

MATRIX ECONOMY

THE SECRET OF WEALTH

You've probably had, at least once, the vague impression that something is terribly wrong in the economic system. Shouldn't it be the task of the economics to solve these problems?

Isn't it a contradiction to have dissatisfied consumers that cannot realize their dreams and disgruntled unemployed, when the seconds could satisfy the firsts and vice versa?

Where is the key to the problem?

How to exit the Matrix Economy?

They tell us there is no money to buy or invest, but we have people ready to work and people eager to buy. It seems that the money from fuel of the economy has become the brake.

If the problem is the poverty, why not to print more money? Would we become richer stuffing our pockets with paper? We have always heard that to become rich we should "make money", but the answer is no!

Suppose in a village there are five apples and five dollars and an apple costs a dollar. If we add five dollars, the apple will cost twice as much. Does this mean we become richer? There is more money, but you can always buy five apples.

The real wealth, then, is not the money, but the production!

"The wealth of a nation depends on goods and services, while the only function of money is to distribute them."

Social problems, poverty and unemployment have therefore more to do with the use of money than with money itself.

"Money is a means, not an end".

But here we encounter a paradox. Do not ask an economist what determines the wealth, he probably will say the shortage. Gold is rare, but it makes rich who owns it. This means that to remain rich, we are interested the gold continues to remain scarce. But we have just said that the true wealth is production, isn't it? Right... the real one! Economists, however, have the strange idea that to be rich, everyone else should be poor. A great way to enslave the people!

People are free when the money is used to enrich, not to control them. Money should be the engine of the economy, not the brake. The difference between a healthy and unhealthy economy is right here. So what prevents us to consume more to meet all our needs? What prevents us to employ the unemployed and produce more? It is a dog chasing its tail: the companies do not invest because the people do not consume and the people do not consume because they do not work or do not earn enough. It may drive you crazy thinking about these things, but I assure you that the answer exists.

The situation may have made you feel bad. Sometimes you may have thought the problem was inside you, sometimes you felt angry against the politicians or whoever was nearby. But the source of all your troubles is another. The cause of all troubles seem indefinite, no one has ever given a name or a precise location to it. But you're always up against it every time you have a suspicion that something does not work in the economy, every time families and businesses go to pieces. It has always been in front of you, but you simply didn't want to see it. Recognizing the Matrix will make

you feel better and when you'll read the last page ... you pull a sigh of relief!

FIRST PROBLEM: THE CREDIT

Suppose you want to start a business and you do not have a penny, the first thing to do is to ask the bank for a loan. The economists are ready to bet that without credit, without bonds and without financial instruments, the growth would be impossible today. We try to put the turbo to the economy to create wealth and jobs. After all, it's by credit the society usually exit a crisis. But has someone ever asked what are the long-term consequences? A powerful medicine can cure a patient, but an abuse can kill him.

An example will make it clear: suppose in a small country there are only 100 dollars and the citizens begin to lend to each other. When the loans amount to 100 dollars, they have to pay back even 10 dollars of interests, 110 in total. Where do they take the 10 dollars of interests to pay off the debts, if they do not exist?

The problem has apparently no solution. In theory, as you can knot a rope, you can melt it, repeating the process in reverse order. In practice, interests continue to increase, until you pass the point of no-return. At that point, any action to restart the market does nothing but tangle even more the rope. Not only citizens, but also countries have fallen in the trap.

The matter is even more wicked, when we consider the borrowed money is literally created by banks. I'm not the one who say this and for confirmation you have just to connect to the Swiss National Bank's website, where the mechanism is explained in a clear way: "The banks receive the savers' money and lend it to debtors. With this activity, as traders of credit, banks create new money." ([Http://www.snb.ch/i/welt/portrait/banks/4.html](http://www.snb.ch/i/welt/portrait/banks/4.html)) [1] Later there's an example: "The bank lends 16,000 of the 20,000 francs the saver paid. That amount is credited to the account of the company. What does this mean for the amount of money? The saver account record 20,000 francs yet; the debtor company 16,000 francs. The amount of money therefore increased by 16,000 francs."

