The Quarterly Journal of Austrian Economics

Volume 25 | No. 4 | XX–XX | Winter 2022 www.qjae.org

Is It Money Because It Is Redeemed in Tax Payments? A Response to Kelton and Wray

Per Bylund*

JEL Classification: B52, E42, E62

Abstract: This article was prompted by Kelton and is a belated response to Wray (2016), who presents an argument for the so-called chartalist view that government currency is valued because it can be "redeemed" in tax payments. Wray's article presents historical cases to back up the idea. This article responds to the arguments therein, and the chartalist position in general, by pointing out logical errors in the argument and showing that Wray's examples fail to support the theory. It demonstrates that the chartalist argument, as presented and argued for by Wray, is flawed and that tax liabilities are insufficient (and unnecessary) to qualify something as money.

The substance of this article is a belated response to L. Randall Wray's "Taxes Are for Redemption, Not Spending," published in the *World Economic Review* (Wray 2016). In his article, Wray presents and argues that government currency is valued because it can be "redeemed" in tax payments, an idea that is not new but that has recently been gaining traction. This idea is still espoused primarily by proponents of modern monetary theory (MMT) and so-called chartalism (e.g., Tcherneva 2006), but it is increasingly taken seriously in policy making and political discourse.

* Per L. Bylund (Per.Bylund@okstate.edu) is associate professor of entrepreneurship and Johnny D. Pope Chair in the Spears School of Business at Oklahoma State University.

In the scholarly literature, interest in MMT is limited, and what attention the approach has gotten so far has been primarily critical (e.g., Bossone 2021; Murphy 2021, 189–204; Palley 2015a, 2015b). One reason for this is likely that MMT focuses on policy prescriptions rather than explanations (Mosler n.d.), which makes it unsuitable for research. Another reason may be that few who are not proponents of MMT accept the logic that the approach offers. For example, Mankiw (2020, 7) concludes that "MMT contains some kernels of truth, but its most novel policy prescriptions do not follow cogently from its premises." However, given its recent influence and adoption in public and political discourse, the ideas on which MMT are founded, including the chartalist position that government money is valued because actors can (and need to) use it to redeem their tax liabilities, may deserve scholarly attention.

This article seeks to contribute to the scholarly vetting of MMT. The impetus for the writing of this article is unorthodox for a scholarly publication but speaks to the continued (or renewed) relevance of Wray's argument specifically in policy and public discourse: a challenge posed in an exchange on Twitter between this author and MMT champion Stephanie Kelton (e.g., Kelton 2020). In this online exchange, Kelton explicitly refers to and solicits a response to Wray's article, which she claims makes her argument.

The first section of this article briefly reproduces Kelton's challenge, which frames the following discussion and critique of Wray (2016) and conveys to the reader that Wray's argument is, at least in public discourse, an important one that therefore warrants a serious scholarly response. The first section also explains the chartalist position that proponents of MMT take, which provides background and context for Wray's specific argument. The second section summarizes Wray's specific argument, and the final two sections discuss his argument's main shortcomings.

KELTON'S CHALLENGE

On June 8, 2022, Kelton stated on Twitter: "Taxes (fees/fines/etc.) allow government to spend its otherwise worthless currency into existence, thereby allowing gov[ernment] to move the real resources it desires to public domain. Spending supplies the currency need[ed]

to pay the tax" (@StephanieKelton). Kelton here takes the chartalist position that government's unbacked fiat currency lacks value of its own, which most economists would largely agree with (see, e.g., Mises 1953). It gains market (and exchange) value, however, because individuals and organizations are legally obligated to pay taxes *using that currency*. Thus, the obligation *creates demand* for the currency, as taxpayers must acquire the currency to pay taxes—or face penalties/punishment for noncompliance. Without the obligation, the currency would be, as Kelton puts it, "worthless."

