

Governments in Economic Crisis: What is the 99% and why does it exist?

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Abstract

What is the 99% and why does it exist? In this paper an attempt is made to explain why socio-economic unrest remains a modern problem. An effort has to be made to understand the origins of strife in systemic design of modern economics. Without this knowledge it may not be possible to fix the very fundamental problems that lead to a broken society.

Introduction

Economics 101: What is the 99% and why does it exist?

It is one thing to be part of the 99% in the Occupy Movement, but it is also important that an activist clearly understands why he or she is part of the 99%. Why does the 99% exist? There have been many explanations given for why unemployment and strife plague economies, however, there is a clear reason why no solution has been found. The 99% exists as a result of a problem in economics where the operating structure of the circular flow of income (CFI) diminishes the productive value of money. It causes as much as 100% of the productive value of money to be lost for no good reason; this loss is referred to [in Operating Level Economics] as implosion¹ or the zero growth position. In order to fight back and escape zero growth (which threatens to close businesses down) businesses mark up the price of the products they sell in a phenomenon or process that has come to be referred to as *cost plus pricing* generating what businesses have commonly come to know as profit.² It remains a fact that most business operators do not understand that this is the fundamental reason why profit exists. They continue to believe erroneously that profit exists to enable them to grow and succeed when in fact it exists to compensate for a flaw in the CFI. When businesses use cost plus pricing or mark-ups to fight back the economy's natural position which is to shut them down they are only able to recover or restore often as little as 1% in GDP of the productive value of money as a result of the flawed design of the circular flow of income, close to 99% remaining of this value *implodes* as an unnecessary form of economic and financial waste. As a consequence humanity must scratch a living on 1% of its productivity rather than the full 100%. This leads to a highly uneven distribution of wealth with many left out of the capacity of national economies to provide for their citizens. This oversight has proven to be and appears to continue to be the Achilles' heel of development economics derived predominantly from modern Western civilisations and their engagement in the evolution of industry that has otherwise enjoyed some success. It is strange that so fundamental a flaw continues to escape the otherwise prodigious capacity of human intellect to accumulate wealth. It is as if the mind fails to observe this twist in the tale trapping humanity in a nightmare of poverty and scarcity from which it continually fails to awaken. If you are unemployed right now and can't find a job, if you've graduated from college and work prospects look bleak, if your company is failing or an economy is proving generally unmanageable its because there is a general lack of understanding about this problem and the genuine origin of poverty. It is this lack of knowledge concerning this specific weakness in the CFI that has many governments in a quandary about how to solve modern day economic crises. This failing or cracks in the knowledge paradigm of both developing and developed countries can be observed as recently as the forecast that the EU would grow by 0.5% in GDP, the correct interpretation of this is that the EU's CFI will convert as much as 99.5% of available useful and productive financial resources into

¹ For a definition and mathematical explanation of what economic implosion is read the following; Punabantu, Siize. (September 2010), "The Origin of Wealth"; Punabantu, Siize. (2010:94); Punabantu, Siize. (August 2010:4); Punabantu, Siize. (September 2010:13-18); Punabantu, Siize. (2010:175-177)

² Failing to understand the real of role of profit in the CFI contributes to economic crises.