It looks like the multiplication of the loaves and fishes, but it's the way the economic system works. Of course, as it can be created, the currency can be destroyed when the loan is paid. However, the process can be repeated endlessly. The recipient of the loan will pay a car dealer and him will turn to the bank to deposit. The bank then will be able to lend this new created money. The only constraint is the fractional reserve banking, which requires banks to maintain a minimum percentage of assets readily convertible into cash.

The money supply increases and decreases. When it increases, at constant GDP, we experience inflation. If you have 5 apples and 5 dollars, the price per unit is one dollar; and when the dollars double, the price per unit doubles too.

What is the effect of all this on the society? A bottom does not exist, the only way out is more debt, in a vicious circle with no end. The first negative effect is the increase of costs, determined by the interests, so the producers increase the prices. The formula of interest is completely disarticulated from the real market and theoretically unlimited; new credit is put on the market to cover the interests, with the production of new debt. This process may continue indefinitely. The inflation we usually experience is in fact based on a perverse mechanism of monetary shortage. It's like we have five apples and ten dollars, but the apples, by a strange witchcraft, instead of costing two dollars cost three. The apples are there, but not everyone can buy them.

The additional costs of the interests (whether bank loans or bonds) force companies to cut costs. This explains the poor quality products that break just after the purchase, the use of dangerous but cheap chemicals, the exploitation of personnel, the unpaid overtime, the impossible working hours, the precarious jobs, the relocation to Asia, the employment of illegal immigrants, the cuts of

personnel, etc.

The economy is braked and the consumption decreases. This means that companies produce less and are forced to lay off more personnel. Always less job and more crisis follow each other in a vicious circle. So the society is "drugged", by injecting a little more credit (lowering the interest rates or otherwise) and the economy starts again. But the next crisis is even worse and this time the society must be "drugged" even more to keep it afloat. Does this sound familiar to you?

Obviously in a society where the job is scarce, the companies hold the knife on the side of the handle and can impose all sorts of bad conditions to the workers, who then are scared to express their rights.

Now, if the interests are a cost, what about taxes? Even them, when excessive, brake the economy. But they tend to become higher particularly when the debt is out of control. It is estimated that 22 percent of Italian taxes are used to pay the interests on the debt, a figure that is around 80 billions a year. [2]

It could be argued that taxes to pay the debt are not an effective brake, because that money come back into our pockets through public bonds. Sure, but the problem arises when you add a cost to those who produce and a reward to those who speculate, generating money from other money, through stocks made of paper. And are the incentives to drive the economy.

Oppressed by debt, the government reduces the spending: that means less production or cutting funds to public services and schools, cutting pensions, leaving roads and bridges fall to pieces, or privatizing the public properties by selling them out. The industries, oppressed by tax authorities, evade and hire unreported workers. The government then further increases the taxes, halting the production even more. How can the economy work?

The economy needs to produce not only for itself but also to cover the additional, parasitic costs. It's beginning to emerge a fundamental law of the nature:

"The additional costs (such as the interests) are the main obstacle in the economy".

Have you ever wondered why they insist so much on the perpetual growth? Because if the GDP stops growing, it's not possible to pay the interests and for a domino effect the society as a whole collapses into a deep crisis.

The medicine is of course a powerful drug called credit. The economy gets up again and starts rushing headlong. The next time it will need a larger quantity of it, and then one even greater. Like any medicine, it may control symptoms, but a prolonged use may expose to dangerous long term side effects. At the end, the real cancer results to be the antidote itself.

The first side effect is the increase of the prices, the second the decrease of the wages purchasing power. But if the prices increase, the wages should increase too, otherwise who buy? The problem is that increasing the costs cause both these effects, apparently in antithesis. Economics teaches us the inflation is proportional to the increase of money supply, at the same production level. But the process has been inverted: instead of increasing the salaries, which would drive up prices through increased demand, the firsts to rise are the costs, forcing the companies to raise the prices not to loose their money. At the same time they cut the wages, which are nothing but a cost.

To have stable prices, the money supply should be proportional to the production. This never happens, because the only way to pay the debts is to create new ones. All the money is issued by debt and the inevitable consequence is the inflation.

The cycle is inverted: it's not the production to determine the money to be created, they first create the money and then try to restart the production. Since this process is based on debt, in the long run

it will stop the economy. It cause the singular situation in which the money is scarce, but the prices continue to rise: the so-called stagflation.

