Chapter 11: The state as the agent of economic policy

Analyzing in Section 8.3 the relationship between the public and the private sector in the "stateless state" model, it was shown that the costs of the existence and operation of the public sector are borne exclusively by individuals acting in the private goods sector. This is because the goods coming from them are needed both to satisfy the judges as people and to pay for public goods and services with them. It follows from this that any increase in the demand of the public sector for both private goods and services and public goods and services must result in a corresponding increase in the burden of public tribute on the people operating in the sector of private goods and services.

This conclusion is true not only for the "stateless state" model with the credit money system on which it is based. It is also true with regard to any real economy based on money created by the relevant central bank. Only that such a relationship is effectively camouflaged by the methodological approach used in mainstream economics, in which man as a subject is basically absent. In this theory, man has been pushed into the background and reduced to the role of one of many members of an aggregated entity that appears under the name of households.

In this place, the national economy as a whole was put in the spotlight. This organism consists of households, the state and enterprises[1]. Households play a subservient role in this system. As a whole, this entity serves on the one hand as a provider of the factor of production, labor, to enterprises and on the other as a consumer of the products that have been produced in the enterprise sector. Neither the internal structure of this macro-entity nor the social consequences of its changes are important for this theory. What comes to the fore is the goal of the whole economic system of the country. And this goal is the so-called sustainable economic growth with full employment. Gross domestic product (GDP) is used to measure this growth. In the following, the effects of this approach are analyzed in several steps.

11.1 The economic goal of the state: GDP growth and full employment

GDP is an aggregate measure based on the Keynesian concept of aggregate income (Keynes 1936, Chapter 6). Its value is the sum of the value of goods and services produced in a given economy during a selected period. To determine it, a model is used nowadays, which uses data collected within the System of National Accounts (SNA) developed by the United Nations. GDP growth rate and its value per capita are considered the most important indicators of the pace and level of economic development of any country.

[1] Sometimes the entity "abroad" is also included

In macroeconomic terms, three factors of production, capital, land and labor, are involved in the process of creating GDP. Each of them receives appropriate remuneration for its contribution to this process; this is the income of a given factor of production. For the factor "capital" the income is profits and interest on invested capital, for the factor "land" - land rent, and for the factor "labor" - the sum of wages[2]. The sum of these three types of income makes up the national income, which is the financial equivalent of GDP. From the income earned, each of these factors of production, after paying due taxes, finances its purchases of needed goods and services. The national income thus distributed allows the products and services created in the economy to be used according to their purpose for private consumption, business investment, and public consumption. These three aspects of GDP, i.e. creation, distribution and utilization are presented in the form of the equality (tautology)[3]:

Y = C + I + G - production and utilization of GDP,
Y = C + S + T - distribution of national income, from which it follows that:
S + T = I + G,
Where:
Y - GDP from the production side, i.e. the value of final goods and services that make up the tangible structure of GDP
C - consumption expenditures of households
I - investment expenditures of enterprises
G - public expenditure (public consumption)
S - savings of households
T – taxes

The driving force of economic growth is considered to be so-called aggregate demand. It consists of private consumer spending (C), business investment spending (I) and government spending (G). When private demand of consumers and investors for some reason does not grow or grows insufficiently to ensure so-called sustainable growth at full employment, the theory suggests that the state should intervene with public spending. Their effect is claimed to be an increase in GDP by a certain multiple of the expenditures made. The size of this spending multiplier (m) is determined by a parameter Keynes called the marginal propensity to consume[4].The purpose of such spending does not matter[5]. It is believed that in each case they set off a chain reaction

[2] It is worth noting that the meaning of the term "income" is slightly different than that used in this study (see Chapter 7.)

[3] For simplicity, the fourth component on the right side of this equality is often omitted, namely net exports (Xn), the balance of exports minus imports.

[4] In the simplest form of the model m=1/(1-c) or m=1/s, where m is the multiplier, c is the marginal propensity to consume, s is the marginal propensity to save, with c+s=1. Vide any textbook on Keynesian macroeconomics, e.g. Samuelson, Dornbusch, Krugman, Mishkin and many others.

[5] Probably to sharpen the problem, Keynes used an argument like this in his work (Keynes 1936, p. 129): "If the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coalmines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well-tried

leading directly or indirectly to an increase in employment and social welfare. Among other things, this theory leads to the practical conclusion that an increase in employment in the public sector directly contributes to combating a serious social problem, such as unemployment, and that it also translates into a corresponding increase in GDP.

In demonstrating the weaknesses of the Keynesian growth theory underlying the concept of GDP, let us begin with a matter most often overlooked in economic analysis, but which is of considerable economic and social importance. This is the physical structure of GDP. By omitting it, the image of the economy provided by comparisons of the absolute value of GDP in individual countries, as well as various relative indicators based on this aggregate, such as GDP per capita or annual GDP growth rate, does not reflect the real state of affairs, and in extreme cases, even falsifies it. Here is an example that illustrates this.

Let us suppose that in a certain closed economy half of the population works in public administration at various levels and the other half works in enterprises in the form of joint stock companies. Let part of these enterprises produce public goods, and the other part produce the means of production and capital goods needed by industry. Suppose further that the output of these enterprises is entirely bought by the recipients; the public goods are bought by the state, and the capital goods are bought by the companies themselves. In this model, the state does not collect taxes, so it finances all public expenditures with funds created for this purpose by the national central bank in accordance with a previously adopted cash plan[6]. Companies, on the other hand, finance their expenditures from sales revenues of their production. Thanks to this, the management and employees of companies, that is, the whole so-called "human capital", receive income due to them in the form of salaries, while the companies themselves, as legal persons, make profits. Let us further assume that these profits are entirely reinvested to finance development investments. Let us also assume that wages, salaries and profits grow at a rate of 15% per year, and that the prices of industrial products do not change, because the increase in personnel costs is compensated by reductions in material costs caused by technological progress and increases in labor productivity.

Under these assumptions, the real GDP growth rate calculated according to the SNA methodology would thus be 15% per year. This would be a case of the Keynesian ideal of an economy with full employment, with dynamic, constant economic growth and

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principles of *laissez-faire* to dig the notes up again (the right to do so being obtained, of course, by tendering for leases of the note-bearing territory), there need be no more unemployment and, with the help of the repercussions, the real income of the community, and its capital wealth also, would probably become a good deal greater than it actually is. It would, indeed, be more sensible to build houses and the like; but if there are political and practical difficulties in the way of this, the above would be better than nothing."

[6] This was more or less the mechanism of financing the economy envisaged by the theory of finance of a socialist economy, which was taught to students back in the 1980s. (see, for example, Fedorowicz 1970). The only difference between this economy and the model under analysis was that there was a state-owned sector of production of market goods, which, however, was always inefficient, and the private sector was tolerated only in family farming and in crafts.

with macroeconomic equilibrium between aggregate demand and aggregate supply. This equilibrium is expressed by the equality Y = C+I+G, in which the left-hand side is the aggregate supply of final goods, Y, which consists, in our model, of the value of services sold to the state by its employees and the value of final public goods needed for the functioning of the state, sold to the state by businesses, while the right-hand side is the aggregate demand, which consists, as noted above, of the demand for consumption, C, the demand for investment, I, and the demand from the public sector, G. The only thing is that consumption (C) would have to be zero, since no one in this model produces the goods that people need to live. Instead, everyone would have rapidly growing income and savings.

