

BREXIT - Price Performance Policy - the last policy standing

Why not give it a try?

Nevit Turk

Economics correspondent APE

The development of the Real Incomes Approach to economics was initiated in 1975 by the British economist, Hector W. McNeill in response to the inability of the Keynesian approach to macroeconomics to provide effective policies to contain stagflation. His approach was to go back to basics by analyzing supply and demand theory from the standpoint of the imperatives of microeconomic management as opposed to the macroeconomic theory of aggregate supply and demand.

By 1976 McNeill had reviewed supply and demand theory and realized that Keynesian macro-analysis hid the vast complexity of different conditions affecting each economic unit. On reviewing the proposals for the introduction of Monetarism promoted by Milton Friedman, at that time, McNeill concluded that this provided no solution to the complexity problem. In 1976, McNeill dubbed these two approaches as KM-policies because they were both incapable of providing sufficient accommodation for the diverse range of conditions facing individual economic units. Indeed, McNeill considered both to be "fair weather" policies that would operate under benign conditions where growth would come from economic units many of which were struggling to survive in spite of the prevailing macroeconomic policies. Such policies could not provide a basis for reducing risk or assisting the economy in the face of major financial or commodity price shocks. This position was borne out by the 1970s oil crisis and repeated in the 2007 financial crisis.

Because conventional macroeconomic policies do not provide sufficient accommodation or freedom for economic unit management to pursue their own preferences these policies impose differential impacts on economic units which are recorded as externalities or more commonly identified in the form of creation of winners, losers and those whose state is unaffected by policy impacts. McNeill explains that the reason conventional policies lack traction, and therefore fail to achieve objectives in a robust fashion, is because of these differential impacts on economic units. As a result, policies create an array of motivations on the part of economic units across a spectrum of compliance through to non-compliance.

McNeill also highlighted the fact that KM theory provides no effective treatment of technology, technique, learning and innovation and, as a result, macroeconomic policies do little to facilitate the deployment of these factors in improving growth in real incomes and profits. This is a remarkable state of affairs when it is realized that the vast majority of economic growth comes from technology, technique, learning and innovation.

Microeconomic imperatives

In terms of microeconomic imperatives, it is essential that management is free to use pricing to remain competitive in the short to medium term whereas the manipulation of technology, technique, learning and innovation secure the maintenance of competitive prices in the medium to long term. In constitutional terms managers need to be free to manage their pricing, technical and economic performance to sustain or increase market penetration while not imposing prejudice on other economic units or customers (other economic units or final consumers). Prejudice in this sense would consist of unfair competitive practice and/or misleading sales information with respect to product or service specification and quality, the identification of elements of risk that could affect the outcome, conditions of supply and actual prices.

Management issues

The areas where microeconomic imperatives (freedom to price and manage technology, technique, learning and innovation) need to be promoted as opposed to constrained by macroeconomic policies are:

Short term components

- Pricing
- Investment in technology

Medium to long term components

- Evolution in technique & learning
- Managing innovation

In terms of macroeconomic management these represent important objectives but in terms of each economic unit the specific requirements are different even within the same economic sectors.

Currently conventional policies run a monopoly of quotas and price fixing by effecting control over aggregate money supplies (quota), interest rate fixing (price) and taxation systems that imposes net quotas on individuals and companies according to their nominal income or profits. The quota of net profits for a company, for example, bear little relationship to the turnover or relative exposure of the company but simply remains a fixed quota. Although in policy terms this quota and price-fixing scheme, typical of KM policies has an apparent logic from the standpoint of the “general state of affairs” but it is arbitrary and far from optimal for the majority of economic units.

