THE GOLD MONEY CONSTANT AND ENTREPRENEURSHIP

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Unstable money is like an unfaithful spouse.

Inflation is a silent thief, constantly stealing from savers and entrepreneurs.

—Dr. Sc. Ivan Ovcaricek-Rostok

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Foreword

This study has several objectives. They are related to the rationalization of using economic resources in certain economic areas. Most of these resources are quantitatively limited. This is evident from the fact that the population has grown steadily and that the amount of most natural resources is declining steadily. It follows from this conclusion that there inevitably is coming a time when these two variables have to establish their dynamic balance. The main actors who create the economy of every economic area will be responsible for this. They are the politicians, political parties, research, science, and education. At this level, the parameters of economic behavior in the area of economics are created.

The economic policy of the states is the framework for the behavior of all economic agents. If an error is generated, the behavior of economic agents will be wrong. The economic policy must not be wrong. To make this possible it is necessary to behave optimally. Everyone must be aware what the economic mistakes are, where and how they are generated, and how they can be eliminated and optimum conditions established.

The main objectives of this study are to create answers to the complex of the above-mentioned issues and problems. To that purpose, conceptual answers are developed related to economic stability, economic balance, and various forms of economic rationality. It is especially dedicated to the problem

of two basic economic categories: the stability of the value of money, and the rationality of entrepreneurship. Money is the bloodstream of the economic system, and entrepreneurship is its heart. The result of the research is designed as a general model of economic behavior that can be successfully introduced into the policies of each economic area.

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Introduction

The Value of Money

For many decades, there has been an economic problem in the form of the erosion of the value of money, degrading its third function, namely the deposit of values. This has been often discussed in economic literature, but no mechanism was created to quantify the erosion. In this paper, a suitable solution to the problem is offered in the form of a standard for the value of money: Aur.

Balances in the economic area

At the present time, countries throughout the world have a problem successfully guiding the economics of the state as an economic area. The reason for this is that political parties, which propose and control the economy of the state, do not have precisely defined and elaborated principles on which the job could be done in the best way. The principles are conceptual items that make up the framework for the behavior of the subjects who make political decisions. If such principles were explicitly established, many political disagreements would be avoided.

The main problems that exist today in the economics of the state are an increase in internal and external debts, rising unemployment, a fall in living standards, and increased social

spending. These problems are a result of the decisions of the authorities in the country, and these decisions arise from programs and platforms of political parties.

Left-leaning political parties promote the growth of the economic fruit of purchasing power and different types of social spending, regardless of the economic success of the state. Right-leaning political parties promote the policy of increasing the economic fruit of profit, also regardless of social conditions in the country. Such approaches lead the economics of the state into extreme conditions, which are expressed as economic deviations.

The best example of economic deviations is the concept of free international trade. The right-leaning parties advocate great freedom for entrepreneurs to move their production companies to less developed countries where labor is much cheaper. This generates an economic situation that reduces domestic production capacities and the volume of local employment, an increase in state spending for the unemployed, and the rapid growth of external debt for the import of goods that the production of was moved abroad. The left-leaning parties have no objective weapons to limit such liberalism.

To be able to solve things in an objective and competent manner, principles should exist that objectively show how the ruling politics should act in order to avoid deviant economic conditions.

Another example is the state going into debt. Left-leaning political parties usually advocate the policy of borrowing, using the slogan “We do not need saving.” This is unreasonable because it does not take into account the fact that any debt must be repaid. If it is not about investment spending, which has its own return capacity, such a policy leads to general

impoverishment. Today's increase in consumption generated by loans produces an equivalent reduction of consumption tomorrow when the loan is returned. This is moving tomorrow's purchasing power into the present time, and that is stealing from tomorrow's generations.

All economically highly developed countries have similar, sometimes identical, economic problems. These are two deficits. The first is the state budget deficit, and the other is in foreign trade. These problems are generated because of economic imbalances. The first and general imbalance occurs between production and consumption. The economic policy in many countries is not able to establish this balance. It is the result of the election programs of political parties. Without being aware of it, candidates for political office with incomplete knowledge of the economics of the country make two fundamental errors. The first is to propose and promote programs causing economic deviations. The second is that they do not perceive the economic consequences of the proposed programs.

