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Abstract

The problems in contemporary economics faced in the world today are caused by an inadequate understanding of how economies work. The consequence is that governments and their administrations having to take the blame for rising debt, unemployment, recession and other economic ailments for which the full responsibility lies squarely on the inadequacies of contemporary economic theory. This brief paper provides a simple explanation of how governments can address unfolding economic crises brought about by economic scarcity.

Introduction

The modern economic theory implemented today is inherently flawed. Unfortunately these flaws are not apparent in contemporary economic theory which is built on the idea that scarcity is an ever present condition; an approach referred to as scarce resource theory (SRT) in operating level economics. The consequence of this is that leaders around the world and the governments they oversee today are being misled by the very fundamental approaches in contemporary economic theory they are advised will protect their industries and citizens.

What is Debt?

What does it mean when it is said US debt is 100% of GDP, Greek debt is 140% of GDP and so on? The first impression given by figures such as this is that these countries are mortgaged to the hilt and are at a disadvantage. The reality of the matter is that the circular flow of income of the contemporary economy is incapable of growth[1] therefore increases in expenditure driven productivity must be compensated for by some means, and the simple means for doing this is through borrowing. Growth in the economic model applied today cannot take place without rising debt since borrowing itself does not in reality create new resources.[2] Consequently, leaders must realise that debt burdens such as this are a result of useful resources being withheld from the national economy by implosion.[3] Though cutting back on government expenditure may reduce debt it comes at the consequence of programmes to which funding will no longer be available, every strategy other than resolving imploding financial resources will entail the subtraction of resources from other useful applications in the economy rather than the creation of new financial resources. A government that solves the problem of implosion will have solved its debt crisis, *permanently.* There is no other recourse; in other words no matter what strategy an administration devises, for example, increasing taxes, selling bonds and treasury bills or any other tactic as long as scarcity caused by imploding financial resources is not addressed *no strategy will work in* the long run; this is a rule.

How to Wipe Out a Nation's Debt in a Nutshell

This explanation on how to wipe a nation's debt is brief, for a detailed explanation backed by exhaustive research, study the references provided in the bibliography.

Governments with the stewardship of a Head of State must understand the cause of debt is a flawed circular flow of income. Financial or economic implosion takes place when businesses allocate financial resources to capital and labour. *Try to follow this explanation*

[1] See Punabantu Siize (2010:15) "The Scientific Origin of Poverty"
[2] Read how credit creation alone is insufficient for solving the problem of scarcity in economics Punabantu Siize (July 2010:12) " Financing the doubling of GDP in one year at constant price"
[3] Ibid p.5

as here we will try to demonstrate in as simple terms as possible how a government may go about solving the national debt crises.

To solve the debt crisis the dissipation of useful financial resources referred to as implosion has to be resolved. Central Banks have quantitative easing at their disposal. However, quantitative easing, whether it involves printing money or selling government instruments such as treasury bills and bonds is an increase in money supply that may help in the short term but it *does not neutralise implosion* and may therefore inadvertently lead to inflation; what we want to do is perform QE and trigger growth instead of inflation.

An increase in money supply is itself not a real problem, however, the *system* by which this *new* money enters the economy will determine whether it will lead to inflation or not. It must be noted that all current methods for fostering stability in an economy, be it government spending, credit creation, government instruments do not neutralise implosion. Therefore, these are blunt tools inadequate for solving a debt crisis.

The methodology a government should use for ending scarcity is very simple; in Operating Level Economics"[4] the system is referred to as the Economic Operating System (EOS). Using EOS debt is paid off naturally by increased economic growth rather than by further borrowing seen in current bail out initiatives. Here is the methodology in a nutshell.