But for taxpayers to pay taxes, the government must first make the currency available to them. This could be done in two different ways. For example, the government could simply issue and distribute currency as tax-paying tokens. By restricting the available quantity and selecting who gets the currency, the government could create politically preferred distribution effects. For example, if taxpayers were provided equal amounts per head, those with greater tax liabilities would need to procure currency from others, which would cause a wealth redistribution from those paying more to those paying less in taxes. To the extent that those with greater incomes or wealth pay higher taxes, this could serve as a means to counteract inequality. Alternatively, the government could spend the currency in the economy and thereby use it to acquire resources for itself that would presumably then be used to attain preferred political ends. Kelton assumes the latter, that the government "spend[s] its otherwise worthless currency into existence . . . to move the real resources it desires to public domain." This is what governments typically do.

Kelton further suggests that the government can determine the "value" of (really, the demand for) the currency in circulation through policy. This value determination applies to the demand for the currency, which would respond to the government's increasing or decreasing the taxes due. It also applies to the supply, which the government controls by increasing or reducing public spending of the currency. As a result, the government can tweak the currency's market value using measures on both the demand and supply sides. But, as Kelton notes, the value of (demand for) the currency is ultimately based on the requirement to pay taxes *using it*, without which it would be "worthless."

An obvious error in this position is the lack of proportionality. Thus, this author responded with a question: "Your argument is that currency is valued because it must be used to pay taxes. And that's also why it is valued way beyond tax liabilities. Is that right?" (@PerBylund, June 8, 2022). If the currency is valued *because* (and only because) it is needed to pay the taxes owed to the government, then this does not also explain why actors would value it much *beyond* their tax liabilities. If the government requires me to pay taxes of $100,000 in its currency in year *X*, I have no reason to demand that currency beyond the $100,000 I owe. The exception to this would be if the currency is already the common medium of exchange and therefore valued for its (expected) purchasing power *with respect to other goods*. But that is not the chartalist argument, which, at least as Kelton states it, is that the currency would be worthless *were it not for taxes*.

The chartalist argument also does not explain why actors would want to acquire government currency before they need to pay taxes. Given that annual taxes are due on Tax Day, on or around April 15 of the following year in the United States, why would any taxpayer accept government currency prior to that date? After all, selling resources to the government in exchange for currency needed to pay taxes (and valued only for that reason) months or even a year later would limit the economic flexibility of the actor as resources were bound up in tax-paying tokens. This is a cost on actors accepting government currency before taxes are due.

Further, if and to the extent the currency is (or is expected to be) inflationary, meaning it loses purchasing power over time, anyone acquiring currency earlier than necessary would suffer losses. Actors would be better off accepting the government currency at a later date. Yet Kelton claims that tax liabilities make the currency valued and, by extension, the commonly used medium of exchange—that is, *money* (Mises 1998, 395).

Although most or all government currencies today are the respective country's commonly used medium of exchange (i.e. money), a currency's use as a means toward one end does not explain why it is also used toward other ends. So there is an apparent gap in Kelton's logic: All of us supposedly value the currency because we have to use it to pay taxes. But why do we

demand it beyond its use as payment of the taxes we have to pay? And why do we demand it before we need it? Or, to put it differently, why is government currency money?

The issue here is that actual money is accepted in exchange *because* it is money (cf. Menger 1892). Regardless of what form money may take (gold, cattle, seashells, paper notes, etc.), we would not expect economic actors to accept it in exchange for goods if it were not already money—that is, before they knew (or reasonably expected) that others would accept it in exchange for goods. As Mises (1998, 774) put it, "A thing becomes money only by virtue of the fact that those exchanging commodities and services commonly use it as a medium of exchange." A decree that something must be used in a specific type of transaction (or when trading with one specific party) is not a sufficient explanation for that currency also being used as a (general) medium of exchange. In other words, and more to the point, the requirement to pay taxes using a certain type of token does not imply that the same token is also money. Kelton appears to make no distinction between the use to comply with the tax requirement and the general use of the currency (and neither does Wray [2016], as shown below).

To illustrate, suppose the government required taxes to be paid at a certain date in sourdough bread or used tractor tires. We could not assume that people would *for that reason* start using sourdough bread (used tractor tires) in their everyday exchanges, accept salaries paid in sourdough bread (used tractor tires), and so on. The mechanism for making the government's currency the common medium of exchange is missing from Kelton's chartalist explanation.