These errors can be seen from the usual examples:

1. Advocating the permanent importation of certain consumer goods, instead of proposing the financing of their production in the country, when there are the necessary conditions for the equilibrium exchange of such goods in the same value.
2. Proposing expenditures for social assistance to the unemployed and not suggesting that these unemployed, instead of welfare payments, perform various tasks for the benefit of the ill, handicapped, helpless, or other suitable jobs. At the other end, payments for performing such work are specifically approved.

3. Going into state credit debt is proposed and approved, but it is not known when and how these loans will be paid back, and that future purchasing power and consumption will be reduced by the value of these loans, thereby causing the economic deviation of a permanent progression of going into debt.

There are more examples that are the result of economic ignorance, negligence, or irresponsible services to the state.

Adverse consequences for the economics of the state can be successfully avoided if, when making economic decisions and economic behavior, certain economic principles are respected. In this paper, eleven such principles are identified. Figuratively speaking, these principles are like channels through which water flows. They direct and limit the stream of water, stopping it from running everywhere and flooding the space. The application of these principles prevents many harmful consequences and allows many beneficial effects.

Economic policy, economic practice, and economic science give the answers to these questions. Each of these answers is based on premises that are associated with a specific problem. Given that the state is a separate and complex economic subject of many basic components, these answers should be made up of several components that allow for rationality and optimality.

Rational relations should start from being within the framework of the following principles:

1. Equality of production and consumption
2. Balance of revenues and expenditures in the state budget
3. Balance of imports and exports
4. Rationality of consumption of natural resources

5. Balance in the structure of the population
6. Optimization of the relations of economic components
7. Economic discipline
8. Real economic results
9. Economic development
10. Lessons from economic history
11. Good conclusions

Framework for the solution of economic problems

The economic problems of each country can be solved by research and optimization of three basic categories. The first is stability of money as being the equivalent of all usable goods in material and nonmaterial form. The second is the enterprise as a driving force, which creates usable goods. The third is the economic policy that regulates relations. Without these three complex elements, there is no economically developed society.

Money is not a directly and specifically usable good. It is an ideal and a mirror. Entrepreneurship is the creator of usable goods. It is a skill. Money and entrepreneurship are two categories that follow each other at a certain distance. Everyone can see a picture of his entrepreneurial talent in money.

In this paper, two complex problems will be treated. The first is the stability of money, and the other is entrepreneurship. The work has three parts. The first deals with the stability of the economic space, the second with entrepreneurship in the economic area, and the third deals with the application of the concept in the economic area.

The theme of this research is topical, because the majority of the most developed countries of the world have reached

the level of financial indebtedness that cannot be regularly restored in a hundred years, so there is a real danger of a global economic collapse.

Purpose of the research

The purpose of this research is to gain a particular quantum of knowledge that would be useful for the economics of the country in terms of stability of money and rationality in business, as well as for individuals when they start to generate entrepreneurial ideas.

In the text, there is a lot of analysis, listing, descriptions, tables, and other written testimonies, some of which may be monotonous and boring to the reader but are necessary to give a complete picture of a particular problem. The theme is particularly important for young educated people who have theoretical knowledge but lack practical knowledge about how to realize some of their entrepreneurial ideas.

This work can be useful to people who create and lead the economic politics in the state, as well as to those who deal with economy on a micro level.

Chapter 1

The Stability of Money

Money has three functions: payment, calculation, and the deposition of values. To realize these functions, it must have stability of value. For the realization of this characteristic, there must be a determined unit of value to be compared with. This could be compared with the meter. The length of one meter is always the same, because it is defined as the ratio of a real constant. To be able to apply this to the value of money by the same analogy, an appropriate measure is needed that will in all circumstances be equal.

