

Hyperidage
Theory

About the cover

The cover is a glowing red-hot bark of a tree embedded with the greatest equations of nature that tremendously impacted the thought of mankind and the course of civilization. These are the Maxwell's electromagnetic field equations, the Navier-Stokes Theorem, Euler's identity, Newton's second law of motion, Newton's law of gravitation, the ideal gas equation of state, Stefan's law, the Second Law of Thermodynamics, Einstein's mass-energy equivalence, Einstein's gravity tensor equation, Lorenz time dilation, Planck's Law, Heisenberg's Uncertainty Principle, Schrodinger's equation, Shannon's Theorem, and Feynman diagrams in quantum electrodynamics.

Concept and design by Thads Bentulan

Hyperidage

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The Misadventures
of the Street Strategist
Volume 10

Thads Bentulan
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Hyperwage Theory

The Misadventures of the Street Strategist

Volume 10

by

Thads Bentulan

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Hyperdaze

Theory

The Misadventures
of the Street Strategist
Volume 10

“I believe myself to be writing a book on economic theory which will largely revolutionise - not, I suppose, at once but in the course of the next ten years - the way the world thinks about economic problems.”¹

“This book is chiefly addressed to my fellow economists. I hope that it will be intelligible to others. But its main purpose is to deal with difficult questions of theory, and only in the second place with the applications of this theory to practice. ... Thus I cannot achieve my object of persuading economists to re-examine critically certain of their basic assumptions except by a highly abstract argument and also by much controversy... But, if my explanations are right, it is my fellow economists, not the general public, whom I must first convince. At this stage of the argument the general public, though welcome at the debate, are only eavesdroppers at an attempt by an economist to bring to an issue the deep divergences of opinion between fellow economists...”²

¹John Maynard Keynes to George Bernard Shaw, Letter, 1935

²John Maynard Keynes, Preface to the *General Theory of Employment Interest and Money*, 1936

In which the Street Strategist unveils the state's secret strategy of poverty

- 1 -

The Strategy of Poverty

Of the state policies of poor nations perhaps none is more paradoxical than the strategy of poverty. The irony is that unless someone such as the Street Strategist points it out, even the government itself is unaware it is actually pursuing such a strategy.

Since we had just celebrated Labor Day, I find it relevant to reveal the secret labor strategy of the government.

When the country welcomes foreign investors with the promise of low labor cost, unconsciously it is prostituting the great talents of our

Hyperwage Theory

highly educated workforce at decadent low wages.

In promising so, the state sells out the souls of the country's labor workforce by perpetuating low wages. The state effectively says, come to us because it is our policy to keep the people poor by maintaining low wages.

That, my friend, is the strategy of poverty.

Don't tell me we are luring foreign investors with our infrastructure because there aren't any.

Don't tell me we are luring them with our efficient and corruption-free government because it isn't.

And don't tell me we are luring them with our English-speaking workforce because it is almost irrelevant – the Asian headquarters of American and European companies prefer Hong Kong or Singapore.

If the government is not the unwitting agent of this strategy of poverty, then worse, it is the unwitting originator and perpetrator of this offense against labor. The operative word is “unwitting.”

The greatest problem with the unwitting perpetrator is that it thinks it is doing something good for the country.

This is the tyranny of well-meaning intentions using wrong analysis.

Allow me to sketch my economic theory first. In future articles, I will belabor them in detail, including addressing the loopholes that you may find in this simplified sketch.

Under this strategy of poverty, the man in the street directly suffers the effects of keeping the people poor as a matter of state policy. And since this is a state-sponsored strategy there is no hope in sight for him during his generation, and the generation of his children.

Thus, he escapes from the regime and seeks better chances in countries with higher wages such as the Middle East, Hong Kong, Singapore, and the most treasured paradise called the United States.

The rich ones left in the country are the politicians, wherever their wealth came from.

What happens when the best brains of the country seek refuge in a

high paying country? The poor country becomes poorer because its economy is drained of the best talents; while the rich country becomes richer because it is overflowing with the best talents in the world.

Due to the dearth of productive talents, the poor nation heads for a downward spiral; on the other hand due to an oversupply of productive talents, the rich nation heads for an upward spiral. The gap between the rich and the poor nations widens.

How can the rich nation be certain that the emigrating talent improves the productivity of its economy? Simple test. If he does not produce more revenue than his salary, he will be fired.

While reserving details for future articles, allow me to sketch the high wage scenario.

The world's best talents – mathematicians, physicists, bankers, doctors, and nurses gravitate towards the highest paying center of the labor universe.

They are paid high, but they must produce higher than their income, which means the business must grow or else it is shut down. Since the best minds are competing in one market, they produce the best science, the best computers, the best medical equipments and the best weapons of mass destruction.

When wages are high, the corporate structure tends to be labor-efficient. Instead of three staffers, supermarket check-out stands will have to make do with one.

The same labor-efficient principle applies to the government as well. Bureaucrats will find it hard to justify hiring 20 casual employees each receiving a monthly salary equivalent to five TV sets.

Because automation saves labor cost, it is second nature to these corporations. The companies acquire the latest, fastest equipment, and in cases of agriculture, adopt the best yielding techniques.

Thus, it may happen a rich nation with all its expensive labor can produce rice cheaper than a Third World country.

When the wages are high, basic commodities are high. But since income outstrips the cost of basic commodities, there is still some

Hyperwage Theory

savings left. The typical worker is still above the poverty line.

Food prices go up, but how much rice and vegetables can you really consume? There will be funds left over for savings, or future investment.

When basic commodities are high, the worker rethinks the size of his family. Thus, in Japan, Korea, Singapore or in Europe, the population growth is very low compared to that of a poor country.

When wages are high, inflation is high. Inflation is a sign of growth, growth is good. Inflation, therefore, is a leading indicator of economic optimism. Inflation means higher prices.

In which country is Nokia cheaper? In the Philippines, a poor country, or in Singapore, a rich country? How about TV sets, designer clothes, and hamburgers? Do you really think that inflation in a poor country will skyrocket so high that cars, stereos, cellphones, will be more expensive than the price in the world market?

There is a limit to inflation and in most instances, today, the country is already at these upper limits. The poor nation is currently paying First World prices using Third World salaries. Isn't that alarming?

High wages create a larger middle class, with the ability to save and to create their own business using these savings.

Higher wages reduce the profits of the shareholders but this doesn't mean they will go bankrupt because on the other hand, there are more customers. Thus, higher wages reduce the gap between the middle class and the rich without corrupt government fingers dipping into the bowl.

High wages cause unemployment but which rich country has higher unemployment figures than poor countries? Unemployment in high wage countries are statistically lower than in low wage countries. Is there a cause and effect here?

When wages are high, the rich country's citizens need not go to foreign lands. Instead, they develop their own businesses, both service and manufacturing because of a stronger local demand, and later they export their products to the world, profitably.

Hyperwage Theory

Can we compete globally by raising minimum wages 1,000% to \$1.50 hourly?

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Hyperidage Theory Unsited

“The difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify into every corner of our minds.”

John Maynard Keynes
General Theory of Employment, Interest and Money
December 13, 1935

This is the portrait of the Street Strategist as an economist. I have the honor to declare that the World Bank whose vision is a world free of poverty is a complete failure. I have the

Hyperwage Theory

honor to declare that the Asian Development Bank whose vision is an Asia free of poverty is a complete failure. Now is the time for the Street Strategist.

How do you solve population control? How do you tackle businesses who under-declare income? How do you address Filipino time? How do you eradicate corruption? How do you prevent doctors from working as nurses abroad?

We have a hundred different solutions for each of the problems above. But if I tell you that there's only one solution that will solve all of the above, like my friends, you will exclaim: "I don't see the connection."

If you don't even see the connection after I told you that there is, how could you have thought of the connection in the first place?

Ideal audience

Economics is hard enough as it is because it is very mathematical and quite rightly dubbed as the queen of social sciences. Econometrics and quantitative analysis in economics are multi-variate such that partial differential equations (PDEs) are the norm at the level at high-end economic theory.

In contrast, engineering and physics usually have only three or four variables.

Another thing that makes economics difficult is that our everyday sense of what is economical or not, is sometimes opposite to what is theoretically correct. For example, is high personal savings good for the entire economy or not? Is high personal spending good or bad?