Kelton responded by quoting from a book by James Tobin and Steven S. Golub (1998):

> "In advanced societies the central government is in a strong position to make certain assets generally acceptable media. By its willingness to accept a designated asset in settlement of taxes and other obligations, the government makes that asset acceptable to any who have such obligations, and in turn to others who have obligations to them, and so on." (1998, p. 27) (@StephanieKelton, June 8, 2022)

Although this quote is in line with Kelton's claim, it actually makes a more general (and thus stronger) claim. Yet there is still

no explanation for why anyone would accept the government's currency beyond the amount of (or before the due date of) their actual tax obligations. It is easy to grant that people would be likely to accept that currency from others, as Tobin and Golub note, in order to acquire the amount they need for the "settlement of taxes." But why would they acquire it beyond the amount of the taxes they must pay using it? And why would they accept it before they need it? The quote does not at all address this issue, but only asserts that "the central government [can] make certain assets generally acceptable media."

In other words, the authors, both Kelton and Tobin and Golub, assert that because actors would accept something in exchange *to some degree* (and at some time), they would also accept that same something in *all* (or at least most) exchanges (anytime). But this does not follow. Who would seek to procure sourdough bread (used tractor tires) beyond their need for it? And who would acquire sourdough bread (used tractor tires) to keep in stock until taxes are due months from now? The difference between a good used in some specific exchanges and a good *commonly used* as a medium of exchange is entirely overlooked by Tobin and Golub (and, presumably, by Kelton too). But this is not an unimportant distinction—it's the very difference between a medium of exchange and a money!

When prompted, Kelton did not offer an explanation for or reason to accept her and Tobin and Golub's assertion. She instead referred to Wray (2016): "[Money is] valuable because it settles financial obligations. Initially to the entity imposing the obligation (it's a tax credit) and later to others, for the reasons Tobin (and others) recognize. This should help. http://wer.worldeconomicsassociation.org/files/WEA-WER-7-Wray.pdf" (@StephanieKelton, June 8, 2022). And then she posed the challenge that this article is written to respond to: "Find the hole in the Wray piece, which says exactly what I have said. It's a historical extension of Tobin's observation. I'll wait. Please cite page numbers and quotes" (@StephanieKelton, June 8, 2022).

Does Wray (2016) include the missing piece of the puzzle? The following answers this question, including, as Kelton requests, appropriate citations.

WRAY'S ARGUMENT

The title of Wray's (2016) article, "Taxes Are for Redemption, Not Spending," neatly summarizes his claim. The article positions itself as an argument against fiscal austerity by claiming that the government does not face regular budgetary constraints because it issues its own (and everybody else's) currency. Thus, whereas household (and business) spending is limited by prior revenue, "government does not need income to finance its spending" (Wray 2016, 3). In fact, he claims, government spending is not limited by but *facilitates* tax revenue, as taxpayers cannot pay their taxes without government first spending the money into existence (i.e., the government issues the currency and uses it to buy resources in the economy).

Consequently, Wray says, the "nearly universal" "belief that government needs tax revenue to pay for most (or even all) of its spending" is backwards—"government needs to spend before it can receive income." He thus proposes that "[w]e should instead understand 'revenue' as 'redemption'" (Wray 2016, 3). This is the chartalist claim that Kelton made, which is why she referred to Wray's article. It is also a common assertion by proponents of MMT.

Wray illustrates the argument's logic using an example from Georg Friedrich Knapp's *The State Theory of Money* (1924) in which government currency is explained to work as cloakroom tokens. Guests trade their coats for tokens, which they can later use to get their coats back. The tokens are transferable, so "you could pass the token to your spouse or even to a stranger," who could then use it to "fetch your coat." But since Wray recognizes that actual money is fungible, he revises the cloakroom example slightly: "If coats were homogenous, the tokens would be valuable to anyone who might want a coat" (Wray 2016, 4). If the argument is considered in the abstract, this may be true if a coat is merely a coat (*any* coat) and a token is a token. But the analogy does not explain (or even suggest) why I would trade my coat for a token. Worse, Wray's seeming failure to recognize the difference between fungibility and homogeneity further undermines the argument. There is a real difference for (most) actors: a coat may be a coat, but I would still prefer *my* coat over *a* coat. This is because a coat does not merely have an abstract use value *as a coat* but is subjectively valued by the

person wearing and owning it. This is not (or at least rarely is) the case for fungible currency, which an actor demands for its objective purchasing power.