Real income

For some 65 years under Keynesianism and Monetarism aggregate demand and money supply has been measured in nominal terms and performance of economic units is also measured in terms of nominal currency units. The overall constitutional objective of economic management should be to err on the side of enabling, or even encouraging, economic units to produce the goods and services the social constituency wants. What the social constituency wants, in terms of goods and services, is defined by what they are aware of as being available and accessible in terms of price. The array of products and services, their quality and their prices available at any one time is derived from the decisions producers have made in terms of product and service design, prices charged, technology and activity performance to provide the product or services as well as the use of various forms of communication to inform the customer. In order to secure the constitutional objective of preventing the pursuit of any one's objectives impinging on the right of others to do the same a simple constitutional economic objective is that transactions should represent mutual benefit. A measure of mutual benefit from a transaction in economic terms is the balance between the resulting real profit of the supplier and the real income of the buyer. Therefore, a transaction that represents a growth in aggregate real profit to the supplier and a benefit in terms of unit price and quality to the buyer, measured in terms of real income as purchasing power, then the transaction satisfies a basic constitutional premise of mutual benefit.

The Real Incomes Approach to economics is a theory providing practical policy options to uphold this constitutional economic objective.

As was outlined previously the microeconomic resources that can be manipulated to achieve higher aggregate real profits and promote the real income (purchasing power) of the buyer are short term pricing and investment in technology as well as medium to long term factors including the management of innovative performance through technique evolution and learning.

Throughput, flow & unit prices

The distinctions between decisions on pricing, investment, technique and learning are that the decision to act on prices and to commit resources to investment can be taken within a short period of time. However, these decisions are also tactical or strategic because the outcomes will be dependent on the impact of possible changes in conditions that can have an impact on the medium to long term performance of the economic unit.

Irrespective of the advent of any types of changes in conditions, there is a given relationship between the elements of medium to long term performance decisions based on two types of knowledge:

- Explicit
- Tacit

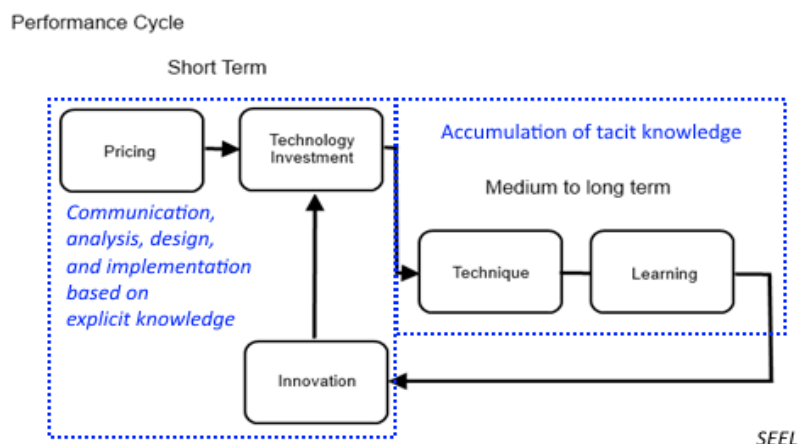
Explicit Knowledge

Explicit knowledge is related to management decision-making that relates to equipment capacity, capacity utilization, operational schedules and output yield (saleable output). This also relates to the quantities, qualities and prices of variable inputs as well as the use of algorithms to optimize resources allocation such as the minimization of costs.

Tacit Knowledge

Tacit knowledge is related to a cumulative deductive process that occurs on the part of those operating the economic unit's production process. As a result of production experience the people involved internalize their immediate process relationships and incrementally introduce refinements in their work methods thereby moulding the technique they apply in using a given technology. Tacit knowledge is acquired through the experience of repeating specific processes and learning what "works best" from the standpoint of the operator to achieve a sub-process objective.

Therefore, the combination of people and machines in processes can end up, over time, with more efficient operations. This phenomenon is known as the learning curve and, since its exposure in 1936 its existence and impact has been well-established on the basis of large amounts of empirical evidence and case studies. The overall significance is that cost reductions come about as an interaction between management decisions based upon explicit knowledge and operational refinements based upon operator experience and an advancing tacit knowledge. This performance cycle represents the Real Incomes Approach motor or mechanism for growth.



Real Incomes & the Integration of Explicit & Tacit Knowledge

In place of the conventional aggregate supply and demand curves, McNeill makes use of a supply and demand envelope where the upper boundary is the population's purchasing power curve and the lower boundary is the unit costs of production curve. Most transactions will occur within the boundary of this envelope and the envelope permits the identification of the market reality that in any given market, transaction conditions such as price and quality can vary significantly as opposed to assuming there to be a single "equilibrium" point. This analysis makes it easier to envisage the impact of unit costs reduction on average profits as sales increase and on real incomes of buyers as unit prices fall. Therefore, the more effective the management of explicit and tacit knowledge the more likely it is that business operations will perform in such a manner as to be more competitive as well as to uphold the constitutional economic principle of mutual benefit between real profits and real incomes.

