



The Perfect Economic Contour.

Author: Nikerin Sergey.

Introduction.

The humankind has approached such a stage of development, when it is necessary to restructure the existing economic system. Colossally increased, production opportunities cannot find any application in the system, growth of which is based on expanding sales markets, because there are no more unsaturated markets with solvent demand on the planet. Increasing production capacity and the finiteness of the number of markets on the planet within the existing economic system push the developed countries to a great trade war. The obvious need to restructure the economic system is confronted with the inability of economic science to act in accordance with the design method. The lack of opportunity to create an accurate model of economic behavior of each person forms humanitarian approaches to the description of macroeconomic processes, and the negative historical experience of planned systems has finally eliminated the design method of development from economic science. Hence, economics is seen as some element, which growth is impossible to directly generate and guide, but only predict its development vector, with some accuracy, and get adapted.

However, the technical approach assumes using different levels of abstraction when working with objects. It allows creating exact mechanisms, taking into account only the properties of the substance, without going into the internal processes. Thus, for example, an engineer does not need to calculate the trajectory of the movement of each fuel molecule to create an internal combustion engine. It suffices to take into account the expansion property of gases when burning fuel, in order to build an accurately operating movement mechanism. Thus, it is possible to create such an economic environment, where the properties of market model properties will serve as the driving force of the mechanism for the continuous growth of people's welfare, without changing the market model of supply and demand formation.



The aim of this work is to design an economic system in which the regulator will have the tools to start and maintain, with the necessary speed, the continuous growth of the welfare of the population.

Dualism of the system "worker-consumer".

Over the past hundred years, scientific progress has constantly increased the industry's capacity to increase production. The growing computing power and the ability of industry to automate many stages of production, on the one hand increase the ability of mankind to improve their own well-being, but on the other hand deprive people of work, and hence livelihoods, thereby reducing the overall welfare of the population. To understand how to resolve this contradiction, we will greatly simplify the market economy model and mentally test various management methods on it.

Example: Imagine that there is a small country with a working population of 200 people. There are only two competing companies in the country that produce all the goods in the country. The entire population works in these companies, 100 people each, and is engaged only in the production of goods. All employees have a salary of 10 coins per month. And all the goods cost 1 coin. The capacities of both companies allow to produce only 2000 goods per month. With such a balance of labor costs and the level of industry opportunities, each employee on his salary can afford 10 goods per month.

	Company №1	Company №1
Productivity (number of goods produced by one worker).	10	10
Labor cost.	10	10
Number of employees. (production)	100	100
Number of employees. (amenities)	0	0
Unemployed.	0	
Total solvent demand.	2000	

Let's say that technological progress has allowed to modernize production facilities and now everyone can produce not 10, but 20 coins of goods per month. In an effort to reduce their costs, both companies will fire half of the employees because effective demand remained at the same level, and the same amount of goods can be produced with fewer employees. As a result, the country will have 100 workers and 100 unemployed, so the effective demand will be squeezed in 2 times to 1000 coins per month.



	Company №1	Company №1
Productivity (number of goods produced by one worker).	20	20
Labor cost.	10	10
Number of employees. (production)	50	50
Number of employees. (amenities)	0	0
Unemployed.	100	
Total solvent demand.	1000	

That is, in an effort to reduce their costs, as a result, both companies will lose half of their revenue. Trying to restore the previous sales volumes, companies will try to intercept buyers from their competitor. To do this, both companies will strengthen measures to promote their products, for which they will hire laid-off workers no longer for production, but in the service sector (sales, marketing). Hired workers will receive a salary and will again be consumers, restoring solvent demand. As a result, the market stabilizes at about the same level as before the modernization of production facilities.

	Company №1	Company №1
Productivity (number of goods produced by one worker).	10	10
Labor cost.	10	10
Number of employees. (production)	50	50
Number of employees. (amenities)	50	50
Unemployed.	0	
Total solvent demand.	2000	

That is, despite the enormous potential for productivity growth, when automated production lines can replace the work of hundreds of people, and digital systems can provide services with minimal involvement of labor, the existing architecture of the organization of economic processes is not able to significantly increase the welfare of the population.

Thus, the simplified model of the market economy shows that in an unregulated market, technological progress at best leads to a reorientation of the economy to the service sector, and in the worst case to a crisis of overproduction and economic depression.

In reality, we can see how the share of production costs in the cost of goods is reduced and increase the share of promotion costs.



If technological progress does not in itself lead to an increase in the welfare of the population, then the task arises of finding an effective method of launching and maintaining economic growth.

Modern economic science proposes to solve the problem of welfare growth in one of the following ways:

Expansion of sales markets.

An effective way to start economic growth is to expand markets. However, this method of economic growth has two significant drawbacks. First, the expansion of markets does not directly affect the welfare of the population, so despite the possible rapid growth of industry, wages in the country can grow at a much slower rate or not grow at all because other factors affect the growth of wages. Secondly, in reality, today, all significant markets of the planet with solvent demand are already saturated, and further significant growth can only be due to the displacement of someone from the world market, which will lead to a great trade war.

The redistribution of profit.

The profit of business owners can exceed the salaries of employees of the same company by orders of magnitude. This state of Affairs seems unfair to many, so some countries choose a socialist way of organizing the economy, in which private appropriation of profits is abolished, and all profits are redistributed among the entire population.

But this way of organizing the economy, despite the fact that it looks more fair, in fact, first, does not lead to economic growth, but only redistributes capital, so the initial effect of increasing the welfare of the population quickly exhausts itself. Secondly, the forced redistribution of profits deprives the system of driving force and condemns the state to a planned way of farming, which, with the modern variety of rapidly changing consumer preferences, inevitably leads to a shortage of many commodity groups.

Increasing the debt burden.

- Credit for business is a useful and effective tool for concentrating capital at the points of growth. But this is only a tool, and if there are no points of growth in the economy, the mere possibility of borrowing will not lead to economic growth.
- Lending to the population in the medium term does not increase consumption, but only shift it in time, and not only does not lead to an increase in the welfare of the population, but on the contrary, reduces it, since taken consumer loans will soon need to be returned with interest.



- The growth of the economy due to the increase of state debts is a mine of slow action for the stability of the system, because such growth only increases the stratification in society and brings the state closer to default.

In reality, the developed countries use all the ways to stimulate the economy: they help their companies to conquer foreign markets, introduce a progressive scale of taxation and constantly increasing debts at all levels. But even the combination of these methods does not give significant economic growth, because in each of them are laid, described above, the fundamental constraints on growth.