The point of Wray's adapted cloakroom example is to illustrate that government currency is not a good, as it is in traditional monetary theory (Menger 1892; Mises 1953), but merely a claim. It is not the coat, or even the homogenous coat, that is the currency but the cloakroom *token*, which can be "redeemed" for a coat. To Wray (2016, 4), "the token is representative of debt, with the specific obligation spelled out by custom or contract and enforced if necessary in the courts." In the example, that debt is the coat (or, in the adapted example, *a* coat) that can be "redeemed" using the cloakroom token. But in the real economy, the "specific obligation" is typically someone's (legal) tax liability. Without taxation, then, government currency is "worthless"—kind of like a token when the cloakroom has no coats or is closed.

Wray relies on historical examples to argue that the cloakroom is an appropriate analogy for how government currency has typically worked, from tally sticks to paper money in colonial America. In these cases, the government issued tokens that could then be used by taxpayers to "redeem" their tax liabilities. Also, the tokens were often discarded and destroyed rather than reused by the government after taxes were paid, which Wray suggests further supports the thesis that they were in fact "redeemed" for tax liabilities. As he puts it: "Note that tax payment redeems both taxpayer and sovereign. Isn't that nice? The sovereign's currency is burned, and the taxpayer can burn her tax bill. Hallelujah!" (Wray 2016, 10).

What Wray here argues is that both sides had "liabilities" that were redeemed as the taxpayer paid his taxes using government currency. He means that tax payment then functioned much as a clearinghouse keeps track of and offsets mutual claims by private banks holding each other's issued paper currency backed by specie. But an important difference is that the banks would each have issued their own currency (often backed by a promise to pay the holder specie), which then eventually ended up in the other's hands. This is not the case with government currency, which per Wray's own argument is not an exchange but an extraction: government imposes the tax liability on others (taxpayers); issues the currency

that can offset it; and then uses that currency to buy resources in the economy, thereby making it available for taxpayers to procure.

If we further tweak the cloakroom analogy to more accurately illustrate how government currency works, the government is acting as the attendant if he were to lock the establishment door and state that guests cannot exit without paying a token but that he would be happy to "buy" coats for tokens. A guest who brought a coat could trade it directly for a token from the attendant. A guest who did not bring a coat would need to engage in exchanges with other guests to acquire a token. But this raises the same question that we raised above: Why would a guest acquire more than one token? (And why would you acquire tokens before you are ready to leave?) There is no reason to think that guests would trade all their valuables for cloakroom tokens so that they could exit with a handful of tokens after paying with one to exit. The tokens have no market value outside the cloakroom. They have value only for those still inside and needing to get out or, perhaps, for those who plan on revisiting the same establishment in the near future (and do not mind holding otherwise worthless tokens in the meantime).

But Wray (2016) goes further. He claims that a guest's paying of a token to the attendant in order to exit "redeems" *both* guest and attendant. How so? Supposedly because the guest gets to exit and the attendant no longer needs to guard the door (at least not from that particular guest). But this is not a matter of liabilities as they are commonly understood, such as may arise from voluntary exchange or mutual promises: both of these "liabilities" are imposed by the attendant (the government), who locked guests into the theater.

Despite the leaps of logic, Wray has a point in terms of the simple accounting of the currency: to the degree that currency is issued to facilitate payment of taxes and then destroyed, those tax payments are not revenue. The temporal order of issuance and what he refers to as "redemption" suggests as much. That currency paid as taxes has *already* been used to procure resources based on the government's *promise* that resource owners will be able to use the currency to clear their tax liabilities. The government's "revenue" consists of the resources it acquires through *spending* the "worthless" currency that it then requires that taxpayers use to pay their mandated tax liabilities. But that argument is limited to whether and to the extent that the

government destroys the currency. If the government reuses the currency, then the currency is no longer a token that is "redeemed."

MONEY OR TOKENS?

