, whereas real positive rates channel savings to banks, making them unutilised capacity. Because this is also taken to mean “euthanising the rentier” financial capital, some Neochartalists (see Ferguson et al. 2019) claim it to be a form of class struggle. In that sense, Neochartalists argue for the redundancy of central bank independence against the mainstream on “technical” grounds to avoid being excluded from the debate as being labelled radicals. However, they also seem to be employing Marxist notions against criticisms from the left.

As noted, fiscal operations such as are considered monetary by Neochartalists (Jayadev & Mason, 2018: 7). This entrenches the integration of fiscal and monetary functions. The active utilisation of fiscal means necessitates constant maintenance of central bank reserves that consist of bank deposits and treasury accounts. The disruptive effect of these operations requires cooperation between the treasury and the central bank (Bell, 2000: 611). As an institution that provides clearing services, central banks transfer and write off assets and liabilities from one account to another. This drains private reserve accounts which could be a problem if done beyond a certain level due to required reserve ratios. If the bank that owns the drained account cannot fulfil its lending function through which it meets endogenous demand that underpins real sector activity, this might put upward pressure on interest rates. As such, the primary function of the central bank becomes financial stability maintained by purchasing public and private assets through open market operations instead of engaging in sound monetary policy to control the monetary base. Indeed, MMT thinks that the supplied money through central banking "is small relative to government spending and taxing and is taken as a defensive action to add/drain reserves on a short term basis" (Wray, 1998: 81). So, the actual role of monetary policy becomes "debt stability" (Jayadev & Mason, 2018). Fed chairman Alan Greenspan once said that "monetary authorities can issue unlimited claims denominated in their own currencies" (cited in Hutchens, 2020). There is nothing that would practically impede a government from financing its spending directly through the printing press of the central bank, having it purchase bonds from the government which is a prescription that "was discouraged and later forbidden" under neoliberalism (Tymoigne, 2020: 55). This means bond issuance denominated in the sovereign currency is not destabilising (Wray, 1998: 88).

The emphasis on the “denomination in their own currency” is crucial. In cases which the state borrows in a foreign currency, macroeconomic policy sovereignty becomes subordinated to the whims of foreign creditors. For Neochartalists, borrowing on a foreign currency can only be a consequence of the "desire" to borrow from foreign sources. It is a bad policy choice the consequences of which could be easily averted by preferring goods and services denominated in the sovereign currency (Wray, 1998: 88). One Neochartalist notes that "any nation can sustain domestic full employment without imports of capital goods" often denominated in currencies like the euro and US dollar (cited in Henwood, 2019). This shows a similar point made in the context of the criticism provided above concerning sectoral balances. MMT fails to see that not everything the state does is voluntary. Policy paths taken by governments are determined by power imbalances concerning trade, capital flows, and implicit or explicit coercion which are structured on different geographical scales. In that sense, developing countries are vulnerable to the movements of world money which are used as reserves for international payments. World money flows discipline states. The freedom to purchase goods and services with the sovereign currency is far from the norm. It is a privilege held by a small number of states. That social configuration of monetary capacity is overlooked by the MMT due to its statolatric epistemological position built on the separation of the state from markets and society.

In summary, on functional finance, two emphases could be made. First, functional finance prescribes that states should actively manage markets via what is traditionally known as fiscal policy. But since fiscal policy is actually monetary policy, the role of state in managing markets becomes managing the supply of money. So, functional finance does not redistribute, but channels the stock of money for predetermined ends. These predetermined ends are what neoclassical scholars think markets can achieve if left alone such as price stability and full employment. Hence, budgetary variables should not be dealt with from a normative perspective, but whether or not these functional policies achieve those goals. Second, functional finance can be criticises due to its neglect of overlooks the fact that monetary relations are constituted on a global level which leads its adherents to think that states are impervious to power relations contained in the rule of money.

4.1.3 Job Guarantee

Despite its arguable rejection of the Keynesian interpretation of the Phillips Curve, monetarist policies and their implementation, informed by the understanding of an abstract "natural rate", have shown that disinflation was achieved in exchange of reduced demand. For a long time, central banks engaged in sound policies that generated price stability in exchange for unemployment (Wray, 1998: 122). Until the crisis of 2008 governments postponed the disciplinary effects of a credit-based accumulation pattern by more liquidity. So, focusing on employment and generation of demand was secondary to macroeconomic success. This created a speculative economic structure which was characterised by stagnating investment and unemployment. Expansion of credits and debt were not seen as problems as far as liabilities were serviced. However, after the financial catastrophe precipitated by wide-spread defaults, debates on how to generate real sector investment and employment intensified.

In the context of that debate, Neochartalists have argued that price stability and full employment were compatible goals (Wray, 1998: 123). Similar to monetarists, they have claimed that inflation was an outcome of increased demand created by a discrepancy between real resources and the stock of money. Full employment and price stability were complementary if existing level of wages fall to a sufficient level to generate new jobs. To substantiate the argument of compatibility in terms of practical policies, job guarantee proposal was developed as the "policy component" of MMT (Palley, 2019b) Similar to the gold standard (Wray, 1998: 136), the job guarantee argues that the state should set the price of labour exogenously and function as an "employer of last resort" (ELR) (Wray, 1998: 124). Because labour is the most essential input to production, it is the best factor of production to be used by a "buffer-stock programme" by which states put downward pressure on the general level of prices. If the general level of prices increases, the state would decrease the wage of the labour it pays to increase competition to stay in higher-paid private sector jobs. The job guarantee operates in a similar fashion to other wholesale buffer purchases like grains or petroleum. In that sense, despite its pro-labour appearance, this argument could also be taken as a measure to keep average wages at a level favourable to profitable capital accumulation via state power.

It is claimed that ELR policy aims to create an "infinitely elastic demand for labour" immune to private sector profitability expectations (Wray, 1998: 126). This means demand to labour stays the same no matter the wage it has been offered, which ensures full employment of productive capacity. This can only be established by the government providing jobs at the living wage to those who want to work. Political implication of the job guarantee is that as the reserve army of labour diminishes into a buffer stock, labourers' bargaining powers are allegedly elevated. Acknowledging the destabilising effects of ELR, Neochartalists express that private sector can hire from the buffer stock at a lower wage than the experienced worker which they employ. That ability offsets the acquired political power of labour by dividing it into two segments: those working for the private sector would strive to keep their higher-paying jobs so that they do not find themselves at low paying government jobs while the government workers try to replace private sector workers with high paying jobs. This ensures that job guarantee does not generate a wage-price spiral as private sector keeps its labour costs down with the scheme. Furthermore, the replacement of a job guarantee scheme with the currently employed social programmes which target underprivileged groups and the unemployed might offset the initial inflationary pressure of employing all who wants to be employed since social programmes will be cut off (Wray, 1998: 133).

Neochartalists indicate that despite the unconventional appearance of this proposal, governments almost always stabilise prices by exogenous pricing of one commodity. Minimum wages are an example. Before, the gold standard was used for price stability. During the Keynesian period, different currencies were exchanged with reference to their value in US dollars which was fixed by the amount of gold the US held. In the neoliberal era, the price of money, i.e., the interest rate, is exogenously set by central banks. So, economies are almost always relied on exogenous pricing of a commodity which other prices are set relatively. Neochartalism offers a similar mechanism to stabilise the general level of prices with which individuals can "cash in" their labour capacity. Practically, this implies a convertibility rule of labour which is thought to be a commodity similar to gold or the US dollar. It is the perfect peg due to its role for real economic processes which are the locomotive of sustainable growth and development. The exogenously set living wage is a benchmark for the general level of prices, because it pegs monetary emission to the price of labour paid off by the government through fiscal operations (Wray, 1998: 11). Increases or decreases in the state-set price of labour could devaluate or revaluate the currency. During deflationary periods state could increase the living wage of public jobs, forcing prices upwards via demand-pulled inflation, while during inflations it could reduce the pay, induce a deflation that force prices down. Therefore, reflecting the exogeneity-endogeneity debate previously elaborated on, the state-set price of labour and the value of money are determined by endogenous production patterns that precipitate a particular policy which is integral for good economic management (Wray, 1998: 139).

These imply that the job guarantee is a full employment structure that prioritises macroeconomic stability despite its pro-labour appearance. Job guarantee is not an indispensable part of MMT. Labour could easily be replaced with another commodity. Moreover, the public sector is understood to be an alternative to the private sector. The government employment offers only a minimum wage, and equivalent private sector jobs would always pay more. Government jobs are a way up the ladders to high-paid private sector jobs as labourers are trained without a cost to the private sector when and if they want to replace their high-earning and perhaps older labourers with those that have the same skill set at a younger age for less wages. So, job guarantee trains labourers and disciplines them under the rule of money underpinning capital accumulation. The state ensures profitability in which the job guarantee smooths out business cycles and periods of price instability instead of democratising the work regime (Wray, 1998: 138). The capitalist can always let go any worker it wants and would still find another one equally trained and that would accept a lesser payment. As such, it engenders optimal balance between flexibility in labour markets and full employment. So, it is said to be quite dissimilar to tight labour markets of Keynesianism (Wray, 1998: 134). These have led Henwood (2019) to note that it is as if Neochartalists “want to shield the private sector from JG [job guarantee] competition”.

4.1.4 Monetary Sovereignty

The ability to print and manage the emission of a currency is considered a quality of states. Indeed, “new nations acquire a flag, write a national anthem, and constitute a central bank” (Maxfield, 1998: 3). Neochartalist concept of monetary sovereignty which is the “core” (Henwood, 2019) of the theory underlines the importance of that ability. Monetary sovereignty is defined as “the ability to define the unit of account and make it the means of settling state transactions and obligations” (Lapavitsas et al., 2020: 304). It is said to be “the condition in which expenditures by government issuing its own currency are not limited by a budget constraint” (Kregel, 2020: 288). As such, it implies the sovereignty over the consequences of macroeconomic policy made along domestic endogenous patterns through the issuance of state money. Because the state money is the ultimate means of settlement that sits on top of the “hierarchy of money” (Bell, 2001: 149), states are said to be in control of all monetary affairs occurring in the currency they print. Chartalism, sectoral balances, functional finance, and the Neochartalist argument in general (see Tymoigne, 2020) are brought together by the concept of monetary sovereignty which implies that different currencies are not equal (Bell, 2001: 160; Braun, 2016: 1073). Without monetary sovereignty states cannot engineer the sectoral balances they desire. So, it is integral to good governance of monetary affairs. “It allows the fiscal balance to be whatever non-federal sectors desire and usually they desire to be in surplus, so the federal government must be in deficit” (Tymoigne, 2020: 61). Without fiscal imbalance provided by monetary sovereignty, private sector cannot be in surplus.

Two dimensions of monetary sovereignty can be discerned. First, implied by the Chartalist argument that underlines states’ capacity to determine the unit of account and ensure its private usage, there is a spatially vertical hierarchy on which the state money sits at the top. As noted earlier, different monies have different powers in settling debts. This differentiation of settling powers, their liquidity distinguishes different forms of the base money. For example, Braun (2016: 1074) emphasises the difference between “inside” and “outside” monies. Outside monies, or M1 in monetarist terms, consists of money spendable without institutional intermediation like cash in circulation, which is M0, plus checking accounts. Inside monies, or M2, consists of M1 plus long-term deposits. M0 is high-powered money, the most liquid form. Less liquid forms are “inside” the vaults, thus require clearing services to exhaust a liability. Hence, different forms of money have different powers in exhausting a liability. Less powered monies have to be validated by third parties and state institutions. The ability to control this vertical chain of liquidity by printing high-powered money subordinates all transactions to the flow of state money, making the state the ultimate determinant of economic affairs.

Neochartalists are occupied this vertical chain of liabilities from households to firms, then banks and ultimately states (Bell, 2001:159). This “pyramid of liabilities” (Wray, 1998: 34) is a hierarchy of obligations ultimately settled at the central bank accounts since “…the public uses bank deposits as money, banks use Federal Reserve deposits as money” (cited in Wray, 1998: 35). State money sits on top of this pyramid because it is issued by “the only agent that does not have to settle its obligations by delivering someone else’s promises to pay (IOU)” (Lapavitsas, 2020:302). By implication different state institutions work in tandem as a consolidated structure (Tymoigne, 2020: 51; Bell, 2001: 149).

The second dimension of monetary sovereignty, which is noted by numerous authors, have been somewhat overlooked by Neochartalists. The spatially horizontal aspect underlines the hierarchic relations between different state monies underpinned by relations of power. Indeed, states are rarely in control of the monetary affairs that occur under their sovereignty since debt and trade flows are never only domestic matters. Import and foreign investment dependency denominated in a foreign currency managed by either borrowing or exporting affects the level of monetary sovereignty (Henwood, 2019). Foreign currencies might be preferred in payments instead of the national state money, hampering the states’ ability to maintain monetary relations under their auspices. As such, those foreign currencies could be more liquid as they function as world money due to their relative strength in performing monetary functions such as means of payment, unit of account, and store of value (Alami et al. 2022: 8).

In that sense, Lapavitsas et al. (2020: 313) appears to be correct in that the “Neo-Chartalist theory is distinctly troubled by the passage from the national to the international realm". Indeed, a prominent Neochartalist (Bell, 2001: 150) who tries to elaborate on the "theoretical foundation for an understanding of the 'hierarchy'" of different monies does not make any reference to the interpolity dimension. Neochartalists are said to be neglecting the problems of open economies; it is as if they think all countries have the monetary powers of the US (Prates, 2020: 503). Summers (2019) argues that Neochartalism assumes a closed economy in which exchange rate problems that could arise from excessive emission are not considered. Similarly, Palley (2019b) shows that Neochartalism generalises the "exorbitant privilege & US centric thinking" to its entire theoretical elaboration. Chohan (2020: 15) underlines that Neochartalism is a theory of the "empire". Neochartalists relegate the theoretical implications of global configuration of monetary hierarchy and see either the existence or non-existence of monetary sovereignty reducing the matter to a practicality (Bonizzi, 2019: 51). As Alami et al. (2022: 8) express, literature on "currency hierarchy" starts from "money issuing and governing authorities of nation states".

Hence, Neochartalist analyses concerning the horizontal component are "scant" (Bonizzi et al., 2019: 47). Neochartalists too would agree "that their most controversial propositions only apply to countries with a sovereign currency (Lavoie, 2013: 4; Jayadev & Mason, 2018: 5), and that they have "little helpful to say" about low monetarily sovereign countries (Henwood, 2019). Due to this inability to find a compromise between Chartalist theory and the global constitution of economic relations, some Neochartalists ponder on the issue further. These Neochartalists distinguish between monetarily sovereign and non-sovereign countries (Tymoigne, 2020: 49). Monetarily sovereign countries print and borrow in their own currencies while they can borrow as much as the real capacity in their sovereign realm allows. However, monetarily non-sovereign countries rely on other currencies, their borrowing conditions are affected by international flows of money. So, developing countries' budgets are constrained by the world money even if they print their own sovereign money. Neochartalists interested in developing countries give hints on the path of technical measures to be taken for increasing monetary sovereignty, including state-sponsored employment, low domestic interest rates, and development banking (Bonizzi et al., 2019: 47). However, these are policy suggestions, not "substantial contributions” to the theoretical implications of horizontal hierarch (Bonizzi et al. 2019: 57). For Neochartalists horizontal dimension of monetary sovereignty appears to be a “technical” (Alami et al. 2022: 14) matter to be obtained by a change of policy preferences, as if “borrowing abroad is just a bad choice and not something forced on subordinate economies” (Henwood, 2019; Bonizzi et al., 2019: 51).

How, then, could this theoretical inadequacy be overcome this theoretical inadequacy? For Lapavitsas et al. (2020: 313), the fact that "countries with their own currencies can always have their central bank buy government debt or print money to repay it; countries without them can't" (Furnam & Summers, 2019) is a consequence of global asymmetries of capitalism. Global dimension of monetary affairs "reflecting a hierarchy among capitalist currencies and states" (Lapavitsas et al. 2020:311) is an involuntary force of discipline by the rule of money. Dependency on foreign money subordinates developing states through foreign-currency denominated debt and forces them to lure short-term investments from abroad.

For Bonizzi et al. (2019: 49) the Neochartalist conception of monetary sovereignty has three aspects. The first concerns the vertical dimension: where monetary sovereignty is the initiative over macroeconomic policymaking. Although private monies too exist, state money is the ultimate means of debt settlement issued and destroyed at political will. State money is also socially accepted due to being used as means to settle taxes. Theoretically, monetarily sovereign states can purchase everything priced in the national currency as they are monopolist issuers of currency. Hence, they do not face monetary constraints to implement good policy.

The second is floating and non-convertible currency. Neochartalists favour flexible exchange rates (Vernengo & Caldentey, 2020: 332). Flexible rates ensure the availability of a currency in the national one through the market equilibration of their relative values. If currencies do not float, they must be pegged and that would impede states’ capacity to engineer macroeconomic conditions through maintaining liquidity flows. Convertibility of currency means states theoretically can acquire different monies in their currencies without a regard to the exchange rate (Tymoigne, 2020: 50). So, flexible rates are said to be increasing monetary sovereignty. Despite the consistency of this argument, it overlooks the fact that issuing too much of the national currency to buy foreign currency might depreciate that currency relative to the world money. Developing states require foreign currencies to make necessary imports. These foreign currencies can only be obtained by exports or portfolio investments, a path imposed by capital account and trade liberalisations along with floating exchange rates, not by printing money as this would impede trust in that currency, plummeting its demand. Furthermore, financial and trade liberalisations, rather than increasing the macroeconomic policy room for developing countries, they have imposed a strict discipline of money on political discretion and subordinated states and societies to the allegedly rational market allocation of savings on a global scale (Painceira, 2012: 187). Consequently, under the weakened monetary sovereignty, developing states had to take short-term speculative investors' demands and import-export relations into account (Prates, 2020: 505).

Import-export relations might hinder monetary sovereignty. They correspond to the third aspect of monetary sovereignty underlined by Bonizzi et at. (2019: 49). Import-export operations could entail foreign-denominated debt. Imports are usually made with world money. So, sovereign currencies are rarely used in international transactions that underpin import-export relations. Dependency on imports could infringe monetary sovereignty. Exports on the other hand might help obtain world money for imports. Imports could create a path-dependency on foreign currencies in a way that infringes monetary sovereignty. Indeed, countries cannot default on their debt, denominated in the sovereign currency. But, defaulting on obligations denominated in foreign currencies is a threatening possibility (Tymoigne, 2020: 62; Vernengo & Caldentey, 2020: 344). Such cases of default like those experienced in the Eurozone after 2008 jeopardise macroeconomic policy autonomy.

Against such impediments to monetary sovereignty, Bonizzi et al. (2019: 54-5) discern three strategies to acquire foreign currencies without borrowing. The first is following a neo-mercantilist export-led growth strategy with a devaluated national currency. However, currency depreciation could result in cost-driven inflation and balance of payments problems (Vernengo & Caldentey: 2020: 337). It might undermine the availability of imported intermediate and consumption goods creating political problems of social and capitalist reproduction. For a strategy of export-led mode of acquiring foreign currency to be successful, the trade balance must give constant surpluses to keep foreign-denominated debt under control and to prevent an intervention of austerity by third parties that would impede macroeconomic policy capacity (Vernengo & Caldentey, 2020: 344). In that context, hegemonic factors underpinning trade and funds also become critical for engaging in functional finance practices.

A second strategy is through short-term capital flows. Short-term capital inflows help central banks hoard world money which help stabilise balance of payments, a necessity to engage in functional finance. Hoarding reserves might increase horizontal sovereignty by helping maintain necessary imports and roll-over foreign denominated debt (Painceira, 2012: 212; Tymoigne, 2020: 51). However, short-term flows are by no means a definitive solution to the lack of monetary sovereignty. Moreover, short-term portfolio flows mean more foreign denominated debt that puts upward pressure on interest rates due to competition in luring funds. Determination of the value of monet in accordance with flows of foreign funds is antithetical to monetary sovereignty. Higher interest rates have redistributive impacts favouring financial sector. Hence, higher interest rates might cripple real sector profitability by making it harder for real sector agents to borrow.

Such a case was observed after the dot.com crash. During the 2000s, the US dollar depreciated against developing country currencies (Painceira, 2012: 200). Funds flew to developing countries that offered relatively high interest rates. These countries accumulated foreign exchange reserves, thus acquired a fiscal policy room (Vernengo & Caldentey: 2020: 343; Painceira, 2012: 186). However, capital inflows were also an inflationary force that needed "sterilisation" through fiscal policy. The state borrowed to drain a part of the liquidity, not to finance its spendings (Painceira, 2012: 207).[26] The borrowed foreign currencies, mostly in US dollars were deposited in central bank accounts of the treasuries. These reserves helped developing countries offset the effects of a sudden outflow of short-term capital, and entrench the high value of their currencies that led to an import-led growth regime and diminished productive capacity. Indeed, developing countries for the most part did not face balance of payments problems until 2013 in which monetary tightening was signalled

[26] Sterilisation deals with inflationary effects of capital inflows through borrowing, endowing fiscal policy with price stability functions. Hence, the logic of sterilisation somewhat resembles to the Neochartalist transposition of fiscal and monetary policies.

by the Fed. Macroeconomic policy room is undoubtedly constrained by fragilities of capital inflow dependence and reserve maintenance issues (Vernengo & Caldentey, 2020: 344). This growth regime hindered real economic capacity and came to characterise what came to be referred to as "premature deindustrialisation". So, higher inflows were ultimately detrimental to monetary sovereignty.

The third noted strategy is promotion of domestic assets denominated in the local currency through selective credits. The assets underpinned by these credits should afterwards be securitised and sold in asset markets for a different denomination to acquire foreign currencies. This path would not only curb dependency on borrowing abroad by changing the denomination of credits but also generate foreign exchange reserves to be used as payment for crucial imports and debt-servicing. Overall, increasing monetary sovereignty.

Indeed, this somewhat financialised form of import-substitution appears to be the most sustainable option. However, the global rule of money puts three barriers to this strategy (Bonizzi et al. 2019: 55-7). First, domestic banking systems in developing countries are often not bulky enough to offer returns that would offset the opportunity costs of the investments made in their respective currency or assets. In examples that offer these returns, national politics often render the domestic currency too volatile to be trusted entirely. Second, and relating to the latter assertion, international financial agents might not be willing to exchange trusted currencies like the dollar for developing country currencies that might tank at any moment. This is where Neochartalists consider floating rates to increase monetary sovereignty because at any rate, at least theoretically, the state could print the money to "purchase" the foreign currency. However, as Bonizzi et al. note, this might be significantly costly when faced with speculation or when investors want to "exchange domestic currency for US dollars" (which suddenly depreciates the currency) against the backdrop of a national programme to increase monetary sovereignty by transforming the whole productive structure towards self-sufficiency, as Neochartalists prescribe. Third, depreciation of the national currency might lead to the dollarisation of the economy. These possible impediments could render functional finance impossible if a complete takeover of the economy via political means such as capital controls and regulations are not considered. However, Neochartalists would not be on board with such developments.