The Nutshell

1. The first step in EOS is for the Central Bank and Treasury to deploy quantitative easing (QE) through the accounts of every registered business functioning in the economy. However, QE *does not* neutralise implosion; **it is therefore ultimately useless when applied on its own** and *will not stop* resource scarcity caused by implosion. Therefore;

2. The second step a Central Bank and the Treasury should take is to determine the *system* by which the additional money created by QE is applied in the economy. EOS requires that <u>for every dollar</u> *every* registered business *earns* from <u>sales of goods and services</u> in the national economy and spends on **capital** an *additional* dollar must be spent on **labour** (that is, households e.g. wages, salaries etc.). This represents a *systemic* change in how the national economy operates. This is where the money created by QE comes in; it must provide these businesses *with that additional QE dollar [<u>to balance what is due to labour in the circular flow of income</u>]*.

3. Thirdly, EOS requires that <u>for every dollar</u> *every registered business earns* from <u>sales of goods and services</u> in the national economy and spends on **labour** an additional dollar must be spent on **capital**, (that is, raw materials, equipment, etc.); this is where the money created by QE comes in, it must provide these same businesses *with that additional QE dollar [<u>to balance what is due to capital in the circular flow of income</u>]*.

[4] 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]

4. Fourthly, using this new system the Central Bank will be able to determine whether it should release 1%, 3%, 5%, 10%, 20%, 30% and so on of the additional dollar going to **capital** and **labour** as this value will *predetermine* the rate of growth in GDP at year end. A 0% setting reverts the economy to its original zero growth position making implementation practically risk free. If the Central Bank releases 20% of an additional QE dollar to capital and labour using this system the national economy is guaranteed to grow by no less than 20% by year end *at constant price*.[5] This year on year sustained growth will generate sufficient growth for countries to pay off their debts.

5. The Central Bank makes the product/service available to banks and other financial institutions. Banks and other financial institutions sell the EOS service to businesses. They explain the terms of the product/service to clients ensuring the QE is contracted according to the split velocity facility. This existing relationship between the Central Bank and commercial banks allows the service to be rolled out in one month with modalities worked out; it is not complicated to implement at ground level.

6. The EOS system is a national government instrument that every registered business regardless of size, in each state and the economy as a whole participates and benefits from; this reach and scale is essential. It allows the instrument to permeate the whole economy so that it has the same extensive reach as credit creation. It is easy for the Central Bank and Treasury to set up this product and service quickly through commercial banks as they are already on the ground offering financial services to the economy as a whole. For commercial banks it is simply another product in the portfolio of services they offer their clients.

7. With this new EOS system in place governments can use growth to pay off debt burdens without the need to borrow or to be baled out.[6] And they can do so without begging for money, without a bail-out package and without breaking a sweat.

A Central Bank and Treasury or Ministry of finance must prioritise the EOS split velocity[7] system and implement it using QE in any pragmatic way it can through the whole economy consequently freeing up resources for business at constant price. The greater the distribution of the product/service, the greater the sensitivity with which the Central Bank or Federal Reserve can regulate economic growth in the national economy. There is no other real or permanent solution other than this; *these inferences have been made with extensive and exhaustive research.* As long as any approach to managing the economy does not address scarce resources caused by implosion it is unlikely to successfully resolve the debt crises and the plague of economic problems a government faces. Financial stability and the loss of financial resources to the economy are recovered by implementing split velocity. Key to the EOS method is the engagement of every business in the economy, large and small through banks and the use of this structured QE to correct the flow of income to capital and

[5] See the New Punabantu Equation of Exchange; Ibid p.248; Punabantu, Siize. (September 2010:29) "The Origin of Wealth";
[6] The extraordinary benefits of this new EOS method should not be underestimated. An explanation and the mathematics to back the authenticity of this new system are freely available online in the some of the literature in the bibliography at the end of this paper.
[7] Ibid. p.196-201. Split velocity is simply the processes of splitting payments between capital and labour described in the nutshell to sustain an ongoing correction of the circular flow of income (CFI).