Wray shows that there is a history of governments issuing tokens that have been accepted for payment of taxes and, thus, to clear government-imposed tax liabilities. There are obvious limitations to his argument, however. For one, that there are examples illustrating his point does not mean that all or even most historical examples support his argument. Not only does Wray only present examples that are in his favor and that illustrate his argument, but he fails to make the case that such tokens or currency *constitute money*. Even if a general case could be made for governments having used currency as tokens that could be "redeemed" in paying tax obligations, this does not, as noted above, make that currency *money*. There is an important step missing: the step from specific use to general use that Tobin and Golub as well as Kelton assert without explanation. This core issue remains unaddressed by both Kelton and Wray. (It is, however, what Menger [1892] sought to uncover in his famous essay "On the Origin of Money.")

Another problem that raises further doubts about Wray's thesis is that the cases he uses to illustrate his argument do not in fact support it, as he claims, but—even as he retells them—*undermine* his argument.

What Do Wray's Examples Support?

In recapping the case of colonial America, Wray writes:

> The government imposed taxes payable in its own paper notes (its liabilities) or "specie" coin (liabilities of the crown of England). It issued its paper notes in payments by the treasury. When it received its tax revenue in the form of its own paper notes, it burned them. When it received coin in tax payments, it held them until an announced redemption day, to exchange for paper notes. (Wray 2016, 7)

In other words, the government *did not* require its paper notes for payment of taxes. It *accepted* its own paper notes for that purpose; this is different from the argument that Wray makes. In the colonial

case, the government issued specific currency, which it promised to accept, in addition to the already circulating money, for tax payments. But the government did not require tax payments to be paid using the paper notes—it also accepted *real* money (i.e., specie).

Further, the paper notes, when received by the government, were destroyed, but the specie was not—it was used to buy back (redeem) the paper notes remaining in circulation. While this suggests support for the claim that the paper notes gained value (were demanded) because they could be used for tax payments, the argument is incomplete because the government also accepted already existing money: the paper notes were, in Wray's own example, "redeemable" both as the clearing of tax liabilities and in specie. It is as if the cloakroom attendant in the example above would accept *both* his tokens and money to allow people to exit and would destroy the tokens at the door but keep the money and offer to buy back extra tokens from people after they have exited. This raises the question of why resource owners would accept paper notes as payment for resources—or, to use the cloakroom example, why anyone would acquire tokens by trading in their coats rather than paying money in order to exit. After all, the government's paper notes would not be demanded simply because they *could* (but did not have to) be used to pay tax liability. Why would anyone accept the paper notes for payment instead of specie—the real money?

If resource owners fully trusted the government to honor its promised paper note/specie exchange rate, the paper notes might be accepted as payment as much as an IOU from any similarly trusted party. But of course, IOUs *are not money*, the commonly used medium of exchange. This means that accepting them comes with limitations contra accepting money: they cannot be used as universally as money. IOUs are also subject to the risk that the issuer may not be willing or able to redeem them. So even if resource owners would accept paper notes directly from the government based on its promise to redeem, in order for the notes to be used at par value in transactions with third parties, the notes (and issuer) must be equally trusted by third parties. This threshold may be reached sooner for the government than for any other party, but unless paper notes are already money the threshold is not zero. There is therefore a cost for resource owners to accept paper notes instead of money in payment.

The case would be different if, as per the chartalist argument (but not Wray's example), the government's paper notes were *required* for payment of tax liabilities. If the government also imposed near-universal taxation, then the notes would be broadly demanded (to pay taxes) and therefore in circulation. They would not be demanded by anyone beyond their expected tax liability, however. They would also not be demanded prior to the tax due date. Money would be much more useful in everyday exchanges.

There is a possible explanation for why government currency might be accepted instead of money in Gresham's law. The paper notes could become used much more broadly than specie in circulation due to being artificially overvalued and thus the preferred means for exchanging (though not for accepting or holding). To elaborate, if the paper notes were issued at a one-to-one exchange rate yet were less useful in exchange than money, which would be the case because they are *not* money, then holders of the notes would prefer to use the notes in exchange and hold the real money. As a result, paper notes might circulate more widely. However, this explanation still lacks a reason for resource owners to accept the paper notes to begin with—as payment for resources when government spends the currency. If paper notes were already widely circulated, then they might outcompete specie in circulation. But this again begs the question of how the notes became widely circulated: by being widely circulated, the notes are already money. Gresham's law does not explain why resource owners would accept the notes to begin with; it explains only why holders of paper notes (the artificially overvalued currency) would prefer them to specie when *buying* goods (not selling).

