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## **Governance & Economic Growth**

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### **Abstract**

This paper looks at some of the fundamental ideas in contemporary economics such as the basic economic problem, opportunity cost and allocation a person is expected to encounter when they are first introduced to economic theory. It attempts to explain how the manner in which these concepts are interpreted and disseminated in mainstream economics may be counter productive to the capacity of economics to develop new ways of countering scarcity. It aligns these concepts with recent unrest in Europe caused by austerity measures. The paper looks at the capacity for contemporary economics to emerge from a cocoon spun from cobwebs of antiquated thought and inhibitions in order for it find extraordinary solutions for the extraordinary economic challenges the world faces today. Accelerated economic growth in an EOS model is applied to the economy of a developed country to illustrate the faster pace at which the model can transform stock markets and economic conditions as well as an illustration of how the current model may not exploit the full potential for market capitalisation businesses could have. In addition to this the paper addresses the ability of workers to take control of their finances through a concept concerning the capitalisation of their labour. A labour capitalisation fund allows employees to have their projected lifetime earnings paid up front and invested for the duration of their working life. It improves the relationship between capital and labour, frees up financial resources for governments and creates a new lucrative financial product for banks and other institutions in the financial services industry.

## Introduction

“When economies are well into the aftermath of the recession of 2009, there are still many questions that beg for answers concerning recovery. At the height of the prosperity bubble when the whole world appears to have been in a suspended state of financial bliss prior to the global crunch was the global economy in such a great place for everyone or for a few countries, people, businesses and groups? Was there no poverty prior to the crunch, was there no unemployment, were there no budget deficits, no national debt and were there no countries, businesses and groups that were facing some kind of economic hardship? There is a need for some soul searching. Those countries, businesses and people whose fortunes turned for the worst during the downturn of 2009 should not forget that the hardships they experienced during the crunch are difficulties faced by many the [contemporary] economy was unable to accommodate even during the ‘good times’ who had come to accept hardship as a way of life prior to the crunch and who are likely to continue to suffer long after those who believe their personal recovery is a global experience tell the world the recession is over. Therefore, is it enough to be satisfied with a recovery and a yearned for post recession normalcy, when normalcy will still mean many continue to experience economic hardship in some shape or form? When the wheels of “progress” begin once again to turn it is important for those that are better off not to assume that the rest of the world enjoys the same feeling and access to resources. Could this attitude or naivety and a resulting greed and recklessness be one of the ingredients that led to the global crunch in the first place? It is important not to become mesmerised by the fortunes and better life of some, even if they may ‘appear’ in great numbers, such that it begins to make people believe there is nothing more that needs to be done to change the global economic landscape. There is a need to not simply look for recovery, but to look beyond recovery toward what greater possibilities exist for everyone rather than a handful of people and countries.”<sup>1</sup>

Many in the world today believe having a prosperous economy, being employed or successful is a privilege. There is nothing special about these achievements if they cannot be shared and even though it may be thought in contemporary economics that prosperity is for a chosen few, this is a misconception brought about by the unnaturally high levels of scarcity experienced in mainstream economic models which to a large extent have failed to comprehensively respond to the problem of economic scarcity. The law of conservation of [financial] resources (LCR) in Operating Level Economics (OLE)<sup>2</sup> states that resources (quantified by money or finance) can be neither created nor destroyed; this condition is referred to in OLE as zero growth. In physics it is referred to as the law of conservation of energy. This law in economics and business entails that economies today function on a circular flow of income (CFI) or system that is linear. Being linear it is inherently designed to be incapable of economic growth. As a result the fundamentals of contemporary economics

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<sup>1</sup> Punabantu, Siize. (2010:8-9)

<sup>2</sup> The inferences and arguments of this paper are drawn from: Punabantu, Siize. (2010). “The Greater Poverty & Wealth of Nations: An Introduction to Operating Level Economics. *How every economy has the latent financial resources with which to finance the doubling of its GDP in one year at constant price.* ASG Advisory Services Group: Lusaka, [ISBN: 978-9982-22-076-7] – sic. GPWN

are built on scarce resource theory (SRT); this is the belief that economic scarcity is infinite. It leads to the basic economic problem in contemporary economics which states; *human wants are infinite, resources are scarce*. Scarcity creates the phenomenon in human socio-economic circumstances that has come to be known, in its worst position, as poverty. However, economic scarcity is a phenomenon that affects nearly every level of human organisation from the household that fails to meet its monthly bills and the business that is shut down by its overheads to a government that struggles to manage a budget deficit. Zero growth is evident in diverse aspects of contemporary economic theory, from its philosophy and fundamental beliefs to its more advanced theories and their practises straight through to the implementation of economic models used to manage and create national wealth. It is evident in its most practical form in the practise of cost-plus pricing<sup>3</sup> businesses must engage to counter the inertia imposed by the economy they operate in. The circular flow of income functions on a system that is designed to prevent growth; this is seen in the Fisher Equation ( $MV=PT$ ) and its linkages to monetary policy. The market system is designed to achieve efficiency and stability, however, in achieving the objective of financial system stability markets reinforce the zero growth position,<sup>4</sup> thereby prolonging economic scarcity. The historic introduction of money into the CFI created the phenomenon of economic implosion whereby the real productive value of money continues to be lost since it follows the zero growth position of the CFI.<sup>5</sup> This loss of real financial resources escapes economics and businesses by a process referred to as the expenditure fallacy;<sup>6</sup> a process by which human psychology fails to recognise that exchanges facilitated by money negate the value of finances used in an exchange. The introduction of credit creation through banks was thought to be a solution to economic scarcity that would bring an end to perpetual economic scarcity.<sup>7</sup> However, credit creation has never been able to resolve the problem of implosion where factors of production subtract useful financial resources from one another leading back to perpetual scarcity.

Reputable Bretton Woods institutions such as the IMF and the World Bank, have used every resource at their disposal, financial and human resource related, to find ways to bring an end to economic instability and poverty around the world. Since their establishment billions of dollars have been spent towards these problems and significant strides have been made, however, the key problem has always remained the inadequacy of contemporary economic theory and a pervasive lack of understanding of what the underlying causes of scarcity are in contemporary economics. If contemporary economics, as it is understood and dispensed in colleges, universities and organizations today cannot grasp or explain the fundamental causes of scarcity and poverty then it is unlikely they or any local or international body may be able to use this knowledge to comprehensively discern the methodology by which wealth

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<sup>3</sup> See Punabantu, Siize. (2010 :185,227), Punabantu, Siize. (September 2010:16) & Punabantu (August 2010:6) for more on why businesses need to cost-plus price to survive.

<sup>4</sup> See Punabantu, Siize. (1 October 2010) for 8 Myths inherent in market efficiency.

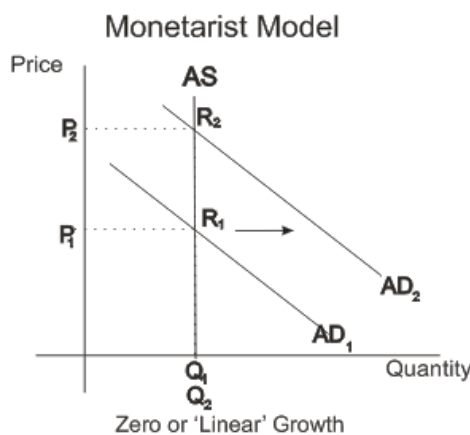
<sup>5</sup> The introduction of money into the exchange process had unexpected consequences and lead to the expenditure fallacy. See Punabantu (August 2010:5)

<sup>6</sup> Ibid.

<sup>7</sup> Punabantu (2010:191); Punabantu, Siize. (August 2010:12-14)

is created in sufficient quantities so as to bring about an end to human suffering and strife related to economic scarcity.

A thorough analysis of economic theory can show that “every economy has the latent financial resources with which to finance the doubling of its GDP in one year at constant price.”<sup>8</sup> In essence this entails that every economy is capable of a geometric<sup>9</sup> rather than a linear growth rate.<sup>10</sup> A geometric growth rate means that any economy at the beginning of each fiscal year has the potential to double its GDP by year end. Every economy has the latent financial resources to finance the doubling of its GDP in one year, every year which in essence is access to a growth rate of upto 100% of existing GDP per annum. These financial resources are brought about by reforming the CFI and evolving or upgrading it from the MV=PT model to a model based on the new Punabantu Equation of Exchange.<sup>11</sup> Furthermore, weakness in the Keynesian and Monetarist models currently applied by governments in the management of contemporary economies have not been adequately addressed leading to countries having an over indulgence or over-reliance on exports for economic growth rather than relying predominantly on domestic activity. Market efficiency in these models may be affected by misinterpreting the role and value of market forces with a tendency of ignoring price instability and lack of internally driven economic growth.<sup>12</sup> If the objective of the modern economy is indeed to gain price stability with economic growth then neither the Monetarist nor the Keynesian models may be capable of delivering this. A Monetarist model delivers price stability at the expense of economic growth as shown in diagram 1 and a Keynesian model delivers growth that is inevitably converted into inflation by implosion.<sup>13</sup>



**Diagram 1**

<sup>8</sup> An analysis of the latent capacity of any economy to finance the doubling of its GDP in one year at constant price is found in the GPWN and Punabantu, Siize. (August 2010). “Doubling GDP in one year at constant price”. See appendix for URL.

<sup>9</sup> Doubling in one year creates a geometric growth rate.

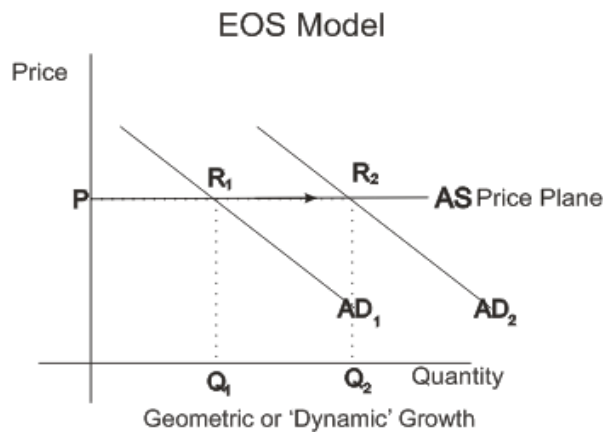
<sup>10</sup> A linear economic model is followed by every country in the world today is not designed to experience growth. It is for this reason that businesses find themselves forced to use cost plus pricing to break even. For more on this discussion see Punabantu, Siize. (September 2010:15) and Punabantu, Siize. (2010:42)

<sup>11</sup> Punabantu, Siize. (2010:246); Punabantu, Siize. (September 2010:29)

<sup>12</sup> Punabantu, Siize. (1 October 2010:5)

<sup>13</sup> Punabantu, Siize. (2010:177); Punabantu, Siize. (August 2010:4)

If the true role of managing the financial system is financial system stability with economic growth, then this stability can be achieved without monetary policy being the primary mechanism through which the economy is managed as demonstrated in diagram 2. Speculation in a Monetarist model is less useful as it may tend to fuel inflation while in an EOS model can instead fuel growth.



**Diagram 2**

It makes more sense to have an economic model where price rather than growth has a tendency of remaining at the same level. Unfortunately the mammoth burdens and stress of economic scarcity caused by inadequacies in contemporary economics have fallen squarely on governments and citizens. Unmanageable economic scarcity, lack of growth and general instability are often unfairly blamed on governments and lead to a negative perception of the voting and non-voting public on the quality of governance.

### **Managing the Modern Economy**

Contemporary economics and the persistent inability of its mainstream theories to comprehensively end scarcity are likely to be the single greatest threat and liability to the stability and longevity of democratically elected governments around the world in the 21<sup>st</sup> Century. Governments that continue to compensate for the inadequacies inherent in mainstream economics by bearing the brunt of socio-economic misgivings that are not a consequence of governance are likely to do so at significant political risk themselves. Failings in public management of national economies should really no longer be blamed on governance, but rather on inadequacies in modern economics that nudge national economies toward an unwarranted yet inescapable precipice. There was a time when the inadequacies of contemporary economics could be photoshopped to make them appear as though they were caused by a lack of democracy or democratically inclined forms of governance. The advantages of this were that it encouraged political reform toward democracy with economic prosperity as a carrot or where this was difficult it still lead to more people conscious or benevolent forms of governance; it is unlikely that any form of government that relies on the positive perceptions of its people toward it, when able to

improve their socio-economic conditions, will renege from doing so. The problem is that successful political reform makes it increasingly evident that governance is not the sole reason why economies are failing to provide adequate jobs, productivity, development and growth. Economies may fail to deliver on growth and development as a result of inadequacies in contemporary economic theory itself which threaten to jeopardise the role and purpose of benevolent governance.

