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# S-economics

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### **S-economics**

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The book describes *the model of an economy, which functions in the [s-environment](#)* (called the *S-economics*) — heiress of the *model of a normalized economy ([NEc-model](#))*. The key changes introduced by the model cover the monetary system (emission is canceled), the banking system and the rules of permissible transactions. The decision to give a new name to the model (S-economics, S- prefix means that the methodological basis of the model is the theory of [s-modeling](#)) is driven by the radical nature of the changes suggested in the model.

For economists, IT-researchers, university teachers, graduate students and students.

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### Preface

The book describes a new model of an economy that operates in the [s-environment](#) (called the *S-economics*).

S-economics - a model of economic management mechanism in the Internet age.

S-economics is an heiress of a *model of the normalized economy (NEc-model)* [[Ilyin V. D.](#)]. Major changes - in the monetary system (emission is canceled), the banking system and the rules of permissible transactions.

### Abbreviations and their application

*EA* ≈ *economic activity* [*ea* is character ligature (used as one letter)];

*EM* ≈ *economic mechanism* [*em* is character ligature];

*PM* ≈ *em of extraterritorial profit* [*pm* is character ligature];

*SM* ≈ *em, built on S-economics* [*sm* is character ligature].

*PM-system* ≈ economic system, the functioning of which is determined by *pm*.

*SM-system* ≈ economic system, the functioning of which is determined by *sm*.

### Semantic markup of the text

The semantic markup of the text (the hierarchy of fragments, etc.), forms of definitions, comments and examples, correspond to the rules of the TSM-complex unified description of s-models [[Ilyin A.V.](#), [Ilyin V.D.](#)].

□ <fragment description> □ ≈ statement (definition, axiom, etc.);

◇ <fragment description> ◇ ≈ remark;

☀ <fragment description> ☀ ≈ example.

## The content of the main sections

<b>PM</b>	<b>SM</b>
Critical analysis	Basics of framework

## Format of references

The references are presented in the following format:

<Name and Surname author> <year of publication>,<publication number in the year of publication>].

If the bibliography includes only one publication of the author, the fields of the publication year and number are not shown. If the publication is the only one in that year by that author, the field of publication number is not shown.

The bibliography list is ordered alphabetically and by year of publication.

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### Introduction

◇ Economic activity — this is not only the production and sale of commodities, but also the primary means of development of people, tribes and nations. ◇

The mechanism of economic activity — one of the most complex organizational-technical systems invented by human beings. For many centuries humanity has used different variants of this mechanism. The transition from one version to another, as a rule, was dictated by the need to eliminate obvious disadvantages.

Economic systems of status rivalry belong to one of the most widely spread types of status rivalry systems [[Ilyin A.V.](#), [Ilyin V.D.](#)]. Methods of doing business depend on the objectives set. The choice of the main goal of economic activity is not the subject of scientific discussion. Supporters of the supranational organization of the world believe in *the economy of extraterritorial profit*, opponents believe in the prior development of national economic potential and mutually beneficial cooperation between corporations and citizens of different countries.

No matter what goal has been chosen or what measures aimed at its accomplishment, they should be formulated. It is impossible to judge the model of em without a clear answer to the question what purposes was it designed for?

◇ In any economic model as in a model of human-machine system it is necessary to state the purpose of the model and formulate the objectives that it will help to solve. ◇

In the models offered in the famous works on economics (e.g. [[Fisher I.](#)], [[Friedman M.](#)], [[Friedman M.](#), [Bordo M.](#)], [[Krugman P.](#), [Wells R.](#) 2005, 1]) the default assumption is that the prioritized goal of economic agents are extraterritorial profit.

#### An economic activity mainly aimed for extraterritorial profit

For those seeking extraterritorial profit the main goal is not the economic development of the country. To achieve their goals

corporations hire guest workers and seek locations which offer cheaper labor, land, etc. (☀ in China and other Asian countries ☀).

The result — the population of developed countries lose professional qualifications and switch to activities not related to the production of *vital commodities* (*vc*). This results in a dangerously high rate of growth in the number of capable people who do not wish to engage in *the production of vc* (*vc-production*).

The conceptual basis of *the economic mechanism of extraterritorial profit* (*pm*) is supported by the ideas presented in [Fisher I.], [Friedman M.], [Friedman M., Bordo M.], [Keynes J.], [Krugman P., Wells R. 2005, 1], [Krugman P., Wells R. 2005, 2]. PM is presented as having faults, but having no alternative. The economic troubles inherent in pm are interpreted as having the native elements or the unpredictable nature of events in casinos and racetracks.

Not only financial, but also many state leaders, are accustomed to solving their economic problems by reducing the income of producers of real commodities and have a vested interest in the existence of pm.

Such leaders are supported by the population, many of whom have no wish to participate in vc-production and have propensities to consume in excess of income, and live “of the interest” earned in games on the stock and currency markets.

◇ The inevitable consequence of the use of [pm](#) are:

- the growing number of capable people who consume real commodities, but do not produce them;
- an unsustainable pattern in the real economy;
- the financial sector dominates the sectors producing real commodities (as money and securities remain highly profitable commodities);
- under the existing rules of the economic activities the state can lose control even over the corporations producing vital commodities (the scheme is well known: corporations borrow from foreign banks, debts which they are unable to pay back → as a result foreign banks become owners of the property of these corporations). ◇

There is also a technological component of the inadequacy of pm: in these days em remains essentially the same as it was before the Internet era.

Money is issued and used without legal rules defining any connection with transactions of sale of real commodities. These days one is unlikely to find a bank that is not connected to a computer network with other banks and does not use modern information technology. While in core activities (including economic) electronic documentation is used, the money continues to be used as a commodity. Moreover, a variety of financial instruments (stocks, bonds, etc.) is issued, which are also traded.

Much of the business community is busy trying to erase national boundaries for economic activity (to increase access to cheap labor, energy, raw materials and other resources).

They initiate the establishment of various global means of management of economic activity, that are purposed to dominate over national ones. Economic oligarchs finance the promotion of people who are able to create a corruption structure in prosecutor's office, law enforcement agencies and government departments.

### Reduction in the number of support members of the population

◇ The welfare of a country is determined by the results of the activity of the *support members of the population (s-members)*, those purposefully involved in invention of new knowledge and technologies, design of technical devices and other vital objects, [vc-production](#), education and learning of new generations and defence of the country. ◇

Foods, clothes, shoes and accommodation, systems of water supply and sewage collection; systems of power supply and means of transportation; communications systems, *s-mashines* and *s-environment* [[Ilyin A.V.](#), [Ilyin V.D.](#)]; scientific knowledge and technologies created on its basis; engineering projects, education

and medical services — all these are mainly results of activity of s-members.

The most dangerous trend of the last decades is the reduction in s-members and the intensive growth of the non-producing, but actively consuming part of population (that require an continuously increase in budgetary expenditure on social assistance).

### A normalized market economic activity

◇ The results of normalized market economic activity should increase the potential of a country under whose jurisdiction an sm-system functions.

The rules regulating economic activity imposed by the state and tools of their implementation (including control and sanctions for their violation) should direct economic agents towards advancing the development of, and the protection of, the country's potential.

These rules should ensure that striving for profit or increasing market share is possible only if the objectives of the development and protection of the country's potential are fulfilled. ◇

The rules regulating economic activity imposed by the state at each stage should correspond with the objectives of the development and protection of the country's potential, and state regulating measures (in the spheres of taxation, customs duties, investment and other) should direct activities of economic agents towards achieving these objectives. It must be much more profitable for economic agents to comply with those rules than to break them.

