

## MODERN MARXIST MONETARY THEORY or MMT.

*MMMT has to solve two issues. Firstly, how can token money, that is money without any intrinsic value, circulate valuable commodities. Secondly, why do prices not fall in line with the cheapening of production in terms of labour time when circulated by this symbolic money. This article briefly addresses these two questions.*

The capitalist's use the formula  $MV=PT$  where M stands for the money supply (M2 usually) V stands for the velocity of its circulation (how many times it turns over in a year), P is the prices of goods multiplied by the times they are sold each year or T. This formula was set out in 2011 by a US economist Irvine Fisher. Marx of course spoke of something similar but more complex 40 years earlier. On the fifth page of Chapter 28 in Volume 3 he defines the velocity of circulation as the number of times purchase and payment is carried out by the same piece of money in a given time. Now mark, he is speaking of a piece of money, i.e. metallic money or coin. (Volume 3, Chapter 28, Means of Circulation and Capital page 579 Penguin Edition.) I will confine my remarks to Chapter 28, one of the more consequential chapters in Volume 3.

This formula is not endorsed by all economists and should be used by Marxists only in a qualified form.

Firstly, it is a false tautology. M will always be the counterpart of P because they represent the two sides of any exchange, the purchase and the sale. This leaves us with  $V=T$ . But in this case V does not equal T. Money exists both as means of circulation and means of payment. If all transactions were cash transactions, that is money acting solely as means of circulation, then yes  $V=T$ , but money has additional functions. Much of what is produced is first circulated by trade credit in industry and commerce, not cash. Thus Ts are found unaccompanied by M or the associated V. Only in retail are Ts based on M (cash).

In Volume 3, Marx describes how bill discounters and traders centralize trade credit, setting-off bills payable against bills receivable so that a minimum of money is needed to settle these differences. For this reason in production and commerce, money as means of payment ensures that  $V \neq T$ , because  $V < T$  which means the velocity of money passing hands is less than the velocity of transactions themselves. For this reason  $MV \neq PT$ . In Marx's words, *The velocity of circulation between capitalist and capitalist is regulated directly by credit, and the amount of the circulating medium required to settle payments and cash purchases undergoes a relative decline.* " (Volume 3, Chapter 28, Means of Circulation and Capital page 579 Penguin Edition.) By the circulating medium Marx means money.

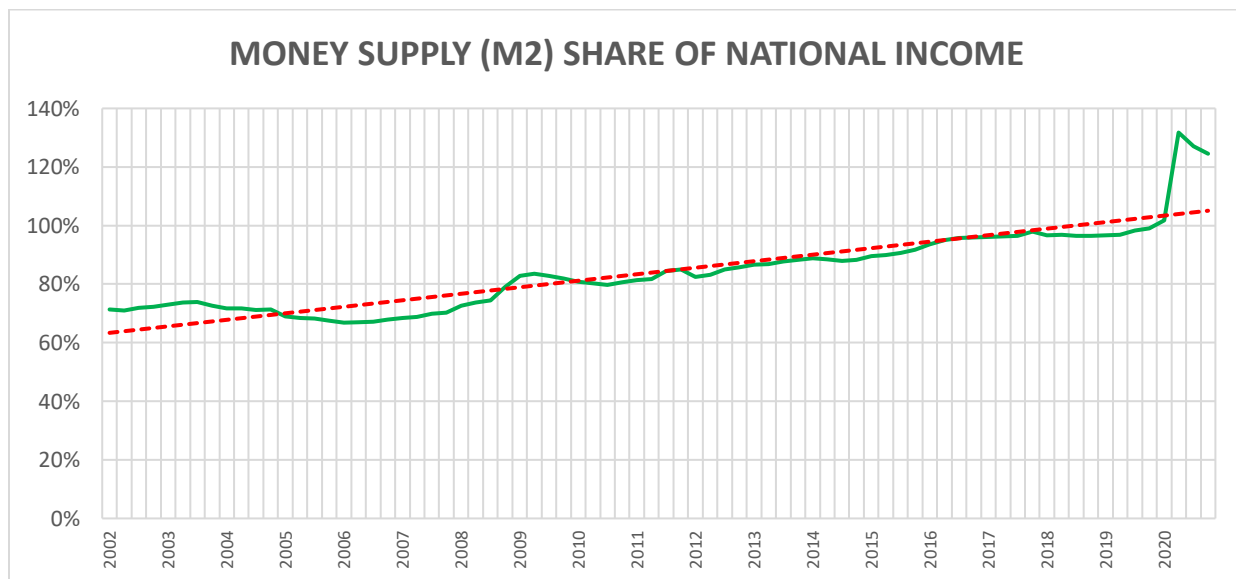
In addition Marx makes two important points about money in the chapter. On page 2 of the chapter he describes the money form of revenue and the money form of capital and that money circulates both equally. Two pages later he concludes: *"The particular character of money – whether it functions as the money form of revenue or of capital – does not at first affect its character as means of circulation."* For our purposes, which is to determine the level of prices, we will not distinguish between revenue and capital to begin with.