Ignoring this mechanism, they ask us to consume more in the attempt to start the economy again, which is a bit like asking a dumb to speak more. Nobody asks himself whether we consume to produce or we produce to consume. It's, once again, about understanding the function of money: a means, not an end. To say the money is not sufficient is like to say there is a lack of miles to build roads. But the goal of those in power is precisely to create scarcity, so the money becomes a tool to control rather than a means to distribute resources and wealth according to the merits.

Why can't the companies produce more right away? They have unemployed labor to employ, a lot of customers who want to consume more, a management who set forth only profits and expansion. Who is stopping them? The answer is in the money itself. The system doesn't work, otherwise we wouldn't be taking each other for a ride. We keep saying that the things can not be made because there is no money, but in a normal world the things can't be done when you can't produce more. The limit against which we fight every day doesn't exist, it's only an illusion designed to control us! This is because the money is no longer ours, it became property of the banks, that create and loan it to us.

The deception continued for so long that it has been lost any grip on reality. For every dollar in circulation, there are 4.4 dollar of debt [3]; a mountain of interests, sometimes even calculated on the interests themselves. This is a favour in the short term but a fraud in the long term. It is easy to show how a dollar lent in the 1500, now amount to a so large debt that the weight of Earth in gold wouldn't be enough to pay it. The First and the Second World War wouldn't have been possible without the uncontrolled printing of money, the war machine would have soon been jammed; it isn't certainly a coincidence the First War happened in the 1914, one year after the birth of the Federal Reserve.

This is only one side of the coin, the other is even lowest and more hidden.

SECOND PROBLEM: POSITIVE INTERESTS

In nature, everything is consumed. A physicist would say that everything tends to disorder, a food manufacturer that everything perishes and a restorer that everything wears out. But a banker is against nature: he would say that everything yields a profit. You just need to know how to invest it! A perverse system that hinders the consumption and rewards the gain based on improductivity. Bring to the excess the production may not be popular, may not be eco-sustainable, but hinder the production and the employment are certainly an aberration of the economy, and an aberrated economy is not conducive to the discovery and use of new sustainable means.

The money should lose value, not acquire it. It seems a strange and paradoxical concept, but in itself it would speed up the consumption, making the economy to run. Increased spending, at equal money supply, means more production, which as we have seen earlier is the true wealth. There would also be more justice, as it enriches those who give an effective contribution to the society, not those who generate money from money, without any personal contribution. Today most of the gains occurs with speculation. Capital is a great way to finance enterprise, but as we have seen, the negative interests are not a long-term advantage. The savings actually slow down the real economic factors based on the exchange of goods and services. The power becomes synonymous of money, not capacity. It's sufficient to have it to decide the fate of the society; to decide the wars, what fuel to use, the best burger and the next fashion. The skills and the commitment, when you have the capital, are not needed at all.

Capitalism is based on capital and, strange as it may seem, it's not so different from communism, as the strength of both is the nullification of personal commitment and the disregard of skills. The trader is not the only one to speculate, buying and selling digital bits, even the capitalist. The

society produces, but he does nothing more than investing capital. To the rest think the management, host of talented lawyers and the most experienced engineers. The ones who manage the capital have only one goal: profit. A perverse culture that dominates the economic thought of today and is reflected in social and political models. Meritocracy has become an archaic word. You pass through the famous "ranks" to deserve a post of responsibility, where finally you can make the others work for you. It was taught him by the capitalist. But a leader should maintain a high production himself to deserve a high salary. A good manager knows how to look after people, in the same way a good mason knows how to deal with lime and cement. It's fair the first gain more, but do not expect to see, even for short time, him to earn less than an underling. Yet he merits this when he doesn't produce. The salary in our society is not determined by productivity, but almost exclusively by the hierarchical level.

Without any incentive, the economy becomes a rusty machine. Employees can twiddle their thumbs, because each month they receive the same salary. One of the most mocking effects of all this is the multiplication of the number of precarious workers.

In summary We may say that:

"What rewards and encourages the individual production, stimulates the economy as a whole and generates collective wealth, whereas what rewards the speculation or the generation of capital from other capital, without any personal contribution, in the long run inevitably leads to ruin."

It is about being short-sighted. The same way of thinking of the thief, that with the robbery plan to get away with it, without considering that sooner or later the police will catch him.