◇ Objectives of non-decreasing urgency solved by means of state regulations:

1. VC (the priority list of which should be approved by law) should be manufactured on the territory of the Russian Federation by its citizens (tools of government interference: tax, customs, investment and other support of domestic manufacturers);
2. Export of vc is permissible only in case they are not included in the shortage list in the domestic market;

3. Import of vc is permissible if the demand for them is not satisfied or the quality of imported ones exceeds the quality of vc produced on the territory of the country.

The tools of economic stimulation (tax rates, customs duties and other) should constantly direct economic agents for participation in *development and protection of a country's potential* [[Ilyin A.V., Ilyin V.D.](#)].

Two priority lists of vc should be objects of constant monitoring: one list includes vs-commodities that are not produced in a country in sufficient quantities and should be imported; the other list includes vs-commodities that are in plenty and may be exported. The priority lists of vc should be revised depending on availability and quality of vc in the domestic market. It is also necessary to revise respectively taxes, customs duties and discounts. ♦

### About the model of normalized economy

The model should be implementable on the basis of modern information technologies (online services and e-documentation). In s-environment money should not be treated as a goods-intermediary, but only as an e-document that proves the cost of commodities and property status of economic agents. The model should define rules of banking, investing and trading in s-environment.

The starting situation	The target situation
An economic activity mainly aimed for extraterritorial profit	A normalized market economic activity
Extraterritorial profit is achievable with detriment to development and protection of a country's potential.	The rules of economic activity stimulate economic agents to <i>develop and protect the potential of the country.</i>

The starting situation	The target situation
<b>An economic activity mainly aimed for extraterritorial profit</b>	<b>A normalized market economic activity</b>
<p>Property status may be improved by not only participating in production and distribution of real commodities but also by credit trading and speculations at stock and currency markets.</p>	<p>Property status may be improved only by effective participation in production, distribution and stockpiling of real commodities.</p>
<p>Economic growth expressed in monetary terms is considered an indicator of a country's well-being.</p>	<p>The country's well-being is determined, above all, by :</p> <ol style="list-style-type: none"><li>1. the structural adequacy and levels of excellence of complexes of production, distribution and stockpiling of <a href="#">vc</a>;</li><li>2. professional training of the workforce for the production of high quality <a href="#">vc</a>;</li><li>3. availability of resources for production of <a href="#">vc</a>.</li></ol>

## PM: Economic mechanism of extraterritorial profit

This part of the book contains the proof of the inadequacy of the model of [pm](#) (in relation to the existing global economic activities and modern informational technologies) and failure of economic theories in which model of pm is considered to be the model, which has no better alternatives.

PM	
<b>Most malicious functions</b>	The modern em is the tool that economic agents (who are often called “players” in modern jargon) use to realize their striving for extraterritorial profit.
Emission of money	
Currency speculation	
Trade credits	
Issue of securities, stock trading	

To clarify the characteristic difference between pm and sm we suggest considering two statements included into the system of indispensable rules of a sm-system.

1. If country A needs to locate production plants that will produce [vc](#) on its territory, the location of these plants on the territories of other countries (that are beneficial for the owners) contradicts the economic interests of country A, whose citizens the owners are.
2. If there is an unsatisfied demand for the investment in the production of vc in country A, investments in production in other countries (beneficial for the investors who are country A citizens) contradicts the economic interest of country A.

Today such a trait of corporations as being export-oriented was brought to life by the inspirers of the global financial shell game. Orientation towards exports is the tool of the desired economic globalization, control over which they would like to retain.

### The pseudo axiom of economic growth

The way modern states and corporations function is to a great extent determined by striving for economic growth. The statement that an economy should grow is considered an axiom. Such economic behaviour presupposes persistent growth of consumption of resources and unrepayable “borrowing” from nature.

The principle of sustainable economic growth resembles the principle of a whirligig (which is as badly affected by reduced rotation speed, as is the modern economy by slowdown).

Global consequences of such striving are most clearly manifested in the growing demand for water, energy supply, raw materials and in harmful effects on the habitat and the genome pool.

### Some social consequences of credit provocations

Striving for growth, banks and manufacturers provoke the emergence of insolvent debtors.

As a result, there is a growing number of orders for the companies to recover the debt. [Some of them use modern information technology to successfully hunt for such debtors.](#)

### We produce what we do not need

In order not to reduce production capacity corporations usually continue producing commodities when there is no demand in the domestic market. They produce the commodities as long as they are able to sell at least something at a profit. Of course, it is a difficult task to manage the values of production capacity (labour inputs, the use of equipment and other). Its solution requires a different approach to economics (the basics can be found in S-economics).

### Money: commodity and management tool

It is common knowledge that state budget deficit is often covered by means of money issue. Seigniorage is in fact an unlawful “inflation tax” for manufacturers of real commodities.

The fact that money continues to be a commodity in the times of network technologies and electronic document management is a sign of unsoundness of the existing em.



Now in the epoch of the Internet when information technologies have transformed the way we perform many activities, Nobel laureates in economics continue reasoning about money as about a special intermediary commodity. The view on money as a commodity unconditionally dominates among economists, many of whom believe that if money is 100 percent backed by gold the economy will gain stability.

In case “the gold approach” is adopted, the largest amount of money would belong to a country that possesses the largest amount of gold and advanced mining and processing technologies.

In particular, the biggest gold deposit is located in the Republic of South Africa (Witwatersrand, the province of Transvaal). Witwatersrand’s estimated deposits of gold equal tens of thousands of tons.

With such an approach, a considerable part of resources would be directed not to the production of [vc](#), but to the production and acquisition of gold, diamonds or any other precious backing of money. Besides, the implementation of the concept of money backed by something precious is connected to the issue of control over the availability of “precious backing” (the required monitoring of the declared amount of “precious backing” is a task that has no practical solution).

Those who profit from using money as an extremely profitable instrument consider it appropriate that institutions emitting money (the central banks) and institutions trading in money in the form of interest loans (commercial banks) by right have advantages over manufacturers of real commodities. They consider it natural that the returns on money issuance and money trade by far exceed the profitability of other instruments. They are not concerned about the fact that, because of their high profitability, many young minds seek openings in the spheres where money is made, but not in the spheres where [s-members](#) are working.

At the present stage of property relations the core of the money problem is to find an implementable way (on the basis of tested information technologies) of documenting the recorded value of

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real commodities and property status of economic agents that will ensure that the value of their property right can be altered only as a result of the purchase and sale of real commodities and contractual investments in their production.

Money has been used as a commodity as long as the division of labour has existed in production. We would like to note two of the many stages of the history of money.

### Money made of rare materials

As long as items made of rare materials (silver, gold) were used as money, it performed its function as an intermediary commodity quite satisfactorily. Of course, in such conditions those who produced such money in large quantities had a distinct advantage.

### Entries in bank books and fiat money

◇ The replacement of the intermediary commodity in the form of commodity money (made of precious metals) by entries in the books of banks and fiat money was the beginning of a massive economic fraud that continues up to now. ◇

The matter is not only that it is incomparably easier to make entries in the books of banks and issue fiat money than to produce real commodities and mint money from precious metals. The matter is that present bank money and fiat money are not bound with the purchase and sale of real commodities [[Federal Reserve Bank of Chicago](#)].

The use of fiat money in Moscow, Saint Petersburg and other cities of Russia that continues in 2012 as well is deprived of non-criminal grounds.