We will take as our starting point the conclusion of the cycle of production, the sale, when value is monetized yielding revenue and its tributaries - profit, rent, interest, wages and tax. That revenue corresponds to the net value added by workers which of course is less than the value of output which includes depreciation and the net balance of inventories. The issue of inventories is important because it is a marker for circulating capital. Most importantly, commodities will not necessarily be circulated by pieces of money as money has become more generalized through direct transfers.

So the total money at the disposal of society in its revenue form will comprise the revenues unspent plus depreciation plus or minus inventories. This statement seems strange, total potential money equals total revenues unspent. What about  $M/V$ , surely money is reduced by the pace at which it changes hands. Of course, but once you multiply this active money by  $V$  in any year it will still equal total potential money. For example in the course of a calendar year, more money is spent in the last two months of the year leading up to Xmas and with it, velocity increases, much to the cheer of retailers bumping up prices. This overspending then tends to be compensated for by reduced spending in the first two months of the new year when excesses are paid off and velocity decelerates. Thus spending cannot exceed potential money without the acquisition of debt. Something coming out of nothing only exists in speculation, but that is for later. In summation, the total legacy revenue unspent is the ceiling for the total potential money in existence and that revenue can be exchanged for commodities with or without the intermediation of pieces of money, for example by way of direct debits or bank transfers.

This hypothesis is supported by the graph below. M2 is closer to National Income (which does not include depreciation) than is generally thought. (Depreciation is excluded here because it is National Income which forms the revenue streams.) This graph which is based on  $M2/N.I.$  is the inverse of the graph usually used to estimate velocity of circulation which is  $GDP/M2$ . I have also adjusted M2 to account for bank reserves held at the FED. Of interest has been the rise in the supply of money since the financial crash due to QE. The recent jump is due to Covid Relief funds, and is most unusual, as in the normal state, M2 should always be significantly less than National Income as some of the legacy value is continuously being consumed in one form or another.

**Graph 1.**



(Source: NIPA Table 6.1D for National Income and FRED Table M2 for money supply.)

Conversely, the presence of hoarding will preserve value as will speculation where value is held captive by fictitious instruments until re-converted back into cash, provided it is not lost. Thus if net hoarding (saving) in all its forms increases for example with a fall in investment, plus if the net cash held in limbo by speculation increases, then to be sure a greater portion of revenue will not be consumed. There will be a deficit on the demand side, and this will have a depressive effect on prices and circulation.

Such a deficit is likely to arise during a financial emergency followed by recession and stagnation. During normal market conditions, the regular issuance of bank credit money and potential government deficit spending will bulk up the supply of money. If the issuance of new loans plus the deficit spending exceeds hoarding and speculation, then the total money feeding demand will exceed the supply of money originating solely from revenue. (Here we consider loan issuance as directly tied to the purchase of consumer items and capital items and not tied to additional hoarding.) In this instance there will be price rises.

This being so the formula for general price levels boils down to this for a given period:

The price of current production or  $P \times T^{ft} = R + NL - H \pm Sp \pm FQ$  or, on the right side of the equation, Revenues (R) spent plus net New Loans (NL) spent less Hoarding (H) plus or minus net Speculation (Sp) plus minus Government Spending and Quantitative Easing (FQ). The <sup>ft</sup> attached to T is read as national transactions adjusted for foreign transaction, i.e. the net balance between imports and exports. Taken out of the equation is velocity because we are looking at a single period or a single calendar year.

Net speculation (Sp) can be a plus or a minus depending on how much money is leaving and how much money is coming back into the economy. This is intimately connected to liquidity conditions which is where the Q in FQ comes in or Quantitative Easing. Generally as long as Central Banks pump money into the economy there is bound to be capital gains and therefore leakage back into the economy boosting the right-hand side of the equation. Finally the F in FQ represents the fiscal part of government spending and any deficit spending will once again boost the right-hand side of the equation.

The other virtue of taking a single period is that we can ignore circulating capital. Circulating capital is never lost provided what is produced is sold. It is thus always recouped or replenished in an expanded form. When looking at a calendar year in which a number of periods exist, changes to the velocity of circulating capital can alter the aggregate size of this capital, either by increasing it when it decelerates and decreasing it when it accelerates, everything else being equal. Thus it has a bearing on supply and demand when viewed in the form of multiple periods.

We have moved a long way from the simple formula  $MV=PT$ . It could be argued that this formula holds good when only applied to final sales from which GDP is derived. The problem with this is that the bulk of T or transactions lies behind final sales in the form of intermediate sales despite many of those being circulated by trade credit. Thus, even if money acts as a means of payment here, rather than of circulation, those transactions have to still be accounted for. They are real. Which brings us to the next issue of theory. It could be hypothesized that collating bills of exchange and cancelling them out speeds up the velocity of money circulation. Less money could then be circulating commodities, but the same amount of money is circulating more transactions because of this set off between bills payable and receivable. Therefore it could be argued that  $MV=PT$  because set off accelerates V. However, this proposition does not stand because what set-off is doing, is not cancelling transactions, but the debt associated with them. The number of transactions remain as before.

