The General Theory of Value
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> The fact that MMT talks about full employment without mentioning anything about the amount of productive capital, economic structure, international "competitiveness", the balance of power within the relation of production, international value chains or a way to end financial instability appears to most as completely absurd. The idea of market forces being above everything is so ingrained in people's minds, I think, and it results in people thinking there needs to be some factors that MMT doesn't consider. Some see this issue in terms of a problem with the terms of exchange of the currency (exchange rate and inflation) and the 'Post-Keynesian version of MMT' finds this point difficult to answer whereas Warren's framework of the currency as a public monopoly provides means to understand and deal with this aspect (see Appendix 1).

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Introduction:

The general theory of value makes the first cut identifying two fundamental aspects of value. The first is the value of the monetary system to the society and the second, the determination of nominal prices.

The first is briefly discussed, followed by extensive discussion of the second, where the currency is modeled as a tax credit rather than as simply a numeraire as has been the case historically. With this understanding, historic gold standards and labor theories of value become special cases of the general theory. Also discussed are inherent flaws in the mainstream's understanding of monetary operations that have frustrated attempts at value determination.

I. The Macro Value of the Monetary System to the Society

The macro value of the monetary system to society begins with the desire to provision the state for the further purpose of establishing, in broad terms, public infrastructure for public purpose. This includes the public infrastructure that supports the state's vision for the private sector's socioeconomics, including institutional structure within which markets function. The driving force is coercive tax liabilities that create sellers of goods and services for the further purpose of the state buying what's then offered for sale to provision itself.

The monetary system can also be tailored to accommodate a variety of socioeconomic institutional structures including socialism, where the state owns the means of production, and capitalism which supports private ownership of the means of production.

The value to society is the perception of its value by the population. While subjective, this value is nonetheless evident, and subject to continuous judgment of the electorate, continuous change by the government, and is the object of continuous discussion.

II. The Determination of Nominal Prices

All Value is Relative

Historically, ‘relative value’ has been about how goods and services exchange for each other, while ‘nominal price’ is the expression of specific prices denominated in a given currency. This analysis, however, reveals that the value of all goods and services, including intangible assets, is necessarily expressed in relative terms.

The search for the source of the price level has been going on for decades. Current central bank economists model how goods and services exchange for each other, with the nominal price level a numeraire they introduce exogenously as an assumption, and the starting point, for example, is something like ‘yesterday’s closing prices.’ From there the models attempt to explain what makes prices and the price level change. However, there is no determination for the source of the price level other than that it’s historic as an infinite regression. ‘The Fiscal Theory of the Price Level’ is an example of a recent attempt that failed when it failed to solve the infinite regression dilemma.

Tax Credits as Intangible Assets

Today’s state currencies function as tax credits, which are accounted for as liabilities of the issuer and intangible assets of the lender. As such, they lend themselves to the same analytical framework as goods, services, commodities, and other assets. Therefore a nominal price is the expression of relative value between tax credits (units of the currency) and the goods and services, etc. that are being priced, expressed in tax credits.

When modeling the currency itself as a public monopoly, the tax credits spent by the state exist as intangible assets with the state as single supplier, and thereby price setter when it spends. There is no invariable standard of value. State pricing sets terms of exchange between its tax credits and the objects of its spending, and market forces, within the context of the rest of the state’s institutional structure, then utilize that information to determine the value of the tax credits relative to other goods and services.

Could this be expanded on?
Is relative value determined in exchange?
What about LTV?

Limits to the Real Purchasing Power of a Currency

As a point of logic the penalties for non-payment will necessarily have a higher negative value to the taxpayer than what the currency can buy. Therefore the value of a currency is limited by the severity and enforceability of the tax liabilities.

Neutrality of Money

With the currency itself as a case of a coercive public monopoly, any notion of the neutrality of money, a core assumption of mainstream economic theory, is obviated.

The Source of Unemployment

As previously discussed, tax liabilities, by design, create sellers of goods and services looking for the applicable tax credits in exchange, which initiates the process of state spending. This identifies tax liabilities as the direct cause of what we define as unemployment- people seeking paid work. There can be no other cause of unemployment. Without tax liabilities there is no functioning state currency, and therefore no one is seeking work in exchange for units of that currency.

Keynes vs the Classics

The mainstream economists of Keynes' day developed models that concluded in a competitive market where all markets were allowed to clear there would be no unemployment. Therefore unemployment could be traced to imperfect competition, stylized as a monopolist restricting supply. This, for example, would include labor unions.

Keynes, on the other hand, argued mass unemployment could persist even in the absence of monopoly, due to the workings of the monetary system that can result in a lack of effective demand.

This impasse exists to this day, with mainstream New Keynesians modeling 'sticky wages and prices' to explain persistent unemployment that would otherwise not exist if wage and price flexibility allowed labor markets to clear.

Recognizing the currency itself as a public monopoly immediately resolves this issue. Unemployment is then recognized as a consequence of a monopolist restricting supply. Unemployment is then the evidence that the state has not spent enough to cover the need to pay taxes and desires to save.

Keynes and the Classics were and are both correct even as they continue to talk past each other. Unemployment is the case of a monopolist restricting supply, as the Classics asserted, and that restriction is in the workings of the monetary system, as Keynes asserted. But while Keynes correctly described the workings of the monetary system, he failed to explicitly identify it as a case of a public monopoly, and the classics continue to look at everything but the state monetary system for the monopoly that's the cause of unemployment.