Banking technologies of online transactions (payments, transfer of money from one account to another, etc) and bank card operations (payments for purchases, household bills, etc) are customary for the active part of the population. Elderly people cope with paying by credit cards as well.

Cash bribes, attacks on cash messengers and other crimes that have become common in cities are possible due to the unreasonable use of fiat money.

At the present stage fiat money is beneficial above all for criminally oriented bankers (we mean here not only large sums that they get for money laundering), but also for corrupt officials and other thieves.

### Money as a management tool

**PM: money** [Krugman P., chapter 14, p. 381](#)



Money is the essential channel that links the various parts of the modern economy.

Before the appearance of money theories, money had been considered the key tool of economic activity management.

Nowadays discretionary changes of money supply and loans availability are considered one of the most important means of influencing demand for production of

real commodities and “the inflation tax” has assumed its role as a common solution to not only budget deficit problems of public administration.

PM: money [Krugman P., chapter 14, p. 410](#)

1. **Money** is any asset that can easily be used to purchase goods and services. **Currency in circulation** and **checkable bank deposits** are both considered part of the **money supply**. Money plays three roles: it is a **medium of exchange** used for transactions, a **store of value** that holds purchasing power over time, and a **unit of account** in which prices are stated.
2. Over time, **commodity money**, which consists of goods possessing value aside from their role as money, such as gold and silver coins, was replaced by **commodity-backed money**, such as paper currency backed by gold. Today the dollar is pure **fiat money**, whose value derives solely from its official role.
3. The Federal Reserve calculates two measures of the money supply. M1 is the narrowest **monetary aggregate**, containing only currency in circulation, traveler's checks, and checkable bank deposits. M2 includes a wider range of assets called **near-moneys**, mainly other forms of bank deposits, that can easily be converted into checkable bank deposits.
4. Banks allow depositors immediate access to their funds, but they also lend out most of the funds deposited in their care. To meet demands for cash, they maintain **bank reserves** composed of both currency held in vaults and deposits at the Federal Reserve. The **reserve ratio** is the ratio of bank reserves to bank deposits. A **T-account** summarizes a bank's financial position, with loans and reserves counted as assets, and deposits counted as liabilities.

### Emission of money and trade in credits

The way money is distributed among economic agents and circulates in the economy is not bound by comprehensive rules with the purchase and sale of real commodities.

Money is still considered as a super profitable commodity. Those controlling its

production have many ways to change the amount of this commodity in the market and to manipulate its availability at their own profit. Banks (supervised by central banks) generate credit money and sell it at interest.

◇ The fact that in a banking system at any time sum A that includes the issued credit money and the money lent together with interest to be earned is smaller than sum B of the debt that borrowers are

obliged to repay (B-A: loan interest) is in defiance of common sense (as the relation B-A doesn't exist).

In a banking system designed in this way it is, by definition, impossible to repay all debts. ◊

### Money substitutes and stock market

The modern market of securities is above all a speculative instrument of the players of this market.

The destructive influence of the above-mentioned instrument is especially harmful for the development of manufacturing plants producing vc.

Various booms, with ensuing problems of insufficient demand for production, represent a well-known result of such influence.

Manufacturers of real commodities are among those who have to suffer from stock exchange speculation. A very important component of the stock exchange mechanism is a complex of tools that can influence the moods of stock exchange speculators. Provoking panic data can be spread on purpose. Such data can be released by «respectable analysts» and high officials (it depends upon the scale of impact of a planned event)]. Having bought the shares whose price has tumbled, those who cash in on stock market breaks, organize another commotion that is aimed at a sharp rise in the price of the shares they have previously acquired.

In the epoch of Internet the investment model should provide the protection of investors and investees against harmful consequences of centralization, monopolization and exposure to provocative factors that cause unrest in the stock market. In other words, the protection is required against what is not forbidden, but forms the basis of the existing system of speculative investment (a small number of stock exchanges of the global scale, published dynamics of indices, regular quotations, etc).

Various money substitutes (so-called securities) are issued on the basis of the interests of those who organize stock games with the inbuilt mechanism of speculative panic, centralized management, and iconic indices of business activity, sessions and global alert.

The securities and stock markets concept is no more adequate than the concept of the current monetary system.

### The value of an enterprise in terms of stock

The stock value of an enterprise in terms of reflects speculatively changeable assumptions of the stock market players. Above all, it reflects the assumption about possible profit from speculative manipulation with securities. Such an assumption has little to do with the value of an enterprise as a means of production.

### Illegal types of transaction

Nowadays the following types of transactions are permissible:

1. *real commodities - money* (real commodities are exchanged for money);
2. *money-securities* (money is exchanged for obligations, shares and other money substitutes);
3. *money-money* (currency trade);
4. *real commodities - securities* (real commodities are exchanged for bills);
5. *real commodities for real commodities* (real commodities are exchanged for other real commodities).

In normalized economy types of transactions 2, 3 and 4 are inadmissible, and transactions *real commodities -money* are essential.

### Banking insecurity

◇ In modern banking in Russia a person who has entered into a deposit agreement with a bank (in fact a bank's creditor) receives a document in exchange for his money where nothing is said about the bank's liability in case it fails to fulfil its commitments. At the same time, banks carefully specify liabilities of borrowers in their agreements. ◇

### Operations without confirmation of the account holder

The fact that modern banking technologies are provoking fraud proves the professional impropriety of the management of the

central banks. These technologies violate [the axiom of permissible operations](#).

### Online banking services: lacking unification and commitment

Have you ever thought why in the epoch of the Internet and telecommunications not all banks provide services of immediate online payments according to the following scheme:

<the payment order of the payer with indicated requisites of his account, the account of the payee and the amount of the payment >  
<immediate transfer of the stated amount from the payer's account to the account of the payee>?

Meanwhile Russian banks are developing online services as they want to. These days the non-availability of such services, or the poor quality of online services is unconditional evidence of the technological backwardness of a bank (of course, if the clients of the bank have reliable internet connection in the area).

Surely, the central bank of each technologically advanced country should take the initiative as to the development of requirements for unified online bank services.

It is necessary to elaborate online service requirements for each type of bank operations (payments, etc). It is also necessary to discuss them in detail, test them, introduce the necessary improvements and finally approve the tested requirements as a standard.

Unification of technologies in online banking involves gradual unification of technological infrastructure of the country's banks.

The unified technological banking infrastructure of the country (its management coordination component, banking networks, hardware and software, etc) is as important as transport infrastructure.

### Supporting banks at the expense of taxpayers

At the beginning of 2009 (when the financial crisis came to Russia) the government of the RF took a decision to grant a number of Russian banks huge loans (to support their activities).

With the right approach loans were to have been extended not to the banks, but to the particular manufacturers of vital commodities (in accordance with the list of priority vc approved by the Government).

The first places in the above-mentioned list should be given to manufacturers of vc. Loans should have been given against contractual obligations to the government (but not to the banks!). Among contractual obligations there should have been the obligation to repay the loans to Russian banks at maturity (in this way the banks would have improved their condition as well).

In that event banks were to be a technological tool: to transfer money from a certain public account to the borrower's account (from the list approved by the Government).

With the right approach, public money would have been used to support manufacturers of real commodities. Instead it was used by the banks at their own discretion (in particular, it was spent on speculations in the currency exchange market).

### Global governance of international trade and currencies-intermediaries

These days many participants of foreign trade transactions do not use their national currencies, but instead use the US dollar, which plays the role of a global reserve currency. Dollars issued in the USA (but not backed by real commodities produced in the USA) are used not only to import real commodities to the USA but are lent to "the dollar-addicted global contingent" (which backs this currency by their real commodities when they use dollars in foreign trade contracts).