However, there is a fundamentally different way to increase the welfare of the population. In order to understand the essence of the new method, it is important to move away from a one-sided understanding of economic processes, when the competitiveness of a business for which an employee is a means of production is considered independently, and the lower the cost of this "means of production", the more competitive domestic business is. And at the same time, consumer demand is separately considered, where the same employee is a consumer, and the more he earns, the higher the total consumer demand. The new approach assumes consideration of the worker and the consumer in a uniform inseparable link. With this approach, the growth of the economy depends on the growth of consumer demand, and consumer demand depends on the cost of labor.

Rising labor costs.

Consider how the simplified model of the market economy will behave as the cost of labor increases.

As labor productivity increases, the regulator will somehow force both companies not to reduce costs by dismissing employees, but rather to increase wages. Then, if as a result of technological progress, each employee will be able to produce not 10, but 20 goods per month, and companies will raise the salary of their employees to 20 coins, the total effective demand will increase by 2 times – up to 4000 coins. That is, despite the fact that at the first iteration both companies will increase their costs, at the next step the companies will increase profits by 2 times, which means that the state will receive 2 times more tax deductions. As a result, everyone wins – the population, business, and the state.



	Company №1	Company №1
Productivity (number of goods produced by one worker).	20	20
Labor cost.	20	20
Number of employees. (production)	100	100
Number of employees. (amenities)	0	0
Unemployed.	0	
Total solvent demand.	4000	

Now the outlines of the new system became clear.

We will design a system in which the regulator will be able to increase the cost of labor by market methods, and the business in response to this increase will strive to produce more product, rather than increase the price of the product.

However, the real market economy is much more complex than the simplified model used above. To design a new economic system, it is necessary to analyze the properties and identify the driving forces of the real market model of the economy. But the existing descriptions are not suitable for such analysis because they do not give a complete picture of the internal economic processes.

Let's create a new description of the market model of the economy.

Footnote.

Further, in the full version of the work, with the help of a mathematical apparatus, a description of the market model of the economy is derived. The short version provides an adapted version of the description.

Adapted description of the market economy model

$$R^{\rightarrow\min} + C^{\rightarrow\min} + P^{\rightarrow\max} = \varphi * B * F * A + G$$

R - Expenses of economic entities on the production of the product (including taxes and fees).

C - The wage costs of the entities

P - Profit of the entities

A - The amount of raw materials.

F - Industrial capacity.

B - The amount of product

φ - The inflation coefficient

G - Product import

Presented in this form, the market model provides an opportunity to see the driving forces of the economy and factors inhibiting the growth of the economic system.

As can be seen from the description, the market model is structured in such a way that the guiding will of the entities seeks to maximize the profit, which pushes the whole system to growth. But the same will tends to minimize the expenses, which are the main components of inner demand. Moreover, if the desire to minimize the cost of production of the product affects the entire economy only positively because it increases the efficiency of production, the desire to minimize wages inhibits the growth of the system because it blocks the growth of consumer demand. It is the multidirectional vectors of the aggregate will of economic actors that is the reason that the welfare of the population does not grow by itself, as the capabilities of industry increase. In other words, in the pursuit of profit, the subjects tend to pay the minimum possible wages, without wage growth, consumer demand does not grow, and without the growth of consumer demand, profit does not grow. Humanity tried to break this vicious circle and start the process of increasing the welfare of the population by taking one of the ways of development – capitalist and socialist.



Capitalism.

In the capitalist system, the regulator uses the desire of economic entities to maximize profits as a tool for development. And since the domestic market is rapidly becoming saturated, the state be the only way of development – the entry of domestic companies into foreign markets. The increase in exports loads the production capacity, which increases the demand for the means of production, and creates an additional demand for labor, set in motion the entire system. As part of the logic of the export-oriented economy, the regulator applies measures that reduce production costs, namely: allows labor migration, which constrains the growth of labor costs in the country; allows economic entities to physically transfer enterprises to other countries or simply change the jurisdiction of the company, reducing the tax burden; opens its market for a cheap imported product, so that the means of production are cheaper for local enterprises. These measures allow exporters to develop rapidly, conquering foreign markets, which indirectly leads to the growth of the domestic market.

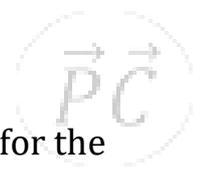
However, the number of markets in the world is limited and the economic strategy can no longer be based on the simple saturation of markets, because all markets with solvent demand are already saturated. Despite the effectiveness of capitalism, it should be recognized that the further growth of the economy of a single country within the framework of the capitalist system is possible only through the displacement of some of the competitors from the world markets.

In an effort to avoid a great trade war, which will inevitably lead to a real war, calls are increasingly heard to move to a socialist path of development.

Let us take a closer look at the socialist path of development.

Socialism.

Seeing the growing difference in income between the owners of economic entities and the rest of the population, and not wanting to build complex structures, some experts find a simple solution – to distribute the resulting business profits among the entire population. But by abolishing the possibility of legal expression of the entrepreneur's desire to maximize profits, the state deprives the entire system of driving force. In the capitalist system, it is the thirst for profit that makes business constantly improve the quality of goods and services in order to increase the sales of its product. Supporters of socialism believe that the altruism of the citizen will be a full replacement for the desire of business to maximize profits. However, at this stage of development of society,



people are willing to spend much more effort to achieve personal success than for the prosperity of the whole society, which has repeatedly demonstrated history.

Thus, when creating the Soviet project, as the driving force of the economy it was chosen not the aspiration to maximize the profit, but the human need for the prosperity of the whole society. The strength of this need was clearly overrated, which soon degenerated into the profanation of the Soviet idea and the dogmatic nature of the ideology made it impossible to state the failure of the method.

In socialist systems, all production costs become effective demand. And since in the costs of production removed the desire to minimize costs, the socialist system has no constraints by demand, but very quickly faces a limited supply because the lack of opportunities to make a profit, makes it meaningless to expand production.

An economic system, devoid of internal motive power, be forced to initiate an increase in demand and an increase in supply according to the planned method, the effectiveness of which is inversely proportional to the number of planning elements. In modern conditions, this leads to inefficient allocation of resources and, as a consequence, to a deficit of one product and an overabundance of another.