financial and economic waste over this period...for pointless reasons. Similarly, the Zambian 2012 budget projects Gross Domestic Product growth of above 7.0%³; though this is indeed considered a commendable achievement in contemporary economics, the Zambian economy would experience much greater growth if it were to recover the 93% of useful economic resources lost to implosion as systemic financial and economic waste created purely by a flawed CFI. The norm of departments managing economies and implementing policies is to focus too intently on the 0.5% or the 7.0% growth and guide governments toward these without recognising the respective 99.5% and 93% loss in financial and economic resources caused by simple inadequacies in the design of the modern CFI. These flaws in the CFI stem directly from an inadequate understanding of the mechanics of money; *money implodes when it is applied in the exchange of goods and services* consequently negating its productive value creating a socio-economic phenomenon mankind has come to describe as *scarcity* or more humanely as 'poverty'. Governments, non-governmental organisations and private companies spend billions of US dollars every year trying to compensate for and counter the effects of this technical hitch in the CFI, the modern day term for this mitigating process is Donor AID. Every economy in the world faces this problem since they use the same CFI⁴. The flawed CFI generates a system with a *wasting processes* where 99% are left out of the loop due to economic resources being scarce 99% of the time; and it is they who begin to experience hardship and suffering in its diverse forms. They become the hungry who hunger for employment, education, food, to escape from poverty, to care and provide for their children, to escape lack of opportunity, for better governance, for health care, adequate pay, for accommodation, improved standards of living and so on. Worst of all they cannot clearly explain the source of their suffering. If an economy grows by 1% in GDP it entails implosion has lost 99% of useful resources in the CFI, if it grows by 3% it has lost 97% and so on of useful economic and financial resources. However, economics will tend to jubilantly tell the public the economy has grown by 1% or 3% with absolutely no clue that these gains are nothing compared to the inverse loss invisible to inspection by technocrats. Consequently people suffer, poverty persists and governments for the most part can do little to solve the problem. It creates a permanent resource vacuum that generates and perpetuates economic scarcity. As we fumble around in the dark, occasionally dropping the ball of finance and economics and scratch around frantically to find it, the 99% who suffer do so and will continue to do so as a direct consequence of this problem regardless of the management or policy strategy used to counter it. This flaw has nothing to do with human corruption or failure it is very important to see it, it causes human corruption and failure by generating inordinate levels of scarcity and is created by systemic corruption of the CFI processes to generate an environment in which scarcity amplifies human vices; it is a technical rather than a behavioural problem. It is important to understand that the scarcity and poverty experienced by humanity today is not *real*, it is artificial; created by a flawed CFI. As long as a government administration does not resolve

³ 2012 Zambian Budget Address.

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] – sic. GPWN

the artificial scarcity created by implosion in the CFI it cannot generate sufficient economic resources to cater to a nations entire population regardless of what policies or economic programmes it may have in place. The unnecessary and tremendous loss of useful economic and financial resources caused by the CFI will counter each and every move governments make to improve the welfare of their people, the operations of businesses and the plight of workers. Governments will have to switch their focus from, “What GDP gains is the economy making each quarter..?” approach as these gains are arbitrary compared to the tremendous waste of useful economic resources caused by an improperly designed CFI. The focus has to change to, “What economic resources can be recovered from the losses generated by the CFI. Problems related to the implosion of economic resources are not thoroughly understood even in civilisations of the developed world which is why even the wealthiest and most powerful nations in the world, including the United States persistently struggle with scarcity; poverty exists for pointless and unnecessary reasons. Even developed countries continuously fail to manage their economies such that economic resources are abundant rather than scarce, whilst developing economies tend to mimic these styles of and methods for understanding economics and inevitably find themselves in similar circumstances. The CFI problem appears to escape contemporary intellectual analysis. It must be observed that even those with impeccable credentials who may be giving governments, businesses and the public advice on finance and economics will find great difficulty discerning this problem. This is due to the fact that technically though this flaw in the CFI is simple it is very heavily camouflaged and invisible to arbitrary observations of the operational function of money when it moves as a result of transactions. There is no reason why, with current levels of knowledge and the level of technological advancement, countries should continue to fail to realise the economic resources they need to sustain their populations. In this Century, with the levels technology and wealth that have been achieved poverty should no longer exist and it is truly a shame that it does. Recently Christine Lagarde expressed concern in an interview to France’s Journal du Dimanche that, “The world economy is in a dangerous situation.” The debt crisis that continues into 2012 After a European Union Summit, “is a crisis of confidence in public debt and in the solidity of the financial system.”⁵ Central to this pessimism should be the economic and financial system applied today, that loses tremendous economic resources to implosion yet the paradox is that it remains captive and unable to focus on anything other than what little gains it can make each quarter. That so many people should continue to suffer on the basis of a technicality concerning the CFI is sad and an affront to prodigious human intellectual ability. As will be explained later in this paper the crisis is less of confidence and economics, but rather one of an inadequate knowledge paradigm.