But how can an economic system exist without investments? There wouldn't be joint-stock companies and wouldn't be possible to bring down the costs involved in large-scale production, we wouldn't have advanced technology and the abundance we are used to. Here's another myth! The fundamental error is to allow a gain to those outside the company or to anyone who doesn't give an effective contribution. If the same gain rewarded work and production, the workers would have more money and the production would be encouraged. Even the speculators should resign themselves to produce a little bit. There wouldn't be any mathematical gain, produced by a formula of interest in a computer memory. We would have a healthy society, where the rich would be rich because they give a direct and real personal contribution to the society, and where the accumulation would be possible, but where nothing would be forever.

Instead, do you know how much a speculator pays in taxes? The 12.5 percent on the revenues from the stock market and virtually nothing on the revenues derived from foreign exchange market. On the other hand, an entrepreneur can easily reach the 70 percent. Why not to tax more the speculators and less the entrepreneurs, since are the latter to produce? According to the Wall Street Journal of October 20, 2003, in Italy the average marginal tax rate (corresponding to the maximum tax rate for a specific income rank) was 64 percent. [4]

The positive interests are as counterproductive as the negatives. But how to eliminate the positive interest? With a perishable coin, which loses value like everything else in nature. The more time pass, the less its value is. Would all we become poorer? I would say no, because the production would be encouraged on one hand and the spending on the other. People would be encouraged to spend their money that otherwise would lose value. Just like everything we buy. A car after 20 years may lose much of its original value. It would be about deciding if it loses less value the car or the money.

The loss of value would still be a negative interest, but different in nature from the one considered so far. In truth, it would be a tax that instead of targeting the production target the money itself. The production would not be slowed, but encouraged. The income derived from production would then

be taxed less and "making business" would be easier. The inevitable consequence of all this is a much richer and more meritocratic society. Wouldn't you like it?

An experiment was actually conducted in 1931 in Woergl, a city in Tyrol, where the mayor, to resolve a deep depression, decided to beat a perishable coin, based on the ideas of the German economist Silvio Gesell. The idea seemed to work and the state, which for years had no good incomes, was able to pave streets and make a lot of public works. The coin was abolished in 1933, by order of the Austrian National Bank, because in contrast with the monopoly of the Central Bank. The only flaw of this experiment was the mark to be applied monthly. Much more practical for large-scale applications, would be an automated method of taxation.

To exit the Matrix Economy is not enough to understand the money, the road is long yet: now you need to understand the people and the society.

THIRD ISSUE: NEOLIBERALISM

Neoliberalism is not liberalism. The first is an economic doctrine, the latter a political philosophy. Nothing wrong with freedom, the history is full of revolutions to the cry of this word. But there are exceptions: what about a criminal who was given full freedom?

Neoliberalism pursue a free market, with fewer rules and boundaries. What's wrong with that? There would be nothing wrong with privatizing water, until the people who admin it are honest. But what to say when prices skyrocket, the pipes are left rusting and the checks are bogus? Nothing wrong with the international trade, but what to say about the wild relocation which impoverishes ever wider bands of the western society?

The invisible hand of Adam Smith should think about all and everything should move towards a more efficient structure. But it has not been reckoned with the capitalists and the big world monopolies. The relocation is increasingly impoverishing the western middle class and has certainly contributed to the current crisis; chinese people are being exploited as slaves, working 16 hours a day for less than a dollar. Does it make sense to call it neoliberalism? Without doubt, China's GDP has never grown so much, but are increased social inequalities everywhere. The only ones to gain are the multinationals.

As we have seen earlier, excessive costs require drastic measures and one of these is the relocation; the competitors, to keep up, are constraint to do the same or fail.

I do not deny that poor countries are becoming consumers of technology and at the same time this creates skilled jobs in the West. After the establishment of NAFTA (the North American Free Trade Agreement), in fact, both the United States and Mexico had grown. It does not have to be a zero-sum game, in which one loses and the other gains. But there are too many factors involved to give all the credit to neoliberalism. At global level then, you have to deal with the availability of resources. On this planet all the people will never be able to live with the standard of living of Americans. The oil would be exhausted within a few years. Neoliberalism wants us to believe that it benefits both rich and poor countries, but in a world of limited resources, this is utopian.

