Economics Brief

SEEL-Systems Engineering Economics Lab

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All current macroeconomic frameworks are based on the aggregate demand paradigm.

A central part of this theory is the Quantity Theory of Money (QTM) which provides the logic for making decisions on money release, interest rates as well as taxation in the fiscal framework.

Unfortunately, making use of this logic is highly prejudicial to constituents because it results in income disparity and poverty. This is because the QTM does not include over 16 money sinks that reduce money, otherwise available for goods and service transactions and wages.

The use of the QTM, in its present defective form distorts policy decision analysis resulting in significant national prejudice.

Twitter Search title: A common error in macroeconomics

A common error in Macroeconomic policies

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The Brief, "*Theories of Money*" explains why the simplistic Irving Fisher version of the Quantity Theory of Money (QTM) does not explain the relationship between money volumes and the prices of goods & services. This is because it takes no account of multiple asset markets, savings and overseas flow which absorb funds which otherwise might enter goods and service transactions. This diversion of funds is significant. Indeed, our research shows that in excess of 16 critical money sink variables are missing from the standard QTM.

We have produced a baseline Real Money Theory to replace the QTM as set out in the document "*Theories of Money*".

Our Brief, *"Income Disparity"* shows how the real incomes of those involved in asset holding and trading, on the one hand, and real incomes of wage-earners employed by the goods and service production sectors, on the other, follow divergent paths leading to income disparity. This effect is exacerbated by the fact that the QTM is blind to these effects because of its failure to include all of the money sinks in the economy.

The QTM is a central tenet of monetary policy within the framework of the aggregate demand paradigm very much promoted by John Maynard Keynes but also being the underlying logic of the monetary policy decisions

Unfortunately, the QTM represents the logic applied both within fiscal and monetary policy as well as the following "leading" policy approaches:

- Keynesianism
- Monetarism
- Supply Side Economics
- Fiscal frameworks
- Modern Monetary Theory

Therefore this “inclusion” of the assumptions implicit in the operation of the QTM represents an error in all of these macroeconomic policies.

This is a matter of concern because:

- It represents a lax attention to detail and practicality on the part of most macroeconomists in terms of their understanding of inflationary mechanisms
- The application of decisions based on the current QTM results in increasing income disparity.
- An accompanying outcome is that the lower segments of wage-earners are pushed into poverty to the degree of not being able to purchase bare essentials.
- These facts represent an abuse of normal constitutional principles because they contribute to a policy-induced discrimination against wage-earners.

This means current policy propositions are prejudicial to the constituents of the country. This is an unacceptable state of affairs which should be rejected in a profession which one would hope should be in a position to identify practical solutions to socio-economic issues of the day.

Economists need more rigorous testable models of economic mechanisms before giving advice to governments on preferable policies. Unfortunately, all of the policy frameworks that support the aggregate demand paradigm are, at the moment, prejudicial to human progress as a result of the uncritical application of the logic of the QTM to the question of inflation.

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