The problem in the case analyzed here is that the gross domestic product calculated according to SNA principles not only fails to reflect the true state of the economy, but actually obscures it. It is, of course, true that this sample economy produced the goods and services that made up the value of its GDP, and that each of its components has a specific use. It is also indisputable that both the purchaser of final goods, which here is the state, and the buyers of intermediate goods, i.e., businesses, pay for what they buy. So everything gives the appearance of a normal market. In reality, however, we are dealing with a situation in which people, for the wages they receive, cannot buy anything that could serve to satisfy their life needs, because no one there either produces goods for the population or provides the services it needs. The money income earned by people is therefore in this case a pure illusion of wealth, a perfect illustration of the concept of “empty money”, behind which there are no goods that they could receive in exchange for their services.

If there were no money in this model, the matter would be clear and unambiguous. In factories producing the goods needed by the state, people would have to work under duress and for free. Otherwise, no one would produce those goods. In the same way, people in public administration would have to work for free. For this model state, as shown in chapter 8, would have no other way to provide the goods and services it needs. If, on the other hand, the state uses its own money, it can accomplish the same thing by pretending that it does so according to market principles, that is, that it buys these goods and services and pays for them with its money. In reality, by taking over real goods and services from people, the state gives them the illusion of wealth in the form of money. In this way, it manages to expropriate people from the results of their work in a deceitful, one might say "gloved" way. We will return to this issue later in this work.

The example used above is, of course, extremely simplistic and based on the implicit assumption that what people need to live, they acquire somehow outside the model. However, the point is precisely that when we focus on the main two objectives of the national economy, which are economic growth and full employment, and ignore what makes up GDP and how government spending is financed, the conclusions drawn from such an analysis about the level of economic development and social welfare may turn out to be completely false.

In the real world, North Korea, an authoritarian communist state where private property is practically limited to personal belongings and everything else is state-owned, comes closest to this extreme model. Although there is no official data on the state of the North Korean economy, it can be said with certainty that it produces a gross domestic product each year with an identifiable value both in absolute terms and per capita. It is also possible to compare these measures both in time and in space[7]. However, leaving aside the results of such comparisons, which are of course of some importance, it cannot be denied that this aggregate is dominated from the material point of view by goods and services needed for the maintenance of the army and the implementation of the armaments program as well as imported consumer goods intended for the ruler and his court. On the other hand, the sector of goods and services for the population is of marginal interest to the authorities.

The owner of all enterprises and institutions, and therefore the only employer, is of course the state. The citizens, in turn, are obliged to work wherever they are directed. In return for their work, they receive remuneration in the amount determined by the authorities in money created by those authorities. In a purely formal sense, then, one could speak of some substitute for a market in private goods and services, since both goods and services are produced for the population and all those who work there sell their specific private services to their employer, for which they receive some remuneration. Only that this "market" has little to do either with the principle of voluntariness or with the principle of reciprocity. Both the compulsion of labor and the fact that the government decides on wages, production and the prices of other goods and services mean that the degree to which the state expropriates people of the results of their labor is extremely high. In fact, this system is closer to slavery than to a market economy. People perform the tasks set by the authorities, but in return for the payment they receive they can get little more than a bowl of rice a day, which is enough for a slave to survive. This is determined not so much by the absolute value of GDP as by the small share of goods and services for the population and the fact that the money created by the state is used for payment. The state, on the other hand, can afford to provide a life of luxury for the dictator and his courtiers and to implement an arms program, including nuclear and space armaments.

The situation of the population in other communist-type economies is slightly better in this respect. To the greatest extent it depends on the policy of the authorities with respect to the sector of goods and services for the population and on the participation of private enterprises in it. The latter are important insofar as, despite various administrative restrictions, they always adjust to demand faster than state enterprises. The more liberal the government's policy towards this sector is and the greater its share in GDP, the less visible and less acute are the problems of satisfying the needs of the

[7] See, for example, https://forsal.pl/galeria/1138735,najwieksza-zagadka-ekonomiczna-swiata-jak-duza-jest-gospodarka-korei-polnocnej-wykresy.html. accessed 3.03.2022

population resulting from the fact that state expenditures are financed by money creation.

This group of countries also includes China, a country whose pace of development measured by GDP growth rate is the subject of admiration of economists from highly developed countries. The main factor in the economic development of this country are gigantic infrastructure investments and weapons and space programs, which together account for more than 50% of GDP. Formally, those of these, which are financed directly from the state budget, account for only about 14-15% of GDP, the rest being business investment. In reality, however, the vast majority of these enterprises are under the tight control of the party apparatus, which is tantamount to public ownership. In contrast, private consumption is only about 7% of GDP (Haliżak 2016, p. 292).

In light of what was written above, it seems logical to conclude that in communist countries, where the state finances its expenditures with money created for that purpose, the extent to which the state expropriates people from the effects of their work is determined by the share of goods and services for the population in GDP. If this share is, for example, 7%, as it is in China, it means that 93% of the effects of people's efforts are taken over by the state every year to achieve its own political and economic goals. People are not even aware of this fact, because in principle they do not pay taxes. Taxes in these countries have rather non-fiscal functions[8]. Therefore, people do not feel that they are the ones who maintain the entire state apparatus. On the contrary, every time nominal wages are raised, people are convinced that the state is the cause of their rising standard of living. This is because, with rigid government prices and no taxes, the increase in nominal wages is formally identical with real growth. It is thus perceived as proof of the government's care for the standard of living of its citizens. The only problem they face directly is the permanent lack on the market of goods and services necessary for living[9]. However, no one associates this with the fact that the state creates money, which is in these circumstances de facto a tool for the expropriation of citizens from the effects of their work.

Consequently, the citizens of communist countries are also unaware of the fact that the money they have accumulated is an illusory asset with no real value. This is also determined by the fact that this saved money was created by the state, an entity which, for objective reasons, cannot supply any goods to the market. And yet, the basic function of money - let us repeat it once again - is that of a guarantor of reciprocal exchange, which it can perform only if it is created on the initiative of an entity capable of such reciprocity. The truth that accumulated monetary wealth is only an illusion of wealth becomes apparent only when the authorities cease to control prices in some segment of the market of goods and services for the population or release them

[8] Examples include income tax, which is levied only on individuals engaged in private business, inheritance and gift tax, or so-called tax surcharges. Each of these taxes is a typical tool for the state to control non-wage income and the flow of wealth between citizens.

[9] This typical feature of communist economies is aptly reflected in the title of J. Kornai's 1980 work "Economics of shortage".

altogether. Then the mechanism of cleansing the market from the accumulated monetary wealth in the form of inflation or hyperinflation is immediately activated. A good example of this can be the process of inflation in Poland in the years 1975-1994. Its scale, which is also the scale of the making real of the value of the monetary wealth accumulated in that period, is well illustrated by the fact that after a relative equilibration of the market and a stabilization of prices, on January 1, 1995 the Polish currency was denominated on a scale of 10 000:1. This does not mean, of course, that people were deprived of their wealth as a result of the denomination. This had been done earlier by inflation. The denomination only involved the "trimming" of four zeros, which had appeared successively in price lists, bank accounts and banknotes during those twenty years.