Humanity has reached a stage of development where socialism has clearly shown its inefficiency in comparison with capitalism through numerous examples, and capitalism has reached the limit of its development.

To date, many countries use a mixed system in which business is deprived of most of the profits using a progressive scale of taxation, and then the state redistributes these funds through various benefits and subsidies. Such a mixed system combines the worst manifestations of both capitalism and socialism because it stimulates the maximum exploitation of the working population and encourages a dependent lifestyle in the non-working part of the population. Still, this combination does not lead to significant long-term growth of the country's economy. It is important to understand that no simple combination of elements of previous systems will give a fundamentally different result.

In order to move to a qualitatively different form of economic management, it is necessary to apply design methods to the construction of the economic system, but in contrast to the previously used planned systems, it is necessary not to impute to a person what he should produce and what to consume (the market itself will regulate these processes), but to design a system that will constantly increase the reward for any demanded economic activity.



It is not possible to calculate the economic behavior of each person in an ever-changing environment. However, the economic behavior of society is quite predictable, which will create a special contour for the market economy, which will start and support economic processes that increase incomes of the population, business and the state, and stop the processes that reduce these incomes.

Object of management.

First, we will determine which indicator is best suited as a object of management that starts and supports the growth of the system, and then we will design such a contour in which the expansion of the system will occur in the right direction.

None of the elements of supply will be suitable as a catalyst for growth because the problem of the modern market economy is the lack of growth in effective demand, so a simple increase in supply will not affect the solvency of consumers. Therefore, it is necessary to regulate demand.

As can be seen from the description of the market economy, effective demand is divided into three types: profit of economic entities, expenses of subjects for payment of labor, all other expenses of subjects (production costs).

Profit.

The driving force of the market economy is the desire of the subject to maximize profits. It is this guiding will that sets in motion the market model of the economy and forces business to improve the quality of goods and services. When designing a new economic contour, we will create a structure that does not reduce the motivation to maximize profits. The capitalist core will be the engine of the new system, driving the economic processes in the contour. But as an object of management profit is not suitable. Because, firstly, the profit of the subjects and so tends to the maximum, and secondly, such a system will face the same restrictions as the existing capitalist system.

Production costs.

In the market system, when economic entities seek to maximize profits, production costs automatically tend to the minimum values. And it makes no sense to raise these costs because such growth will be shifted to the price of goods and services without the growth of consumer demand. Management of the economy through expenditure - the prerogative of planned systems for which all payment demand is an expenditure part of one giant entity. In the new system, we leave the management of costs to the discretion



of economic entities, which in the pursuit of profit will seek to reduce their costs, increasing efficiency.

The cost of labor.

Based on the new description of the market system, the only remaining candidate for the role of the object of regulation of the economy is the cost of economic entities to pay. The expenses of economic entities to pay for labor are the income of the working population, and consequently, the main part of consumer demand. If wages grow and businesses produce more goods and services, the demand for the means of production will increase, and the satisfied consumer demand will increase the profits of the subjects. That is, the growth of wages will cause the growth of the entire system. Therefore, the cost of labor can be Object of management for the new system. However, economic actors will shift the increase in wages to the cost of the product, creating inflation. Let us determine the dependence of inflation on the increase in consumer demand by increasing the cost of economic entities to pay for labor.

Labor cost and inflation.

Example: Let some entrepreneur engaged in the collection and sale of wild berries. Assume that 1 kg of harvested berries it sells for 100 coins. Of these 100 coins, the entrepreneur gives 30 coins to employees as wages, 40 coins go to taxes and fees and 30 coins the entrepreneur leaves himself as a net profit. Suppose that the situation in the labor market has changed – the cost of labor has increased by 10%, and now the entrepreneur is forced to pay for the same work not 30 coins, but 33. Entrepreneur will shift the growth of wages in the cost of the collected berries and now 1 kg. will have a price 103 coins. That is, the effective demand of employees increased by 10%, and inflation in this sector of the market amounted to 3%.

Let this entrepreneur sell berries some company that produces jam. Let's say from one kilogram of berries, this company produces one portion of jam worth 500 coins. Suppose that out of these 500 coins, the company gives 100 coins for raw materials (berries), 100 coins as wages to its employees, 200 coins of all kinds of taxes and fees, 100 coins remain to the owners of the company as net profit. If the cost of raw materials will increase by 3 coins, the company shift them into the cost of jam, the price of which will be equal to 503 coins. Let the cost of labor for this company increase by 10%. Then the salaries of employees of this company will be 110 coins, and the price of a jar of jam will increase to 513 coins. And so, in this small part of the market, wages, and hence the effective demand of workers, increased by 10%, and inflation was 2.6%.



It should be understood that the real growth of welfare will occur at the time of restrict of inflation created by an increase in the cost of labor, when at any stage of the technological chain there will be an increase in labor productivity instead of increasing the price of the product. This can happen both at the first stage, when the businessman, the increased salary of berry pickers, compensates, for example, with some device that allows to collect the same amount of berries by a smaller number of workers, and at any other stage, up to the last. For example, the manufacturer of jam, instead of increasing the price will choose an automated line of jam packing, or store instead of increasing the price, will abandon part of the security guard in favor of new tracking systems. It is important to create strong competition in each industry, which will push the business to find new solutions and we need to ensure sustainable growth in demand, so that entrepreneurs see commercial feasibility in the modernization of production.

The figures will be very different for different industries, but the fact remains unchanged that in a competitive environment, if business is able to produce more goods and services, the increase in the cost of labor for all market participants will cause an increase in consumer demand several times greater than the increase in inflation since the cost of labor is only part of the cost of the product. Moreover, the competition will force business to increase productivity, not the price of the product, which will stimulate the modernization of production.

Now we will create a **management mechanism** that will increase the cost of labor for all market participants at the same time.

Management mechanism.

Entities should raise labor costs under the pressure of an objective factor - increasing the market value of labor.

The labor of an employee is the same commodity as any other. If the demand for this product exceeds supply, its price will rise.

In the first step is to run the rising cost of labor is reasonable by reduce the number of migrant workers. It is necessary to review the policy against illegal migration, then create a legislative framework for the new policy and set up the executive apparatus for the new legislative framework.



Zero tolerance policy for illegal labor migration.