Again, economics is hard as it is.

Yet, what I'm going to discuss in this series is a new economic theory. This means that I'm going to turn on its head the current economic theories. And if you don't understand current theory, how ready are you for another contrarian theory?

Therefore, I have decided to limit my audience. If you have no degree in business and finance forget it. Read the other columns.

If you have a degree in economics but you only reached a BA or MA level, I reluctantly would welcome you.

If you have a PhD in economics, ah, there you are. My ideal audience. Why? Because by this time, with your PhD you shall have been brainwashed by the theories of economics.

And I consider it a good challenge to turn your entire education head over heels.

If you hear me out, and afterwards, you still say I'm an economic idiot, I always was.

On the other hand, if you do agree with me, then I shall have convinced you I'm an economic genius. I don't have to convince the man in the street, after all he does not have your economic IQ.

As for the rest of readers, well, you can be intellectual voyeurs. Who knows you will understand economics the way the Street Strategist does.

But if you try to argue with me and you don't have a PhD, don't. I don't have time to give you a tutorial in economics.

Contrarian

Actually, this is part 2 of this series. I wrote Part 1 on May 2, 2002 in an essay called *Strategy of Poverty*.

Yes, that was a few years ago but then you know me, I have one of the most unstructured thoughts around.

While I was writing my 7-part series on ADHD, my 5-part series on traffic, my 10-part series on the bar exams, my 10-part series on the *certiorari* conundrum, and my 12-part series on commodities trading, I was also busy reading economics from the basic to the advanced theories in order to secure my footing.

Most of all, I wanted to clearly define which principles or theories of economics I would have to violate with my own new theory.

I have to be a contrarian. And you know that contrarians have to be wizards on the standard theory first before they can take contrarian positions.

Hyperwage Theory

I researched on economics so hard that I ought to be given a PhD. Of course, you don't really believe that, but somehow, I have a feeling that you would believe it.

And even if you don't have a PhD in economics, if you care to hop on to this journey, I assure you, with the guarantee of the expository mastery of the Street Strategist, that you will never look at economics the same way again.

I shall liberate your minds and that's a promise.

Street Strategist as economist

I have been with you for more than five years. I have revealed so much, although in weekly trickles, almost anything about my love life, my failures, my successes, and what my thoughts are about everything including the sizes of bond papers.

Therefore, my educational background is an open book. Yes, you know that my expertise happens to be in – surprise, surprise – economics.

Surprised?

Oh, you can call it aborted expertise because I never got to get my diploma in MA in Economics.

I actually went over my transcript of records a few days ago, and my record on economics is dismal.

In my Econ 1, I got a grade of only 1.5. Yes, I know that's a high grade but my classmates got 1.0 (flat one or candle). In my Econ 51, I got a grade of 1.3. That's an improvement but that was supposed to be easier than integral calculus. Still dismal.

While taking up my masters, in graduate school, for Econ 203, Quantitative Economic Analysis, the teacher had the misfortune of having the young man who was to be the Street Strategist as a student. Never mind if she was working on her PhD. But she was no match.

So, she asked her husband who had a masters in mathematics to teach the hard topics to us. When the husband couldn't answer my questions, he said, "Hey, I know you."

Of course, he knew me. I beat him in a physics quiz bowl a few years before. Eventually, I got a grade of 1.1. Yes, that's an extremely excellent grade. But I deserved the perfect grade of flat one. I knew more than the teacher and she had to request help.

Well, I probably misplaced a comma somewhere in my bluebook. But then if the imperfect judge over the perfect, why would you expect perfection?

At any rate, it was my performance in Econ 204 that spelled the end of my career. I got a very dismal grade of 1.6. If you are taking a master's degree in Economics, and you get only 1.6 in a simple subject such as Managerial Economics, that's a disaster. There is no hope for you.

“You're crazy”

But it was the teacher's comment that sent a broken arrow direct to my heart and my brain. Towards the end of the term, he inquired why he hadn't met me in the econ undergrad classes and what I was doing while not taking summer classes.

When I revealed to him my unstructured activities he said: “My God. You're crazy. You're wasting the economic resources of this country. Whether you spend your own money or you enjoy a scholarship, that will still be a waste for the entire economy as a whole. There are so many people out there who don't even have high school education because the economy cannot afford it, and now you are wasting the economic resources of the country to educate yourself about economics? That's a waste. You're crazy.”

He was right. I quit economics. They were not able to brainwash me yet.

Therefore, I am in the best position to challenge the economists.

New ideas

John Maynard Keynes expressed it perfectly: “The difficulty lies, not in the new ideas, but in escaping from the old ones.”

He wrote this in his controversial book *General Theory of*

Hyperwage Theory

Employment, Interest and Money. The *General Theory* threw away the then existing theory which has since become known as the classical theory.

Thus, Keynesian economics has become synonymous with modern economics. Don't worry, later on, I'll discuss what makes the classical theory classical and what makes Keynesian economics modern.

Before we proceed. I'm going to quote Keynes against himself.

In other words, I'm going to present a hypermodern economic theory that will violate certain - but not all - fundamental Keynesian principles.

Therefore, I'm going to say this to all economists, classical and Keynesians: "The difficulty lies, not in the new ideas, but in escaping from the old ones."

First casualty

What is the first thing that happens when I propose that the salary of the domestic helpers, currently, P2,000 shall be increased to P20,000 (US\$400 at US\$1=PhP50), or P770 daily?

Or that the salary of a fresh college graduate should be P70,000?

What is the first casualty of the Hyperwage Theory? The moment we hear of the P20,000 (US\$400) minimum wage, we stop thinking.

Our minds are the first casualty of Hyperwage Theory. Our brains stop working. Closed minds; hopeless country.

The Hyperwage Theory of Economics

The Hyperwage Theory is a theory of higher purchasing power. It is not single number or amount, it is a policy, it is a strategy.

The minimum wage shall be set to a level that shall give purchasing power to the minimum wage earners, including domestic helpers.

Currently, the domestic helpers have almost zero purchasing power and worse, they are not even covered by the minimum wage law.

A hyperwage resulting in real purchasing power will stimulate domestic demand which in turn will stimulate production which in turn will stimulate employment.

This domestic demand, under the power of the economic multiplier, will result in increased production of goods or services which in turn will result in more employment in a positive upward spiral.

The theory rests on the proposition that Hyperwage does not automatically result in the same proportion of hyperinflation in a Third World country.

For instance, a ten-fold increase in the wages of the domestic helpers will not necessarily result in the same ten-fold increase in the prices of goods and services.

Furthermore, a ten-fold increase in the domestic helper's wages does not also automatically mean that all wages of the other workers will be increased ten-fold across the board; only the minimum wages of the lowest worker, which is the domestic helper, is fixed.

The other wages such as wages for sales clerks and bank manager will adjust according to market forces. The logic for this is that many goods and services in Third World countries are already being sold at First World prices.

This theory is applicable only to Third World countries, not to First World countries.

Under the current economic theory, the discussion on minimum wage is limited to issues such as whether or not moderate increases in minimum wages will result in higher inflation or more unemployment.

Furthermore, under the current theory, all economists agree that if the minimum wages were raised to a very high level (not a merely moderate increase), supposedly, there will be massive unemployment.

On the other hand, under the Hyperwage Theory, the minimum wage is considered as the central factor of the Third World economy.

Thus, this is the only theory available that places the primary responsibility of redeeming the country's economy in the hands of the minimum wage. Not on interest rates, not on exchange rates, not on foreign investments, not on monetary levels, not on forms of government, not education, not on taxation structure. The latter are a secondary factor.

Hyperwage Theory

The Hyperwage Theory is the only theory that addresses, by way of chain-reacting proximate causes, many externalities and non-economic social problems such as population control, inefficiency, corruption, brain drain, underdevelopment of intellectual capital, separated families due to overseas work migration, underdeclaration of business income taxes, and the slow justice system.

In short, the Hyperwage Theory purports to be the panacea with an actionable plan to solve the economic problems of a Third World country.

For discussion purposes, the minimum wage shall be set to be P20,000 per month for domestic helpers.

This is US\$400 at \$1=PhP50, or PhP770 per day based on a 26-day month, or PhP77.00 per hour based on a 10-hour day for domestic helpers, or \$1.50 per hour.