### **Token money.**

M2 is normally considered the money supply both active and inactive. It is the sum of deposits easily accessible as well as cash. These deposits are formed by revenue (money belonging to the depositor), bank loans (credit money) and money deposited by the Central Bank via a number of varied asset

purchases. What M2 excludes of course is the reserves held by banks with the central bank. In short while personal and corporate checking accounts with banks are counted, the checking accounts belonging to banks at the central bank are not counted, which is wrong. These are the accounts banks use to settle the flow of funds between them. Though these bank checking accounts are used to balance depositors own prior payments to accounts in other banks, they still form part of circulating money. See <https://theplanningmotivatedotcom.files.wordpress.com/2021/04/bent-out-of-shape-1.pdf>

Now we need to explain how paper money can act as money. A \$100 bill costs 14 cents to print, but the holder of this note knows that it buys \$100 of groceries, petrol, shirts or any other commodity and not 14 cents worth. [https://www.federalreserve.gov/faqs/currency\\_12771.htm](https://www.federalreserve.gov/faqs/currency_12771.htm) In other words as Martha Campbell puts it: "In complete contrast to the measure function, the chief characteristic of means of circulation is that the physical presence of money matters but its physical material does not." <https://www.mtholyoke.edu/courses/fmoseley/conference/campbell.pdf> In short, it is the face value of money that acts as the standard of price when it circulates commodities. This does not mean that the face value is invariable, merely that if it changes, then so does the prices of all other commodities. It means it will circulate fewer commodities if their prices rise, or more if their prices fall, but their combined prices at the time will still add up to \$100.

Marx says as much in Volume 1. *"The independent existence of the exchange value of a commodity is here a transient apparition, by means of which the commodity is immediately replaced by another commodity. Hence, in the process which continually makes money pass from hand to hand, the mere symbolical existence of money suffices."* (Volume 1 Chapter 3, subsection 2c, page 159, Money or the Circulation of Commodities, Lawrence and Wishart edition.) What is so interesting, is that these words, belonging to a future stage of analysis, appear in the section where Marx is dealing with elementary metallic money – the universal equivalent -gold. **We could add old (legacy) value and new value pass hand to hand as well.**

It must be made clear that revenue represents social value which is why it can act as money when thrown into circulation. Once spent it is lost to the buyer but gained by the seller who has succeeded in converting the individual (commodity) value privately produced into social value. The buyer consumes the new value privately produced, while the seller now holds the equivalent in its social form.

Some Marxists are of the view that the value of symbolic money is supported by the proceeds of past production. This is incorrect. The all-rounded truth is that symbolic money binds the past to the present, it unites legacy value in the form of monetised revenue with value currently being produced. Legacy revenue is spent, the new value is consumed, leaving behind only new revenue (money) in the hand of the seller. It thus enables commodities to pass from hand to hand in a continuous cycle.

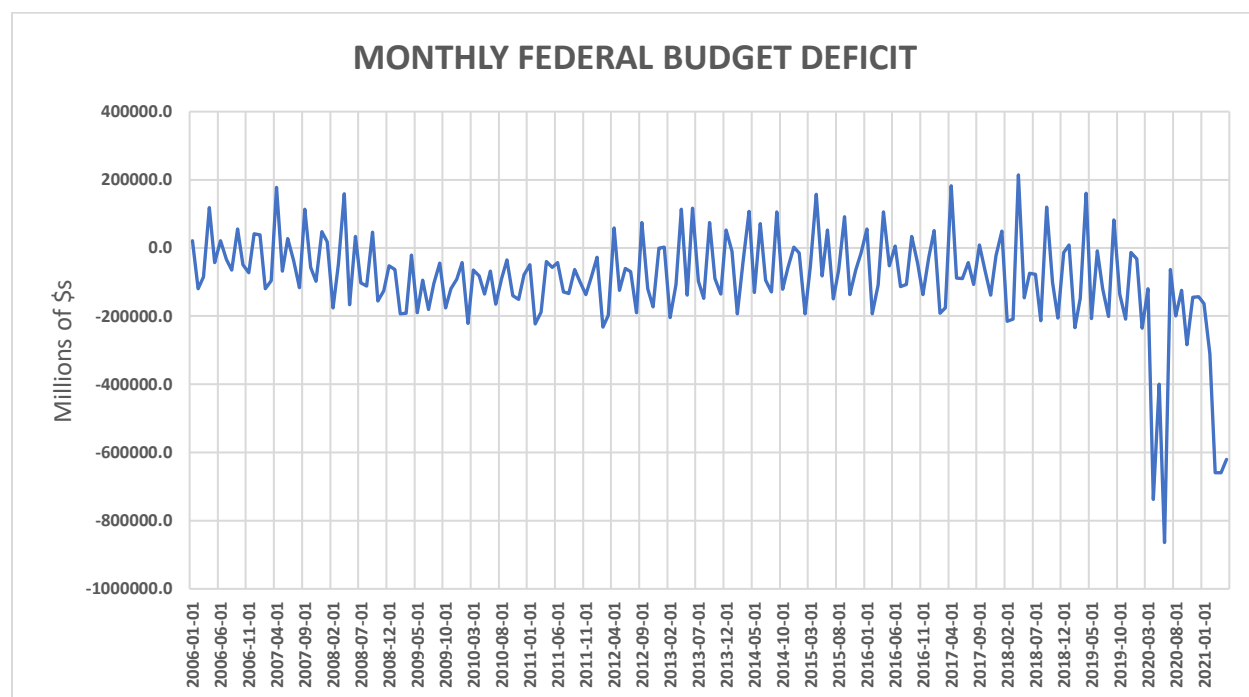
Clearly, when viewed this way symbolic money representing legacy value in the form of monetised revenue, is supportive of price levels. This is what distinguishes symbolic money from metallic money whose value is determined solely by its cost of production. Assuming gold to be the monetary material, any changes to the weighted value of gold due to changing production costs will affect all other prices. If the value of gold rises then all other prices will fall and if the value of gold falls all other prices rise. Legacy value on the other hand is fixed, it is a constant having already been produced, this is its content, it therefore cannot alter prices in the manner changes to the value of metallic money can.