At present the WTO and other international organizations carry out global governance of external exchanges between their member countries. The existence of such governance is justified by leading American economists [[Krugman P., Wells R. 2005, 2](#)].

### Absence of lists of priority vital commodities

The decisions about imports and exports of vc, should not be taken solely by the participants of economic activity. It is necessary to



direct their activities by the rule of law to the development and protection of a country's potential (by means of changing the amount of taxes, duties and other instruments).

Lists of priority vc, both imported and exported, should be subject to constant monitoring by state economic agencies. These lists should be revised quarterly (depending upon the availability and quality of vc in the domestic market).

### Fantasies about a global currency

Before we start reasoning about a global central bank it would be wise to give answers to practical questions.

There are no reasons to suppose that the prospective global community will be peaceful. It is well-known that there are inter-faith and inter-ethnic conflicts inside countries. So, states will continue to exist for a long time (with their borders, currency, etc) as it is the present state of things.

### Non-efficiency of the gold and foreign exchange reserves

The present-day gold and foreign exchange reserves of Russia are vulnerable, as the existing concept of money is inadequate: changes of commodity capacity of a currency and gold prices are beyond the effective control of the reserve holder and the reserves don't work in the Russian economy.

### Dominance of the financial sector

The inadequate functioning of the em is also proved by the fact that the financial sector of the economy has become more significant than the real sector that produces commodities.

This dominance has been raised for centuries. Belonging to influential circles of the financial sector became attractive for former high ranking officials long ago. They occupy "strategic highs" in commercial financial institutions not only in Russia, and the former "toilers" of the financial sector "penetrate" into state authorities. Ideology financial dominance is clearly expressed in the description of the purpose and function of the Federal Reserve System [[The Board of Governors of the Federal Reserve System](#)].

### Degradation of ambitions

The choice of lifework by an able-bodied individual depends on his ambitions and social stimulation.

In the last few decades the portion of those who want to become professionals designing new buildings, technologies, machines; exploiting existing facilities and equipment; providing educational and recreational services etc, is persistently decreasing.

The superstructure represented by the current financial sector and corrupted officials with their valets has been formed and is rapidly growing.

### Money “worshippers”

“Making money from money” is a very popular activity nowadays. The number of capable people consuming commodities but not producing them is growing in both low-income and high-income countries. Their idols are lucky financial speculators, credit sellers and other masters of making money from money.

### Destruction of the human resource base

The modern world is an environment of interaction between people and machines. The tendency of the growing number of machines designed for different purposes has existed for a long time.

Machines are becoming more complicated. The importance of engineers, technicians and workers able to invent, design, produce and exploit the growing vehicle park of increasing complexity should also increase. But in the last decades engineering professions (with rare exceptions) have become less attractive than the professions of managers, economists, lawyers, humorists, etc.

Qualified engineers, technicians, workers are the human resource base of a country. Of course, those who care about the country's well-being do not destroy this base on purpose. But it is necessary to know how to enhance it in a particular economic environment.

### What supports the defective economic mechanism

◇ The inadequacy of the em is the real reason for crises. This inadequacy manifests itself in the fact that the number of people

who consume commodities, but do not produce them, is growing year after year.

The structure of the real sector of economy is deformed by the operating principles of the defective em (where money remains the most profitable commodity). ◇

Among the factors supporting the existence of an inadequate em are the population's passion for speculating in stock and currency markets, economic ignorance and the involvement of financial managers and high rank officials in solving problems at the expense of manufactures.

The fact that money and securities are issued and distributed without rules (that establish the connection with the purchase and sale of real commodities), and that they are sold on equal conditions with real commodities, is an oddity that should be eliminated as soon as possible.

The present-day em has remained the same since before-the-Internet epoch. Yet these days it is hard to find a bank not connected by means of a network with other banks and not using modern information technologies.

Even when electronic documents are used in all kinds of activities (including economic activity), money is still used as a commodity. Further market players continue generating various kinds of money substitutes (bills, shares, bonds, etc), which they sell and buy.

### Lack of methodology

EM is one of the most complicated and dynamically changing complexes invented by man. It consists of organizational and technical components. It has been fundamentally changed several times during its existence. The changes were of a spontaneous reflexive character. Never before scientifically grounded modeling of an em (with stated goals and objectives) was done.

The functioning of the modern market em (further the EM) is to a great extent determined by the awareness of the economic agents (included within this complex), the quality of documenting transactions and property status. The degree of awareness of

economic agents determines their decisions as to the purchase and sale transactions, borrowing, investment, etc.

The settlement of a transaction is documented. Commodities have specifications.

The property status of economic agents is expressed in the form of certain amounts of money in their accounts and papers confirming their ownership of something require unified representation.

Money as a standard of value, means of payment and representation of inventory cost component of their property status, is a necessary means of implementing commodity-money transactions in the s-environment.

◇ Modifications of economic relations and information technologies should be reflected in adequate changes in the em. So it is necessary to constantly monitor such modifications and renew the methodology of the EM design process. ◇

### Uncertainty of goals and objectives

Since ancient times neither engineers nor scientists involved in research on natural and artificial objects have often expressed their views on economic management. Of course this fact could not help but affect the quality of economic concepts and theories.

Nebulous definitions, manipulations with immeasurable values, unstated objectives and constraints, as far as the applicability of the model is concerned, and the ignoring of modern information technologies are characteristic features of such works on economics.

They speak about economic activity as of natural disasters (“the crisis has burst out”, etc) and gambling (“go bull”, etc).

◇ Popular economic models do not satisfy the requirements that scientific and technological models should meet. These requirements are the symbolic or physical mapping of an object in the chosen simulation environment, provided that this mapping is done with given constraints corresponding with the objectives, conditions and application of the model.

It is impossible to prove the adequacy of the popular economic models in the sense that this is customarily done for scientific and technological models, where the adequacy of a model is determined by its consistency with the objectives it was designed to achieve (predictive power and accuracy of the result received by achieving the objectives).

In modern economic models implemented in the s- environment complex, notions are not defined in accordance with the requirements of constructability.

1. Representation in the form of the pair <the description of the application area>, <the s-model of the notion systems >;
2. The system of notions that is considered defined should not include notions that have no definitions (and are not notions-axioms);
3. The area of applicability of the system that is defined should contain descriptions of correspondent types (addressees of the definition); the objective, in the process of achieving of which, the definition has sense (types of tasks to study for which the definition can be useful); stages at which it is expedient to use the definition (the concept study of the problem , methodology of its solution or other).

Models that do not include task description, constraints corresponding with the objectives and conditions of modeling and application, do not satisfy the requirements for models used in the s-environment. Theories of money represent such models [[Friedman M.](#)], [[Friedman M., Bordo M.](#)]. ◊

### “Quantitative models” with immeasurable values

There are items that we have learnt to measure: units of measurement have been introduced, measuring tools have been invented and constructed. We can measure length, weight, temperature and many other parameters. But there are many more things that we are, as yet, unable to measure.

In science and engineering they use quantitative models consisting of a certain number of definite notions represented by measurable values (variables) and the given relationships between them.

They formulate tasks on the basis of such models: by setting the value of a number of variables considered known (input variables) it is possible to calculate the value of the variables considered unknown (output variables). The adequacy of the model is checked by matching the calculated values of output variables with those measured.