In Hong Kong, the minimum wage of the domestic helper is about PhP25,000. We don't have to equal that amount.

If we set our Hyperwage to P15,000 only, then there's still the temptation that our teachers will go to work in Hong Kong as domestic helpers because the P10,000 difference is still a considerable amount.

I figured paying P20,000 to our domestic helpers will prevent the brain drain to Hong Kong.

Thus, the PhP 20,000 level (\$400).

Fresh college graduates should earn about PhP70,000 per month or \$1,400 per month or \$6.70 per hour.

This is deliberately set comparable to Hong Kong and Singapore to avoid the labor wage arbitrage that is causing our school principals to work in Hong Kong as domestic helpers.

Hyperwage Theory Unveiled

Typical Range of Wages under Hyperwage (\$1=PhP50)

Job	Monthly (PhP)	Monthly (\$)	Hourly (PhP)	Hourly (\$)	Note
Domestic Helpers	20,000	400	77	1.5	10-hr day
Janitors	22,000	440	85	1.7	8-hr day
Factory Workers	25,000	500	96	1.9	
Sec/Sales clerks	50,000	1,000	192	3.8	
Fresh college	70,000	1,400	269	5.4	
Middle Managers	150,000	3,000	577	11.5	
Bank Managers	200,000	4,000	769	15.4	

Note: Throughout this book, the data tables use the currency conversions at the time the data were first published in 2005. In mid 2008, the exchange rate was \$1=PhP43. However, for simplicity we use \$1=PhP50 to make PhP20,000 = \$400, a round figure.

(Thads Bentulan, May 12, 2005)

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Hyperwage Theory

Hyperwage requires a paradigm shift

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Paradigms

“The secret of the Hyperwage Theory is that price modifies behavior. Its beauty is its elegant handling of non-economic issues.”

- Street Strategist

The Hyperwage Theory could launch the Street Strategist as the world’s most infamous intellectual lunatic. In the same breath, the Hyperwage Theory could land the Street Strategist the fastest Nobel Prize in Economic Sciences in history.

You bet on the former, I’ll bet on the latter. No in-betweens. Indecisiveness is for the faint-hearted.

I am going to incorporate a research think-tank to be called the Hyperwage Foundation to conduct statistical and econometric studies.

This is probably with funding from the World Bank and the ADB so that, finally, their funds will be put to good use, instead of the

Hyperwage Theory

aimless so-called anti-poverty strategy studies they have conducted over the last 50 years that resulted in worm-speed improvements.

I will also run for the next senatorial elections. All the security guards, domestic helpers, OFWs, janitors, sales clerks, and students will put me as the last candidate in their ballots.

At least, they will vote for somebody who has actually spent time thinking about their modern-day slavery and who has a political platform, instead of mere acting personality, to offer to the voting public. Mine will be the last name in each ballot.

Outline

Here's the outline of this series. Contrary to my usual cliff-hangers, in the Part 2 of this series, I immediately described the Hyperwage Theory.

Instead of a cliff-hanger, I opted for a jammer. I jammed the gears of your intellectual engines with a proposal that you would dismiss outright without further thinking.

Then, I will describe the paradigm or mindset that I used to arrive at a solution to the poverty of the Third World.

I will explain why I think the World Bank, Asian Development Bank, African Development Bank and other development banks, and all the Nobel Prize economists have failed for 50 years to come up with a solid strategy in solving Third World poverty.

Then, I will discuss the inadequacies of economic theories in solving Third World economic problems.

After that, I will discuss the beauty and strength of Hyperwage Theory, especially in the manner it addresses the non-economic issues which are left untouched by the ordinary economic theory.

Then I will try to prove that Hyperwage Theory finds succor in the current theory of the firm, and other theories of microeconomics.

Next, I will prove that it is possible for Hyperwage to co-exist with current macroeconomic Keynesian theory.

Then finally, I will prepare a Question and Answer (Q&A) to

directly answer your questions.

Paradigm

So, I ask you: Did your brain stop working immediately? Did the minimum wage of P20,000 (US\$400) (P770 daily) for domestic helpers - not sales clerks, mind you - trigger your automatic transmission-line fault relay into a trip-off?

Did you instantly exclaim, "That's baloney, that's wishful thinking, that's impossible?"

This is what I mean. The moment you tell yourself that it's impossible, that means you tell your brain to stop working. You do not even attempt to think of the possible consequences. How do you know it's impossible? Knee-jerk reaction? Academic brainwashing? Small-business-will-collapse bogey?

The most common reaction by economists is: "There will be hyperinflation!"

The rejoinder of the Street Strategist: "So what? Does that scenario paralyze your thinking process? Why, what happens under hyperinflation? Have you really thought about it, or you're just mouthing the inert textbooks and professors?"

Education vs. innocence

Contrast this: The Nobel Prize economists have a preset reply, therefore, they don't have to think anymore. Due to their high education, for them, hyperinflation is *terra incognita*.

Remember that the Street Strategist is an aborted economist, therefore, he does not know what happens under hyperinflation.

For the Street Strategist, it is an economic twilight zone where his intellectual innocence does little to remind him he is committing intellectual *hara-kiri*.

Don't worry, we will dwell on this later. Suffice it to say, the Street Strategist found heaven for the Hyperwage Theory in the twilight zone of economics.

Hyperwage Theory

Butterfly metamorphosis

In my book *Strategy Myopia*, I wrote an article “The Metamorpher,” which exemplifies my propensity for thinking along the lines of metamorphosis. Pursuing along the same wavelength I would like to invite you to keep an open mind to the Hyperwage Theory.

In effect, what I’m saying is that we are like caterpillars in the caterpillar world in the book *Hope for the Flowers*. Whatever we do, as long as we think of ourselves as caterpillars we will never achieve our destiny which is to become butterflies. In turn, butterflies are the hope for the flowers to bloom.

Pursuing the analogy economically, as long as we don’t make that quantum leap to hyperwage levels, whatever we do will be useless, a mere maintenance of the status quo.

This is the reason why for the last hundred years or so, the poor countries became poorer in a negative downward spiral while the rich countries became richer in a positive upward spiral. But that’s jumping the gun. I’ll discuss all these issues later.

You might think of the Hyperwage Theory as crank economics, but keep an open mind until after I have completed my exposition.

Some of you will be asking for empirical data, I’ll attempt to provide some along the way.

Twilight zone

In addition to the metamorphosis paradigm, I believe that Hyperwage Theory enters into the twilight zone of economics and it is probable that in this zone the normal laws of economics will be violated, or at least be suspended in animation giving space to the possibility that a theory like Hyperwage can exist. What I’m saying is, do not rule out Hyperwage just because it does not fit your everyday modern economic theory.

Newton vs. Einstein

In addition to the metamorphosis and twilight zone paradigms, I used the Einsteinian relativistic mindset.

Does Hyperwage call for the complete disposal of current modern economic theory? No.

Let me make an analogy. Newton was the greatest scientist of the human race. He deduced the three laws of motion. He also deduced the laws of planetary motion. He invented the theory of universal gravitation. He even invented calculus independently of Leibniz. Newtonian mechanics is valid for speeds in our ordinary working lives.

But in his lifetime did Newton ever create equations that accounted for motions at the speed of light? He didn't.

During the time of Newton, every scientist believed that his laws of motion are applicable at any speed. It would have been unthinkable for Newton to think that there would be a different set of equations at tachyon (light) speeds.

Today, every school child knows that Newton's laws break down at tachyon speeds, and that Einstein's equations of relativistic mechanics take over.

Anyway, to answer the question, yes, the current principles of economics and Hyperwage theory can co-exist because they will have different sets of equations and curves to define the economic variables in their respective domains and ranges.

Modern economic theory may be likened to Newtonian mechanics, while the Hyperwage Theory may be likened to Einsteinian mechanics. Both can co-exist although at different planes. As I said, as I'm going to prove later on, Hyperwage is applicable only to Third World countries, the current theories are applicable to First World countries.

Marxist vs. capitalist

During one radio show, some leaders of the militant labor and cause-oriented groups reacted that they liked the Hyperwage Theory but that their asking price for labor is only for an increase of P125 daily.