Government & Private sectors

The Real Incomes Approach is concerned with the maintenance or growth in real incomes on the part of producers and consumers and, in macroeconomic terms, this means providing the freedom of producers to manage their production performance cycle while minimizing the differential impact of macroeconomic policy instruments. Indeed, the objective is for macroeconomic policy instruments to maximize the freedom of managers to optimize their performance cycles in terms of real profits over the medium to long term and to sustain a growth in consumer real incomes.

The performance cycle is relevant to all marketable goods, services, money and people. It is therefore of importance to ensure that all activities, irrespective as to whether they involve private or government institutions be encouraged to aim for the constitutional objective of mutual benefit.

Under the Real Incomes Approach the rational solution is therefore to avail both private and government activities to the specific benefits of a policy that encourages the generation of mutual benefit of encouraging every transaction to improve real profits of providers and the real incomes of buyers. This is in direct contrast to conventional economic management where the government sector is supported by the transfer of revenues obtained through the removal of quotas of profits or income through taxation. The conventional system is discouraging both to those paying tax and it provides no incentive for government "service" to perform in a manner that guarantees real income levels of service users.

Currency stability

Under the separate and then combined policies based on Keynesianism and Monetarism, the value of the pound sterling has declined by at least 97% in 65 years. This has impacted those who save money or who rely on fixed incomes arising from some kinds of investment, such as pensions. It is more than apparent that unless a macroeconomic policy is able to provide some foundation for currency value stability most growth, profits and incomes become illusory. If the Real Incomes Approach is to succeed maintaining or increasing real profits and incomes in general, under the constitutional economic objective of mutual benefit from transaction, then this currently difficult-one-to-achieve objectives needs to be realized. Certainly, KM-policies have failed to achieve this. Therefore, in addition to any policy supporting the Real Incomes Approach, it is necessary to integrate a management of monetary affairs that succeeds in stabilizing the value of the currency.

Currency Conflict

Since the world effectively abandoned the gold standard in 1971, the actual management of the macroeconomy has been complicated by floating exchange rates and the need to adjust these through management in the volume of money and interest rates. Therefore, the overall dynamics of the international economy has become a more important factor in monetary decisions. This has led to a silent conflict between countries in adjusting monetary volumes to deflate the value of the currency in an attempt to gain a competitive position and stimulate exports. The problem is that for the main reserve currencies of the dollar, Euro, Yuan and pound sterling, a deflation in one country imposes a need to deflate in other countries in order to maintain parity with the lead deflating currency so as to prevent a decline in “competitive position”. This currency conflict has become more obvious with the recent financial crisis but this can be traced back to the 1970s when the mathematical logic of establishing minimized risk positions for holding derivatives was first explained by Scholes and Black in 1976. Basically this explained that holding short and long positions to offset the holding of some derivative could reduce risk to almost zero. This risk was further reduced if the operation was managed by computer-based rapid arbitrage trading “at the margin”.

Derivatives

Derivatives are construct to convert any physical asset or income earning contract into a saleable “commodity” called a derivative. A derivative value is essentially based on the income stream or likely sales value of the underlying components making up the derivative. For example, a long term investment and its associated loan repayment, such as a mortgage or even a company, can be repackaged as a derivative which has a unit price and the promise of an income stream. For medium to long term maturity finance (e.g. mortgages) the derivative can become a short term commodity which can be sold and purchased according to agreed prices which depend upon the underlying risk associated with the continuity of the income stream. The Scholes & Black model was largely based on historic and assumed trends but the growth in derivative trading expanded almost exponentially between the 1980s and 2007 in an enormous concentration of derivatives trading. Because of the international reach of financial intermediation (banks and brokerage activities) the sale of, for example, derivative based on USA primary components such as mortgages, to banks in the United Kingdom and other countries immediately exposed these deals to a heightened risk because the number of variables required to determine the intrinsic value of the derivatives were no longer limited to the variables that operated within the US market but needed to be adjusted for possible movements in exchange rates, interest rates, money volumes and the general effect of currency conflict that raged throughout this period.