As explained earlier the tendency in contemporary economics is to focus on the 1%, 3% or 7% gain in GDP governments may aspire to whilst remaining completely ignorant of the respective 99% , 97% and 93% loss taking *for no reason other than* process in the CFI, what is nothing more than a processes chain problem.⁶ This loss created by the CFI is a tragedy of contemporary economics and finance. It is a fundamental problem that is not helped by a

⁵ Reuters (25 December 2012), “IMF’s Lagarde warns that global economy threatened”

⁶ Punabantu Siize (2010:15)

lack of education on and awareness of implosion in the subjects of business and economics at schools, colleges and universities the world over. Consequently, populations the world over simply do not understand how or why scarcity and poverty exist or why unrest takes over a country and they become inextricably caught up in it. To avoid this problem leaders need to take the time to study and appreciate how to counter economic implosion in the national economy.

Similarly an activist may only be useful to a cause if he or she knows and understands the “problem” and in this case it is not another human being, it is the economic system, specifically the inadequate design of the circular flow of income that causes the implosion of useful financial resources reducing to waste productive human activity; this flawed CFI is what must be torn down and rebuilt to recover useful resources being lost to implosion as in doing so the 99% of resources being lost to the imploding CFI in economies throughout the world will be recovered and the 99% that causes many to remain in the cold, experiencing hardships and occupying the streets will have their financial, economic and social well-being restored as well as their dignity. It does not matter whether it is in Greece, Tunisia, Egypt, Libya, Wall Street, Africa or Europe every continent, every people, every country, every economy, every business and institution, and each and every government applies this flawed CFI, the Occupy movement therefore and humanity as a whole needs to focus and work together on this specific order of change or the Arab Spring, the Occupy movement and efforts in general as means of people expressing their long suffering will inevitably fail to bring about real socio-economic change. This is simply because implosion is an infatigable force in the CFI whilst human beings eventually grow weary.

The Greek Crisis: Always blaming politics for the failure of contemporary economics is a bad habit

I have said this many times in previous papers; “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 [and politics] are likely to do so at significant political risk to themselves. Failings in public management of national economies should really no longer be blamed [entirely] on governance, but rather on inadequacies in modern economics that nudge national economies toward an unwarranted yet inescapable precipice.”⁷ Greek Prime Minister George Papandreou, is a recent high profile casualty of economic implosion and related flaws in economics. Any head of state anywhere in the world who still does not recognise the danger the flawed CFI overseen by contemporary economics poses to his or her administration and to the credibility of government places not only the future of politics at great risk, but also endangers the socio-economic wellbeing of a nation’s citizens. This problem today even threatens integrated economic blocks such as the EU, yet even the EU despite its immense technical resources seems powerless to resolve it as it is not conversant with the underlying problems created by economic implosion. It does not matter how advanced or prosperous it may think it is, no

⁷ Punabantu Siize (2010:5)

economy in the world today can survive indefinitely on the super low annual growth in GDP caused by implosion in the CFI.

The French and the German governments taking the lead in dutifully struggling to resolve problems in Greece is very noble and commendable, President Sarkozy, Angela Morkel and EU heads of State should be commended for the valiant effort they have made to save Greece, no country should be allowed to suffer without this kind of support.

The G20 needs to identify the problem and tackle the cause

The Implosion of financial resources in modern economies cannot be corrected by social unrest, taking to the streets, political change, discussions at the World Economic Forum; unless these actions are directed at the loss of financial resources due to economic implosion and effectively introduce a new financial order and economic operating system (CFI) that actually transforms the manner in which the circular flow of income (CFI) operates. This is nothing more and nothing less than a *technical change to the mechanics of how economies operate*. How do we know this to be true? This can be determined by understanding the planning paradoxes, in this case the third planning paradox which states that:

“Any economic approach, system, argument or school of thought that does not equate growth with financing, in its diverse forms, will be unable to provide a complete solution to the problem of sustainable growth and development. It will simply create a new opposing argument and a new approach or dispensation that is itself confined to the same operating system’s resource constraints, except in an alternate more fashionable position of discomfort and resource limitation.”⁸