Many reacted to say that I'm a communist or a Marxist. That's completely wrong. In fact, I am a capitalist, and I base my pricing of

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labor from a capitalistic point of view.

The Marxists merely pluck out a figure from some NEDA statistical table without thinking of its effect to the entire economy or to the world economy.

On the other hand, I use market-based figures. That's why our figures are completely different and disparate. In fact, I started from looking at the world economy then all the way to the household economy.

Survival vs. profitability

Yes, I'm not kidding. I started my thinking process from a macroeconomics viewpoint, on a world-wide basis until I ended up with the domestic helper's wages.

The Hyperwage Theory was conceived from a completely capitalistic approach. The thinking process was completely different.

The militants are demanding for their wages for their survival, and despite their pro-poor sentiments, they have excluded the domestic helpers.

That's not really pro-poor is it? The businessmen, the wage boards, the economics professors, the government policy makers, and even including the president are working from the bottom up. They only want to solve the economic issues.

On the other hand, I was analyzing the world economy and arrived at a conclusion that for the profitability of the entire country, not merely survival of the laborers, we must give them the minimum wage that they deserve, and I am forced by my theory to include domestic helpers.

I am analyzing this top down. I wanted to solve not only the economic issues but also the non-economic issues.

Expense-side vs. revenue-side

The difference in perspective is tremendous. They are thinking about the survival of labor, hence, they are demanding wages for labor's survival. I am thinking about the profitability for the country's

economy, hence, I am giving labor wages that it deserves for the country's profitability.

The businessmen, the economists, and the government are treating labor as an expense. I am treating an enriched labor as revenue.

And yet, that's not all. The Hyperwage Theory brings on hundreds of flow-on effects.

Again, that's jumping the gun. Allow me to lay the predicate first.

First train vs. third train

In addition to the butterfly mind-set, I invite you to think of the train mindset. The Third World countries are riding on the Third Train on Track 3. The First World countries are on the First Train on Track 1.

Whatever the people on the Third Train will do, they will always be in Track 3. They will never go to Track 1. What is needed to move to Track 1?

The Hyperwage Theory is the quantum jump needed by the Third Train to jump to Track 1.

And there's one more big problem. The people on the Third Train are using the Rules of Track 1 in the hope that they will jump from Track 3 to Track 1. This is a completely wasteful experiment.

What I'm saying is, Third World countries have been using only one set of economic theory but that theory is good only for First World countries.

Under the Hyperwage Theory, it is wrong to use First World economic theories to Third World countries. For one, First World economics is inflation-centric. The First World are afraid of inflation so much so that they want to control it.

Upward vs. downward spiral

One more thing about the train analogy. Track 3 is a downward negative spiral track.

On the other hand, Track 1 is a positive upward spiral track. Therefore, Train 3 will always be going down while Train 1 will always

Hyperwage Theory

be going up.

Come on, guys, you know that. Just a brief teaser: All the doctors on Train 3 are migrating to Train 1 as nurses. The quality of medical care in Train 1 can only go upward given this trend, while the on Train 3 it can only go down. Isn't that proof enough that we are on the wrong set of tracks?

So now we approach Hyperwage with a different mindset. We are caterpillars who think we should be caterpillars forever when in fact we are butterflies.

We are Train 3 people on Track 3 but we refuse to entertain the possibility that we can be on Train 1 on Track 1. Why? Because our brains stop working. Our brains are the first casualty of the Hyperwage Theory.

Summa cum laude

"But they are a rich country while we are poor," is a typical reaction to the Hyperwage Theory. "We cannot be like them."

Think of yourself as a teacher, are you going to tell a student that he is a "natural born flunker" or a "natural born *summa cum laude*?" Can you imagine how absurd that is?

Take my case. It took ten years before I understood debit and credit. But when I finally did, I eventually invented the world's fastest, most effective, most efficient way to learn debit and credit with perfect accuracy.

Anyway, in my mind, like any student, any poor country can become rich.

Apples vs. oranges

During one of my talks about Hyperwage, one of the panelists who happens to be a member of a Regional Tripartite Wage Board said: "Your theory is flawed. You keep on comparing our country to Japan, Hong Kong, USA or Singapore. But you cannot compare these countries. They are rich, they can afford to pay."

Can we compare apples with oranges? Why can't we?

If we can transform matter into energy under Einstein's $E=mc^2$, there is no reason we cannot transform an orange into an apple, if needed.

Don't make the mistake of turning off your brains. Better a wrong idea than no idea at all.

Economic vs. non-economic issues

What is an economic issue and how does it differ from a non-economic issue?

An economic issue is one solved or addressed by economic theory or economic equations. Other issues are non-economic.

Examples of economic issues or economic problems are inflation, monetary levels, unemployment, wages, purchasing power, and similar data.

Examples of non-economic problems are slow wheels of justice, underdeclaration of income, inefficiency, bureaucracy, migration, brain drain, corruption, population control, lack of computerization.

Why is it important to distinguish economic from non-economic issues? Because ordinary economic theories attempt to solve only economic issues. For example, how does economic theory solve the population explosion? There is no solution from them.

On the other hand, Hyperwage Theory addresses a large number of non-economic issues in addition to solving the economic ones.

For example, Hyperwage addresses computerization, automation, population control, corruption, and brain drain in one single sweeping stroke.

It is this dual nature of Hyperwage that holds promise for Third World countries

Many-to-many

If you are a computer programmer, you know the "one-to-many", "many-to-one", "one-to-one", and "many-to-many" database relationships.

I have identified about 50 major problems of Third World

Hyperwage Theory

countries. Under ordinary modern economics, each of these 50 problems will have 10 solutions each for a total of 500 solutions. How can the government pursue these without spreading itself thin?

That alone will give you an idea of why the government cannot solve our economic problems.

This is an example of a many-to-many relationship. Many solutions for many problems.

On the other hand, Hyperwage is a panacea of sorts. It can address all the 50 issues using only one solution: Domestic helpers should be included in the minimum wage coverage and at a level of P20,000 (US\$400) monthly.

This is an example of a one-to-many relationship. One solution for many problems. Can you imagine the elegance of the Hyperwage Theory? It is a one-to-many solution.

Summary

In this installment, I have shared with you the combination of paradigms that I used to structure my analysis and *gedanken* experiments in formulating the Hyperwage Theory.

Why did I do this? Because I want you to vicariously feel the sense of direct, logical, natural and elegant genesis of the Hyperwage Theory when one uses the insight and paradigms above.

If I did not think along the lines of butterfly metamorphosis, twilight zone violations, Einsteinian relativity, Marxist and capitalistic pricing, survival and profitability, expense and revenue, trains on different tracks, positive and negative spirals, *summa cum laude* and flunkers, apples and oranges, economic and non-economic, one-to-many, I would not have arrived at the Hyperwage Theory.

Whether or not, you will eventually agree with the Hyperwage Theory is secondary.

However, I hope that you will engage yourself in this debate, vicariously, because I am sure you will never look at economics the same way again. I will have the pleasure of making your imaginations

run wild.

And you know that's a scarce commodity among policy-makers, businessmen and economists: imagination.

(Thads Bentulan, May 19, 2005)

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Hyperwage Theory

Do Third World countries have aimless anti-poverty strategies?

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Aimless Strategies

The Hyperwage Theory could launch the Street Strategist as the world's most infamous intellectual lunatic. In the same breath, the Hyperwage Theory could land the Street Strategist the fastest Nobel Prize in Economic Sciences in history. You bet on the former, I'll bet on the latter.

In Part 1 written in 2002, I revealed the strategy of poverty unwittingly perpetrated by our government, or any Third World country for that matter.

Selling our souls

Our president visits every First World country and begs: “Come to our country. Give us your dirty, smelly, greasy work; any job that your rich people are no longer willing to take on. We offer our country as your dirty kitchen, your smelly pigsty, your greasy garage.

“Don’t worry about wages. We will give our laborers the lowest wages possible. In fact, if you come to us, we will make sure you stay in our country forever because we will keep our laborers forever poor by giving them low wages forever.

“We will make sure that our laborers will always be paid lower than your own rich people. Always. We will never allow our people to taste the wages of your First World country. We will always be a poor Third World country and you will always be a rich First World country. So what are you waiting for?