Everything else being equal, symbolic money based on a finite amount of legacy value therefore tends in the longer run towards price stability, to a minimisation in the fluctuations of general price levels, despite

it having no intrinsic value. This tendency has thwarted numerous central banks efforts to achieve an inflation target of 2%. Of course there are boundaries to the stability of symbolic money which always takes the form of state money or currency. When symbolic money is no longer underpinned by legacy value, but undermined by profligate government spending, it loses its capacity to function as a standard of price. Its stability depends on the probity of each country's treasury, that is maintaining a degree of discipline between tax income and spending, or what is the same thing, regulating budget deficits now and in the future.

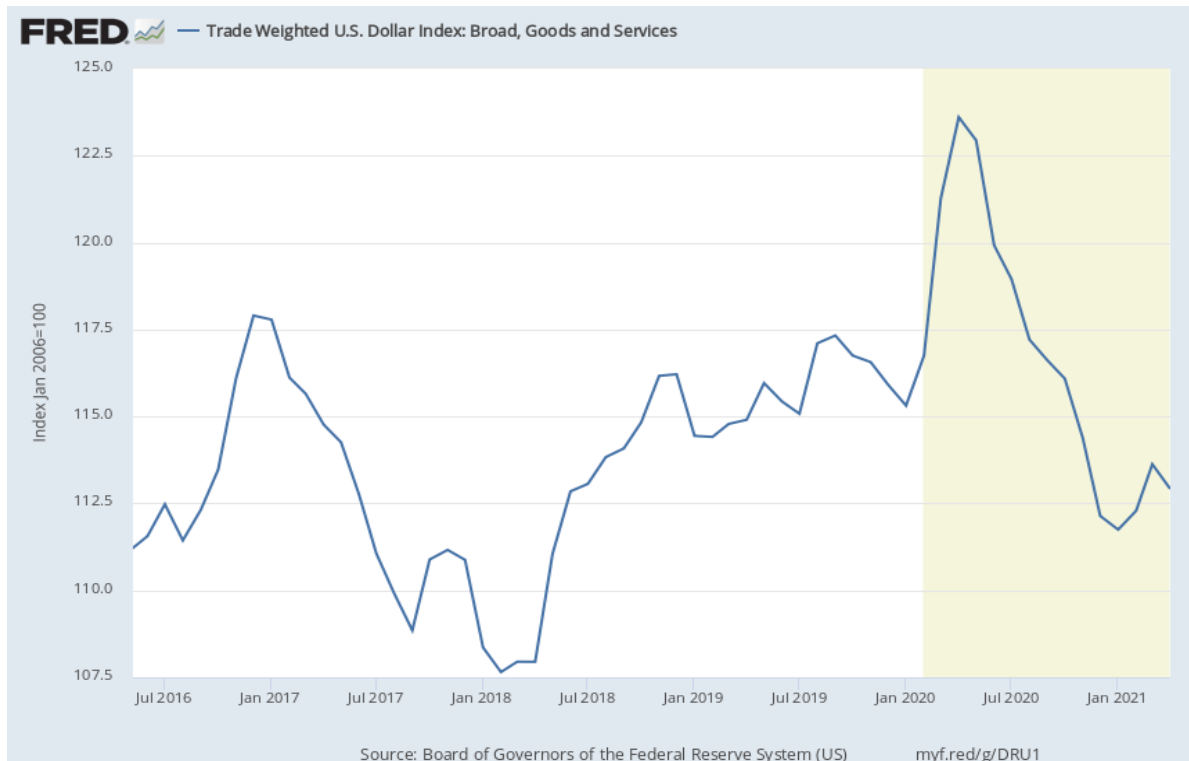
A few days ago The Congressional Budget Office commonly called the CBO brought out its budget estimate for the first 7 months of this financial year. It stands at \$1.93 trillion up \$0.45 trillion from last year. <https://www.cbo.gov/system/files/2021-05/57127-MBR.pdf> The total deficit for the previous year was \$3.1 trillion which means that over the last 19 months the deficit has hit over \$5 trillion or 15% of GDP.