At the opposite pole from the point of view of the issues discussed here are highly developed countries with market economies. The size and structure of GDP are obviously different in each of them. The indicators based on this aggregate are also different. What is common is that these countries do not have major problems with satisfying the demand for consumer goods. Rather, the typical phenomenon is an oversupply of the vast majority of these goods. And the second thing they have in common is the same main source of financing public expenditures. This primary source is taxes of various kinds.

Formally, taxes burden directly or indirectly both the income of the population and various other collective entities, including public institutions and organizations. The multiplicity of tax titles and the objects and subjects of taxation creates a mosaic that effectively obscures the picture of what is the actual and only source of tax revenues of the state budget and the budgets of other lower-level government entities, as well as the revenues of any public funds. And that sole source from which all state tax revenues come, no matter their type or name, is revenue from the sale of goods and services earned by people operating in the market for private goods and services. This was demonstrated unequivocally in Chapter 8.

In other words, the cost of maintaining the state is borne by only two groups of people. The first are those who produce goods or provide services to the public personally or as owners of enterprises. Neither the legal and organizational form in which this activity takes place nor the size of the enterprise or institution they own or co-own is important. The second group consists of employees in enterprises and institutions engaged in the production of goods and services for the public[10]. All others are maintained by the former. For it is from them that all private goods and services purchased on the market by every individual come, regardless of his source of income. The fact that taxes are paid by everyone, including all collective entities, does not alter this truth in any way.

[10] It is worth recalling here, as discussed in Chapter 7, that employees, also called salaried workers, are essentially self-employed providers of services to their employers. They differ from other service providers only in the type of contract that binds them to their employer.

To say that the entire public sector and all providers of public goods and services are maintained by participants in the private goods market is not to say that those included in the former group do not work for a living. Quite the opposite, these people do work, and their income is the remuneration for their specific contributions performed directly or indirectly for the public sector. The point, however, is that everything they receive for this work of theirs comes from what the state will take directly or indirectly from the people in the first group. The personalist approach used here leaves no doubt about that. In macroeconomic perspective, this is not evident.

Data on the size and structure of GDP cannot be used to determine how much of the effects of work must be contributed by those in the private sector of market goods to the upkeep of all others, i.e., the entire public sector. Neither data on the size of public expenditure (component G) nor data on the size of private consumption (component C) provide a basis for this. The first of these aggregates contains expenditures on both public and private goods and services. The second aggregate contains expenditures of both those who derive their income from selling private goods and services and those who derive their income from selling public goods and services.

The second reason that makes it impossible to determine the actual degree of cost burden of maintaining the state apparatus on the incomes of those in the private goods sector is the fact that there are two sources of money in market economy countries. The first is private credit and the second is public debt. Money derived from credit extended by banks to private subjects, i.e., the population and businesses, has the property that it appears in circulation at the time the credit is granted and disappears as subsequent installments are paid. With the exception of the pathological cases discussed in Chapter 9, money created through bank credit functions as a guarantor of reciprocity of exchange. That is why it disappears when it has fulfilled that function. In contrast, money created as a result of public debt does not have this feature. This is proved by the practice of the majority of contemporary developed countries in the world, where the public debt is constantly growing. Treasury bonds, which document the fact of the existence of this debt, become embedded in the assets of banks and all other financial institutions, including pension fund assets, as long-term financial investments. From the point of view of the economy as a whole, these assets have no real value. They are claims on the state, which can only satisfy them if it collects from taxpayers the amounts needed to redeem the bonds from their income. In macroeconomic terms, therefore, they are essentially claims on all bondholders combined to their own future income. Their value documents the value of private and public goods and services that the state has already taken over gratuitously and irrevocably and used to achieve its political and economic goals.

For the reasons described above, the scale of the real burden of public tributes on the incomes of those who actually bear the costs of the existence and operation of the state is not known. Meanwhile, this very knowledge would allow us to establish the true picture of relations between the state and the distinguished two groups of people. This is the most serious shortcoming of macroeconomic theory. By focusing on the national

economy, it loses sight of the essence and purpose of what is defined as the economic activity of man as a person, and it misrepresents the nature of the social relations that are established between people in the process of farming, and between people and the state. Or is this precisely the point? After all, what matters in macroeconomics is the national economy, not people.

In this context, the above-mentioned Keynesian proposal that the state should launch additional public expenditures when private demand from consumers and investors is insufficient to ensure sustainable economic growth at full employment takes on a completely new dimension. In such a case there arises both the problem of the sources of financing of these additional expenditures and the consequences of the actions taken by the state for those who are active in the sector of private goods.

Let us start with the problem of funding sources. For formal and political reasons, the natural source, i.e. taxes, does not come into play in this case[11]. All that remains is to incur public debt by issuing government bonds. Where the law allows, the government can sell them directly to the central bank. This is the case, among others, in the USA. In this case, the direct effect of issuing treasury bonds is the creation by the central bank of an additional amount of money, which is put at the disposal of the executive power and used in accordance with the budget law. Where the law does not allow it, e.g. in Poland, treasury bonds are sold to domestic and foreign business entities, mainly to financial institutions. When the currency of issue is the national currency, the funds borrowed by the government come from the existing stock of savings accumulated in that currency. On the other hand, when bonds are issued in foreign currencies, the government uses, of course, the existing savings of foreign entities, but then additional money is created in the country. From the point of view of the final effects, therefore, it does not matter whether government bonds are bought by the domestic central bank or whether foreigners do it. In both cases, the amount of domestic money in circulation increases as a result of the issue. The only difference is that in the latter case, instead of Treasury bonds, the value of the foreign exchange reserves of the country in the assets of the central bank increases. Hardly anyone associates this fact with an increase in the national debt. Therefore, the official propaganda uses the fact of the growth of the official foreign exchange reserves as a proof of the enrichment of the state as a result of the effective economic policy of the government.

Regardless of whether the issuance of Treasury bonds causes the state to utilize existing savings or to create additional money, the effect of increasing the public debt is ultimately the same. It is the taking over by the state, in addition to taxes, of a portion of the income of those operating in the market for private goods. The only difference between the two cases is that in the first case existing incomes are taken over, and in the second - future ones. In both, however, the state seizes additional goods and services immediately and uses them in accordance with current policy objectives. In both, too,

[11] It is not possible to increase the state's tax revenue in the short term, as raising taxes or introducing new ones can only be done in accordance with the parliament's lawmaking procedure.

repayment of some or all of the debt incurred is possible only if the state collects from those in the private goods sector additionally through taxes as much as is needed for such repayment. The alternative of repaying the public debt from current government revenues with unchanged taxes is rather politically impossible. This is because it would require corresponding cuts in government spending for the entire time needed for full repayment. However, taking into account the size of the public debt, which in most of the so called highly developed countries of the world significantly exceeds the level of their annual GDP, one can safely bet diamonds against nuts that it will never be repaid.

