BOOK ONE CHAPTER ONE

DIFFERENT TYPES OF ECONOMIES

**Value of Money Supply**

The most central part of an economy is the value of the money supply, or the buying power of money. While currency was traditionally made of precious metals, after WWII the world adopted the Bretton-Woods system of “fiat currency”. This gave rise to the different notes of paper money that we are all familiar with. Paper money has practical value in that it can be easily carried around, it is not possible to chip flakes off of it and it's value does not fluctuate with the value of the metals within it. If the currency was ninety percent gold or some other precious metal it would be harder to control monetary policy, and a government could not simply print more money like governments around the world are want to do at times when it becomes important to increase the money supply.

In addition, paper money has these anti-counterfeight properties to it. Assuring that the currency is legitimate can be easily done through modern scanning systems. That is, many stores are equipped with devices that would detect counterfeight currency.

The value of the money supply can be approximated by the value of all the goods that are bought in a current year, or the Gross Domestic Product.

However, the value of the money supply only equals this in theory. We live in an international system where currency is attractive based on what people assume the future value of the currency will be. For example, everyone assumes that the currency in Mexico will be less valuable in the future. This is why all the banks in Mexico only offer loans with high interest rates (they also pay high interest rates to people with certificates of deposit). In fact, there is a whole industry within Mexico that trades dollars for pesos, because people want a store of value they can depend on. The reason they prefer dollars as a store of value is that the peso has a long history of declining in value with respect to the dollar. The government has targets to keep deflation within a certain percentage, and will buy back pesos with their dollar foreign currency reserves, which has the effect of slowing down inflation. The ultimate goal would be a more or less fixed exchange ratio to the dollar (using monetary policy not a fixed exchange rate) so that people develop more confidence in the peso. As it is, the PPP of mexico is twice as high as it should be, meaning that confidence in the future value of the peso is much lower than confidence in the future value of the dollar.

The **first economy** a resource extracting country like Angola. Angola has vast mineral and petroleum reserves, but the standard of living remains low for most of the population, and life expectancy in Angola is among the lowest in the world, while infant mortality is among the highest. Angola's economic growth is highly uneven, with most of the nation's wealth concentrated in a disproportionately small sector of the population.

In this type of economy the value of the currency is almost nothing. It is mostly a subsistence economy, so the currency goes to foodstuffs that sustain the population, like fresh vegetables of varying quality. The government can be described as a kleptocracy.

The richest person in Angola, Isabel dos Santos, got her start in wealth by getting mining concessions from exclusive government contracts made by her personal contacts in the government -and allegedly the political pressure of her father, the president. However, the bulk of her money was actually made investing in companies in Portugal and Brazil. She now has a personal fortune of over 3 billion dollars, according to Forbes. She has, in many ways, turned the tables on Portugal, which has been lax to enforce the legality of the sources of money flowing into the nation.

“We had it in our heads that Angola was a poor country that needed to be helped,” said Celso Felipe, a Portuguese journalist and author of the book *The Angolan Power in Portugal*. “And suddenly they were able to help us and to buy things that we cannot buy,” he said. “It was like a housekeeper buying your house. That is awkward.”(from the *Irishtimes* and in quicknotes)

The streams of rich Angolans coming into the beachside resorts of Portugal have given a boost to the portuguese economy, and they “have bought Portuguese wineries, newspapers, sports teams and other trophies of the super rich” in addition to their seaside condominiums.

There is a triangle between the portuguese speaking countries of Brazil, Angola, and Portugal. Angola's oil money has gone into telecoms that serve all three countries. However the oil extracting country has seen little development. Portugal is considered the laundromat of the Angolan elite. Money is considered in the clear once it is transferred off the African continent and resides in portuguese bank accounts.

Note that Angola is only partially electrified.

