Subject: Money, Money, Money

Date: January 1, 2026

Dear World,

Money runs to machine-technological sectors, including weapons systems, under current beliefs and institutions. This tendency CAN change, if people believe it's necessary. Please see below.

Many economists agree that:

1) We have an "affordability" crisis in the U.S. today.

2) If you reduce the money supply in an economic system, prices will decline across the system.

3) When the relationship between the money supply and the "stuff" in the economic system changes, then some prices (or wages) will change more than others will change.

4) As a country grows, we want to increase the money supply, so that it will keep pace with the expansion of goods and services.

(Item two is pretty much a tautology (MV = PQ). Item four might be a myth, put about by Milton Friedman.)

Therefore, we can argue:

When you reduce the (global) quantity of money in circulation, prices and wages will decline. Some prices and wages will decline more than others.

In particular, when the money in circulation declines, then necessity goods and services will become more expensive, relative to luxury goods and services, than they were before.

If managed properly, this will benefit farmers, service industries, and the less-skilled. They should be better able to afford the necessities of life, because their incomes will rise, relatively if not absolutely.

This means that:

Under a declining money supply, market systems should move in step with equitable financial policies, instead of moving against the majority's international political will, which some polls suggest favors more financial equity than currently exists.

PS - Such a financial policy could be marketed as, "Monetary authorities are bringing prices down."

Under such a policy, prices and salaries for the wealthy may decline more than for the poor. If people agree that a "correction" is necessary, but they don't like taxes as a means toward re-distribution of income, this policy, of declining money supplies, could be acceptable to many. If you reference a conventional closed two-sector model with technological advance, immiserizing necessity-sector growth is pretty much the standard result (Kelley and Williamson, 1984).

Therefore, the opposite (growth that benefits necessity sectors) can occur, if we ensure that financial growth arises in poorer sectors rather than in wealthier sectors. The only thing controversial, so far, is why we would use the closed model, in an open-to-trade world.

Remember, we are addressing a GLOBAL situation. That's why! "Closed" global financial system. The WHOLE system does not trade outside earth. It is therefore closed, overall.

We COULD try to avoid certain natural limits (closed system) on the operations of money in circulation by increasing the money supply. What that actually does is keep some of us (but only some of us) running ahead of a potential financial meltdown.

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There's a scholarly book about financial meltdowns. "This Time is Different," by Carmen Reinhart and Kenneth Rogoff (Princeton University Press, 2011). It's not perfect, according to critics, but I say it's worth reading anyway.

Here are excerpts from the blurb describing the book: "Throughout history, rich and poor countries alike have been lending, borrowing, crashing, and recovering their way through an extraordinary range of financial crises…Covering sixty-six countries across five continents and eight centuries, *This Time Is Different* presents a comprehensive look at the varieties of financial crises—including government defaults, banking panics, and inflationary spikes—from medieval currency debasements to the subprime mortgage catastrophe. Reinhart and Rogoff provocatively argue that financial combustions are universal rites of passage..."

- **Winner of the 2011 Gold Medal Arthur Ross Book Award, Council on Foreign Relations**
- **Winner of the 2010 Paul A. Samuelson Award, TIAA-CREF**
- **One of USA Today's "Year's Best Business Books To Make Sense of Financial Crisis"**
- **Listed on Bloomberg.com by James Pressley as one of "our favorite financial-crisis books this year"**

For Economists – about Annie's two-sector model; Slutsky; and Rybczinski:

The **Slutsky Equations** are about income effects and price effects on purchasing power.

Real organizations are concerned with budgets, purchasing power, and what they have to cut when purchasing power declines. In the real world, income effects and price effects often move the same way, relative to revenues, or budgets, and so the theoretical difference is a sideshow, compared to the impact of a declining product price on a business's revenue.

As regards the **Rybczinski Theorem**, it's about a potential one-to-one correspondence between product price and worker wage.

a) Wages can decline to the point where they are no longer a comfortable living wage. This is entirely possible, in theory. The real world has to find a way to address this situation, regardless of what theory might imply, for wages.

b) Almost everything will eventually become capital-intensive, as knowledge advances throughout a capital-believing knowledge-based economic system. (Human capital, physical capital, and even financial capital are all relevant here.) The real world has to find a way to value human beings, even though capital may be worth more, to "the system."

The reason that the system becomes top-heavy with knowledge, and the products of knowledge, is that knowledge (or information) can be shared. Service labor (good old-fashioned "help") cannot. Floors still need sweeping. Children still need teaching. Everyone still needs to be loved. Machines are not the same as humans, or even pets, in this regard.

Emotions (which are chemicals, like pheromones, hormones, and opiates) don't work like computers, which are primarily electrical. Thus, people cannot live by machine technology alone.

This suggests that the cost disease of services has priced love and kindness out of the market-based world. The cost disease of services (also known as Baumol's cost disease) is the idea that we can increase productivity in some types of industry faster than in others. This creates an imbalance in earnings as between the more-productive industries and the less-productive ones.

Baumol's example is manufacturing vs. services. Today, we are seeing money flocking into A.I. sectors, at the expense of many other worker services. The explanation is analogous. Use of A.I. makes some types of work much more productive than other types of work. This brings financial wealth into sectors that use A.I, but not into sectors that cannot benefit from A.I., like old-fashioned mentoring or interpersonal trust and affection.

References:

Baumol, William J. and Blinder, Alan S. Economics, Principles and Policy, Eighth Edition. The Dryden Press: Harcourt College Publishers, 2000

Kelley, Allen C. and Williamson, Jeffrey G. What Drives Third World City Growth? Princeton University Press, 1984