Tipping the balance

In November 2007, the Federal Reserve in the USA increased interest rates from a very low level meaning that the premiums paid by mortgage holders increased significantly. To understand this effect, consider that if the monthly premium on a mortgage was \$1,500 at a 1.5% interest rate this would be a \$3,000 monthly payment if the interest rates was increased to 3.0%. Thus an increased in interest rates from an already low operational level has a massive impact on what is owed each month. Financial intermediaries had packaged collections of US mortgages into derivative packages. Without reference to the intrinsic values of these derivatives which was very low because of the sensitivity of payment streams to interest rate levels by those on low incomes, ratings agencies awarded such derivatives so-called Triple-A “AAA” ratings signifying acceptable risk and therefore likely stable income streams. As a result of the raising of interest rates a significant proportion of derivatives failed because their income streams dried up as a result of defaulting home buyers in the so-called “sub-prime” sector.

In the case of some British banks who had over-invested in such sub-prime derivatives there was an almost overnight loss of up to and in excess of 50% of the initial value of these derivatives which then became illiquid because no one would buy them. This led to many banks becoming exposed in terms of their other wholesale money market dealings which in many cases were also associated with “derivatives”. Local authorities in many Italian regions went bankrupt because they had bought derivatives from “reputable” dealers. The same happened in many States and city authorities in the USA and the rest of the world.

Urgent discussions between the Fed and US banks and the Bank of England and UK banks, and repeated scenarios in other countries led to a panic on the part of politicians who believed the increasingly vociferous banking lobby making very effective use of the media, that unless the banks were bailed out the whole financial system and economy would collapse into a severe depression. This would lead to a depression on a scale exceeding the Great Depression with mass unemployment.

There is no alternative

From the standpoint of the KM economists and policy-makers who seemed to confuse derivatives for some sort of extension to monetarist policy, the first step was to try and impact aggregate demand by compensating banks for the losses they had made. The mind-set of financial intermediaries and brokers by 2000 saw derivative trading and market positions using electronic arbitrage and trading as a far easier way to make money than risking lending money to companies to invest and then wait for the companies to pay them back. Therefore, when the government in the United Kingdom began to compensate banks for their losses they did not understand why banks did not immediately begin to make loans to companies to help investment for “growth”. Whereas banks were stating that they were “consolidating their balance sheets” the dubious practice of derivative trading and taking of positions in the commodities markets continued resulting in inflating input costs for global consumers. So banks continued to profit from financial intermediation but their expected response of helping revive industry and service companies did not occur. The falling levels of real incomes for the majority and the inevitable decline in productivity is foreclosing the future prospects of the revenues government have had to cut back on public service expenditure leading to what has become known as austerity.

Blinded by heavy lobbying pressure and personal financial interest and/or the lack of knowledge of feasible policy options politicians worldwide, the IMF, national central banks and monetary unions state that “there is no alternative”.

The same slogan was used in the 1980s when the British government introduced monetarism to substitute Keynesianism and long term negative implications arising from the associated “banking liberalization” including encouraging mutual loan societies to become plc banks in the UK, for example, and the cancellation of the 1933 Glass-Steagall Act¹ by the Clinton administration in 1999 set the die for the “financialization” of the economy. This was driven by a derivative-based boom to accelerate cumulating in the debt crisis, caused by poor collateral (read derivatives) in a “Grey” ungoverned and uncontrolled market. This market was more than 5 times the GDPs and “money supply” managed by “central banks” in the major economies. There was therefore an uncontrolled failure of the financial system in 2008; today the Grey market is estimated to be 7-8 times global GDP.

The “There is no alternative” creed has attained the status of a blind fatalism underlying the urgent need for credible alternative policies to show that there is an alternative.

¹ The Glass Steagall Act of 1933 also known as the Banking Act (48 Stat. 162), was passed by Congress in 1933 and prohibits commercial banks from engaging in the investment business. It was enacted as an emergency response to the failure of nearly 5,000 banks during the Great Depression.

