

A RESPONSE TO ROBERTS AND CARCHEDI'S EXPLANATION OF THE DRIVERS OF INFLATION.

This is not my first response to their analysis. Follow [this link](#) to my prior analysis.

The authors begin their current analysis with the identity $MV=PY$. This identity is not equal to $MV=PT$ though many monetarists consider them to be similar. This is not often recognised. GDP which is represented by Y is nothing more than the value of final sales, that is to say, one set of transactions. But final sales are not the only transactions, there are intermediate sales as well, or input sales or transactions not covered by GDP but only by Gross Output. In most cases, intermediate sales exceed final sales in terms of their total price and volume of transactions. Thus, if Y stood for Gross Output rather than GDP that identity would be closer to $MV=PT$.

But there is a caveat. Most of the intermediate sales or inputs are paid for by credit because they are business to business. Trade credit is the largest source of credit in the US economy. For example, in Q1 of 2026, intermediate sales amounted to [\\$20.6 trillion](#) on an annualised basis. Given a turnover rate around 3.5 p.a. we could expect a figure of around \$6.0 trillion. [The FED puts non-government trade finance](#) at \$6.1 trillion, bang on the money, though not all of this belongs to trade credit proper. (Trade finance amounts to about a third the size of the money supply or M2.)

Thus, not every transaction corresponds to the handover of money. That is why Marx split the function of money into two parts, the means of circulation and [the means of payment](#). In the latter Marx sees money as the means of settling obligations at a future date, in this case repaying trade credit on due date. Therefore, M and T are now separated in time. But more, as the banking system expands and matures, in this case with the growth of the discount houses, so set-off of trade credit occurs. Bills payable and receivable are contra'd out, so less money is needed to clear trade credit. Accordingly, M and T are further divorced.

Only if money was king, by this we mean, if no trade credit was given, would $MV = PT$. But generalised COD (Cash on Delivery) is rare and only occurs during a financial emergency and then not completely because the largest companies remain solvent. (This is what Marx meant by the chain of credit breaking.)

In sum, we need to abandon this identity even before examining whether or not money spins the wheel of circulation or is drawn into the vortex created by the spinning wheel whose rotation has little to do with the supply of money. On this point the authors are correct, a view inadvertently shared by the Keynesians, summed up in the observation that trying to feed more money into the system is the equivalent of pushing on a piece of string. (Unless it becomes a lifeline which lower income families pull on as occurred during the Pandemic and the support funds.)

With the following statement my own theory of inflation begins to diverge from theirs. *"For Marx, money is not value, but the representation of value."* This is to confuse the appearance of money with its essence. In my writings on money, titled *Modern Marxist Monetary Theory MMT*, [here](#) and [here](#), I show that around 90% of M2 is composed of unspent revenues. In turn revenues are the monetary expression of legacy value, that is, actual value produced in previous cycles of production now fixed and invariable. Therefore, the act of exchange needs to be restated, it is not simply the exchange of commodities for money, instead expressed socially, it is the exchange of current value for legacy value whereby current value is converted into new revenue through sale while the old revenue is extinguished through the purchase.

Moreover, this 90% figure acts as the ballast in M2 keeping prices upright and more or less stable. This is the gravity which the FED and other central banks fight against when trying to raise prices by 2% p.a. under normal conditions. I have shown that when unspent revenues fall below 90% meaning that less current value is being circulated by legacy value and more is circulated by debt, the conditions emerge enabling price rises. This is the one and only condition allowing this.

Currently, there is much discussion why inflation is so subdued given the supply disruptions to oil caused by the Gulf War, a disruption exceeding that experienced during Covid. In particular, why the oil price has been so tranquil even after taking into account releases from reserves. MMT explains this. Let us look at the data below.