This means that if an analyst somewhere in the world is developing a new government programme to address a financial and economic problem or crisis and it does not address the CFI; it will not work. It will become just another clever policy and change that eventually leads to more of the same. Based on this paradox we are able, from a business and finance perspective, to predict that movements such as the Egyptian uprising in Tahrir Square, Arab Spring and Occupy Wall Street, despite having good intentions, being well organised and being able to cause some policy or regime changes may inevitably face great difficulty when it comes to achieving real economic change that transforms people’s lives. This is due to the fact that movements of this kind and their members experience the painful consequences of economic implosion, but may not have taken the time to understand or appreciate its origins in the circular flow of income. They tend to blame politics for it and demand changes in political administration, however, those who protest need to appreciate that though the politics can be changed by similar protests as long as the economics stays the same and implosion is not corrected nothing economically tangible has been achieved, even with a change of government as observed in Libiya – leading back to the predictions of the 3rd Paradox. Nothing real has been grasped as they will continue to face the very same or similar socio-economic difficulties that caused them to protest in the first place, only this

⁸ Punabantu (2010:103)

time with a new government which amounts to “..an alternate more fashionable position of discomfort and resource limitation” described in the 3rd Paradox. The consequence of this is to lay the blame for poor economic performance on individuals, bankers, politicians, political parties, other targets and inevitably on a sitting government; that is , “the bigger fish in the ocean”, when insight would reveal the real problem is the ocean itself, that is, the economic operating system or CFI. As long as the cause of a problem is not known it is not unreasonable to deduce that *it can become practically impossible to fix it*. A contemporary example of the third paradox can be the Egyptian uprising; which led to the fall of Hosni Mubarak’s administration. This revolution is seen to have had the right motives and Mubarak’s administration is considered to have fallen short of the people’s aspirations. The Arab Spring which includes the uprising in Egypt ushered in a military led caretaker government. However, as predicted by the third paradox the Egyptian uprising quickly began to unravel and show its displeasure with the new caretaker administration. Even if this displeasure were to lead to yet another more democratic administration taking the reins in Egypt the third paradox enables us to predict that this administration will inevitably face similar discontent. This is due to the impact of scarcity on the socio-economic lives of Egyptians caused by inadequacies in the CFI. If these inadequacies are not addressed it does not matter how often or how great change comes to any country, it will eventually and inevitably lead to more and more of the same. Know the source of socio-economic pain in the CFI, address it and a nation’s socio-economic problems will be solved. There is no need to grope in the dark any longer. If the problem is known then a solution will be found. Democracy in this condition helps in that it defuses anger and tension through the ballot. However, as long as the knowledge paradigm of modern civilisation does not grasp the enormity of the consequences of flaws in the technical design of the CFI universities and colleges are failing to add value to the work of organisations and governments fighting poverty.

Implosion in the CFI and discontent

Every new leader and every new party that takes over a government faces the task of making a country better off than the previous party or administration that managed it. However, as long as the workings of the CFI are not understood, that is, how implosion dissipates such abundant amounts of *useful* financial resources and then work to introduce the mechanism and tools that will fix it; it is possible that any new administration may face great difficulty. Elections in different countries generally take place every 4 or 5 years; an administration that understands this will focus immediately on implosion in the CFI because the 3rd Paradox predicts this implosion will steadily and over time erode the credibility of government reducing chances it has at the next elections, not because a government does not have qualified leaders but due to the fact that the losses created by implosion in the CFI cannot be remedied by conventional strategies in economics and finance. It is unfortunate the knowledge leaders and governments require on implosion in the CFI to nurture their economies and make their administrations more effective is missing from contemporary economics; this consequently cripples the ability of otherwise competent administrations in both the developed and developing world to deliver on election promises that depend on the availability of economic and financial resources. There may be a tendency to tinker with

credit creation and public spending based policies managed on scarce resources. However, as long as implosion in the CFI remains unchallenged or is simply outside the radar and scope of managing the national economy, sitting governments and the citizens they serve, regardless of how well their economies may be doing at a period in time, must anticipate periods or cycles of unnecessary economic hardship created by the subtraction of useful economic resources by implosion; it might have been Zambia in the 1990s, Argentina yesterday, Greece today and tomorrow it could be any economy, even the most robust, such as China or Germany. These downturns and cycles of discontent can take anywhere from 1 to 5 to 10 to 20, 30 or even 50 or more years depending on how long it takes for resource constraints worsened by capital flows and implosion to accumulate to a point where they become unbearable for the public, however, the blame for this is unnecessarily heaped on government and other groups the public believe are the cause of or benefit from their suffering.