**Graph 2.**



One of the signs that a country is profligate with its finances lies in the movement of its exchange rate on the international finance markets. This is particularly true of the USA. US spending is beginning to spark nervousness over the dollar and the sustainability of these deficits, as the graph below shows. From piling into the "safe haven" dollar at the onset of the pandemic thereby pushing up its exchange rate, to the Dollar giving up its gains and then some once the extent of the relief funds became visible. It appears that the Dollar is becoming a problem for the global economy adding to its instability and a dollar crisis seems likely.

**Graph 3.**



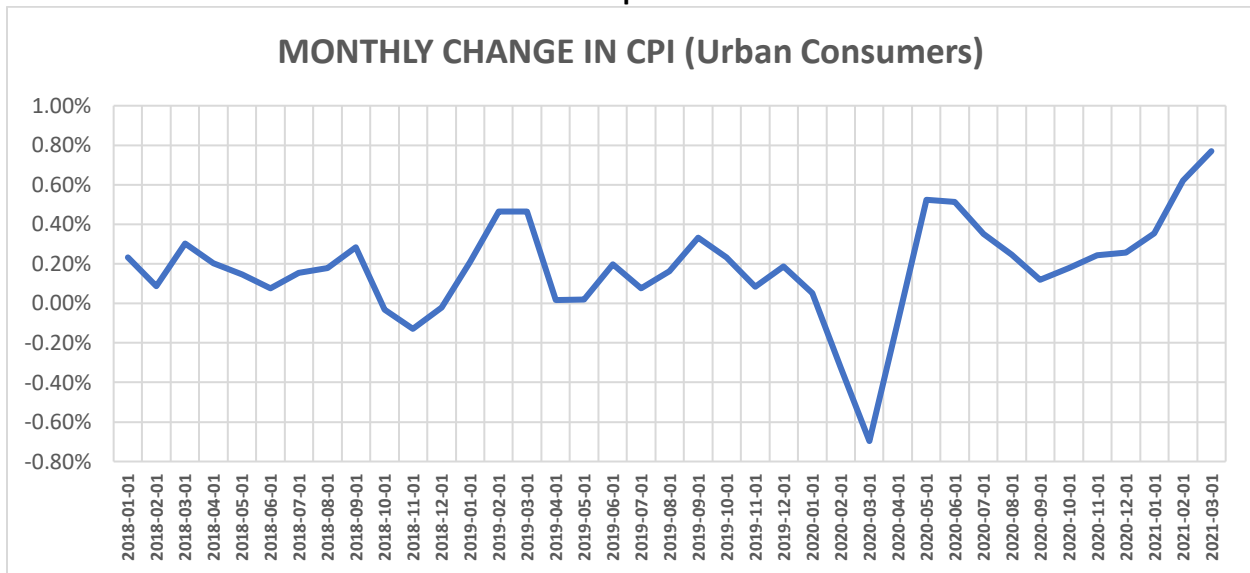
The same factors driving down the dollar are driving up the rate of inflation, namely the \$3.6 trillion monetary injection into the economy by The Fed and the \$5 trillion budget deficit, giving a grand total of \$8.6 trillion or 26% of GDP over these 19 months. Clearly this has skewed the right-hand side of the equation described above by driving up FQ.

The annual rate of inflation released by the BLS on the 12<sup>th</sup> May rose to 4.2% compared to the expected increase of 3.6%. This was due to a monthly jump of 0.8% compared to 0.2% expected. The average monthly increase since June last year when prices began to recover is 0.38%, which yields a running average annual increase of 3.5%, the most accurate measure currently.

The likely peak will be sometime in July or August and it should crest above 4% measured annually or around 5% measured monthly. Factory prices increased by 4.1% in the US in the first quarter and by 6.8% currently in China. Commodity prices continue to increase, in part driven by speculators, yes, who want a hedge against inflation by adding to it. Talk about a self-defeating strategy.

However I am of the opinion that this inflation spike will be short lived despite price pressures still present in the pipeline. Already over the last two days we have seen how inflation concerns have impacted share prices. The stock markets have recovered, but earlier this week they had their roughest patch since January with the Nasdaq close to losing all of its 2021 gains.