An analysis of contemporary economics reveals that it may no longer be compatible with the role and objectives of modern governments and the developmental needs of businesses, countries and populations around the world. Since contemporary economics informs policy in governments, national and international development organisations such as the World Bank and the IMF the blame for the fallout should fall squarely on economic theory and mainstream concepts that thus far have proven incapable of ending scarcity, poverty, unemployment and general socio-economic strife. For instance hardly anyone challenges the notion in international trade that when a country makes gains from the export of goods and services there must be a country or countries that will experience a loss or deficit as a result of importing goods and services; there is hardly any thought as to how to create an international trade system where the gains from exports can take place without the losses from imports. It is simply taken for granted that this is “the nature of things”.

The problems in contemporary economics (CE) begin at the “introduction to economics” level and have tentacles that reach upwards into the clouds of mainstream thinking. To begin with simple ideas such as the fundamental concept introduced to undergraduates at college or university in Economics 101 and even secondary school can be questionable. For instance “in CE it is clearly stated that *resources are scarce, human wants are infinite*....This CE position gives the impression that scarce resources are an ultimate unchanging condition and therefore incorrectly formulates economic theory based on this limitation. This position encourages scholars to have a defeatist approach to the issue of scarcity. The consequences of this can be very negative in that the role of economics and the general purpose of the subject are misunderstood. Rather than develop the capacity to think outside the limitation of scarce resources by which new theories or means for overcoming these limitations are found, instead creative thinking is curtailed to function within the boundaries of the belief that resources are scarce. Furthermore, CE encourages scholars, policy makers and adherents to believe that infinite wants are a negative human quality. This reduces the real and moral worth of human beings to that of parasites sucking on the insufficient proceeds of the economy and can have substantive negative consequences on how institutions and governments treat and regard humanity. It implies that human life or existence is in conflict with the resources required to sustain people. This simple error can encourage a belief system that mistakenly propagates that access to resources and their availability is more important than human beings. It may encourage governments and policy makers to downplay the worth of human life and human labour when it comes to the formulation and implementation of policies intended to create economic growth since the economic system becomes more important than the people it will affect.”<sup>14</sup>

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<sup>14</sup> Punabantu, Siize. (2010:2-3)

This problem rings true where austerity measures are introduced to restore budget deficits in Europe. The Portugal News Online (1 October 2010) reports that “Portuguese have this week been told that belt-tightening measures enforced to date by the government have been inadequate in reducing the country's burgeoning budget deficit. As a result, taxpayers have been asked to make further sacrifices as the minority Socialist cabinet seeks to stop the deficit reaching double figures. Portuguese will now be paying the highest VAT (value-added tax) rates in the Eurozone, while civil servants will have their wages slashed by up to ten percent from 2011. Romania – Balkans.com (23 September 2010): Thousands of Romanian clerks, nurses and teachers marched through the capital Bucharest on Wednesday protesting against tax hikes and state-sector wage cuts, but the demonstration looked unlikely to sway policy. Austerity measures in recession-hit Romania, vital to the country's 20 billion euro aid package led by the International Monetary Fund, have left the government deeply unpopular and facing a no confidence vote in parliament next month. Around 10,000 people protested outside government headquarters in Bucharest, according to riot police, although union leaders put the total at up to 17,000. The protesters blew whistles and urged Prime Minister Emil Boc to resign.”<sup>15</sup>

Correcting the problem of a budget deficit comes at the cost to citizens of an economy and those that interact with it. France24 (8 September 2010) reports that “ the French cabinet meets Wednesday, a day after over a million people took part in demonstrations across France to protest against pension reforms that President Nicolas Sarkozy says he is determined to implement and are necessary. French unions threaten to continue strikes if the government doesn't respond to their demands. The strike was part of a high-stakes showdown between the country's largest labour unions and Sarkozy's administration over the government's reform proposals, among them a proposal to raise the minimum retirement age from 60 to 62 over the next eight years. The main CFDT union on Tuesday afternoon estimated that 2.5 million people had taken to the streets across France, while the government claimed the figure was nearer 1.1 million.”<sup>16</sup> Funding to programmes which helped create jobs, enhance access to education, improve social welfare for children, pensions being reduced and the retirement age being increased and so on are a likely consequence of cut backs in public spending. Since these measures negatively affect public perception concerning the role of governance they are predominantly economic rather than political decisions. What does this mean? It means they are decisions governance is forced to bear the cost of when in fact the responsibility for them falls squarely on inadequacies in contemporary economics. As long as governments allow themselves rather than inadequacies in contemporary economics to bare the cost and the blame for these problems, not only are they diluting the importance and role of the state in socio-economic stability; they are also perpetuating these inappropriate economic conditions in contemporary economic theory. Stan (28 September 2010) reveals that “thousands of protesters rallied Tuesday in Bucharest over government austerity measures that have cut state salaries. About 8,000 people demonstrated in front of the main government building,

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<sup>15</sup> The Portugal News Online. (1 October 2010), “Taxes up, wages down”

<sup>16</sup> France24. (8 September 2010), “Unions threaten further strikes over pension reform.”



unions and security forces said, and they represented a wide range of sectors. The protesters were demanding the resignation of Prime Minister Emil Boc and his team for deciding on a 25-percent cut to all state employees' salaries as of July 1. The demonstrators want the money back and also want the government to raise the minimum wage stipulated in the current contracts. They displayed red cards written with the words, "No to austerity." A march then took place through the capital so the protesters could express their anger in front of other government ministries."<sup>17</sup> Clearly governance is blamed for inadequacies contemporary economics is responsible for and as long as governments continue to accept the blame for unrest they are effectively empowering contemporary economics to continue to remain ineffective at providing real solutions to economic growth and development. Barry (September 2010) reveals that "Portugal's minority government convened an unscheduled Cabinet meeting Wednesday as it came under fierce pressure to explain how it intends to steer the country out of a deepening financial crisis. The meeting, initially planned for Thursday, came as trade unions prepared to stage more street protests against the government's austerity policies. The center-left Socialist government also needs to address investor fears about the country's ability to service its huge debt burden. The cost of borrowing on international markets has surged to euro era records in recent days as investors demand bigger returns for risking their money in Portugal."<sup>18</sup>

One of the most 'dangerous' concepts in contemporary economic theory are its ideas on economic scarcity. Contemporary economics will tend to encourage governments to believe, as it does itself, that financial resources in the economy are insufficient to meet the needs of the population and therefore austerities must be introduced to free up financial resources. Associated Press (24 September 2010) reports "some 6,000 policemen and wardens are protesting in Romania against wage cuts and austerity measures. Friday's protest is the third this week against the austerity package, which includes slashing public sector wages by a quarter and raising sales tax. The government says the measures are necessary to keep the budget deficit under control during recession. Romania needed 20 billion euros (\$ 26 billion ) in bailout loans from the International Monetary Fund, the European Union and the World Bank in 2009. Part of the funds helped pay state wages and pensions last year, when the economy shrank by 7.1 percent."<sup>19</sup> The general idea CE needs to convince governments is that resources are perpetually scarce (Scarce Resources Theory –SRT).<sup>20</sup> Scarce resource theory in contemporary economics is a fundamental reason why governments face budget deficits and must cut back on public spending. Since resources are scarce "something" has to be forgone (jobs, programmes and activities reliant on public spending) in order to gain "something" in its place (a lower budget deficit for example). Contemporary economics informs public policy; it may eloquently justify austerity measures based on scarce resource theory thereby encouraging governments and international organizations such as the EU to "enter the cage and feed the lions" with assurances it will

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<sup>17</sup> Cosmin Stan.(28 September 2010), "Thousands protest Romanian austerity Measures.", CNN.

<sup>18</sup> Hatton, Barry. (29 September 2010), "Debt-laden Portugal readies new austerity measures.", The Associated Press.

<sup>19</sup> The Associated Press. (24 September 2010), "Thousands of Romanian policemen protest wage cuts."

<sup>20</sup> Punabantu, Siize. ( 2010:140) ; Punabantu, Siize. (October 1, 2010:6).

offer safety tips and guidance through the fence of the lion enclosure. Thomet (September 29, 2010) explains that "Germany and the European Central Bank have thrown their weight behind proposals to be presented by the European Commission to toughen up budget rules with "quasi-automatic" fines for states with high public deficits and debts. But the French Finance Minister, Christine Lagarde, spoke against the plans as she arrived in Brussels on Monday for a meeting of a taskforce led by the EU President, Herman Van Rompuy, to strengthen the 27-nation bloc 's fiscal discipline. "France has always been favourable to a solid and credible economic governance but not for a totally automatic mechanism, a power that would be exclusively in the hands of experts," Ms Lagarde said. She insisted EU states should have a strong say in any sanctions. "The fate of a country cannot rest solely in the hands of experts," Ms Lagarde said. In a letter to his EU counterparts, the German Finance Minister, Wolfgang Schaeuble, said he "chiefly supports" European Commission plans to tighten the rules. He said the EU's Stability and Growth Pact needed "more bite" by speeding up the penalty process and imposing quasi automatic sanctions. The debate came as trade unions prepared to lead demonstrations across Europe today against austerity measures implemented by EU states to bring down huge public deficits. As well as a demonstration in Brussels, where 100,000 are expected to take to the streets, the European Trade Union Confederation plans action in Ireland, Spain, Portugal , France, Czech Republic, Italy, Poland, Lithuania, Latvia, Romania, Cyprus and Serbia. Nearly every EU state exceeds the pact's public deficit limit of 3 per cent of gross domestic product but the path towards penalties is long and the bloc has never imposed sanctions against any state. Pressure to tighten the rules rose after a massive fiscal crisis in Greece forced the euro zone to bail out Athens in May."<sup>21</sup> Governments need to be very careful about inadequacies in contemporary economics for which it expects they and international bodies will take the blame when things go wrong. Misinformation from contemporary economics takes place at the doctrinal level but can also lead to technical inadequacies concerning the source, role and origin of economic resources. "In CE resources are scarce. Therefore, people have to decide what they can and cannot have. The role of economics is to make people aware that their choice is limited by adverse scarcity and is expected to be exercised within these limitations. As indicated earlier scarcity is often a false or imaginary limitation that tends to be conveniently accepted as absolute in CE. To allow this to limit choice perpetuates the belief that poverty and inadequacy are an irreversible economic reality or condition [governments], economists and the public should tolerate as a natural consequence of their existence. The impression the CE approach gives is that the role of economics is to constrict infinite human wants and limit choice to what is available. Limiting choice to what is available encourages economists to believe that people should ultimately learn to accept the economic conditions which they find imposed upon them through scarcity if they are to realistically function within a prescribed economy. Choice is frowned upon since the belief instilled is that for every choice made there has to be an 'opportunity cost' that reduces the value of one's capacity to choose."<sup>22</sup> This inadequacy in CE theory will be photoshopped to appear as though it is an inadequacy in the ability of a government of the day to manage a

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<sup>21</sup> Thomet, Laurent. (29 September 2010), "France, Germany clash over austerity measures.", The Sydney Morning Herald.