National Income for Q2 2026 has not been released but the closest is net national product. Between Q2 2025 and Q2 2026 [it rose by \\$1605.9 trillion](#). [Net credit money](#) using FED Table H.8, rose by \$64.7 billion. (This is credit issued less credit repaid using line 41 in Table 2. Using this line the sum generated in June 2026 is arrived at by deducting it from the figure in June 2025 then adjusted it by the ratio of line 15 over line 1 as some of the credit is used for fictitious purposes not for circulation.) [The budget deficit](#) rose by \$56 billion in June 2026 compared to June 2025, taking timings into account, injecting a similar amount of money into the economy. Together fiscal money and additional credit money amounted to \$120.7 billion equal to 7.5% of the net national product. In terms of the increase in the [money supply M2](#) which rose by 1212.5 billion in June yoy this figure of \$120.7 billion amounted to 10%.

Thus, the original figure of unspent revenues forming 90% of the money supply is proximate to the historical norm. This explains why [inflation](#) (measured by the PCE deflator) is only rising at a rate of 3.7% despite the supply disruptions and AI investments, as compared to COVID when government support to boost consumption drove down the ratio of unspent revenues to 75% of M2. (As an aside the authors should not use CPI data as it is contaminated by owner occupier rents.)

The authors then distinguish the use of money for the circulation of commodities from the use of money for speculating in financial assets. They compare the period prior to the mid-1990s to the period thereafter which coincides with the emergence of the Dot.com bubble. Following on from this they correctly debunk the Keynesian theory of cost push inflation or more crudely that wage rises produce price rises. Instead, they repeat Marx's observation that it reduces profits rather than raises prices, thus while raising wages may raise prices in sectors catering for workers it has the opposite and balancing effect in sectors catering for the capitalists. To support their argument, they cite useful IMF data going back to the 1960s. It confirms that the wage-tail is not wagging the price-dog.

They then look at demand pull inflation represented by the Phillips Curve. Here they are on less sound ground given what happened during Covid, although they do discuss this phenomenon in paragraph 4 in Part 2, though this is minimised because it is a one-off event. However, criticism must be put on hold as more will be revealed in Part 4 of their postings.

Nonetheless, a one-off event does have relevance, and it does advance theory. [Due to the injection of \\$5.9 trillion](#) into the US economy half of which found its way directly or indirectly into the pockets of ordinary consumers demand was propped up even as employment fell. It was this demand which corporations milked through price gouging under the cover of supply disruptions, effectively emptying the pockets of consumers in what became known as the *cost-of-living-crisis*. Hence when we discuss

pushing on a piece of string, we must qualify this by saying this applies to only pushing money in the direction of the rich who are not short of money, quite the opposite.

I also feel that the treatment of Shaik is incomplete. We know that during the business cycle or what Marx called the industrial cycle there is a cyclical movement in prices. In the downphase - recession and stagnation - prices fall below values due to the collapse in investment particularly investment in fluid or circulating capital. In the upphase, particularly in the final phase of overproduction, prices rise above values. Overall, the falls and rises tend to balance each other out over the course of the cycle resulting in total prices equating to total values. This rearrangement between prices and value comprises one of the three big transformations of values into prices but it tends to be ignored and yet it is key to the whole conundrum.

Therefore, this oscillation needs to be explained, and it can only be explained in one way, through the movement of investment, or what is the same thing the disposition of the surplus of society held by the capitalists themselves. So, with apologies to Say and his law, investment creates its own demand and by this we mean both circulating and fixed. Where Shaik is wrong is that the new purchasing power does not come primarily from new credit money, but rather from the conversion of money held previously in unspent hoards to now being spent on investment. This tends to occur during the period of rising animation once excess inventories have been worked through causing the rate of turnover to accelerate. This results in more profit being realised creating an attractive environment for fixed investment or capacity, making the process self-supporting. In this way, cyclically, we can see both sides of the equation, demand and supply, and its effect on prices.