It is important to understand that illegal labor migration will block the growth of the well-being of the local population, because the labor shortage will be compensated not by the modernization of production and wage growth, but by an increase in the number of cheap labor. The fight against illegal labor migration must be as uncompromising as the fight against counterfeiting. Just as the mass production of counterfeit money leads to hyperinflation, so does the mass illegal labor migration lead to the devaluation of labor and, as a consequence, to the blocking of growth or even a fall in the standard of living of the local population. Humanistic impulses of activists in favour illegal immigrants should be aimed at helping to create an effective economic system in the homeland of migrants, so that they do not need to leave.

Legislative framework.

It is necessary not only to introduce measures that physically prevent illegal border crossing, but also to adopt a package of laws that make illegal entry into the country meaningless. To do this, we need to abolish any measures of state support for illegal immigrants and introduce for business, for hiring illegal migrant workers, the same measures as for non-payment of taxes.

Executive apparatus.

The deportation of illegal labour migrants to their homeland should be mandatory and without unnecessary bureaucratic delays. The deportation procedure is quite expensive, but illegal migration costs the economy much more. And when taking all measures, illegal migration will soon come to end because deported illegals quickly spread the news that it makes no sense to spend energy and money to get into a country where they do not pay benefits, do not get a job, and as soon as you get into the field of view of the police, immediately deported back.

After the suppression of illegal labor migration, the number of legal labor migrants becomes a constant in the sense that this value can not change spontaneously. Now creating a labor shortage, the regulator can be sure that the cost of labor will increase, not the number of illegal immigrants. The regulator may change the number of labor migrants at its discretion, extending or not extending part of the labor visas. Thus, it is possible to formulate one of the indispensable condition for the future economic system:



The regulator should be able to change and fixed the number of migrant workers in the country.

Let's mentally test the management mechanism.

Through the refusal to extend the part of labor visas, we will begin to gradually reduce the number of labor migrants.

Economic entities will be forced to raise wages, compensating for the labor shortage. The growth of wages will increase the effective demand for which the business will produce more goods and services (the project of the new architecture of the formation of the total supply will be described below). Entities will seek to balance supply and demand in the labour market. But the business will not be able to increase the supply of labor because:

- Labour migration cannot increase due to strict controls.
- The number of employees from the local population is constant in the foreseeable future.
- The legislation will not allow to significantly increase the number of allowable working hours.

Consequently, economic entities will seek to reduce the demand for labor through the modernization of production, increasing labor productivity. It is more expensive human labor in conjunction with the growing consumer demand that is the engine of industrial modernization.

The increase in wages will cause an increase in consumer demand, which will require business to expand production, which in turn will again create a small labor shortage, repeatedly launching a cycle of economic growth. Economic authorities through the regulation of labor shortages must control the rate of growth of consumer demand, so that this growth is not higher than the business potential to increase production. The experience of growing economies shows that in response to the increase in demand, industry can increase production at a maximum rate of 8-12% per year. In this corridor, it is necessary to increase effective demand, through the regulation of the cost of labor.

When business adapts to the new conditions of the labor market, and economic growth in the country begins to fade, the regulator will reduce labor migration, launching a new cycle of increasing productivity and rising labor costs.



It is important to understand that in order for the labor cost to grow N times, the supply should not fall N times. In the free market, a very small deficit is enough to maintain the trend of increasing the cost of the product. For example, in the oil market oversupply in a few percent drops prices several times, and a small supply deficit also raises the price several times.

After many years, when the modernized economy stabilizes at some level, and there will be no significant number of labor migrants in the country, then the regulator will again create a small labor shortage, reducing the allowable working time. The conquest of a century ago – an 8-hour working day and 2 days off a week - is hopelessly outdated. Production capacity has since increased tremendously, and this number of working hours per week is clearly excessive. It is important to understand that reducing working hours is not a goal, but a tool to maintain a small labor shortage, so that businesses are forced to raise wages and seek to increase productivity in the pursuit of profit.

Now that the mechanism for launching and maintaining effective demand has been designed, it is necessary to design an architecture for generating aggregate supply. The new architecture should force business, in response to the increase in consumer demand, to increase the quantity and improve the quality of the product, not its price.

Since in the new contour the economy will be organized in a market rather than a planned way, in the development of methods of regulation, it is necessary not to prohibit expansion in the undesirable direction, but to choose mechanisms that make expansion in the right direction more profitable.

Import.

To see what elements of the projected system need to be reformed, we will mentally start the growth of demand through reducing the number of labor migrants. Then a small labor shortage will increase the wages, which will lead to a small increase in consumer demand. The increase in demand easier, faster and more profitable for economic entities to compensate by increasing imports. Moreover, the higher the cost of labor in the country, the more profitable the purchase of a product produced in other countries with cheaper labor.

Let us compare the movement of capital when buying a product produced inside the contour, and when buying a similar cheaper imported product.



Example: to reveal the scheme of capital movement, when entering the contour of a cheap imported product, imagine a country in which the production of the product, the payment of wages and the purchase of the product are synchronized between all economic entities and the entire population. That is, first, all at the same time produce all the product in the country, then all at the same time receive a salary, then all at the same time buy all the produced product.

Let's imagine that at some point, all economic entities found an imported product lower in price than the one they produce themselves inside the country. Wishing to win the competition, all subjects at one point will pay the last time a salary to workers, will take out means from a working capital, will close domestic production, will buy a cheap import product and will bring it to the country. The population will be able to buy on the paid salary more cheap import product, than usually bought expensive domestic product. That is, at the first iteration, the population will feel an increase in welfare, but since there is no more work in the country, then at the next iteration the population will simply not have money to buy an imported product.

In reality, the number of economic relations is very large and all of them proceed asynchronously, i.e. are separated in time and space, so the consumer does not see a causal link between the purchase of a cheaper imported product and the lack of growth or even a drop in own income. But in fact, paying for a more expensive domestic product is paying yourself a higher income on the next iteration.

Therefore, even if the product produced inside the contour turns out to be more expensive than a similar imported product, in general for the country, the purchase of a domestic product is much more profitable, because this difference in price will remain inside the contour and will somehow be redistributed among the entire population. Therefore, if a country is able to produce a product similar to an imported one, and it is only a matter of the price of the product, the regulator should always choose measures that make production within the contour much more profitable than production abroad. Then, in the pursuit of profit, capital will rush to the creation of appropriate industries within the country.