Summing up this theme, it must be said that the increase in GDP caused by the increase in public consumption financed by public debt has the character of real growth only in the sense that the public authorities of a given country have received free of charge and transferred to various beneficiaries of the public sector in accordance with their own preferences additional goods and services of such value by which the public debt has increased in that period. And the size of that debt determines the value of the public sector debt instruments in circulation, that is, in the portfolios of their purchasers. In contrast, people in the private market goods sector are "richer" only by the stock of empty money that has been created by that debt and has come to them as payment for goods and services sold to providers of public goods and services. It is entirely a fictitious wealth.

Financing state expenditures with public debt has yet another aspect. Before those in power received a gift from macroeconomics in the form of the theory of stimulating economic growth by means of the so-called deficit spending, the doctrine of a balanced budget was in force in the public sector. It was based on the same approach as the one that has always guided most normal people. Responsible people usually try to leave their children some inheritance that will make it easier for them to start a life on their own. And when, for various reasons, they do not manage to accumulate such wealth, they at least try to avoid leaving debts to their relatives. The point is that everyone should live primarily at their own expense, and if they can - to contribute to the prosperity of their loved ones. Thanks to such an attitude, future generations could arrange their lives according to their own criteria, possibly benefiting from the material heritage of their testators, or in the worst case, having no financial burdens left by their ancestors[12].

Financing public expenditures with debt money is a practice that is absolutely contrary to the principles that guided previous generations. Whether these funds are for current or for investment expenditures, it is a fact that they are spent at the expense of future generations and for purposes that were chosen for them without asking their permission. Such disposition of other people's income is absolutely reprehensible. It should be clearly stated that every case of incurring public debt to finance expenditures resulting from the preferences of the current government means the practice of satisfying one's

[12] This does not mean, of course, that there were no cases of debts being left to heirs. However, I don't think anyone would have considered such a situation praiseworthy at the time.

own current needs at the expense of future generations. And explaining that it is being done for their benefit is a mere falsehood. Such an assessment is all the more justified because there is no possibility for citizens to reject such an inheritance, which is the public debt incurred by predecessors.

11.2 The apparent GDP growth mechanism and its association with public debt

In addition to real growth in the sense described in the previous section, debt-financed public spending has an additional effect that can be described as apparent GDP growth. This effect occurs in the financial sphere of companies and institutions with legal personality, which are obliged to prepare and publish financial statements of their activities. Before we present its mechanism, it is necessary to refer again to the methodology of estimating the value of the most important aggregate for macroeconomics, which is GDP.

As already mentioned, models based on national accounting data (SNA) are used for this purpose. This methodology is based on the thesis of classical economics that each work creates new value. Therefore, the value of all services, among others, is included in the value of gross domestic product. However, there is a practical problem with this, because the value of some services cannot be determined by adding up the value added in the successive stages of their "production", as is done in relation to material goods. In this case, therefore, the so-called income method is used. According to the logic of the system of national accounting, the sum of the value of final goods and services produced in the economy in a given period, i.e., the value of GDP from the production side, must be equal to the sum of incomes obtained by the three factors of production involved in this process, i.e., labor, capital and land. Adding up the value of wages, profits, interest and rents paid, including land rent, gives the value of national income at factor cost[13]. Therefore, if it is not possible to determine the value of some component of GDP from the output side, it is done from the income side.

Financial services are eminently unsuitable for valuation by the value added aggregation method. Hence, the contribution of financial institutions to GDP is determined by the so-called income method, i.e. by summing up salaries and profits of entities operating in this sector. All financial institutions are corporations with legal personality, and most of them are joint stock companies listed on stock exchanges. As such, they are required to apply International Accounting Standards (IAS) and to prepare and publish financial statements in accordance with the requirements of International Financial Reporting Standards (IFRS 13) [14]. This in turn has the effects described below.

[13] Cf. e.g. P. A. Samuelson, W.D. Nordhaus, Economics. Fourtennth Edition, 1992, p. 418, and also P.R. Krugman, M. Obstfeld, International Economics. Theory and Politics. Scientific Publishers PWN, Warsaw 2007, T.2, p.6 and 39.

[14] IFRS 13, Commission Regulation (EU) No. 1255/2012 of 11 December 2012. Official Journal of the European Union, 29.12.2012.

The founders and other shareholders of any corporation purchase shares to participate in its profits while limiting their risk of loss to the amount paid for the shares or contributed to the capital of the corporation. If a company makes a profit in subsequent years, shareholders usually receive dividends from the profit to distribute. The other part, retained earnings, adds to the company's equity and thus increases its book value. This value roughly corresponds to the company's liquidation value, assuming that all assets belonging to the company can be sold at their current book value and that liabilities are repaid at their nominal value.

The shares of many companies are traded on the stock exchange at prices determined by the rules of the relevant stock exchange. These prices fluctuate constantly as a result of various information received by the stock exchange and are almost always different from their book valuation. Shares of commercially successful companies are usually priced above their par value, and over the long term the price of such shares tends to rise.

The largest investors in any stock market are financial institutions, primarily mutual funds, including pension funds, and commercial and investment banks. These are obviously corporations, i.e. entities with legal personality. Each of these institutions invests a certain portion of the funds acquired from clients in shares, and usually selects the largest companies whose prices are included in the most important indexes of the given exchange, such as FTSE100, CAC40, S&P500 or WIG20. Each company must also prepare and publish periodic financial statements in accordance with the requirements of IFRS 13. This involves presenting all assets in the balance sheet at the so-called fair value[15].

The fair value of listed shares is determined by the current market price. If this price is higher than the purchase price of the shares, then in the financial statements of the institution that holds such shares, the difference must be shown either as its profit on financial operations or as an increase of its equity from revaluation. In both cases, this increases the book value of the institution. This in turn makes it more attractive for other investors and may translate into higher prices of its shares.

Most investment funds and insurance companies, but also banks and other financial institutions, are part of capital groups in the financial sector. Such a group is always headed by a parent company, which is also a publicly traded corporation. The main component of its assets are the shares of its daughter companies. As long-term investments of the parent company, the shares of its subsidiaries are excluded from current trading on the stock exchange. Only a small portion is traded, the so-called free float. However, when the stock market price of such shares rises, this must be reflected - ceteris paribus - in a corresponding increase in the book value of the parent company. In this way, the initial impulse in the form of an increase in the stock price of shares of a company triggers, in certain circumstances, a process that could be called the snowball

[15] This requirement applies to all entities required to maintain books of account.

effect. However, while the increase in the volume of the snowball is real, each of the subsequent increases in the value of the companies related to each other in this way has only an accounting ("paper") character. Real gains or losses can arise only after the sale of shares held.

Despite the purely accounting nature of gains from revaluation of financial assets, which physically do not undergo any changes, they are treated in the SNA system in the same way as real (cash) gains. Consequently, they are included in the value of national income (NI) as remuneration (cost) of the production factor "capital", causing a corresponding increase in this income. The greater the "paper" profits, the greater the NI.

However, it does not stop there. Profits are always considered proof of the market success of any business entity. And such success is usually followed by bonuses and awards for the management board, and often also by pay rises for employees. This practice also applies to financial institutions. This, in turn, according to the SNA methodology, brings another macroeconomic effect in the form of a corresponding increase in national income in the part referring to remunerations of the production factor "labor" in the service sector. The "snowball" of NI thus grows another layer. In this way, when there is a long-term upward trend on stock exchanges, national income at factor costs grows year by year with successive layers of profits from the valuation of financial assets and rising salaries in financial institutions, even when their activity in what they mainly do does not change. On the output side, or looking at it from the GDP generation side, this is attributed to an increase in the value of services in the financial sector. In this part, however, it is an apparent increase; there is nothing real behind it.