“We have *cum laude* graduates from UP or Ateneo who are willing to break down the rhythm of their biological clocks by working all night in graveyard shifts in call centers. Come to our country now. We have law graduates who are willing to work in call centers answering questions from your country’s spoiled secretaries who don’t even know what a diskette is. One call center employee was even one of the bar topnotchers in the last bar exams. How much more qualified can we get? Our law graduates in call centers are extremely happy working for \$1.50 per hour, while you are paying mere high school grads in your country at \$15.00 per hour.

“Your country’s one year wage expense is equal to ten years in our country. One is to ten. Can you see the difference? That’s how we undervalue our labor. It’s actually our own style of modern-day slavery.”

“You should also know about our domestic helpers receiving only P2,000 per month or \$0.15 per hour. Yes, that’s how poor we want them to be.

“Come now, we want you to exploit us. We will even have your photos taken with me in our presidential palace. And again, don’t

worry, we will maintain our poverty as a Third World country and you will maintain your wealth as a First World country.

“In fact, our local companies will buy your software, your CPUs, your computers at prices higher than these computers are being sold in your own country because we have to pay for freight, import duties, VAT, and of course, profit to our companies. We are willing to pay higher than First World prices for your products using our Third World salaries. We will perpetuate this system. This is our country’s unwritten, unwitting strategy of poverty.”

Recap

In Part 2, I described the Hyperwage Theory with the surprise feature that the solution to a Third World country’s poverty rests on the country’s valuation of the labor of the poorest of the poor. We must recognize that domestic helpers should be part of the minimum wage law, and that they should be paid wages with actual purchasing power.

In Part 3, I laid out the paradigms needed to understand the Hyperwage Theory. I hope I have convinced you that with those paradigms, the Hyperwage Theory comes as a direct natural logical and elegant consequence.

Rejections

Actually, as early as Part 2 when I described the Hyperwage Theory you should have seen how it purports to be the panacea for the Third World, and I don’t even have to explain further. But if you still can’t see how it works, I don’t blame you, although my respect for your intellectual capacity has just gone down.

There are three basic rejections to the Hyperwage Theory.

First: We cannot afford it. (The Senate President raised his eyes to the ceiling thinking before saying these words, according to the radio host who interviewed him last month.)

Second: There will be massive unemployment. (A director of the Makati Business Club reacted negatively immediately when I proposed

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Hyperwage to him five years ago.)

Third: There will be hyperinflation. (Everybody from the domestic helpers whose cause I am championing to the economics PhDs who are brainwashed by inflation-centric economics are ganging up on me. All together now: “Hyperinflation!”)

Surprisingly, the President of the University of Asia and Pacific, in a brief chat at the wake of the founder of *BusinessWorld* supported the idea of Hyperwage although I was not able to give my figure of P20,000 for the domestic helpers. He would have been floored by the staggering amount I am proposing.

Wage range

At this stage, although I will discuss this in future installments, I would like to say that just because I plan to raise the wages of domestic helpers ten times from P2,000 to P20,000, it does not mean that all salaried workers will get a ten-fold increase. No, it's not that at all. Here are the ranges:

Typical Range of Wages under Hyperwage (\$1=PhP50)

Job	Monthly (PhP)	Monthly (\$)	Hourly (PhP)	Hourly (\$)	Note
Domestic Helpers	20,000	400	77	1.5	10-hr day
Janitors	22,000	440	85	1.7	8-hr day
Factory Workers	25,000	500	96	1.9	
Sec/Sales clerks	50,000	1,000	192	3.8	
Fresh college	70,000	1,400	269	5.4	
Middle Managers	150,000	3,000	577	11.5	
Bank Managers	200,000	4,000	769	15.4	

By the way, in Japan, it is common that the salary of the highest company official is only about ten times the salary of the lowest. Salaries thereat are more equitably distributed.

Why not a million a month?

Why not P50,000 or P100,000 per month as minimum wage? Smart Aleck. This only means your brain stopped working. But I'll answer this impertinent question later. Don't worry.

By the way, I'm not saying an instant one-time wage increase. We can have a staggered distribution of 20% annually for five years.

Of course, using real wage rates, not nominal rates, so the nominal increase will be higher than 20% each time.

Irony

The first casualty of the Hyperwage Theory are our minds. Our brains stop working. And we cannot see the logical and direct consequences of the Hyperwage Theory. This is the reason I spent Part 3 discussing the paradigms behind the Hyperwage.

But do you know what is the biggest irony I have observed given the Hyperwage Theory? You will be surprised big time.

The biggest irony of the Hyperwage Theory is that the labor groups themselves are skeptical about it. Why are they skeptical about it?

Labor do not think they deserve such a hyperwage with high purchasing power. That's why they are skeptical. They don't think they deserve it. That's the biggest irony.

Again, the labor groups want survival wage, on the other hand, I want to grant them purchasing power that could cause the explosion of our own domestic demand thereby accelerating the Keynesian economic multiplier.

This is why even the most militant of labor groups could not even think of the Hyperwage Theory in the first place.

In fact, when a TV host asked the reaction of a former *BusinessWorld* columnist who is now a Party-List congressional

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representative , the latter said that their group was not even asking for wages as high as the Hyperwage but just wages for survival. I'm more Marxist than the Marxists.

Two days later that left-leaning leader used the P21,000 threshold for a tax relief proposal in order to increase the purchasing power. Why do we have to beat around the bush with tax reliefs, etc which in turn will create distortions and loopholes? Do it in one single clean stroke - minimum wage of P20,000 (US\$400) to give helpers purchasing power and everything else will follow.

Circular flow

Again, this is jumping the gun, but let me assure the businessmen one thing. Under the macroeconomic theory of circular flow, households receive incomes which are their wages from businesses. In turn, these incomes will become household expenditures which will be the incomes for the businesses.

What does this mean? Any wage increase, no matter how big, should not worry the businessmen because the households will spend all of them anyway.

All wage increases will go back to the businessmen whenever the households spend. And remember, almost all households spend all of their incomes. Whatever the businessmen will give to workers as wage increases will be given back to the businessmen.

What will happen though is that in the initial stages (at the start only), the businesses will have to take some of their retained earnings and give it to workers as wages. Their profits will be slimmer in the initial stages. But once the workers spend it back, their profits will be higher.

And by the way, just because wages will be raised does not mean that businesses cannot raise their selling prices.

Will there be hyperinflation? Why, which country has a cheaper price for Nokia 9500? Singapore or Philippines? Which country has a cheaper HP Tablet PC, USA or Philippines? Compare the prices of

goods there in relation to their wages. Which has a comfortable margin? Again, that's jumping the gun.

Businessmen don't be stingy, you will reap back all wage increases anyway because under the circular flow theory of macroeconomics, all household incomes will be spent to buy your goods and services.

Note that we don't have to print new money, therefore no inflation, in a manner of speaking. What is involved is simply redistribution of existing wealth from the pockets of the rich families where they are stagnant, to the active economy where they will be circulated and subjected to the Keynesian economic multiplier. From stagnant to circulating, that's a good change.

See, I have shown you a glimpse of what's in store ahead. Hyperwage Theory is possible under the current economic theories. I don't think any PhD economist will disagree with this.

World-class failure

After more than 50 years, I consider the World Bank a world-class failure in eradicating or minimizing world poverty. How much more time shall we give these World Bank economists before we have to finally declare their economic theories, policies, and actions a failure? Is this all that the economists can do? Do they need another 50 years?

Although, this is jumping the gun once again, allow me to demonstrate the failures of the economic theory espoused by the World Bank and First World economists.

The Gini coefficient (measure of wealth inequality from 0 to 1, where 1 is perfect inequality) has increased. In some countries the Gini has increased by 5 to 9 percentage points, in some countries from 10 to 19 points, and in some countries more than 20 points.

In other words, in two decades, world inequality has even risen. We will discuss this later. This is only a taste of discussions to come.

A student after one semester of poor performance will be marked "failed."

How much longer do we have to wait until we finally declare that

Hyperwage Theory

our economic theories and policies are a failure?

Has it ever occurred to you that the World Bank, with its mandate of solving world poverty, has been using the wrong economic theory all along?

This is very crucial because if we use the wrong tool we will never solve the problem. Train 3 will always be on Track 3. Train 1 will always be on Track 1.