The Sequence of the Money Story

a) A state desires to provision itself
b) Tax liabilities create sellers of real goods and services (unemployment)
c) The state then provisions itself by spending its currency, buying goods and services, and hiring those its tax liabilities caused to become unemployed, and thus providing the funds desired to pay taxes and to net save
d) Taxes are paid and any excess funds received remain as net savings/the public debt.

This sequence, where from inception spending necessarily precedes revenues, is also a departure from mainstream economic models that begin with tax collection and the assumption that state spending is revenue constrained, which implies solvency risk. With the correct modeling of the sequence, state solvency issues are rendered inapplicable.

The Government Sector as a Command Economy

Coercive taxation results in a command economy that serves to provision the government, and supports the government's institutional structure within which markets and capitalism, if permitted, function. If, for example, the state wants to provision a military, the society will produce and offer for sale the soldiers and equipment the state desires to purchase, or face the consequences of nonpayment of state tax liabilities. The same applies to the rest of state purchases to provision public infrastructure, including the legal system, public health system, educational initiatives, transportation initiatives, etc. The private sector has domain over the remaining resources, all subject to further rules and regulation of the state. Note, too, that the state also has other forms of coercion at its disposal, including conscription, for example.

The resources commanded by the government are a political choice, and while the monetary system is a tool for provisioning the government, it provides no useful information for making those decisions.

Government's Role in the Distribution of Income

Distribution of income is a function of institutional structure, beginning with the structure of government tax liabilities and government spending policies.

With sufficiently enforceable tax liabilities in place, the government can hire people directly and at salaries of its choice, including managers and workers, to the point where government spending equals the need to pay taxes and desires to save. It can also employ contractors and specify profit margins for the contractors as well as compensation for any employees. The government can also require business licenses that likewise specify what businesses are allowed to do and how they can do it.

Income itself is measured in tax credits with the state the author of its tax liabilities, where it defines and is the single supplier of that which it demands in payment of taxes. Therefore, from inception, distribution of income of the state's currency is entirely within the purview of the state,

with any deviation from state control a consequence of the state's institutional structure, and subject to continuous alteration by the state, presumably towards serving public purpose.

Tax liabilities are coercive and ongoing. They establish a continuous drain on the nominal wealth of the community, which has an underlying, pervasive, profound psychological impact on the population and relationships within the population. The continuous dependence on nominal income creates dominating anxieties and phobias that influence behavior, often selfish and anti-social, and too often destructive and criminal.

Capitalism

Capitalism is the economic structure that permits private ownership of the means of production, with the owners of the means of production called capitalists. Capitalism exists within the state's institutional structure, which is a determinant of the consequences.

Profits are the returns from ownership of the means of production, and are the dominant motivational force behind desires to own the means of production.

In a monetary economy, the motivation of the capitalist is to increase nominal wealth. This is facilitated by state support of the means to increase the nominal wealth of the capitalist, again, presumably in service of public purpose. This support begins with legal protection of property and ownership rights, a limited liability corporate structure, and financial support and incentives that include state sponsored liquidity through a state regulated banking system.

Capitalism and its projected path is therefore a function of state policy.

Rents

Rents arise from state sanctioned real property ownership, along with state protections of that ownership, which provides for the designated owner to charge and receive rental payments. Presumably this arrangement better serves public purpose than state ownership of real property, however most often private ownership is within parameters set by the state. These include property taxes, zoning regulations, contract law regarding renting and leasing, eviction, etc. that further serve public purpose behind the presumed public benefit of private ownership vs state ownership. All real estate is not designated as private property, however, as states maintain public ownership of substantial real property when that is deemed to further public purpose.

Rental value, measured in returns to owners for use of their property, is thereby also a function of institutional structure, subject to continuous change, again presumably to serve public purpose. Rental value doesn't exist independently of state institutional structure. What can be observed and calculated as the value of rental properties are the consequences of the rents that result from the institutional structure.

Labor

As a matter of game theory, the disparity of power in what is called the labor market means that without external support, labor's compensation will fall towards subsistence levels:

Adam Smith:

"A landlord, a farmer, a master manufacturer, or merchant, though they did not employ a single workman, could generally live a year or two upon the stocks [capital] which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment. In the long-run the workman may be as necessary to his master as his master is to him; but the necessity is not so immediate." [8: Source]

State policy is required to alter this outcome. A Federal job guarantee, for example, can be implemented to sustain real wages at a politically desired minimum.

The Labor Theory of Value

All output is the product of some form of human endeavor that economists call labor. From this it follows that there is a labor hour content for the production of goods and services, and therefore, given a price of an hour of labor, the nominal costs of goods and services, including the labor that went into all of the inputs to the final products, can be calculated. Any price higher than that represents a profit for the capitalist who owns the means of production, which is called the surplus value. And if rents are involved, part of the surplus goes to the landlord.

The political narratives are generally about capitalists and landlords exploiting workers. However, the entire structure is set up by government, presumably to serve public purpose, and is subject to continuous change by the government which then bears the responsibilities for the consequences. The government faces choices. At the extremes, without profit, there will be no capitalists, and without rents, there will be no ownership of commercial properties. Instead, the state will directly own the means of production and associated real estate. And if public policy results in rents and profits being 'set too high' the state creates a privileged class of high income owners clipping coupons alongside a class of lower income laborers doing all the work.

Productivity- The Value of Organization

Economic output and growth is a function of labor hours and productivity, defined as output per labor hour. Without productivity gains, we would still be hunter gatherers.