Having already known the causes and mechanism of the apparent increase in GDP, we can move on to discuss the relationship between the increase in public debt and GDP growth. The state increases the public debt only to finance with additional money various public expenditures. Among these, of course, are investment expenditures, both at the national and local government levels. The natural result of these expenditures is a real increase in GDP by the value of additional goods and services "purchased" by the public sector. The use of quotation marks is justified by the fact, which has been written about before, that it is in fact a free acquisition of additional goods and services by the state in exchange for payment with "empty" money. However, this is not the only effect.

Implementation of public sector investments, especially those of an infrastructural nature, is usually entrusted to large companies under a tender procedure. These are usually listed capital companies. According to the law, such companies are obliged to send to the stock exchange an announcement that they have won a tender procedure. The announcement usually results in the increased interest of stock market investors in the shares of such company, and thus in the increase of its stock price. This is because there is a rational expectation that the successful tender will have a positive impact on the company's performance. Similar expectations are also aroused in relation to the contractors of the company that won the tender, as well as in relation to the financial

institutions that are financing such investment. Therefore, stock market investors also buy shares of these companies and institutions, as a result of which their stock prices also rise. These increases are justified by the results of so-called fundamental analysis. It consists of cold calculation of profits and risk of the analyzed company, based on the available data on its financial situation and known mechanisms of business operation in the given socio-economic and legal conditions. So, if only these factors were taken into account, then the stock exchange price of the company announcing the winning of a tender for some supplies or works for the public sector, as well as the companies cooperating with it, should rise to some extent and then remain at this new level resulting from its "foundations".

The stock exchanges, however, are governed by slightly different laws, as most of the transactions concluded on them are purely speculative in nature. For this group of stock market investors the fundamentals of companies are of lesser importance, and what matters more are indications coming from the so-called technical analysis. In this analysis the most important principle is the slogan "play the trend". According to this rule, as long as share price of the given company shows upward trend, such shares should be accumulated and kept until a signal of a change of trend into downward one appears. Without going deeper into the analysis of the processes occurring there, it is enough to note that the actions of stock market speculators have, to a large extent, the character of herd behavior. This results from the fact that most of them use the same tools of technical analysis and often similar computer algorithms to automatically open and close the so-called long or short open positions in these financial instruments. Such actions often lead to stock prices levels that do not always correspond to their "foundations", showing both downward and upward deviations. This is illustrated by one of the stock exchange ratios, which is the P/BV ratio (price to book value).

The book value of a company's shares is obviously not the same as its "fundamental value", but the fact that there are companies with even double-digit P/BV ratios shows the extent to which the market valuation of such shares has increased over a certain period of time. Following that, in accordance with the requirements of the above-mentioned international financial reporting standards, the balance sheets of the so-called strategic investors, for whom such shares constitute long-term investments, must have been marked up by annual revaluation gains. Thus, if the information reaching the stock exchange about the victories of certain companies in tenders for supplies and services for the public sector triggers the above-described process of growth in the stock exchange value of shares of the companies concerned, this growth translates accordingly into a fictitious growth in GDP in accordance with the mechanism discussed above.

The final effect of the mechanism of GDP growth, stimulated by the creation of money as a result of public debt, is that the official data shows a progressive economic growth, while the vast majority of people do not see any signs of that growth. The first reason for the feeling of "exclusion" from the effects of economic growth is the fact that a part of this growth has an apparent (accounting) character for the reasons described above,

and therefore does not bring real income either to those who have shares in their portfolios, or even more so to those who do not have them at all. The second reason is the fact that the part of the GDP growth, which is real because it was caused by increased purchases of goods and services by the state, concerns public sector suppliers. It is to them that an additional stream of income flows from the supply of public goods and services, for which they can buy the private goods and services they need. From their point of view, transactions with the public sector take place in accordance with the principle of reciprocity of exchange, even though the payment is made in "empty" money. This, of course, applies only to the portion of income that will be used in this way. Saved income increases the stock of fictitious wealth.

Yet, the problem is that the part of the "empty" money which will be spent for the needs of the providers of public goods and services will eventually go to the sector of private market goods[16] and there it accumulates in the form of cash and non-cash resources of the population, enterprises and non-bank financial and non-financial institutions, enlarging their fictional wealth. Thus, eventually all of the additional expenses of the state financed by the money created for this purpose increases the resources of the fictitious wealth of the citizens. The worst thing is that in the mass of money which is in the possession of these entities and is used by them for settlements, that is, money sensu stricto, marked in statistics as M1, it is impossible to indicate which resources were created in the process of granting credits to the entities of the real sphere and which were created as a result of the public debt.

So it is similar to the case where a counterfeiter puts into circulation perfectly counterfeit banknotes, which nobody can distinguish from the real ones, and which begin to circulate in the economic system on an equal footing with the legitimate ones. In the case of forgery, no one is likely to doubt that the counterfeiter's action is morally evil and deserves severe punishment. Nor is anyone willing to justify the forgery by the fact that such "forgeries" perfectly fulfill the functions of money and that no one realized it. For the objective evil consists in the fact that the counterfeiter has used deceit to obtain goods in the market for which, under the guise of a voluntary transaction, he has given a worthless dummy, thus deceitfully breaking the second principle of the market, which is the principle of reciprocity. The same deceitful violation of the principle of reciprocity occurs when state-created money enters circulation. Such an operation differs from counterfeiting only in that it is carried out in the majesty of the law. That doesn't change the fact, however, that the money is just as much a dummy as counterfeit money.

Such an approach could be accused of failing to distinguish the relationship between the forger and the rest of society from that between the state and its citizens. The former is a relationship between a person and other people, which arises as a result of transactions concluded between equal counterparties. The observance in such a case of the principle of voluntariness and reciprocity is one of the constitutive factors of the social order in

[16] It is worth recalling that without private goods and services, no public goods or services can be created.

this sphere. Therefore, actions that violate this order, such as counterfeiting money, must be penalized. On the other hand, the state-citizen relationship is the one that connects the most important of all social institutions with its members. This relationship is by definition based on the principle of coercion to the exclusion of the principle of reciprocity. This in turn could be considered as a factor justifying the creation of empty money because thanks to it the state can carry out the tasks undertaken for the common good of its citizens.

Unfortunately, such an idealistic picture of a state acting for the common good cannot be defended in any model in which it is an entity, as long as the principles and discipline of scientific reasoning are followed. Paradoxically, the only case of a state that comes close to such an ideal is the model of the stateless state presented in Chapter 8. For in this model, the only task of the legal system is the maximum protection of the freedom of the human person as an individual.For this reason, the only form of influence of state law is the prohibition of actions that in any way harm the quality of life of others, coupled with punishment for its violation. Apart from the coercion of those who violate the prohibition and the compulsion to pay a poll tax, there is no room in this model for any other form of coercion under any legal title. The effect of acting for the good of two, a thousand, or a million people is only a genuine common good if it is achieved without harm to those who do not benefit from it. Any solution other than the model of the stateless state, on the other hand, can only work if it is based on coercion, that is, on the violation of fundamental freedoms deriving from the natural right to life and the natural right of ownership of the results of each person's own efforts. The so-called common good is in such a case nothing more than an empty platitude which is supposed to justify the actions of those in power aimed at achieving their own goals at the expense of the governed without asking their consent. The boundary from which the common good begins, and which justifies imposing its costs on others, is in such a case drawn anywhere by the arbitrary decision of those in power.