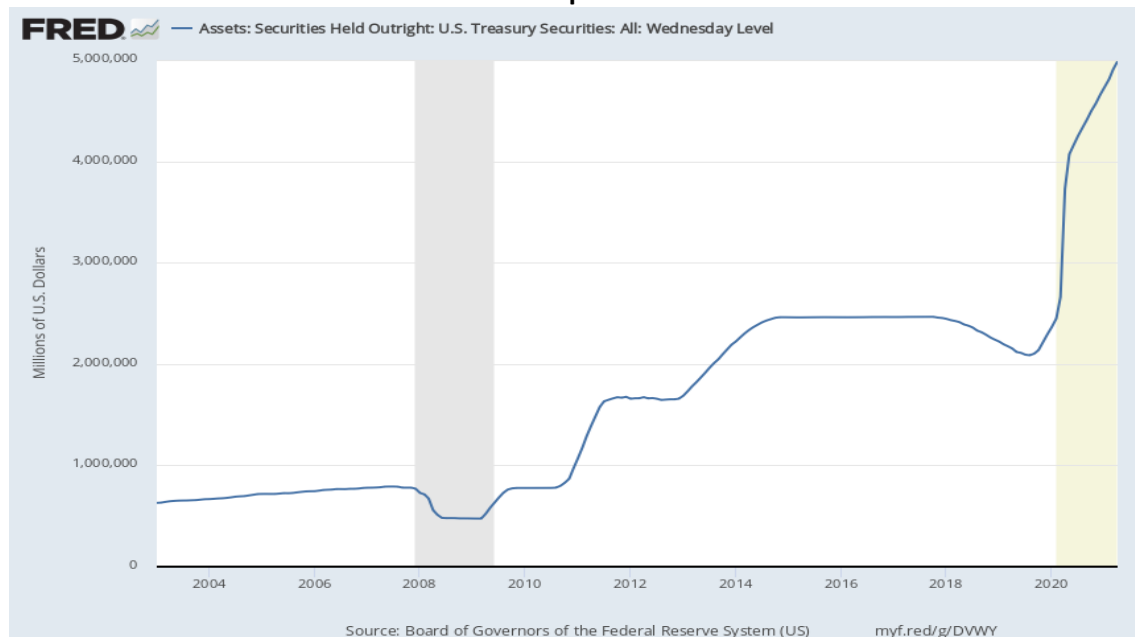
Graph 4.



Inflation and interest rates remain loosely associated. This is due to the ongoing purchases of Treasuries by the FED. The purchases by the FED of Treasuries is shown in Graph 5 below. They currently stand at just above \$5 trillion having doubled from the levels between 2014 and 2018 before the FED embarked on a brief period of unwinding. The result is that 10-year interest rates have oscillated around the 1.6% mark or -1.9% when adjusted for current annualised inflation. This together with the FED buying up residential mortgages has led to a boom in the housing sector.

Unfortunately, the Federal Reserve does not give a break-down of maturities in its weekly purchases of Treasuries. We are thus unable to say whether or not it is focusing its purchases on 10-year Treasuries or not. <https://www.federalreserve.gov/releases/h41/current/h41.htm#h41tab2>

Graph 5.



Summing up. Price movements will manifest differing patterns between metallic and symbolic money. In the case of metallic money prices will adapt to changes in the value of the metal itself which is acting as the universal equivalent. In the case of symbolic money prices will adapt to changes to the ratio of spent and unspent legacy value at any point in time unless disturbed by government spending. We have seen that legacy value in circulation is the difference between the available sum less hoarding, and that it can be added to by new net loans and government deficit spending. In normal conditions, should hoarding be compensated for, but not over-compensated for, by net new loans and or government spending, then price stability should be maintained.

Thus far we have looked at prices between periods. However so soon as we substitute the video of capitalist production for these snapshots, then the velocity of circulation has to be reintroduced as well as the rate of profit with its multiplier effect, and finally as well, the price impacts of the class struggle.

### **The rate of profit.**

The great disruptor is the rate of profit and with it the propensity to invest. The rate of profit has a profound effect on the circulation of legacy value, or more precisely on that element of value reconverted back into capital. A falling rate of profit which reduces investment must reduce the amount of legacy value in circulation. More of it will lie unconsumed, that is unspent. Hoards will increase. The right-hand side of the equation will contract and both the quantity of transactions as well as the prices at which they occur, will reduce.

Additionally, the right-hand side will contract because loan generation for productive consumption will fall as well. With fewer profitable outlets and more bad debts, it is more a case of banks calling in loans rather than offering new ones. Conversely in a period of rising profitability, there is more revenue available to invest and there is a greater willingness to grant loans. Under these conditions, the right-hand side of the equation will expand resulting in rises to both M and T. Hence Marx's view of prices rising on the upside of the industrial cycle compensated for by a fall on the downside, which is why total prices can only equal total value when measured over the entire industrial cycle.