In consideration of such assessments, it becomes obvious that the Neochartalist emphasis on the state in monetary sovereignty is missing as it does overlook the global constitution of the rule of money that subordinates macroeconomic policy room to be used for functional finance to international capital flows. Horizontal dimension of monetary sovereignty is ontologically integral to the vertical sovereignty and not as an afterthought. Global power relations underpinning domestic monetary sovereignty are technicalities that could be dealt with by a discretionary change over policy preferences. States are rarely in control of the pathway on which they engage in macroeconomic policy.

4.2 Conclusion

In this short chapter, MMT and its policy position have been examined. The liquidity crash of 2008 has caused a general epistemological discomfort in terms of how the economy and policy are understood in a way that generates a greater interest in heretic theories which become not much heretical in the context of policymaking as the post-2008 environment has precipitated responses somewhat similar to what MMT advocates. So, MMT has garnered greater attention from across the political spectrum (Jayadev & Mason, 2018). Sectoral balances approach, one of the basic tenets of the MMT, means government debt is a natural phenomenon if private sector is to be in surplus, i.e., making profits. Functional finance implies that if macroeconomic conditions are unsatisfying, the state should not be afraid to engage in fiscal expansion to create desired economic conditions. The only impediment to functional finance is inflation, which is understood as the boundaries of the real economy. The job guarantee is the proposed method of MMT to achieve full employment and price stability through the implementation of functional finance policies in a way that engender an effective labour-standard of money. This means the state would set the price of labour and increase it in a deflation, decrease it in inflation to generate price stability, and all those who want to work would be employed. Monetary sovereignty implies the capacity to be able to print and borrow in the sovereign currency which is the ability of states for "some four thousand years" (Keynes, cited in Bell, 2001: 156). However, MMT’s understanding of monetary sovereignty is crippled as it underlines the vertical hierarchy between monies, and does not account for global monetary relations manifest in the world money.

So, MMT deems the state to be omnipotent in solving the problems of capitalism. Monetary policy is considered inferior to fiscal policy in terms of its power to achieve macroeconomic results in the context of secular stagnation. This is the primary difference between MMT and the Neoclassical Metallism-Monetarism: the natural rate for MMT is zero since monetary demand is endogenously determined, and as long as there is unutilised capacity, there is room for fiscal expansion. If the state has monetary sovereignty, it is macroeconomically omnipotent. So, MMT is in line with the "idea that the worst ills of capitalism can be remedied by tinkering with money, credit, and government debt" (Ivanova, 2020: 147). However, this is never the case since capital accumulation is a process with many contradictions in capital-labour, capital-in-general versus particular capitals, domestic-international capital relations which underpin the generation of spontaneous crises.

CHAPTER 5

THE POLICY DEBATE AROUND NEOCHARTALISM

This chapter examines the policy debate surrounding the MMT. MMT is seen by many as a fringe movement. This hampers its adherents' ability to penetrate wider academic debates. As noted by Wray, MMT disseminates through the blogosphere which has helped the MMT gain audience after the crisis of 2008 in an environment where it has been hard to publish unpopular opinions in academic journals (Matthews, 2012). This is why the chapter is built on online sources mainly instead of peer-reviewed articles. This extensive survey is perhaps the most important contribution of this thesis to the literature since even though there are many articles on MMT, perhaps none examines it to the extent that this chapter does. Furthermore, since this chapter not only collects "who said what and where" about MMT, but also analyses claims made about the MMT, that is arguably another contribution.

The convergence of opinion among policymakers and representatives of capital groups that the state should spend more (even though some still continue to fear inflation), and secular stagnation along with the ways to curb it have provided a fertile ground for Neochartalism to gain popularity as a theory that advocates deficit spending to the level of inflation to jumpstart investments, growth and employment. "MMT's ideas have insinuated themselves deep into government, central banking and even Wall Street" (Mackintosh, 2021). This chapter will examine hence the views of policymakers and scholars including Nobel laureates by categorising them into three. The first one covers those who somewhat agree with Neochartalism. Second one agrees with Neochartalism to the level that its prescriptions are considered as accepted responses to crises. These two detect deflation as a threatening possibility. However, third one still fears inflation and crowding out. This third group directly opposes Neochartalism on grounds that deficits matter and it is a recipe for inflation. So, the fault-line of inflation-deflation overlaps with the distinction between Chartalism and Neoclassical Metallism-Monetarism, state-centric and market-centric theories, respectively. This debate also shows the extent of eclectic articulation between state-centric and market-centric arguments in the context of policymaking, when deflation and inflation underpinned by secular stagnation are concerned.

Informed with Chartalism, the MMT sees inflation generated by fiscal means as a tool to achieve predefined policy objectives such as growth and employment, and that the value of the currency can be politically maintained. This appears to be the heretical feature of Neochartalism for the neoclassical perspective which understands inflation as a form of artificial interruption that infringes markets. Another fault line is the role of fiscal and monetary apparatuses in achieving the imperatives of these concerns. While adherents to MMT consider monetary policy mostly inefficient due to the zero lower bound, mainstream scholars such as Paul Krugman tend to see monetary policy efficient if saved from the zero lower bound. Whereas MMT sees fiscal policy a means to maintain the monetary base, the mainstream sees taxation as a revenue offset.

A great part of MMT's claimed heresy can be defined as changing the tools to reach established goals. Thus, the goals themselves are maintained while strategies to achieve them are revised. Moreover, MMT does not offer an economic redistribution despite its emphasis on more taxes. All these indicate a somewhat convergence with some of those who rely on the market-centric theory of money. On this ground, the chapter then aims to provide a glimpse into the question of whether the MMT as a whole, or some of its parts, could be incorporated into the established understanding of economy and policy. Although the chapter does not provide an exhausting answer to that issue, questioning of this will imply that the MMT is heretical only in the first instance. Delving deeper into the theory with a critical perspective shows the MMT's correspondence with the mainstream, which in due process has become more preoccupied with employment and growth similar to MMT due to the practical problems which enhanced capital accumulation has faced after 2008.

There are always material factors that underpin epistemological shifts in policymaking. Bahçe (2020) argues that neoclassical mainstream economics has been unable to explain the secular stagnation trend after 2008. The COVID-19 pandemic further exposed that inadequacy. In that context, notes Dmitrieva (2021), Neochartalism "gained influence as interest rates remained low globally in the past decade and as governments ramped up spending during the 2008 financial crisis and Covid19 recessions".

This chapter examines the public debate around MMT, and categorises the responses of the public audience in terms of their macroeconomic emphases. It aims to provoke considerations on whether or not MMT can replace the "long-dead market-centricism"[27] as its state-centric epistemology is greatly in line with the apparent zeitgeist. To this end, it deconstructs the perception MMT has acquired in the mainstream circles as something similar to "fad diets, quack cancer cures or creationist theories".[28] It is clear that the mainstream does not want to address MMT-folk directly as that would give them legitimacy. In that sense, this preference is political inasmuch as it is scientific. Other emphases in the chapter will include the prominent figures and their arguments in the debate, the universities and other academic networks through which the MMT has become so popular, and the question of which parts of MMT have raised greater interest. Overall, the chapter will analyse state-centric and market-centric approaches to money which legitimate their positions with criticisms they extend to one another and to the prevailing modes of policymaking in the current capitalist conjuncture.

As argued by Lapavitsas and Aguila (2021), the MMT provides important insights, attracting political attention and support with the allure of the claim that deficits and inflation should not be feared more than deflation and unemployment. On the other side, Lockert (2022) argues that this Neochartalist argument raises two criticisms from a distinct monetarist position: first, high *inflation* underpinned by expansionary economic policies might precipitate an uncontrollable wave of hyperinflation. Second, increased *deficits* could crowd out investment, and create an upward pressure in the average level of interest rates. Those who support MMT are primarily concerned with real economic variables such as full employment and investment

27 Güngen, Ali R. (2022). "Trussonomics'ten Erdoganomics'e kriz yönetimi hamleleri". *Gazete Duvar*. https://www.gazeteduvar.com.tr/trussonomicsten-erdoganomicse-kriz-yonetimi-hamleleri-makale-1582946 (last accessed on 26.10.2022)

28 A phrase which Summers had used in a flood tweeted against a NYT report on MMT. See, https://twitter.com/lhsummers/status/1490424193611141121 (last accessed on 26. 10.2022)

while those who criticise MMT from a critical perspective claim that MMT would fall short of its goals due to their acceptance of capitalist relations of production as given. These critics focus on the negation of taxes for redistributive ends as the reassignment of the monetary policy function to fiscal tools makes it impossible to restructure the historical configuration between states and markets in a profound manner, let alone eliminating it.

5.1 Financial Sector and MMT

As Yablon (2020) argues, the left is mostly associated with the idea that the interests of the financial sector are not in conformity with those of working masses. Financial sector could lend money to whoever pays the highest interest rates. They could care less whether this would crowd out funds to be lent out to private sector firms that would create growth and employment. So, it is also clear that states try to maintain an optimal budget balance by borrowing moderately. Indeed, as Ray Dalio of Bridgewater Associates, one of the largest hedge funds, notes, policymakers have paid "much attention to budgets relative to returns on investments" (Cohen, 2019). The trend of secular stagnation has raised questions about the validity of these assessments, as borrowing less did not create growth, but further created speculative behaviour. Richard Koo of Nomura Research Institute reiterates this point. He says that low return expectations create excess savings, and this forces states to offset the investment by deficit spending (Cohen, 2019). Thomas Costerg of the Standard Chartered Bank in New York makes a similar emphasis in relation to the post-2008 condition that "the focus is now shifting to fiscal policy" (Jamrisko, 2016). Former NASDAQ CEO states that the COVID-19 pandemic put MMT at the centre of policy debates in the US (Greifeld, 2020). With multiplying deficits and the social pressure to continue to deficit spend, "it seems obvious that we will all be MMT'ers for quite a while" (Greifeld, 2020). The fault-line between financiers in support of MMT who fear deflation and those who oppose it due to inflation fears appears to be on the effects of more government spending on investment decisions.

5.1.1 Financiers in support of MMT

Effective use of fiscal policy has led some to consider whether the US government is implementing MMT-informed policies (Boesler & Dmitrieva & Holland, 2021). This impression has raised interest on economic heterodoxy among the financial sector agents as well. "A small but growing number of finance professionals have begun talking like leftists" (Yablon, 2020). Even though most financial agents do not support MMT particularly, and seem to be somewhat contempt with higher government spendings (McCormick, 2019). In that context, some influential financiers "call for a wholesale rejection of the austerian worldview" (Yablon, 2020).

PIMCO's former chief economist and a professor of economics at Cornell Law School, Paul McCulley thinks there is a "paradigm shift", and this shift could be a factor of compatibility between the Wall Street and the Main Street. Narayana Kocherlakota who served as the governor of the Minneapolis Fed between 2009-15 also notes that MMT's emphasis on more fiscal activism is rightful, provided that they are supported by real resources (Cohen, 2019). It is important to remind that McCulley is also the father of phrases related to the 2008 crisis such as "shadow banking" and the "Minsky moment" and a self-described advocate of "principled populism" (Barrett, 2019). He expresses that more government spending would not make him "bearish on the stock market at all"; rather it would make him "bullish" (Cohen, 2019). So, higher deficits might not crowd out investment for him. For McCulley, fiat money brings brave opportunities in macroeconomic management. Deficits are not bound to create hyperinflation as MMT-bashers urge. The US inflation did not match the preannounced targets for a decade in a context of near zero interest rates. Hyperinflation due to increased deficits is not hence a possibility for him.

Cohen (2019) notes that one reason for MMT's increased audience in the Wall Street and individual financiers, including those at financial behemoths like Goldman Sachs and PIMCO, is that they find the theory insightful in building "forecasts and even trading strategies". Daniel Alpert of Westwood Capital reiterates this point, saying that MMT correctly led him to expect low interests after the 2013's taper tantrum as he thought Fed would not be able to deliver its forward guidance simply because markets became too reliant on cheap money (Cohen, 2019). Jan Hatzius, the chief economist of Goldman Sachs, expresses his admiration to the Neochartalist sectoral balances model (Cohen, 2019; Weisenthal, 2012b). For him, “government deficits has to be offset with private sector surpluses purely from an accounting standpoint” (Weisenthal, 2012b). Maintaining private sector surpluses is much more critical than generating government surpluses. State spending and investment can stimulate economic performance when inflation is low along with interest rates. Growth is currently weak because of ailing return projections. Hatzius is explicit in his sympathy for MMT as his references include Wynne Godley who arguably initiated the sectoral balances approach and advised Stephanie Kelton who is a prominent MMT scholar and author of a NYT bestseller book named “Deficit Myth”. Hatzius does not consider monetary policy as completely ineffective, but says that fiscal policy is a better tool against secular stagnation (Weisenthal, 2012b).[29] He thinks that MMT “proponents make a couple of points that are both correct and important” including that monetarily sovereign countries do not default (Dmitrieva, 2019).

Some arguments of MMT seem to have helped generating interest to the theory as a policy guide. Indeed, for Yablon (2020) “many Wall Streeters and finance types have started to point to MMT as a more accurate explanation for macroeconomic trends than the neoclassical economic tradition, even as MMT has been greeted skeptically by the academic mainstream”. In that sense, one young hedge fund analyst comments that “people who grasp the Keynesian argument are just better at their jobs” (Yablon, 2020). Another reason of this warmer relationship between MMT and the financial sector is noted by Nomura Research Institute’s Richard Coo. For him, academic economists suffer from “groupthink” and have a hard time engaging in dialogue with those whose views are outside the circle (Cohen, 2019). Minneapolis Fed’s Kocherlakota seems to agree with the assertion that policymakers and academics are more hesitant in accepting the merits of MMT compared to international financial

[29] The Economist reiterates that point, saying monetary policy lost its effect in stimulating growth, due to the zero lower bound. Hence there appears to be growing consensus on there should be more fiscal proactivity, i.e. deficit spending (The Economist Data Team, 2014). Former Fed Chair Paul Volcker says that since central banks only have tools to maintain price stability via controlling the monetary base. Therefore, it is not reasonable to give them the mandate to generate real economic performance, as done in the US Fed. Former US Fed Chairman Ben Bernanke concurs that monetary policy is “not even the ideal tool” (Kelton, 2013). It is simply “illusory” to think that monetary policy can generate real economic performance (Kelton, 2013).

sector agents who are not bound with national indicators in professional endeavours due to increased capital mobility (Cohen, 2019). They appear to be more tolerant to deficits and particularly inflation nowadays compared to academics because of their professional conditions.

A financial strategist at GMO Asset Management, James Montier expresses that "MMT thrashes neoclassical economics hands down" while Daniel Alpert of Westwood Capital notes that MMT "successfully debunks 40 years of misassumptions of how markets and public credit work" (Cohen, 2019). This convergence of opinion is underpinned by the teeter of neoclassical epistemology in guiding macroeconomic policy under conditions of financial bubbles and secular stagnation, and its inability to direct money to invest in productive sectors. This is so while interest rates stood low for more than a decade enabling the government and financiers to "practically borrow for free" (Yablon, 2020). Hence, McCulley assesses that the "war on inflation" was over-won (Yablon, 2020). Neoclassical epistemology and policy could not generate inflation, the lack of which curbed the tendency to invest and spend. In the meantime, constantly appreciating assets and currencies rendered real investment opportunities less profitable. In a vicious cycle, lack of private sector investment in real economy was reducing private sector profits which Yablon (2020) notes to have reduced for a year before COVID-19 struck.

Besides these financial moguls, a younger generation of financiers online which Yablon calls the "weird left finance twitter", show greater interest in the wider corpus of unorthodox theories. Alex Williams who is a researcher at "Employ America" notes that the Keynesian turn in the Wall Street is not surprising because "the closer you get to the actual machinery, the more it matters your conceptual frame is right" (Yablon, 2020). Academics can maintain their sectarian positions as this would not particularly affect their payroll. But the financial sector requires a more pragmatic stance in terms of their guidelines. So, secular stagnation arguably precipitated a change in assumptions. Indeed, another financier notes that the Wall Street became more intellectually flexible during the past decade (Yablon, 2020). Trading in a world where capital flows limitlessly render old measures like debt-to-GDP relatively inadequate since there are lucrative opportunities around the globe to invest regardless of national economic indicators.

This turn is also observed in the increased interest towards Michal Kalecki who showed that government deficits are a factor of private profits which is in direct contrast with the crowding out argument, and in line with the sectoral balances approach. In that sense, Kaleckian thought appears to be favoured by the younger financiers. Yablon (2020) notes the political aspect of Kalecki's works underlining that capitalists might prefer to sacrifice a part of their profits in order to consolidate their position at the top of the social pyramid engendered by class relations. Increasing interest in the class aspect does not only elevate the audience of Kaleckian thought. Similarly, Tracy Alloway, a finance journalist and the co-host of the Bloomberg podcast "Odd Lots" with Joe Weisenthal who publicly shows sympathy to MMT, notes that "it is kind of funny how every investment discussion these days ends up touching on Marx" (Yablon, 2020). Increased intellectual interest in heretic epistemologies seems to be related to the fact that the "Wall Street needs a new game" (Yablon, 2020).

Opportunity to offset the lack of investment with government deficits increased interest in the MMT. As the chief economic adviser at Allianz, Mohamed A. El-Erian suggests MMT "has merit in stimulating debate" on the level of sustainable level of deficits and for how long (Yablon, 2020). Growing interest in critical scholars is precipitated by the unconventional policies engaged in the previous decade. The problems such as climate change, digital transformation, and income inequality seem to have offered lucrative investment opportunities for capital groups that would finance the solutions to these problems. For example, Yablon (2020) suggests that Australia is planning a 36 bn dollars' worth of renewables project, which is a great investment opportunity for the financial sector. Healthcare, housing, education, and childcare are adding to inflation. States can help supply more of these services, and that would stimulate investments and growth. In that vein, Ron Biscardi of Context Capital Partners, a self-described libertarian-conservative is persuaded by the MMT's theoretical elaboration that deficit spending does not require offsetting pay-fors such as taxes (Cohen, 2019). Biscardi understands that MMT can not only help create lucrative investment opportunities but also lower taxes on the wealthy. Indeed, one reason for MMT's popularity is that it provides policymakers an argument on financing their projects without more taxes (McCormick, 2019). The excesses of projects that cannot be financed through more taxes could be financed by simply alternating the mindset towards the exploitation of the printing press: “the New York congresswoman [Alexandra Ocasio-Cortez] is proposing a 70 percent tax rate for the rich, but that would only recoup a fraction of the costs […] She’s invoked MMT as a way to pay for the rest” (McCormick, 2019). So, the MMT appears to be in line with the distribution preferences of the well-off.

The so-called “king of bond market” and the founder of PIMCO which at its height managed more than 2 trillion dollars, and a person with a personal wealth of 1.4 billion dollars, Bill Gross seems to have a sympathy for MMT inspired policies (Schatzker, 2019). Gross says that fiscal and monetary agents could work more in tandem, a rather odd argument considering that he was one of the “most vocal critics of post-crisis stimulus” opposing “budget deficits, zero percent interest rates and quantitative easing” which he foresaw to be inflationary (Schatzker, 2019). Since then, he changed its concerns from inflation to deflation. Now, he advocates more deficit spending to deal with the lack of spending and investment in a similar way to Ocasio-Cortez’s proposals mentioned above.

The most important financial sector agent in support of MMT is without a doubt Warren Mosler, a hedge-fund manager, a former race-car manufacturer, and designer, who is becoming “a left-wing guru” (Dmitrieva, 2018b). For Mosler, his MMT book “Soft Currency Economics” is “the most important book ever written” (Henwood, 2019). His aid to MMT is not only intellectual either. He “helped found the Center for Full Employment and Price Stability at the University of Missouri-Kansas City, and he is financing a small army of graduate students” along with his political efforts such as running for senator and governor in efforts that got “the ideas out there” (Lowrey, 2013). University of Missouri-Kansas is considered by Henwood (2019) as “MMT’s Vatican”. Mosler also funds the Levy Institute of Bard College which is also an MMT center (Dmitrieva, 2018b; Matthews, 2012). MMT illuminated Mosler’s professional career in which he shorted bonds during the Clinton era, which was proved to be a successful investment. However, his bet that Russia would not default on its debt (because it is a sovereign currency issuer) cost him millions of dollars (Lowrey, 2013). Due to his funding of MMT and spreading the gospel, he is described by Jamie Galbraith as a “national treasure” (Henwood, 2019).

For Stephanie Kelton, a prominent MMT scholar, Mosler is able to "see that it's possible to make the vast majority of people better off without necessarily having to make anyone else worse off" (Dmitrieva, 2018b). So, the MMT's preoccupation in not distressing the existing structure of wealth materialises in Warren Mosler's personality and lifestyle. Mosler lives in the tax haven of US Virgin Islands, where he ran for governor. Virgin Islands is an odd place to live for the pioneer of an intellectual movement advocating automatised tax hikes as an inflation offset. This preference is said to be in line with the argument that "the government doesn't need tax dollars to fund spending, because it has a monopoly on creating the money" (Dmitrieva, 2018b).

Despite the fact that MMT relegates the role of independent institutions in economic policymaking, its advocates are rather hesitant to directly express that they want a politically-managed macroeconomic structure. As McCulley notes, MMT has a "difficulty dealing with the political reality of an independent Fed" (Barrett, 2019). Instead, they claim to present technical solutions that implies an effort to evade the politics of macroeconomic preferences as, for example, politics of central bank independence is a major problem for the MMT agenda (Barrett, 2019). Despite these thorny issues, financiers' support to MMT seem to be related to the fact that their important insights such as the sectoral balances suggest a policy path on which fiscal policy offsets the inabilities of monetary policy defined by the zero lower bound in the context of secular stagnation. Moreover, their sympathy towards MMT could be related to the fact that financiers could lend to whoever provides the optimum return and investment security relation, which is the state.