households as described in the nutshell explanation. This change and the new system are driven by the Central Bank and the Treasury or Ministry of Finance; unless these institutions move to resolve economic problems in this way they are failing to protect the economy, financial system, the public, government and its sitting administration. The new government instrument created by the system is a debt, unemployment and recession buster; it gives an administration unprecedented control over economic growth. In the same way that banks can engage government bonds and treasury bills, they can now administer an EOS split velocity payment system and exchange money for productivity with businesses following the basic nutshell rules. Any government whose Central Bank and Treasury or Ministry of Finance does not implement this process is doomed to fail to manage the national economy in the long run; Heads of State should be aware of this as inevitably it will cause their administrations to fail. This failure will masquerade in many different forms and disguises; unemployment, public unrest, debt crises, rioting, civil disobedience, recession, persecution, prosecution, protests, demonstrations, low approval ratings, failing businesses, the list is simply endless and so are the disguises. A discerning leader will have to see through the smoke screen, engage the Central Bank and Treasury or Ministry of Finance to address the real issue, which is outlined here in the nutshell segment or he or she must risk residing at the helm of a failed administration. On the other hand, with this knowledge, if a Central Bank finds any means it can to implement the split velocity system it will create unprecedented growth, new resources, financial stability and government will reside over the greatest potential for economic success within its grasp.

Bad Contemporary Economics is Bad for Business and Worse for Government

If an economist understood the flaws in the circular flow of income and how resources are being imploded he or she would know that the new system described here restores a national economy to normalcy[8] and consequently it has been shown this system for administering QE will not lead to inflation.[9] Since it is a restoration of money missing from the balance sheet of businesses presently unaccounted for in accountancy[10] *it is not a subsidy*. This system removes the need for cost plus pricing, therefore, instead of inflation the immediate effect of QE administered through EOS will be *deflation* as businesses begin to sell their goods and services at cost price or a lower price than that which required cost plus pricing. Despite this they receive higher profits than they did in the old system. If the Central Bank and Treasury or Ministry of Finance cannot get around the public harbouring a primitive idea that a subsidy is being implemented in this system, then it should refer to the additional dollar or the percentage of it applied as "a loan to be redeemed by future growth" with an indefinite repayment period subject to economic performance. The Central Bank should treat the EOS as a new financial instrument for managing the national economy. The additional dollar flowing to capital and labour as a result of sales should

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[8] Removal of the wobble effect, see Punabantu (July 2010:10) " Financing the doubling of GDP in one year at constant price"

[9] See, Punabantu, Siize (September 2010:23-24) "The Origin of Poverty"

[10] Ibid p.7-8, 13, 16. See p.13 as it explains why the accounting profession does not see financial losses caused by implosion, however, by identifying them they can be restored to the balance sheet of businesses.

ideally be distributed by commercial banks using the nutshell rules as a new financial product for a small percentage service fee, in the same way interest is charged on loans. In other words banks receive the QE dollar as a "wholesale" product from the Central Bank, they then "retail" it to businesses and it functions alongside credit creation to correct resource flows in the circular flow of income. An EOS model shows that if a government used this approach it would immediately have the equivalent of upto 100% of GDP in financial resources to inject in the economy *every year* at *constant price.* The EOS method is very simple and uncomplicated. It would entail that a system such as this if, for example, implemented in a 30 day period in the United States could create upto US$14 trillion dollars of productive income for the US economy in less than a month solving an administrations debt ceiling crisis and eventually wiping out US debt. It is simply placing a new product on the shelf alongside credit creation in banks; the basic infrastructure for implementation already exists. Even economies facing situations where GDP is 200% of GDP would generate enough *internal* growth to eventually pay off their loans. Governments in the EU would not spend sleepless nights trying to figure out where to find the money to help member states pay off national debts neither would they need to use their own tax payers income to address this problem. Governments would gain the means by which to wipe out poverty and maintain financial system stability using domestic tools. The EOS approach raises revenue by catalysing the internal economy.

