

Government spend precedes tax in the real world, but no...

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I got this comment on Twitter last night on my MMT posts and along with some comments from Neil W (who I presume to be Neil Wilson, although he has never said so) felt it deserved a blog treatment:

Richard,

*There is a lot I could comment on here but let's just focus on the tax issue. There is no contradiction between the statement "the first order purpose of tax liabilities is to create unemployment in terms of the state's currency" and "spending precedes taxation". Mosler is saying the tax *liability* precedes spending, whereas settlement of taxes can logically only occur after spending. This is a core MMT proposition (maybe THE core MMT proposition) and is a documented historical phenomenon (see: US colonial currencies, or this paper by Forstater on colonial currencies in Africa: <https://modernmoneynetwork.org/sites/default/files/biblio/RiPE%20Forstater.pdf>). The purpose of the tax liability is to create seekers of paid work (unemployment) in the state's currency so that the state can provision itself. The state can use this power to fully employ all idle resources/labor.*

Charlie

Let me be clear that I began by reading the paper, which I had read before, and which in summary I find as unconvincing now as I did when I read it before.

As Forstater says in the introduction to his paper:

In Volume One of Capital, Marx laid out what he called "The Secret of Capitalist Primitive Accumulation." Capitalist accumulation must be preceded by some previous accumulation, "an accumulation which is not the result of the capitalist mode of production but its point of departure" (Marx, 1990, p. 873). Marx identified the "double freedom" requirement necessary for capitalist production: workers must be "free" to sell their labor-power and they must be "free" from the means of production. The existence of a working class ready to sell their labor-power to capitalists requires that a mass of population have no means of production with which to produce their own

means of subsistence. If they could produce their own means of subsistence, they would not be compelled to sell their labor-power to capitalists.

Developing his theme he argues:

Several points concerning the role of direct taxation in colonial capitalist primitive accumulation need to be made. First, direct taxation means that the tax cannot be, e.g. an income tax. An income tax cannot assure that a population that possesses the means of production to produce their own subsistence will enter wage labor or grow cash crops. If they simply continue to engage in subsistence production, they can avoid the cash economy and thus escape the income tax and any need for colonial currency. The tax must therefore be a direct tax, such as the poll tax, hut tax, head tax, wife tax, and land tax. Second, although taxation was often imposed in the name of securing revenue for the colonial coffers, and the tax was justified in the name of Africans bearing some of the financial burden of running the colonial state, in fact the colonial government did not need the colonial currency held by Africans. What they needed was for the African population to need the currency, and that was the purpose of the direct tax. The colonial government and European settlers must ultimately be the source of the currency, so they did not need it from the Africans. It was a means of compelling the African to sell goods and services, especially labor services for the currency.

Let me jump from there to Forstater's conclusion, where he says:

The history of direct taxation in colonial capitalism also has some wider theoretical implications. It shows, for example, "that 'monetization' did not spring forth from barter; nor did it require 'trust' – as most stories about the origins of money claim" (Wray, 1998, p. 61). In the colonial capitalist context, money was clearly a "creature of the state."

So let me first, note that, as I argued in my commentary on Mosler's arguments on MMT, Forstater requires that we presume that there is an oppressive and even malign state in existence. He does so because he presumes that from a Marxist perspective the states that we are talking about are malign because they exist to promote capitalism. As someone happy to live in a mixed economy and who has no desire to replace our current overall society with one built on Marxist lines, unsurprisingly I have some problems with this premise. You may not. I, and I think maybe 99% of those who have an interest in MMT, do. Mosler obviously buys it, hook line and sinker. I have no problem with that, but he really should be explicit about that. If he wants to build MMT on the basis of this antiquated view of capitalism in general (which I would clearly differentiate from neoliberalism in particular), so be it. But you really need to be honest about it.

Second, let me also note that we now know where the colonialist trope that underpins the tax argument in MMT comes from. And I would argue it is a trope.

Third, then let's deal with the claim as if it is an acceptable one, which to me it is not because I could not build a theoretical justification for a form of macroeconomic management that only really became relevant in the post gold standard era on the basis of a Marxist view of capitalism that was long out of date and a view of the state long dispelled by democratic forms that Marx did not anticipate, plus a view of colonial exploitation that could never be condoned.