It would, of course, be naive to think that the model of the stateless state will ever exist on the Earth. However, this is irrelevant to the veracity of the conclusions that arise from the analysis of such a model when confronted with what is happening in reality.

At the end of this thread it should be clearly stated that as long as the citizens agree to this, the state, or more precisely - the rulers who act on its behalf, have the right to seize free of charge and under compulsion any large part of the income or property of the citizens of this state. In extreme cases it may even be everything. In such a case one can talk about some form of social contract. Only that the essence of such a contract could be contained in the following statement: "in exchange for peace and security and the material status quo, for the time being we tacitly agree to your exercise of power and the resulting burdens". Thus, by imposing an arbitrarily large tax burden to finance public expenditures, those in power are actually acting honestly. For they are exercising their prerogatives, and the fact that citizens do not take action to defend themselves shows that they accept this kind of "social contract" as better than the alternative. Moreover, all this then happens with respect to the rule of reciprocity of market exchange. This is

because the state in such a case seizes through taxes a part of the income of the citizens, that is, a part of the rights acquired by them on the market to an equivalent in goods, and uses these rights for its own purposes.

On the other hand, when the state creates money and uses it to "buy" the results of its citizens' work, it is dishonest in two ways. First of all, like the counterfeiter, it pretends in such a case to observe the principle of reciprocity of market exchange, that is, that it gives the monetary equivalent of its own services and goods, while in reality it deceitfully takes from them additional goods and services without an equivalent. Secondly, when the negative effects which such falsification causes occur, the responsibility for their occurrence is not attributed to those who brought it about.

These negative effects of the creation of empty money by the state are inflation and financial crises. The former continuously reduces the purchasing power of money, thus depriving its holders of their rights to an equivalent for the goods and services they sell. The higher the rate of inflation, the faster the rate of this dispossession. Financial crises, on the other hand, do the same thing more abruptly. During each crisis, prices of financial assets and sometimes real estate prices fall by tens of percent in a very short time. In this way, some of the purchasing power that arose in violation of the principle of reciprocity, because it had its source in empty money, "disappears" in real terms. Nominally, of course, the money remains in circulation, but from the point of view of the principle of reciprocity, someone who has worked for a given amount of money for, say, a whole week, if he does not spend his earnings immediately but saves them, for example, to supplement his future pension, will later receive for that saved amount of money in goods the equivalent of one hour of the same work.

So far, all global financial crises have ended with a reduction of several dozen percent in the prices of financial instruments issued by private entities, mainly shares and instruments based on them, as well as bonds and sometimes real estate. However, they did not affect treasury bonds to a larger extent. The myth that a country cannot go bankrupt still persists. The fact that this is not the case, however, is proven by individual cases of debt crises of certain countries. Although they did not go bankrupt in the literal sense, because the official creditors of such countries agreed to debt reductions of several dozen percent, this fact alone proves the truth of the above thesis about the effects of creating empty money by the state. The final proof will be the global financial crisis on the markets of treasury bonds, which will erupt when the financial engineering will no longer be able to hide that the public debts of all the developed countries of the world, which significantly exceed the annual value of their GDP, are in no way possible to be repaid and nobody will want to buy the papers from a new issue.

11.4 Causes and consequences of the fallacy

The problems described above make a strong case for the thesis that a theory using macroeconomic aggregates such as gross domestic product (GDP), aggregate consumption, aggregate investment, aggregate demand, and the associated marginal

propensities to consume and to save, actually falsifies the picture of socioeconomic reality rather than describing it. However, those who base their actions on this theory do not seem to be aware of it. It is only sometimes mentioned that GDP does not include the value of all goods and services, especially those traded in the so-called "grey" or "black" economy, as well as goods produced for own consumption. Another objection, raised for some time under the influence of feminist movements, is that the value of "unpaid" women's work is omitted in this aggregate[17]. However, no one is trying to undermine the very concept of GDP as a measure of wealth and determinant of economic development.

The basic reason for the lack of reflection on what is really behind the aggregate denoted by the acronym GDP is - as it seems - the dominant approach in macroeconomics, which could be called the holistic approach. In this approach, the national economy is treated as a single economic organism, similar to a living organism. It is tacitly assumed that this organism activates its productive forces and factor resources in order to produce as many goods and services as possible and consume them for its needs. What proportion of these goods and services ends up in the various organs of the organism is of little importance in this approach. In a living organism, the supply of individual organs is handled by the vegetative system, which does not require the intervention of consciousness. In an economic organism analogous functions are performed by market forces. In the living organism, the somatic system, the brain, controls the actions of the whole organism and its relations with the environment. In the internal affairs of the organism, the brain becomes involved only when it determines that one of its organs is diseased and not functioning as it should. The government behaves similarly in the economic organism. It makes sure that the whole organism produces as many goods and services as possible and becomes larger and more powerful. This is because it then has an easier time dealing with the environment. It intervenes in internal affairs when it finds that market forces are failing to ensure the efficiency of some of its organs, slowing its rate of growth, and that some action must be taken to set things right.

The logical consequence of such an approach, therefore, is that mainstream economists seek the best theory of the growth of the national economy as a whole[18]. The mechanistic approach to this development, which is expressed in various forms of the macroeconomic production function of the Cobb-Gouglas type, gives simple indications; the more employed and the better the utilization of production factors, the higher the rate of economic growth. It is therefore necessary to do everything to create

[17] A report published by OXFAM in January 2019 included such a statement: "If all the unpaid care work done by women across the globe was carried out by a single company, it would have an annual turnover of $10 trillion 27 – 43 times that of Apple. Retrieved from: Public good or private wealth - Oxfam 2019 - Full Report.pdf, p. 12, from https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620599/bp-public-good-or-private-wealth-210119-en.pdf. accessed May 23, 2019.

[18] A. Noga counted a total of 12 schools of macroeconomics in one of his teaching materials. Source : https://www.adam-noga.pl/publikacje/wsp%C3%B3%C5%82czesne-szko%C5%82y-w-makroekonomii. accessed 21 May 2019

as many jobs as possible and to utilize the productive potential of the economy to the greatest extent possible, because then the level of welfare measured by the value of GDP per capita will grow. But what is the inner content of what GDP represents in different political and socio-economic conditions is of no interest to anyone.

In this state of affairs, the fact that GDP does not properly reflect what is going on inside the economic organism does not seem to matter much. The holistic approach to the economy assumes that people can be treated in the same way as the individual organs of a living organism or the elements of an artificial system. And if the activity of each organ is subordinated to keeping the whole organism alive and ensuring its ability to achieve the goals of that organism, then - by analogy - the same can be applied to the economic activity of people. Their needs, like the physiological needs of the organs of a living organism, are important only insofar as they determine the possibility of the existence and functioning of the whole organism.