The CFI, being the hitherto unidentified cause of economic woes, entails that the new Italian government may inevitably fail to permanently resolve economic crises. As the hardship the public experiences increases, the economic moral authority of a government is expected to decline. The new Prime Minister of Italy Mario Monti may be a very capable economist, however, contemporary economics of which he is no doubt well learned does not contain the knowledge on economic implosion and the origin of scarcity necessary for him to credibly alter the economic reality Italy faces. Consequently, possible failure is likely to be blamed unfairly on his administration when in fact it is due to inadequacies in knowledge in contemporary economics as a whole. This is the basic and fundamental dilemma governments in the EU and around the world face today. It is one thing to have a difficult national economic situation to resolve, but it is altogether another problem when the factual capacity and knowledge paradigm with which to genuinely solve the economic problem does not exist in any mainstream manual, textbook or academic institution as is observed with the lack of knowledge on economic implosion and its related principles.

The fight against poverty

There are many organisations in the world today such as World Bank, IMF, OXFAM, JCTR, engaged in the fight against poverty. The symptoms of poverty are well documented; hunger, unemployment, high infant mortality rates, bad roads, poor sanitation, low salaries, over crowded hospitals, inadequate numbers of doctors per patient, poor educational facilities, low GDP per capita and so on. All of these problems stem from economies having to rely on the meagre financial resources left over from finances imploding due to technical problems in the CFI. As a nation's per capita income increases the severity of these poor conditions tends to decline, however, even today in the world's most economically advanced countries there are still many whose living standards and discomfort is far below what would be considered adequate. They are part of the 99%. A government can move to take them off the streets, but as long as the scarcity created by economic implosion that put them there in the first place is not corrected they will be back, hungrier and angrier later on. Unless the hungry themselves are able to recognise economic implosion in the CFI is responsible for their poor working conditions, unemployment, hunger and their anger it

does not matter how often they take to industrial action, take to the streets and protest their hunger will never be fully satisfied – without this correction generally there is no institution and no company they work for or hope to get a job in that can save them. This is the sad reality. Unless organisations and activists identify the origin of poverty in the economic operating system and present structure of the CFI any effort made to fight poverty, social unrest and general economic may inevitably fail as it has not dealt directly with systemic scarcity created in the CFI. The modern day economy requires an entirely new framework or *operating system*, that is, the CFI has to be redesigned. This entails that though it is a worthwhile and noble effort it is simply not enough to have an Arab Spring, to Occupy Tahrir Square and to Occupy Wall Street so on and so forth, as surely as it is necessary, but not enough for the European Union to bail out Greece and set up a fund to protect other economies in the EU that may face the same predicament, its not enough to reform the Greek and Italian economies with austerity measures, it is simply not enough for development organisations to fight poverty. The problem is not being understood therefore it will return to haunt nations. This is not a socio-economic crisis. It is a knowledge crisis. Governments need to address the source of these problems which reside in the flawed circular flow of income that is at the core of the economic operating system and in so doing the gain the ability to control implosion; this will revive badly needed financial and economic resources.

If this is not done the symptoms may be treated but the disease may not be cured; inevitably an immense amount of useful financial resources will be used to chase these problems, drain a nations coffers and minimise them only to have them recur. The world today needs smart approaches and instruments for managing national economies rather than blunt tools. The underlying source of superficial socio-economic discomfort observed in economic implosion needs to be identified and a real solution to scarcity introduced to the national economy to counter it. It is only by an intelligent approach to these problems that governments will find effective and permanent solutions.

