Monetary Economy of Production. Attempting to integrate financial accounts in an Input-Output framework.

Topic: Classical-Keynesian input-output models
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A monetary economy of production is, contrary to a barter economy, one in which (i) production takes the central place of analysis and (ii) production decissions are taken by agents with a view to end up with more money than they started with (Keynes, 1999, p. 79).

In the present research, our central purpose is to focus on the influence of financial variables on output and employment. We aim to develop a synthesis of the basic tenets of the Theory of the Monetary Circuit (TMC onwards), as developed, amongst others, by Graziani, 1989, 2003, and the linear theory of production, as revived by Sraffa, 1960, under the umbrella of the Keynesian principle of effective demand (Keynes, 1936).

As it is well known, the TMC provides a coherent account of how money puts the wheels of production in motion. However, this approach is highly aggregated and misses a theory of relative prices. On the other side, the Classical approach explicitly deals with production and prices at a dissaggregate level. Notwithstanding, here monetary and financial variables are almost utterly absent.

Edward Nell, 1998, 2004, has hinted at an integration, under the assumption that money circulates after production has taken place, and before the next production period starts (as in the Marxian spheres of production and circulation), and it runs through certain given channels.

We shall follow Nell's lead and then encapsulate the outcome in a balance sheet and transaction matrices, as in Stock-Flow Consistent Accounting, à la Godley-Lavoie, 2007. However, and contrary to the aforementioned authors, we shall try to develop a disaggregate scheme for the Stock-Flow accounts. The final output consists of an input-output table which is expanded to make room for industry liabilities, as a consequence of the funding of transactions (particularly, investment).

This is a theoretical proposal. Nevertheless, we shal try to build the required bridges in order to make it possible to apply this approach to an input-output table.