The profit paradox

Another original Real Incomes Approach concept is the profit paradox. This is an analysis that shows that the profit motive gives rise to the misallocation of resources, declining government revenues and falling real incomes of wage-earners. McNeill identified this issue by taking a specific view on the role of profits by Joseph Schumpeter as the only role of profits. It is notable that, in spite of the claims that the economy operates on the basis of freedom of choice and free markets, all of the conventional policy instruments are monopolistic state interventions (read interference) consisting of interest rate setting, money supply, taxation, government expenditure and government debt. If governments want to support the operation of free markets they need to terminate such market interventions. These impositions need to be substituted by incentives and methodologies for businesses to increase their productivity applying transparent business rules to increase real incomes at the level of the firm in a way that supports an equitable real income distribution.

Profit as an indicator of performance and target of taxation

One of the most significant distortions in national resources allocation arises from the status of profits in relation to the process of government revenue-seeking through the various methods of taxation. The system is considered to be efficient and normal, designed to gather tax revenues through the operation of a legal framework of defined accounting and audit standards. However, the accountancy standards applied have a significant impact on the outcome of optimization procedures as well as creating a significant rift between sections of the social and economic constituencies. Thus the accountancy variable to which taxation is applied is profit. The same measure, profit, is used by companies to assess their performance or relative success in their contribution to "shareholder value". There is therefore a contradiction between profit as a business performance indicator and profit as a target for taxation.

Tax evasion and avoidance

This has resulted in what is now a very large scale tax evasion and avoidance operating on a global scale. Therefore, far from securing a sound basis for corporate taxation, profit is transformed into other cash flow and asset groupings on the basis of a perverse resource allocation algorithms which obscure gains from business in relation to the income of owners and proactively minimize tax burdens. This distorts measures of business performance resulting in government revenue-seeking generating a far lower revenue than the potential, damaging public service provisions.

Profit and income differentiation

Profit as a measure of performance has another significant problem related to its accountancy specification as the difference between input costs and corporate income or revenue. Wages are classified under accountancy rules as a cost. As a result, there is an antagonism between the process of resources allocation and desirable levels of wages and profits.

Constraints on wages

So in addition to the motivation for companies to obscure ownership income as well as evade or avoid corporate tax, there is an additional motivation to resist rises in wages in the process of resources allocation. The general strategy followed by corporate decision-makers is to attempt to guarantee that the payment of dividends and executive bonuses outstrip inflation so as to achieve real income rises whereas wages, not being set by wage earners, are contained and, on balance, fall behind inflation thereby resulting in constantly falling real incomes for wage earners.

Thus the combination of macroeconomic policies in the form of government revenue seeking within a regulatory environment with inappropriate accountancy and audit norms generate perverse incentives and outcomes. The most unfortunate outcome is that companies cannot in fact optimise resources allocation to achieve the potential levels of productivity because of the conflicting constraints imposed by tax policy and regulations on the resources allocation procedures. Another impact of this state of affairs has been the colouring of political discourse and extremes of opinion arising from inappropriate conventional policies.

The share of profits in national income has risen and the share of wages has decreased. At the same time government revenues have fallen in real terms. This state of affairs has been exacerbated by monetary policy which, as I have explained, has been devaluing the value of the currency and real income levels in general. As a result, wage earners face a significant cost of living crisis and government revenue's real purchasing power is also declining leading to a significant strain on public service provisions such as the National Health Service.

Lack of policy traction

An associated impact of the profit paradox is that the lack of coherence in management microeconomic objectives with macroeconomic policy objectives leads to a lack of policy traction.

Price Performance Policy

Between 1975 and 1985 there was widespread discussion on what became known as supply side economics. It would seem that the supply side economics workers, mainly located in the USA, were trying to identify ways and means of overcoming the same weaknesses in Keynesianism that McNeill had started investigating in 1975. However, the outcome of this work was quite different from the Real Incomes approach in that supply side economics was based on marginal taxation reductions with the objective of stimulating production, innovation and growth.