5.1.2 Financiers in opposition to MMT

Despite its popularity among some financiers, there are others who think MMT is "free-lunchonomics" (Dmitrieva, 2019). DoubleLine Capital executive Jeffrey Gundlach called MMT a justification for a "massive socialist program" (Chiglinsky & Dmitrieva, 2019), further bashing MMT as "completely fallacious", "ridiculous" "sounds good for a first-grader" and something that might lead to borrowing problems (Gittelsohn & Greifeld, 2019). Warren Buffet considers MMT wonky economics, arguing that excessive spending is a recipe for inflation (Chiglinsky & Dmitrieva, 2019). However, Buffet's stance is somewhat inconsistent. In 2011, he advocated not raising the debt ceiling "asinine" while saying that it was not good to have the debt-to-GDP ratio constantly grow; by then the US debt ceiling had been annually increased for a decade. Similarly, Ethan Harris, the head of global economic research unit at Bank of America Merrill Lynch, says that MMT might help alleviate the deflationary pressure caused by plummeting demand and investment, but employing it in its entirety is a "recipe for runaway inflation" (Dmitrieva, 2019). Harris also notes that Trump tax cuts underpinned by a supply-side reasoning and MMT overlap. Indeed, they both seem to be advocating deficits for growth. Against deficits Harris thinks that crowding out will happen sooner or later.

Standard Chartered executive Steve Englander notes that it matters when MMT is applied, conflating the theory with counter-cyclical measures (Dmitrieva, 2019). During an economic turmoil, its adaptation might heal economic prospects and "market reaction might be friendlier" (Dmitrieva, 2019). A diluted MMT agenda could alleviate deflationary pressures and help increase monetary policy efficiency. For Englander, MMT could be more useful than neoclassical tools against the prevailing economic trends, but a wholesale replacement of the neoclassical policymaking with MMT could damage asset prices and weaken the national currency. Similarly, counter-cyclical policies that converge fiscal and monetary agents are necessary in downturns, New York Fed's former president Bill Dudley assesses, but MMT is a "crackpot theory" (Barrett, 2019). World's largest asset management company, BlackRock Inc's Larry Fink says that deficits put upwards pressure on interest rates, crowd out fund markets in normal times (Barrett, 2019; Collins, 2019). However, he also says that governments should take more fiscal measures. For Fink, more fiscal activism can help create a more "inclusive capitalism". But MMT is "garbage" (Collins, 2019).

Marketfield Asset Management CEO Michael Shaoul who controls 139.3 million dollars' worth of assets as of June 2022[30] acknowledges the post-2008 reality which forced monetary and fiscal policies to cooperate, referring it as "a really big change" (McCormick, 2019). "The broad trend since 2008 is toward coordination of monetary and fiscal policy", hence "you could get away with a further loosening of fiscal

[30] https://www.thecromwellfunds.com/sub-advisors/marketfield-asset-management (last accessed on 28.10.2022)

controls, and a central bank supporting it" (McCormick, 2019). Trump tried to persuade the Fed to fund the government and loosen monetary policy, to which Powell reacted by saying their role is "not to support particular policies" (McCormick, 2019). Shaoul hence thinks that MMT is a "terrible idea", particularly for the taxpayer because "the "government isn't good at allocating resources" (McCormick, 2019).

Torsten Slok, chief international economist at Deutsche Bank, offers similar arguments on MMT. Higher deficits could suck "money out of other credit and even equity markets" reiterating once again the crowding out argument (McCormick, 2019). Interestingly, he assumes that MMT wants to print bonds for deficit spending, showing that big-shot financial sector agents are not much informed about the basic arguments of MMT. Another executive at Deutsche Bank thinks that despite the condition seems to be necessitating more deficits, there will be a "straw that breaks the camel's back" (McCormick, 2019). A former executive at Sage Advisory Services, Mark MacQueen who manages about 13 billion dollars, understands why deficits appear bad to investors, but he also contends that there is a great room to follow MMT style policies if desired by policymakers since bond yields have greatly dropped since 1980s. He too raises the crowding out argument by saying "we'll take the pain eventually" (McCormick, 2019).

A chief investment strategist at RIA Advisors, Lance Roberts argues that Neochartalism was implemented during the pandemic and generated no success (Roberts, 2022). Initially, the pandemic had increased unemployment creating a deflationary pressure. During 2020-2021, US government debt increased from 23.2 trillion to almost 30. He notes that this was the greatest deficit hike in US history. These deficits were used for stimuluses like cash aids which were a "temporary solution", labelled by Roberts erroneously as "socialistic" (Roberts, 2021). He continues to compare Biden's allegedly MMT policies with "universal basic income", a policy which MMTers consider bad (Bruenig, 2019b). For him, Biden's deficit-funded policies boosted economic growth but induced a chain of problems. After stimuluses, the pull-factor of increased demand and push-factor of COVID-19-induced supply-side problems caused a boom in inflation, causing the wage-gains to be lost. Moreover, such spendings were bound to create inflation: "In the end, once the stimulus fades and the economy adjusts for inflation, Biden's small moment of reduced poverty rates will revert with a vengeance" (Roberts, 2021). Because these do not induce productive investments and are spent on daily reproduction, they could not be good for the poor or the economy in the long run: "While providing short-term relief, Biden's plan does nothing to solve the long-term problems of those living at poverty levels. They need both incentives to "go to work" and access to training and education to obtain gainful employment" he argues. Hence, Roberts argues that Biden stimuluses were harmful for the poor in the long run as they aggravated the wealth gap between the top 10 and bottom 50 per cents of the US population. Such arguments are trademarks of monetarism.

Indeed, handing out money without creating jobs is bound to increase inflation as real measures will fail to catch up to increased demand. "In other words, when you provide free capital," a market-based economy will adjust prices to compensate for the additional demand for products and services" (Roberts, 2022). As such, Roberts conflates MMT with handing out "free money" to boost economic equality, criticising the latter on false grounds. For, the MMT does not advocate handing out free money, full stop. In that sense, Biden's efforts can hardly be said to be in line with the MMT. A Yale professor who advised the late Japanese PM Shinzo Abe on economic policy, leading Abe to follow an MMT-like path of fiscal stimulus and monetary easing in Japan where the economy characterised by persistent deflation, Koichi Hamada (2022) reiterates that point. He argues that functional finance, supports Biden's expansionary efforts. However, the tax-funded structure of his proposals is not completely in line with MMT. Biden's policies does not set in motion the real economic capacity with job creating deficit-spending, but alleviates the plummeting demand.

Opposing arguments show that a part of the financial sector, with its emphasis on crowding out, looks at the issue of deficits from an aggregate funds perspective. They believe that funds are scarce, hence they should be allocated through an economic rationale instead of a political one. Underlying this is a belief that markets are efficient allocators of resources. However, for MMT, the state is the efficient allocator of funds. So, the government can easily offset the lack of investment if there is real demand. Indeed, as Mosler says, the state must ensure that a significant shortfall of funds is always met (Mosler, 2011). In that sense, MMT supporters are not concerned about deficits, the existence of which always corresponds to a real demand. Price stability is a function of meeting real demand, as not doing so would precipitate, while it is also true that overstimulated demand creates inflation. Therefore, MMT simply changes the method of achieving price stability, emphasising the role of taxes and bonds, and thus reducing the aggregate level of funds for that goal.

In that sense, the effort to paint MMT as running-hot printing press is unjust (Estes, 2019). It stems from a lack of knowledge at the best case, if not cynicism. Even though McCulley argues that becoming Zimbabwe is not even a remote possibility (Barrett, 2019), this is indeed unjust as MMT considers inflation as a real economic phenomenon occurring only beyond full employment. Jamie Galbraith assesses that "it's been a long time since this hypothetical possibility [complete utilisation of real capacity] has actually been observed, and it was observed only under conditions that will never be repeated" (Matthews, 2012). Furthermore, MMT is not a "socialist" programme as labelled by Gundlach and Roberts. Materialising in the sectoral balances model, MMT is strictly concerned with private sector surpluses.

5.2 Policymakers, Wider Academia and MMT

5.2.1 Policymakers and MMT

A professor of economics at the University of Texas and the former executive director of the Joint Economic Committee of Congress, Jamie Galbraith is an important figure in MMT. He is also the son of famous Keynesian economist John Kenneth Galbraith -a policy aide to the Kennedy administration. Jamie Galbraith once defended MMT in front of Clinton administration and was laughed at viciously (Matthews, 2012). However, now we observe a convergence around what he was laughed for. He had said at the time that government surpluses were not necessarily a good thing. They might even be read as a condition in which the government drains away funds from where they might be placed at productive investments, a fiscal drag on demand and investment.

Echoing Galbraith's criticism of deficit-bashing, Joe Weisenthal, an economic journalist who covers MMT with a sympathetic view, denounces the public consensus in the US which revered the Clinton era's economic performance as "Goldilocks economy" or "the great moderation" (Weisenthal, 2012a). Budget surpluses were, "a major mark of pride for the former President (and arguably the entire country). *They shouldn't be*." (Weisenthal, 2012a; emphasis in original). Referencing Kelton and the sectoral balances model, Weisenthal argues that government surpluses during the Clinton era which also saw a trade deficit, resulted in constant private sector deficits, implying a fiscal and import drag on GDP. Debt fuelled private consumption and investments precipitated bubbles. These financial bubbles arguably offset the drag on spending.

Weisenthal argues that the 2008 crisis "started to germinate under Clinton" (Weisenthal, 2012a).[31] Despite their obvious sympathy, neither Weisenthal nor Galbraith are outright MMT advocates. Galbraith does not define himself as a "contributing modern monetary theorist" but admires and supports "the MMT group, which is voicing a powerful common sense in the face of grumpy resistance" (Galbraith, 2019b). Matthews (2012) indicates that Galbraith is a "deficit owl"[32], a person who acknowledges the importance of deficits for sectoral balances. As such, Henwood (2019) defines Galbraith a "fellow traveler" of MMT. Galbraith's support of MMT is underpinned by the importance of resistance to academic networks that disseminates mainstream views while blocking "heretic" ones including the MMT. Such views are neglected as they show the weaknesses of the mainstream, which if acknowledged, would force these scholars to cite Neochartalists, thereby providing them with a path to penetrate wider debates (Galbraith, 2019b). So, it is a hegemonic struggle over the science of economics, Galbraith contends. The lack of places to make their voice heard paved the way for MMT to dominate online debates through blogs which Kelton says they use more actively to disseminate their ideas after 2008 (Weisenthal & Alloway, 2021). One of such blogs is the New Economic Perspectives, at which there is a visibly posted quote by Jamie Galbraith saying "where is the best

[31] Progressive politicians, Kelton notes, are now trying to return from the discourse that paints budget surpluses such as those of Clinton era as a good thing. This leads them to show more interest in MMT. But Republicans also seem to be interested in MMT. Kelton says she has worked with a Republican senator. Furthermore, she says she also worked with one developing country president without giving a name (Weisenthal & Alloway, 2021).

[32] Stephanie Kelton came up with the phrase in irony with "deficit hawks" (Matthews, 2012). She used to tweet @deficitowl.

economics now being done? UMKC". UMKC (University of Missouri-Kansas City) is the academic fortress of Neochartalism funded by Mosler, formerly inhabited by Wray and Kelton. Peculiarly, that blog also featured a #occupy in its early days (Smialek, 2022).

Indeed, there is a strong resistance to changing tides in economics. William Mitchell, a Neochartalist economics professor at the Newcastle University in Australia, who is the name-giver of MMT in reference to a quote by Keynes that expressed the state has had the privilege to create money for 4000 years, says that despite this “incredible resistance to the intellectual shift”, politicians are bolder than the academia to acknowledge the merits of MMT, and that “the tide is turning” (Dmitrieva, 2018b). In Washington, MMT is claimed to be understood as “crisis economics, and we’re in a crisis” (Von Drehle, 2020).

Joe Gagnon a senior fellow at the Peterson Institute and a former Fed economist said that while MMT is largely shut off from policy institutions, “it’d be a good time for them to have influence” due to global economic slack (Jamrisko, 2016). In 2016, MMT had the opportunity to influence policymaking after Bernie Sanders took Kelton and Galbraith as advisors (Jamrisko, 2016). Kelton worked with Sanders as the “chief economist to the Democrats on the Senate Budget Committee in 2015-2016” (Kelton, 2019c). Before the pandemic, Kelton said, she and another Neochartalist was invited to the House of Representatives leadership to inform them about the theory (Weisenthal & Alloway, 2021). She notes that this encouraged and gave her a hint about the fact that the theory was indeed on the route to change the terms of ground on which the policy is made. Indeed, as Matthews (2015) notes “the financial crisis created a huge appetite for new economic thinking, and MMT helped meet it”. Republican senator Bill Hoagland, the vice president of the Bipartisan Policy Centre reiterates that point. Holding an arguable influence over US fiscal policy, he says that the 2008 crisis might have altered policymaking process after the “hit” that economic orthodoxy has taken. He adds that “we’re going through a very strange period where all economic theories are being tested” (Jamrisko, 2016). Former chief economist at the IMF, Olivier Blanchard’s remark that government deficits might not be bad as they were formerly thought supports that claim. Blanchard sees less risk in more deficits: “Leaving a livable planet with higher debt: a good deal” (Holland, 2019).

Response to the 2008 crisis was timid because a debt crisis was feared of by the Obama administration. Trump administration enacted huge deficits to generate growth in a Laffer Curve fashion of supply-side economics despite the fact that bigger part of the funds held by the private sector increased aggregate savings. They should have been taxed more, not less. Tax cuts hindered government revenue streams, thus increasing the deficit which precipitated fears of a debt crisis among mainstream commentators (Huebscher, 2021). Trump had transformed Republicans once hawkish on deficits into a party whose government engaged in higher deficits which amounted to 1 trillion dollars with tax cuts and defence spending (Dmitrieva, 2018c). Trump even called himself "king of debt" once (Holland, 2018).

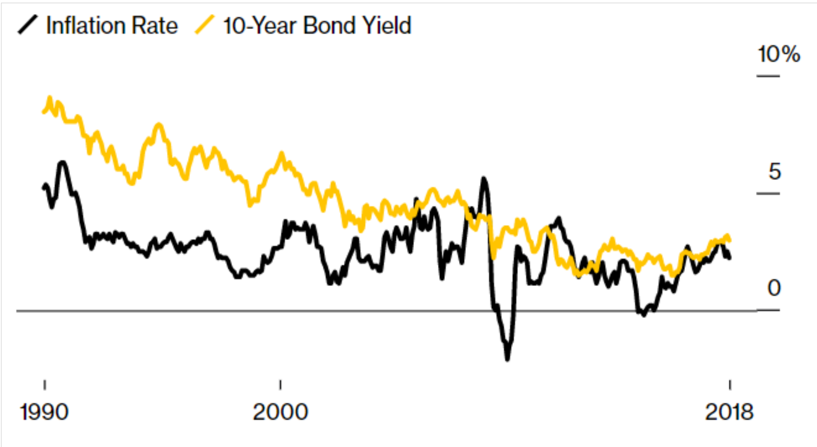

Figure 16: US inflation and 10-Year Bond Yields between 1990-2018, Source: Holland, 2018.

Despite fears of an economic downturn, Kelton assesses the period to have created "modest growth, low inflation, but no terrible consequences of the deficit", (Huebscher, 2021). Trump administration achieved this by incentivising economic agents against "the long-dormant enthusiasm for investing among American companies, by lowering their tax burden", i.e., supply side economics (Holland, 2018). A smaller tax base meant more deficits that stimulated the economy. Due to low inflation and low bond yields as observed in Figure 16 deficit-funded stimulation was possible. During the Trump administration, the US grew along the lines of public spending. This implied the opposite of the Keynesian argument which said deficits were counter-cyclical. They appeared more cyclical as days went by. What this implied was a path dependency on deficits for growth, as shown in figure 17 (Holland, 2018).

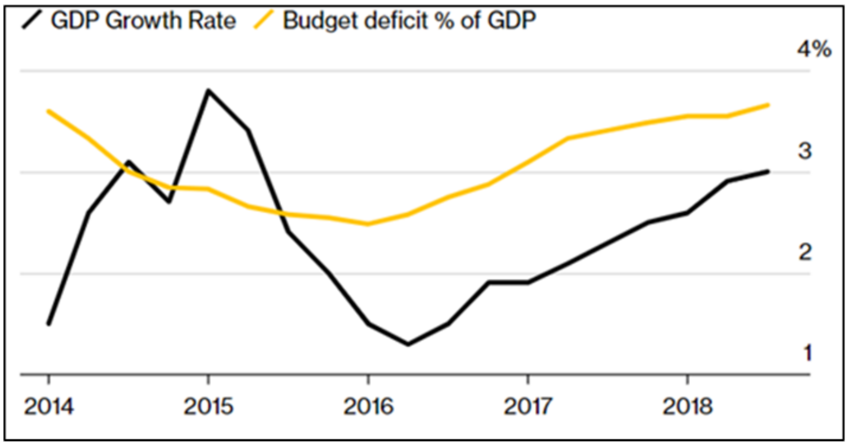

Figure 17: "Four-quarter moving averages for quarterly growth and deficits" in the US Source: Holland, 2018.

A group of conservative Hoover institution fellows wrote a piece in response to Trump tax cuts. They argue that these will put an insufferable burden on the US economy (Boskin et al. 2018). If it were not interrupted by the COVID-19 pandemic, deficits would have increased to 20 trillion dollars in five years, with an increase of 5 trillion. This would crowd out investment, increase rates and worsen government debt servicing. If and when investors drop their bonds higher deficits are bound to cause a debt crisis in the US (Boskin et al., 2018). Despite the hysterical assessment that a debt crisis "comes without warning" these scholars nonetheless accept these claims to be not backed up by any "current evidence in financial futures markets that a crisis is on the horizon" (Boskin et al., 2018). They argue that US "deficit and debt problems stem from sharply rising entitlement spending" which rises with the aging of the population and some measures should be taken in order to pre-empt the possibility of a debt crisis. These are doubtlessly strategies to alleviate the pressure on capital accumulation disguised as technical prescriptions. Cutting entitlement spending increases the flexibility of labour markets and puts downward pressure on wages. In that sense, a piece written by Janet Yellen and a number of mainstream economists including Larry Summers' collaborator and a Harvard economist Jason Furman (Baily et al., 2018) concurs with Boskin et al. by arguing that "ever-rising debt and deficits will cause interest rates to rise". However, it is wrong to cut entitlements, they argue, because of the social value they hold.

Politics of deficits are underpinned by preferences of distribution. As Kelton assesses, "every deficit is good for someone. The $1.9 trillion tax cut passed under Trump benefited corporations and the wealthy", so the question is for whom deficits are used (Huebscher, 2021). Trump deficits were not criticised by left-wing politicians categorically, but in terms of their practical significance. Holland (2018) notes that "America's new left, like Trump, has little appetite for belt-tightening". Either side is primarily concerned with real economic indicators instead of abstract monetary indicators. For Matthews, this represents an implicit break in the policy mindset (Matthews, 2015). As mentioned previously, Bernie Sanders assigned Stephanie Kelton as his chief economist in aide to his post at the budget committee. Similarly, one financial insider who thinks deficits could increase private sector profits has worked for US representative Alexandra Ocasio-Cortez, advising her on finance and campaigns (Yablon, 2020). Her policy agenda was justified on grounds that pay-fors are never asked when matters of defence and tax breaks. They are only raised when social welfare is discussed. This implied that deficits are not categorically opposed by the establishment, but such discourses are used politically to entrench the existing structure of distribution. So, Ocasio-Cortez considers the question of pay-fors "very disingenuous", but she also does not completely rule out increasing taxes to fund a part of her plans (Krugman, 2019). She revokes MMT as a way to fund a part of her proposals (Relman, 2019). Indeed, MMT seems to be utilised as a discourse against policies of austerity and questions of pay-fors which oppose ambitious projects of welfare and the Green New Deal (Dmitrieva, 2018c). However, there are others like Christina Romer, former head of the Obama administration's Council of Economic Advisers, who want to offset spending with proposals such as hers that taxes 80 per cent of income over a certain level. Fed Chairman Jerome Powell indirectly responded AOC's revoke of MMT by saying that while he had not read extensively on the theory, he had come across "pretty extreme claims" which argue "the idea that deficits don't matter for countries that can borrow in their own currency, I think is just wrong" (Cox, 2019). While not disagreeing with higher taxes, Bill Gates too had responded to the "extreme" proposals of Ocasio-Cortez on grounds that they might lead rich people to stash money off-shore. Gates thinks that MMT is “some crazy talk” that will “come back and bite you” (Patel, 2019).

Some at the echelons of the Democrats in the US have embraced the idea of a job guarantee, including US Senator Elizabeth Warren (Dmitrieva, 2018a). Similarly, Kevin Hassett, Trump’s chairman of the Council of Economic Advisors, said more government employment might help increase “the share of the working-age population that’s actually in work” (Dmitrieva, 2018a). Increasing employment appears to be a bipartisan issue that is informed by MMT inasmuch as employment-generating efforts are underpinned by more fiscal activism in the context of monetary policy inefficiency. MMT’s job guarantee programme became “blueprint” for what the self-described democratic socialist Bernie Sanders proposed as 15 dollar minimum wage (Dmitrieva, 2018a). The Sanders plan was estimated to have costed between 200-400 billion dollars a year for the US budget. Hence, conservative commentors found it “fantasy-land economics” that could destroy low-paid sectors such as retail and fast-food. It would “usurp” the market, a former Fed researcher and Amherst Pierpont Securities’ chief economist Stephen Stanley said (Dmitrieva, 2018a).

Stephanie Kelton notes that Biden’s 6 trillion budget is not completely offset by tax increases or austerity. That budget relied on significant deficit increases. Kelton notes that this policy line indicates an implicit adoption of MMT (Huebscher, 2021). Indeed, the wider public seems to be thinking that Biden has adopted MMT (Boesler & Dmitrieva & Holland, 2021). Predicted benefit of those deficits is a 2 per cent decrease in unemployment and moderate levels of inflation (the latter of which is proven not to be the case after COVID-19, and energy related supply-side shocks). When the COVID-19 hit, the Congress “spent aggressively without a plan to pay for it” (Huebscher, 2021). A critic of Biden deficits considers the economic approach of the administration “semi-monetary theory” as he considers MMT to rely on the idea that “you can give money freely to your constituents and donors without having to raise taxes on your rich constituents or corporate donors” but Biden does not exclude deficit offsets (Carney, 2022). Again, as mentioned before, there seems to be a general misrepresentation of MMT as something that advocates handing out free money.