However, resource owners might accept paper notes for payment in order to provide a service to the government or people within it. This could be an altruistic, purely charitable act but would more likely be a means for resource owners, at the time already likely to be influential landowners, to increase their influence over government and policy (e.g., Buchanan and Tullock 1965). In other words, they might accept the paper notes as payment not only because they could be used to pay taxes, but also because of the clout that accepting them might offer. It is not necessary to pursue the "public choice" argument further. It is sufficient to note that *political* reasons for someone to accept paper notes instead of specie neither make the notes money nor make them tradable on par with specie

(because the paper notes are accepted only given the potential for political influence). The paper notes would not circulate widely in the economy because someone initially accepts them in exchange. What remains to be explained is how some resource owners' accepting the government's paper notes for payment would lead to those notes being circulated as money—replacing specie. Wray's examples come nowhere near such an explanation.

Wray notes, citing an unpublished working paper version of Grubb (2018) for support, that "most taxes were paid using the paper money, and most paper money was 'redeemed' in tax payment" (Wray 2016, 6). This comes closer to addressing the issue of notes becoming money, but Wray does not elaborate on the implications and ultimately stays clear of this discussion altogether. Instead, he turns to private bank issuance of "paper money."

What about Money?

In a section called "Bank Paper Money and Deposit Debts," Wray very briefly summarizes the common history of banks issuing paper notes as IOUs transferable to third parties (see, e.g., Rothbard 2008). He then moves on to say that "the bank issues notes when it made loans" (Wray 2016, 8), but fails to mention that while private banks issued paper notes they were typically redeemable in specie (e.g., Selgin 2017). Instead of recognizing that those IOUs were money substitutes because they were redeemable in (and thus as good as) money, Wray quickly moves on to discuss the government system:

> Eventually government central banks would do much of the clearing, originally issuing their own notes. The first central banks were explicitly created to issue notes to finance government spending, with the notes collected in tax payment. Not liking competition, governments taxed private bank notes out of existence. (Wray 2016, 8)

That private bank issuance of paper money was replaced by government ditto is not the only change that took place. Importantly, the gold standard, with paper notes *redeemable in specie*, was undermined, restricted, and ultimately abandoned to give way to a fiat standard of government currency (Rothbard 1990)—"worthless" without taxation. This development, which should be crucial for

Wray's argument that government currency as merely tokens *is money*, is left out entirely. Why? Wray (2016, 8) hints at a possible answer: "Creation of the notes preceded their redemption in tax payment. Creation always comes before Redemption [*sic*]."

It is true that the creation of notes preceded their redemption under the gold standard, in which the real money (gold) was locked in bank vaults and paper notes representing it, backed by and redeemable in gold, were in circulation.[1] Those paper notes were thus, to use Mises's (1953) typology, *money certificates* (fully backed money substitutes) whereas today's government currency is *fiat media* (see, e.g., Nair 2012). The issue that Wray leaves out is that the government removed the link to the underlying money—gold—in addition to monopolizing the issuance of notes. This is not an inconsequential historical detail but the real issue: how the commonly used medium of exchange was changed from gold, or paper notes backed by gold, to unbacked government tokens. Wray (2016, 9) in fact admits this, albeit inadvertently, when he writes:

> There are hundreds and even thousands of years of experience with direct spending by sovereign governments. Hence there is no logical or practical barrier to returning to such a system; current procedures [having a central bank and private banks between the treasury and the recipients of government spending] are a matter of policy choice and could be changed if desired.

His point is that governments could (and should) get rid of the intermediary banks and central banks to instead both issue and spend the money themselves. But he fails to mention that this long experience is *not* of government-issued tokens *being money*. By leaving out that gold was money—that paper notes had backing in real money—Wray makes it appear as though tally sticks and the colonial American government's paper notes are akin to today's systems of government currency. But this is not true. As we saw above, the paper notes were issued side by side with money and were even redeemable in money (specie).