Inventors of qualitative theories of money [[Friedman M.](#)], [[Friedman M.](#), [Bordo M.](#)], didn't seem to be confused by the fact that those values they manipulated were immeasurable. Talking about the total amount of transactions they don't distinguish them by type.

More than that, in their "theories" money (as a measure of value) is also a commodity and the purchase and sale of currency and other various money substitutes (the so-called securities) are not distinguished from the purchase and sale of real commodities.

In other words, popular theories of money contain methodological mistakes making it impossible to consider these works as scientific theories.

### [About proposals on the monetary system and banking](#)

The reform of the monetary system and banking is offered as a means of improving the existing pm.

For example [[Huber J.](#), [Robertson J.](#)]

1. «Central banks should create the amount of new non-cash money (as well as cash) they decide is needed to increase the money supply, by crediting it to their governments as public revenue. Governments should then put it into circulation by spending it.
2. It should become infeasible and be made illegal for anyone else to create new money denominated in an official currency. Commercial banks will thus be excluded from creating new credit as they do now, and be limited to credit-broking as financial intermediaries.»



### SM: the normalized economic mechanism

Economic performance depends on an architecture of em, stocks of resources, technological levels of production plants, productivity of farms, creativity and earning capacity of those involved in economic activity.

- ◇ We consider expedient such architecture of sm that would stimulate the citizens of a country
- to produce the required amount of vital commodities of the appropriate quality (including those necessary for defence) and maintain rational production structure;
  - to invent and apply advanced technologies and means of their realization;
  - to improve the educational system and the system of scientific research;
  - to treat with care the human gene pool and natural resources (water, fossils, etc). ◇

Not all countries can manufacture vc independently (like Russia).

The composition of such commodities varies from country to country.

Joint-stock ventures, mutual investments, international trade unite manufacturers of different countries and make them beneficially interdependent.

◇ We assume that economic well-being of a country (as a participant of global status rivalry) is determined, above all, its ability to provide itself with a sufficient amount of vital commodities of the appropriate quality (including commodities for military defence), the ability to maintain a rational structure of production and the improvement in the qualifications of the work force. ◇

SM includes the following complexes:

1. production of real commodities (*rc-production*);
2. trade of real commodities (*rc-trade*);
3. stockpiling of vital goods (*vg-stockpiling*);
4. contractual money investment;

5. the state budget, reserves, taxes and duties;
6. regional budgets and taxes;
7. social security funds;
8. documenting the results of economic activity (*ea-documentation*);
9. management of economic activity (*ea-management*).

SM-composition	
EA-management	RC-production
	RC-trade
	VG-stockpiling
	Contractual money investment
	The state budget, reserves, taxes and duties
	Regional budgets and taxes
	Social security funds
	EA-documentation

◇ SM functioning is determined by a *system of obligatory and guiding regulations* [[Ilyin A.V.](#), [Ilyin V.D.](#)].

Obligatory regulations include the ones relevant to the country's laws, and regulations that determine the relations of economic coordination between corporations and citizens of different countries must be referred to as orienting regulations. ◇

### Management of economic activity

The complex of management of economic activity (*ea-management*):

- sets the goals and objectives for the development and improvement of complexes 1-5;



- directs and stimulates economic activity through taxes, excise, duties and other means of economic regulation;
- coordinates the fulfilment of the objectives and controls the results achieved.

The complex of ea-management includes state institutions (ministries and the central bank) and commercial institutions (boards of directors, etc).

### RC-production and sale of real commodities

□ *RC-production* is the transformation of original resources (labour, equipment, materials, etc) into real commodities of certain types. □

Manufacturers of real commodities: the systems of water-, heat- and energy supply; plants producing foodstuffs, clothing and footwear; complexes constructing buildings, bridges, roads; planning and design offices, institutions for scientific research; education, recreational and healthcare facilities.

The complex of distribution includes wholesale and retails companies (domestic and international) and means of storage and delivery.

### Division of labour and specialization

The division of labour and specialization of manufacturers have resulted not only in improved products and increased productivity, but also in a number of social problems (including the problems of “single-industry towns”).

Job creation for the able-bodied population of modern plants is one of the goals of economic activity management that constantly remains urgent. An acceptable solution to this problem requires a revision of production and distribution technologies.

### Modularity, unification, complexing

The principle of constructing complexes from unified modules does not require an explanation. Modern production plants should be built (and those built earlier should be rebuilt) in accordance with this principle.

Manufacturing complexes made from unified modules is the key method to solving the problem of unemployment among employable population.

### Ordered production

The higher the cost of a product, the less reasonable it is to produce it without an order and delivery contract. Production to order is an alternative to production to the warehouse.

This mode of production is technologically provided by the services of the s-environment (in particular, by services of information portals of modern corporations).

### An alternative to “economic growth”

Energy saving technologies for light and heat cause the reduction of energy consumption, and transition from paper documents to electronic documents will lead to the reduction of paper consumption.

The list of examples of inevitable reduction of consumption that has become a consequence of technological advancements is easy to continue.

Useful, functionally flexible, reliable and durable commodities should substitute commodities that do not have such characteristics.

The popular cult of “economic growth” that is formulated as the total value of commodities bought, should be replaced by striving for technological rationalization of production of reliable and durable essential commodities.

### I-enterprises and C-corporations

In sm-system, economic agents are divided into *commercial* and *not-for profit* ones.

Not-for-profit economic agents have a right to sell only assets that are their personal property. All those who have a right to sell other items of property belong to commercial organizations.

Commercial economic agents can be either single proprietors or representatives of c-corporations.

### Individual enterprise (i-enterprise)

Individual enterprise is set up by one economic agent. In order to enroll the enterprise in the public electronic register, it is necessary to submit the articles of association of the sole proprietorship endorsed by the founder's digital signature (together with the list of commodity types that it is going to produce). The articles of association should be drawn up according to the template approved by law.

### C-corporation

A c-corporation is set up by more than one economic agents. The founding treaty should include the amount of money invested by each of the founders and /or property objects, initial division of powers, conditions of withdrawal of the founders and accession of new members (if it is stipulated in the articles of association).

Articles of association are unified instruments of economic strength created on the basis of a template approved by law.

The template charter of a c-corporation has a form of a questionnaire that includes a sufficient number of points. The founding treaty and the articles of association (endorsed by the founders' digital signature) are a comprehensive set of documents necessary for the public electronic registration of the enterprise in the sm-system.

The documentary proof of a state filing is the assignment of a unique global identifier to a business corporation that is necessary to open a account of the given business corporation.

The corporate charter points out who is entitled to manage the monetary and non-monetary funds and to carry out sales transactions of property items that belong to the business corporation.

References to relevant sections of the business corporation's account are scheduled to be included into the perpetuity-account of the managers.

### Liability

◇ Sole proprietors and managers of monetary funds and property items of business corporations are liable for all their property. ◇

### VG-stockpiling

◇ In addition to the state reserves it is desirable to develop a non-government stockpiling of vital goods. ◇

### Trade buffer

Vital goods in the depository networks of state and non-government vg-stockpiles are a useful trade buffer (both for consumers and producers and for those engaged in wholesaling).

The volume of different types of stockpiled vital goods is to be changed depending on the situation in a country, but in any case such a trade buffer contributes to better predictability of vital goods sales and, as a result, to the greater stability of production.

Rational management of vg-stockpiling is an important objective, and the results of such decisions influence price stability.

### The object of safe investment

It is rational to construct and exploit a depository network of non-government vg-stockpiles; these should attract deposits of vital goods from investments by individuals and corporates.