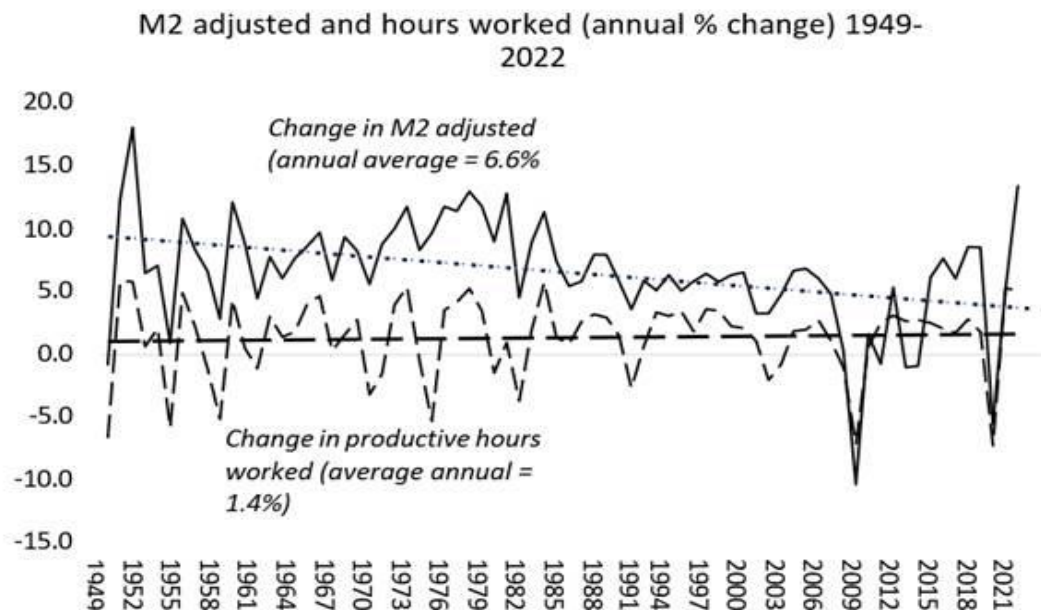
The authors have just published the third blog on [Michael Roberts website](#). In the second paragraph the authors repeat their mistake: *"Money makes exchange possible and so represents value. If money represents value, then changes in money are determined by changes in value."* Yes, money makes exchange possible, but not because it represents value, but because it is value, that is unspent revenues or income comprising value previously produced. In this way money is treated as a social relation, not as a representative symbol or thing.

The authors go on to define their methodology for measuring inflation. *"Instead, in our value theory of inflation, inflation is the difference between changes in money in circulation and changes in value production."* They go on to refine it further: *"We define and measure value as the hours of productive labour worked in any period. We define and measure money supply as money in circulation."* Another way of expressing this is to measure value by means of the volume of labour time expended in any period. The word volume here is important as we will see, because it relates to the volume of money in circulation. (Here the authors consider volume as deflated value.)

The authors correctly differentiate money spent on circulation from money spent on speculation and they provide useful data for the shift from circulation to speculation this century. They adjust M2 accordingly. I do something similar when I estimate the credit used for speculation and the credit used for circulation using FED Table H.8.