<sup>22</sup> Punabantu, Siize. (2010:3-4)

nation's socio-economic affairs when in fact it may be a failing in contemporary economics that has conveniently misinformed public perception concerning its ability to exercise choice, for example, there is no choice other than austerity. These cut backs that worsen socio-economic conditions are corrigible and can be soundly justified using scarcity in fallible contemporary economic theory; but the fact remains they are not a failing of governance, but a shortcoming of mainstream economics. Unless governments make an effort to be uncompromising and demand more from economics than *scarce resource theory* not only will the important role of governance continually be diluted, there will be no effort on the part of economics itself to redress the misinformation or flaws in mainstream theory that lead to these shortfalls in the first place; there will simply be a more fashionable theory by which to justify why governments, businesses and population need to "stay on board the train to suffering and socio-economic strife."<sup>23</sup> Reuters (October 2010) reveals that "The tough austerity measures, for the observance of financial agreement with the international financial institutions determined thousands of companies in Romania to move to Bulgaria, where the taxes are lower and the regulations are stable offering a business environment which is friendlier."<sup>24</sup> Andrew Willis (30 September 2010) explains that "Tens of thousands of angry workers marched through cities across Europe on Wednesday to protest against the wave of government austerity measures that have swept through the region over the past year. A procession of roughly 100,000 people snaked through the streets of Brussels, led by a group dressed in black suits and masks and calling themselves the European Union of Speculators, a pointed jibe at the bankers many blame for the current crisis. Large numbers of union members travelled to Brussels by bus for the event from as far afield as Denmark, with banks and designer stores along the route being heavily guarded, as were E.U. buildings. Belgian police reportedly arrested 218 "troublemakers."<sup>25</sup>

The problems in contemporary economics can be described as psychosomatic, that is, psychological inhibitions (such as the belief resources are scarce) that become real physical limitations translated into how CE interprets ideas and implements strategies. The underlying philosophy or doctrine in contemporary economics is to use scarcity to make governments, the public and businesses believe fundamentally that allocation requires there be "winners and losers". For example, in order to have a larger expenditure for the military the cost may be fewer medicines in hospitals when in fact there can be both increased military expenditure and increased medicines in hospitals. The fallacy preventing this prosperity may be inherent in how contemporary economics conceptualises scarcity and how it impacts the system that controls the outcomes of allocation. Every government that has drawn up a budget for the fiscal year that is forced to leave out many important developmental projects may in fact be accommodating this quirk in contemporary economic theory. When this fallacy takes place at the factor of production level, it is referred to as an

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<sup>23</sup> Read the 3<sup>rd</sup> Planning Paradox found in Punabantu (August 2010:14) & Punabantu, Siize. (2010:103)

<sup>24</sup> Actmedia. (October 2010), "Thousands of companies in Romania go to Bulgaria due to the austerity measures."

<sup>25</sup> Willis, Andrew. (30 September 2010), "Anti-austerity protests hit dozens of EU cities.", EU Observer. Wordpress.org, (3 October 2010), "Protests over European Austerity Measures - Reports from E.U. countries furious over government cuts."

expenditure fallacy.<sup>26</sup> “In CE since resources are scarce they have to be allocated between competing uses to the favourable, useful or optimal factor. This limits the effectiveness of allocation by leading to the exclusion of many factors that may be deserving but unable to access resources on the basis of this theory. The approach implies that there must perpetually arise a situation where some CE factors will gain resources at the expense of others, hence introducing the concept of ‘real cost’. This inadvertently validates the belief and condition that there must exist those who have and those who have not, those who are rich and those who are poor. CE holds the belief that allocation is limited by choice, which in turn is limited by scarcity. This may encourage economists and scholars in general to believe scarcity necessitates an inflexible system that requires people to forgo something in order to acquire another even when this ‘cost’ is unnecessary.”<sup>27</sup> The problem in Greece is that contemporary economics requires that workers forgo their rights to work and adequate pensions in order to ‘accommodate’ its theories on scarcity. Georgiopoulos (22 September 2010) writes that “Greece's public sector union ADEDY on Tuesday called a 24-hour strike on October 7 to protest against the government's austerity policies including wage and pension cuts to reduce deficits. "All workers are asked to massively participate in the rallies and demand the termination of all agreements that did away with rights to work and pensions," the union said. Greek labour unions have staged repeated strikes this year against austerity measures and reforms the debt-stricken country has agreed with the IMF and its euro zone partners in return for a 110 billion euro (\$138 billion) bailout.”<sup>28</sup> The fact that the Greek government will shoulder the blame and responsibility for socio-economic unrest on behalf of contemporary economics (CE) is likely to be a strong reason why CE continues to fail to provide governments with credible solutions that foster growth and counter socio-economic decline. The fact that contemporary economics informs public policy will also affect the capacity of the IMF to see through the shortcomings of contemporary economic theory in order to deliver the innovations in finance its member governments need to not only protect the livelihoods and welfare of citizens, but the very credibility of governance itself.

A linear economic model does not experience growth. Businesses are forced to “defeat the system”, that is, break the natural rules of a linear model to survive through a process called cost plus pricing or price inflation<sup>29</sup> (charging more for a product than it is really worth) otherwise this model would experience no growth at all. Even though mark-ups do induce growth it is minimal at best often at 6% or below. Unfortunately politicians will be informed by contemporary economics that a growth rate of 6% is excellent, when in fact it is inconsistent and incapable of guaranteeing the socio-economic security of a country. Being misinformed European governments may begin to believe they're economies are on the mend when in fact there are insufficient financial resources within the economy to compensate for public and private socio-economic needs; the tipping point would be a recession such as that initiated in 2007. The socio-economic unrest in Europe follows a cycle

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<sup>26</sup> Punabantu, Siize. (August 2010:5); Punabantu, Siize. (2010:224)

<sup>27</sup> Ibid. Punabantu, Siize. (August 2010)., p4.

<sup>28</sup> Georgiopoulos, George. (22 September 2010), “Greek civil servants to strike Oct 7 against austerity.”, Reuters.

<sup>29</sup> Cost plus pricing.

predicted in the GPWN<sup>30</sup> (2010:234) “As a result movement from A to B [shift of the AS curve to the right] is financed by credit. When the economy arrives at point C [in diagram 3] it has reached its credit creation limit. A government at this position has maxed out its ability to cut interest rates [basically maxed out financial resources made available by monetary policy; this includes devaluation and quantitative easing] and can lower them no further. Banks have also reached a point at which they will not extend loans to either firms or households since they do not want to over-extend themselves and leave themselves open to the threat of accumulating debtors. A-B also represents government spending which reaches its limit when there is the threat of a budget deficit and government can no longer spend its reserves or safely accumulate debt of its own from borrowing. Thirdly, C is reached when international sources of finance refuse to [or don’t have the finance to] extend loans to both the private and public sector due to loss of confidence in a government or an economy’s ability to recover. Fourthly, and most importantly the barrier C is caused by implosion which starves industries, households, governments and the economy in general of financing it requires to grow. Firms at this stage are losing potential resources for investment to consumers and they [households] are losing it to capital needs. Market potential of both capital goods and households is cut down by the effects of implosion giving growth and development no further room to expand. *This.. is the ultimate barrier.*”

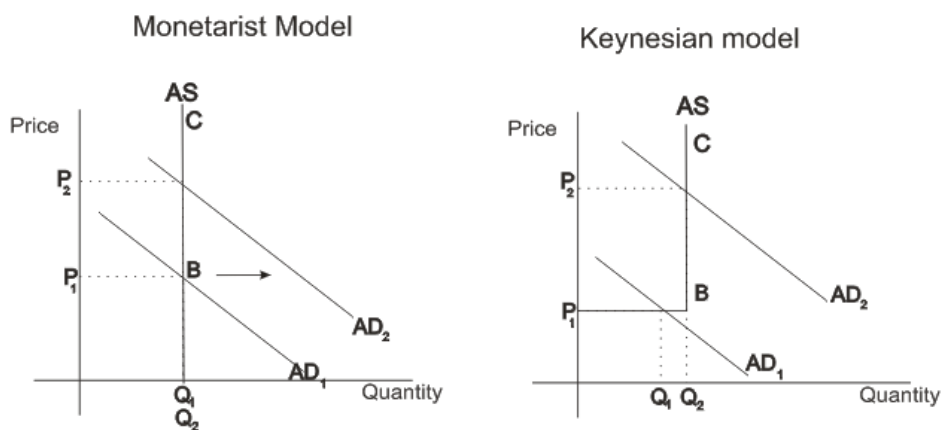


Diagram 3

C or BC in the Keynesian and Monetarist models is the point at which these models have reached their resource limits. If Europe is at stage 3 of this cycle then it means that institutions such as the IMF and World Bank do not actually have the financial resources to offer European countries a lifeline and even if they could it may be in conditions that may not make sense to a lender. Governments are then forced back into finding internal resources to remain sound, consequently they introduce austerity measures. The fact remains these economies function on a zero growth model, however, they cannot see the peril in this since they are misinformed by contemporary economics which mislabels low economic performance with “good economic performance” making economies feel safe

<sup>30</sup> GPWN – Greater Poverty & Wealth of Nations.

when they are in fact losing their first line of defence, namely the economy. Misinforming public policy in this way may consequently misinform governance. Developing countries are for now better off in this respect as they have been impacted less than developed countries by the recent recession. As a result of public perception governments instead of contemporary economic theory will be blamed for adversity and unrest as seen in some developed countries today. The inevitable consequence of this is that there may be an unexpected political paradigm shift in developed countries. Imperfections in contemporary economics have a direct impact on peace and security, and may increasingly become a security risk to developed countries since its natural zero growth position is likely to inevitably constrict the resources available to governments for even basic peacetime defence spending which even in the best of times is small as a result of the low economic yields of the current economic model. Hardly anyone would think contemporary economics misinforming<sup>31</sup> governments and policy makers on how to manage and create national resources could catalyse scalar conflicts. However, hostilities at this level are not anticipated since misinformation may mix up the wrong and right political decisions, sometimes making them indiscernible from one another and may even force unnecessary political decisions to be made especially in periods when the socio-economic impact of scarcity becomes pervasive to a national economy or region. To dismiss the inference that contemporary economics and the negative impact scarcity has on socio-economic stability can be a catalyst for divergence would be to lend credence to the idea that countries have never found themselves at odds for reasons related to economics and access to resources. This is a basic reason why there is a need for administrations to be wary of the many fundamental imperfections in contemporary economics and the negative impact the scarcity it creates can have on governance. The BBC (14 October 2010) reports ““Hillary Clinton has admitted Washington is "worried" over the scale of the UK coalition government's planned spending cuts on defence. The US secretary of state told the BBC that Nato must be "maintained", as it was the "most successful" defensive alliance "in the history of the world'.”<sup>32</sup> The BBC further reports (15 October 2010) “The UK will remain "a big contributor" to Nato, despite expected "sacrifices" at the Ministry of Defence, Defence Secretary Liam Fox says. His comments came after US Secretary of State Hillary Clinton said the planned cuts were a "worry" to the US. Dr Fox warned in the Times of a "hard road ahead" but said much of the blame lay with the previous government.”<sup>33</sup> The underlying problem may not be the austerity measures but their underlying cause, which austerity cannot remedy and this is the impact scarcity caused by mainstream economic theory will perpetually have on public resources and consequently on peace and security in developed countries. As the blame for scarcity is placed on governance present and past rather than inadequacies in contemporary economic theory the political paradigm in developed countries is likely to

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<sup>31</sup> Failing to end poverty, not being able to control inflation and deflation, prolonging economic scarcity, failing to comprehensively end unemployment, the wobble effect, expenditure fallacy, belief that stability in markets are the spur for growth, inability to see the handicap the law of conservation of financial resources has on growth theory; there are simply too many incongruencies/imperfections in the fundamentals of mainstream economics.

<sup>32</sup> BBC. (14 October 2010), “Hillary Clinton says US worried over UK defense budget.”, BBC.

<sup>33</sup> BBC. (15 October 2010), “Liam Fox pledges continued Nato role for UK.”, BBC.

continue to shift until there is a fundamental change in international relations that lowers the effectiveness of international cooperation which in turn may impact how global peace and security is managed. This is a sound reason why there is a need for governments to begin to address the problems at the core of contemporary economic theory, however, there are no guarantees this will happen.