Carlsson-Szleak & Swartz (2021) examine whether these developments imply a substantial change from the previous trend to deficit spending. They compare the “size and type" of spending with previous episodes, and conclude that the current episode induced by COVID-19 is not a qualitative change in the government's role in economic affairs but a mere counter-cyclical crisis response that will recede in time. For example, the "child tax credit" enacted by the administration is temporary. Furthermore, the since early 2000s, the US budget was almost constantly in deficit. Biden does not want to make it a rule to deficit finance the business cycle. Even if he did wanted that, he has neither a strong political capital to induce a profound change, and neither the will to do so. In 2021, former Fed chair and the current secretary of the Treasury Janet Yellen emphasised her support for the Biden spending proposal that amounted to 1.8 trillion dollars which was planned to be added to stimulus and infrastructure programmes worth more than 4 trillion (Winck 2021a). Yellen defended the spending plan expressing that "we're in a good fiscal position. Interest rates are historically low... and it's likely they'll stay that way into the future […] I believe that we should pay for these historic investments. There will be a big return". However, the government also proposed deficit offsets. Yellen reiterated the mainstream argument on tax hikes fund deficits. Furthermore, better tax enforcement is deemed necessary so that they were incorporated into Biden proposals. There were concerns that such packages would cause inflation. However, it was predicted to be a mild one as spending proposals span over ten years. The government also has means to control inflation if it surges. Nevertheless, such dangers are little compared to their benefit as "these are historic investments that we need to make our economy productive and fair", she notes (Winck, 2021a).

Bruenig (2022) does not agree with Kelton's claim that Biden has adopted MMT during the pandemic. He too thinks that this was another wave of counter-cyclical policy not too dissimilar to response during the 2008 crisis. The government cut rates, engaged in active fiscal policy via stimuluses just like any other crisis period. In that sense, it is wrong to reduce MMT generic to counter-cyclical policy. MMT proposals rely on unique analyses that emerged in a particular historical period. Indeed, counter-cyclical policy is "something almost every economist says" in a downturn (Bruenig, 2022). But, MMT argues that deficits are a natural feature of the relationship between states and markets.

Bruenig continues to elaborate on why MMT was not used during the COVID-19 crisis. First, MMT says that the central bank should directly fund the treasury. However, "no overt monetary financing ever happened" (Bruenig, 2022) during the crisis, as central bank independence remained intact and the Fed started to raise interests which was antithetical to Neochartalism immediately after the pandemic. Furthermore, Neochartalists are constantly "slamming the idea of cash welfare benefits" as they advocate a job guarantee programme which creates sustainable real sector growth (Bruenig, 2022). The crisis witnessed large amounts of cash transfers to households instead of an employment programme. However, in a pragmatical turn "either for political-coalitional reasons or a desire to claim credit for ongoing policy, or perhaps both, the MMT world has basically stopped talking about job guarantees while supporting helicopter drop after helicopter drop" (Bruenig, 2022). In conclusion, Bruenig expresses aptly that the pandemic crisis did not witness the prevalence of MMT policies because economic policy was used to stimulate economy with direct cash transfers in a way that no MMT scholar was involved. If they had been involved, we would have seen direct funding of the treasury by the Fed for a job guarantee programme, and the following inflation would not have been met with tax hikes.

Eric Levitz, an economic commentator writing for the Intelligencer, reiterates these arguments. He thinks that the core of MMT is vindicated by the COVID-19 period. However, MMT was not tried during the pandemic (Levitz, 2022b). MMT should not take a "victory lap" just yet. The argument that MMT was applied during the pandemic rests on a rather simplified version of the theory (Levitz, 2022b). Vindicated tenets, he notes, were criticisms of the two ideas that poisoned public debates on economy for the last few decades (2022b). First, the neoclassical position that underpinned mainstream arguments and policymaking disseminated the view that the government could become insolvent if the bond vigilantes preferred not to buy the debt, likeliness of which would put upward pressures on interest rates. MMT advocates thought that increased debt did not impose a limitation on the degree of new government spending. Second, new spendings did not need offsets. Monetarily sovereign governments could print money ensured by a politically subordinated central bank without wide implications so far as real capacity allows.

The COVID-19 period practically showed that real constraints limited government spending and created inflation not deficits as evidenced through the ensuing supply-side shock. Mainstream economists too would acknowledge that. However, they would differ in the argument that big spendings must be offset by new revenues because fiscal policy is monetarily constrained while Neochartalists say fiscal policy is constrained by monetary sovereignty and demand. Levitz exemplifies the claim by noting that taking a few billion dollars from Jeff Bezos would not change his spending pattern much but giving that money to the poor in the form of cash aid would immediately cause inflation in the prices of consumer goods which the latter group would prefer to purchase (2022b).

However, inflation could be a serious problem, for which MMT prescribes founding a Budget Office in order to pre-emptively address the possibility of inflation (Fullwiler & Grey & Tankus, 2019). Levitz (2022b) expresses that MMT supporters "want a lot more central planning" and Biden policies have been somewhat in line with the essence of MMT despite their eclecticism and sectoral implementation. In that sense, Biden policies have been classically counter-cyclical measures. Another method of maintaining price stability is a "progressive income-tax rate" built into policymaking processes and adjusted automatically to rise or fall faster than inflation in a downturn. Moreover, if demand is to be curbed, selective interest rates could be offered to different deposits, or new forms of deposit could be developed. An example of such deposits is "exchange rate protected deposits" offered by the Turkish banks with treasury support.

The wider public interest towards MMT led it to be examined in mainstream platforms. Smialek (2022), in her New York Times piece on Stephanie Kelton and MMT, In that piece, Kelton noted that the pandemic forced policymakers in the US to pass programme worth around 5 bn dollars during the crisis. Despite deficit-funded policies were not completely MMT, they effectively proved the point that the government can deficit spend without crowding out the funds market and debt service problems. For Kelton, one of the reasons why it cannot be said that MMT was applied was that a counter-cyclical fiscal expansion influenced by MMT had to pre-empt inflation through planning institutions as mentioned above. In a different piece, Kelton (2021) argues that Biden stimuluses might overheat the economy, and other progressive plans might even further that trend. So, the emphasis on pre-empting institutions is very important for the wider corpus of MMT policies. Second, efforts to offset inflation with interest rate hikes assumes that it is demand-led. Other factors such as the post-pandemic "greedflation" and supply chain shocks should be carefully examined in order to determine the limits of tools with which price stability could be maintained. There are a lot of tools with which to deal inflation. Hence, MMT considers it "a good problem to solve" compared to deflation and insufficient employment (Smialek, 2022). It seems to be that expansionary fiscal policies during the pandemic entrenched the idea that government borrowing does not crowd out investment and raise interests (Smialek, 2022).

The aftermath of pandemic witnessed a certain level of inflation. Higher inflation raised reconsiderations on whether deficit spending was useful. Prominent economists of the mainstream differ on what the future of inflation will be (Winck & Sheffey, 2021). They indicate that despite his secular stagnation argument, Larry Summers was paradoxically against Biden stimuli. For him, Biden took the "least responsible" road in decades. Summers does not see it likely that this policy path achieves the level of inflationary growth policymakers desperately want. The economy requires such a stimulus but he thinks it runs too hot. Hence, it is understood that opposition of Summers is not of essence but against the level of spendings. There are also those who think this contradiction is due to Summers' political standpoint, as a "vindictive SOB" [acronym for "son of a bitch"] who wants to "spook the markets and crash the economy" to torpedo the Biden administration which left him out due to his role in single-handedly sabotaging some of the post-2008 stimuluses.

Olivier Blanchard, a Berkeley professor and a former IMF chief economist, reiterates the arguments of Summers (Winck & Sheffey, 2021). Despite the necessity of stimuluses, they contained the risk of running the economy hot. Much like Summers, he raises concerns on the volume of stimuluses. Another figure in opposition of more deficits is Haruhiko Kuroda, governor of the Bank of Japan, who points to rising bond yields (Winck & Sheffey, 2021). It is not a surprise that Japan with decades of huge deficits is concerned with rising borrowing costs. The Bank of Japan stepped in to maintain a stable level of yields. Yet again, this does not indicate that the governor categorically opposes deficits. Greg Mankiw expresses similar words. A Harvard professor and the former chief economic advisor to Bush administration, Mankiw considers Biden’s 1.9 trillion dollars’ worth of COVID-19 stimulus excessive. His argument too is not a categorical opposition to deficits. He agrees that counter-cyclical activism is necessary during downturns but the volume of spending threatens inflation. Niall Ferguson, a prominent historian and a fellow at the Hoover Institution, recalls the “great inflation”. For him policies that create inflation above 2 per cent are threatening. Investors might feel threatened by the upward pressure on bond yields due to higher inflation expectations. Hence, these scholars argue that “the current path of policy is unsustainable” (Winck & Sheffey, 2021). Increasing bond yields could push for higher interest levels, threatening leveraged companies and hurting the government’s ability to borrow.

Those who favour more deficits include Paul Krugman. He is optimistic about the condition of the US economy; the applied fiscal policy set appears to have helped the recovery more than those enacted during the 2008 crisis. He is also very aware that while the COVID-19 crisis broke the established taboos of economic policy, post-recovery period might see a rebound of mainstream assumptions. He considers Biden’s COVID-19 aids a “disaster relief” rather than a stimulus, a counter-cyclical measure (Winck & Sheffey, 2021). Extended direct aids were mostly deposited to banks which made them inside money with little marginal effect on inflation. So, Krugman thinks that “inflation concerns are also likely overblown” (Winck & Sheffey, 2021). He expects the post-COVID inflation to be transitory, and that recovery could be really fast (Winck, 2021b). Similarly, Fed Chair Jerome Powell made an emphasis that inflation would not last long and it will be contained. Fed signalled that “inflation overshoot is expected and possibly necessary to bring about a full recovery” (Winck & Sheffey, 2021). His speech also made a remark to establish “maximum employment” in reference to the bank’s dual mandate of price stability and full employment. This is an arguable divergence from the monetarist assumption that monetary policy maintains the stock of money and not the level of employment. Powell’s remark that “the time is long gone” (Winck & Sheffey, 2021) during which employment and price stability were corollaries acquires significant meaning as it implies monetarism to have lost its practical significance. Krugman too thinks that Fed’s language and efforts in maintaining “maximum employment” indicates a change of trajectory away from the monetarist mindset. Economic policy is practically experimenting how hot actually the economy could run (Winck, 2021b).

Another figure of this camp is Jason Furman, Obama's chief economic advisor and a Harvard professor who is also a collaborator of Summers. He thinks that benefits of Biden spendings outshines the risks (Winck & Sheffey, 2021). He also says he has "a certain sympathy" for MMT but some proposals like near zero interest rates and constant budget deficits are problematic (Barro, 2019). Similar arguments are expressed by Nobel laureate Joseph Stiglitz, a former chief economist at the World Bank and a Columbia University professor. Inflation fears are "totally unnecessary" since there is great room for fiscal activism as demand stagnates. Stimulation of demand would push the economy to full employment of real resources. Furthermore, Stiglitz also underlines the contradictory stance of Summers in relation to his secular stagnation argument. Another scholar who considers inflation hype as overblown, Claudia Sahm, a former Fed economist said while inflation might happen, it is most likely to be kept under control. She says policymakers are well aware of the risks and know how to contain a wage-price spiral. Furthermore, Biden's 4 trillion dollars' worth of infrastructure plan is not enough for her. There had to be more spending if the economy is to recover adequately, with a job generating growth instead of a speculative one. Lastly, Wall Street also seems to be in favour of higher spending, and that "inflation isn't concerning them much" (Winck & Sheffey, 2021).

An op-ed written by Warwick J. McKibbin and published at the website of Brookings, a politically centrist institution, comments on MMT as a possible guide to policy. McKibbin, a former member of the Reserve Bank of Australia's Board, says that to "stimulate economies that are stuck with low productivity, low real interest rates, and a large amount of public debt" (McKibbin, 2019), governments should borrow and invest while interest rates are lower than possible returns and smooth out business cycles with counter-cyclical policies as Keynes had advocated. But, MMT is different from those proposals. Indeed, MMT should not be conflated with counter-cyclical measures. For McKibbin MMT is a "free lunch" that proposes printing money instead of borrowing. He suggests that historical evidence including Venezuela, Zimbabwe, Yugoslavia, Hungary, Greece, and the Weimar Germany indicates that printing money would cause hyperinflation and economic and social devastation. This might be said to have stemmed from a lack of interest towards the epistemological essence of MMT that transposes monetary and fiscal policies. It is not correct that MMT proposes the state to run the printing press indefinitely. As argued by Fullwiler (2015), "an inflation constraint provides more fiscal space than a budget constraint, but in no way does it provide unlimited fiscal space". For MMT, the "speed limit" of an economy is the number of real resources that could be operationalised at a certain time, the value of which is denominated in the nationally controlled currency (Kelton, 2019c).

The fallacy which McKibbin criticises is observable in Barro (2019). He suggests that the mainstream and Neochartalist frameworks are similar since both advocate counter-cyclical policies during a downturn. For him "orthodox" economists would concur "that the desirability of budget deficits depends on the economic situation in question" (Barro, 2019). This assessment neglects that Neochartalism is a different epistemological position in economics which emphasises the structural cyclicality of debts. He also thinks that the alleged nature of deficits in MMT does not free its adherents from the questions of pay-fors (Barro, 2019). In contrast to the distributive function taxes have in the mainstream approaches, their role in MMT is completely different. For MMT, taxes help stabilise the economy by maintaining the base of money. Related to his misconception concerning taxes in MMT Barro thinks MMT would need to raise taxes. However, the need to raise taxes is completely different from the mainstream approaches. For the conventional understanding, taxes are a means of funding whereas MMT thinks that it maintains the money stock.

Mervyn King, the governor of the Bank of England between 2003-2013 and an LSE economics professor with a seat in the House of Lords, notes that MMT policies were implemented in different periods of history: in Weimar Germany, Zimbabwe, Venezuela all of which experienced hyperinflation. For King, MMT is "a magic money tree" (King, 2020). It "is neither modern, nor monetary, nor a theory". It is not "modern" because when to stop printing money has always been a part of policymaking. It is not "monetary" because of the "fiscal dominance" it prescribes. MMT violates the "iron law of economics- double entry bookkeeping: for every asset there is a corresponding liability" (King, 2020). Also, he claims that MMT's status as "theory" is hampered by its lack of historical comprehensiveness. MMT "is not a new policy tool but simply an encouragement for” policymakers to keep doing what they have been doing (King, 2020). In that sense, it would lead to unwanted results to be swept with the wind of counter-cyclical policies to all the way to MMT.

As Raghuram Rajan, a beacon of mainstream economics, a a former IMF chief economist between 2003-2006, Reserve Bank of India’s governor between 2013-2016, a former vice-chairman at the Bank for International Settlements, and a professor at the Chicago Booth School of Business, expresses, it is widely argued that governments must exploit low interest rates for economic performance (Rajan, 2020). Policymakers like Olivier Blanchard argue for more government borrowing in that context, as interest burden has tended to fall during last few decades even though borrowing increased. Criticising the MMT argument that there are no limits to borrowing for monetary sovereigns with real capacities. Rajan (2022) argues that MMT is a “free lunch”. Therefore, it is not a surprise that “MMT has become the go-to idea for politicians advocating government spending to alleviate every problem”.

Despite all this, Rajan (2020) does not advocate austerity because an adequate demand stimulation through borrowing might create future tax revenues that offsets current debt. Nevertheless, disregarding the need for deficit offsets is “magical monetary thinking” (Rajan, 2020). He criticises MMT with a thought experiment: in an era of positive rates, printing money to fund fiscal expansion results in increased deposits that yield an interest, requiring further printing if they are channelled to investments, or putting downward pressure on interests if they stay as savings. In the case of the latter, in which a positive interest rate is supposedly the normal condition, individuals deposit their money to commercial banks which put that money in central bank reserve accounts. As such, central banks’ buying government bonds amount to the state putting more money in the hands of commercial banks which could be done without having the central bank buy government bonds. Rajan contends that the government could have issued government bonds directly to private banks and generated the same result. In the sense that secular stagnation ensures borrowing at nearly zero cost, the government could issue bonds to be bought by commercial banks if there is not much difference of outcome compared to printing bonds to be bought by the central bank. The only difference is, for Rajan, is the appearance of free lunch. MMT brings nothing new to the table since borrowing capacity is still underpinned by the prospect that the state has a sufficient revenue stream generating confidence that it can pay its debt. If the amount of debt that could be paid off is perceived by investors to be exceeded, then interest rates would rise, curbing the ability to borrow. If enough revenue cannot be generated to pay off maturing debt, two options emerge. Defaulting on old debt, which is a remote possibility for developed countries; and inflation, which eats away real value of the debt. The latter is precipitated by higher interests which reverberates through the economy as inflation. Allegedly, MMT is wrong to consider that inflation only emerges when full capacity is reached. In that thought experiment, it becomes obvious that Rajan could be uninformed about the sociological thinking behind MMT which is Chartalism, extending the argument that since the state can denominate the currency, control its value through fiscal policy, thus create markets and facilitate their operation through taxes, it does not require its debt to be bought by private agents which want to see future revenue prospects.

In his response to King (2020) and Rajan (2020), Galbraith (2020) suggests that central bankers using an "obscurantist cant" to mask their intentions dislike when their authority is challenged. Their attitude "combines bluster and condescension" towards a "popular, accessible and democratic" theory (Cachanosky, 2021). Indeed, in another article, Galbraith says that a spectre of MMT is haunting mainstream economics (Galbraith, 2019a). He argues that mainstream economists like King and Rajan are biased towards women, which constitute the large part of MMT's public figures. Moreover, they attack the strawman of MMT reduced into the caricature of printing press. This might be caused by a lack of knowledge on MMT, as Galbraith suggests (2020) that MMT does "not claim novelty" which as is argued by the two central bankers. The word "modern" in MMT is used in irony with a reference to Keynes who indicated the "state's prerogative to define what money is for those subject to its laws" (Galbraith, 2020). MMT also does not violate the "iron law". Quite the opposite, it supports the asset-liability relation with the sectoral balances model. MMT wants to generate full employment and price stability in line with the Fed's legal, "dual mandate" (Galbraith, 2020). MMT argues to transpose the functions of fiscal and monetary means. Thinking that fiscal policy is more able to achieve the goals of dual mandate, as argued by Kelton (Weisenthal & Alloway, 2021).

Nicolás Cachanosky, an assistant professor of economics at Denver Metropolitan State University, considers Galbraith's (2020) response a "poor defence". First, central bankers' arguments cannot be disregarded simply because of their attitude toward outsiders, and the claim concerning the women in MMT is just an ugly way to evade criticism. "A criticism of central banking, as currently practiced, is not a defence of MMT" (Cachanosky, 2021). Second, while it is correct that the US economy did not witness inflation in 2020 on the backdrop of huge deficit-funding, this does not indicate that in normal conditions deficit spending would work just as well as in crises, as this is what MMT advocates. "Standard monetary theory" too prescribes counter cyclical policies, it is not correct to present MMT as the sole explanation of the need to engage in counter cyclicality. In that sense, he too falsely compares counter cyclicality with MMT. He further contends that the theory will sure become more popular as it provides an argument for more deficit spending. But this does not prove its theoretical soundness nor persuasive strength.

Writing for the Richmond Fed, Krause et al. (2021) suggest that MMT draws from the experience of the last few decades of expansionary monetary policy that did not create inflation. That led them to argue governments are not budgetarily constrained. This naturalises a conjunctural condition. Krause et al. note that that historical condition had three actors. First, real interest rates have declined over the course of three decades with liquidity crashes in the dot.com bubble and the 2008 crisis. Second, inflation lost its place as a major concern and even replaced with deflation after the 2008. Third, unconventional monetary policy tools became mainstream after 2008 such as quantitative easing and forward guidance, leading many to consider that states could simply print money without inflation, an idea which monetarists were against. The fact that inflation and bond yields stood low led many to reconsider the validity of mainstream monetarist arguments of crowding out and central bank independence. In that context, MMT has built upon the supposed ineffectiveness of monetary policy and emphasised the efficiency of fiscal policy. So, for Krause et al. (2021) MMT should be called a "modern *fiscal* theory" due to its fiscal rationale.

MMT does not understand budget sustainability through the Ricardian[33] "intertemporal government budget constraint (IGBC)" which indicates that the trust of creditors to the government that it will pay off its debt with future revenues (Krause et al. 2021). In other terms, the belief that the government is solvent provides investment in government bonds. The power of dollar as world money has helped the US borrow limitlessly since US treasuries are deemed strong assets. MMT extended this privilege to all countries and thus argued that all countries "can simply print money to finance expenditures without repercussions" provided that they are "monetarily sovereign" (Krause et al., 2021). Monetary sovereignty, inasmuch as it is underpinned by a lack of foreign denominated debt is somewhat impossible since capital flows arguably freely subordinate developing countries by making them dependent on imports and short-term investments. Krause et al. (2021) also assess that "under MMT-influenced policy, there appears to be no mechanism that would compel foreigners to hold U.S. debt" which would erode the practical premises of MMT, the monetary sovereignty of the US.

In summary, the relationship between policymakers and MMT is characterised by transposition of fiscal and monetary functions to different means of policy, and the emphasis of MMT on fiscal policy. MMT alone does not influence policies but the prevalence of fiscal policy leads many to be drawn to it. Critics of MMT restate monetarist arguments on the deleteriousness of fiscal profligacy in a manner that indicates the extent of misinformation about, or a lack of genuine interest towards MMT. Policymakers in support of MMT have done so with conflating MMT to counter cyclical policies. MMT is not a theory of counter cyclicality. However, MMT scholars, trying to appropriate the political capital of implemented counter cyclical policies constantly change their policy alignments and arguments pragmatically, rendering the detection of MMT policies difficult. The uniqueness of MMT is a transposition of economic means to different functions. MMT is a particular understanding of fiscal and monetary nexus that argues fiscal policy has greater power in maintaining the business cycle as it helps generate employment and demand. In that sense, the argument that MMT is a recipe for hyperinflation is not entirely correct.

[33] According to Hamada (2022), MMT's critics rely on the Ricardian assumption that states have to balance their budgets over a period of time like a private sector agent.

MMT is concerned about inflation just like monetarists. But the mainstream finds a hard time understanding how MMT is concerned about inflation as MMT offers unfamiliar use of concepts. Despite that, the fiscal nature of MMT seems to have raised an interest in many policymakers.