Save the Economy and You Save a Nation

Governments should not allow themselves and the progress they have made to be destroyed by inadequate contemporary economic theory. The tussle in the United States between the Democrats and Republicans over the debt ceiling is not primarily caused, as many might believe, by political debate or a stand off between two strong political parties as it may at first appear. President Obama, other esteemed Heads of State, Ministers of Finance and an esteemed Secretary of the Treasury such as Tim Geithner working anywhere in the world to improve economic conditions will need to begin to read between the lines, see how to outwit and outthink the conventional model in economics, that has become the cancer in political administrations, if they are to protect the governments and people they serve. It is this very cancer that that will threaten the longevity of leaders and government administrations as it causes unrest and dilutes public confidence in the ability of Heads of State and their administrations to steer countries toward prosperity. For instance, these flaws in contemporary economic theory masquerading as political and managerial weaknesses appear to increasingly and unnecessarily erode President Obama's credibility, as they would any President, Democrat or Republican. Cutting back on expenditure and austerity measures are only a temporary solution to a bigger problem of scarcity. Governments in Europe cutting back on expenditure that affects essential services such as the police will find it increasingly difficult to deal with unrest due to having an insufficient number of police officers to manage that unrest. Increasing discomfort experienced by businesses and households will increasingly place an irate public in direct conflict with administrations.

Conventional wisdom and contemporary thought in economics is like a fortress which wields the incredible power and authority vested in establishment and credibility. This is the choke-hold contemporary economics has over modern day governments. It cannot be challenged head on, it is too entrenched. Yet it is this very establishment that has become a danger to the political careers of many leaders. Should any Head of State doubt its capacity to thwart their careers they need only observe former President Hosni Mubarak's demise. It is not the democracy the Egyptian people rightly deserve, politics or what may be considered his misgivings that have placed him in difficult circumstances; it is the inadequacies of contemporary economics. Heads of State who need to observe what contemporary economics can do to their lives and careers have simply to turn on the BBC, CNN, SKY Al-Jazeera and in observing Mubarak's predicament it will become apparent what they are up against.

The misgivings and misfortunes of contemporary economic theory requires a leader with savvy who is not going to walk a path that when scrutinised is in actuality *the plank.* "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."[11] A leader will need great insight to evade the pitfalls created by contemporary economic theories that are not solutions to resource scarcity. Contemporary economic theory is not a menace that can be dealt with by an administration with a conventional attitude and approach; it requires savvy, a team of specialist forces, a super-committee, if it really knows what it is up against; that will understand the problem and where its trip wires are, who can move quicker than the contemporary economic theory thwarting its objectives is able to follow and solve the problem before the theory is even aware its has been solved.

The cracks in contemporary economic theory are well documented in the Theory of Economic Implosion[12] where it is explained that the banking industry and its introduction of credit creation does not solve the problem of debt and inadequate resources faced by governments and economies in general; "…implosion between households and capital in the CFI creates a vacuum of financial resources credit creation is unable to resolve. The fact that credit creation does not solve the problem of implosion entails there will be a natural propensity for debt to rise over time since interest payments weigh debtors down and reduce the efficiency and capacity with which borrowed money is repaid. Implosion subtracts useful financial resources from any form of productivity engaged with finance be it in the private or public sector aggravating the ability of productivity to compensate for liabilities such as borrowing. In a scenario such as this, since credit creation does not neutralise implosion as it was intended,[13] it would not be improbable to suggest that businesses, individuals and public institutions in aggregate in any economy buffeted by scarcity face difficulty when it comes to their capacity to repay aggregate debt,

[11] Punabantu, Siize (November 2010: 8) "Governance & Economic Growth"
[12] See GPWN (2010:225)
[13] See the arguments on credit creation in Punabantu (July 2010) "The Origin of Wealth"

consequently, stability must rely on the belief debts will be repaid rather than the actual capacity to repay them, and this makes sense of why contemporary economies are greatly affected by confidence levels. It is unlikely to be a coincidence that US total public debt stands at 100% of GDP at US$14.584 trillion,[14] the United Kingdom's public debt stands at £944.3 billion or 61.9% of GDP (excluding financial interventions)[15]. Levels of debt such as this are a likely indication that services required to restore imploding financial resources are missing from the economy as a result of leaving the economic operating system unengaged, consequently, even if they are reduced or resolved it is likely they will inevitably return. It follows that if the CFI is pushing economies toward zero growth, debt will persistently rise in order to help compensate for diminishing useful financial resources. Cutting deficits by lowering costs is not very different from borrowing money to pay off a loan. It is likely the deficit and debt problem can ultimately only be resolved by countering implosion.[16]