Starting from the above, the question is what can be a measure for the value of money. Throughout history these were the prices of units of silver and gold. However, the prices of these metals have been subject to market changes, depending on supply and demand, so the measure did not have the characteristic of an absolute constant.

They tried to solve this problem at the Bretton Woods Conference in 1944. There, the last gold standard came into force, by which a large number of countries linked the exchange rate of their national currencies to the US dollar. A fixed price for gold of $35 per ounce was determined and promised. By mid-2011, the price rose to around $1,900, almost fifty-four times more. The average annual increase in the price of gold was 90 percent.

In 1971, the consequences of the Vietnam War forced President Richard Nixon to abolish the gold standard and the convertibility of the dollar into gold. After this, the possibility of issuing money in unlimited amounts was created. Money was emitted as credit debts. For example, since then debts in the United States grew at an annual rate of 111 percent, which was about 23 percent faster than the price of gold. In such circumstances, the measure of $35 for an ounce of gold disappeared. This also caused a nominal price increase. After that, money started to become a measure for itself, which is a logical nonsense. Various monetary units are quoted daily, and because of that, a real assessment of the quality of the economics of a country is not possible.

1.1 Materialized and Dematerialized Money

From the Roman era until 1971, gold was either money or a substitute for it. Through gold, the value of all other commodities was expressed. Gold as money guaranteed the relative stability of prices. That was materialized money. This money disappeared after 1971, and all its functions were taken over by dematerialized money. That money becomes more convenient. However, that change also brought a rise of inflation. A unit of materialized money in relation to a unit of dematerialized money became more expensive. If this is determined for the currency of the US dollar, then we get a result that shows that the value of the materialized dollar since 1971 grew yearly by an average of 111 percent. After 1971, the dematerialized dollar lost the characteristic of a real measure of value. It produces inflation in relation to the price of gold by 111 percent per year.

This trend of a game of numbers can go on forever. Under these conditions, measuring its value becomes an illusion. This is a result of

the economic policy. If the 111 percent is divided into the 365 days of a year, the result is that the price of gold grows daily by 0.3 percent, and the economic stability is degraded by the same amount.

1.2 Constitution of the Measure for the Value of Money: Aur

In order to constitute a unit of measure for the value of money three constants should be put into a mathematical relationship. The first would be a fixed weight of one ounce of gold according to the standard of gold reserves (G). The second would be a fixed price for one ounce of gold according to the standard of gold reserves in terms of the US dollar in accordance with the agreements at the conference in Bretton Woods (P). The third would be a fixed number, 100 (N). These fixed and unchangeable values should be put into a mathematical relationship. The obtained result would be the unit of measurement called *aurum* (Latin for gold) or its abbreviation, Aur. That would be the original measure for determining the value of money.

These three constants would be put in the following mathematical relation:

$$\text{Aur} = \frac{P}{G \times N} \qquad (1)$$

The concrete constitution of Aur is:

- *P* is a fixed unit price of gold of 35 US dollars according to the Bretton Woods Agreement in 1944.
- *G* is a fixed unit of the weight of gold of a fineness according the standards of gold reserves, also according to the Bretton Woods Agreement.

- *N* is a fixed number by which the fixed price of the weight of a gold unit is divided.

Then the value of one Aur would be:

$$\text{Aur} = \frac{35}{1 \times 100} = 0.35 \qquad (2)$$

This constitution would be a complex constant. This would be similar to the Ludolf number: Pi = 3.14. If the number of 0.35 is interpreted according to the nature of the components from which it was generated, then one Aur has a value of 35 golden cents of the US dollar of 1944.