By rejecting First World inflation-centric economics, I was forced to start with a zero-base theory until I formulated the purchasing power-centric Hyperwage economics.

And lo and behold, I ended up with the wages of the domestic helper as the key.

Strategy

Have you ever read the anti-poverty strategies of the World Bank? Or the Asian Development Bank? Visit their websites. There's even a copy of the Philippine poverty strategy. There was a Millennium Summit in 2000, and the Philippines was represented there. Forthwith, there came out a paper called Poverty Reduction Strategy and Poverty Monitoring. Get it from NEDA or World Bank's website.

Do you know that we have allocated P6.1 billion of poverty alleviation funds? In year 2000, the Philippines had the highest incidence of poverty in Southeast Asia where 12.7 percent of the population were living at \$1 per day compared to Vietnam's 9.1%

However, I will focus this series on ideas first, then statistics later.

From where I sit, these documents from all over the world are a bunch of motherhood statements.

Yes, these documents are full of statistical data, but that's the only thing good about them. They have monitoring parameters but almost zero strategies. Poverty strategy studies from all over the world have maximum data analysis but minimum strategy formulation.

About the only strategy I see in their documents is the word "strategy" itself. All these poverty strategy studies are a commingling of

useless recommendations by economists paid at First World salaries attempting to strategize for Third World economies using First World economic theories.

On the other hand, Third World workers are paying for goods at First World prices using their Third World salaries.

Do you know that the price of gasoline in the US is about P32 to P34 per liter while in the Philippines it is already P31? Whatever is the exact figure, you know what I mean.

Of course, that's my personal opinion, World Bank being a failure, I mean.

In the same manner that I declared that the two million accountants in the world do not know how to teach debit and credit, I also hereby declare that the millions of economists in the world do not know how to solve the economic problems of the poor countries.

Beating around the bush

Before you waste your time reading the anti-poverty studies of the World Bank, let me describe to you what they are. They are merely solutions that beat round the bush. With this mind-set try to analyze our own country's anti-poverty strategies.

Not only ours, but all those from Third World countries. Tell me if I'm wrong: they are beating around the bush.

Problem: Why do our doctors go to the US as nurses leaving us with skeleton medical teams? The doctors' reason: High wage. Government solution: Enact a law banning doctors from leaving to the US within 5 years after graduation. Isn't this beating around the bush?

Problem: Why do our teachers go to Hong Kong as lowly domestic helpers leaving our educational system in ruins? The teachers' reason: High wage. Our government's action: Don't solve this problem. Continue exporting our teachers so that they can remit OFW salaries to help our dollar inflows.

Problem: Why do workers in Singapore or US do not go on strike because of high oil prices while our workers do? Their reason: Their

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high wages are not heavily affected by oil prices. Our government's action: Raise transportation fares further aggravating the poor worker.

Changing horses

Do not change horses in the mid-stream. So they say. What I'm saying is, I think we were riding on the wrong horse since the beginning and we are getting nowhere. We are running around in circles. There's no hope in sight but a mere maintenance of the status quo.

We must change the way we think. It is high time for a new strategy. Seeing what everybody else has seen and thinking what nobody else has thought.

Don't be fooled by the statistics and econometrics of the economists. Challenge their theory, after all, it is only theory.

Why do we refuse to see the solution? Why do all the biggest companies in the world want to invest or set up shop in the USA when it has one of the most expensive labor and business costs in the world? Does Toyota go to the US because the country has low wages? In fact, does Jollibee go there because of low wages? Does San Miguel Corporation go to Australia because of low wages there?

Don't worry, guys, I will address all the loose ends of the Hyperwage Theory. If you have thought of any fault about it, I probably have thought about it before you did. After all, I have formulated this theory for almost a decade now.

Nevertheless, I will get you excited about economics as a subject more than your teachers ever did. I just did, right? When I declared all World Bank economics are junk, I got you excited, right?

Face it, ladies and gentlemen, businesses flock to an economy which have high wages.

Isn't that completely opposite to how we are selling our country? It is high time for the Hyperwage Theory and the Nobel Prize that comes with it.

(Thads Bentulan, May 26, 2005)

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Has Modern Economics failed in Third World countries?

- 5 -

The End of Modern Theory

"Truth and logic alone are not adequate to form faith and belief."

-Street Strategist

The Hyperwage Theory is either the most idiotic intellectual endeavor to emanate from any *homo sapien* or the most brilliant economic theory to grace the history of intellectual thought. No in-betweens. There is no room for intellectual faintheartedness.

By the way, an ordinary wage increase doesn't work either. It must

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be a hyperwage increase. Don't worry, I'll explain this soon, along with many other issues.

I know that there are millions of you out there who disagree with this theory but the more you disagree, the more you confirm that the Hyperwage Theory is an original thought.

And there's already one beneficial flow-on effect: By stating that the minimum wage should be P20,000 (US\$400), I have softened your hearts and opened your minds to the thought that an increase from P12 to P25 or P125 are actually a miniscule increase compared to hyperwage. Government and labor could now threaten businessmen, "Which you do want – hyperwage or a P125 increase?"

Another flow-on effect is that Hyperwage Theory raises the consciousness of society regarding the state-sponsored modern-day slavery of domestic helpers who are not even given "worker status" classification. They are not found in the statistical records of the Department of Labor and Employment and the National Statistics Coordination Board.

Primacy of labor

Can you imagine the transformation of domestic helpers, from being the forgotten entity to the most important entity?

The Hyperwage Theory declares that the proper valuation of labor is the crux of any economic redemption of Third World countries.

In my opinion, the failures of World Bank, ADB, and the Third World governments precipitate from their refusal to recognize the primacy of the correct valuation of labor.

Instead of a single sweeping stroke of raising minimum wage to a level where the lowest of the low will have purchasing power as proposed by the Hyperwage Theory, the economists wrongly propose hundreds of complex solutions that beat around the bush which in turn create distortions, loopholes, bureaucracy, and systemic inefficiencies, redundancies and complications.

For example, how does their economic theory address population

control? Their theory does not have a solution for this because population explosion is a non-economic issue.

On the other hand, the Hyperwage Theory solves this problem elegantly without the millions of dollars spent for a population program, as a direct consequence of raising minimum wage to a hyperwage level. Sounds too good to be true?

End of single theory

Furthermore, in my view, the fault of the economists lies in the fact that they have only one theory for all the economies. Their equilibrium equations, curves, and principles comprise a single set of theory applicable to any economy.

On the other hand, I propose a revolutionary economic thought. I hereby break up economics into First World theory which focuses on controlling inflation (inflation-centric) on one hand, and Hyperwage Theory for the Third World which focuses on giving hyperwage to the lowest level of labor (purchasing power centric) on the other.

If you think along these lines, there is no conflict, only an enlightened revelation. This is the end of the single theory of economics.

Recap

In Part 1, I revealed the strategy of poverty unwittingly perpetrated by our government, or any Third World country for that matter.

In Part 2, I described the Hyperwage Theory with the surprise feature that the solution to a Third World country's poverty rests on the country's valuation of the labor of the poorest of the poor. We must recognize that domestic helpers should be part of the minimum wage law, and that they should be paid wages with actual purchasing power.

In Part 3, I laid out the paradigms needed to understand the Hyperwage Theory. I hope I have convinced you that with those paradigms, the Hyperwage Theory comes as a direct natural logical and elegant consequence.

In Part 4, I discussed the circular flow of economics and the

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common rejections of the Hyperwage Theory which we shall address in a future installment. I mentioned the irony that labor do not think they deserve a hyperwage. I disparaged the aimless strategies of the economists (World Bank, ADB, government, and academic economists) with their “beating around the bush” solutions and their insistence on an inflation-centric First World economic theory for Third World countries.

So far, I have not introduced any discussion that requires the knowledge of a PhD in economics but I have already set the backdrop for you to appreciate the Hyperwage Theory, and I think you are starting to. Appreciate Hyperwage, I mean. See, you don't have to be a weatherman to know which way the wind blows.

Demagogue

“My students who were able to catch your discussion on air yesterday have raised the issue of Hyperwage, and now my credibility is at stake. If what you are saying is true, then our economics textbooks are wrong. We'll just burn them!”