This is an important omission. Wray's argument is severely weakened if we recognize that banks' paper notes were accepted as

[1] Fractional reserve banking is left out of the picture for now.

means of payment *because they represented real money*. Although it is certainly true that private banks often engaged in fractional reserve practices and thus issued notes beyond the gold kept in their vaults, the paper notes, including the original Federal Reserve notes, were backed in real money and were considered valuable *because* they were backed in real money. (The so-called bank runs bear witness to the fact that the public sometimes lost trust in a bank's promises that their notes were sufficiently backed in gold. This loss of trust shows that the public recognized gold as the real money.)

With the currency in circulation untethered to gold (or some other money), as is the case with government currency today, the argument is different.

HOW DID THE FIAT DOLLAR BECOME MONEY?

What remains of Wray's (2016) argument? Very little but the claim that we use (and demand) dollars in the United States (and other government currencies in other countries) because they are needed for us to pay taxes. Even if we grant this point, this is not in itself a reason for accepting dollars beyond one's expected tax liability, nor is it an explanation for dollars becoming widely circulated to the point that the dollar replaced real money. The argument for *why the present-day fiat dollar is money*—the commonly used medium of exchange—remains to be made. Why is the demand for dollars not limited to their use as tax-paying tokens?

An answer to this question requires more than the chartalist assertion per Kelton, Wray, and Tobin and Golub. One part of the answer may be found in the fact that the dollar is a currency *monopoly* enforced by the state. It is not merely issued to allow people to pay their tax obligations. The government does not allow other forms of money within its controlled territory, as exemplified by the 2007 raid against and later conviction of Bernard von NotHaus, the creator of the "Liberty Dollar" (Federal Bureau of Investigation 2011). Similarly, one can read on official dollar bills that "this note is legal tender for all debts, public and private." The extent to which the legal apparatus of the government makes its own currency the only (or the primary) medium of exchange undermines the chartalist argument that the dollar is demanded (only) for its ability to pay tax

obligations. The government imposes other obligations, including the obligation to accept government currency as payment. Even if we accept the unorthodox chartalist interpretation of imposed taxes as a liability for both taxpayers and the government to be "cleared" by "redemption" on Tax Day, Wray's argument is a legal rather than an economic argument.

Wray also overlooks the important fact that the government currency has a legacy of being real money. Paper notes, whether issued by private banks or the central bank, used to be accepted because they were redeemable in precious metal. The name of those notes—*dollars*—was kept after the gold standard was abandoned incrementally through political decrees. Also, this process of replacing gold with mere paper not only consisted of increasingly undermining the dollar's redeemability, but was accompanied by legal changes that supported the transition. Those included the government's adopting international monetary regulations (the gold exchange standard, the Bretton Woods system, etc.) as well as legally prohibiting individuals from owning gold (that is, real money) and the U.S. Treasury and financial institutions from redeeming dollar bills for gold. We cannot assume that these measures were without effect on people's usage of the paper dollar as a medium of exchange and therefore their demand for it.

The difference between real money and government currency is significant if we consider Menger's (1892) argument for how money, as a concept and practice, emerged and was accepted. Money works as money because people accept it as money: we accept something as money because we expect that others will accept it as such and thus that it will largely retain its purchasing power. Menger's explanation of money emergence is important because it shows how money emerged through people's actions over time converging around using specific goods more or less universally as media of exchange. Because of this, we should expect inertia in the process of money emergence as people get used to and gain trust in using a money. And after centuries, if not millennia, of a money economy, money need not be reinvented. Even if what we have learned to accept as money—the thing, not the concept—is systematically undermined and manipulated, and loses its purchasing power over time, we may still keep using it—as long as we expect others to use it as well.

Similarly, and perhaps of greater import in the context of Wray's argument, we should also expect inertia before people *abandon* a money. The fact that a money is widely or universally used in trade in the market means it can safely be accepted by the individual in exchange for goods. Even if the use of money diminishes or money loses its purchasing power, it still provides an important service to actors in the economy as a facilitator of exchange. This is observable during times of high price inflation (or hyperinflation) when people stick to and use the money even though it cannot retain its purchasing power. In fact, people use the money despite having experienced inflation and expecting continued inflation—at least up to a point.

