MONETOPHYSICS

Stephen I. Ternyik

Techno-Logos, Inc.

Statistical post mortems on the dominant economic behavior 1) of financial markets and 2) the global monetary village clearly highlight the systemic, cybernetic and heuristic errors of commercial investment banking; concerning China, its role is comparable to that of the Soviet Union at the time of the Great Depression.

It is important to note that US economic growth in the 1990s (ante post mortems) was not extraordinary for real GDP growth, durable goods new orders, industrial production and nonfinancial corporate profits (source: The Bank Credit Analyst, Nov.2000); by eliminating the computer-bubble, we get 2,5% GDP. The estimated $ trading volume vs. GDP reached 400 % (source : HD Brous & Co., Crosscurrents, Nov.2000), it was around 125% in the Great Depression and the average ratio is at 25% in normal times. The real computer-bubble started in 1995 when computer-power was calculated into the GDP; for every $ on real goods, 3$ were spent for shares. It is unreasonable that the computer industry with 1% of employed labor and declining product prices should make it for a boom, *i.e.* we can observe a pure statistical illusion and not an accounting mistake, with no backing from operative performance .At the same time, we can measure an accumulation of private (negative savings rate of 5% = real estate debt; ratio: 1$housebuilding for 10$mortgage debt; 9$ for land value speculation ?), corporate (*e.g.* AT&T=72 billion $ debt) and public debt (1999=521 billion $ debt; ratio: 1$GDP for 3$debt). This money illusion culminated one year before 9/11, but the terror attack definitely reinforced this trend. The methodical cause of all these effects is a technocratic and economic oversimplification/mischief of monetarism and statistics as well as a lack of knowledge about economic history and the real economy; *e.g.* the temporality of economic and financial events (like

technical innovations and stock market behavior) is a result of long-term system dynamics and the whole money-burn-rate is a precise indicator of business stupidity and inexperience. In monetary history, there is not one case recorded where a financial expansion excess of fiat liquidity ended with a soft landing; history teaches nothing, but punishes for the lessons not learnt, *i.e.* inflationary asset-bubbles are movements of mass psychology and the regular empirical results are recession, depression and a major liquidation of economic wealth/value in a deflationary period of political radicalization. In daily practice, the economic model of perfect competition makes real prices declining and nobody makes gains no more.

The works of I.Fisher (100% Money) and J.M.Keynes (General Theory) in the late 1920s and early 1930s were direct scientific responses on the Great Depression which both economists failed to anticipate. While Baron Keynes convinced President Roosevelt to remain with fractional reserve banking, Prof.Fisher designed the Chicago Plan for full reserve banking. We can empirically not imagine to saving the current fractional reserve banking system via *e.g.* an anticipatory Minsky momentum (to building up enough reserves in a boom for a bust, to circumventing financial instability) and do favor a version of full reserve banking (as basically outlined in the Chicago Plan, principally the technical separation of credit and money).For example, current EU regulations forbid the creation of additional debt free money, but there is a way to repay debts without the money supply falling: there is a small fraction of the money supply that does not expire, so called debt free money. If new debt free money is injected into the system (via public authority) at the same rate or faster than there is net debt-money expiry, then the money supply can be held constant even as loans are repaid; supposed the commercial banks are switched gradually (25% per year= 100 % in 4 years) to full reserves (*i.e.* no fiat credit is operated to expand the monetary volume and seigniorage is public revenue , opening up simpler taxation models). The toxic effect of fiat credit on economic value creation can surely be modeled via computational systems biology, a bioinformatical or

pharmacological model; consequently, the adverse effect of commercial banking fiat credit (x interest)on the

value creation of the body economic is our monetophysical concern. It is vital to re-creating the original and natural role of money as a market replicator; therefore, the technical separation of money (public fiat currency, with debt free injection) and credit (private banking loan, with full monetary reserve) is inevitable for the advancement of the modern market society. In evolutionary terms, as the selection procedure of financial crisis is currently striking, a new monetary species is emerging and will replace the fractional monetary mechanism of the last 200 years in the industrial age. Alternatively, also the emergence of a competitive monetary market order with a free banking system would depend on narrow reserves; however, this economic model implies the abolishment of central banking/monetary policy with a denationalization/privatization of money and technically a gold standard. In our monetophysical model, we will continue to assume an interplay of public monetary authority/debt free currency injection and private commercial banks/full reserve credit circulation, *i.e.* we identify the toxic effect of fiat credit expansion=debtism as the cause of monetary instability and consequently economic crisis. Nevertheless, we are aware that canonical economic theory is mainly about the productive interaction of property and credit as all human economic activity is originally of finite temporality and needs therefore naturally a systemic credit chain. The sole aim of our proposal is to clarify the toxic nature of fiat credit, to separate money and credit technically and to restoring the original role of money as market replicator. In our current fractional reserve system, it is financially possible to extract monetary value for nothing and this large scale methodical mischief ruins the basic chain of economic value creation in a market society; it is our conviction that private, corporate and public debtism is poison for a free polity and market economy.