McNeill's view of this approach², and which he only became aware of around 1978, was that it was an extension of fiscal policy and had no ability to balance any real income benefits between producers and consumers. Also, because the model possesses no feedback between the cumulative tacit knowledge based on learning and innovation and investment based on derived explicit knowledge the policy faces diminishing returns over time and uncontrolled income differentiation and therefore failing traction. It is therefore not a sustained real economic development model and is bound to fail. Indeed, the outcome of supply side in the USA ended up as "trickle -down economics" under the Reagan administration leading to the largest Federal deficit in history and a failure in social programmes and a marked rise in income level differentials. McNeill has noted that the name "supply side economics" is hardly an appropriate name for what is fundamentally a fiscal policy that contains no checks or balances concerning the constitutional principle of influencing a balanced distribution of real incomes

² Personal communication with Hector McNeill

between producers and consumers. This is why the policy does not possess any medium to long term traction for real economic growth.

McNeill also admits that the initial versions of Real Incomes policy were referred to as Price Performance Fiscal Policy which he admits was a naivety on his part since in fact specific operational conditions reduce "taxation" to zero and the title "fiscal" gave the impression that it was a member of the failed KM demand side approaches. As a result, McNeill renamed the policy as Price Performance Policy.

Transactional as opposed to conventional macroeconomic policy

Price Performance Policy could not be more supply side. It makes use of economic concepts and measures that only appear in the theory of the Real Incomes Approach such as the price performance ratio (PPR). This is the ratio of changes in output prices to the changes in unit input costs. This is a direct measure of the degree to which a company passes on inflation. Thus a PPR of less than unity (<1.00) represent a reduction in inflation and a rise in real income for the consumer in relation to the products and services of that company. A PPR of unity (1.00) signifies that inflation was maintained and thus the status of consumer real incomes remains the same in relation to that company's products and services. A PPR of more than unity (>1.00) signifies a rise in inflation and reduction in the real income (purchasing power) of the consumer of the products and services of that company.

Companies who reduce unit output prices against rises in unit input costs will face reduced unit profits. As a result, there is a need to balance or compensate those companies who promote consumer real incomes or purchasing power by "absorbing inflation". This would be impossible to administer using a centralized policy attempting to apply a case by case assessment of myriad of corporate conditions, capabilities, operational standards, technologies deployed, techniques used, degrees of learning, current productivity and access to resources. Therefore, Price Performance Policy devolves the control of the "fiscal element" to the supply side, that is to corporate decision-making. The legal framework to support this is the existence of a Price Performance Levy (PPL) which is set at some basic rate (depending upon the overall real incomes state of the economy) and in its most basic form, this basic levy is multiplied by the PPR. Therefore, a company with a low PPR will pay a lower levy and those companies with higher PPRs will pay a higher or surcharge.

Companies management are aware that by lowering their unit prices they can penetrate national and export markets so the notion of sustaining or lowering unit prices is attractive except for the fact unit profits will fall. Where the elasticity of demand for products and services is high the increased volumes of sale can compensate for the fall in unit profits. On the other hand, rises in production volumes promotes an accelerated accumulation in tacit knowledge and increases in resource usage efficiency leading to de facto reductions in unit costs.

Management therefore has an option to invest in selected organizational or technological changes while projecting unit output prices to optimize their PPRs so as to minimize their PP Levy payments. Indeed, PPL can be managed so as to end up with corporations paying no Levy (PPL=0). However, under these circumstance the increased unit real profits will have been balanced by the increase purchasing power of consumers and therefore an increase in their real incomes.

Price Performance Policy, in contrast to conventional macroeconomic policies is a dynamic transactions based policy that is guided by the real world events and decisions at the level of the firm and consumer markets.

Personal incomes

The personal incomes of company owners, employees and shareholders are made up of two components. A basic graded income according to a scale related to function and experience. On top of this, the PPL rebates are paid as bonuses in proportion to the basic graded income. This provides an incentive for management and workforces to constrain pressure for rises in their basic graded income in order to gain bonuses arising from

increased efficiency and market penetration of their products and services. As a result, the real incomes impact on employee and management incomes is proportional to the impact of corporate output on the real incomes of consumers.

All manager and employees would pay a low tax rate on the basis of PAYE of their basic graded income with bonuses being tax free.