### Business activity recording

The core of the ea-documentation complex is the *property status system (ps-system)*.

The recording of sale and purchase transactions, investments, gifts and donations, and the recording of public dues payments, is done by the personal e-banks of economic agents (where original accounts and other documents of business activity are kept). The copy of each account is updated after the closing of the deal on the servers of bank-providers that play the role of certifying centers and

depositories of updated copies of the ea-accounts and other documents, and the same operations are performed on the servers of central bank once a day (or at another time period set by law).

The recording of corporations' internal operations is carried out using their own resources (on the basis of a form of documents and rules of document flow set by law).

All the recording processes are carried out in accordance with program-implemented system rules.

Each stage of recording is done on the basis of advanced information technologies using tested s-machines that are employed as the firmware of personal e-banks, the servers of the central bank and the bank-provider.

It is rational to implement *e-documentation of commodities (EDC)* in the form of *EDC-services*.

There should be a specification for every commodity that has a division *Documentation* which contents are hyperlinks to the set of e-documents which specify all parameters of the commodity.

### Property items and their exchange

*Specified property items of a sm-system (s-items)* – are means of rc-production, rc-trade, vg-stockpiling, ea-documentation, ea-management belonging to legal and physical entities (economic agents) and consumer items, registered in the sm-system.

SM: s-items
Means of rc-production, rc-trade, vg-stockpiling, ea-documentation and ea-management
Consumer items

Every s-item corresponds to a unified electronic specification that includes its name, purpose and characteristics.

If it is a manufactured item, then a manufacturer and a release date and expiry date are recorded. A reference for sales and delivery regulations is indicated for the item to be sold.

The s-item specification is an e-document that presents it as a commodity.

□ *A commodity* is a selling s-item. □

Categories and types of commodities are to be determined by law. Within their categories (food, clothing, etc.) every type of commodity (in the category of food: bakeries, dairies, etc.) must have a unified specification that includes the number of this type according to the priority list of the category of commodities, information about customs duties and on the terms of sale within and outside the sm-system.

The type of commodity, within a certain category, determines the level of duties applicable on domestic and overseas sales.

S-items of refundable property exchange include:

- real commodities (including services of state mechanism);
- savings (money savings and non-monetary savings) of economic agents, reflected in their ea-accounts.

Money savings are used in purchase and sale transactions and in contractual sm-money investments.

Non-monetary savings, reflected in accounts by hyperlinks to specifications of registered property, are used in sales transactions involving credit (as collateralized property of the customer) and in contractual sm-money investments (as collateralized property of the investment recipient).

Donations (of real commodities and/or sm-money savings), contributions and etc. relate to free of charge property exchange (the exhaustive list and terms of fulfillment are to be fixed by law).

### **The system of property status (ps-system)**

□ *The system of property status (ps-system)* implemented in s-environment is the system of e-documentary representation of

monetary and non-monetary components, that reflect property status of economic agents.

Monetary components are represented in sm-money amounts that are in the currency sections of *unique unified multicurrency accounts of economic agents (ea-accounts)*.

Non-monetary components of ps-system are represented by hyperlinks to e-documents proving ownership of land, houses, etc. □

### SM-money: normalized money

- *SM-money* is an e-document that serves for
  - quantify representation of values of commodities and monetary components of ea-account;
  - payment of commodities, tax and duty;
  - accumulation of wealth in universal form;
  - contractual monetary investment;
  - monetary gifts and donations.

SM-money is represented by records in ea-accounts, which certify property rights to a share of the commodity value of the sm-systems and property liabilities in relation to other economic agents.

Real numbers with a sign are used to present the sums in ea-accounts (the minus sign is used for those sums that are to be returned, the plus sign for those sums which have been received in accordance with contracts of closed transactions).

SM-money has two states: *assigned* (☼ a debt due to a commodity purchase; investment; tax, etc. ☼) and *non-assigned* (sums in the *l own* items of ea-accounts).

*Assigned sm-money* may be used only for a certain purpose [☼ those received from investors can be used in accordance with the investment contract (purchase of new equipment, etc.) ☼].

*Non-assigned sm-money* is used according to the self-determination of the owner of ea-account (in any permissible deal). □

◇ SM-money is not a commodity [i.e. the possibility of borrowing (without purchase of commodities) and trading in currencies is excluded]. ◇

### Representation of commodity value

A market value of a commodity is expressed by an amount of sm-money and is a result of trade-off between a buyer and a seller which depends on supply and demand.

### SM-money as a store of value

The sm-money savings of an economic agent are reflected in his ea-account in the form of records of the currency sums in the items *I own* and in sub-divisions *I invested* of the item *Investment*.

The values of the item *I own* implies unrelated savings [non-assigned sm-money sums]; investment accumulation is recorded in subdivision *I invested* (an assigned sums that can be used only in accordance with investment contracts).

### Representation of property status

Defined by law the aggregate sm-money sums in the items of a ea-account represents the sm-money component of an economic agent's property status:

- savings;
- debts (an amount in the subdivision *Received* of the item *Lending*);
- liabilities of the investment recipient.

### Purchasing power (tradable capacity) of sm-money

☀ Let us assume that in some region of an sm-system one can purchase  $el[A]$  kilowatt hours of electric power for  $A$  roubles or  $wa[A]$  litres of fresh water. Amounts  $el[A]$  and  $wa[A]$  represent a regional tradable capacity of sm-money (in roubles) for electric power and fresh water. ☀

The tradable capacity of sm-money for similar types of commodities (☀ electric power, fresh water ☀) can vary significantly in different regions of the sm-system.



It is rational to use the same amount A in all the regions within the sm-system (to make comparisons of the regional tradable capacities for the chosen type of a commodity).

Changes over time in the regional tradable capacity of sm-money (for commodity types) reflect changes in the supply-and-demand situation (for commodities of these types). Data about these changes play an important role for producers and investors.

It is efficient to publish changes in regional tradable capacity of sm-money (for commodity types) on special web-sites of trade and bank portals.

The prevailing continuous decrease of the tradable capacity of money in pm-systems, as a rule, is determined by money emission and loan granting not only for purchases of commodities. The decrease of tradable capacity of money occurs also due to the employment of securities as a means of payment for real commodities. Besides modern banking technologies do not exclude the possibility of using (for some period of time) money on clients' accounts (without letting them know about it).

Thus the organized decrease in the tradable capacity of money is fraud that is resulting in decrease in the purchasing power of money belonging to those who produce real commodities and selling them. Economic theorists explain this fraud as something for which there is no alternatives in the market economy.

### **Unique unified multicurrency account of economic agent (ea-account)**

□ *EA-account* is a unified e-document consisting of currency sections (which are activated by the central bank), each of which has the following basic items:

- *I own*
- *Lending*
- *Investment*
- *Taxes and duties*
- *Gifting*
- *Donation*

The item *I own* includes an amount of sm-money that can be used for any permissible deals (purchases, investments, etc.).

The item *Lending* has two subdivisions *Granted* (a sum of sm-money lent) and *Received* (a sum of borrowed sm-money).

The item *Investment* includes the subdivisions *Invested* (a sum of invested sm-money) and *Received* (a sum of received investments).

There are other subdivisions in other items also. □

Having assigned a time period, one can have specification on subdivisions for any item of the ea-account.

The set of permissible operations for amounts recorded to ea-account is determined by subdivisions of ea-account to which they belong (☼ an amount from the *Received* subdivision of an item *Lending* cannot be used for granting loans ☼).

As far as an ea-account has a multicurrency structure, it can be applied to record the results of internal and overseas economic activities.