Contemporary economic theory can have a clandestinely negative impact on economic growth and development. Market efficiency, for example, may misinform public policy by making governments believe that financial system stability gained through free markets is the acceleration pedal for economic growth when in fact price stability gained by efficient markets is the brake pedal; that is, the stability of equilibriums can be gained at the *expense* of rather than with the *advantage* of economic growth. Very simple demand and supply graphs can be used to prove this.<sup>34</sup> The consequence of this error of judgement in CE is that authorities will believe that by continually reorganising demand and supply and other factors within an economy toward greater efficiency the result will be economic growth. As a result governments will keep changing how they allocate resources, that is, reorganising how they manage public resources, businesses will keep reorganising how they manage factors of production, households will keep reorganising how they manage expenses toward increased levels of efficiency in the hope that it will create growth; which, once again, are activities that may be based on misinformation since changes in allocation do not naturally lead to increases in the stock of resources in a national economy. Unfortunately central banks using monetary policy and Keynesian approaches based on contemporary economics may aggravate this situation as these approaches have become antiquated and are incapable of providing the necessary tools to generate sustained and stable economic growth that is sufficient for the present day needs of governments and their populations as Tables 1 & 2 will later show.

This perpetual 'reorganization' is ongoing; Expatica (September 27, 2010) reports that "talks on toughening budget rules to prevent a new European debt crisis heated up Monday as Germany called for the hammer to drop on countries that repeatedly run excessive deficits. Germany launched the opening salvo in intense negotiations between European Union finance ministers meeting in Brussels as part of a task force looking into ways to strengthen the 27-nation bloc's fiscal discipline. The moves to punish budget bingers came as trade unions prepared to lead demonstrations in Brussels and other parts of Europe on Wednesday to protest austerity measures launched by E.U. states to bring down huge public deficits. In a letter to his E.U. counterparts, German Finance Minister Wolfgang Schaeuble said he "chiefly supports" tough proposals, including fines against deficit sinners, to be unveiled by the European Commission on Wednesday."<sup>35</sup> However, freeing up economic resources should not be confused with creating economic growth, since resources freed up in this way are not new resources, but resources transferred from one factor to another

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<sup>34</sup> For an in depth discussion on how stability in market efficiency may be the brake pedal (cause economic inertia) instead of the gas pedal (accelerate growth) see the 8 Market Myths in Punabantu, Siize. (1 October 2010)

<sup>35</sup> Expatica. (27 September 2010), "Germany calls for stricter EU fiscal rules. "

leaving the aggregate level of resources unchanged. One does not automatically lead to the other without there being the possibility of negative externalities, one of these being the immense difficulties faced when attempts to make economic progress are made that trap governments, businesses and households in a cycle of scarcity since the aggregate stock of economic resources remain stagnant or linear. The News – Poland (29 September 2010) reports that “representatives of the All Poland Trade Union Agreement (OPZZ) and Solidarity are holding a demonstration in Warsaw today, demanding better pay and protection of jobs. Held under the motto "NO for budget cuts, YES for job security and economic growth," the protest is part of an international action by the European Trade Union Confederation. Similar protests have been organized in Italy, Spain, Portugal, Romania, the Czech Republic, Serbia, Lithuania, Latvia and Cyprus. Trade union delegations from 14 E.U. countries have also arrived in Brussels. The trade unionists are protesting against repeated attempts to raise retirement age, a slower than envisaged minimal wage growth and plans of freezing income thresholds entitling to social assistance.”<sup>36</sup> Consequently, inadequacies in CE theory create crises for which the public will blame governments. “According to CE theory resources are scarce; it regards scarce resources with a finality within which most of its theory is created. Its theory is limited to the stock of resources available in an economy or the surpluses that can be created by re-organising variables within the ‘scarce’ system. These limitations inadvertently cripple what industries, households and governments are able to provide by way of resources for allocation to growth and development. It traps households, firms and governments in a vacuum of adverse scarcity that makes poverty, underdevelopment and the failure of industry an inescapable reality and permanent feature of present day economics. In CE scarce resources limit the thought, theory, utility, growth and development value of economics as a professional and academic subject.”<sup>37</sup> These shortfalls spill over into socio-economic unrest governments are forced to address. Expatica Spain (29 September 2010) reports that “leftist demonstrators clashed with police and set fire to a police car and rubbish bins in Barcelona on Wednesday on the margins of a nationwide general strike. Spanish unions launched a 24-hour nationwide general strike Wednesday to protest the socialist government's tough labour reforms and austerity measures aimed at slashing unemployment and reviving the battered economy.”<sup>38</sup>

Few things are more powerful than the impact the psychology inherent in contemporary economics has had on the mindset of policy makers and human beings in general. The purpose of a doctrine or a philosophy is often to mould or shape the thoughts, will and ideas of a people toward a prescribed belief system. The expenditure fallacy is an example of a strong pseudo-psychosis taking place in businesses at the factor level. People and institutions generally believe that in order to make a choice or have something they need they *must* forgo alternate choices to get what they want. In CE this process is referred to as opportunity cost. If a child in a store is faced with a kit-kat and mars bar it may never occur

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<sup>36</sup> The News–Poland. (29 September 2010) “Polish trade unionists join European protest action.”, TheNews.pl.

<sup>37</sup> Punabantu, Siize. (August 2010:5)

<sup>38</sup> Expatica. (29 September 2010), “Clashes in Barcelona on margins of general strike.”, [http://www.expatica.com/es/news/spanish-news/clashes-in-barcelona-on-margins-of-general-strike\\_99791.html](http://www.expatica.com/es/news/spanish-news/clashes-in-barcelona-on-margins-of-general-strike_99791.html)



to the child that it can have both chocolates. The child may as a result of previous parentally inspired experiences believe it must choose *one* bar and the real cost of this choice is that it must forgo the other. These are social or romanticised ideas in contemporary economics. They lose their romanticism when this limitation becomes a law or system on which economics functions as observed in how the circular flow of income (CFI)<sup>39</sup> perpetuates economic scarcity requiring governments to introduce austerity measures that lean heavily on public employees. Deutche Welle (21 September 2010) reports that “police officers, firefighters, soldiers and nurses were among tens of thousands protesting in Prague on Tuesday over government plans to slash salaries. Between 25,000 and 30,000 people from across the Czech Republic took part in the protest, according to official police figures. The demonstration, the country's biggest labor protest of the past three years, brought traffic in some parts of the city to a halt. The country's new center-right cabinet, headed by Prime Minister Petr Necas, has resolved to reduce the budget deficit from 5.3 percent of gross domestic product this year to 4.6 percent next year.”<sup>40</sup> Contemporary economics convinces its adherents that in order to achieve stability it must be paid for by austerity. “In CE the role of opportunity cost is to determine the real cost of allocation and make it appreciated that for every allocation made an alternative has to be forgone. It does not recognise that opportunity cost when involuntarily induced can be an indication of systemic failure or inadequacies in the operating system of an economy. This is due to the fact that consumption is the means by which productivity is sustained. When a product has to be forgone due to opportunity cost an economy loses the opportunity to maximise on choice.”<sup>41</sup> The economic operating system a country depends on predetermines the levels of scarcity governments, businesses and households experience. The modern day CFI fails to generate economic resources equivalent to governmental and human needs, not because it is incapable of doing so, but for the reason that it is not calibrated to do so. This scenario will not change as long as the psychology of people in the economy accepts scarcity and limitation are a necessary evil. “CE limits the scope of economics by confining it to a discipline that is trapped and mired in scarcity. It reduces the subject’s potential by making it a taker of scarcity and related economic indicators over which it is predominantly powerless and whose limitations it must embrace. This makes contemporary economics retreat too intensely into a domain where it is a victim of statistical outcomes rather than approaches and policies that allow economics to exert greater control and dexterity over economic indicators to pre-determine the levels at which they should reside. The fact that contemporary economics does not recognise the importance of studying economics at the operating level may contribute to stagnation, poverty, hunger, underdevelopment, recession and general economic instability that are technically outside the control of policy makers.”<sup>42</sup> The burden of this problem will be unfairly placed on governance instead of contemporary economics. Unless contemporary economics is challenged to face its shortcomings and change the socio-economic landscape by transforming itself inwardly it

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<sup>39</sup> All economies in the world today function on a natural CFI.

<sup>40</sup> Connor, Richard. (21 September 2010), “Tens of thousands rally in Prague over public sector pay cuts”, Deutche Welle.

<sup>41</sup> Punabantu, Siize. (2010:5)

<sup>42</sup> Ibid.,p6.

will be content to remain with mediocre contributions to growth; while it seems preoccupied with scarcity the blame for this will fall squarely and unfairly on governments. The fragility of national currencies and the negative impact they can have on growth combined with the austerity measures perpetuated by scarce resource theory in CE will require governments to develop better levels of cooperation and to become wary of some of the tenets of contemporary economic theory capable of driving economies toward the brink. Murchie (3 October 2010) reports that “Nobel prize winner, Joseph Stiglitz, has expressed his concern for the euro and the euro zone’s fragile recovery. Sixty-seven-year-old Stiglitz, the former chief economist of the World Bank, warned that the future of the single currency is bleak, while the region’s recovery is threatened by a series of austerity measures, which have been introduced by many European Governments. Stiglitz, who is now a professor at Columbia Business School suggests, “better economic cooperation”, the sort that guarantees help from others. He also warns that Spain could be subject to an attack by speculators, a country which is currently battling with a large deficit and high unemployment. Spain’s budget deficit is currently 11% of GDP and the Government has introduced tough austerity measures, like many of its fellow euro zone nations. However, Spain’s tough measures could push unemployment higher – it has one of the highest unemployment rates within the 16-bloc nation at 20.5%.”<sup>43</sup>

## Unemployment

The primary cause of unemployment is scarcity. Scarcity is caused by a resource vacuum observed in the expenditure fallacy. The expenditure fallacy is the process by which businesses lose useful financial resources to implosion when they allocate resources to two fundamental factors of production namely households<sup>44</sup> and capital.<sup>45</sup> There are various types of secondary unemployment caused by structural unemployment, cyclical unemployment, frictional unemployment and so on. However, as long as there are people in the labour market willing and able to work the fundamental cause of unemployment is economic scarcity caused by the loss of useful financial resources brought about by economic implosion which makes an economy incapable of finding the economic resources required to organize itself to compensate for secondary types of unemployment. Technically, this means as long as a central bank cannot solve the problem of implosion it is unlikely secondary unemployment can ever be fully resolved. To understand why unemployment takes place it is important to understand that businesses must choose how to allocate financial resources to labour and to capital. This choice is tempered not only by the prevailing economic conditions but the psychological make-up of decision makers who must decide which factor they perceive will be the most efficient, effective and least exacting or least costly factor to maintain in the firm – capital or labour. From this vantage point it is easy to see why capital tends to be favoured more than labour especially during the post recession period uncertainty in the market. Structural unemployment may play a role in joblessness but being a scalar quantity ties it to infrastructure which makes it less of a

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<sup>43</sup> Murchie, Kay. (October 3, 2010) “Leading economist fears for future of euro”, Finance Markets.