I then note the following as a consequence.

First, the tax is imposed before the currency to make payment of it is in existence. In other words, the liability pre-exists the means of settlement. So, in other words, the tax described by Forstater comes first i.e., before any spend.

Second, I note Forstater's claim that this was done to impose a demand for the currency. But what I cannot accept is that this proves the MMT argument that the spend, which then follows in the form of buying colonial workers' labour, precedes the tax. Glaringly obviously it does not. The liability to the tax is, in itself, a real thing. It does not matter that there is no apparent means to settle it: that does not mean that the liability does not exist. In fact, what this argument proves is that in this situation the tax had to come first and the spend second. To use this as a proof of MMT's claim that spend comes before tax (as Charlie does and as NeilW does in other comments posted, suggesting Mosler also thinks this) is absurd. You can't choose a little bit out a series of transactions and say that this proves your case. You have to look at the series as a whole and if Forstater is right in the series of events he describes that series is:

- * Impose a tax for which there is no means of settlement.
- * Force labour to work for a currency they do not want, but have to acquire to pay the tax.
- * Pay that labour.
- * Accept their cash back as tax.

The tax precedes the spend, always, in this particular case.

Third, there is the slight problem for those relying on this argument that taxes of the form Forstater describes are rare and form a tiny component of most modern tax systems, if they exist at all independent of the existence of prior means to settle them.

And fourth, there is another major problem. This is that Forstater overlooks the fact that in many, if not most, of the states where he claims this policy was pursued the conditions in which an MMT approach to macroeconomic management of an economy have not developed. Instead, taxes tend to be low in many former colonial jurisdictions. Tax recovery is also low. But worse, liabilities can rarely be imposed in local currencies because it is commonplace for a second currency (the US dollar) to be in circulation. And it is normal for external debts (both state and private) to be denominated in the US

dollar. In that case imposition of taxes in the way Forstater and Mosler suggest to be necessary for an explanation of MMT has not resulted in states where MMT macroeconomic management can function. The exact opposite has happened, and colonialism is now via the currency instead. That is hardly a ringing endorsement of Forstater or Mosler's case.

Put together, these arguments provide no support for Mosler's claims. What they do confirm is that I right in assuming, as Mosler implied in his paper, that his version of the state is necessarily hostile. What these arguments also confirm is that I was right to suggest that Mosler argued that tax precedes spend. Two key claims I made are, therefore, justified.

But let me reiterate, spend does come before tax. It's just that Mosler, Mitchell, Forstater, NeilW and Charlie all get the reasoning wrong. We know spend does precede tax in the UK. Bizarrely Neil Wilson knows this: [he was one of those who explained how, in practice, this happens](#). But since he does not appear to understand why this might happen let me offer a non-Marxist and non-colonial explanation.

The reality is that for a currency to work it must have these characteristics:

- * It must be universal in a jurisdiction, meaning it must be the only legal tender for settlement of debts, which fact is reinforced by a functioning legal system.
- * It must be a store of value, meaning that over time it became bankable.
- * It must be acceptable for payment of tax.
- * It must not be capable of being counterfeited.

How did such currencies come into being? Not by imposing hut taxes, but by issuing tokens declared to be legal tender by a monarch in a recognisable form that a banker (or their earlier equivalent) could accept as having value. These were spent into the economy, usually to buy the services of soldiers, and which were taxed out of circulation to ensure they remained in limited supply (which as a matter of fact, they were). That's how currency came about.

The desire to spend did come first.

The desire to spend the token again was what promoted the tax.

And the ability to require the use of the currency was not imposed by imposing a tax for which no means of settlement existed, but by law, banking regulation (in due course) and by requiring tax payment after the spend had been made, the currency itself being acceptable without the requirement to tax because it was made of an inherently valuable commodity, hence the gold standard.

This is what happened. The Mosler argument based on Forstater (whose article is itself

deeply flawed, being based on what might at best be called Marxist wishful thinking) simply is not credible in comparison.

And no, I have not referenced this post because a) I do not have time b) I am still replying to Mosler, who referenced nothing and c) it will not help then argument.

What I am sure of is that my rejection of Mosler's claims and his worldview is even more justified now.