What has been quite exceptional since 2016, especially in the USA, has been the continuously growing fiscal deficits in the USA, -3.2% (2016), -3.5% (2017), -3.8% (2018) and 4.6% (2019) average. Net exports detracted 2.8% of GDP. (Assets and Liabilities of Commercial Banks in the United States - H.8) To which we could add anything between 0.5% and 1.0% leaking into the real economy from the fictitious realm of speculation boosting consumer spending which increased by 3.3% on average each year. For illustrative purposes only, bank credit expanded by 4.4% (2016), 2.0% (2017), 2.3% (2018) and 3.9% (2019) GDP adjusted. (All figures above are nominal.) How much of this lending went into consumption and how much went into investment or were rolled over is indeterminant.

Treating these years as periods we can put the data into our equation yielding the following result,

$$3.3\% (\text{PCEs}) + 0.7\% (\text{Fixed Investment}) + 3.8\% (\text{Deficit}) - 2.8\% (\text{Trade Balance}) = 5\%$$

All these factors tended to offset weak investment which grew an average of only 0.7% p.a. Collectively, all these factors account for an economy expanding nominally at around 5%, or higher than the 4.3% estimated by the Statistical Bureaus in the US for the four-year period. (Q4 2019 GDP = \$21.747 trillion vs \$18.379 trillion in Q4 2015.) Adjusted for IP investment, which is based on a fictitious sale together with owner occupied rents, growth would reduce from 5% to 4.6% which suggests a rate of inflation 0.3%



higher than that provided by the BLS. (Using Net National Product which excludes depreciation the BEA plots a growth rate of 4.6% too.) If inflation is understated by 0.3% which is likely, then real growth has been 1.8% instead of 2.1% (Table 1.17.5. Gross Domestic Product, Gross Domestic Income, and Other Major NIPA Aggregates). Thus up to half that real growth could have resulted from cashing in capital gains.

### **The class struggle revisited.**

Should workers prevail in the class struggle, such that their wage rises mop up much of their productivity gains, thus eating into potential profits, then, while revenue will not increase, the share of it falling to workers will. General price levels will be unaltered because the rise in the price of articles consumed by workers through increased demand, will be offset by the fall in prices in those areas from where demand has been switched. However, the rise in the price of labour power and its effect on profits will discourage investment making this form of sectoral inflation short lived. This cost push is much weaker than demand led inflation as dealt with above, because rising wages tends to be offset by falls in the rest of the components through discouraging investment.

At this point there is some cost push. Non-farm factory wages at 5.1%, are rising faster than the official CPI in the first quarter. <https://www.bls.gov/news.release/prod2.t02.htm> Biden's \$300 weekly unemployment benefit ensures that 25% of the unemployed are better off not looking for work as they would be paid less. The latest JOLTS data shows record numbers of unfilled jobs. This is tied to the disappointing jobs data released last Friday which showed only 266,000 new jobs being created. This has led to the mythology that Biden's \$1.9 trillion package is to blame, because the jobs are there but workers are not, raising the fear of a higher wage floor. As a result of this capitalist led view, 11 Republican led states have committed to abandoning this payment by July to force workers back to work. We shall see if that makes a difference.

### **The Value Rate of Inflation (VRI)**

Michael Roberts and Guglielmo Carchedi's are attempting to set up a new formula for estimating the trend in prices. They have called it their VRI and will be publishing a book next year to substantiate it. Their formula is detailed below:

**The value rate of inflation (VRI) = % change in wages and profits (CPP) + % change in money supply (M2).**

In short they are saying that inflation depends on the % change in National Income + the % change in the money supply. This would make sense if the money supply was autonomous, in this case, the quantity of gold. But modern Marxist money recognises that the money supply is largely formed by unspent legacy value. Over time, credit money and deficit spending by governments usually add between 5 and 10 percent to M2. This means that more than 90% of M2 comprises legacy value formed by the labour of workers in prior periods of production. It is the ballast for M2.

Of course, production is continually being cheapened, but because legacy value represents past production, therefore more expensive production, its fall lags the fall in the current output of value and this lag acts to moderate the fall in the prices of current production provided all the legacy value is spent. Equally important is the observation that as monetised revenue is accumulated from the more expensive past, it should, by exceeding the value currently produced, ensure there is no immanent crisis of realisation resulting from a deficit in symbolic money, provided once again that revenue is spent. (See comment on Fred Moseley later.)

Over the shorter term however, more abrupt alterations to the amount of unspent legacy value will dictate price movements. So too will additions to the money supply from any increments in the form of credit money or deficit spending. Overall, the money supply will contract or expand depending on the ratio of consumption on the one side and the additions on the other. The two authors have it the wrong way round. The paradox is this. VFI could very well increase with a fall in M2 if this results from more legacy value being thrown into circulation reducing M2 in the process. In reality it is not about plusses and minuses because one form of value is being exchanged for another and therefore it is the exchanges that count and the pace at which they occur. I believe for these reasons the authors' formula has failed to capture current inflation which Michael Roberts expects to peak at 3.1% in the future when its annual rate over the last 11 months has already risen to at least 3.5% and is likely to peak above 5% though this peak will not endure. <https://wordpress.com/read/feeds/313842/posts/3330155496>

### **More theories.**

We thus have a much broader definition of money than mere currency. In China, most payments are made over smartphones and do not use currency at all. These internet wallets are the most ideal form of money. The basis of Modern Marxist Monetary Theory thus takes as its starting point the recognition that modern money comprises unspent legacy value in the form of monetised revenue. Were it not for that, internet wallets would not be possible, because all they make available on demand is the depositor's share of that revenue plus any credit limits. Similarly in most other countries with advanced banking systems, during Covid, there has been a move from cash to debit cards.