However, a complete ban on the import of imported products reduces the efficiency of the country's economy and creates a legend for the imported product of the desired forbidden fruit, which causes tension in society. Therefore, it is necessary to provide free access to the imported product to the market of the country, but it is necessary to deprive it of competitive advantages in price. That is, any economic entity can import any imported product into the contour, but trade barriers will make this product much more expensive than a similar domestic product. If the imported product, even in spite



of a much higher price, will be in great demand than a similar domestic product, it will be a pointer for local business in what direction should develop the quality of the product to satisfy the desires of consumers. It should be understood that at the initial stage, the quality of the domestic product in some industries may be worse than imported, but high competition and increasing effective demand quickly equalize the difference in quality, which has been proven more than once history.

Thus, it is possible to formulate another one of the indispensable condition for the future economic system:

All imported product entering the economic contour should become much more expensive than a similar domestic product.

Now, after the increase in the cost of labor, economic entities will not be able to compensate for the increased demand imported product because it has become much more expensive than the local one.

But business, instead of increasing the amount of produced domestic product, can raise product prices, and inflation will devalue all previous efforts. Therefore, it is necessary to design conditions that restrain inflation.

Inflation.

It should be understood that the business at any opportunity will raise the price, and not to improve the quality and increase the number of products. And administrative restrictions on price increases only generate a deficit. The only effective strategy for restraining the growth of prices is to create an environment for economic entities where the possibility of not raising prices will be combined with the need to contain them. Sufficient resources makes it possible. And strong competition makes it necessary. In a competitive environment, an economic entity that has managed to offer the lowest price for a similar product wins the fight for the consumer and receives a large profit. Therefore, with strong competition, prices from different manufacturers for a similar product are at about the same minimum possible level.

In order for the designed system, after increasing demand, to seek to increase the quantity and improve the quality of the product, rather than its price, the country must meet several conditions:



1. Developed scientific-technical school.

In the economic contour should be developed scientific-technical school, able to reproduce with comparable quality, let and higher on price, any imported consumer goods.

The presence of such a school will enable domestic business to increase production capacity in response to increased demand, regardless of the external environment. The regulator should take into account that in order not to provoke inflation, **the growth rate of consumer demand should be no higher than the ability to increase production in any industry.**

If the country does not have a developed scientific-technical school, it is necessary to form a single economic contour with the country where such a school already exists.

2. Own raw material base

The absence of its own raw material base in the country will make the country's economy dependent on the external environment and limit the regulator's ability to increase the cost of labor. Because if a country needs a large amount of imported raw materials, the economy will be required to export a large amount of product, which will be difficult at relatively high costs for business, in the form of a very high cost of labor. Therefore **the economic contour should have its own raw material base that meets all or almost all the needs of the industry for raw materials, taking into account the expected growth in consumption.**

If the country does not have its own raw material base, it is necessary to form a single economic contour with countries with sufficient raw materials.

It should be understood that the increase in effective demand does not lead to a linear increase in the demand of the industry for raw materials. For example, with the growth of welfare, consumers, as a rule, instead of buying a second cheap car, prefer to buy one more expensive, in which the raw material component is approximately the same as in the cheaper one, and the increase in value is achieved due to a greater intellectual-industrial component.

It should be borne in mind that the shortage of any raw material directly provokes inflation throughout the technological chain. Therefore, **through the coordination of production plans or through long-term supply contracts, the regulator must control the supply of the necessary raw materials to the contour, taking into account the planned growth of incomes of the population and the expected shift in consumer preferences.**



3. Strong competition.

Today, all developed countries are integrated into the global market and participate in the overall division of labour. Strong global competition restrains price increases and improves the quality of goods and services. However, the ability of the regulator to increase the cost of labor for **all** market participants is a mandatory requirement for the new designed system. But no country can regulate the cost of labor for the whole world, so it is necessary, through very high trade barriers, to minimize the presence in the economy of a foreign product with a low cost of labor. And for business to strive to increase the number and improve the quality of goods and services in response to increased demand, it is necessary to transfer strong external competition inside the country. To do this, we need to create at least 2 competing economic entities in each industry in a project way, in partnership with business, if there were no such entities before. If necessary, you should help the domestic business in the purchase or development of missing technologies.

Example: let the population of a some planet is 8 billion people. Let that this planet produces and sells 400 million new smartphones a year. Suppose that all smartphone buyers buy a new smartphone every year. That is, on the planet only 5% of the population can afford to buy a new smartphone. Let all smartphones cost 1000 coins, that is, the total smartphone market will be 400 billion coins. Let the rate of profit in this market will be 5%, that is 50 coins from each smartphone, which will be equal to 20 billion coins per year. And let the global smartphone market share 10 companies, which creates a very strong competition, forcing in the struggle for buyers to constantly improve the quality of smartphones. A profit of 2 billion coins allows each company to invest in its own development every year.

Suppose that a relatively small country with a population of 200 million people decided to adopt a plan of development , as a result of which the income of the population should increase annually by 10%, and for this, as one of the measures in the country, it is necessary to create an industry with strong internal competition, producing smartphones. If we apply the same profitability calculation algorithm as for the global market, we will get the following figures: 10 million smartphone buyers, total revenue of 10 billion coins, profit of 500 million coins. That is, such a market will not be enough not only for 10 companies, but even one monopoly company will be several times smaller than the world's giants, which means that this company will have less free funds for new developments, which will lead to a backlog of domestic products from the world.



However, for the new system, expediency should be calculated differently. In the new system, the income of the population is guaranteed to increase at a set rate of 10% per year, which means that in 16 years the domestic smartphone market will increase 5 times to 50 million. Now let's increase the profit rate by raising the price of smartphones at 15% - to 1,150 coins, which will increase the profit four times - up to 200 coins per smartphone. Now the profit from the sale of 50 million smartphones will be 10 billion coins, which is equal to half of the global profit. We will divide this highly profitable domestic market among 5 domestic companies. Five companies in the market are enough to create strong competition. Thus, we received a strong internal competition of 5 companies with a profit at the level of global companies - 2 billion coins per year, which means that domestic companies will have enough free funds to keep up with global trends.

In reality, only a few industries will need an increase in the rate of return. For the vast majority of industries, a market of 200 million is sufficient to create strong domestic competition.

With today's level of access to information, any country with a developed science and technology school can reproduce any imported product. The only question is the price of the final product. It should be understood that the product of the newly created enterprises will not be competitive in the world market at the price, so domestic enterprises need to rely only on the domestic market (at least the first years). To do this, **the domestic market should be large enough for the cost-effective production of the product of all industries** (at least 100 million people). Profitability should be calculated based not on the current level of demand, but taking into account the future multiple increase in incomes and increase the rate of return of companies.