The logic of such an approach, however, is only apparent and relatively easy to contest. In a living organism, each of its organs has a different function from the others, and all of them together are physiologically subordinated to one overarching goal, which is the functioning of the whole system according to its purpose. The same is true in any artificial system composed of many interacting components, such as a watch, a car, a power plant, or a space shuttle. None of these components can either function independently outside the system, or act without interaction with the other components within the system, or - even less - act deliberately to the detriment of the system in a way that prevents it from performing the function for which the system was created.

This is completely different in an economic system. The elements of this system are living people, autonomous individuals, each of whom, without exception, possesses reason and will and always makes use of them. Each person, even though he usually lives in a social environment, is able to live and function both inside and outside an economic organism. In the former case, however, his actions do not necessarily depend either on what the other members do or on the condition of that organism. These factors are for each person only one of the objective elements of the state of the environment in which that person finds himself. This condition should be taken into account when deciding on the goal that a person sets for himself and the mode of behavior that leads to that goal. Such an aim, however, does not have to have any connection with the aims of others in the immediate or distant surroundings. It may even be completely contradictory to them. However, if people undertake some form of cooperation or collaboration with others, they do so only in order to achieve their own goals more easily.

There is no such thing as a common goal of existence and operation of an economic organism until such an organism takes the form of a separate state. Then, however, such a goal is formulated by a person or group of people in authority and imposed on others through legal coercion, as discussed in section 10.3. The fact that most people agree to play the role assigned to them in such a case does not, however, mean that everyone

approves of it. Irrespective of the number of people who disapprove of the policies pursued, and irrespective of the degree and form of their opposition to, or disapproval of, these "common goals," the fact that such people exist proves beyond any doubt that each such "element" of the economic system as man is fully autonomous and independent of that system. Moreover, under certain circumstances, such an "element" may fully consciously oppose what has been declared to be the goal of that system and take actions that harm that system. No organ of any living organism, let alone artificial systems, has such characteristics. This is what leads us to reject the holistic approach as a way of explaining economic phenomena in a market economy based on private property and on the principles of voluntary and reciprocal exchange.

A holistic approach can only be appropriate for an economy based on slavery, or for a communist economy where there is no private property at all and where the ruler decides how and to what extent the needs of his subjects are satisfied. Then, indeed, the main objective may be the maximum rate of GDP growth, which is determined only by technology and the stock of productive capital and the degree of utilization (exploitation) of labor. Formal equilibrium is ensured under such conditions by some system of distribution, such as a card system without the use of money, or an official system of prices and wages and a central cash plan providing an adequate supply of money. But does such a system have any relation to the actual size and structure of people's needs, or to their personal and economic freedom? To those in power in such states, of course, it has no relevance. At least until the subjects begin to revolt.

Having rejected the holistic approach to economic mechanisms, it is now worth explaining the reasons why the concept of GDP falsifies rather than explains reality. These reasons lie in Aristotle's separation of the sphere of human activity as a merchant from that as a consumer, and the assignment of different goals to each of these roles. Aristotle recognized that the merchant acts for profit, and those who buy from him do so in order to satisfy their human needs. This is how the division of economic agents into two distinct categories arose and is still used in economics today: households - consumers of final goods - and businesses - producers of both intermediate and final goods.

This division has become one of the foundations of macroeconomic theory. In creating his theory, the father of macroeconomics, J.M. Keynes, starts from the value of output sold by the producer, and on this basis defines the subsequent macroeconomic quantities, which are aggregate income (Y), aggregate consumption (C), aggregate investment (I) and aggregate savings (S). The next step is a transition from the tautology $Y=C+I$ and $Y=C+S$ to functional relations between these aggregates, in which an important role is played by the marginal propensity to consume $c=\Delta C/\Delta Y$, and - its complement to unity - the marginal propensity to save $s=\Delta S/\Delta Y$. The value of the marginal propensity to consume, c, determines how much global income, Y, will increase if autonomous investment expenditures (I) increase by a unit. In the simplest version of the multiplier theory of growth, $\Delta Y = 1/s*\Delta I$.

Since Keynes, of course, many modifications have been made to his theory, including the multiplier theory, and no one today claims that if households save, say, 10% of their additional income (s=0.1), then the investment multiplier is 10. But this is not the point. The real problem lies - as mentioned above - in the division of the economy into the sphere of consumption and savings and the sphere of production and investment. And the division into these two spheres determines whether or not Keynes's theory is formally correct.

Keynes writes about the issue this way (Keynes 1936, p. 61-62): “Thus any doubts about the meaning of *saving* must arise from doubts about the meaning either of *income* or of *consumption. Income* we have defined above. Expenditure on consumption during any period must mean the value of goods sold to consumers during that period, which throws us back to the question of what is meant by a consumer-purchaser. Any reasonable definition of the line between consumer-purchasers and investor purchasers will serve us equally well, provided that it is consistently applied. Such problem as there is, e.g. whether it is right to regard the purchase of a motor-car as a consumer-purchase and the purchase of a house as an investor-purchase, has been frequently discussed and I have nothing material to add to the discussion. The criterion must obviously correspond to where we draw the line between the consumer and the entrepreneur.” And he further adds (p.63): “Thus any set of definitions which satisfy the above conditions leads to the same conclusion. It is only by denying the validity of one or other of them that the conclusion can be avoided.”

Well, I will make use of Keynes's caveat and negate the validity of the definition of consumption and investment he gave in his work. For, indeed, Keynes did not give any. The nonchalant assertion that any definition of the line between purchaser-consumer and purchaser-investor can be equally useful, provided it is consistently applied, offends the seriousness of science. If such a "scientific" method of definition were applied, for example, in zoology and anthropology, then the adoption and consistent application of the number of legs as a criterion for division would allow all bipedal beings to be considered human beings.

The lack of an unambiguous criterion distinguishing consumers from investors is therefore the first reason why the macroeconomic theory of economic growth based on the Keynesian concept of aggregate income and its components is flawed and actually falsifies the picture of economic reality. Such a criterion, moreover, cannot be found. It cannot be the type of commodity, since, as Keynes rightly points out, it is impossible to decide whether the purchase of anything is an investment or consumption. Nor can the criterion of distinction be the person of the purchaser, since - apart from the obvious case of the so-called legal persons, who are certainly not consumers stricto sensu - all natural persons are consumers regardless of whether in their professional life they play the role of producers, employees or performers of any so-called freelance profession.

In the absence of an unambiguous criterion, there remains only arbitrariness in considering a given category of purchasers as producers or consumers. This is of little

importance when considering the current value of aggregate income and its distribution between consumption and investment, since this does not affect the amount of income. It becomes important, however, when we turn to the theory of economic growth, which is supposed to explain the mechanism and factors of growth of aggregate income.

Let us demonstrate the implications of such a Keynesian-type theoretical approach on a simplified model of a closed economy without government. Suppose that GDP, the present-day equivalent of Keynesian aggregate income, in two countries of similar size and socio-economic structure is 100 currency units (CU). Suppose further that in both countries there are a similar number of architects who spend 10 CU each on their various needs and that in both countries capital companies, and hence non-consumers, spend CU20 each on their needs. The rest of current production is bought by "ordinary" people. The countries differ only in that in the former architects are counted consistently as entrepreneurs, and in the latter as households. Finally, suppose that the proportions of GDP distribution in the two countries are unchanged for a long time, with the result that the marginal propensity to consume and the marginal propensity to save are each equal to their respective long-run averages.