The stability of symbolic money has both an objective basis and a subjective basis. Clearly the basis of symbolic money is the circulation of yet to be spent legacy value. Active money equals the circulation of legacy value. But if credit money expands too quickly or if money itself expands too rapidly due to rising government spending unsupported by tax income, then price stability can be disrupted if spending increases. We should not shy away from this. Rising prices indicates a rapidly depreciating currency, and it is this objective reality that creates a subjective crisis for the currency. Trust in state money, like love, takes years to earn, and can be lost in a moment.

This article shows that unlike the monetarists, we recognise that the money supply does not exist in limbo. It is the outward reflection, not golden mark you, of legacy value. Value produced in production by workers. All the printing presses do is provide the cloth to clothe this value. Thus, because the money supply is primarily regulated by legacy value, it is finite.

The quantitative theory of money is wrong. The quantitative theory of money negates the law of value. It holds that prices are purely determined by demand and what lies behind it, the quantity of money. More money it is said will lead to higher prices, less money to lower prices. In reality the opposite is the case. Money does not gate-crash circulation, rather it is invited in, or rather attracted by the prices at which commodities circulate and the speed at which they circulate. It is value that is active and money that is passive.

It is not only monetarists who subscribe to the demand side but some Marxists as well. I was recently involved in a discussion over a piece Fred Mosely had written where he tried to oppose the hybrid view that value is not only determined in production but also by the demand for that production, because until labour is converted into cash it exists as only potential value. For more on this please visit <https://theplanningmotivatedotcom.files.wordpress.com/2021/04/can-labour-time-be-measured-1.pdf>

Those who support the hybrid view that value emerges in production as well as exchange are merely saying that the child is the mother of the child. As I have pointed out earlier, legacy value is in most cases sufficient to ensure that the value produced in production is not diminished by insufficient demand.

Even if the quantitative theory of money was correct it is also irrelevant. The original intent behind increasing the quantity of money was to seduce capitalists into investing. The theory being that if you filled the trough with lucre the pigs will come to drink. That assumes the pigs were thirsty which is not the case. Except during times of financial emergencies, the capitalists are not short of money, despite society being short of investment. The real cause lies on the other side, insufficient profits to seduce the capitalists. If increasing the money supply increased profits it would be problem solved. But the rate of profit, in the general case, has nothing to do with the money supply but to changes within industrial capital, namely the rise in the technical composition of production and with it capital. Thus like all prescription based on a wrong diagnoses it will fail to cure the patient.

Having said this, we need to qualify our view. There is a corollary to this theory which does hold true. It is this, if money is focused not on encouraging investment, but is paid directly to workers for their own personal consumption, the effect differs. In this case the additional money will tend to be spent and it will bid up prices in those areas catering for the products destined for workers consumption. The proof of this lies in what is happening today in the USA resulting from the effects of the Relief Funds. For this reason, these funds are being attacked. For our part we need to defend the Biden Administration's Relief efforts against the growing criticism from employers that it is driving up inflation and hampering production. If inflation is the price needed to put food on the table and pay the rent, so be it.

## **Conclusion.**

The total value in existence comprises legacy value and currently produced value, the old and the new. It is the old that circulates the new. No, that is not correct. It is only that part of the old acting as money that circulates the new. Without this understanding, the role of profit and its rate cannot be understood, for it is the rate of profit that is the primary regulator of the balance between the consumed and unconsumed parts which make up legacy value. This is something the Keynesians keep ignoring. Never in the history of capitalism has there ever been a time, when falling profitability has not kicked the legs out from underneath consumption trapping more and more legacy value in limbo.

What we are seeing currently challenges theory. The disparity between legacy value and additional relief money compared to current value production, still dislocated, has stoked inflation in a manner this writer always anticipated. Those who propose MMT policies have it the wrong way round. Any injection of funds into the economy directed at those who will spend it will ensure that this injection is met with inflation during the initial phase and not only in the terminal phase once capacity is fully utilised.

The markets may have survived their two-day wobble around the shock inflation report this week, but they are belatedly beginning to question the omnipotence of the FED. With much more bad news to come, the resilience of the markets will be tested. As the Relief Funds are spent and debt comes to the fore, consumption will wilt. We should not forget that a mere 20% correction would wipe out the \$15 trillion worth of relief funds pumped into the global economy. Such an event will put an end to any discussion over inflation because it is bound to paralyse the conversion of legacy value into circulating money.

Brian Green, 13<sup>th</sup> May 2021.