Public sector

A very interesting twist in PPP is that the public sector is subject to the same price performance regime as the private sector as a means of encouraging improved efficiency and economy in the use of resources. All management and employees would also pay a low tax rate on the basis of PAYE of their basic graded income with bonuses being tax free.

Understanding Price Performance Levy rebates

The payment of rebates to companies or even charging no levy (0) for high performance has no implications for government revenue simply because all fund involved are corporate funds. The system simply operates on the basis of companies keeping more of their margins as their price performance improves.

Real supply side economics based on a transactional policy

The essential aspect of Price Performance Policy is that it is that it represents a practical demonstration of a macroeconomic policy that is completely devolved with the operational policy being controlled by decision-making at the micro-economic level. It is a macroeconomic policy based on microeconomic imperatives and it possesses an inherent flexibility allowing each company to adjust according to their given circumstances and practical options for company actions. It is the only macroeconomic policy that is “bottom up” and “supply side”.

Constitutional economics

Price Performance Policy upholds the constitutional principle of balancing producer and consumer incomes which is a founding principle of the Real Incomes Approach. It also upholds the constitutional principle of discouraging the pursuit of one company's objectives from preventing another pursuing theirs. It transforms the debased current state of the “competitive framework” from the realms of vain theory into a practical operation by delivering the general benefits of growth based in increasing efficiency in the use of resources and even resource conservation, while diminishing income differentials and sustaining real incomes on the part of social and economic constituents. The Real Incomes Approach and Price Performance Policy represent a major advance in constitutional economics.

Principal Macroeconomic & Transactional Models 1945 – 2016

This table is a summary of the rise and decline of the principal macroeconomic policies

Year	40	45	50	55	60	65	70	75	80	85	90	95	00	05	10	15	
	Policy outcomes																
Major economic crises																	
Conventional Models																	
Keynesianism	Failed to tackle slumpflation */NT/O							Reduced to fiscal alternative */NT/O									
Monetarism																	
Financialization																	
Gold standard	Poor global \$ management - failure																
New Models																	
Supply Side Economics																	
Real Incomes Approach																	
Key: * no real incomes balance NT poor or no traction ET effective traction O non-transactional policy X transactional policy																	

BREXIT

The unexpected result of the EU referendum provides an outstanding opportunity for Britain to return to rational economics and economic growth based on innovation and enterprise while safeguarding fair treatment of all. The required change is well-known. It is to increase growth and escape from austerity. This is only possible deploying a macroeconomic policy that enables enterprise of a type that bases rewards upon the mutual interests of social and economic constituents. This requires an admission that our current macroeconomic policy tool kit is not operating to our benefit and is currently sustaining a property bubble that is bound to burst and debt is rising to unsustainable levels, investment has been falling for too long and real wages are declining, in spite of the Osborne's era's claims to the contrary. Confidence in the British economy depends upon the government and opposition collaborating in marshalling their efforts to bring about policies that demonstrably combine constituent advantage with constitutional principles and a strong real economic growth.

The purpose of this paper has been to call attention to the fact that this options exists.

The last policy standing

To date, after some 40 years of development, the Real Incomes Approach in the form of Price Performance Policy, remains the most supply side orientated policy. It is the only macroeconomic policy that upholds the constitutional principle of aiming to balance producer and consumer real incomes to avoid differentials. Price Performance Policy is the only macroeconomic policy that is based on microeconomic imperatives and the only policy to place technology, technique, learning, tacit and explicit knowledge as key components of macroeconomic growth based on innovation. 60% of medium to long term economic growth is explained by these factors that remain central to the Real Incomes Approach. This provides it with a significant head start over all other macroeconomic policies. All other policies attempted, have failed or have no traction with government and policy makers "treading water" in the "macroeconomic space" waiting for "something to change, hopefully for the better". With the unacceptable increasing levels of uncertainty worldwide economies have become increasingly precarious and socially unstable.

The Real Incomes Approach is the last policy standing, the only survivor. It is time to give it serious consideration.

References: *The Real Incomes Approach to Economics* – website: <http://www.realincomes.org.uk>
 Personal communications with Hector McNeill, SEEL-Systems Engineering Economics Lab