Funding the Future

# Macroeconomics fails because it does not follow the mon...

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Howard Reed has argued that we need to rebuild economics, and I agree. He calls the process deconomics beause it requires a deconstruction and rebuidling of all that subject thinks it knows. Again, he is right.

As is John Hope when arguing on this blog today that if we are to do so we have to follow the money. He quotes Steve Keen saying:

*Fundamentally we do not live in a barter economy. Everybody except economists realise that . Economists model the world as if it's a barter system. They leave money out of their thinking entirely. No banks whatsoever. No money is necessary. Everything's barter. And then they start giving guidance about how much money you should create. In their theory the only thing money creation can cause is inflation. They completely ignore the actual process of creating money. [And yet] if you live in the real world ….it uses money.*

Precisely. And quite staggeringly true of macroeconomics, with which I have a little familiarity.

But this also means something else: it means that macro almost ignores tax as well. Not quite, I agree, because it is in one formulation of GDP, but that's seen as the residual form of that calculation and all the focus in that form is given to savings whenever it seems to be discussed.

And this is not surprising. Because macro, most especially in its general equilibrium form, does not 'do money' not can it 'do tax' because as modern money monetary theory argues, they are the flip side of each other. Tax exists to cancel government created money. All its other functions, important as they might be, are ancillary to that.

What does this mean? I'd suggest that an analysis as straightforward as this is makes it very clear that if deconomics is to work then it has to start where any good investigation does, by following the money.

Macroeconomics does not do that. It fails as a result. Deconomics will succeed where macro has failed if that is what it does. And on the way tax will, necessarily, have to be built into the equation.

The result would be radically different, and for one simple reason. It would be based on the economics that the real world can observe. That may be too radical for many macroeconomists, but it is exactly what we need.