<sup>44</sup> All human capital associated with production, management and ownership

<sup>45</sup> All non-human capital associated with production land, equipment, finance etc

short term threat, however, task related unemployment which is the number of people a business can comfortably employ to perform the same or related tasks is what will fall dramatically and hit the economy hardest. The reason is simple when an economy is functioning normally and the outlook is positive businesses will tend to employ more people for two basic reasons. The first is they will employ more people to make it possible to perform the same task more quickly and effectively. Secondly, they will employ more people to specialize in the various aspects of a task; this is referred to as specialisation. Task related employment is the most important kind of employment in an economy as it is the least discriminating be it by qualification, ability, skill, personality, nationality, race, gender and marginal utility. In fact employers may even try to use diversity to balance these factors when they employ people this way. Task related unemployment is the most elastic type of unemployment since employers can quickly reduce the number of workers in lean times by simply increasing the number of responsibilities per person and laying off "excess" staff. Though task related unemployment is governed by ideas on efficiency such as the marginal cost of adding an additional unit of labour to a task during lean times, in optimistic times the more employees a company can afford per task is considered as a way of increasing efficiency and increasing specialisation. It is also often viewed as way of increasing diversity. It is an indication of a company's wealth and contribution to the economy. The more people a company employs the greater the prestige the employer enjoys as a result of making a very important contribution to the economy and society by being a good employer to households. In lean times task unemployment can be the slowest to respond to stimulus spending and improvements in growth since employers are still unsure about the future of the economy and may want to hold onto the benefits of downsizing. Many economies in Europe and the United States will consequently find that though the economy may appear to recover too slowly from the recession as unemployment rates lag behind the recovery. Stimulus spending by government will tend to help the capital side of recovery since businesses at the time will divert the benefits of stimulus spending toward capital rather than household investment and expenditure since at this stage capital is considered the more efficient factor, that is, less of a hassle to manage. Capital can be invested with returns that can be calculated, for example medium risk stocks can be purchased on stock markets, government financial instruments such as bonds and treasury bills can be bought. When it comes to labour the number of people per task is reduced (this includes the number of people operating equipment, cleaning rest rooms, manning a desk, handing out flyers, calculating risk, saying hello to people as they walk in the building and filling in applications etc). In businesses this process is referred to as reorganization, downsizing, cost-cutting or managing a company more efficiently and indeed it can lead to increased profits due to reduced costs. However, stability and profitability using these methods is gained through internal efficiency but the external side effect of this is higher levels of unemployment. This is the 7<sup>th</sup> Myth<sup>46</sup> concerning stability in market efficiency. Businesses can break even and in some cases increase their profitability bringing stability to the capital side of the market but the consequence of this will be stagnation in that unemployment will persist in an economy adversely affecting aggregate demand. This will be an acceptable aspect of market efficiency since it will be explained that unemployment is the sacrifice that must be made to bring

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<sup>46</sup> See Punabantu, Siize. (1 October 2010)

back “stability” to the market. Consequently, the impact of this on households will be hard. To restore levels of employment governments will need to act *counter intuitively* to notions on employment. For example, what businesses are actually doing is hedging their bets and discriminating between capital and labour for which the consequence is higher unemployment in the economy. However, if businesses can pay to keep stock they are not using in storage why can they not pay to have more labour than they need at any point in time, but that they will make full use of from time to time. “Over-employment” is often misinterpreted in contemporary economics either by institutions that fail to connect employment with the health of the economy and businesses that fail to connect it with aggregate demand as a result of being biased in favour of capital which inevitably shoots itself in the foot by killing commerce. Governments therefore have to get involved in solving this problem as they find they have to do with merit goods. In other words firing people simply to become more efficient is like a company getting rid of all its stock to run more efficiently – it doesn’t always make sense as surely as running with zero stock to become more efficient seems to defy the logic in business process; if this is unreasonable for capital then it may also be unreasonable for businesses to think it is viable for labour to be treated this way. The marginal utility of adding an additional unit of labour may need to be assessed in terms of “stock” and relevance to the employer rather than basic efficiency; for example, one person may be able to type letters, make tea, fill orders, sweep the office, answer calls, drive to make collections and empty the trash which can be divided into five jobs. In lean times a company may fire all but one of these employees who then does all these tasks and consider itself more efficient. In this situation the “stock” of labour in the company has fallen to zero. The crucial day the employer needs the phone answered, letters typed and orders filled at the same time there will be an insufficient stock of labour to achieve this. Therefore, if the employer prefers one employee to each of these tasks this does not mean it is counter productive or even less efficient even if the wrong perception may label this extravagant and marginal utility may tend to interpret it as being inefficient. As long as the employer’s earnings can accommodate additional workers to specialize or for a “more hands make lighter work policy” there is no reason management should not stock up on labour when it can afford it. Ultimately an increase in employment will lead to an aggregate increase in demand which ultimately repays the employer for his or her decision through a better performing economy. Since employers often cannot see the link between their internal actions and the external aggregate impact these decisions have on the economy the role of government is to create a link or bridge through policy that prevents businesses from harming themselves in this way. Should the employer be able to afford and prefer two people to each of these tasks it should be considered an increase in human efficiency, since it leads to an increase in the efficiency with which aggregate demand will increase. This is no different from an employer’s decision to keep surplus stock in the form of money in the hope of earning interest or keep it in the form of commodities in hope there will be an increase in price or keep it in the form of labour with the hope earning higher profits through increases in aggregate demand. However, since businesses generally regard themselves as more efficient when they get rid of labour they need and can afford simply to increase internal profit, they may improve their internal efficiency, however, any gains made this way will be short term as they will adversely affect the economy the same businesses will depend on to buy their products and keep them profitable in the long run. A

government therefore may need to use incentives to remedy this problem of perception. Counter intuitive actions against what increases unemployment can be tackled at 3 levels. The first and most important level is the psychological level. An effort needs to be made by an administration and its relevant governmental or labour offices to recognize and reward categories of employers e.g. large and small companies that employ the most people, have the best conditions of service and have the highest rate of employment each year. The contribution they are making to government, the economy and to households needs to be strongly highlighted and ideally they should receive positive reviews from government. This strengthens the psychological need for decision makers to give households an unbiased or equal importance with capital so as to reduce a biased allocation to factors of production that throw the national economy out of synch, especially during and after a recession. Secondly, task related unemployment can be encouraged by offering a small or marginal tax advantage for every additional worker employed to do the same or a similar task. This is a counter intuitive action, however, it needs to be considered by government because at the rudimentary level of intellect it does not appear to make business sense to employ more than one person to perform a task if the motive is profit, yet this is the most accessible kind of employment to the economy as it is the easiest to fill and open to diversity. Specialisation and adding additional units of labour to the same task to reduce individual loads when managed properly can make businesses more efficient, effective and is likely to be the nimblest at shutting down unemployment. A government will need to find ways of making management see this in order to create a healthy balance between investment in capital and households. Contrary to marginal utility, until capital can invent a machine with all the qualities of a human being the substitution effect between labour and capital will never be resolved, even the most advanced and efficient machines cannot at present accomplish certain human creativity, thoughts and tasks; in addition to this capital or machines will not go out shopping after work or on the weekend which inevitably supports the very companies that employ them and, noticeably, machines can't vote<sup>47</sup>. This will be the least costly approach for government since diversity, skill and qualifications will not be an insurmountable barrier to recruitment, employing people in this way allows diversity, aggregate demand will grow, employer prestige will increase, the tax incentive to businesses will have a broader spread and results than other forms of stimulus spending a government cannot prevent from being focused on capital by firms at the expense of labour, and most importantly what government loses by making this tax concession will be recovered through income tax, VAT and other avenues as a result of increased economic activity. Thirdly, the central bank should find innovative ways to directly influence unemployment, for example, it may need to equalize interest on capital loans and interest on household loans or access to these and find processes by which businesses can obtain low special interest loans for financing labour if businesses can usually get these kinds of loans through leasing finance for capital equipment it needs to be balanced out by their being able to access similar facilities for labour. It should be noted that if businesses can borrow against capital then it is discriminatory and biased if people cannot borrow purely against their labour (not their salary .e.g. pay-slip, but their labour as an up front asset). If there is no balance between the

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<sup>47</sup> Voting is not isolated to a political arena, it is generally how people exercise choice. It can be through a ballot or how they choose to spend their income on goods and services.

financing of labour and capital in an economy it will experience a wobble effect, that is, either aggregate supply or aggregate demand related economic problems.

The inability of a central bank to directly ease unemployment may be a reason why it can cut interest rates to the bone (to zero) yet fail to stimulate the economy, there are wobble effect like problems created by imbalances within the economy. Knowing post recession unemployment persists in an economy due to imbalances or biases between capital and labour means there are other innovative ways a central bank can have a direct impact on unemployment to restore the balance. By making the right inferences and interpretation of mainstream economic labour theory it can use these to achieve its objectives with the tools at hand and bring these advantages in to support government.

**Allowing Workers to Convert their Labour into a Personal Asset:  
The need for a labour capitalization fund.**

Contemporary economics has tendency of seeing human wants as a liability rather than an asset. This is a huge misconception. Labour is possibly the most sound investment both the private sector and public sector can make, it is even safer than brick and mortar investments. Let us explain this. Let's assume that the average working lifetime of a person is 30 years. This means that on average an adult is expected to work for 30 years and retire at the age of around 58 (or so). If the person's annual income level is US\$24,000 per annum then he or she is worth upto US\$720,000 over 30 years. This is a labour asset. There is no reason why it cannot be paid up front by a commercial bank or other lender. This creates a labour capitalisation fund for the employee. Technically a labour capitalisation fund is not a loan to an employee from a bank it is the conversion of a long term asset into an up front asset. The inability of workers to do this dilutes the financial and economic freedom of an employee. This up front asset or fund would be able to guarantee that for the next 30 years a worker will be paid a salary US\$2,000 per month or whatever it is they are earning or what their qualifications and experience are worth in the market. Once the labour asset has been brought forward (from 30 years and made current) not only can he or she be paid from this fund, the fund can also be invested at an interest or yield rate of 4.25% for the thirty years this person's labour is now considered viable capital or a viable asset upto retirement. After 30 years the principal amount of US\$720,000 will have been paid back by the monthly payment into the fund. US\$720,000 invested up front in this way on a labour asset over 30 years will yield US\$1,053,682.12. Of this amount the employee is entitled to either the value of the person's labour over the 30 year period (US\$720,000) or 68.3% of the fund, whichever value is greater. The reason for this method is that if the fund was managed well it may have a yield greater than 4.25% which increases the employee's entitlement. This value is deducted as a lump sum payment less any deductions made for periods of unemployment (maximum 12 months) leaving the balance of interest to the bank of US\$334,017.23 (31.7%). The labour capitalization fund has enabled the employee to be empowered with the ownership of his or her labour by having a US\$720,000 asset (or 68.3% of yield) and at the same time it is a potential for a 31.7% of the yield or US\$333,682.12 income earned by a commercial bank. This partnership between the bank and the client

protects both parties. There is a good reason why this is the safest kind of investment a commercial bank can make and the advantages will be listed shortly.

A labour “mortgage” (its not mortgage at all since it is not really a loan), the *capitalisation* of labour or labour financing can be regarded as way of protecting an individual’s labour and a business from having to fire staff they need to maintain the business. Just because an employee loses a job does not mean they lose their human capital, the capitalisation of labour validates this point. A university or college student expected to find work in a few months or who has signed a contract to start work in few months whose salary is expected to be US\$2,000 per month is already worth US\$720,000 even before they find a job. This entails that if a bank is confident enough a person will find work there is no reason why a capitalisation fund cannot be set up for them in advance allowing those expecting to be engaged to get back on their feet more quickly. Ideally commercial banks should be able to raise the finances for this scheme from the central bank as it can provide the cheapest source of cash; however, they can also raise it from other sources depending on how well the capitalisation funds perform. In the US in 2005 the average median wage for all those employed over the age of 15 (with earnings) per annum was \$28,567<sup>48</sup> for a total of 155 million persons (2005). This creates a value of US\$4,428 billion per annum from labour capitalisation. If the median number of working years left for this labour force is 15 years the capitalisation of labour can immediately introduce new capital to the US economy worth US\$66,420 billion (approximately 4.75 times larger than the US’s current GDP). The majority of these funds would be invested by fund managers on stock markets split between low, medium and high risk investments consequently spurring economic growth which leads to the creation of new jobs. If the central bank loaned commercial banks funds for this capitalisation at 1% it would raise US\$664.2 billion for the treasury or at 0.5% it would raise US\$332.1 billion. Converting labour from a long term asset into an up front asset through capitalisation is a turn key project any central bank can engage to support an economy in need of finance and that needs confidence in the national economy restored. The conservative estimate of market size for this new product (US\$66,420 billion) in the US is not only lucrative for commercial banks and government, but also a source of income with which to either finance economic growth or pull an economy out of recession. European economies, developed and developing countries looking for means to spur economic growth with development would find this product an untapped source of finance and a useful means for injecting fresh capital into the national economy as a possible alternative that can help reduce the impact of austerity measures. For trade unions it represents a new frontier through which to improve the conditions and prospects of the working population.