In the meanwhile, thousands of jobs are being transferred to Asia, where there is low-cost skilled personnel. The healthy competition of products forces companies to be more efficient, on the other hand, the ill competition of the cost of labor pushes out of the market the local businesses and the small companies which do not relocate. It becomes a form of unfair competition, where exploitation is on the agenda and where salaries are reduced day by day. This results in strong social inequalities, the quality of work falls in favor of less specialization and shoddy products at low cost.

Unfair competition is the modern evil of an economic system perverse in itself. To get away with it are the dishonests, that open shell companies in tax heavens to evade taxes. The legalized evasion, as well as the unreported employment, are a form of unfair competition to the detriment of honest, in a sort of natural selection in favor of the perpetual destruction of the environment and the society, by the oil, drug and chemistry multinationals.

We can certainly conclude that:

"Any form of unfair competition slows the economy."

The strong immigration, often with illegal entries, and the availability of cheap labor is a further factor, that together with the relocation, help to lower wages and increase unemployment. Legal immigration and specialized workers, however, are an asset for a country, from which it derives only growth.

Now that we understand this, let's really get out of the Matrix Economy.

A SANER ECONOMY

You can find many other wrong things in the economy: monopolies, cartels, illegalities. The financial market instead of supporting the economy, degrades it more and more, with derivatives, commodities that increase the price of essential goods like bread. The bailouts always in favour of the speculators, cause further increases in the prices of essential goods through the speculation, despite the shortages of money to buy real goods: the so-called stagflation. Farmers leave the fruits to rot because the price is made by the dealers, which join in cartels and leave the producers to starve.

The scam systems are a lot, but the basic rule is one:

"Anything that slows the economy makes the money useless and harmful to the society."

To have a healthy economy, you must remove the obstacles to the production, even if that means restructuring the foundations of the economic system itself. If we do not understand this, we will continue to fight an invisible monster and to blame the wrong people. The money is born with the fundamental objective of promoting the trade and consequently the production and the wealth, doing otherwise is a crime against humanity.

This is a so crazy economy that the booms are "stopped" by the central bank, reducing the money issue, because of the scarecrow of the inflation. All the speculations and debates on employment, production and crises, are reduced to this single law. But it is easy to get lost in a maze of right premises and wrong conclusions. The media always applaud the proposals to increase the jobs, even when, at equal benefits, the costs are higher. They're forgetting that true wealth is the production and the rest is just a distribution problem. At equal production we could all work less and have the same benefits. So it's not creating jobs we solve the problems of the economy, but increasing the production and improving the distribution. It is simply about determining what promotes the economic system and what hinders it, then the system is adjusted accordingly. This is the real invisible hand!

The roads are many, the rule is one.

An economic system without interests is not only possible but has been demonstrated and validated on a large scale by the islamic finance. The issue of money by public and not private hands, would free us of the yoke of bankers. We are told this would create inflation, but it does not happen when the issue is bound to the real production: if there are five apples and five dollars, the apples always cost one dollar (except for momentary fluctuations), and when the apples become 6 it's sufficient to add one dollar. That would be a healthy economy, where first increase the production and then is entered the money. In our society, the opposite occurs: first is "injected" the money through credit and then, if all goes well, the production increases. But if everything goes wrong, we are with inflation.

The state could use the taxes on the money (not on the production) to adjust the money supply (the

incomes does not necessarily finance the state spending, it is simply an economic policy activity). It would be an incentive to the production, because every time the production increase, it's needed more money so the taxes decrease. Some might suggest that this is dangerous because it would increase the taxes during crises. But worst happens when there is a crisis and the banks reduce the credit in time of need. An economy based on production would be actually much more stable and less prone to the ups and downs and certainly less prone to crises.

Wouldn't you like to live in a world like that?

The Economic Matrix has no form and color, yet it affects you every day. At your wrists, you can't see chains and padlocks, but you are still a slave.

It's time to turn the key and take the ownership of our money!

Davis Fiore

- (1) <http://www.snb.ch/i/welt/portrait/banks/4.html>
- (2) Aam Terra Nuova, Aprile 2011 – Schiavi delle Banche
- (3) http://www.businessweek.com/bwdaily/dnflash/content/aug2007/db20070826_875599.htm?campaign_id=rss_null
- (4) Wall Street journal, 20 ottobre 2003