5.2.2 Wider Academia and MMT

5.2.2.1 Mainstream Economists and MMT

The relationship between MMT and the wider economic scholarship could be understood in reference to what Smialek (2022) notes to be the two dominant forms of economic thinking in the US. “Freshwater” economists in inland schools underline rational markets, less government, and express the orthodox neoclassical argument in general. “Saltwater” schools situated on coasts, on the other hand, employ New Keynesianism which was a hybrid of monetarist-Keynesian arguments that do not exclude government intervention. MMT on the other hand, was “nurtured at out-of-the-way academies”. It was regarded not long ago as the “crazy uncle at the economists’ tea party, spouting wild ideas and unapproved theories about the almost magical spending powers of the US federal government” and monetary sovereigns in general (Von Drehle, 2020). In that sense, Smialek categorises it as a “brackish” form, a third way in economics built by Randall Wray, a student of Hyman Minsky and Warren Mosler. Wray taught Stephanie Kelton, who became a part of MMT’s inner circle during her graduate education in which she received a doctorate from The New School. Due to its highly marginal place as a closed intellectual community, MMT was considered a “cult in macroeconomics” the entrance of which to public debates and press with Keynesian ideas attached to a “wacky theory of money creation” eroded that marginal status (Lockert, 2022).

Von Drehle (2020) argues that now, on the backdrop of COVID-19 and secular stagnation, virtually everyone became an MMT supporter “even if they don’t cop to it openly”. Irwin, in an article which he proposes to try MMT in a smaller nation, says that “centre left economic policy thinkers” like Summers and Krugman oppose MMT “even as they accept some of its arguments and in practical terms have similar preferences for economic policy in the near term” (Irwin, 2019c). The emphasis on monetary sovereignty causes the economics community to oppose the theory disregarding the commonalities (Krause et al. 2021). Similarly, MMT scholars consider themselves “insurgents who view their antagonists as a calcified elite, and that establishment views the M.M.T. people as gooey idealists” (Irwin, 2019c). Even though it is “intellectually stimulating and somewhat ideologically appealing”, Levitz suggests (2022b) it is “politically quixotic”. MMT advocates “are messianic in their claims to have proved even conventional Keynesianism wrong, tend to be unclear about what exactly their differences with conventional views are, and also have a strong habit of dismissing out of hand any attempt to make sense of what they’re saying” (2019b). They often snarl at criticisms saying that MMT is not understood correctly, which is an arguably correct statement. They sometimes accuse their critics to be a “corrupt tool of the oligarchy” (Krugman, 2019b). So, the academic debate that surrounds MMT is not only of theory but of politics. As such, the debate featured “duelling rhetorical styles and no small amount of insider vs. outsider dynamics” (Irwin, 2019c). Wray (2019) goes further and suggests that there might even be “conspiracy” against MMT to keep it on the fringes of economics.

That accusation is related to a survey conducted to show what renown economists think about MMT. The Chicago Booth School of Business survey described MMT as “the idea that a country is able to borrow in its own currency need not worry about government deficits and debt” which “underpin calls for new public spending programs, has been debated widely in newspaper columns, blog posts and tweets - often in quite vitriolic ways” (Chicago Booth School of Business Poll on “Modern Monetary Theory”, 2019). It asked its participants mostly from Ivy League or prominent schools whether they agreed on some of the basic tenets of MMT: “*a) Countries that borrow in their own currency should not worry about government deficits because they can always create money to finance their debt. (b) Countries that borrow in their own currency can finance as much real government spending as they want by creating money.*” With the participation of 38 “experts” which “on the first statement, only 1 expressed no opinion, 15 disagreed and 22 strongly disagreed. On the second statement, 3 expressed no opinion, 11 disagreed and 24 strongly disagreed.”

Overall, the poll suggested an unsurprising unanimity against MMT. One Harvard fellow, Oliver Hart noted that such “behaviour can quickly lead to inflation or even hyperinflation once the economy is close to full capacity”. This is not indeed unaccepted by MMT. Another economist from Chicago, Steven Kaplan, expressed a similar concern: “At some point it becomes untenable, and the country becomes Venezuela or Zimbabwe”. Concerning the assessment “a”, one Stanford economist, Kenneth Judd expressed that “a government may be able to do this once but doing this systematically will make it impossible to sell bonds in the future” in a similar vein to Robert Shimer of Chicago who emphasised that this was bound to create inflation, while Markus Brunnermeier of Princeton indicated examples such as the Weimar Germany and the Latin American countries. Little they accounted for was that MMT removed the issue of bonds from government funding. Concerning the assessment “b” another Harvard economist, Eric Maskin argued that too much inflationary spending would render the national currency so depreciated that more inflationary spending would become exceptionally hard. Larry Samuelson of Yale reiterated the argument by saying “hyperinflation, collapse and other crises indicate there are limits” to discretionary spending.

In response to the Chicago Booth poll, Wray wrote a blog in which he raised a suspicion of a conspiracy and said that the poll is “just plain troll” (Wray, 2019). “Krugman cannot talk about anything else but MMT. Everyone from Summers to Powell, from Henwood to Epstein, has to join ranks to attack a theory created by half a dozen economists?” (Wray, 2019). Delving into the responses to the questions, Wray finds that the answers were mostly in line with MMT. For example, Richard Thaler of the Chicago Booth responded to the assessment “b” saying “I don’t like this question. I guess it is true in some sense, but surely inflation looms at some point” while Maskin argued “against” the assessment “a” saying “printing money causes its own problems, e.g., the risk of inflation” and Hard, again on “a” said that “this kind of behavior can quickly lead to inflation or even hyperinflation once the economy is close to full capacity”. Such answers are the mainstay of MMT-bashing but they argue against MMT “on the basis that unbridled spending would exhaust the supply of available resources and thus cause inflation. This has always been MMT’s point, too” (Wray, 2019). It was never argued by MMT that states could spend without a *real* constraint. Furthermore, Wray indicates that William Nordhaus of Yale “agrees with the MMT position that floating the currency increases policy space”. The disagreement seems to stem from formulations of assessments “a” and “b” rather than a profound opposition to MMT.

The “conspiracy” against MMT becomes more visible for Wray considering that the Chicago Booth hired a PR specialist from the London School of Economics and credited an MMT critic from Stanford for the poll. Wray suggests that these neoliberal scholars are attacking MMT to discredit Alexandra Ocasio-Cortez’s welfare programmes which she implied to have influenced by MMT claiming the theory should have been a “larger part of our conversation” (Lockert, 2022). Her move was a practical expression of what Wray thinks as saying “we don’t need their stinking money. We’ve got MMT”. With that move she circled around the deficit hawks and their naysayers along with those who wanted less taxes, the rich and alike. MMT-bashing united the neoliberal left and right against AOC, Wray argues (2019). To save the world from natural devastation, in an analogy with the WW2 efforts to win and rebuild, we should spend. But to do so “we have to shake off the neoliberals who’ve been destroying our country and our world for more than two generations. They began in 1974 with the argument that an overspending government caused inflation. Too much regulation and coddling of unions caused unemployment and slow growth” (Wray, 2019). In that sense, MMT consolidates politically around an agenda against neoliberalism and epistemologically against monetarism. Politically, Wray thinks they should use climate change as a leverage for MMT policies. He says that “we don’t need to go hat-in-hand to rich folks to get them to pay for” world-saving projects as MMT indicates the method of funding (Wray, 2019).

In criticism of MMT, chairman of Bush administration’s Council of Economic Advisers and a Harvard Professor, Gregory Mankiw wrote a paper (Mankiw, 2020). He argued that despite the bombastic name, MMT was developed on the fringes of economic scholarship. It became only popular after left-wing politicians like Sanders and Ocasio-Cortez threw it onto the debating-ground to back-up their policy proposals. He honestly discloses the fact that he might be too entrenched in mainstream macro, hence with a good-intentioned scepticism, he tries to explain what Neochartalism is about and the difference it holds between mainstream (Mankiw, 2020).

For Mankiw, the first difference between the “standard approach” and MMT is that the former begins with an assumption that “relates the present value of tax revenue to the present value of government spending” while MMT underlines that in the ideal condition of monetary sovereignty the currency issuer is enabled to be less fiscally considerate (Mankiw, 2020). He expresses his feelings for MMT as being in between “languid concession and vehement opposition” because while it is correct that states do not face the financial constraints that households experience, MMT’s conclusions are different from those of Mankiw for three reasons: First, because greater monetary base is said to be resulting in inflation, interest payments would accumulate over time and create a path-dependency to constantly print money in a way that exponentially multiplies wealth and aggregate demand, resulting in more inflation. However, dependence on easy liquidity is not something created by MMT, but due to loosely implemented monetary policy after 1980s. Relatedly, and second, lower interest rates entrench the inflationary trend. But we did not see an inflationary trend during the period of low interest rates. Third, pumping inflation could disincentivise investment, reduce direct tax revenues, and hinder taxation capacity. Mankiw assesses that while it is theoretically impossible for a state to default, it might prefer to do so to prevent hyperinflation. Under these circumstances, Mankiw thinks, it is wrong to argue against the quantity theory of money that underlines the causation between inflation and increases in the monetary base. A rather interesting assessment by Mankiw is that MMT regards inflation as an outcome of “class conflict” which implies the condition in which capitalists and workers fight over a larger share of the national income (Mankiw, 2020). The state appears as an arbiter in that relationship: “incomes policies such as government guidelines for wages and prices, are a solution to high inflation” (Mankiw, 2020). So, Mankiw does not exclude more state involvement in the economy in relation to its role as a class-arbiter which might precipitate inflation as a requisite of that role.

The second difference between MMT and the standard approach is on how the preferred policy outcome could be achieved. While both prefer an optimisation of social welfare, MMT’s emphasis in fine-tuning the economy through a fiscal-monetary policy confluence might be underestimating the complexity of the economy in a way that may lead to “unpractical” outcomes. Mankiw says that “MMT contains some kernels of truth, but its most novel policy prescriptions do not follow cogently from its premises" (Mankiw, 2020). However, as previously mentioned, in contrast to how Mankiw presents it, the theory is not a simple argument for pumping inflation. It is not a simple advocacy of expansionary fiscal policy. Rather, it is an effort to lay the theoretical groundwork on how to achieve price stability with full employment, in which the Chartalist analysis leads scholars to de-emphasise the distinction between fiscal and monetary policies which are based on particularistic goals concerning different parts of economic management. In that sense, Mankiw's presentation of MMT as a matter of inflation, and not accounting for the role of taxes and fiscal policy in the theory is unjust. In relation to its underlying theory of Chartalist money, MMT's "novel policy prescriptions" do "follow cogently from its premises" whereas Mankiw argues the opposite with little rigour towards MMT's underlying assumptions on the political roots of economic relations.

Similar to Mankiw, another Harvard professor with a bad reputation of methodological bias, Kenneth Rogoff, who also served as chief economist at the IMF and as an economist at the Fed Board, considers MMT to have a "grain of truth" while also relying on "some fundamental misconceptions" calling the theory "modern monetary nonsense" (2019b). First, Rogoff thinks that MMT wants to milk the Fed's balance sheet for social spendings, but the the printing press is "not a panacea". In MMT jargon, monetary sovereignty gives states room to the extent that inflation occurs "which is just nuts" for Rogoff (2019b). Printing too much money might hinder the trust to national currency. This might lead investors to dump the national currency precipitating inflation that could only be solved with central planning, which Rogoff (2019b) says is "perhaps the goal for some MMT supporters". Erosion of central bank independence could also have bad outcomes, that is why MMT will be eventually forgotten, he further argues. But similar to Reagan's supply side policies it could leave devastating marks on future policymaking as well (Rogoff, 2019b). Rogoff's second remark, the right level of debt and its acceleration in the context of low inflation and interest rates while the demand to dollar is strong is up to debate (Rogoff, 2019b). Rogoff notes that "how to exploit this increased US borrowing capacity is ultimately a political decision" (2019b).

Galbraith (2019a) wrote a piece in response to Rogoff which deals with his presentation of MMT as threatening “the entire global financial system” and the argument that MMT is “the front line of the ‘next battle for central-bank independence’” (Galbraith, 2019a). In that context, Galbraith thinks that Rogoff reiterates the usual way to oppose MMT which is underlining the theory’s so-called budgetary profligacy. However, quantitative easing as criticised by Rogoff in his effort to substantiate his remarks about MMT was actually successful in that it kept the economy afloat, globally and in the US. Indeed, Rogoff seems to accept it too in reference to the academic confusion about the level of government debt. In that sense, criticising MMT for advocating deficit spending is a groundless endeavour, as it only formalises the trend being observed for decades. Galbraith (2019a) underlines that “MMT is not, as its opponents seem to think, primarily a set of policy ideas. It “is not about Congress ordering the Fed to use its ‘balance sheet as a cash cow’. Rather it is essentially a description of how a modern credit economy actually works” (Galbraith, 2019a). It is a theory of monetary economies, not of practice.

According to Galbraith, it would not be inadequate to claim that MMT boils down to one argument that says monetarily sovereign countries which are able to pump money and drain its economy with money emission and taxation, like the US, “cannot become Venezuela or Zimbabwe”. Theoretically, they cannot experience crowding out which assumes that “the pool of finance is fixed” (Galbraith, 2019a). Scarcity of funds could always be offset by the state. The government is always able to inflate the economy if there is real demand. Therefore, abstract budgetary considerations on what exactly the level of debt should be are superfluous, they should be replaced with precedents of full employment and inflation. Galbraith says that MMT’s job guarantee programme is at the heart of that replacement. MMT’s insights on chartal money precipitate the proposal, even more so, that the statute of the Fed which gives the bank a “dual mandate” of price stability and full employment is supportive of the way MMT wants to use policymaking apparatuses. Galbraith implies that MMT-related proposals are a way of achieving that dual mandate, after decades of neglect of full employment (Galbraith, 2019a).

Krugman (2011b) assesses the practical relevance of differences between his approach and MMT, indicating the futility of debate: “They’re on my side in current policy debates, and it's unlikely that they'll ever have the kind of real -and really bad-influence that the Austrians have lately acquired" referencing monetarists. Furthermore, he understands "the premise that modern governments able to issue fiat money can't go bankrupt, [as]never mind whether investors are willing to buy their bonds". He thinks for MMT "deficits *never* matter, as long as you have your own currency" (2011a; emphasis in original) and notes that it is not entirely correct. In a liquidity trap, such assessments may not present a significant threat as the government is able to borrow practically for free (Krugman, 2011a). In normal conditions, however, the existence of a deficit can generate two responses: First, markets expect that the government will eventually find a source of revenue and continue to fund the deficit. In the second case, they do not think that. In the that scenario, Krugman's presentation of MMT is such that the government simply can print money. But this would lead to inflation since bond issuance drains away existing funds with a non-monetary asset which the government then spends to stimulate the economy. Krugman says he is "not clear on whether they realize that a deficit financed by money issue is more inflationary than a deficit financed by bond issue" arguing that "there are limits to the amount of real resources that you can extract through seigniorage" (2011b). Monetary sovereignty ensures funding could be made through the printing press without a regard to bond markets "is something I just don't understand" he states (Krugman, 2011a). This could not be valid outside the liquidity trap. "The MMT people are just wrong in believing that the only question you need to ask about the budget deficit is whether it supplies the right amount of aggregate demand; financeability matters too, even with fiat money" (2011b).

A prominent MMT advocate, Scott Fullwiler (2011) responds to Krugman's presentation of MMT in the blog Naked Capitalism. The title of his response is a pun on the name of Krugman's NYT column, "the conscience of a liberal" to which Fullwiler has added "neoliberal". He assesses that Krugman's critique is crippled by three false arguments. First, Krugman is said to be assuming that the size of "monetary base […] affects inflation if we're not in a liquidity trap". Second, MMT's fiscal stance is influenced by Lerner who is not in line with Ricardo, since "Neo-Liberals often believe that activist fiscal policy is Non-Ricardian"[34]. And third, bond markets set yields in the modern economy, the state is not much of an influence. Overall, these reflect the neoliberal approach to economy, and none of them represents MMT correctly. Krugman presents MMT as considering that deficits never matter, which is not right. Krugman assumes all increases in the monetary base to be inflationary even if they do not translate to spending. Deficits have no negative practical relevance inasmuch as they do not translate to aggregate spending. Furthermore, monetary policy is mostly irrelevant to the process of endogenous money creation. Monetary base does not come with a multiplier effect as assessed by neoliberals. The central bank must accommodate the money demand of banks which accommodate the demand of the private sector to money in line with the latter's spending patterns. Hence, the central bank can set its short term borrowing rate easily at zero per cent as money is endogenously created, while the bank only regulates the reserve balances of banks it holds. Inflation is not corollary to the monetary base, but the ways in which monetary capacity is allocated to real resources. As can be observed, Krugman thinks as if money per se holds value, rather than becoming valuable in relation to the real economy. However, per endogenous money, the state merely supplies the liquidity demanded by the private sector, the practice of which determines the value of money via how it is allocated. The state does not need to issue bonds to fund itself. Only the allegedly self-imposed constraint that the central bank cannot directly finance the treasury prevents this fact to come to life. This could be interpreted a denouncement by MMT of a particular constraint put on the political management of the economy. By contrast, Krugman assumes that market processes have ontological priority. In different terms, MMT assumes markets derive from the ontological existence of the state while neoliberals assume the opposite. By implication, MMT assumes market agents are subordinated by the state; the right, or the possibility to resist to the particular form of politics is not incorporated into MMT. The state is the secular god, the technocratic leviathan which can do no wrong if political constraints are removed, that is it acts as in line with the Neochartalist theory. Behind this discourse of MMT

[34] According to him, Ricardian fiscal policy is distinctly neoliberal (Fullwiler, 2011). Ricardian fiscal policy indicates that the government's debts are always backed up with future revenues. When this is not the case, the government must default, or generate inflation. "This is referred to as Non-Ricardian fiscal policy."

is the desire to let the state maintain capitalist relations of production with overt coercion underpinned by taxation.

Krugman (2019c) says he is not a “fan of MMT, which is basically Abba Lerner’s functional finance”. In another article (2019b), he criticises MMT’s focus on monetary sovereignty which underpins its understanding of functional finance. The only limit of monetarily sovereign states is real resources, or inflation. Hence the government’s job is balancing the level of aggregate demand. Krugman rightfully expresses his admiration to the “smart take” that “the budget deficit should be big enough to produce full employment, but no [sic] so big as to produce inflationary overheating”. In that sense, functional finance implies the political effort to offset the investment gap.

However, functional finance has some fallacies according to Krugman. It does not account for the trade-off between monetary and fiscal policies and the political and technical limitations of “snowballing debt”. He says that if the rate of interest is lower than the rate of growth, debt is not much of an issue whereas in the opposite case, debt might “snowball”. This means debt to GDP ratio will continue to grow exponentially, and investors would want more returns on the ever-riskier debt, increasing average interests. “So, at some point the government would be forced to run large enough primary (non-interest) surpluses to limit debt growth” (Krugman, 2019b) which would impose austerity and upward pressure on interests, hindering the goals of functional finance. Such forceful means of distribution are not theoretically integrated into analysis, rendering the argument rather technocratic. Despite its flaws, Krugman (2019b) predicts, “it looks as if policy debates over the next couple of years will be at least somewhat affected by the doctrine of Modern Monetary Theory”.

Somewhere else Krugman (2019c) questions whether MMT helps progressive efforts. In the US, tax hikes to offset increased social spending will be witnessed. He assesses that the US simply does not have enough unemployment to offset increased government spending without a drain on monetary base. Krugman presents MMT as if it is ignorant of the fact that beyond full utilisation of real resources inflation occurs. Reallocation of resources through tinkering with the monetary base with taxes and other incentives when existing capacity is insufficient, is one of the main arguments of MMT. Krugman (2019c) argues that a social welfare programme must “tax-and spend, not just spend" as if that was argued by MMT which never claimed to just spend without taxing, meaning add to the base of money without a drain. In the words of Kelton (2019a), "borrowing was not about financing deficits but hitting some desired interest rate". This appears to puzzle mainstream scholars on what the arguments of MMT are.

In response to Krugman's assessments about functional finance and MMT, Kelton (2019a) wrote a piece in which the argument saying that the former was the thing that pretty much defined the latter was subjected to intellectual refutation. She explains that MMT draws from many insights among which sectoral balances is arguably more important than functional finance. So, it is untrue that a critique of functional finance is equivalent to another directed at MMT. The first argument Kelton provides against Krugman's account of MMT is related to alleged "trade-off between monetary and fiscal policy". She says there is not a precisely detectable, abstract natural rate of interest to place the economy at full employment. There is always unutilised capacity which monetary policy is an inadequate tool for macroeconomic management. Therefore, interest rates should be kept at a virtual zero and the fiscal apparatus should take the reins of macroeconomic management. It could tax and issue bonds to "mop up" liquidity that generates excess demand. In that sense, fiscal and monetary policies do not work in opposition as modelled in the Philips Curve, but in coordination. Second, against Krugman's argument that higher deficits might create a condition in which interest rates are higher than growth, Kelton argues, the interest rate is "a policy variable": why would a central bank deliberately give a rate higher than that of growth (Kelton, 2019a). It follows from the Chartalist argument that as the state is the currency-monopolist and the markets rely on the state to provide them with the means to pay taxes with and transact the state is never bound to accept "market-determined" rates (Kelton, 2019c).

Other than that, Krugman misunderstood Lerner who saw fiscal tools as "a way to conduct monetary policy" (Kelton, 2019a). He basically said a monetarily sovereign polity can and should hold the reins to implement the dual mandate -price stability with full employment- instead of the central bank which is unable to perform that. In critical terms, sound finance fetishises monetary markets and the government deficit while negating real economy. If capitalism cannot survive without persistent deficits, which structurally appears to be the case, then the state should step in and manage the realisation process via its control over money stock. Neither the condition of excess savings, the liquidity trap, nor the ensuing secular stagnation are to be accepted as natural things. The state can generate or withdraw funds at will.