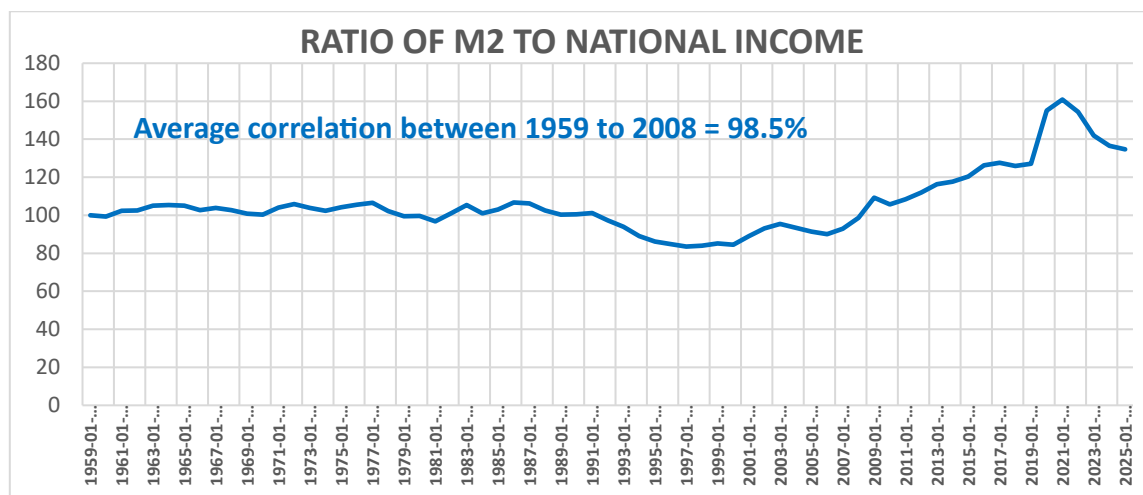
They then examine investment and hours worked regulated by the rate of profit. I find this a side argument unnecessary albeit fundamental. However, it does account for the oscillations in the number of hours worked. This enables the following useful graph they provide, which they use to substantiate

why inflation fell when the increase in the volume of circulating money drew closer to the increase in the volume of hours.



The authors then describe the correlations. *First, there is a relatively high correlation between the rate of profit on capital and the change in hours worked (0.66). Second, there is a relatively high correlation between the change in hours worked and changes in money in circulation (0.60).* Actually, in the second, there is causation, if you adopt my methodology. It is not necessary to measure hours, it is not necessary to separate out productive from unproductive labour, everything has already been homogenized in the form of revenue. Thus, revenue will respond to hours worked being its monetary equivalent. But here is the rub, this revenue appears on both sides of the equation. On the one side it forms national income and on the other it comprises 90% of M2. Thus, M2 will respond to income in one of two ways, it will increase or decrease depending on what is happening on the income side, or it will increase or decrease depending on what happens on the spending side, aka, the more unspent revenue that exists the more M2 will rise as its velocity falls and vice versa.

This graph proves the methodology. It only broke down after the 2008 financial crash with QE followed by Covid with the injection of support funds in and after 2020.



The graph above does not predict inflation as there is equivalence on both sides. Higher prices result in higher nominal revenue and higher nominal revenue, when it is unspent, swells M2. Here lies the flaw in the authors methodology. Their incorrect treatment of money as merely representing value results in their treating money as a thing rather than seeing income and money as two sides of the same coin so to speak, the former side private the latter side social.

However, to build a predictor we need to examine changes to the composition of M2 itself. If the income component falls below 90% dragged down by the issuance of debt, the conditions are in play for inflation to break out, and the more the income component falls as we have already noted, the more fertile the ground for inflation.

But the process is not automatic. Post 2008, the money supply as we see in the graph above, shot up due to issuance of debt and fiscal money, but inflation did not break out because the bulk of the additional money created by QE did not enter circulation but was parked in reserves with the FED where it earned interest for merely being parked. From 2020 onwards the income component of M2 also fell because of Covid funds. But this time there was inflation because half of those funds, roughly \$3 trillion, entered into circulation, welcomed by those who needed the support because their income was non-existent.

In some ways our two presentations are not dissimilar. Our starting point is the same, value production, and we both recognise that it is the circulation of commodities at given prices which determines the amount of money needed for circulation. In the case of the authors their comparison is reduced to volumes (deflated prices), in my case this is not necessary as value measures apply to both sides. This yields stronger correlations.

I believe my methodology is more elegant and accessible, and it is easier to update making it more relevant. It has never failed to explain inflation, and this includes the turbulent period we are now in.

Brian Green, 17th August 2026.