The **second economy** is more complex. Here the value of the money supply is high. This country is Saudi Arabia. Saudi Arabia has had a stable exchange rate compared to the dollar with the currency pegged at 3.75 Saudi riyals to the dollar(allowing for low interest rates). The purchasing power of the money supply makes it a trillion dollar economy.

The government has spent petrodollars inside the country.

Here the basic use of the petrodollars gets converted into national improvements. Intelligent use of money leads to the decreased reliance on natural capital. SA was a subsistence economy.

Note that SA is electrified.

The **third economy** is Mexico. Here they have direct foreign investment, and the economy is much more diverse. The markets in this economy are more developed. It counts as a recently industrialized economy. A lot of the income in the economy comes from manufacturing. However, this wealth is transferred overseas.

Foreign direct investment is a good sign that Mexico is trusted.  Some Nations are not trusted, because they are considered a riskier market.  There is a lot of potential for an industrial base in those countries, but questions of the countries stability means that many investments are too high risk and low reward.  Among those countries that have a higher "transactional cost" or lack "social capital" and stability are south of Mexico in Central America (Mexico is considered part of North America).

However, as Puerto Rico's debt crisis shows us, foreign direct investment is not enough.  If the international investor class will just transfer their profits out of the country.  This money should stay in the country, but Puerto Rico has no controls over their own currency because they are a US territory.  International investors do not have the same "Social Priorities" as the Puerto Rican government.  For an in depth discussion of Social Priorities look at chapter six.

Why don't the international investors live in Puerto Rico or Mexico and try to improve the country from within?  For a discussion of "Assets of Well Being" look at chapter eight.  The normal course is for people who live in a country and invest in it to spread the wealth around to improve both the national economy and Assets of Well Being.

A lot of wealth stays in the economy however, as it needs to for the manufacturing economy to work. Industries are dependant on the supply lines coming in from other industries.

Mexico has attracted a lot of direct foreign investment into it's manufacturing sector as well, because it has been given the greatest gift ever: unlimited access to the consumer market of the United States. However, many companies taking advantage are in fact US companies. This means that their Mexican subsidiaries are part of their investment portfolio (on which they have to pay a 10 percent tax to the US because it is foreign income).

Note that Mexico is all electrified.

The **fourth economy** is South Korea. This is also a diverse economy.

Not to long ago, South Korea was a subsistence economy like North Korea still is today. However, with large amounts of smart investments made, South Korea is now part of an elite group of "Mature Market" economies. Mexico is classified as a recently industrialized country. An analysis of the stock market in Mexico shows the following companies have the most capitalization, Bimbo, Oxxo, and Telemex, companies that cater to it's large consumer market which is half the population of the US and growing. Even Telemex, which used to have a monopoly on cellphones in Mexico when foreign telecoms were not allowed to do business in Mexico, is being bought by foreign companies now that the foreign telecom ban has been repealed.

North Korea has more national companies. Like many Asian countries North Korea became an electronic consumer goods manufacturing powerhouse. One can conclude that this is what attracted direct foreign investment into the manufacturing sector.

Having innovative companies on it's own stock exchange is where South Korea has an advantage over Mexico. The South Korean stock holders and boards of directors benefit directly from corporate income. This is known as "National Income". In addition, if the companies are considered to be innovative, the amounts of capital the companies will recieve will be very high compared to their stock market evaluations of earnings per share, because there is a change that their earnings per share will rise quickly. Investors investing in these kinds of companies are essentially gamblers, who recognize that there is a high potential for failure but a high reward if the company makes it.

Having high National Income means that South Koreans can tax the companies in different ways, payroll taxes and Corporate Income Tax, but they can also tax the capital gains from profits made on the stock market. Additionally, there is the potential is for corporations with home economy investors to be more socially cooperative with labor, recognizing a shared interest, in that money redistributed in terms of wages is the best way to grow the home economy.