Kelton notes that Krugman adopts the “standard line” which assumes “budget deficits compete with private borrowing for a limited supply of savings”. However, “MMT framework rejects” the argument that monetarily sovereign countries can experience crowding out or a lack of funds (Kelton, 2019a). Writing his response to Kelton’s criticism of his presentation of MMT as the same as functional finance in an arguably condescending manner, Krugman says that “MMT people think they have an argument with conventional Keynesians like me” even though “we agree on basic policy issues right now” (Krugman, 2019d). He notes that this argument is related to the way Neochartalists conduct debate, creating polemics to draw attention. Debating them is “like playing Calvinball […] every time you think you’ve pinned them down on some proposition, they insist that you haven’t grasped their meaning” (Krugman, 2019d). Krugman insists on the trade-off between monetary and fiscal policies, and that if the latter is prioritised there will be crowding out due to a lack of funds. The dual mandate requires not just determination of a natural rate which Krugman too accepts to be hard to be determined precisely but a central bank is able to tinker with rates. Hence, monetary policy should not be given up on. Furthermore, Krugman seems to be confused about the MMT argument that fiscal activism leads to lower interests rather than higher. He says that “it seems as if she’s [Kelton] saying that deficits necessarily lead to an increase in the monetary base, that expansionary fiscal policy is automatically expansionary monetary policy”. Indeed, the practical outcome of Neochartalist thinking is a transposition of fiscal and monetary policies and their functions, which is a simple argument to a person aware of the basic tenets of the theory mentioned previously. In principle, each government spending adds to the monetary base. Krugman asks whether if MMT claims “as Kelton seems to, that there is only one deficit level consistent with full employment, that there is no ability to substitute monetary for fiscal policy? Are they claiming that expansionary fiscal policy actually reduces interest rates?” (Krugman, 2019d).

To these questions Kelton wrote a column (2019b) built on a criticism of crowding out "doctrine" which she says to be assuming two things. First, that budget deficits cause upward pressure on interest rates, and second, as a consequence, this leads to less private investment. Hence, crowding out assumes a dichotomous relationship between the state and markets, in the form of mutually excluding private and public investment patterns. As she notes "deficits don't *automatically* drive interest rates higher, and higher interest rates don't *automatically* translate into lower private spending" (2019b, emphasis in original) inasmuch as lower interests imply higher investments or spending which is the case in secular stagnation. In that sense, she tries to move the debate to a more "sociological" ground instead of the rather "economistic" one that Krugman is situated on.

The first answer she provides is "No. The right deficit depends on private behaviour, which changes" (2019b). Neochartalists advocate floating the deficit along with the investment requirements of private sector. The motor of changes in deficit is the job guarantee which is "a new stabilizer, automatically moving toward the 'right size' in response to changes in the level of aggregate spending" to "accommodate the private sector's net savings desires". Second, interest rates are hardly effective counter cyclical tools which can set expectations of profits as shown during secular stagnation. "The evidence suggests that interest rates don't matter much at all when it comes to private investment" (Kelton, 2019b). In that sense, social and psychological factors behind the historically determined notion of borrowing plays a key role. Keynes too had underlined this as "animal spirits". If profit expectations are low, lower rates can only cause speculative bubbles. More so, higher interests could even cause increases in the monetary base as deposits are multiplied. Third, "Yes. Pumping money into the economy increases bank reserves and reduces banks' bids for federal funds. Any banker will tell you this" (Kelton, 2019b). Krugman once made a similar claim that "people are holding more than they want, try to offload it, and drive rates down in the process (Krugman, 2013a). In other terms, banks acquire excess funds which they compete to loan out, resulting lower funding costs (interests). Last but not least, she emphasises that MMT does not accept Krugman's "straightforward framework" that shows higher deficits lead to higher interests and crowding out. This is rejected by MMT.

The debate at Bloomberg between Krugman and Kelton caused an online "buzz" (Kelton, 2019c). Krugman called Kelton's analysis "a mess" and that MMT was "a losing game" despite his political preferences which denounced "austerity policies" (Kelton, 2019c). In response, Kelton wrote another piece (2019c) in which she reiterated her commitment to the argument that deficits put downward pressure on interests in contrast to the "standard line" which was claimed to be adhered to by Krugman who argued that excess funds did not necessarily increase the monetary base. Kelton noted that this theoretical conclusion was underpinned by efforts "done to prevent the base from permanently increasing". So, Krugman's economistic logic failed to see the role of state in managing excess funds in terms of bond sales that helped manage the level of monetary base. Hence "deficit spending pushes down on the overnight rate, and bond sales pull it back up" (Kelton, 2019c).

Kelton says that during the 2008 crisis, Krugman argued against those who wanted austerity. His defence was limited to an economic downturn in which interest rates were as low as zero and which rendered fiscal policy the only viable tool. Hence, at times when monetary policy effectiveness decreased. However, for Krugman, other than times when the zero lower bound is valid, deficits will matter since there will be a limited amount of funds which the government competes to acquire with the private sector. In that sense, he assumes that the state cannot generate the funds it requires.

According to Kelton, Krugman's stance against fiscal matters is contradictory as well. He thinks crowding out is valid outside of the liquidity trap, but is scared of "what will happen to interest rates once financial markets wake up to the implications of skyrocketing budget deficits" and "if investors decide we're [US] a banana republic whose politicians can't or won't come to grips with long-term problems, they will indeed stop buying our debt" (Kelton, 2019c). Empirical developments of secular stagnation after the 2008 crisis proves that liquidity trap might be a sustained condition in which MMT's arguments could present a structural validity. In that sense, Krugman's macroeconomic stance is not a match for MMT, Kelton argues (2019c).

Both Krugman and MMT argue for expansionary fiscal policy. The difference between them, according to Krugman is that Krugman continues to consider monetary policy an effective tool of price stability unlike MMT, as he thinks liquidity trap is a temporary condition (Winck, 2021c). Krugman says the tax burden on wider population could be kept low while engaging in fiscal expansion, contrary to MMT. This requires the effective use of central bank provided it is not downgraded into a blunt force of monetary policy. He argues this would be more “progressive” and MMT is rather right-wing compared to his approach (Winck, 2021c). In line with former Fed chairwoman and the current US Secretary of the Treasury Janet Yellen, Krugman also argues that the government should do everything to rebound the economy, not be hesitant as observed during the Obama period. Deficit offsets with increased pay-fors might not be well for the economy as thought by deficit hawks. “They could keep the recovery from reaching its full potential”, he expresses, as the main problem facing the economy is demand, rather than high deficits (Winck, 2021c). He thinks expansionary fiscal policy and contractionary monetary policy together could redistribute wealth while generating growth in contrast to MMT, which proposes that growth without redistribution is possible.

Krugman’s preferences for redistribution include increasing taxes on the rich and cracking down tax havens (Winck & Sheffey, 2021). He is on board with proposals made by Romer and Ocasio-Cortez who both want to increase the tax rate over a certain income level (Krugman, 2019a). He justifies higher taxes in two arguments (Krugman, 2019a). Taking a thousand dollars from the very rich would not make much of a difference in their lives as marginal propensity to consume shrinks with as wealth increases. Giving the unutilised savings of the rich that would create bubbles and incentivise rentier behaviour to worse-off and to households could greatly generate demand. However, this should be done in a way that does not hinder the profit motivation of the rich to invest and diminish the competitive nature of markets. In that sense, Krugman (2019a) expresses that less income tax on the rich means a worse economic performance as shown during the Keynesian period.

Larry Summers is on the same side with Paul Krugman against MMT (Holland, 2019). Summers considers the rise of MMT as a consequence of the turbulent economic environment which “have led to the development of new economic ideas that reflect a significant break with previous orthodoxy” (Summers, 2019). He argues that MMT is a promise of “free lunch: the ability of the government to spend more without imposing any burden on anyone” (Summers, 2019). Despite its accurate arguments in a world of low interests, these are “stretched by fringe economists into ludicrous claims" such as a job guarantee, an effective labour-money standard (Holland, 2019). In addition, MMT is a recipe for hyperinflation "past a certain point" beyond which the power of the US dollar to work as international currency is jeopardised due to low demand to US treasuries resulting from a fragile dollar.

Summers (2019) compares MMT to Reagan's supply-side policies which initially represented the "valid idea that taxes had important incentive effects and that, in conceivable circumstances, tax cuts would always pay for themselves". A similar argument was made by Rogoff (2019b) as mentioned above. In that sense, despite the fact that MMT starts with the correct assumption "that traditional fiscal-policy taboos need to be rethought in an era of low real interest rates", it leads to devastating conclusions like "massive spending on job guarantees can be financed by central banks without any burden on the economy" (Summers, 2019). He argues that the "doctrine" is "fallacious at multiple levels" (Summers, 2019). Firstly, MMT assumes that government self-finance is costless. However, even with the simple use of the printing press, the government is forced to print more money due to the multiplier effect. Hence its quantity, and value, can hardly be politically maintained. MMT, informed by endogenous money theory, rejects the multiplier effect and the quantity theory because it assumes money to be generated on demand, and where there is demand to money, it cannot be inflationary. Second, the government cannot simply pay for its liabilities without creating hyperinflation in the long run if MMT is applied. Third, MMT operates in the ontologically contained realm of the nation-state. Non-monetary sovereigns which rely on other currencies cannot print to pay due to exchange rate risks and possible capital outflows. The latter is an interesting claim when considered with Bernanke's criticism of Summers as disregarding the international realm (Bernanke, 2015b).

Comparison of MMT with supply-side policies is also made by a *Washington Post* commentor, Allan Sloan who calls MMT "fantasy finance" and underlines its similarities with Trump tax cuts informed by a supply-side reasoning (Sloan, 2019). For Sloan, MMT is "magic money theory", "the Lefties' Laffer curve" which the supply-side economics was built on. He says he finds MMT texts "dense and nonsensical" (possibly due to their pragmatically changing and sociologically restructured arguments hard to be understood from a neoclassical epistemological stand point) and that it is not in any way how the world of finance works in reality (Sloan, 2019). In contrast to the MMT usage of the case, Japan's high deficits created sluggish growth. In that sense, Sloan turns the causality upside down. Deficit-funding is bad for economic performance whereas for MMT Japan had a deflation problem that led the state to borrow more and stimulate the economy. Moreover, he reiterates Summers' third argument that MMT is inconsiderate of exchange rate risks. If the Fed, or any central bank, takes the road of direct funding of the government, those who hold treasury papers and dollars might dump them due to what they perceive to be a lack of policy soundness. This would precipitate depreciation of the dollar and reduce the country's monetary sovereignty as creditors would want to be paid with other currencies (Sloan, 2019).

5.2.2.2 Critical Scholars and MMT

Per its outlook towards taxation as a technical means to maintain the base of money, MMT does not question distribution. Indeed, Kelton (2020) claims two arguably contradictory things at the same time. First, she says that the explanatory power of MMT "doesn't depend on ideology or political party". Hence, policies that rely on MMT are scientific and technical. But she also says that MMT makes a political argument on how the monetary system is working against the efforts of "obstructing, subverting and distorting" by the wealthy in the US "the way our economy works to their own benefit" (Boushey, 2019). So, the distributional preferences of the rich are maintained in the theory, as taxation is rendered a redundant tool to be used to generate overall welfare. Critical commentators focus on this contradiction.

MMT tries to legitimise itself as a scientific authority on the nature of money. Relatedly, its adherents assume MMT is theoretically impeccable. So, since MMT is the correct description of monetary affairs, the problem for MMT adherents becomes how to spread the divine word as Thornton (2020) notes. It is correct that MMT provides useful insights that could be helpful in creating public disillusionment about the ways in which markets operate and naturalise themselves, despite its own naturalisation of the assessment that states create markets and the latter needs the maintenance of the former as an ontological feature, as maintained by Lapavitsas and Aguila (2021). It has a political-pedagogical usefulness that increases its wider critical audience. Hence, it is not surprising that MMT is discussed "all over Marxist reading groups and Democratic Socialists of America chapters" (Henwood, 2019).

Assessments that MMT has a technical understanding of the monetary operations, and it focuses on generating demand, investment and welfare are contradictory. Despite the fact that MMT is generally considered a left-leaning framework, Warren Mosler is considered politically agnostic by Yves Smith who is said to be promoting MMT as a conservative individual (Henwood, 2019). Randall Wray claims that MMT is in line with a libertarian stance (Henwood, 2019). Moreover, despite Kelton's assessment that "Marx was important at some point", founder of Chartalism, Knapp was a right-wing scholar (Henwood, 2019). Compounding MMT's perplexing politics is its other influences. Beardsley Ruml a former chair of the New York Fed is one of these figures (Henwood, 2019). He wrote that governments have the financial freedom from money markets while funding the Geneva Institute which would become a breeding ground for future neoliberals. Ruml also advocates less income taxes on corporations.

Lapavitsas and Aguila (2019) argue that MMT is crippled by the misconception that real and monetary realms of the economy are separate. The result of that distinction and the claim that the real economic realm is created by the states by virtue of their Chartalist powers give MMT a significant allure for politicians with progressive policy discourses that alleviate the pressure around the politics of taxation and distribution as Boushey (2019) contends. As such, MMT "could free policymakers not only to act boldly amid crises but also to invest boldly in times of more stability" (Kelton, 2020). However, taxation is not only a way to engineer monetary conditions. It has real economic effects. So, taxation is "a crucial tool downgraded in importance by MMT" which is "economically and politically unwise" (Boushey, 2019). In that sense, Boushey (2019) argues that MMT distracts the public from being politically preoccupied with inequality, and directs attention to the unscientific ways in which economy is managed: "The real point of MMT seems to be to deploy misleading rhetoric with the goal of deceiving people about the necessity of taxes in a social democratic system" (Bruenig, 2019a). The problem is not the structure of distribution, but the unscientific ways in which the economy is managed. Hence, politics of distribution is downgraded into a problem of merit.

Indeed, MMT seems to have created wide-spread enchantment as a discourse that offers a dismissal of the politics of taxation. MMT's arguments are criticised by Henwood (2019) as if all economic and social problems could be solved" with a couple of keystrokes that create funds "without all that messy class conflict" (Henwood, 2019). Henwood says that despite its emphasis on real economy, the issue of production does not play much of a role in MMT because states create markets by determining and taxing in the unit of account. This makes money a free-floating entity without any social aspect other than being created by the state, which is to be considered social. Indeed, MMT lacks "any sense of what money means in the private economy, where workers labour and capitalists profit from their toil and compete with each other to maximise that profit, a complex network of social relations mediated by money" (Henwood, 2019). Even though both critical scholarship and MMT are underpinned by an endogenous money theory, the latter lacks the nuances implied by the focus on production as a social relation that generates value. The claim that money is "modern" for thousands of years assumes that money has an unchanging, unsocial, nature. The form of money as is situated in historically particular social relations underpinned by a set of complex technical, cultural, political, and economic qualities indicates the very relations it is underpinned by. So, the question of the form of money cannot be negated by just saying money has been around as long as states existed since that would be naturalising capitalism.

Problems relating to power in capitalist societies are also neglected by MMT as it paints a naive picture without social repression and domination that articulate with problems such as climate change, social and gender inequality. For MMT, all social problems could be solved by a resort to functional finance. Wray thinks that this makes taxing the rich "a fool's errand" (Henwood, 2019). That argument helps MMT in working around the US electorate poisoned with anti-tax and anti-state fervour (Henwood, 2019). Making Wray advocate more indirect taxes to maintain the base of money. This is striking because as a theory that claims to be preoccupied with inequality and welfare, MMT should not have been advocating indirect taxes that entrench inequality. For Wray, indirect taxes make "more sense" compared to taxing the income of billionaires (Mackintosh, 2021). Similar to Boushey, Henwood (2019) argues that relegation of taxes to a means to maintain the base of money is a bad strategy to deal with the issues of distribution. Taxation is a powerful tool to appropriate from appropriators. In his words, "taxation may not be full expropriation but […] as a form, however mild, of socialisation" to solve problems "we need to step on private capital's freedom of investment, which strikes at the heart of ruling-class power" (Henwood 2019).

An economist at the Biden's Council of Economic Advisers who received her PhD from The New School, where Kelton had too studied, Heather Boushey (2021) presents MMT as underpinned by an argument that the government "should decouple spending decisions from taxing decisions". For her, MMT does not promise "an endless supply of free money -that misconception gets picked up by critics and even some supporters- they often build in mechanisms to slow spending in the (unlikely, they think) event of inflation" (Boushey, 2019). From a critical perspective, MMT does not offer a "free lunch". But it also does not offer redistribution of the social wealth, a great part of which is appropriated by the rich. So, she thinks that "the left should resist the siren song of MMT" (Boushey, 2019). Henwood agrees with her that "it would be sad to see the socialist left, which looks stronger than it has in decades, fall for this snake oil. It's a phantasm, a late-imperial fever dream, not a serious economic policy" (Henwood, 2019).

As Henwood (2019) underlines, functional finance is hard to implement due to the political nature of economic policy. When investors do not want to buy bonds, the central bank is said to be the institution that can buy them, directly financing the treasury. But MMT does little to elaborate on that further. MMT does not say much on the precise level of spending despite boasting with great confidence that policymakers will be able to contain inflation. One prominent MMTer is claimed to have said to post-Keynesian economist Thomas Palley that less than 40 per cent inflation is costless (Henwood, 2019).

The hardships in implementing functional finance are partly related to the fact that monetary relations are underpinned by global power structures. Indeed, MMT is blind to these hardships as it is embedded "in a rich-country perspective, and in particular American exceptionalism" (Henwood, 2019). In that sense, monetary sovereignty indicates the exclusive abilities of the US government which enhanced its monetary sovereignty due to the fact that other countries have demanded US treasuries since US dollar has been as a safe asset. Moreover, production inputs are sold in US dollars. This augmented the demand to US treasuries. Having a currency that is weak is an infringement of monetary sovereignty. Other currencies are in an inferior position to dollar in that respect. The very ability of the US that gives it monetary sovereignty is the same thing that erodes other countries' monetary sovereignty. As such, dollar infringes the ability of countries other than the US to engage in functional finance. Lesser currencies, and financial assets denominated in them are most likely to be dumped by its holders in case of even a slight possibility of engaging in functional finance. That would cause inflation and put upward pressure on bond yields.

In terms of production, world money status of the US dollar puts a pressure on developing country policymakers to depreciate their currency in order to export more. Or, if the country is dependent on imports, this time the status of dollar forces developing countries to artificially keep their currencies valuable in a way that might hinder their production capacity. The implications of these conditions that underlies the global power relations that materialise in the control of world money are not incorporated into MMT, as to be in need of foreign currencies or assets is considered a policy error. For example, when asked by Henwood about the condition in Turkey which is following "MMT-friendly expansionary fiscal and monetary policies" - Summers had too described Erdoğan as the first practical MMT practitioner (Anstey, 2022)- Mosler responded by saying Turkey is a "dead duck" without MMT, and that it did not need to borrow foreign currencies, that there were great number goods denominated in lira (Henwood, 2019). However, some investment goods are only available in stronger currencies.

Henwood (2019) sees "material to admire in the JG" (job guarantee). Despite that, it seems to be that the programme generates casual labour due to the primacy of private sector jobs. Job guarantee was criticised by Beardsley Ruml, one of the influences on MMT. Ruml said that "men are not statistical units that can be properly moved from one column of an accounting sheet to another in order to preserve a general balanced level of employment" (Henwood, 2019). The job guarantee would also bankrupt some middle-scale employers and accelerate proletarianization. Simply for that reason bosses would oppose a full employment scheme preventing it with the power they hold. Indeed, if there is a movement politically strong enough to uproot the power of bosses with a job guarantee why stay there?

Similar to Krugman, who accuses MMT of playing calvinball (Krugman, 2019d), Henwood (2019) thinks that "it's really hard to figure out just what MMTers believe". Are they telling not to be frightened by larger deficits, which is a current policy consensus, or not to worry at all about deficits? They even deny when asked whether they believe "the government doesn't need to tax or borrow to spend', which is something they frequently do argue" (Henwood, 2019). MMT advocates have a confusing attitude to criticism, especially if it is from their left. Degrading and insulting are common responses.

Matt Brueing also thinks that the "bulk of MMT discourse is […] about using word games to make people believe that the US can have Northern European levels of government spending without Northern European levels of taxation" (Bruenig, 2019a). Founder of a think tank called "Peoples' Policy Project" which advocates "socialist and social democratic economic ideas", Bruenig (2019a) notes the discursive flexibility, or groundlessness of MMT. Conventionally, there are three ways in which the government can generate funds: taxation, borrowing, and printing. The former two implies that government acquires a part of the existing money stock whereas the latter one simply inflates it. Bruenig contends that for MMT the government funds itself via the latter, and the former two are done to delete excess and inflationary part of the money stock (Bruenig, 2019). That was implied in the headline of Kelton's (2000) seminal MMT article "Do taxes and bonds finance government spending?" meaning that even though they are not used for funding, taxes maintain price stability. Taxation was still necessary but for different reasons. It seems that "MMT is really just a very roundabout way of arguing that we should manage the price level through the fiscal authority and the debt level through the monetary authority rather than the other way around" (Bruenig, 2019a). Printing press is used for funding, but the crucial question is "how much seignorage can we realistically do?" (Bruenig, 2019b) which MMT does not provide a satisfying answer to.

MMT "is a good way to jam up the discourse and confuse people, which can arguably be useful politically, but as a policy matter, it does not add any new insight" (Bruenig, 2019a). For Bruenig (2019b), thus, MMT is actually not in opposition to the mainstream epistemology on money but it is a reassignment of the same policy objectives to different tools. Krause et al. (2021) reiterate this argument.

Max Sawicky concurs with Bruenig and Henwood that MMT is a “political dead end” (Bruenig, 2019a). A left-wing commentator with an experience in policymaking, Sawicky (2019) quotes the often used phrase about MMT that “what was good was not original, and what was original was not good” which also used by Krugman (Winck & Sheffey 2021). Its good part is the counter-cyclical kernel of Keynesian-heterodox thinking. The originally “bad” part is its emphasis on taxation as a price stabilising tool. In his piece written in response to Pavlina Tcherneva, MMT’s leading figure on the issue of job guarantee, Sawicky indicates that pay-fors constitute an impediment to progressive policies which MMT argues to do so. Taxation and borrowing are important tools which cannot be utilised completely because “under capitalism the ruling class blocks spending of which it does not approve” (Sawicky, 2019). The ones approved are like Trump tax cuts influenced by supply side economics. Hence the “hypocrisy regarding the deficit is well recognized”.

While it was initially bright, MMT was quickly vulgarised, Sawicky assesses, becoming “the new Big Rock Candy Mountain: no need for taxes, just print money” (Sawicky, 2018). This was underpinned by the anti-tax fervour around progressive policies which Sawicky says could only be overcome with popular mobilisation: “We won’t have nice things until people want them enough to struggle for them” (Sawicky, 2019). However, there is no political will towards that goal. In that sense, the claim of MMT that “paying for stuff is an illusion. Government spending is ‘self-financing’” (Sawicky, 2019) and fiscal policy could be exploited to the level of real capacity can only be utilised to the extent of material power relations underpinned by private property. MMT’s lack of a holistic perspective on what constitutes the social limits its political outlook to reforming capitalism. Problems of capitalism which MMT argues to be able to solve with policies informed by Chartalism necessitate questioning the social order as a whole (Sawicky, 2019).