At the first stage, the product of newly established domestic enterprises may be slightly worse than imported analogues, but high domestic competition and increasing solvent demand quickly equalize the difference in quality.

If a country does not have enough population, it is necessary to unite in a single economic contour with other countries to create a sufficiently large domestic market.

Let's formulate this indispensable condition:

The regulator should ensure the presence of at least 2 domestic competing economic entities in each industry.

Let us summarize the conditions for curbing inflation in the new economic system.



In the country should be:

- Sufficient population for profitable production of the product of all existing industries (taking into account the future growth of incomes of the population).
- Developed scientific-technical school, able to reproduce with comparable quality any imported product.
- Own raw material base that meets all or almost all the needs of the industry in raw materials (taking into account the future growth of incomes of the population).

If a country does not have any component, it is necessary to unite with other countries in an economic Union, adding a single economic contour missing elements.

Own raw materials base and developed scientific and technical school will enable businesses to increase production and not to raise prices, and a large domestic market give the opportunity to create strong internal competition that will force business to contain prices.

It should be understood that with a constant increase in the cost of labor, a small level of inflation is inevitable because economic entities can not always increase labor productivity instead of translating the increase in wages into the price of the product. But strong competition will keep prices at the lowest possible level. And the low level of inflation is useful for the economy, because it pushes the holders of capital to invest, not to accumulate.

Restriction on the withdrawal of large capital.

The last element of the new system will be a mechanism to limit the withdrawal of large capital. The structure of capital turnover in the market system dictates the need for such a measure. Capital continuously passes from one economic entity to another, flowing from one state to another. What yesterday was someone's profit, today is someone's production costs, and tomorrow will be someone's labor costs. Therefore, any withdrawal of capital removes from circulation not just the withdrawn amount, but the whole chain of economic interactions, which either blocks the possibility of the contour to be reproduced at a higher level, or forces the state to search for foreign investment.

Even on the most rough description of the balance of supply and demand, it becomes obvious the negative impact of capital withdrawal on the country's economy.



Example: imagine that on a desert island with scarce resources there were three people. The resources of the island were distributed as follows: one was able to collect the growing wheat on the island, the second received a single stone with which you can grind grain into flour to make dough from it, and the third got coal reserves underground, with which only you can make a fire and bake bread because there are no trees on the island. Accordingly, the work were distributed – one whole day collects wild wheat, the second one grinds and cooks it all day, and the third one digs the earth in search of coal. Due to lack of experience, the first managed to collect only 1 kg of wheat per day, the second could grind only 1 kilogram of wheat collected per day and make 1 loaf of bread from it, and the third could produce only 1 kg of coal, which was enough just to bake 1 loaf of bread. But over time all three growing mastery and soon one is already collected 5 kg of wheat per day, the second got used her entire grind the day into flour, while the third produces 5 lbs. of coal. Then they adapted some tools and doubled the turnover to 10 units. This is how well-being grows as productivity increases. And even if productivity grew unevenly, they could redistribute responsibilities, devoting more hours to the lagging "mini-industry." But if any of them, owning a resource included in the single economic contour, would withdraw «capital» for the contour, then, despite the possibility of growth, the whole system would not be able to reproduce at a higher level. For example, the "owner" of coal, extracting 10 kilograms, would return only one kilogram to the general contour, because he needs only one loaf of bread from the "domestic" industry, and the remaining 9 kilograms would be taken to the neighboring island, the other two would have to collect and process only 1 kg. of wheat because it makes no sense to produce more. And to resume growth they could only find on the neighboring island of another "owner" of coal, which would be interested in their bread. It does not matter for what reason capital is withdrawn from circulation, whether it is the accumulation or consumption of a product not produced in the contour, the result is one – blocking the growth of the system or forcing the system to search for foreign investment.

In the new economic system, for the transition of the economy to a higher level, the state will not seek foreign investment or resort to the accumulation of funds or loan . The regulator will simultaneously create many points of growth in the form of a widespread increase in the incomes of consumer-workers, and business in the competitive struggle will seek to meet this growing demand. In order for the regulator's actions to generate a multi-cyclical long-term response, the concentration of capital in the new system should be high enough, so it is necessary to exclude uncontrolled capital outflow.



In the new system, very high trade barriers for imported products minimize the withdrawal of capital by the population. But there is also a direct withdrawal of large capital by the beneficiaries of economic entities. When profits from economic activities are transferred to foreign countries, this reduces the economy of the country and creates pressure on the domestic currency. Therefore, the withdrawal of large capital should be coordinated with the state and be of a point nature.

Meanwhile, who and as spends capital within the contour, from an economic point of view, does not matter. Capital will somehow be redistributed among the entire population. Even if the business owner spends all the profits on the daily Grand fireworks in his honor, those who receive money for the organization of these fireworks will spend their revenue on the real sector, thereby returning capital to turnover. Therefore, it is necessary to remove restrictions on domestic consumption, such as a progressive scale of taxation or a luxury tax. And the spending of rich people on goods and services produced inside the contour should only be welcomed. But the full liberalization of the capital movement within the contour must be combined with the restriction on the withdrawal of capital.

A favorable environment for the rapid growth of the market economy is the growing demand, at a rate not exceeding the ability of industry to increase production, combined with an excess of the money supply in the economy, so that businesses do not have problems finding capital to expand production. The regulator needs to constantly issue money, pouring "blood" into the growing economy.

In order for the surplus money supply to find its application in the points of economic growth, and not poured into the foreign exchange market, for the period of growth, it is reasonable to limit the withdrawal of large capital through the introduction of soft currency regulation, in which **the population have the opportunity is free to buy currency, but only when going abroad. The permitted amount of purchase should be large enough so that people do not experience discomfort when traveling abroad. A business will be able to buy currency in any volume, but only for to pay for any imported product entering the contour.**

The regulator should ensure that export revenues are equal to or greater than the demand for foreign currency, so as not to reduce the exchange rate of the national currency.



The Perfect Economic Contour.

One should understand that the designed economic system will grow at the required speed only if all the conditions of the project are implemented in the contour. Just as a car will not travel without spark plug or a gasoline pump, so designed economic contour will not work properly without any of the elements of the system.