This was an angry reaction sent in by an economics professor to the radio anchor who had me as a guest for two days, some time ago. There were so many reactions that I have probably heard of every possible opposition to the Hyperwage Theory from ordinary people in the streets.

Another said: “Are you saying that all the World Bank economists are wrong? What makes you better than them?”

Still another said: “Why don't you tell the President about it? Become her adviser!”

These, and other questions will be in the Q&A portion that I will present towards the end of this series.

How does one reply to these questions? There are many ways to answer their questions but instead of a mild-mannered reply, I said: “Yes, our textbooks are wrong. Burn them. They are useless. Yes, the World Bank is wrong because they are using First World theories. If

our textbooks are correct, how come our country is still poor after 100 years? As of today, is there any hope in sight for this country? Do you expect change in the next 20 years? If the World Bank economists are correct how come we are still poor? We have been following their prescription but we are still poor. There's only one solution and that is to give a very high minimum wage to the poorest of the poor. Whatever you do to the least of my brothers you do unto me. All the economists are wrong, and I am right. The president wouldn't be able to understand me because she has a PhD in economics, and Hyperwage is anti-economics. Why don't I just run for president, and implement Hyperwage before the businessmen assassinate me?"

Spoken like a true demagogue. I intentionally fanned the flames of controversy. You can just imagine the chaotic Q&A during the show. Talks of revolution, government take-over, and uprising swelled up. But I did answer their questions in detail, not merely with demagoguery.

I have never been called an idiot and a genius, a foolish dreamer and a messiah, so many times in the same day in my life.

More Marxist than Marx

Before I finally declared that modern economic theory is a failure, I tried to give it a chance. After all, I knew zilch of economics, and the World Bank has billions of dollars to spend thinking about poverty. They probably did just that, merely thinking, not doing.

One day, I just got tired of all these economics nonsense and said to myself: "I am a genius. I will start from ground zero. Zero-based theory. I will ignore the fact there are a million economists ahead of me. I will identify the problems of the Third World. I will identify the current solutions of modern economic theory for each of the problems. Then I will analyze why their solutions failed. Of course, their solutions failed, the poor got poorer the rich got richer."

And so I did. But with an extremely surprising insight: The best solution available, one that is the most effective and efficient, was more

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Marxist than Marx. And yet I started all my theory from a completely capitalistic approach.

Defects of modern economics

Why did I consider modern theory a failure? I have identified some defects of the modern economic theory. In summary, these defects are not really “economic” issues but more of “non-economic” ones.

How does economic theory solve the diaspora problem? We have separated families and broken homes due to overseas contact worker migration. How many generations have grown up without a father? During birthdays, the father is not there. In sickness, he is not there. The daughter is pregnant, he is not there. The son is into drugs, he is not there. The wife is having an affair, he is not there. The father is never around. He is an engineer working as a lowly construction worker in the Middle East.

Leave !

Is this going to be an eternal feature of our Third World economy? Of course, this is eternal because the government needs the OFW remittances.

In other words, the government is perpetuating this separated family scenario. Can you name a single move of the government that tends to strongly reverse this trend? There is none.

Isn't it ironic that the only way to solve the problems of this country is by leaving this country? That's the government policy, isn't it? Leave now, remit later.

Every time I think of this I can't help but laugh out loud.

“But our country cannot afford to give high wages because we are poor,” the government says. Oh yeah? What are Singapore and Hong Kong but barren islands? What natural resources do they have? Do they have oil, natural gas, timber, gold, copper, silver, nickel, beautiful beaches? Again, I'm jumping the gun. I'll discuss this later.

Do you think our corrupt politicians care? They will give you a *consuelo de bobo* designation of “OFW, new hero.”

Try complaining about being raped by your masters to our consulates, and you realize it was your fault you got raped.

But this is a non-economic issue, the economists do not include this in their econometrics. Economic theory fails.

Brain drain

A more serious problem is brain drain. What do our economists think about this? They don't think about it in the first place because for them this is not an economic variable. How does economic theory solve this? Again, it's not in their equations. That would require a separate non-economic analysis. And I have seen the most stupid ideas being floated around by our government officials on how to curb brain drain. I'm getting tired of this ineffective modern theory.

Research center

Why is our country not the center of research for cancer? Or anti-matter? Or superstring mathematics? You will get quizzical looks.

The government and the economists in turn will ask you, "In the first place, why would you ever expect us to be such centers of research? We are only a poor Third World country."

In other words, they are asking "Why?"

On the other hand, I am asking "Why not?"

I'm sick of using our status as being a poor country as a convenient excuse for any bad performance, or bad service, or lack of foresight by our government.

Again, this is not found in the equations of modern economics. Strictly speaking, this is a non-economic variable, a social variable. Economic theory fails.

Fear of inflation

Modern economic theory is afraid of high wages because according to them it will cause inflation. They have a fear of inflation because... frankly, I don't know. Massive unemployment? Collapse of the economy?

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I tried to think about this fear of inflation. Do you know what I realized? I realized that the fear of inflation by economists is similar to the fear of navigators falling off the edge the world during the time of Fernando who hailed from the place called Magallanes. (Yes, Magellan was not his surname as much as Leonardo's surname is not da Vinci. Thus, the book should not be "The Da Vinci Code" but "The Leonardo Code.").

What I'm saying is that the fear of inflation by modern theory is not justified. I'll explain later.

Inefficiency, low productivity, automation

How does economic theory address the massive inefficiency of Third World countries? How long does it take to deliver ordinary mail from one end of the same city to the other? How do we solve massive bureaucracies, low productivities, and lack of computerization? Can you imagine furniture manufacturers having five employees doing payroll alone? Do you know that some city halls have 3,000 casuals?

But then while these problems affect the economy in general, these are not "economic variables" and thus beyond the jurisdiction of economic theory and equations.

Thus, economic theory fails, once again.

Culture and corruption

Our culture is one of closely-knit families, yet the only way to earn a decent living is to separate the family. In First World countries, it is even considered a penalty to be posted overseas. How does economic theory address the cultural and psychological customs of the country? It doesn't.

How does it address corruption? Same answer, it doesn't. With Hyperwage, you'll be surprised.

Nothing has changed

But our government economists can show us statistics that our economy has improved. The economy has changed.

I have changed too. I have more gray hairs but that doesn't mean I'm a wiser person. In other words, changes that have no direction are mere palliatives.

The problem with these changes is that they will give us a false sense of hope. These changes maintain the status quo, Our train 3 will remain on track 3. We maintain the caterpillar mentality not the butterfly metamorphosis.

Does Hyperwage, in turn, give a false sense of hope? Be patient, I shall soon address all these issues.

Wrong theory, single theory

Modern economics is defective not so much as it is self-inconsistent as it is wrong applied. In other words, yes, economic theory is correct, but no, it's not the correct theory to be applied to Third World countries.

Furthermore, the concept of a single theory that applies to all economies is another defect of economic theory.

Closed systems

My course in Thermodynamics taught me three important things. First, the Second Law of Thermodynamics states that the level of entropy, which is the measurement of chaos in the universe, is always increasing, never decreasing. Chaos rules! And no perpetual machines.

Second, thermodynamic equations assume closed systems. Third, even if the teacher relies on you in open public to solve problems he himself cannot solve, it does not necessarily mean he is willing to give you a grade of flat one. You have to settle for a 1.3. Somehow, the first two lessons above are easier to comprehend than the third.

Anyway, what is a closed system? You may think of a closed system as your own self-consistent world of make-believe. It's not real.

Of all the courses I have taken, it is only Thermodynamics that heavily uses the concept of closed systems. And rightly so, because it focuses on heat. If you don't put it in a closed system, heat dissipates without being accounted for.

Hyperwage Theory

As you study deeper into Thermodynamics, the assumption of closed systems is never dwelt with passion because it has always been a basic assumption. Even the students forget or do not even realize that there is such an assumption in the first place. They solve problems using the given equations and formulas.

On the other hand, the closed-system assumption had a staggering impact on my young mind. Why?

I reasoned out that if ever I work out a wrong solution to a thermodynamic problem, I could always invoke the closed-system assumption.