Following this line of argument, the dollar (bills and coins) would then *remain* accepted as money—the commonly used medium of exchange—*despite* losing its redeemability in gold and becoming a government-controlled fiat currency. It is therefore money not because we need dollars to pay the taxes demanded from us by the government, but because we expect others to accept it for payment. But this is the standard argument for money (Menger 1892), not the chartalist position of Kelton and Wray.

Overall, Wray's argument is unimpressive and incomplete, and it makes several leaps of logic. Although he makes some interesting points, his main claim remains unfinished, improperly argued for, and in the end unpersuasive. Wray not only fails to make the case that government currency is money because it is "redeemed" as tax payments, but leaves questions that are better answered using Mengerian monetary theory.

REFERENCES

Bossone, Biagio. 2021. "Why MMT Can't Work." *International Journal of Economic Policy Studies* 15, no. 1 (February): 157–81.

Buchanan, James M., and Gordon Tullock. 1965. *The Calculus of Consent: Logical Foundations of Constitutional Democracy*. Ann Arbor: University of Michigan Press.

Federal Bureau of Investigation. 2011. "Defendant Convicted of Minting His Own Currency." Archived press release, March 18, 2011. https://archives.fbi.gov/archives/charlotte/press-releases/2011/defendant-convicted-of-minting-his-own-currency.

Grubb, Farley. 2018. "Colonial Virginia's Paper Money, 1755–1774: Value Decomposition and Performance." *Financial History Review* 25, no. 2 (August): 113–40.

Kelton, Stephanie. 2020. *The Deficit Myth: Modern Monetary Theory and the Birth of the People's Economy*. New York: PublicAffairs.

Knapp, Georg Friedrich. 1924. *The State Theory of Money*. London: Macmillan.

Mankiw, N. Gregory. 2020. "A Skeptic's Guide to Modern Monetary Theory." *AEA Papers and Proceedings* 110 (May): 141–44.

Menger, Carl. 1892. "On the Origin of Money." *Economic Journal* 2, no. 6 (June): 239–55.

Mises, Ludwig von. 1953. *The Theory of Money and Credit*. New Haven, Conn.: Yale University Press.

———. 1998. *Human Action: A Treatise on Economics*. scholar's ed. Auburn, Ala.: Ludwig von Mises Institute.

Mosler, Warren. n.d. "MMT White Paper." Accessed January 15, 2023. https://warrenmosler.com/mmtwhitepaper/.

Murphy, Robert P. 2021. *Understanding Money Mechanics*. Auburn, Ala.: Mises Institute.

Nair, Malavika. 2012. "Böhm-Bawerk's Influence on Mises's Typology of Money." In *Theory of Money Fiduciary Media*, edited by Jörg Guido Hülsmann, 63–74. Auburn, Ala.: Ludwig von Mises Institute.

Palley, Thomas I. 2015a. "The Critics of Modern Money Theory (MMT) Are Right." *Review of Political Economy* 27 (1): 45–61.

———. 2015b. "Money, Fiscal Policy, and Interest Rates: A Critique of Modern Monetary Theory." *Review of Political Economy* 27 (1): 1–23.

Rothbard, Murray N. 1990. *What Has Government Done to Our Money?* Auburn, Ala.: Ludwig von Mises Institute.

———. 2008. *The Mystery of Banking*. Auburn Ala.: Ludwig von Mises Institute.

Selgin, George. 2017. *Money: Free and Unfree*. Washington, D.C.: Cato Institute.

Tcherneva, Pavlina R. 2006. "Chartalism and the Tax-Driven Approach to Money." In *A Handbook of Alternative Monetary Economics*, edited by Philip Arestis and Malcolm Sawyer, 69–86. Cheltenham, U.K.: Edward Elgar.

Tobin, James, and Steven S. Golub. 1998. *Money, Credit, and Capital*. New York: Irwin/McGraw Hill.

Wray, L. Randall. 2016. "Taxes Are for Redemption, Not Spending." *World Economic Review* 7 (July): 3–11.