In another piece at the Jacobin, Sawicky says that the correct political response to the question of pay-fors should be an aggressive rejection with an emphasis that “Republicans never talked about paying for their wretched proposals” (Sawicky, 2018). He makes proposals on how to stand against this tax scare (Sawicky, 2018).

From defence to covert budgets, there is a large room for welfare offsets that could be slashed. An efficient tax system could also help generate more revenue to be used for progressive policies without a significant increase in taxes. Considered with the fact that the US "collects very little in taxes compared to other countries" the insight is much easier to grasp (Sawicky, 2018). There might be new sources of revenue to be generated with a new generation of taxes such as carbon tax, or more conventional ones like the stock market tax, an estate tax. Public resources could be used more efficiently for more government revenue. There is a great deal of benefit in higher taxes that would generate household spending in crucial areas such as healthcare and education, themes of great struggle. Sawicky's stance on full employment through an "aggressive expansion of the money supply" is overlapping with MMT (Sawicky, 2018). However, they diverge on the limits of that expansion. The limit, for MMT, is inflation. This is underpinned by the argument that for MMT taxes are technical means to control the supply of money (Sawicky, 2018). However, for critical scholars, limits of the market, i.e., real capacity, are not a divine will. They can be manipulated and restructured by the state by more public investment, taxes, central planning and others. In that sense, it is obvious that MMT naturalises the ways market operate with the ontological mediation of the state whereas critical scholars emphasise their co-structuration in line with Marxist approach to money.

A King's College professor of economics and public policy, a former public servant at the British Treasury with left-leaning views, Jonathan Portes (2019) writes that MMT is becoming popular in the UK too, despite being a nonsensical "mixture of the tautological and the tendentious" (Portes, 2019). In the UK, there are members of the Labour Party who support MMT. Journalist Paul Mason and MP Chris Williamson are examples. Portes too thinks the argument that monetarily sovereign countries cannot go bankrupt is understandable. But it is not correct that deficits create markets as implied in Chartalism. You can experience government surpluses and excess demand at the same time, and vice versa. His argument relies on the assumption that MMT disregards whether an economy has real resources: "you can create money out of nothing, but you can't create doctors, schools, or consumer goods" (Portes, 2019). Indeed, MMT completely disregards the state's ability to generate real economic capacity as it thinks market conditions are a given.

5.2. Conclusion

This chapter has tried to show the main contours of the debate the MMT is surrounded by. Increased interest in the MMT was due to the post-2008 economic conditions which generated an unusual macroeconomic situation and necessitated unconventional policy prescriptions. The MMT has gained ground as more people and policymakers started advocating fiscal expansion. This is partly related to its opposition to more taxes. It is also partly because it is considered by some as a genuine epistemological position elaborate enough to challenge the Neoclassical epistemology that powered the mainstream.

The chapter detected that one of the main fault-lines in the debate on MMT is the one between inflation and deflation as the main issue target of policymaking. Those who focus on deflation are arguably informed with a state-centric policy agenda while those who focus on inflation are mostly in favour of a market-centric one. Those who focus on inflation made recurring emphases on the crowding out argument which MMT accepts to be a non-factor as the state is not confined to whims of financial market agents. States could generate funds and offset the lack of investment. So, the state should have been braver in tackling deflation that generated a secular stagnation. However, those who focus on deflation are not completely on board with MMT even though they see its merits as a counter-cyclical set of policies which require fiscal activism. However, they detect its staunch stance to have a possibility to generate problems in the real economy. In that sense, the fault-line between inflation and deflation is one economic policymaking instance which shows the eclecticism between Neoclassical Metallism-Monetarism and Chartalist arguments.

The debate around deflation-inflation is in reality a debate on how to manage the money stock. Thus, another fault-line is whether or not monetary policy has lost its significance. Scholars like Krugman do not agree with the MMT on that monetary policy is inefficient due to the zero lower bound as liquidity trap is a temporary condition provided that the state engages in active fiscal policy to give the central bank enough leeway to raise rates. That happened after the COVID-19 pandemic which saw significant interest rate hikes. The MMT on the other hand, building on the Chartalist argument that deficits are natural, proposes that the state should have exploited the liquidity trap by transposing the functions of monetary and fiscal policies as the latter are more efficient to maintain desired macroeconomic conditions. Indirect taxes that fluctuate automatically are advocated by the MMT and this is criticised by both critical and mainstream scholars as it renders taxation a technical matter. This is followed by considerations that MMT is politically misleading the audience from issues of distribution to issues around science and merit, despite some pedagogical benefits in creating a disillusionment on the Neoclassical naturalisation about how the economy works. However, MMT itself is a way of naturalising capitalism from a state-centric perspective. Negation of issues of distribution into technicality means that the MMT has assumed a politically impenetrable logic in markets that the state could do no more than to detect and pre-emptively direct it to way it is supposed to work. So, MMT appears to be more like an epistemological reproduction of the historical separation that characterised capitalism between states and markets, and less like an advocacy that markets are politically reconfigurable. Indeed, MMT seems to naturalise markets as a function of states which have existed throughout millennia.

CHAPTER 6

CONCLUSION: NEOCHARTALISM AS A HERETIC EPISTEMOLOGY OF NATURALISING CAPITALISM IN A STATE-CENTRIC FORM AFTER 2008

Marx once said that if our perceptions perfectly reflected reality, science would be superfluous. That is indeed valid for phenomena which science takes as its objects of inquiry as much as it is for Neochartalism. Despite its apparent advocacy of a repoliticised economic management Neochartalism naturalises markets as a function of the state that has an abstractable logic of operation, sectoral balances. What the state should do in that respect is nothing more than to detect the trends which the theory underlies as functional finance. Practically, this means a reconfiguration of fiscal and monetary policy apparatuses and reassignment of their functions. Conventional monetary policy becomes a way to meet the endogenous demand to money while fiscal policy becomes a way to manage the stock of money. Monetary policy loses its significance as it maintains a near zero interest rate to meet endogenous demand whereas monetarist practices used monetary policy to curb demand. MMT thinks that demand is natural, and set in markets, and as that is a practical given, the state should always meet that demand. Utilisation of policy in that manner would be more efficient in generating demand and investment, price stability and full employment compared to the established ways of policy. So, MMT is a simple transposition of functions of monetary and fiscal policy as they are conventionally understood. So, despite the politicised appearance of its corpus and the allure it has as a theoretical stance that seemingly shows the solution to all economic problems at the hands in the state, it reconfigures the confines of the state in relation to markets. In that reconfiguration, the state should always meet the endogenous needs of the market, or markets might collapse. In different terms, MMT is an epistemological way to reproduce the subordination of labour to capital accumulation through the capitalist market.

Moreover, MMT does not deal with the question as to why collapse of the markets would be a bad thing if the state is in a position of a secular god that could determine every economic aspect of the civil society. Indeed, the logical conclusion of MMT is that it could invest, employ, and generate value on its own without a need to private agents. But that assessment is nowhere to be found in MMT, despite the detection by some mainstream authors that such a conclusion is theoretically possible. MMT advocates might also be personally aware of that possibility, but they tend to be silent on it since it would entrench their position as a heretical movement.

As mentioned, by the virtue of its naturalisation of markets, MMT also naturalises the wage relation which manifests the rule of money over state and society. The difference between MMT and the mainstream naturalisation of the rule of money over state and society is that MMT ontologically prioritses the state over markets, making the rule of money a function of the state. Indeed, that conclusion is integral to the Chartalist theory as state creates money and forces it over society. Thus, MMT is not a social theory as its adherents claim, but a state-theory of money, as the state is not disciplined by money but only by the mediation of the real capacity which the markets could provide it to buy with the money it creates. But if states create markets, why need the mediation of money? Just use simple coercion. That is not explained by MMT.

It could be said that for MMT, states create capitalism and maintain it. To accept this is essential for good policy. Business cycles could be maintained by the secular powers of the state. That conclusion helped MMT gain audience after 2008 which discredited mainstream theories that underlined the scarcity of funds in a historical condition of excess savings that could not be channelled to real investment that would create demand and alleviate income inequality. Neochartalist epistemology offered a panacea by saying the state could offset the lack of funds with the printing press, not taxes, as long as there was real demand. This has made many politicians and activists to utilise it as a populist discourse that would not scare capitalists and satisfy electorates at the same time.

In the second chapter, the study tried to show the essence of MMT: Chartalism, along with what it criticises -neoclassical metallism/monetarism- and what it is criticised by -Marxism. These monetary epistemologies have discernible political agendas which lead them to be called market, state, and social theories of money. It has been shown that the former two naturalised historical phenomena. Despite the Chartalist emphasis that its arguments are socially-oriented, Marxism argues that it is a state-centric monetary epistemology that naturalises capitalism in a different form. The chapter also critically elaborated on the relationship between states and markets, and vectors of determination in these epistemologies with a debate on the origins, supply and value, and global aspects of money in terms of whether or not it is deemed endogenous or exogenous. Both neoclassical and Chartalist arguments have provided linear vectors of determination between states and markets, compounding their asocial aspect whereas Marxism extends a rather nuanced understanding of the relationship between states and market. It has argued that states and markets are different moments in the reproduction of the social totality underpinned by the reproduction of capital, i.e., capital accumulation, and the rule of money.

The third chapter has examined the epistemological break underpinned by the crisis of Keynesian policies. That break gave rise to monetarism first. Monetarism meant a rigid monetary rule over the emission of liquidity in terms of a quantity rule. However, due to this rigidity, it created new contradictions for capital accumulation. This led its propositions to be hybridised with a somewhat Keynesian framework that entrenched the rule of money over society, but alleviated the pressures of competition on particular capitals as it loosened the structure of money emission in terms of more credits. NMPC put in effect a price rule in maintaining the stock of money which meant that states would be responsible with ensuring prices increase predictably. Central bank independence gained importance as a result of that consideration. Indeed, central banks became platonic guardians of monetary policy from any political infringement. However, they were not operating with rigid rules as that proved detrimental, rules and discretion were compromised in the context of instrumental independence of central banks. They would follow the goals determined in their stature but would do so with whatever tools they could develop. The two components of macroeconomic success of policy, full employment and price stability were the goals of Fed in the US. Consequent crises witnessed the reduction of interest rates up until 2008. The crisis of 2008 showed the dangers in constant interest rate reductions to stimulate the economy as 2010s witnessed what came to be called secular stagnation and over-saving, speculative bubbles and a lack of investment and demand. But as economic performance came to rely heavily on easy liquidity, interest rates could not be hiked. This led to considerations on the necessity of more fiscal activism and provided a fertile ground on which MMT could establish itself among those who deemed fiscal activism could offset the lack of investment in line with its Chartalist epistemology. It has derived from the historical examination that the period often described as neoliberalism provided the context in which statolatric arguments of MMT came to be deemed the only exit that alleviated material economic problems without a wholesale rejection of the capitalist character of contemporary society.

In that historical context, the fourth chapter has critically surveyed Neochartalism and tried to show the resonance of its prescriptions in the post-2008 context of policy problems. MMT’s basic tenets are Chartalism, endogenous money, sectoral balances, functional finance, job guarantee, and monetary sovereignty. These arguments articulate neatly with the necessity of fiscal activism underpinned by the post-2008 context. Neochartalism has provided discursive ammunition against austerity with a focus on the need to generate more demand. Generating demand, or creating inflation is integral to solving the contemporary problems of capitalism, as noted by other mainstream scholars as shown. So, Neochartalism appears to offer another way of reproducing capitalism.

In the fifth chapter the policy debate around MMT has been examined. MMT detects deflation as the main problem in the face of capital accumulation and advocates to solve this problem with a transposition of functions between fiscal and monetary policies. However, this implies that monetary policy is ineffective, which most scholars do not agree with. Moreover, such a transposition is argued by the mainstream to possibly create inflation. For them, inasmuch as MMT is a counter-cyclical policy-kit, it could be useful. But making debt and fiscal activism the cyclical norm of capital accumulation in capitalism, as has been during most of the 21st century, means establishing the very problems that need solutions. If monetary policy is useless, why not abandon it altogether? So, the mainstream scholars have thought MMT as recipe for hyperinflation as it is a free lunch. Even those whose views are somewhat sympathetic to MMT are unsure of the prospects of such a transposition. All these amount to the heretic outlook MMT has acquired in public debates.

The other side of criticism has come from left-wing scholarship. MMT's advocacy of exploiting low interests in a way that erodes the functions of monetary policy to fiscal policy means that taxes are nothing more than means to maintain the desired stock of money. Indeed, MMT wants less direct taxes, more indirect taxes, as mentioned. Indirect taxes floating in conjunction with the desired stock of money is not a technical prescription as MMT scholars would present it. MMT shares the distributional priorities of the rich as they think it is "possible to make the vast majority of people better off without necessarily having to make anyone else worse off" (Dmitrieva, 2018b). Such an argument is unacceptable for those who are sceptical about the welfare of the rich despite MMT's overall political-pedagogical value in creating public disenchantment about the neoclassical understanding of the economy and money. In that sense, these scholars are correct in detecting the convictions of the Neochartalist epistemology. It is not a social way of understanding the economy as they argued it to be nor a wholesale rejection of the established social relations of power, nor it is cusp of a revolution. MMT reproduces the separation of states and markets/society and naturalises the rule of money in capitalism. So, the "heresy" is not an essential, but a formal one. However, this study dealt with MMT until the end of COVID-19 crisis, and the argument proposed here should be understood in that context because the surge of inflation and interest rate hikes that followed necessitates further studies.

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APPENDICES

A. TURKISH SUMMARY / TÜRKÇE ÖZET

Bu çalışma, Neochartalizm veya internette Modern Parasal Kuram olarak adlandırılan heterodoks iktisat kuramı üzerine bir inceleme sunmakta ve bu kuramın 2008 sonrasında kazandığı önemi ve bu bağlamda ana akımla girdiği diyalogu eleştirel bir perspektiften anlamaya çalışmaktadır. Bu diyalogun anlaşılması, 2008'den sonra merkez bankacılığı ve iktisat politikasında yaşanan ve daha fazla devlet müdahalesi, hatta kimilerince tabir edildiği şekliyle siyasallaşmayla tanımlanan gelişmelerin anlaşılması için önem teşkil etmektedir. Zira, 2008 küresel iktisadi krizi ile ortaya çıkan ekonomik koşullar içinde, politika süreçlerinde etkili olan kişi, kurum ve araştırmacılar Neoklasik iktisat kuramı ve politikasına ilişkin çeşitli şüpheler geliştirmeye başladıkça, Neochartalizm ve ana akım da yakınsamaya başlamıştır. Bu yakınsama, politika yapım süreçlerini yönlendiren kaygılar ve bu süreçleri tanımlayan uygulamalar ile bunları destekleyen düşünceler üzerinden takip edilebilir.

Bu yakınsama bağlamında bu çalışma, Neochartalizm'in iddia edildiği gibi heretik olup olmadığını incelemektedir. Ayrıca, bu soruya verilecek cevabın iktisat politikası yapım süreçleri için ne anlama geldiği hakkında bir fikir vermeyi de amaçlamaktadır. Çalışma, Neochartalizm'in geleneksel politika oluşturma biçiminden yalnızca pratiği itibariyle farklılaştığını fakat ana akımın kaygılarını paylaştığını savunmakta ve bu nedenle Neochartalizm'in görünüşte ana akımla tezat olduğunu iddia etmektedir. Dolayısıyla Neochartalizm yalnızca görünüşte heretiktir. Nitekim 2008 sonrası ekonomik koşulların alışılagelen politika yapım biçimlerini itibarsızlaştırmasıyla beraber ana akım ve Neochartalizm arasındaki farkların görece azaldığına şahit olunmuştur. Neochartalizm'in ana akımla kurduğu bu ilişki kapitalizmin idaresine dair birtakım sorunların çözümü üzerine kuruludur ve Neochartalizm iddia ettiği gibi toplumsal ilişkileri önceleyen bir kuram değil, piyasanın belirli bir kapitalist biçim içinde ve devletten ayrı olarak yeniden nasıl üretilebileceğini sorgulayan bir kuramdır. Bu anlamda da Neochartalizm, sınıf egemenliğini üretmenin farklı bir düşünsel yoludur. Bu çalışma, algılarımız gerçeklikle bire bir örtüşseydi bilim denilen şeye ihtiyaç olmayacağını hatırlatan Marx'ı izleyerek oluşturulan bu savı desteklemek üzere, bilimsel bir araştırma nesnesi olarak ele alacağı Neochartalizm'in ilk anda algılandığı biçiminin ötesine geçen bir çözümleme yapma iddiasındadır.

Çalışmada, Chartalizm, Metalizm ve Marksizm farklı para kuramları olarak incelenmiş ve bunlar sırayla piyasacı, devletçi ve toplumsal para kuramları olarak sınıflandırılmıştır. Metalizm'e göre para devlete öncül bir şekilde var olagelmiş, piyasalar içerisinde yer alan aktörler kendi rasyonaliteleri sayesinde herkesin talep ettiği bir eşyayı mübadele aracı olarak tanımlayarak parayı yaratmış ve böylece piyasa mübadelesini takas etmenin yarattığı zorluklardan kurtarmışlardır. Metalizm'e göre paranın varlığı, takas ekonomisinden nitel bir kopuş yaşandığı anlamına gelmez. Bu teorik hattı takip eden araştırmacılar da parayı, ekonomik ilişkiler içerisinde bir değişken olarak kabul etmemektedir. Nitekim, Parasalcı araştırmacılar bu hat üzerinde konumlanmaktadırlar.

Chartalizm, Metalizm'i eleştirmektedir. Bu kurama göre, piyasaları devlet para yaratma ve vergi koyma tekeli sayesinde yaratmaktadır. Para, bu yaklaşımda, devlet ve tebaası arasındaki bir toplumsal ilişki olarak işaretlenir ve Metalizm'in paranın toplumsallığını görmediği vurgulanır. Devletin piyasaları yaratma kapasitesi, Chartalizm'e göre, paranın esasen bir hesap birimi olması özelliğine dayanmaktadır. Hesap birimi bir defa tanımlandıktan sonra paranın bu değer birimine maddi olarak tekabül etmesine ihtiyaç yoktur. Paranın maddi varlığı olmadan da mübadele gerçekleşebilir zira önemli olan şey para vasıtasıyla devredilen alım gücüdür. Devlet bu hesap birimini tanımlar, bu hesap biriminden vergi koyar ve verginin ne ile ödeneceğini belirtir ve bu ödeme birimiyle piyasadan mal ve hizmet satın alarak piyasaları kurar. Herkes vergi ödemekle mesul olduğundan, özel kişiler vergilerin alındığı para biçimini özel mübadelelerinde de kullanır; zira verginin bu para biçimiyle toplanıyor olması, ilgili para biçimine olan talebi artırır. Neochartalistler, bu piyasa kurma faaliyetine ilişkin birçok tarihsel örnek vermektedir. Dolayısıyla para esasen borçtur. Parayı değerli kılan şey, arkasındaki devletin o para ile borçlanmış olduğu gerçeğidir.

Marksizm ise bu iki yaklaşımı da eleştirmekte ve paranın tarihsel ve toplumsal bir olgu olarak içerisinde yer aldığı kapitalist ilişkiler bağlamında farklı fonksiyonlar aldığını savunmaktadır. Para, Metalistlerin veya Chartalistlerin iddia ettiği gibi tarih üstü bir mantık ile tanımlanmamaktadır. Bu bağlamda, Chartalizm'in paranın, devlet ve tebaası arasındaki toplumsal bir ilişki olduğunu söyleyerek yaptığı vurgu oldukça devlet merkezlidir. Marksizm'e göre para hem bir mübadele aracı hem bir hesap birimi hem de kendi başına bir değer, yani para olarak paradır. Para olarak para, paranın kredi işlevine ve dünya parası olarak kullanılabilme özelliğine işaret eder. Marx'a göre para kapitalist toplumsal ilişkiler içerisinde anlamlanır ve kapitalizm içerisinde günlük hayatı örgütleyen temel ilke, fetiş haline gelmiş metalar arasındaki nexus rerum (evrensel birleştirici ya da evrensel bağlayıcı) olarak görülmelidir. Marksizm'e göre parayı değerli kılan şey, onun metaların evrensel eşdeğeri olması, yani metaların değerini işaretlemekle birlikte onların değişimi için kullanılabilmesidir. Dolayısıyla para Metalizm'in iddia ettiği gibi kendi başına değerli değildir. Aynı şekilde, paranın arkasında devlet borcunun olması da ona değerini veren şey değildir zira bu iddia paranın metalar ile kurduğu ilişkiyi hesaba katmamaktadır. Metaların para aracılığıyla değer kazanması onların kullanım değerinden ziyade mübadele değeri için üretilmesini beraberinde getirir. Başka bir ifadeyle, kapitalizmde üretim, kullanım değeri için değil daha fazla mübadele değeri yani para elde etmek için yapılır. Bu da bütün toplumsal unsurların para ve ona bağlı sermaye birikim süreci tarafından disipline edildiği anlamına gelir. Bu, Simon Clarke tarafından paranın egemenliği olarak tanımlanmıştır ve paranın tarihsel niteliklerini anlamak için oldukça önemlidir. Paranın egemenliği, sermaye birikiminin yeniden üretimine bağlıdır ve bu da teorik düzlemde iktisat ve siyasetin, kurumsal düzlemde ise devlet ve sivil toplum/piyasa arasındaki ayrımın sürekli yeniden üretimi anlamına gelir. Dolayısıyla, bu düzlemler arasındaki ayrımlar mutlak değildir ve tarihsel olarak yeniden üretilir. Bu süreç içerisinde sermaye birikimine içkin çelişkiler tarihsel olarak farklı biçimlerde karşımıza çıkmakta ve bu, sermaye birikiminin koşullarını devlet-piyasa ayrımını veri kabul ederek sorunsallaştıran Chartalizm ya da Metalist-Parasalcı Neoklasik para kuramları gibi kuramsal pozisyonların farklı zamanlarda farklı oranlarda öne çıkmasına neden olmaktadır. Marksizm ise sermaye birikiminin kendisini sorunsallaştırarak bu iki kuram arasındaki yakınsama dinamiklerini tespit etmemizi sağlar. Bu önemlidir zira görünüşte karşıtlık sergileyen Chartalizm ve

Neoklasik Metalizm-Parasalcılık gibi iki parasal kuramın sermaye birikim sürecinin maddi çelişkileri içerisinde birbiriyle nasıl diyaloga girdiğini gösterir. Bu iki kuram, politika yapım sürecine beraber fakat farklı oranlarda etkide bulunmakta ve bu durum da ana akım düşüncenin eklektik yapısını imlemektedir.