The Gold Money Constant Aur = 0.35

1.3 Registration of Start Values of World Currencies

After completing the constitution of the value measure Aur, each state would then register its national currency at the International Monetary Fund to receive the starting international valid value of its national currency expressed in Aur on some starting date. The starting value of each of the national currencies in Aur would be calculated so that its exchange value at a fixed date, expressed in US dollars, is divided by the unit value of Aur. The calculation would be executed according the formula:

$$V = \frac{C}{Aur} \qquad (3)$$

where each symbol would be:

- *V* is the starting value of the national currency in Aur
- *C* is the national currency exchange rate on a fixed date expressed in US dollars
- Aur is the gold money constant

As an example, these values were calculated for four currencies on April 15, 2015:

(1) *United States dollar*

$$V(\$) = \frac{1}{0.35} = 2.8571 Aur$$

Thus, the starting value of a US dollar on the day of its registration at the International Monetary Fund would be 2.8571 Aur.

Further examples are calculations for the euro, the Swiss franc, and the Croatian kuna:

(2) *Euro*

$$V(€) = \frac{1.0559}{0.35} = 3.0169 \text{ Aur}$$

(3) *Swiss franc*

$$V(\text{Sfr}) = \frac{1.0223}{0.35} = 2.9209 \text{ Aur}$$

(4) *Croatian kuna*

$$V(Kn) = \frac{0.1397}{0.35} = 0.3991 \text{ Aur}$$

The value of 2.8571 Aur expresses the level of the starting purchasing power of one US dollar. That would be the registered constant. Its value always remains the same. One euro is 3.0169 Aur, one Swiss franc is 2.9209 Aur, and one Croatian kuna is 0.3991 Aur. According to this algorithm, the starting values for all currencies and all countries in the world can be calculated.

Table 1: Registered Start Values of Currencies in Aur

Country	Code	Currency	Unit	Registered start values in Aur
USA	840	USD	1	2.8571
EMU	978	EUR	1	3.0169
Switzerland	756	CHF	1	2.9209
Croatia	xxx	HRK	1	0.3991
etc.				...

1.4 Usefulness of Measures for the Value of Money

To make sense, the measurement unit, Aur, should provide useful information in the economics of the state. This information should serve as a basis for encouraging the adoption of good economic decisions by those institutions which are naturally responsible for it, and which are the infrastructure of the organization of society. This

is particularly important for the concept of individual economic decisions, or even entire models, contributing to the enhancement of the economic success of the country. Such a unit has a necessary characteristic for the required role. It has a conceptual capacity to provide useful information. Such information would be:

- Aur provides the basis for determining the start values of all national currencies under the same conditions, so a complex calculation for conversion, which is used today, is not necessary.
- Aur provides a basis for identifying the economic success of the state.
- Aur provides the basis for the statistical comparability of economic data.
- Aur provides a relevant basis for evaluating the economic policy of the state.

1.5 The Purpose of Establishing a Unique Value of Money

Determining the unique value of the national currency is a process of relativization. Nominal values of national currencies result from various elements. They are part of the history of each state, its culture, economic practices, customs, constitution of the state, and the identity of the state. This is the value that all modern states respect. It is a value unit for performing the basic functions of money.

If the exchange rate of one country is nominally lower than the exchange rate of another country, it does not mean that the economy of the other state is less valuable. This is only a nominal relativity.

At the present time, it is common to discuss changes in the economics of the state, because human life depends on it. People with different knowledge about the subject are included in these discussions. Changes in economics can be real or just some kind of mirage. In countries where annual inflation is high, wages constantly grow and people have a feeling of economic progress, but the reality is often different.

As an example, we can take such a phenomenon as the former Yugoslavia. The annual inflation ranged from 36 to 84 percent, depending on the period, and salaries increased up to 30 percent every year. People felt that there was economic progress because wages were continuously growing – but in fact, the wage growth was slower than the inflation, and people became poorer in real terms.

Unfortunately, one must also take the example of the US. Gold prices in the US during the last forty years showed an average annual growth of 90 percent and earnings of 16.5 percent. People lived on credit. The state debts also showed an annual average growth of 111 percent in the same period, but the American population still had a feeling of a stable economic progress.