The application of ea-accounts assumes that every economic agent has his own unique identifier (2010.06.25 a conceptually similar project «[National Strategy for Trusted Identities in Cyberspace](#)» was published in the USA).

Services of e-banking and the functioning of the ea-accounts are based on a programable sets of rules fixed by law.

Access to the ea-account, reading of its content and recording of something are carried out by certified software that is installed on the s-machine of a personal e-bank (peb). Any change is registered, and a copy is automatically sent to a bank-provider that serves this peb.

□ *The ea-account contains only those amounts which are paid with taxes, duties or other charges imposed by law.* □

### Permissible transactions with results reported in the ea-accounts

Only results of transactions that are allowed by law may be recorded in ea-accounts [purchase and sale of real commodities (using lending or free from it), contractual investment, registration of real estate and etc].

### Banking system

The Banking system of sm is the primary means of ea-documentation.

It includes personal electronic banks of economic agents (*personal e-banks – PEBs*), *banks-providers* and *central bank*, which manages all the other banks.

### Central bank

□ A *central bank* is a state institution that manages the banking system.

The central bank performs the following functions:

- grants and revokes licences to carry out banking activity (for owners of PEBs and banks-providers);
- activates and deactivates the currency parts of ea-accounts;
- controls implementation of banking activity rules;
- analyses the financial component of the sm-system's activity and presents the results of analysis in order set by law;
- develops, modifies and approves tested unified forms of banking documents (including ea-accounts);
- controls the efficiency of monetary state reserve funds and social protection funds allocation, etc. □

The central bank possesses a network of servers located on the territory of a country under whose jurisdiction the sm-system functions.

### Banks-providers

□ *Bank-provider* is a commercial institution established by legal entity (or by associations of legal entities, physical entities, legal and

physical entities) which deals with rc-production, rc-trade or vg-stockpiling.

The bank-provider produces and sells unified e-services to owners of ea-accounts (keeping updated copies of ea-accounts and other services).

These services include:

- processing inquiries of ea-account's owners, which are directed by PEBs when the deal is effected (including inquiries certifying the state of the ea-account, sent to business partners upon authorization by the ea-account's owner);
- storing of the copies of ea-accounts;
- analysis of investment inquiries of clients (prospective investors and investment recipient); banks-providers can execute orders of investment recipients to consolidate investors' orders in order to accumulate the ordered investment sum;
- registering signed agreements [for permissible transactions] and maintaining the database of such agreements;
- legal support of deals etc.

Legal support of deals is an important component of bank-provider's services. □

The bank-provider comprises a consolidated network of servers, designed to process the inquiries of PEBs' owners and to interact with the servers of a central bank.

### Notes on implementation

1. It is rational that banks-providers should be established by legal entities, which have sufficient monetary as well as non-monetary property grounds (reflected in ea-accounts).
2. Rules that determine the processes of establishing, operating and liquidating of banks-providers (implemented under control of the central bank) are to be set by law.

### Personal electronic bank (PEB)

□ *PEB* is a portable s-machine (like tablet PC) with smartphone' functions. PEB stores the original ea-account and documents on deals.

The mobile banking software (sertified by central bank) is the core of PEB' application. The secure coded database of an ea-account is stored in the memory of the device, and its copy is stored on the memory card.

Records in the files of ea-account can be initiated only by ea-account' owner. □

The copies of ea-account and documents of serviced deals are kept in the data bases of bank-provider (for the period of time, set by law of the given sm-system).

### The axiom of permissibility of an operation

□ *The axiom of permissible operation* means that some changes in ea-account cannot be realized without the documentary coded confirmation of the owner of ea-account (and in some unusual situations – after getting documentary coded confirmation from a state body appointed by law). □

The operation becomes permitted (at purchase and sale transactions, lending, investment operations, etc.) only when the code “AGREE” is received from every owner of an ea-account who is involved in the transaction (in response to a forwarded query about the permissibility of the operation).

This confirmation is included in the document that reflects the operation (the owners of ea-accounts get its copy; the copy of the document is kept for a certain period of time on the servers of banks-providers; storage period of original documents in PEBs is determined by the owners of ea-accounts).

### Purchase crediting

□ *Purchase crediting* is performed in accordance with the following rules:

- the loan is granted only for a current purchase;

- a buyer may get the loan only from a seller of commodity (in form of unpaid part of the value of the commodity);
- the borrower has to repay more than he has borrowed only if he has broken the credit agreement.

The credit agreement contains the debt payment schedule (including fines in case of violation) and specification of the sanction for any loan default. The sanction is performed by realizing the collateralized property of the debtor or his guarantor. □

In particular, if the seller is the producer of the commodity then the schedule and the amount of payment may be connected with the percentage of claims, the accuracy of delivery etc.

A creditor receives fines in case of the breach of the contractual agreement of debt repayment and in case of a loan default – he will receive a certain share of the collateralized property of a bankrupt (or his guarantor).

Banks-providers participate as instruments for the e-documenting in the crediting process of seller-buyer type.

### Contractual money investment

An economic agent on the contractual basis may invest some amount of sm-money into an enterprise of another economic agent (the first is called an *investor* and the second - an *recipient of investment*).

□ *An investment contribution* - is an amount of sm-money, submitted for a certain period of time for profit shared between the investor and the recipient of investment. □

The investor offers to invest a certain amount of sm-money into the production or sale of commodities (or into vg-stockpiling or some venture project). The recipient of investment guarantees fulfillment of the contractual terms by partial value of his collateralized property.

An investor and a recipient of investment may be physical or legal entity (sole proprietor, enterpriser, institution, etc.)

In sm-system there should exist templates of e-documents for investors and investment recipients.

Investors and recipients of investment place their orders on twenty-four-hour investment portals to inform their potential partners (data about investment orders are accessible to all registered users of such portals).

Generally, sm-money investment can be presented by an investment allocation schedule. The schedule may be made for any time period (a day, a week, a month, a year, etc.).

The investment schedule may define the following allocation of amounts by months: in August of 2013 the investment should amount to not less than 1000 roubles but not more than 1100 roubles; in September – it should amount to not less than 100 roubles, but not more than 200 roubles, etc.

In an investment contract the following points must be stated: investment schedule, the rights and liabilities of a recipient of investment and an investor, and also terms and consequences of early termination of the investment contract.

The investment schedule for each time period defines the following operations:

- the amount that is specified in the schedule is deducted from the sum in the item *I own* in ea-account of the investor;
- this amount is recorded in the subdivision *Invested* of the item *Investment* in the ea-account of the investor;
- this amount is recorded in the subdivision *Received* of the item *Investment* of the ea-account of the recipient of investment.

Amounts relevant to investment schedule are kept on the ea-account of the investor (these amounts are related to *assigned sm-money*). After the investor's confirmation the sum is recorded in the subdivision *Invested* in the item *Investment* of his ea-account.

Contractual sm-money investment serves as means of:

- enterprise expansion (for the investment recipient);

- accumulation, preservation and increase of wealth (for the investor).

Contractual investment of sm-money presupposes three benefits for the investor (as a minimum):

1. incoming receivables on the investor's ea-account (rules of sum's formation and defining time periods when these sums are transferred which are contractual items);
2. price reduction for commodities being bought by the investor (types of commodities; rules determining price discounts for these types of commodities that is the components of the investment agreement);
3. contractual variant of serving the investor's orders (special projects, certain investors, etc.)

### **Multicurrency market and trade technology**

To buy or sell a certain type of commodity any member of multicurrency market may choose a partner from any country with which there is a trade agreement.