Paranın devlet mi yoksa piyasalar tarafından mı belirlendiği sorusu, daha kavramsal düzeyde içsellik (endogeneity) ve dışsallık (exogeneity) sorunsalı etrafında tartışılmaktadır. Politika yapım süreçlerini besleyen bu kavramsal ve kuramsal pozisyonların birbirleriyle süreç içerisinde nasıl yakınsadığının gösterilmesi, bir yandan sermaye birikiminin ve dolayısıyla kapitalizmin soyut ilkelere değil pratik hedeflere odaklandığını göstermek açısından önemlidir; diğer yandan da Metalizm ve Chartalizm'in hangisinin daha doğru ya da yanlış savları olduğunun ötesinde bir sorgulamaya işaret etmektedir. İlk aşamada, yani paranın kökenine, nasıl ortaya çıktığına ilişkin soruya verilen cevap, Chartalizm ve Metalizm arasında bir karşıtlık olduğunu akla getirmektedir zira Chartalizm, paranın dışsal olarak devlet tarafından yaratıldığını söylerken Metalizm paranın piyasalar içerisinde içsel olarak yaratıldığını söylemektedir. Fakat paranın nasıl arz edildiği aşamasında tam tersi bir görünüm sergilenmekte, paranın arzının Chartalistler içsel, Metalistler dışsal olduğunu söylemektedir. Buna göre, Chartalizm, paranın arzının piyasadaki talebe göre belirlendiğini söylemekte ve devletlere bu içsel talebi karşılama görevi yüklemektedir. Öte yandan, Metalistlere göre para dışsal bir ilkeyle, başka bir ifadeyle, para olarak kullanılan maddenin kıt olması veya bu kıtlığın merkez bankalarının para emisyonu üzerindeki güçleri üzerinden düzenlenmesiyle belirlenmektedir. Metalizm devlete kıtlık ilkesinin politik yollarla ihlal edilmemesi ve politik olarak korunması görevini vermektedir. Zira paraya politik müdahale olmazsa, takas ekonomisi doğal olarak verimli olduğundan piyasalar dengeye kendileri gelecektir. Bu noktada dikkate değer husus, Chartalistlerin paranın değerini belirleyen şeyin piyasalara içkin bir şekilde oluşan talep olduğunu savunması, Metalistlerin ise paranın değerinin devlet veya maddi bir kısıt tarafından belirlendiğini savunarak devlet ve piyasa arasında tek yönlü bir belirlenim çizgisi çekiyor olmasıdır. Yani Chartalizm ve Metalizm arasında varolduğu iddia edilen ayrım, her ikisi de bir biçimde piyasa ve devletin dışsal olduğunu savunduğundan şüpheyle karşılanması gereken bir şeydir.

Metalizm ve Chartalizm arasındaki bu diyalog, Nakit Okulu ve Bankacılık Okulu arasındaki tartışmaya kadar geri götürülebilir. Gerçekten de Mehrling'in ifade ettiği gibi, paraya ilişkin bütün tartışmalar bu iki okul arasındaki diyalog üzerinden okunabilir. Bu tartışmada, paranın yönetiminde kuralların mı siyasi takdirin mi öne çıkması gerektiği önemli bir husustur. Sonuçta hangisinin öne çıkacağı, sermaye birikiminin içerisinde gerçekleştiği tarihsel koşullara bağlıdır. Başka bir ifadeyle, politika yapım süreçlerindeki eklektizmi tanımlayan unsur tarihsel koşullardır. Paranın mutlak olarak içsel veya dışsal olması, yani devlet veya piyasa tarafından münhasıran belirlenmesi söz konusu değildir. Paranın arzı bağlamında, sermaye birikiminin tarihsel koşullarının gerektirdiği farklı anlarda devlet, diğer anlarda ise piyasa politika yapımında öne çıkmaktadır. Marksizm, devleti ve piyasaları bir toplumsal bütün olarak işaretleyerek bu diyalogu vurgulamakta ve devlet ile piyasa arasındaki ayrımın siyasal bir ayrım olduğunu ima etmektedir. Bu iddiasını kurarken Marksizm, Chartalizm ve Metalizm'in paranın biçimsel ve işlevsel anlamda, yerel ve küresel ölçeklerde nasıl belirlendiğini incelemediğini ileri sürmekte, devlet ve piyasaların para dolayımıyla sermaye tarafından nasıl disipline edildiğini göstermektedir.

1970'leri takip eden dönemde politika yapım süreçleri, o güne değin referans aldığı ilkelerden, yani Keynesçilikten uzaklaşmaya başlamıştır zira bu politika yapım biçiminin üzerine inşa edildiği ve talep yönetimini gerekli kılan tarihsel koşullar yerini arz ve enflasyon sıkıntılarına bırakmıştır. Gerçekten de bu süreç, politika yapımının epistemolojik temellerinden bir kopuşu işaret eder. Bu bağlamda Parasalcılık, enflasyonu düşürmeye ve fazla talebi doğal işsizlik sınırına çekmeye çalışmış ve faizleri yükseltmenin gerekçesi olmuştur. Bunu yaparken, "doğal faiz oranı" düşüncesiyle ekonomik sorunların sorumluluğunu devlete, ağırlığını da emeğin sırtına yüklemiştir. Parasalcı kuram bu dönüşümü, Keynesçiliğin Philips Eğrisi üzerinden iddia ettiği gibi enflasyon ve işsizlik arasında ters yönlü bir ilişki olmadığını iddia ederek yapmıştır. Parasalcılara göre devlet uzun dönemde istihdam yaratamaz, zira enflasyonist pratiklerle istihdam yaratma çabası, rasyonel aktörler bu eğilimi fiyatlama davranışlarına dahil ettikçe boşa çıkacaktır. En iyisi doğru para arzını bulmaktır. 1970'lerin sonunda devletin yeniden yapılandırılmasının aracı haline gelen bu yaklaşım, merkez bankası bağımsızlığı ve para arzı üzerine bir miktar kuralı yerleştirilmesi talepleriyle sermaye birikimini istenmeyen seviyede kısıtlamıştır. Parasalcığın sermaye birikimine likidite engeli koyduğunun ortaya çıkması, para idaresinde siyasi takdirin arttığı esnek uygulamaların önünü açmıştır.

Optimum kural ve takdir dengesini sağlama hedefiyle şekillenen ve Alfredo Saad-Filho'nun "Yeni Para Politikası Uzlaşısı" olarak adlandırdığı politika çerçevesi, dünyada 1980'lerden itibaren iktisat politikasını tanımlamaya başlamıştır. Yeni Para Politikası Uzlaşısı merkez bankası bağımsızlığı ve miktar kuralını tarihsel gereklilikler ışığında yeniden yorumlamış ve ortaya merkez bankacılığında araç bağımsızlığı ve enflasyon hedeflemesi olarak anılan fiyat kuralını çıkarmıştır. Bir parasal kural olarak fiyat kuralı, miktar kuralından farklıdır ve kapitalizmin ihtiyaç duyduğu esnekliği sağlamıştır zira bu politika çerçevesi sayesinde, Parasalcılığın kısıtladığı kredi genişlemesi görece serbestleştirilmiş ve sermaye birikim sürecinin genişlemesine dair likidite sorunları aşılabilmiş, sermaye birikimi görece rahatlatılmıştır. 2008'e değin iktisadi ortam, Yeni Para Politikası Uzlaşısı sayesinde düşük faiz ve düşük enflasyonla tanımlanmış, ana akım çevreler bu gelişmeleri yaratan Yeni Para Politikası Uzlaşısının iç çelişkileri üzerine düşünmeye ihtiyaç duymamıştır.

Ne var ki, 2008 krizi Yeni Para Politikası Uzlaşısına içkin çelişkileri ortaya çıkarmıştır. Bu sorunlar, krizin yarattığı kredi daralması ve likiditenin azalmasıyla ortaya çıkan deflasyon baskısı ile takip eden dönemde kendini giderek daha fazla hissettiren yatırım eksikliğidir. Gerçekten de başta Larry Summers olmak üzere birçok yazar ve araştırmacı bu dönemi, yatırıma dönüşmeyen ve spekülatif faaliyetlere yönelen tasarruf fazlasıyla tanımlı bir çeşit seküler stagnasyon olarak incelemiştir. Yatırım iştahının düşmesinin altında talep eksikliği olduğu söylenmektedir, nitekim Yeni Para Politikası Uzlaşısı ile ortaya konan çerçeve düşük faiz ve enflasyon ortamında borçlanmayı kolaylaştırmış finansal varlıklara yatırım, üretken yatırımdan daha çekici hale gelmiş, bu da toplam talebi düşüren unsurları beslemiştir. Bu sorunlar ana akım iktisadın meşgul olduğu para istikrarı ve kredi akışının sağlanması vurgularının önemini ikinci plana itmiş ve dönemin standartlarına göre aykırı, heretik düşünceleri veya heterodoks olarak anılan politikaları öne çıkarmıştır. Ne var ki bu düşüncelerin hiçbiri kendisini tek başına muteber politika yapım hattı olarak tesis edememiştir. Bununla birlikte, merkez bankası bağımsızlığı ve fiyat istikrarı gibi kavramlar da önemlerini görece kaybediyor izlenimi vermeye başlamıştır. Bu ortamı yaratan belki de en önemli durum, 2008 krizine karşı uygulanan miktarsal genişleme ve sözle yönlendirme gibi alışılmadık para politikası uygulamalarının, Parasalcılık tarafından teşkil edilmiş ve Yeni Para Politikası Uzlaşısı tarafından devralınmış en önemlileri mali genişleme ve bütçe açığı olan tabuların kayda değer bir kısmına büyük zarar vermiş olmasıdır. Enflasyona ilişkin kaygılar giderek azalırken COVID-19 krizi de deflasyon baskısını artırmış ve politika yapımındaki bahsi geçen eğilimi güçlendirmiştir. Bu tarihsel bağlam içinde, ana akım ve alışılmamış iktisadi düşünce ve pratikler arasındaki ayrım bulanıklaşmaya başlamış; deflasyon korkuları mali genişleme önerilerinin güçlenmesine yol açmıştır. Bu dönemde, devletin maliye politikasıyla piyasalara para sağladığını varsayan ve bu para arzının içsel talebi karşılaması gerektiğini öne süren Neochartalizm'in taraftarlarının, siyasal spektrumun hem sağından hem solundan artmaya başladığını görüyoruz. Bunun önemli bir nedeni, Neochartalist yaklaşımın sermaye birikiminin güncel sorunlarına akla daha yatkın gelen önerilerle çözüm bulmaya çalışır görünmesidir. Dolayısıyla Yeni Para Politikası Uzlaşısı önemini yitirdikçe Neochartalizm başta olmak üzere yeni ve heretik görünen öneriler, politikalar ve kuramsal pozisyonlar giderek öne çıkmaya başlamıştır.

Neochartalizm'in önerileri ilk bakışta, gerçekten de 2008 sonrası iktisadi koşulları tanımlayan ve sermaye birikimini engelledikleri ölçüde kritik önem kazanan sorunlara çözüm bulmayı amaçlıyor gibi görünmektedir. Bu bağlamda, Neochartalizm'in sektörel denge yaklaşımı devlet borcuna ilişkin kaygıları azaltmaktadır. Bu yaklaşıma göre bir ekonomik sistemde üç sektör vardır: özel sektör, kamu sektörü ve dış sektör. Neochartalizm'e göre bu sektörlerden birinin fazla verebilmesi için en az biri açık vermelidir. Devlet, kendisini yeniden üretmek için bizzat basabildiği paraya değil, özel sektörden satın alacağı mal ve hizmetlere ihtiyaç duyduğundan fazla vermesi gereken sektör kamu değildir. Öte yandan, makroekonomik başarı büyümeye, yani özel sektör karlılığına bağlıdır. Bu da özel sektörün fazla verebilmesi için, kamu sektörü tarafından gerekli likiditenin sağlanması anlamına gelecek, bununla birlikte kamu sektörü sürekli açık verecektir. Bir diğer ifadeyle, devlet borcu doğaldır ve istenen bir şeydir zira özel sektörün fazla verebilmesi için devletin piyasalar tarafından içsel bir şekilde talep edilen likiditeyi sağlaması gerekmektedir.

Bu yaklaşımın tamamlayıcısı olan işlevsel finans yaklaşımına göre de devletler borçtan korkmamalıdır, zira istedikleri kadar borçlanmaları makroekonomik göstergeler için büyük bir anlam ifade etmemektedir. Önemli olan devlet borcunun istenen makroekonomik koşulları yaratıp yaratmadığıdır. Eğer piyasalar likiditeye ihtiyaç duyuyorsa veya ekonomik göstergeler tatmin edici değilse, devlet aktif ekonomi politikasıyla mevcut fonları yatırıma yönlendirebilir. Dolayısıyla önemli olan devletlerin kasasında ne kadar para bulunduğu değil, piyasadaki likit ve diğer varlıkların belli sektörlere kanalize edilmesidir. Bunu yaparken devlet vergi ve tahvil ihracını adeta bir para politikası aracı olarak kullanmalı ve para arzını bu yolla idare etmelidir. Borçlanma, devletin kendi harcamaları için fon bulma çabası olmadığı için para piyasasından borçlanmak anlamlı değildir. Devletler, daima sıfır faizle içsel olarak talep edilen parayı sağlayacak bir merkez bankacılığı kurmalıdır. Piyasalara sıfır faizle para sağlamanın doğal tek sınırı reel iktisadi olanaklar, yani tam istihdam olacaktır.

Neochartalizm'in bir diğer önemli önerisi olan iş güvencesi veya acil durumda iş veren devlet önerisinin de tam istihdam ve fiyat istikrarını aynı anda sağlayacağı iddia edilmektedir. Bu öneriye göre devlet herkese iş sunarak emeğin asgari ücretini belirler ve fiyat istikrasızlıklarında bu ücreti artırır veya azaltır. Dolayısıyla, enflasyonist bir ortamda emeğin ücreti düşürülecek, deflasyonist bir ortamda yükseltilecektir. İş güvencesi programı, karşı devrevi bir ekonomi politikası önerisidir. Talep yönetimini sağlamayı amaçlıyor gibi göründüğü ölçüde emek dostu bir öneri olarak algılanabilse de iş güvencesi programının öncelikli amacı, kriz anlarında talebin düşmesini önleyerek özel sektör karlılığını korumak, özel sektöre yetişmiş eleman sağlamak, kamuda çalışan emeğin sürekli niteliğini artırarak sermayeye her an başvurabileceği nitelikli emek havuzu oluşturmaktır. Dolayısıyla, iş güvencesi önerisinin emek ile politik ilişkisi tartışmalıdır.

Neochartalizm'in belki de en önemli argümanı olan parasal egemenlik ise kendi parasını basabilen ve kendi parasından borçlanabilen devletlerin işlevsel finans politikaları uygulayabileceğini ifade etmektedir. Gerçekten de Neochartalizm'in para biçimleri arasındaki hiyerarşiyi vurgulayan bu kavramı eleştirel literatür için de oldukça önemlidir, zira paranın kurumsal olarak nasıl yaratılabildiğine dair önemli içgörüler sunar. Ne var ki, Neochartalizm parasal egemenliği, devletlerin hepsinin bir şekilde sahip olduğu bir özellik olarak gördüğünden bir başka para biriminden borçlanma zorunluluğunu teorik olarak hesaba katmaz. Bir diğer tabirle, parasal egemenlik yerel düzleme ilişkin bir nitelik olarak görülmektedir. Dolayısıyla, Neochartalizm'e göre başka para birimlerinden borçlanmak yalnızca kötü bir politika tercihidir, küresel güç ilişkilerinin bir dayatması değil. Oysa Marksizm, kapitalizm içerisinde paranın aldığı dünya parası biçimini hesaba katarak, parasal egemenlik analizinde Neochartalizm'den daha tatmin edici açıklamalar sunmaktadır.

Bütün bunlar gösteriyor ki Neochartalizm'in önerileri, artan borç ve deflasyon baskısı altındaki devletlere yatırım ve talep yaratmanın yani kapitalizmin ve sermaye birikiminin tarihsel çelişkilerinin çözümüne ilişkin adeta bir reçete sunmaktadır. Bu reçete de devletin piyasaları kurduğu ve bu itibarla piyasaları yönetebileceği varsayımına dayanmaktadır. Neochartalizm'in maliye politikası vurgusu, birçokları tarafından 2008'den sonra para politikasının iddia edilen işlevsizliğiyle de örtüşmektedir. Ayrıca vergilerin de fiyat istikrarı yaratma işleviyle donatılmış olması yani bütçe dengesi için anlam ifade etmemesi, bir diğer ifadeyle daha fazla devlet harcamasının vergi artışı gerektirmeyecek şekilde düşünülmesi, vergilerin refahın yeniden dağıtımı bağlamında anlamsız olması anlamına geleceğinden birçok siyasetçi, zengin kişi veya sol eğilimli politik grup Neochartalizm'e sempatiyle bakmaya başlamıştır. Neochartalizm'e yönelik politik anlamda böylesi geniş bir ilgi açıklamaya muhtaçtır.

Bahsi geçen ilke ve yaklaşımlarıyla Neochartalizm, önemli tartışmaların konusu olmuştur. Çalışma, bu tartışmalardaki en önemli fay hatlarından birinin enflasyon ve deflasyon vurguları arasında olduğunu tespit etmektedir. Gerçekten de bu vurgular, politika yapıcıların tercihlerinin Neochartalizm'e yakın veya uzak durmasına neden olan en önemli başlıklar olarak karşımıza çıkmaktadır. Deflasyondan korkanlar, yatırım ve talep yaratmak için Neochartalizm gibi heretik görünen birçok kuramsal pozisyon ve öneriye yakınlaşabilmekte, bununla birlikte enflasyondan ve daha fazla bütçe açığının yatırımlar üzerinde bir dışlama etkisi yaratacağından korkanlar ise Neochartalizm'e mesafe koymakta veya ona karşı çıkmaktadır. Daha fazla devlet harcamasının enflasyon yaratacağından korkanlar, Neochartalizm'in parayı siyasi amaçlara alet ettiğini savunmakta ve kuramı "üç kuruşa beş köfte" vadetmekle itham ederek olmayacak bir şeyin sözünü vermekle suçlamaktadır. Ne var ki, 2008'den beri artan bütçe açıkları, dışlama etkisinin varlığına dair şüphe yarattığından Neochartalizm'e yönelik ilgi bu eleştirilere rağmen daha da artmıştır.

Gerçekte, enflasyon ve deflasyon üzerine kurulu bu tartışma, para arzının nasıl idare edileceğine dairdir. Bu nedenle, buna bağlı bir başka fay hattı da para politikasının istenen amaçları ne kadar sağlayabileceğine ilişkindir. Neochartalizm ve ona sempatiyle bakan kişilere göre, faiz oranlarının nominal olarak sıfırın altına inememesi fakat tam istihdamı yaratacak reel faiz oranının sıfırın altında olması, nominal sıfır faizin bile reel faiz getirisinin yüksek olması anlamına gelir. Bunun anlamı para politikasının etkisizliğidir. Nitekim bu düşünce maliye politikasıyla para arzının sağlandığına/sağlanması gerektiğine ilişkin Neochartalist iddia ile uyumludur. Ana akımın önemli isimlerinden olan Paul Krugman gibi yazarlara göre, para politikasının 2008'den sonra faizler nominal anlamda sıfıra yaklaştığı için etkisiz hale geldiği iddiası doğru değildir. Gerçekten de likidite tuzağı olarak anılan koşullar altında devletlerin maliye politikası uygulamalarında sahip oldukları özgürlük 2008 sonrasına özgü ve geçici bir durumdur. Yeterli enflasyon yaratılabilir ve faizler nominal sıfır sınırından kurtarılabilirse para politikası yine etkili hale gelebilir. Önemli olan şey, devletlerin doğru maliye politikalarıyla yeterli enflasyonu yaratabilmeleridir. Nitekim COVID-19 pandemisini takip eden krizin yarattığı deflasyon baskısı altında devletler büyük harcamalar yapmış ve bunun da etkisiyle enflasyon artmıştır. Ne var ki bu enflasyonun ne kadarının talep çekişli olduğu bir tartışma konusudur. COVID-19 krizi sonrası yaşanan enflasyonun, şirketlerin kar paylarını artırması ve tedarik zinciri sıkıntılarının yarattığı arz sıkıntıları nedeniyle yaşandığını söyleyenler mevcuttur. Enflasyonun giderek daha fazla endişe yaratmaya başladığı ve buna mukabil faizlerin arttığı bu 2021 sonrası dönem, yeni tartışmaları beraberinde getirdiği için bu çalışma tarafından incelenmemiştir.

Neochartalizm'e politika yapım süreçlerinin dışından ve görece eleştirel bir pozisyondan bakan araştırmacılara göre ise sorun başkadır. Gerçekten de Neochartalizm insanlara kapitalizmin bir şekilde siyasi takdir ile idare edilebileceğini gösterme anlamında piyasaların dokunulmazlığına ilişkin inancı sarsmakla politik-pedagojik anlamda değerini kanıtlamıştır. Ne var ki Neochartalizm piyasaları başka bir biçimde, devletin varlığından türeyen bir düzlem olarak doğallaştırmaktadır. Bu noktada vergilerin anlamı önemlidir zira Neochartalizm'e göre, vergiler piyasaları yarattığı ölçüde refahın yeniden dağıtımını değil, piyasaların iyi işleyişini amaçlayan araçlardır. Bu durum bahsi geçen eleştirel araştırmacılar tarafından hedefe oturtulmaktadır. Bu araştırmacılara göre Neochartalizm siyaseten hedef şaşırtmakta, insanların dikkatlerini ekonomik eşitlik gibi konulardan uzaklaştırmakta ve ekonominin bilim dışı ve liyakatsiz idare edilme biçimlerine çevirmektedir. Zira Neochartalizm ekonominin gerçekten nasıl işlediğini bilimsel olarak ortaya koyduğunu iddia etmekte, onu takip etmemek de yetersizliğin kanıtı haline gelmektedir. Dolayısıyla, verili biçimde piyasalar insan yaratısı değildir ve değiştirilemezlerdir. Bütün bu eleştiriler, Neochartalizm'in iddia edildiği gibi ana akıma karşıt veya heretik değil, para egemenliğinin yeniden üretimine dair kuramsal bir katkı olduğu düşüncesini güçlendirmektedir.

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