**The Basic Measures of a Developing Economy**

The basic measures of a developing economy depend a large part on the value of the money supply used by the citizens within their country. This constitutes the demand side of the economy, and stimulates the supply side. You want to have a large demand side so that your supply side can flourish supplying the market, having plenty of net income to make investments that let it achieve efficiencies of scale. I will discuss the supply side of the economy in the next chapter.

Income per capita is a measure that shows the measure of this demand side. As things get more efficient income per capita rises. The converse is also true. As income per capita rises, the incentive is to make labor more efficient. Surplus labor (the result of high birth rates) would throw a monkey wrench into these plans, so people focused on development often focus on reducing birth rates to reduce surplus labor.

Before the development of a countries economy, that country must achieve stability. The mortality risks in the country drop during the development process, for obvious reasons like access to modern medicine and less starvation and conflict. In addition, birth rates drop as citizens get used to a commoditized economy, where children constitute an extra cost burden. The marginal cost of having extra children hopefully keeps families down to only having one or two children each.

Once population stability is achieved, income per capita can go up. This starts from the very base of the economy, or the farm sector. Once farmers have less surplus labor they can use machine power, an efficiency, and produce more crops per farm with less labor. This means that the the money supply will have purchasing power beyond the subsistence economy that is primarily food based. The historical economy of every country before economic development is such a subsistence economy.

Interestingly enough, the potato may have played a role in driving people off the land and into cities. Gwunn Guilford, December 8, 2017 writing in Quartz posited: T*he Global Dominance of White People is Thanks to the Potato*. Adam Smith noticed this, writing that farm productivity was up because of the potato. He was right, “Potatoes were a far better energy source than Europe's existing staples, yielding between two and four times more calories per acre. They were far cheaper than bread. Unlike grains, potatoes came fro the ground plate-ready, saving labor. One needed little land and practically no capital to farm them.” (Quartz)

This meant less jobs for farmers, and caused an outmigration from Ireland into the cities of England. I will discuss how supplying these cities of over a million people became possible with rail infrastructure in the next chapter (the cities were not supplied with potatoes alone).

At any rate, productivity in the farm sector allows growth of other sectors of the economy. This is because people will have disposable income left over, and there will be more money flowing around the economy as citizens can rely on the other people around them to do services (for pay) rather than having an informal system of “barn raising” a la the Quakers which rely on the help each other out system.

Other sectors that develop in a mature economy are the: Government Sector, which ideally provides services like a highway system and subsidizes electrification; Manufacturing or Secondary Sector (it is known as both) which will add value to products from the primary sector so that the country can ideally get more money from exports; and the Energy Sector, which will ideally reduce reliance on natural capital such as wood for wood burning stoves. Gross Domestic Product, or GDP, is all of these sectors combined, and is expressed as Components of GDP by expenditure.

GDP computed on the expenditure basis:

GDP (Y) is the sum of consumption (C), investment (I), government spending (G) and net exports (X – M).

Y = C + I + G + (X − M)

GDP does not take into account the value of household and other unpaid work.

As I will go into in the next chapter when I talk about the supply side of an economy, increases in productivity are the major factor responsible for per capita economic growth – this has been especially evident since the mid-19th century. Most of the economic growth in the 20th century was due to increased output per unit of labor, materials, energy, and land (less input per widget). The balance of the growth in output has come from using more inputs. Both of these changes increase output. The increased output included more of the same goods produced previously and new goods and services.

A country that reduces it's reliance on it's own natural capital is better prepared for the future. This is because a country has a fixed stock of natural capital, but no population cap. If a country does not develop the same kind of economy Britian developed into in the 19th century, that reduced Britians reliance on charcoal for steel production, it will fall into a malthusian trap of too many people and not enough natural resources simply by virtue of having unsustainable population growth. Britian's Malthus invented the idea of a malthusian trap, which Britian would have run into had they harvested all their trees for charcoal production. Malthus could see the signs of unstoppable population growth, and the potential for population to go over the carrying capacity of the land.