Thus, without a sufficient population or in the absence of a developed scientific and technical school, it will not be possible to create strong internal competition in each industry, which means that the growth of demand will provoke the manufacturer to increase the price of goods, not the quantity of goods.

Without its own resource base, the contour will have to import a significant amount of raw materials, which means it will be necessary to look for opportunities to export their goods, which will limit the ability of the regulator to increase the costs of companies in the form of higher labor costs. And in the absence of wage growth, the domestic market is not able to grow.

Without high trade barriers, demand will be met by a cheap imported product, which will destroy domestic production and reduce the number of jobs in the contour, which will be an obstacle to the growth of wages.

If we do not protect the contour from illegal labor migration, we will not be able to regulate the cost of labor, creating a controlled shortage of labor because increasing demand for labor will not be offset by wage growth, but by the influx of labor migrants, which will block the growth of the domestic market.

The absence of restrictions on the withdrawal of large capital will not allow the system to be reproduced at a higher level, or will require the search for foreign capital, which will make the contour dependent on external conditions.

Elements of the system putting together form a perfect mechanism, which has a precisely predictable response to the actions of the regulator and a perfectly balanced system of capital allocation between the interests of business and the public, therefore we give name the designed contour "Perfect".

The algorithm for creating a perfect economic contour.

In order for the economic contour to have a perfect form, it is necessary that it meets the 6 following conditions.

Bringing the contour to the perfect form can be divided into three stages.



I stage. Preparation.

It is necessary to find out whether the country meets the following conditions of a Perfect economic contour. If a country does not meet one of the conditions, it is necessary to form a mutually beneficial economic Union with other countries, creating a single economic contour that will meet the conditions:

1. Sufficient size of the contour.

The contour is so large that the level of demand within the contour, taking into account the planned maximum increase in the income of the population, is sufficient for the cost-effective production of the product of all existing industries. When calculating, it is necessary to take into account not the current level of demand, but the limit level of consumption. The limit of consumption growth in a perfect contour is the achievement of the desired level of consumption by the majority of the population, or the maximum level of receipt of raw materials in the contour.

2. Advanced scientific and technical school.

The contour has a well-developed scientific and technical school capable of reproducing, with comparable quality (albeit higher at a price), any imported product used in the contour.

3. Sufficient raw materials base.

The contour has its own raw material base, satisfying all or almost all the needs industry of the raw materials in the contour, taking into account the anticipated growth of aggregate demand. The regulator should control the uninterrupted flow of the materials to the contour, taking into account the planned increase in consumption, excluding a deficit.

Otherwise, it is necessary to produce such export positions in the contour, that will be in demand outside of it, even taking into account the expensive inner production (due to high average wages) and trade barriers of other countries.

II stage. Industrialization.

The second stage is the most labor-intensive and requires the adoption of a large-scale project of development, the implementation of which in itself will provide quality economic growth for many years. (The most effective algorithm for transferring strong external competition inside the contour will be described in the independent work). As a result, the economic contour must meet the condition:

4. Strong internal competition and weak external one.

All types of goods and services of all the industries used in the contour are produced inside of it. In all industries there is no less than 2 economic entities producing the product of this industry (the industries that require special control by the state may be excluded: the nuclear industry, some types of armament, etc.) If there is no industry in the contour, the products of which are in demand in the contour, then the regulator needs to create the missing industries in partnership with business, without regard to product competitiveness in the global market. In order for the product to be competitive within the contour, it is necessary to raise trade barriers to a level where the domestic product for the vast majority of the population will be much more attractive than the imported product. It is necessary to clearly explain, with the help of calculations on the models, to the population the inverse dependence of the raise of the average wage on a cheap imported product entering the contour. Thus, the restriction of external competition to the price will be removed from the inner producer, and that will allow economic entities to have production costs (including labor compensation) higher than outside of the contour. If the demand for significant quantities of the imported product is preserved even at much higher prices, this will serve as a sign for business, in what way it is necessary to develop the quality of the product made. Despite the restriction of external competition, it is necessary to create the strong internal one competition. To do this, when creating the missing industries, it is necessary to use the methods those would distribute the entire planned demand to the maximum possible number of entities. In this case, strong internal competition will operate in the contour, which will exclude unjustified price increases.

III stage. Sealing.

In order for the generated capital, passing through consumer demand, to eventually become an investment resource for the expansion of the system, and not to flow out of the contour, it is necessary to limit the uncontrolled withdrawal of capital. On the other hand, it is necessary to protect the economic contour from the influx of illegal labor migration, otherwise the regulator will not be able to manage the cost of labor.

Therefore, a perfect economic contour must meet the conditions:

5. Freedom of movement of people and restriction on the withdrawal of capital.

Any withdrawal of capital out of the contour is the demand that is not realized within the contour. That means, with the withdrawal of the capital, somewhere in

the contour the cycle of production and consumption will not be fully reproduced. In addition, the capital withdrawal requires the regulator to find opportunities to export the product in order to have foreign exchange earnings no less than the demand for currency within the contour. Otherwise, the inner currency will become cheaper relatively to external currencies and that will create additional difficulties for purchasing the required imported product. Therefore, the withdrawal of capital should be minimized, leaving only those items of expenditure that are necessary. Such as buying raw materials and technologies that are missing in the contour; purchasing a product that is in demand even taking into account trade barriers; tourist and business trips, training, treatment, etc.

It is necessary to introduce a soft currency regulation in the contour, according to which:

- An economic entity can acquire currency in any quantities only for the purchase of any product entering the contour.
- All foreign currency earnings of economic entities from the sale of a product outside of the contour must be sold on the market within a short period.
- Currency can be bought in limited quantities by any individual, when travelling abroad (the amount of available foreign currency limit should be comfortable for the majority of people leaving). Payment for hotels, flights, transfers, training, treatment - without restrictions.
- Currency operations inside the contour are prohibited.

6. Strict control over labor migration.

The contour has strict control over the number of labor migrants and effective mechanisms for regulation of labor migration. It should be understood that labor migration stops or slows down the raise of salaries within the contour, increases the withdrawal of capital, due to the fact that labor migrants tend to send part of the earned money out of the contour. Labor migration inhibits modernization because it is cheaper for an entity to hire low-paid personnel than to buy new equipment. Labor migration is acceptable only if the contour is aimed at export, when it is necessary to reduce production costs by any means, but in terms of the development of the internal market, the labor migration has only negative consequences.