The choice can be made on trade portals where buyers and sellers place their offers.

Price of any commodity may be presented in multiple currencies (of the allowed for this type of commodities).

*Sales tax (in currency that was used in trade deal) gets the state that issued the license to sell the commodity.*

Market prices are set in deals on twenty-four-hour operating trade portals. The supply-and-demand situation determines the price dynamics for the commodity of a certain time in every time cell.

Demand is expressed by prices that consumers bid. Prices offered by them depend: on the amount of money consumers have to dispose; on the number of consumers; on consumers' willingness to borrow money to make a purchase; on the quantity and features of the commodity, presented on the market.

Supply is expressed by the prices that sellers ask. These prices depend on the quantity and quality of the commodity presented on



the market; on the number of people wishing to buy it; on the prices offered by them and a number of other factors (among which is the sellers' wish to increase their market share).

The beginning of a purchase and sale transaction is the execution of a typical contract (for this type of commodities).

Banks-providers of the buyer and seller register the fact of execution of the deal (the agreement is kept in these banks together with the payment document). The seller does not have any rights to increase the price for this commodity after the moment of the deal execution (even if there are people who want to buy it at a higher price). The commodity itself does not matter (it can be land, a house, a flat, a car or anything else).

One of the necessary components of trade technology is the legal backing of purchase and sale transactions.

The major objectives of legal backing of em functioning are following the fixed trade rules and sanctions for their violation.

Differences in domestic and international trade rules determine the differences in technologies.

Domestic trade is done according to the rules that are set by the laws of the state under whose jurisdiction the sm-system operates.

Trade deals among economic agents from different sm-systems should be done following the given *obligatory rules*:

1. the applicable set of currencies is represented an intersection of the sets of currencies that are activated by central banks of the sm-systems whose economic agents execute the deal;
2. restrictions should be made corresponding to the list of commodities that are allowed for import and export, as defined by law and by international treaties.

Coordination of trade relations between countries are necessary while developing and implementing of the above rules.

Any global regulators that are limiting the freedom of economic choice are not desirable.

### Changes in currency tradable capacity

The quantity of a commodity of a given type that can be bought for A of Russian roubles, Chinese yuans, Japanese yens or American dollars depends first of all on the demand and supply ratio for this commodity type (at some certain time period). Currency tradable capacity is also influenced by the amount of state foreign trade charges, terms of delivery and other factors.

### State budget and social security charges

Principles of state budgeting in sm-system differ from those existing now.

□ The law must determine that a part of funds of commercial economic agents is spent on maintaining a state mechanism (state human resource section, land, premises, constructions, equipment, etc.), budget organizations (educational, scientific, etc.) and disabled non-commercial economic agents (invalids, etc.).

How much of the funds should be included in this part, how to plan budget expenses and how to furnish budget support?

1. The state budget law must determine the amounts of allowance for military men, teachers, officials, pensioners and other citizens who are supported by taxpayers. Every item of expenditure must be connected with each other schedules (in trade and monetary presentations) with the fixed time period (a week, etc.)
2. Trade presentation of the expenditure item implies commodities specifications that are necessary to purchase (professional services, equipment, etc.) Monetary presentation is shown by material part for every time period (any value belonging to the section is considered as the permissible amount of expenditure).
3. The amounts of the allowances fixed by law are transferred weekly to the ea-accounts of economic agents, who are included in the state human resources section, disabled non-commercial economic agents who are supported by taxpayers.
4. Commodities (armament, equipment, etc.) are purchased in accordance with trade schedules of budget-provision.

5. At the end of each accounting period (a week) the sum spent on budget needs is distributed as a debt of commercial economic agents to support the state mechanism and disabled non-commercial economic agents (s-debt); these debts are repaid as sales tax, duties, and other state charges fixed by law of state charges.

6. The amount of the debt value of every commercial economic agent is calculated proportionally to their commercial income (considering the lifespan of the i-enterprise or c- corporation).

7. Tax and other charges fixed by law to support the state mechanism must be made automatically while executing deals (on the basis of banking services). □

It is not rational to file tax returns as all permissible deals are registered and kept in relevant data bases of banks.

### **SM-money reserve**

If the multicurrency monetary funds of the state are placed as investments of the sm-system of the given state, then the safety of these funds is guaranteed by collateralized property of investment recipients.

In this case, invested funds used to increase the capacity of the country, under the jurisdiction of that state.

Thus to make tradable capacity of these funds less vulnerable to adverse economic situations, they must be invested in the same sm-system where they were generated and accumulated.

It is rational to invest the funds in the vc-production and prioritized national projects. These investments must serve as managing incentives for producers (it is reasonable to determine regulations of the number of working places changes, production volumes of prioritized commodities, technological improvement of production in state investment agreements).

## Gradual normalization of economic mechanism

PM: starting situation	SM: target situation
Money is a commodity. Money substitutes (securities) and paper money are permitted.	SM-money is not a commodity but a means of e-documenting the results of economic activity. SM-money substitutes and paper money are not permitted.
One economic agent can have more than one bank account.	Every economic agent has his own unique electronic multicurrency account (ea-account) that reflects monetary and non-monetary (property specification) components of property.
Money issue. It is a means of solving political and economic problems at the expenses of producers of real commodities	The issuing of sm-money is excluded.
The loan is granted not only for a purchase and not only by the seller.	A loan is a deferred payment of the whole or a part price of a purchase according to a contractual schedule. It is granted only for a purchase and only by the seller.
Securities investment targeted at speculative manipulations on the stock exchange.	Contractual sm-money investment targeted at the development of real commodities production, vg-stockpiling, e-trade etc.
Domestic trade using national currency. Foreign trade using intermediary currencies.	Multicurrency market and unified technology trade.

The quest for the notorious economic growth should be replaced systematically to build a rational economic mechanism designed for the development and protection of the country's potential.

Phased construction of sm and its implementation should be the main task of the state.

It is necessary to begin the development of programmes considering the fulfillment of the following objectives that refer to all the stages of normalization of em simultaneously with the realization of first-hand programme of financial sector normalization.

Sectors of vc-production, selling and vg-stockpiling must become highly-adaptive to changes in demand for vital goods and to requirements regarding their quality.

Educational institutions must train a sufficient number of specialists to produce vc.

VC (the priority list of which must be fixed by law) must be produced on the territory of the country by its inhabitants.

□ Export and import must follow the *obligatory regulations* given below:

- export of any vc is permitted only when it is not included in the list of deficit vc;
- import of some vc is permitted only when demand for this vc is not met or the quality of imported vc is evidently higher than of those produced within the country. □

The increase of the monetary component of every citizen's property status must be reached by efficient participation in vc-production, vc-trade, vg-stockpiling, ea-documentation or ea-management.

These objectives must be re-considered at each stage depending on the results obtained.

### Infrastructure development in landed property

Not all people living in Russia are fond of land, but such people are still numerous.

If acceptable conditions are created (roads, electricity, credit state support, etc.) then many people who are fond of land will cultivate additional hectares and construct farms.

Considering modern means of transport and adequate transport communications that connect landed properties with cities and with each other, people will be able to combine urban and agricultural activities.

One of the primary objectives of our country's potential development is to develop infrastructure for those who produce real commodities, those who are fond of land, a combination of agricultural and urban activities.

The current economic model of extraterritorial profit is not suitable to realize the development of infrastructure in landed property: the producers of real commodities who are at the same time owners of the property are not in the current labour force easy to move or easy to manage.

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