Debt is not a pleasant thing for governments and it can compromise a country's readiness to manage ongoing and unexpected crises. However, a leader who understands the limitations of contemporary economics' circular flow of income will realize that since it is incapable of natural growth the economy must depend on debt to fuel even basic economic growth. It is no coincidence that the size of the US economy is equivalent to its debt. To fail to raise the debt ceiling in the United States is the equivalent of stunting growth undermining the actions the Obama administration has made thus far to pull the US economy out of recession; the objective of cutting government spending may have the same effect, if anything this may be the most undesirable consequence of the stand off over raising the debt ceiling recently witnessed in congress. This is due to the fact that having scarce-resources is a general condition of the model generated by contemporary economic theory. The real solution is to increase the availability of resources in the national economy, a feat that can only be achieved by changing the model to one that can tap into accelerated economic growth[17] that is latent in every economy. Without these changes human socio-economic welfare is being compromised ever more directly by workers losing jobs, households losing incomes, governments losing resources, as private and public companies downsize to escape the economy's attempts to shut them down.[18] "The human cost of following SRT and its policies are itself legally questionable and raise many concerns related to social and economic justice. SRT policies if unresolved will remain responsible for tremendous levels of strife and economic hardship many people around the world must endure within their national borders. This ranges from simple unemployment to starving men, women, children and babies in areas that have been ravaged by famine, hunger, conflict and inadequate resources.

[14] Treasury Direct, August 2010, "The debt to the penny: who holds it"
[15] UK Office for National Statistics (2011) "Public Sector Finances", http://www.statistics.gov.uk/cci/nugget.asp?id=206
[16] See GPWN (2010:71)
[17] See Punabantu (July 2010:11) " Financing the doubling of GDP in one year at constant price"
[18] Ibid.

Conclusion

Scarce Resource Theory (SRT), its imposition of rising indebtedness of nations and its sluggish superslow growth rates incorrectly characterized as 'fast' will continue to force millions of able people around the world to face desperate socio-economic conditions within their own borders as though in a state of war or siege. Many will risk their lives trying to escape from this strife, for example, in makeshift boats, cargo containers and sealed trucks in an attempt to move to countries where they are not welcome, become refugees, are sent back or treated inhumanely. The state of humanity slipping through the net as a result of failing models, planning and policies based on SRT[19] is alarming."[20] It is to the merit of journalists and media bodies to make the public aware of the shortcomings of contemporary economic theory highlighted here in ideas such as the Theory of Economic Implosions and EOS since every job, uncertainty and career threatened by the prevailing economic model will remain in jeopardy as long as the public remains unaware of its hidden shortcomings.

"Humanity is slipping through the net by virtue of incorrigible ignorance, limited thought, poor economic targets, debt burdens, exclusion, attitudes, ill-designed policies imposed on nations, including an inability to listen. The suffering these policies continue to induce is being reconciled too slowly. There is a lack of necessary focus and foresight that would spare millions who have suffered and who continue to suffer as a result of a poor understanding of SRT constraints….the humiliation of debt, begging for help, poverty and often unpalatable survival is in itself a form of unpalatable abuse. As long as students, scholars, professionals, intellectuals and people in general do not challenge these approaches and provide alternative routes, the dehumanizing conditions many grapple with will continue to be applied and weak SRT based strategies will be offered to nations to pursue."[21]

Any fears about implementing the EOS model will only result from not grasping how it works, inexperience with the concept or failing to comprehend the theory and mechanics of the system. So confident is this system that unlike other economic approaches its economic outcomes can be guaranteed. The EOS method is transparent and pragmatic; distinct from other approaches it will not fail a Government, its Administration, Central Bank, Treasury or Ministry of Finance willing to implement it.

[19] See Punabantu (October 2010:40) "Market Myths in Contemporary Economics"
[20] See GPWN (2010:53)
[21] See GPWN (2010:52-53)

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