Resource Creation; the missing link in banking and financial services

Resource creation⁹ refers to the new financial resources created from within the CFI as a result of introducing specialized financial tools and mechanisms that counter economic implosion. The sovereign debt crisis in Europe is an indication of the limitations in modern finance created by its reliance on credit creation as means of generating financial resources within economies of which bonds are merely a product. “Germany failed to sell more than a third of an issue of 10-year bonds Wednesday, increasing worries about the European debt crisis. Investors only took 3.9 billion euros (5.2 billion U.S. dollars) of the total offer of 6 billion euros (8 billion dollars) in German bonds, normally considered a safe haven for investments.”¹⁰ Credit creation alone as a financial tool is primitive or inadequate in the sense that it cannot create new private sector and sovereign financial resources without

⁹ See the arguments on credit creation in Punabantu (July 2010)

¹⁰ BERLIN, Nov. 24 (Xinhua) “Weak German bonds sale fuels Europe debt crisis fears”, http://news.xinhuanet.com/english2010/business/2011-11/24/c_131267345.htm

first increasing indebtedness the very thing it is provided to cure; as a result issuing bonds as means of resolving sovereign debt can be counter productive to the objective, however, without correcting the CFI what else is there that can be done? Resource creation on the other hand, as financial tool, should have the potential to raise a financial resources buffer equivalent to 100% of GDP growth per annum without increasing the indebtedness, in fact it enhances the capacity of debtors pay back creditors. This makes the EU debt crisis redundant in the sense that it is in fact *not a financial crisis*, it is in fact a *knowledge crisis*. It can be remedied for now, but without fixing the CFI it will, without doubt, return in future. It is indicative of the fact that economies have not advanced their knowledge paradigm sufficiently to introduce the financial tools with which to manage the national economy in such a way that austerity measures are unnecessary at this stage of human economic and technological advancement. In terms of credit creation the sovereign debt crisis in Europe, the jobs crisis in the United States and general lacklustre growth in GDP are very real problems for which there are few if any solutions using current conventional approaches to economics, business and finance. Without correcting the CFI any policies intended to address these problems are likely to remain remedies rather than an outright solution. However, these problems can be practically overcome by enhancing our understanding of how the CFI works and the inherent limitations within it that prevent governments from realising the kind of growth they need for their populations to prosper.

Conclusion

It is important to act wisely by identifying the inadequate design of the CFI as a hitherto unidentified systemic risk to the national economy for which the necessary new framework, tools and mechanisms need to be put in place to counter. It is vital to break the cycle by not falling prey to the resource constraints this problem has created for governments. The 3rd paradox short circuits the human socio-economic learning curve forcing countries to keep cycling through periods of boom and bust without being able to see the real cause of discomfort. It short circuits the learning curve by diverting socio-economic problems arising from an inadequate CFI making them appear as though they are flaws in governance and politics, consequently making governments appear as though they are responsible for failing economies even where they are not. As a result, governments are inadvertently blamed for the shortcomings observed in poor economic performance.

It may make little sense for instance to sing praises in the media about how the US economy grew by 2% in the second quarter. The response to this should be "...well and good, but where did the 98% we still need go? What systemic fault in the CFI could be depriving US citizens of the equivalent of 98% of GDP? And if these real financial resources are being lost merely as a result of a design flaw in the CFI how can they be recovered?" As long as we keep making the mistake of looking for the flaw in somebody, in human error or greed when in fact the flaw is systemic we will keep checking to see where the trade deficit is directed. Instead it makes more sense to trace the flaw to the real problem, the CFI and identify where and how exactly financial resources implode, stop the haemorrhage, recover the loss and grow by 98% instead of aspiring for a 2% that will never ever bring in the 99% left out in the cold yearning for their government to bring them a better life. It is not a financial crisis.

It's a knowledge crisis. An effort needs to be made to address the CFI problem as an approach by governments, national and international development agencies can use to break away from a CFI that keeps humanity bound to poverty and create the kind of economic security humanity requires today. Understanding this, it is possible in this day age for governments to reform the CFI, end scarcity and poverty bringing a much needed *better life* to their people.

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