Migration policy should be aimed at strict control over labor migration. The resettlement of compatriots, the invitation to work of prospective specialists, the provision of opportunities for work to foreign companies are not connected with the problem of labor migration and should be regulated by a separate regulation.



Management of economic growth in a perfect contour.

Let us conduct a mental experiment. We will launch economic raise and go through the whole chain of market formation of demand and supply in the perfect contour.

Step 1.

We will begin to gradually reduce labor migration in the contour. This reduction will create a small deficit in the labor market, which will lead to the optimization of all economic processes of the subjects, but only to some level. Then the subjects will inevitably raise wages, in response to a reduction in the supply of labor. To do this, the perfect contour must meet condition 6 - "Strict control over labor migration". Otherwise, the labor shortage compensate influx of migrant workers, rather than increased salaries.

Step 2.

The trade barriers will not let the increase in salary be compensated by an import product. The governmental control of the raw materials entering the contour and internal competition will limit the raise of the compensation of wages by rising prices for the product. Consequently, the entities compensate for the raise of consumer demand, with the increase in the quantity of the product made. Therefore, following the increase in wages, the demand for means of production will also increase proportionally with. For this, the perfect contour must satisfy condition 4 - "Strong internal competition and weak external one" and condition 3 - "Sufficient raw materials base". Otherwise, the increased demand will be compensated by an import product, or by the increase in prices for the product.

Step 3.

The increase in consumer demand and demand for means of production, compensated by the increase in the quantity of the product made, will increase the profit of the entities. The entities will direct their profits to consumption or investments within the contour, closing up the cycle of capital in the perfect economic contour and fixing the economy of the contour at a new higher level. For this, the perfect contour must satisfy condition 5 - "Freedom of movement of people and restriction on the withdrawal of capital", otherwise a part of the profit will be put out of the contour, what will not allow the system to be reproduced at a new level due to the lack of capital.



Step 4.

When the growth of the economy in the contour will be damped, the regulator will reduce labor migration, again and again launching a cycle of growth in labor costs. After many years, when this resource is exhausted and labor migration in the contour disappears as a phenomenon, a small shortage of labor will be supported by a smooth reduction in the permitted length of working time.

Inference.

Bringing the contour to the perfect view is likely to reduce potential the export of the domestic product, but it will surely lead to a considerable increase of the internal market, which is tens of times bigger than the losses in exports. The limit of the raise of the economy in the perfect contour is only the size of the raw material base, or achieving the desired limit of consumption by the majority of the population of the contour. The perfect economic contour can grow as quickly as its slowest growing industry can raise and as fast as the supply of raw materials can increase.

The constantly increasing cost of labor resources will stimulate business to modernize its production, which, with the competent behavior of the regulator, in itself is a powerful driver of economic growth. By optimizing their internal processes, economic actors will seek to replace human labor with machine labor, which will free up and redirect a large number of people to developing areas. With the growth of income, consumer preferences of the population, and with them the entire economic contour will continuously change. But despite all the unpredictability of the market economy, in a perfect contour, the regulator will have a convenient tool to maintain economic growth at the required speed – a small labor shortage, which will be achieved at the first stage by a smooth reduction in the number of labor migrants, and then a gradual reduction in the allowable working hours.

And in order for the system to have a stable predictable response to the actions of the regulator, the state will need to control six parameters of the system:



Control objectes

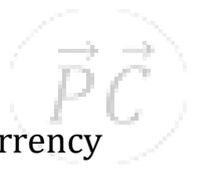
1. In all sectors there are domestic economic entities, and no company is a monopolist in the market.
2. The planned growth in demand does not exceed the capacity of the industry to increase production.
3. The raw material enters the contour in the required volumes, according to the planned growth in demand.
4. Trade barriers are so high that all imported products entering the contour become much more expensive than domestic ones.
5. In the contour there is no illegal labor migration in a significant amount.
6. Withdrawal of capital from the contour does not exceed export revenue.

A significant increase in the average wage and a small deficit of labor resources will significantly reduce the social burden on the state, concentrating the state aid only on people who are physically incapable of any work.

Gradual, but inevitable, the significant decrease in the average duration of working hours with a simultaneous considerable increase in the average wage will lead to a reorganization of the existing way of life. Instead of the life on allowance and covert unemployment, that disintegrate the society, due to which millions of people are forced to "bide" their working hours, imitating some stormy activity for a small salary, will come a short but intensive work for a very high pay.

Currency area.

At the present level of civilization there is no other constructive way to increase the well-being of the population, except to increase the cost of labor. But, like competition between companies, competition between countries blocks the growth of production costs, some of which are wages to workers. For the cost of labor to increase simultaneously for all participants in the global market, a single global regulator is necessary, but at the moment, due to political differences, the creation of such a regulator for the entire planet is not possible, so the world will be divided into several macro-regions in which countries will form their regional perfect economic contour.



There is the possibility of creating perfect economic contours on the basis of currency zones at the moment:

1. Dollar's
2. Euro
3. Yuan
4. Ruble's
5. Rupees

In order to enter a new stage of development of society, countries should be included in the designated currency zones, forming the appropriate perfect contours, or form new currency zones, uniting in complex structures to complement the overall contour of the missing elements.

Conclusion.

The perfect economic contour is a synthesis of opposing systems on several levels at once.

Synthesis of market and planned economy models. The planned growth of effective demand and the receipt of raw materials in the contour is combined with the market method of meeting demand. The regulator increases revenues in a planned way, and the market determines what exactly they will be spent on. Thus, the risks inherent in the market economy are eliminated and the deficit of the product accompanying the planned way of organizing the economy is eliminated.

Synthesis of capitalism and socialism. The capitalist aspiration of economic entities to maximize profits and minimize costs is balanced by the social orientation of the vector of economic raise. In the perfect contour there is no need for high taxes for the rich and their subsequent distribution among the rest of the population, as the entities are forced to raise wages anyway, what removes much of the social burden from the state. In a perfect contour, the capitalists increase their income by increasing the welfare of the population.

Synthesis of open economy and autarky. Free entry into the contour of goods deprived of competitive advantages in price by trade barriers reveals unsatisfied demand, but does not allow replacing goods produced in the contour with imported goods. Free travel abroad of the contour population makes it possible to synchronize the global perspective directions of development of society with the directions of development of society within the contour, and the ban on the export of capital in significant amounts stimulates the population and economic entities to invest in the economy of the perfect contour, reproducing it at a higher level.