A person being in control of the value of their human capital in this way is likely to work harder and try harder to find a job or become productive in some other entrepreneurial way. For people already employed a labour capitalisation fund helps prevent staff from having to go without salaries they need to pay household bills when businesses face difficulty. Ideally the fund should be able to cover the full emoluments of an employee and

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<sup>48</sup> US Census Bureau, “Median income for total labour force”;  
[http://pubdb3.census.gov/macro/032006/perinc/new05\\_001.htm](http://pubdb3.census.gov/macro/032006/perinc/new05_001.htm)

therefore cover all personal expenses including savings or all the employees usual monthly expenses. The employer would pay the gross salary of the employee into the fund and the fund would pay the employee's monthly income less common statutory and other deductions required by the employee, however, for the sake of simplicity let's assume for now the amount that enters the fund from the employer equals what leaves the fund to the employee. As explained, if an average employee earns US\$2,000 per month financing labour or creating an upfront labour capitalisation fund would estimate the value of this as US\$720,000 for 30 years at an interest or yield rate of 4.25%. A commercial bank would then set aside US\$720,000 give it up front to the employee. The fund would then generate an account for the employee which guarantees there will be sufficient funds to keep the person paid US\$2,000 monthly for the next 30 years. The amount can be adjusted upward or downward as an employee's earnings increase or decrease. The fund then manages these finances in a diversified investment portfolio. Though the bank lays claim to any un-issued cash in the fund to reduce liability (since it facilitates the upfront capitalisation) the employee who owns this fund may decide to be involved in who manages it and how it's managed in order to ensure it is able to yield the best performance. Meanwhile the employee's salary of US\$2,000 dollars is paid by the employer directly to the bank's internal fund or an external fund. For every monthly withdrawal made the remaining balance is invested by the fund manager to gain interest or a yield on the up front capital and the time value of money which becomes the bank's and employee's gains. A capitalisation fund is not a mortgage. With a mortgage a bank loses control of the finances when it pays the seller of the house and may sometimes find itself holding an asset (property) it cannot sell. A labour capitalisation fund is much less risky since it remains liquid (held in cash). Since a commercial bank or fund manager pays the employee the monthly income or salary, it holds onto the remaining lump sum portion of the security as it is being paid out. For example, if it pays out US\$24,000 in one year then the capitalisation fund will have a balance of US\$696,000 to invest for 1 year or US\$672,000 to invest for 2 years and so on<sup>49</sup> until the final month in which it will pay out the last US\$2,000 it has invested for 30 years after which the facility matures. A fund with US\$2,000 per month managed using this process could yield US\$ US\$1,053,682.12 after 30 years. It should also be noted that as salary payments are made into the fund by the employer the bank is able to lend these monies out as loans to other clients further freeing up liquidity for loans the bank can make use of. The balance between incoming salary payments into the fund and outgoing income payments to the employee while the bank retains a claim to the lump sum labour asset makes this a very low risk product for banks. Furthermore, funds can be tiered and pooled together. For example, if there are 360 people in the fund contributing at the US\$2,000 per month level there will be US\$720,000 untouched over 30 years to invest, US\$696,000 invested over 29 years, US\$672,000 invested over 28 years and so on. Any surplus cash from the fund less obligations are then paid to the employee as a lump sum after 30 years. Since each person on this scheme would generate US\$1,053,682.12 on returns of 4.25% this would amount to US\$379,325,563.2 from 360 people. A real estate mortgage worth US\$720,000 may earn a bank slightly more, however, not only would the potential risk be much higher than the

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<sup>49</sup> A yearly method is used for simplicity; the fund can be broken into monthly rather than yearly investments to squeeze more capital gains from the balance of cash in the fund.



capitalisation of labour the market size would also be smaller. Furthermore, any salary or income bracket (low or high) can benefit from labour capitalisation. A person earning US\$15,000 per month projected for 30 years could create a labour capitalisation fund worth US\$5,400,000 for themselves.

There is less immediate risk to the bank in this product since every month the income paid out by the fund to the employee (e.g. US\$2,000) equals the salary of the employee being paid into the fund by the employer (i.e. US\$2,000)<sup>50</sup> and since the capitalisation or up front labour asset is being paid back there is a low risk balance between the amount repaid to the bank while the outstanding amount owed is already in the bank's possession making this a reasonably safe investment for the financial services sector. It is a safe investment for an employee since at maturity the fund will have paid off the principal amount. Even if the employee quits, the bank has the balance to be paid out still in its accounts or can lay claim to it and it has been receiving payments for what was owed; so it has very little liability there is also little liability for the fund holder. This method may enable the employee to find alternative work more quickly if government ensures the scheme is transferable to another employer, to a new employee of the same company or to the employee himself/herself should he or she opt to change jobs or become self employed. In addition to this the funds raised from capitalising labour can be invested in low to medium to high risk portfolios in a suitable spread able to perform above the rate of interest and possibly above inflation increasing benefits to workers and the fund. Since the central bank manages open market operations in lean times it can now make sure the interest rates on these specific financial products for labour assets are kept reasonable making it easier for businesses to retain staff or even hire more workers. Many businesses handle the finances used for payrolls through banks anyway and most banks are asset managers or have an asset manager they work with. This buffer would help delay the impact of changes in the economy on households and improve the bias between resource allocation to capital and labour which tends to favour capital more even when this is at a disadvantage to the commercial health of the economy. The advantages of this are:

### **Benefits to the Individual Worker**

1. It entails a new financial beginning and a new kind of freedom for employees who are now able to convert their labour into capital (capitalisation of labour).
2. Employees will be motivated to work harder and gain a clearer knowledge of the value of their labour. If they pay more into the fund than they withdraw they can bring it to maturity

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<sup>50</sup> This is simplified for the sake of explanation: of course if US\$2,000 is the net salary after deductions the employer would pay the gross salary into the labour capitalisation fund e.g. US\$3,100. The fund would then pay the employee US\$2,000 and allocate US\$1,100 toward statutory and other obligations such as taxes, pension, social security, health insurance etc (this allows the fund to protect all these basic obligations of the employee if temporarily unemployed). Consequently, there would be US\$3,100 entering the fund and US\$3,100 leaving the fund to provide a net income of US\$2,000 which is the net salary previously received directly from the employer. Nothing really changes at the allocation level, what changes is the employee gains the ability to take control of their labour as a form of up front capital.

much more quickly. If the fund matures more quickly it entails that from that point onward they can opt to no longer work to earn an income to survive as their capital now works for them or they can continue to work in order to increase the value of the fund over the same period of maturity. They have a choice concerning how to use or invest their labour.

3. Labour capitalisation technically is not a loan. It is a conversion of an individual's labour from a less useful long term asset into a more useful up front asset that will be invested.
4. A person takes ownership of his or her total labour since it is converted into an up front financial asset. Though the employer pays the monthly salary directly to the fund the employee not the employer has ownership of the fund. There is increased mobility and greater self esteem for workers. The employee also gains more bargaining power in labour relations. For an employee this can mark the beginning of financial freedom or at least better control of their financial future and the usefulness of their labour.
5. The employee is more in control of his or her financial security since he or she is guaranteed income since payments will continue to be paid for upto 1 year from the fund if he or she loses employment.
6. The received monthly income or "salary" from the fund should be as versatile as any normal salary, that is, able to cover all the employees contributions e.g. social security, life insurance, annuities, pension contributions, health insurance, mortgage, savings etc. meaning these benefits are not lost when he or she is between jobs or temporarily out of employment.
7. The benefits of working harder and obtaining a raise become more evident as they improve the performance of the employee's personal labour asset/labour capitalisation fund.
8. It becomes easier for employees to opt to become self employed. Should a worker decide to become self employed they can in these circumstances borrow against the fund (within the limits of their monthly accrual), take their labour with them as a financial asset and/or use this investment to support their new venture.
9. The employee can negotiate with a commercial bank how the fund is managed and how they will share the fund yield at its retirement (68.3%-31.7% split).
10. The employee can buy shares in the employer's businesses.
11. It is safer to lend to a person whose labour has been converted into an asset than one who hasn't. Consequently, employees able to use this product become more financially sound.

12. Since the fund helps protect pension contributions it also helps build the employee's pension in a more stable fashion. At retirement not only does an employee have proceeds from a pension fund they also have proceeds from their labour capitalisation fund.

### **Benefits to a Commercial Bank**

1. This is a new financial product and thus opens up a new revenue stream for a commercial bank or financial service provider. It has a wide market; in the United States for instance the labour force is close to 143 million (2009) strong making it a lucrative market for this kind of product.
2. A major benefit to a commercial bank is liquidity. This product is more attractive than a standard bank account that merely offers low interest on deposits. The final returns are approximately lower than that of a real estate mortgage, however, the risks can be lower and the market larger.
3. Workers are a crucial aspect of the circular flow of income (CFI) therefore by guaranteeing a worker's access to income through the financing or capitalisation of labour banks are inadvertently providing a product that reduces financial risk thus protecting themselves and their client; this increases confidence in the economy.
4. Since the "fund salary" is likely to cover loans, mortgages and other bank products the bank plays a greater role in ensuring the employee is able to continue to make these payments even when temporarily unemployed. This increases the financial security of banks.
5. It is a low risk, long term product since the bank is able to hold claim to the fund during its lifetime, in addition to this while making small monthly payments out to the employee from his/her fund in place of the salary; these payments out are replaced by payments of the same value from the employer to the bank as the employee's monthly salary. Hence the product does not create liquidity problems for banks.
6. The bank earns revenues for itself (and the employee) by investing the balance of the fund over 30 years.
7. It is less risky to lend to a person whose labour has been converted into an asset in this way than one who hasn't allowing for an improvement in the credit environment for banks.
8. The 12 months unemployment cover is not a liability to the commercial bank as the bank recovers this amount from the employee's portion of the fund at maturity.

### **Benefits to the Employer**

1. Employees are likely to be more motivated at work and take a greater interest in the success and performance of the company they work in.
2. The employer pays salaries directly into the employee's fund not the employee since the employee has taken over financial control of his or her labour so it can be invested.

3. A deal can be worked out with the fund if a business needs to change its strategy. For example, instead of firing a useful or indispensable employee in a downturn it can negotiate to “borrow” 12 months worth of human capital and make the minimum payment toward the fund which is naturally the rate of interest (4.25%) or required yield rate of 12 months salary for example, backed by some form of collateral. This allows the employee to keep working while receiving a full salary from his or her fund. Meanwhile the business has time to reorganize its strategy .e.g. 12 months after which it pays the shortfall back to the fund/employee in full. The fund gains in that it earns 4.25% or more for that year. This is like the company borrowing from the employee. The employee is able to lend to the company or finance it because he or she owns the financial value of his/her labour and has converted it into up front financial asset.
4. The employer gains a partner rather than just an employee. Since the employee is able to support the company through its labour asset rather than just his or her labour alone. The employee is now not just a worker but more of a partner with potential assets to contribute making employment less of a risk or liability to an employer
5. The labour capitalisation fund creates opportunities for staff to invest or buy shares in the business they work for.

#### **Benefits to a Government/Central Bank**

1. Workers who take ownership of their labour in this way are no longer a burden on the state when they are temporarily unemployed. They do not need unemployment benefits since the worker has control of their labour as an asset and has a grace free period of upto 12 months from the bank to sort things out should he or she be out of employment. Since any income level can have its labour capitalised this product should be able to cover a significant proportion of the workforce. This frees up public finance. Funds spent on employment benefits can be applied by government to other needful areas.
2. The economy is less prone to demand side shocks at the aggregate level and a new source of fresh capital is injected into the economy capable of accelerating economic activity.
3. The central bank allows commercial banks to borrow from it to finance this scheme. If they borrow at 0%-1% the CB can adjust this interest rate to control levels of unemployment. The central bank is now able to have a direct impact on unemployment by adjusting interest rates relevant to this scheme. It did not have this tool before.
4. Being able to divert unemployment benefits from government to the private sector by enabling people to finance their labour frees up useful financial resources for government.
5. Government is usually the single largest employer in a country. Its employees rise from being merely employees to being partners since government can negotiate to borrow from the labour asset of its employees.
6. Labour capitalisation has the potential to generate significant capital within the economy with which to spur economic growth. In the US for instance it can raise US\$66,420 billion (more than 4 times the US's current GDP). Asian, African and European nations and

governments around the world could use this product and method to raise significant capital with which to stimulate post recession growth and development in their economies.

7. Labour capitalisation will improve the credibility of the banking industry and increase confidence in the national economy.

While labour remains non-capitalised it remains the weaker factor of production creating a bias that can cause economic instability, such as that observed in persistent post recession unemployment despite an economy showing signs of recovery. The inability of a central bank to directly ease unemployment through interest rates linked to labour converted into capital or an up front asset may be a reason why it can cut interest rates to the bone (to zero) yet fail to stimulate the economy, there are wobble effect like problems created by imbalances between capital and labour that prevent this. Knowing post recession unemployment persists in an economy due to imbalances or biases between capital and households means there are alternative innovative ways a central bank can have a direct impact on unemployment to restore the balance, but it must make the right inferences and interpretation of mainstream economic labour theory, use these to achieve its objectives with the tools at hand and bring these advantages in to support government.