The quality of the economics of the country can be judged in several ways. This can be done for individual sectors and categories of the economy, as well as for the overall economy. Each of the above assessments has its own purpose. This is done through a variety of analyses or individual indicators. An organized integral real evaluation for a longer period generally does not exist. By the application of the measure of the value of money, Aur, it can be performed virtually every day. If the starting Aur has an index value of 100, and the actual one at any given day, month, or year achieves a higher or lower value than 100, it can be said that the quality of the economics of the country rose or fell. This can be useful for every action that is based on the economics of the country.

The economic policy of the state requires statistical comparisons of data, not only in nominal but also in real terms. For a realistic representation, it is necessary to have a basic indicator on the basis of which the transformation from the nominal condition into the real one is performed. For this purpose, an integral indicator can serve in the form of a measure for the value of money. According to the indicator of the value of money, the success of the economic policy of the state is reflected.

1.6 Expressing Economic Results by the List of Exchange Rates

To express the results of economic success, the concept of innovated exchange rate lists would be used. The function of the Aur would be introduced into the usual exchange rate list. The list would be expanded by three columns. These would be the starting value of the currency in Aur, the current quoted value of the currency in Aur, and the index based on Aur. Thus, the quality of the economics of the country would be objectively identified practically daily. This can be seen from an example of an exchange rate list.

Example: Exchange Rate List of the Croatian National Bank

This hypothetical example is based on the processing of the exchange rate list of the Croatian National Bank (approximate exchange rate values in September 2014).
Exchange Rate List Number**:** xxx
Established on: xx/xx/xxxx
Exchange rates in kunas – HRK

Country	Code	Currency	Unit	Buying foreign currency	Med-ium foreign curren-cy	Selling foreign curren-cy	Aur register-ed con-stant value	Aur actual	Aur index 9:8x100
1	2	3	4	5	6	7	8	9	10
Australia	036	AUD	1	5.48980	5.50632	5.52283	2.6221		
Canada	124	CAD	1	5.38513	5.40134	5.41754	2.5721		
Czech Republic	202	DZK	1	0.27503	0.27585	0.27668	0.1314		
Denmark	208	DKK	1	1.02056	1.02363	1.02671	0.4874		
Hungary	348	HUF	100	2.42202	2.42931	2.43660	1.1568		
Japan	392	JPY	100	5.58094	5.59773	5.61452	2.6656		
Norway	578	NOK	1	0.93182	0.93463	0.93743	0.4451		
Sweden	752	SEK	1	0.82699	0.82948	0.83197	0.3950		
Switzerland	756	CHF	1	6.30059	6.31955	6.22851	3.0093		
UK	826	GBP	1	9.46187	9.49034	9.51882	4.5192		
USA	840	USD	1	5.86936	6.00000	6.00499	2.8571	xxx	(*)
EMU	978	EUR	1	7.59788	7.62075	7.64361	3.6289		
Poland	985	PLN	1	1.81759	1.82306	1.82853	0.8681		
Croatia	xxx	KN	1	0.166334	0.16667	0.16701	0.16667		

(*) **Degradation of the US dollar value**

	Start	**Actual**
Date	xx/xx/xxxx	xx/xx/xxxx
The price for one ounce of gold	xxx	xxx
The price index for one ounce of gold	100 (constant)	xxx
The permitted variation of the price indices	100 (constant)	99–102: (3%)

The indices in Column 10 of the examples show the quality of the economics of the country on the day of publishing the exchange rate list. This quality is expressed in relation to the starting quality of Column 8. The starting quality from Column 8 always remains equal. It is a constant and a measure. If the economy of the country is poor, the actual value of Aur will be less than the starting one, so the Aur indices will have a tendency to go down and vice versa. In this index, everything will be shown that was done well in the economics of the country, as well as what was possibly done wrong. Here the concept of the political program of the ruling option will be identified, the behavior of the governing structure in relation to the concept of its political program, and the general concept of economic behavior in the country. The indices will show it. This is the best defense against political demagoguery in the economics of the state.

The position of the index in Column 10 of the exchange rate list after one or more years would change by the size of the inflationary or deflationary effect. These currency changes would also show the real change of the purchasing power in the

state. This would be a more accurate means which could not be dressed up by demagoguery. Each defect would get its effect.

