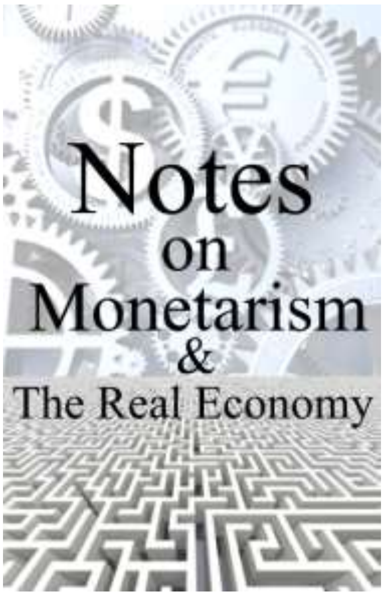

Notes on
Monetarism & The Real Economy
provide an extended explanation
of content in the
British Strategic Review 2022

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Notes are prepared in response to reader queries by the Strategic Decision Analysis Group, SEEL-Systems Engineering Economics Lab, Hampshire, UK.

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From earned income to pauperism and back

The story of 50 years of monetarism is a narrative of increasing pauperism for a segment of wage-earners. This can be seen in the rising proportion of people in work rely on provisions of the state for them to meet their payment of essentials. This trend is linked to the nature of monetarism and its policy instruments being unresponsive to the heterogeneity of the economy and range of income levels. As a result, policies generate winners, losers and those who remain in policy neutral impact states.

The reason for this imposed differential is that monetarists tend to think in terms of accountancy and nominal currency figures. Therefore, there is a notion of affordability of any particular measure assessed on the basis of static budgetary lines. This gives rise to a zero-sum game approach to national budgets which assumes frozen dimensions so that increasing an allocation for a specific purpose will reduce monies available for other allocations.

Real incomes

Real incomes are a measure of the purchasing power of disposable incomes and this is determined by the nominal sum of a disposable income and the relative prices of the goods and services an individual requires. Broadly speaking lower income individuals will spend an increasing proportion of their total disposable income on essentials such as food, water, and energy as well as abode (rent or mortgage payment). This is why once disposable incomes reach a specific lower level the individuals within that income category can no longer purchase essentials and the social response is either food banks and other forms of assistance. Without such provisions many people would be driven into desperate circumstances leading to petty thievery to gain money to buy essentials or to more violent forms of reaction. There is no judgement here of the psychological and physiological stress that deprivation causes and gives rise to social agitation and potential violence and social instability. Throughout history, such failures in economies to sustain a population where all have adequate disposable incomes to secure essentials, have given rise to agitation, revolutions and warfare.

There is therefore, by way of establishing priorities for economic policy, a need to design macroeconomic policies to constantly maintain and preferably raise, the lowest incomes earned from employment and other forms of work, to above what is referred to as essential or living wage.

However, the approach to this issue by monetarists seldom account for the dynamic nature of inflation with the result that periodic adjustments to minimum or living wages results in these falling in real terms until the point that they are no longer living wages.

Grants and loans

An example of how those responsible for national budgets can seriously miscalculate issues surrounding living and minimum wages is the confusion between grants or donations and loans. Very recently an exchange between Alison Thewliss of the SNP and Rishi Sunak, the Chancellor during a recent Treasury Committee meeting serves to illustrate this type of problem. Mrs Thewliss stated that Sunak's recent proposal to impose on constituents a £200 payment which they will be required to pay back in 5 lots of £40 each over 5 years, was a loan. Therefore, people would have a problem paying it back under current circumstances. The circumstances being referred to, we can assume, are the general background of rising prices or inflation. Extraordinarily, Mr Sunak stated this was not a loan but a way of "helping people". From a primary analytical perspective of the Real Incomes Approach to Economics Mr Sunak is completely wrong and Ms. Thewliss is right..

The reason people will have difficulty paying back this loan is because of the rampant inflation which is likely to reach 10%. The value of the currency or purchasing power at between 5% and 10% inflation will decline over the 5 years payback period meaning. Since it is likely that the prices of all other essential items will follow the same upward price trend of around 5% to 10% each year, each family will be out of pocket in real terms by around £32-£68 when they have "paid back" the imposed £200 loan.

Inflation as a tax or inverse interest rate

Inflation is the equivalent to a tax or inverse interest rate which drains the value from currency purchasing power and continually reduces the purchasing power of family disposable income. As a result, as far as constituents are concerned, the Treasury will receive more back than they paid out, because the cumulative impact of inflation causes them to end up being out of pocket in real terms.

Therefore, Mr Sunak's proposal is not helpful at all but in fact unfair and his insistence that it is not a loan, misleading.. Indeed, it is an arbitrary imposition that will impose hardship because paying the nominal total back includes a real incomes penalty.

Therefore, Mr Sunak's £200 will exacerbate and not improve the situation of those receiving it. Ms Thewliss' did suggest that a grant might be better in her exchange with Mr Sunak and this was, indeed, correct since this would be a cleaner and genuinely more helpful option.

The sequence of macroeconomic policies involving an increasing intensity of financialization under the guide of monetarism has increased pauperism in the United Kingdom to an unacceptable degree. This is because there is a lack of understanding as to what is required to reverse this trend. Mr. Sunak's proposal is a typical product of the monetarist stable which asserts it is there to "help people" when it is self-evident that it will simply increase pauperism and a result in requirements for more urgent actions..

The Sunak fallacy

Inflation	Item	Payment 1	Payment 2	Payment 3	Payment 4	Payment 5	Total	Excess
5%	Nominal	40	40	40	40	40	200	0
	CMC	1.05	1.10	1.157	1.22	1.28		
	Real	42	44	46	49	51	232	**£32**
10%	Nominal	40	40	40	40	40	200	0
	CMC	1.1	1.2	1.35	1.46	1.6		
	Real	44	48	53.2	58.4	64	267.6	**£68**

Key: 1. Payments are nominal and real over 5 years;
2. The Nominal payments of £40 each year are cumulated by the inflation rates to generate the real amount paid back;
3. CMC is the cumulative coefficient (the inverse of discount coefficients);
4. The currency is assumed to be losing purchasing power at the inflation rate stated;
5. The Excess is the additional amounts paid back, in real terms, by constituents, in each case more than received from the government;
6. Total ***real*** repayments on a nominal £200 loan, in the 5% and 10% inflation scenarios are £232 and £267.6 respectively.

It is imperative to establish priorities for macroeconomic policies to maintain and preferably constantly raise, the lowest incomes earned from employment and other forms of work, to above what is referred to as an essential or living wage. Note the emphasis here is not government handouts but rather reference is made to "*lowest incomes earned from employment*". The Chancellor needs to reverse the trends of insufficient investment and falling productivity and wages and place more emphasis on creating the right incentive environment. Incentives should encourage companies across the spectrum of all sectors to raise their game in terms of gaining efficiencies arising from a more intelligent allocation of resources to make feasible higher wages which in turn generate higher real consumption. Where companies achieve higher physical productivity they invariably can become more price competitive helping squeeze inflation out of the system. As a result, then it will be possible to eliminate pauperism and state support. The only seemingly practical macroeconomic policy proposition with a strong theoretical basis able to achieve such a positive systemic consistency across all sectors, is the supply side oriented Real Incomes Policy (RIP) approach.

OTHER NOTES

No.1 - 19th February, 2022 Some aspects of inflation

No.2 - 08th April, 2022 From earned income to pauperism and back

No.3 - 15th April, 2022 Why the Bank of England cannot solve the cost of living crisis

No.4 – 17th April, 2022 Technology, technique and real incomes