The capitalisation of labour is important for other reasons. Firstly, there will have to be ongoing changes to the labour model as economies evolve. It is possible that over time more and more workers will gradually begin to shift from being workers to shareholders able to earn an income from the production process without necessarily being engaged in productivity itself. With advancing technology business-processes, machines and computers will continue to substitute human labour more equally, cost effectively and proficiently until the point where human consumer behaviour and patterns become more important to the CFI than human labour, this begins to be seen when an economy appears to be able to produce sufficient goods and services for the market even when it is at full employment yet many people still have no jobs or have insufficient incomes.<sup>51</sup> Since at present the CFI requires human beings to work in order to gain an income to consume the diverse outputs of an economy with this kind of system design, labour, at some inevitable juncture, will become mostly redundant. In addition to this a government cannot afford to offer every person an economy renders redundant in this way welfare or unemployment benefits; it will simply not have the financial resources to do this and it makes no sense to do so at all if the labour model can be redesigned to begin to accommodate this change. At this point the very definition of human labour would have to be eased from productivity toward consumption. It becomes the natural role of industry to produce and the natural role of humanity to utilise and decompose (depreciate) the outputs of this production. If this problem is not understood by governments and economists early, addressed and the economy is not reformed to be able to accommodate a shifting labour paradigm the

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<sup>51</sup> Though there are skilled workers and many people unemployed production processes in the economy can produce enough goods and services for the population but works efficiently and effectively enough that it simply doesn't need these workers anymore.

consequence will be less and less equal distribution of wealth,<sup>52</sup> rising levels of redundancy and unemployment, declining levels of aggregate demand, unmanageable economic instability, and increasing levels of social unrest and public discontent vented toward governments even though growth and the capital side of the economy seem stable. What is interesting is that it is likely happen first in the most developed, most industrialised nations due to the fact that their technology paradigm is advancing faster than that of less developed nations rendering more and more of their labour redundant since the concept of “labour” their economy functions in is failing to evolve. This evolution has therefore to be prepared for and one advanced means to begin to prepare for this paradigm shift is to create an environment in which the capitalisation of labour can begin to take place as this marks the evolution of labour from economic servitude to ownership of personal labour as a financial asset that frees a person from having to engage in physical or mental labour to consume. Being an asset rather than being tied down to a trade enables labour to shift from being regarded or understood as a labour factor of production to it being seen more as an indispensable consumer factor of production. At this point the management of the labour asset is able to take on diverse forms. It can be managed by a person who is employed or who simply manages how his or her labour as a financial asset is invested. This transition is very important as it enables the economy to breathe through unhindered aggregate demand rather than suffocate since consumption is no longer directly tied to production as surely as production is no longer directly tied to labour as it is currently understood, that is, as a form of either physical or mental toil linked to output.

### **Accelerating Economic Growth using the EOS Model**

As mentioned earlier, the primary cause of unemployment is scarcity. The global real GDP growth rate in 2009 was pegged at -0.7%.<sup>53</sup> The only condition worse than zero growth is negative growth; negative growth can arise out of zero growth rates dismally failing to meet the needs of businesses and households in an economy. Every country in the world today implements and follows a linear or zero growth economic model. It is therefore no surprise that the global economic performance is well below par. Economies today managed on linear contemporary economic models are lagging far behind in growth and development. “The circular flow of income followed by contemporary economies entails there are only economies facing varying degrees of scarcity with the least impoverished being countries labelled as “developed” and the most impoverished labelled the “least developed”.<sup>54</sup> This may be construed as a rather strong statement to make or idea to conceptualise. Consequently, it is relevant to point out there are stark differences between an economy growing on a linear (zero growth) trajectory used by all countries today and an economy managed on an EOS geometric growth trajectory to such an extent that there is a need to

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<sup>52</sup> Owners of factors of production can employ more efficient machines and technology. As a result they become richer while workers become poorer and more unemployed as a result of an inability to convert their labour into an asset they become stuck with an important possession in an economy designed in such a way that it does not allow them to find alternate means of exchange. At this point there will be public unrest and more and more people feeling disenfranchised in this way will begin to take to the streets.

<sup>53</sup> CIA World Factbook 2009.

<sup>54</sup> Punabantu, Siize. (September 2010:6)

keep countries accelerating on an EOS model moving relatively at par through per capita group income targets; in other words there has to be a basis by which a country can be advised that it cannot accelerate its economy beyond a certain threshold.

The EOS model explores how businesses can operate in an economy were they earn more charging cost price for products than they did using mark-ups thus cutting off price inflation, and where banks can earn more from lending money at its normal price than they did charging interest thus creating a natural price plane and financial system stability.<sup>55</sup> This allows a huge segment of the market that in the past could not afford goods and services and that were unable to afford loans to access them. Not only does this type of economy make banking more lucrative, it also lowers the risk to banks of issuing loans. With markets able to trade closer to real values more people will be able to afford stock purchases on national and international stock markets, this coupled with the fact that businesses now operate in an economy that encourages rather than retards their growth significantly reduces the risk of making individual and institutional investments on stock markets. In other words investments in stock markets can be made with greater certainty that there will be rewards, the proportion of share value naturally linked to the growth rate would to this extent become almost as safe as government bonds. Even if the economy took a hit as it did in 2007 and went into recession the EOS model would easily counter this by recalibrating the system to compensate for any losses caused by shocks to the economy.

The value of businesses and productivity in an EOS model will be far greater than valuations seen today, as can be discerned in the acceleration of GDP over 32 years in Table 1 part B. Translating this new growth into the performance of stocks can give an indication of how much more lucrative stock market trading would be in the new model. The EOS model evolves from a linear to a geometric annual growth rate. A geometric annual growth rate can entail that any country that uses this methodology is unconstrained from advancing any sector of economic growth and industry it desires. Consequently, per capita group income targets<sup>56</sup> in Operating Level Economics (OLE) require countries to work together toward a synchronised accelerated economic growth without any one country using the EOS model to push the parameters of its national wealth to such a degree that it threatens the socio-economic balance and sovereignty of other countries. Therefore, the group per capita income targets in OLE ensure other countries are able to balance out the advantages of economic growth by having similar per capita income and GDP levels to work towards.

To illustrate why the EOS model is more advanced; in the economic models in use today the United States is classified as a superpower at the highest GDP in the world which stands at approximately US\$14 trillion. However, to maintain this same economic position in an EOS model capable of geometric growth the US economy would need to have been 245.67<sup>57</sup>

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<sup>55</sup> For a more in depth explanation on this see cost curves in Punabantu (September 2010:17 & 23-24)

<sup>56</sup> Per capita income targets are built from an International Financing Standard and Damage or Repair to Economic Growth (DREG) Deficit. For more on this see Punabantu, Siize. (2010 :19); Punabantu, Siize. (October 1, 2010 :40-41)

<sup>57</sup> Ibid., p 40.

times bigger than it was in 2008. In other words its per capita income would need to have been approximately US\$11.5 million and its GDP would have to climb to US\$3,504.42 trillion *at current price* for that period for it to begin to have the infrastructure, productivity and standard of living required to be considered or classified a superpower in an EOS model. The playing field or levels of comparison between EOS model and less effective models currently in use change. Stop for a moment to contemplate how long it would take to achieve a GDP target of US\$3,504.42 trillion using current economic models?

Let us now examine how long it would take an EOS model to achieve this same level of growth. An EOS model gives an economy access to upto 100% of GDP per annum worth of internal financing at constant price as shown in Table 1 part A. It would be reckless of course to accelerate growth in an economy at this maximum pace leaving no spare capacity in the system for countering shocks to the economy.

**Table 1**

**A**

*EOS model: Maximum acceleration*

Year s	GDP in Trillions US\$	Rate of Annual Acceleration
1	14.00	100%
2	28.00	100%
3	56.00	100%
4	112.00	100%
5	224.00	100%
6	448.00	100%
7	896.00	100%
8	,792.00	100%
9	3,584.00	100%

**B**

*EOS Model: Acceleration at 20% over 32 years*

Years	GDP in Trillions US\$	% Rate of annual Acceleration	Years	GDP in Trillions US\$	% Rate of annual Acceleration
1	14.00	20	17	258.84	20
2	16.80	20	18	310.61	20
3	20.16	20	19	372.73	20
4	24.19	20	20	447.27	20
5	29.03	20	21	536.73	20
6	34.84	20	22	644.07	20
7	41.80	20	23	772.89	20
8	50.16	20	24	927.46	20
9	60.20	20	25	1,112.96	20
10	72.24	20	26	1,335.55	20
11	86.68	20	27	1,602.66	20
12	104.02	20	28	1,923.19	20
13	124.83	20	29	2,307.83	20
14	149.79	20	30	2,769.39	20
15	179.75	20	31	3,323.27	20
16	215.70	20	32	3,987.92	20

If the US government used only 20% of these resources per annum as shown in part B of Table 1 it would hit the targeted GDP size in less than 32 years. Table 1 part B illustrates how long it would take an economy the size of the United States to achieve the targeted growth.



These values assume that the US Federal Reserve uses the economic operating system (EOS) to compensate for periods of unintended surplus (e.g. the “rule of 72”<sup>58</sup> in doubling time) and deficits by either enhancing or reducing the growth rate to maintain an average of 20% growth for 32 years. In other words it hypothetically decides to spread a decade worth of growth at maximum speed (part A) over a 32 year period (part B).

Though the targeted GDP (US\$3,504.42 trillion) would be reached in 32 years the per capita income levels would of course be affected by the rate of population growth over this period. Consequently, if the US population grew over 32 years from its current level of 310 million to 465 million in 2042 the per capita in this model would be approximately US\$8.5 million which would fall short of the required per capita income of US\$11 million. However, realising this, population growth could be compensated for by US Federal Reserve adjusting the rate of acceleration over this period by 1%, that is, from 20% to 21%. The result would be that in 32 years the required GDP of US\$5,115 trillion would be reached resulting in the required target of a per capita income level of US\$11 million being acquired as shown in table 2.

**Table 2**

*EOS Model: Acceleration at 21% over 32 years*

Years	GDP in Trillions US\$	% Rate of annual Acceleration	Years	GDP in Trillions US\$*	% Rate of annual Acceleration
1	14.00	21	17	295.59	21
2	16.94	21	18	357.67	21
3	20.50	21	19	432.78	21
4	24.80	21	20	523.66	21
5	30.01	21	21	633.63	21
6	36.31	21	22	766.69	21
7	43.94	21	23	927.70	21
8	53.16	21	24	1,122.51	21
9	64.33	21	25	1,358.24	21
10	77.84	21	26	1,643.47	21
11	94.18	21	27	1,988.60	21
12	113.96	21	28	2,406.21	21
13	137.90	21	29	2,911.51	21
14	166.85	21	30	3,522.93	21
15	201.89	21	31	4,262.74	21
16	244.29	21	32	5,157.92	21

\*Unlike the contemporary model where growth rates are based on estimation the growth rates projected here are virtually guaranteed and would be as reliable as government bonds and treasury bills.

<sup>58</sup> The concept that an economy growing at 1% is expected to double in size in 72 years.

What should be noteworthy is that a growth rate of 20%-21% in an EOS model would be a very *conservative* use of financial resources by a central bank that are available in the model and well within the absorption capacity of an economy at the current level of development of the United States or the of the European Union. This means that were the US or European Union economies managed on this model today they could immediately shift economic growth to the pace in the Table 1 part B or Table 2 with little difficulty.