Under these assumptions, according to the macroeconomic approach, the current value of GDP - that is, Keynesian aggregate income, Y - is subject to a distribution between consumption, C, and investment, I, as follows:

In country A: C = 70, I = 30,

In country B: C = 80, I = 20.

Thus, from the definition of savings, S = Y-C, it follows that in country A it amounts to 30 and in country B it amounts to 20. Thus, by assumption, the marginal propensity to consume, c, in country A is 0.7 and in country B it is 0.8, and the marginal propensity to save, s, is 0.3 and 0.2, respectively.

If, under these conditions, in both countries, there was an autonomous increase in investment by, say, 5, then the GDP growth, $\Delta Y = 1/s*\Delta I$, would be 16.67 in country A and 25 in country B. Leaving aside the issue of lack of substantive justification for the very idea of multiplicative GDP growth, and thus for the value of such growths, which will be discussed below, the difference in effect is significant only because the same group of subjects is consistently qualified differently in one economy than in the other. Does this make sense?

Now let's look at the second reason for the falsity of Keynesian growth theory. Let us begin with its original version, the one formulated by Keynes himself. He writes as follows (Keynes 1936, p.115): “Let us define, then, dCw/dYw as the marginal propensity to consume. This quantity is of considerable importance, because it tells us how the next increment of output will have to be divided between consumption and investment. For $\Delta Y_w = \Delta C_w + \Delta I_w$, where ΔC_w and ΔI_w are the increments of consumption and investment; so that we can write $\Delta Y_w = k\Delta I_w$, where $1 – 1/k$ is equal

to the marginal propensity to consume. Let us call k the investment multiplier. It tells us that, when there is an increment of aggregate investment, income will increase by an amount which is k times the increment of investment."

What is striking about this passage is the rather odd way in which Keynes moves from a formula for the ex post division of incremental income (ΔY_w) into incremental consumption (ΔC_w) and incremental investment (ΔI_w), to a formula showing the dependence of incremental income (ΔY_w) on a multiplier k and incremental investment (ΔI_w). The multiplier k is not defined explicitly, but as part of a formula for the marginal propensity to consume. If we denote the marginal propensity to consume by the usual symbol c, the formula should be written as c=1-1/k. After an appropriate transformation, we obtain the proper definition of the investment multiplier k=1/(1-c) or k=1/s.

This, however, is not what is most important in Keynes's somewhat convoluted argument. Far more important is the fact that he has made a cardinal error in reasoning. If we disregard the lack of definition of both consumption and investment, then there is no objection to either the concept or the interpretation of the marginal propensity to consume, which Keynes defines as the less-than-unity relation dCw/dYw. This economic category numerically expresses the logically defensible regularity that for every unit of additional income, less than a unit is spent on consumption. Thus, according to Keynes's definitions, this relationship should be written as ΔCw=c*ΔYw, that is, as a function in which the increment of consumption, ΔCw, is a dependent variable on the increment of income, ΔYw. And since the incremental income is divided into a consumed part and an invested part, so the rest of the income increment must turn into an incremental investment, which should be written as ΔIw=(1-c)*ΔYw, or ΔIw=s*ΔYw. In this expression, ΔIw is, of course, also a dependent variable on incremental income.

Thus, if we accept the validity of the Keynesian definitions of income, saving and investment, and the marginal propensity to consume and the marginal propensity to save, which satisfy the c+s=1 condition, then both consumption and investment must be considered as a function of income. In other words, both consumption and investment increase only when income increases. This is an obvious truism. Keynes, however, accepted the first of these relations as true, while in the second he swapped roles between the dependent and independent variables, without even trying to justify such an operation, and came up with the result that ΔYw=ΔI/s, i.e. that the increase in income depends on the increase in investment. This is an unacceptable violation of the rules of logical inference. For from the true statement that A is the cause of B, it cannot follow that B is the cause of A. Such an implication is false. The lack of substantive justification for such a "maneuver" becomes completely irrelevant in light of this.

These two features of the Keynesian approach, voluntarism in defining the key variables of the theory, and a logical fallacy in reasoning, make the Keynesian theory of economic growth false. It must therefore be rejected despite its apparent elegance and logic. The sooner this is done, the lesser will be the social, economic, and ecological

damage caused by regarding economic growth and full employment as fetishes of economic policy. Their result is the type of economy that dominates the modern world, which should be called a junk economy based on the principle of deliberate waste.

The basic principle of rationality dictates that all goals should be achieved with as little effort and resources as possible. The application of this principle in practice has always manifested itself in efforts to make all reusable goods as solid and durable as possible, and to ensure that nothing is wasted from those that are used once. As a result, there was for centuries no need for landfills, since the concept of "garbage" had virtually no real content. The solidity of durable goods made it possible to save both labor and the raw materials and supplies required to produce them, while at the same time allowing people to satisfy their needs for longer periods of time. The resources thus saved lasted longer, and people's time and effort could be used to improve their quality of life in spheres other than goods and services. Economic activity based on such principles also did not harm the environment.

It was not until the eighteenth century that the first praise of the profligacy of the rich as a condition for economic development appeared in the form of the allegorical "Fable of the Bees" (Mandeville 1957). The argumentation used in this fable soon gained recognition among the founding fathers of political economy and was incorporated into that science in the form of the thesis of the invisible hand of the market, which translates the selfish pursuit of profit maximization into benefits for all. Ultimately, the virtue of frugality and restraint in the use of all resources was sacrificed on the altar of economic growth and full employment in macroeconomics, which began with Keynes's theory. Here, the thesis of profit maximization as the goal of economic activity was covered by the thesis of economic growth and full employment as the basic condition for increasing social welfare. The determinant of this welfare is, of course, the consumption of goods and services.

In order to increase this consumption, more and more disposable goods are introduced, packaged in single-use, disposable packaging. In places where goods are used repeatedly, their durability and reparability are deliberately limited, and ever newer models are introduced, using marketing techniques that encourage people to buy on a "must have" basis[19]. The result is a constant pursuit of what is newer, which is like chasing the horizon. A side effect of this policy is, on the one hand, the growing mountains of modern garbage, both in the form of things that still work but are no longer wanted, and disposable packaging and wasted food, which require ever greater expenditures on their disposal. On the other hand, there is the growing compulsion to work in order to earn money for what everyone "must have". In this way, modern people, stupefied by intrusive and ubiquitous advertising campaigns, become of their own free will slaves to things, and the "more to have" attitude more and more effectively replaces the "more to be" attitude. At the same time, this "more to have"

[19] One of the dumbest marketing ploys to get people to buy is the slogan "the more you spend, the more you save".

usually means "more unnecessary things". To find out, it is enough to look into any child's room, any closet, any attic or anyone's basement.

There are many indications that unless there are radical changes in the approach to socio-economic issues, among the many terms describing modern civilization there will eventually remain one absolutely true: a civilization of death and garbage.

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