The problem of exchange lists

There are now 194 countries in the world, 168 of which have their own national currency. In each of these states, the exchange rates for the other 167 countries are determined daily or periodically. This is executed by the central and commercial banks. If each of these countries in the average has four commercial banks, then 140,280 exchange rates are determined daily. These courses serve as the basis for calculations, payments, and deposits. Here there are two problems. The first is that these courses could be unrealistic, and the second is that for the same currency there could be up to 167 different courses. This calls into question the reality of economic indicators for the individual country. This could refer to the price of certain material goods and services, labor costs, and the reality of expressing the size of the gross domestic product.

With the introduction of the money constant Aur, the number of established courses could be reduced by up to 840 times. This would allow all users of accountings, payments, and deposits to use only a single world currency exchange rate, which would be published and established by the International Monetary Fund. It would also make it impossible for individual states to manipulate with money, and thereby generate economic deviations.

1.7 Displaying the Economic Results of the State

The economic data for a country is shown in various reports. In this presentation, as a standard for the result, an equivalent indicator of a past period, a planned size, or dates of some other state are usually taken. The data thus obtained is

relatively imprecise because it is not cleaned from inflationary distortions. By using data based on the money constant Aur, the results become more precise and better express the real economic facts.

The movement of prices of consumer goods, and for goods that are purchased to keep their value, is important to the life of people. These prices often show significant differences. For example, take the price of gold. During the past forty years it grew at an annual average rate of 90 percent, thus most realistically showing the weakening of all the major world currencies. If the price rises are shown in Aur, then we can get a totally realistic picture of the inflationary effect.

The erosion of the value of money is happening constantly. It is the result of noncompliance with the principles of the economics of the state. This process constantly keeps the illusion of technological and economic progress of the country, but it is only obscuring and concealing the real facts. The degree of inflation shows the volume of economic errors in the economics of the state. Another economic rule in the country requires that the material goods and services on one side and money on the other side are mutually equivalent. When the amount of money excessively increases, this causes its devaluation, which is an economic deviation.

The economic fruit of gain in practice has two functions. The first is the additional income to increase the consumption of entrepreneurs or shareholders. This is also the reward for entrepreneurship, for knowledge, for enterprising, and the general useful development contribution. The second function is to provide money to expand business. These are the basic principles of entrepreneurship.

The value of the economic fruit in the form of profit should be protected. If its value is eroded by inflation, then it stimulates non-entrepreneurial behavior in the form of

investments in luxury and non-entrepreneurial functions, such as the purchase of works of art, gold, and gems. If money keeps a stable value, then it is invested into savings and new entrepreneurial ventures. Due to these reasons, the value of money must be protected.

The economic fruit of purchasing power is part of the economic duals. It should have stability of value. If it does not, then it progressively reproduces an inflationary effect. This can be seen in the reproductive cycles as shown in Tables 3, 4, and 5. The first cycle shows the initial economic structure. If the monthly inflation is 2 percent, the second cycle will show a general increase of prices in this structure.

Table 2: Structure of Economic Micro-duals of the First Cycle

The economic core		**Economic satellites**	
Production of the material product "A"	1000	Payments for basic materials	220
		Payments for various auxiliary materials	80
		Payment for electricity	40
		Payment for energy	30
		Payment for various services	60
		Payment for depreciation	40
		Payment of rent	80
		Payment net wages	150
		Deposit payroll	130
		Payment of various taxes	90
		Payment of interest	80
	1000		1000

Table 3: Structure of Economic Micro-duals of the Second Cycle

The economic core		**Economic satellites**	
Production of the material product "A"	1020	Payments for basic materials	223
		Payments for various auxiliary materials	82
		Payment for electricity	41
		Payment for energy	31
		Payment for various services	61
		Payment depreciation	41
		Payment of rent	82
		Payment net wages	152
		Deposit payroll	133
		Payment of various taxes	92
		Payment of interest	82
	1020		1020