Though this rate of economic growth is mild for an EOS model it would be considered very fast paced to the economic models currently in use. The EOS growth rate could safely be raised to 30% or 45% etc per annum over this 32 year period still leaving spare capacity for countering unexpected shocks to the economy and without opportunity cost, that is, without subtracting resources from any other part of the economy to pay for this growth. Calibrating the economic operating system to achieve the desired level of growth will be almost effortless. In 2009 the highest estimated growth rate was 13% for Macau<sup>59</sup> with only 16 countries experiencing a rate above 6%<sup>60</sup>. *Incredibly* 197 countries listed operated below this level. What is even more alarming is that 103 countries on this list (half the countries surveyed or practically half of the globe) experienced negative growth, especially when this is looked at in the context of how it could negatively affect the ability of households to afford food, clothing, shelter and the ability of businesses to grow and create jobs. This poor performance would be *unacceptable* to an EOS model. It is important to note (where managing economic growth is concerned) that there is a complete change in style and methodology between an EOS model and the Monetarist/Keynesian models countries use today. To begin with a central bank will not be preoccupied with fire-fighting fluctuations in the general price level as it operates on a price plane.<sup>61</sup> Secondly, growth targets are not speculative;<sup>62</sup> a central bank calibrates the economic operating system to acquire a specific growth rate and is able to compensate for recessional tendencies that slow down growth or tendencies toward surpluses that accelerate growth faster than the targeted growth rate.

The EOS model can project that an economy like that of the United States could grow 368.42 times bigger than it is today in just 32 years. This suggests the model has the ability to grow an economy from a GDP of US\$14 trillion to a GDP of US\$5,157.92 trillion in less than a generation. Businesses in an EOS model are expected to be much larger than they are in the contemporary economic model. In terms of market capitalization a crude extrapolation of business size from a current model to an EOS model after the 32 year period is illustrated using the Financial Times Global 500 in Table 3.

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<sup>59</sup> CIA factbook 2009.

<sup>60</sup> Ibid. Operating Level Economics (OLE) classifies rates of 0-6% and below as zero growth rates essentially regarding them as negligible or generally inadequate.

<sup>61</sup> Punabantu, Siize. (2010:200-202); Punabantu, Siize. (October 1, 33)

<sup>62</sup> When the central bank projects a GDP growth rate of 20% it means it will release this amount of financing in the economy thereby practically guaranteeing this growth target will be reached. It is therefore not speculative, e.g., where predictions are made on GDP growth with nothing other than estimations to back them.

What Table 3 attempts to crudely illustrate is that a company like Exxon Mobil with the market capitalization of US\$403 billion in the current model used by countries around the globe would be expected to be able to grow to a market capitalization of US\$148 trillion after 32 years in an EOS model (*ceteris paribus*) and note that this is at *current price*. Not even the most flexible levels of speculation can beat gains from growth such as this. This kind of growth also entails that individual and institutional investors (for example pension funds) making investments on stock markets can expect to be much better off in an EOS model than they are in the current model as a result of much better growth prospects and increased economic activity. Table 3 may demonstrate how the current economic model is keeping business back from realising their full potential. The fact that the central bank in an EOS model can shield the economy from the impact of unexpected shocks can also dramatically increase confidence levels in the capacity of the stock market to protect investor income. In essence the EOS model does not simply *create* wealth it also *protects* it while enhancing *productivity*, which means modern economic ailments such as poverty, unemployment, low living standards and so on are no longer part of the model and therefore, no longer expected to be an unmanageable aspect of the human socio-economic experience.

**Table 3**

2008 3rd Quarter (Financial Times Global 500)					Current Model	EOS Model <sup>63</sup>
Rank	Name	Head quarters	Primary industry		Market value (USD million)	Market value (USD million)
1	Exxon Mobil	USA	Oil and gas	▲	403,366	148,608,101.72
2	Petrochina	China	Oil and gas	▼	325,320	119,854,394.40
3	General Electric	USA	Conglomerate	▲	253,674	93,458,575.08
4	Microsoft	USA	Software	▲	243,687	89,779,164.54
5	Wal-Mart	USA	Retail	▲	235,605	86,801,594.10
6	Procter & Gamble	USA	Consumer goods	▲	211,460	77,906,093.20
7	Ind.& Com.Bank of China	China	Banking	▼	208,397	76,777,622.74
8	Berkshire Hathaway	USA	Nonlife Insurance	▲	202,901	74,752,786.42
9	China Mobile	China	Telecoms	▼	198,558	73,152,738.36
10	Johnson & Johnson	USA	Health care	▲	193,602	71,326,848.84

Tables 1, 2 & 3 illustrate how an economy capable of a geometric growth rate can quickly outpace an economy managed on a slow linear growth rate rapidly altering economic conditions experienced on the ground. As long as companies and economies remain on a linear path to economic growth unmanageable recessions, budget deficits, ever-present

<sup>63</sup> Projected after 32 years at 21% annual GDP growth.

scarcity and socio-economic unrest such as that observed in the European Union will remain inevitable. If administrations around the world continue to allow themselves to take the blame for inadequacies in as an important a field as contemporary economics it will never be challenged or incentivised to make the extraordinary advances it needs to stay relevant to the needs of households, businesses, institutions and governments around the world. And, as mentioned earlier, the public may steadily loose its confidence in the capacity of administrations to govern, a situation which is unfair to governments who are not to blame for this dilemma. Granted, the approach and solutions in contemporary economics can be rationalised, but this very rationalisation of tainted or flawed ideas that have become archaic to present day socio-economic needs has the potential to keep the gates to economic meltdown perpetually open.

An EOS model, which builds the consumption and strength of the domestic economy, is more self-sufficient and resilient enough to make earnings from exports a secondary or arbitrary rather than a primary source of revenue. The knowledge gap between a linear and geometric economic model is substantial as to make the old linear financial system technologically obsolete. It is like the difference between the slow lengthy reel of magnetic tape and the vast storage of digital information on a tiny flash drive. For now most institutions and countries have little or no knowledge about economies being capable of geometric growth or doubling time within one fiscal year, but this is likely to change.

Many of the problems in contemporary economics are rudimentary; that is they are very simple forms incongruency such as the “wobble effect”, expenditure fallacy, implosion and law of conservation of [financial] resources inherent in market efficiency. However, though simple, they are perception based problems which history has shown are the dilemmas humans tend to find the most difficult and complex to solve. For example, the inference made by Galileo that the earth rotates around the sun is a simple problem that can be explained and proven with a rudimentary knowledge of astronomy but perception makes it a difficult and complex issue to explain; people see the sun rise in the east and set in the west every day, so it seemed ludicrous to say the “earth rotates around the sun” and its not difficult to see why some people in Galileo’s time might have wanted to work him over for thinking he could fool them so easily about things they already know and experience for themselves. Similarly, people buy and sell, pay for factors of production, see themselves exchange goods and services with money; to then tell them these activities amount to nothing or zero growth in the economy and have no real value due to implosion creates a strong perception problem. Solving psychological problems of this kind require going beyond habit and perception in order to make valuable progress. In computer technology Moore’s law predicts that the number of transistors that can be inexpensively placed on an integrated circuit doubles every two years. Today mankind lives in an age that has graduated from a linear to a digital information age, but none of these achievements would be possible without innovation, creativity, the desire to advance beyond the norm and the incentive for change. Similarly, contemporary economics needs to find the inspiration to move from linear economic growth rates to geometric growth rates. As long as contemporary economic theory continues to see temporal annual growth rates as low as 6% as remarkable it will see no reason to find new innovative ways of eclipsing these growth

rates and making them more durable. With information technology and other disciplines are arriving at the development speed track in roadsters, electric cars and hybrids, contemporary economics cannot expect to be taken seriously if it keeps arriving there looking demure, suave and sophisticated, but driving a cart drawn by a mule. As explained, the crises and socio-economic unrest in Europe elaborated on earlier are not a crisis of governance or government. They are a crisis in contemporary economics for which the only consolation will be results based models like EOS. The EOS model demonstrates in tables 1,2&3 that where economic growth rates are concerned contemporary economics may be lagging far behind, not even the countries referred to as “most advanced” or “most developed” are as advanced or developed as they could be. The tables illustrate the potential for abundant economic resources with which governments can tackle budget deficits without having to cut jobs, salaries, educational subsidies, child support and by reducing public expenditure which at the end of the day may simply be an indulgence of inadequacies in contemporary economics as a parent might indulge a spoilt child at the expense of society. As long as governments allow themselves and governance in general to take the blame for inadequacies in contemporary economic theory they are doing economics in general a disservice by paying homage to an unnecessary resistance to real progress it may harbour within it. If this continues economics will never be challenged enough to reach for levels of creativity and innovation that offer solutions governments need today, it will instead retreat beneath the shell of tradition for fear of criticism and string countries along with poor economic performance mislabelled as “great performance”. Unfortunately this tendency in contemporary economics is likely to compromise the socio-economic welfare of populations, the gains made thus far in governance and the benefits businesses bring forth through productivity.

It may be easy to blame international organisations such as the IMF when demands are made that countries put in place austerity measures, it may also be easy to blame the World Bank for the slow pace of some countries to eradicate poverty and achieve the Millennium Development Goals, it may be easy to blame the World Trade Organisation when international trade fails and it may be easy to blame the United Nations when there are inadequate resources with which to support the diverse aspects of international development which include peace and security. However, these intuitions are informed by contemporary economics. “It is as important for economists to understand the stage in revolution an economy is at, so as to be able to classify it as first, second or third world. It is mainly by understanding the relationship between the stage in allocation and the technology paradigm that economists can determine how to bring about growth and development that is sustained in the long run. When an economy remains linear the process by which money is allocated and distributed does not evolve to stay in pace with the technology paradigm. Operating from within a linear environment means that government policy and the intervention of international organisations such as the IMF, UN and World Bank will not push productivity far due to the implosionary limit pre-set by the linear market economy. Even very good policies developed by economists who are genuinely trying to solve economic crises of poverty, underdevelopment, recession, inefficiency and slow

growth will be constantly pulled back toward failure by implosion.”<sup>64</sup> The same way governments will tend to be blamed when economies turn in a poor performance and become the target of socio-economic unrest Bretton Woods institutions intended to foster greater cooperation between nations will tend to be blamed when implemented policies fail, when in fact, the responsibility for these shortcomings should fall squarely on the inadequacies of contemporary economics and its apparent inability to creatively evolve with growing national and global challenges. As long as governments and development institutions agree to take the blame for the shortcomings in contemporary economics this will remain a behavioural problem in economics that leads to a lack of creativity that will fail to transform its ideas into new, relevant innovations that take advantage of the emerging technologies, software and hardware available today with which to make a significant improvement in growth and development. What may happen is that humanity will remain trapped in the 3<sup>rd</sup> Planning Paradox<sup>65</sup> where new more fashionable ways of remaining stagnant are introduced each season of new ideas and policies. In this day and age when so many advances are being made in the diverse arena of human endeavour why should students have their subsidies taken, why should families lose child support, why should pensioners have their pensions reduced, why should workers have their wages cut and why should people be unemployed at all if an economy, as illustrated in tables 1 & 2, inherently contains the latent financial resources that make all these hardships unnecessary? More needs to be demanded from contemporary economics and contemporary economics needs to demand more of itself. It needs to be encouraged to take responsibility for scarcity and all its negative externalities. In taking responsibility for these problems rather than passing the blame to governments and development organisations it will have no choice other than to step up to the challenge and deliver real solutions. These are extraordinary problems and they will need contemporary economics to evolve extraordinary solutions. Economies today may still be in their infancy and the many problems they face are likely to be teething pains. It is only by beginning to understand the gap in performance between economic models that anyone can begin to comprehend the advantages of an EOS model and why these advantages should be taken seriously. As table 1 & 2 show, the phenomenal growth rates experienced by economies such as China in recent years can be improved upon and accessed by any country through the growth capabilities of the EOS model. The levels of economic growth and development it proposes to reach are far in excess of any of the economic models in use today to the extent that it may in fact be unfair to compare them. Nevertheless, the EOS model can create a new opportunity for countries and international organisations to work toward greater equality. One way in which it does so is by creating per capita income group targets; for instance if a country wants to double its GDP in three years it would first opt to justify why it needs to do so to its peers. Per capita income group targets would allow countries, be they classified developed or developing, to accelerate economic growth toward a shared objective and thereby have a kinship through the understanding that no one country is so better off or so worse off it cannot transform its economy for the better to find a balance, common friendship and purpose with its peers.

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<sup>64</sup> Punabantu, Siize. (2010:172)

<sup>65</sup> See Punabantu (August 2010:14) & Punabantu, Siize. (2010:103)

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