“Well, sir, your correct solution, and my incorrect solution exist under the assumption of a closed system. Suppose this problem is in an open system, then it is possible that your answer is wrong and my answer is correct. Therefore, by invoking that the closed-system assumption has been violated, your own equations may no longer hold true, therefore your conclusions are invalid, and therefore, I don’t have to believe your results anymore.”

Of course, I didn’t have the occasion to invoke such chutzpah, but the lesson had a lasting impression on me. The “closed-system assumption” which is taken for granted by the students and professors is actually a “redeemer of last resort” whenever one invokes that it has been violated.

In other words, by a single stroke of discarding the closed-system assumption, I could discard an entire theory, and create an entirely new one. Whew! That was mind blowing. I had the power to create my own theory. It was simply staggering.

Economic relevance of closed systems

What is its relevance in economic theory? Quite simple. Modern economics with all its equations is an example of a closed system. And what did we say about closed systems? We have the power to discard it in a single stroke by merely invoking the violation of the closed-system assumption. I finally had the chance to apply a framework of analysis

that I formulated during my college days: Violate a basic assumption, create a new theory.

Now you know why it was quite easy for me to discard the economic theory of the World Bank and their handsomely paid PhDs. I simply declared that their economic theory is applicable only to closed systems, and since I wanted to solve problems that are not part of their closed systems, for example, non-economic problems such as brain drain,

I concluded that their economic theory is ineffective, inappropriate, and improper for Third World countries. Therefore, the next obvious step was to create a new theory, and thus, I conjured up the Hyperwage Theory.

Consider the aforementioned variables. They are not within the scope of the equations of economics. These variables lie outside the ambit of economic equations which are based on a closed system.

In fact, they are treated as non-economic issues. Modern theory does not address “non-economic” issues (social issues) because they are classified as separate issues beyond its ambit. Isn’t this an open-and-shut case of a closed system unable to account for important variables that lie outside its system?

In short, modern economic theories and models do not address many of the “non-economic” issues, yet many of our problems are “non-economic.”

Ergo, to solve these problems, we have to discard modern economic theory and replace it with a new one. We must break out of the caterpillar mentality and strive for a butterfly metamorphosis,

There is only one hope, and that ladies and gentlemen, is the Hyperwage Theory.

(Thads Bentulan, June 2, 2005)

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Hyperwage Theory

Where lies the wealth of a nation?

- 6 -

The Wealth of a Nation

One of the greatest ironies in my life is that I am an indigent who is an expert on the capital markets. Well, that's not quite true.

I sort of lie in-between the extremes. I am impecunious but not quite an indigent, and I am knowledgeable on the capital markets but not quite an expert.

But at least I have given you a sense of magnitude and proportion as to my talent and wealth and you will have gauged for yourself whether to believe me or not.

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Faith and belief

By the way, I still get many letters mostly from business executives maintaining that Hyperwage Theory is a mere intellectual curiosity. They usually cite economic and business principles as to why Hyperwage Theory will remain a Utopian concept.

As I have mentioned earlier, I only want to deal with PhDs in economics because I can't give you a tutorial in economics. Just an example, I have found out that many business executives, even those running natural monopolies have the wrong concept of returns to scale (economies of scale). Is a small profit per unit sold being converted into a big profit by selling more volume an example of economies of scale?

I admire their logic but they all fall under the pitfalls I have already mentioned. Train 1 vs. Train 3, apples vs. oranges, Newtonian vs. Einsteinian. Their discussions are Newtonian, which of course, are very logical. But Newton is wrong when it comes to physics at the speed of light.

What I'm saying is that I have also thought about the same arguments for almost a decade until I realized that accepting current theory was more irrational than creating a new one. We are so good at justifying the hundreds of defects of modern theory but fail to defend one or two issues with Hyperwage. I consider this a wrong application of our intellectual talents.

Breathing examples

But hey, guys, when it's you and me against the world, side with the world. After all I'm only a one-man thinking machine. I couldn't possibly be right. Maybe you are not giving it a deeper thought. Or maybe, you are incapable of deeper thought. Your thought ends where Hyperwage begins. There, have I challenged you enough?

As I mentioned before, truth and logic alone are not sufficient to form faith and belief.

Maybe you need me to be a world-famous Nobel Prize winner before you believe in the Hyperwage Theory. But then, how can I be a

Nobel Prize winner if you don't believe in Hyperwage in the first place? That's the catch. It's Catch-22.

By the way, as a parting shot to those who do not think Hyperwage is possible, I have some empirical data to prove that it could exist. The economies of Singapore, Hong Kong, Japan, Canada, Germany, and the USA are examples of living, breathing, scintillating Hyperwage economies.

Ironies

In fact, all rich nations have been adopting the Hyperwage Theory without them realizing that hyperwage is the most important element of their success. That's the irony.

Really, I find it amusing. The Third World countries are skeptical of Hyperwage because they do not think they deserve it.

On the other hand, the First World countries have invariably failed in redeeming the poor nations because the rich nations do not realize that hyperwage is the most important element of their success. Life is full of ironies.

Inadequacies of financial economics

Anyway, as such an expert on financial economics, I took it upon myself to single-handedly solve the problems of the Third World countries. I found it natural to start with the capital markets. After all, rich countries are rich because they have capital.

I studied capital flows, inflation, savings rates, tax rates, GDPs, financial instruments, and international finance. Ah, big words, big terms. But I did think about them. Why are rich countries rich and poor countries poor?

The more I thought about these variables, the more I realized that there were too many variables to control. Monetary policy on one hand, and fiscal policy on the other, combined, have too many variables. Is there a simpler way to reduce the poverty level of the poor nations?

For the benefit of those who don't have PhDs in economics, monetary policy is a country's control of monetary levels by controlling

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interest rates, bank reserve requirements and similar monetary variables. This has the effect of targeting inflation levels, tightening and loosening of credit, and other financial variables directly related to monetary levels. These controls can be changed overnight, if needed, therefore, it is a speedy weapon of financial economics. Monetary policy is usually controlled by a country's central bank or finance ministry.

On the other hand, fiscal policy is the country's control of the budget and expenditures through raising and lowering of taxes, increasing or decreasing government spending, and similar long term actions. While monetary policy rests with the central bankers, fiscal policy is primarily controlled by the legislators.

Keynesian economics primarily deals with fiscal policy while monetarism deals with monetary policy.

Non-economic variables, again

Again, the above are financial and economic variables. How about the non-economic variables? I consider them as problems that need to be resolved using economics.

Anyway, after a thorough analysis on my part, given my weak education and experience on economics, I discarded financial economics. Too complicated, too multi-variate, and too far removed from the actual issues of poverty.

So I began to ask innocent questions and tried to answer them with innocent answers. Why are doctors going to the US as nurses? Why are teachers working as domestic helpers in Singapore? Why does it take an Australian minimum wage worker only 15 minutes to buy a Big Mac while it takes almost two day's wage for a minimum wage worker in Pakistan to do the same?

I have been tinkering with financial economics and I found the answer in labor economics. What a revelation.

Labor economics

There is a shortage of teachers in our country but there is an excess of teachers from our country who are working in the Middle East or

Singapore or Taiwan. Not as teachers, but as toilet bowl cleaners, ironing ladies, cooks, caretakers for the aged, and tutors all rolled into one.

A domestic helper in Hong Kong earns about P24,000 per month which is probably the salary of a colonel in our Armed Forces. Unbelievable? The Hongkongers find this incredible.

This is why many foreigners have a low regard for Filipinos. Their idea of respect for our people is based on their valuation of our own people. If their domestic helpers are being paid the salary of an Air Force colonel in our country, do you really expect them to treat us seriously?

You may find this logic ludicrous, but guys, trust me, in the street level in the rich countries, their ordinary people think of us in this perspective.

It was then that I realized that the manner that a country treats the value of the poorest of the poor, the lowest of the low, the least of its brethren is the key to its economic wealth. The explanation lies in the Keynesian multipliers and accelerators but I'm not going to discuss it now.

Adam Smith's *Wealth of Nations* was anchored on free enterprise and the concept of the invisible hand that guides free markets to equilibrium. The classical economics of Say's Law governs the economic thought of Adam Smith and the other classical economists.

I promised in the outset of this series that I will tell you what makes classical economics classical and what makes Keynesian economics modern.

Classical economics

The basic philosophy of classical economics hinges on these two ideas.

First, the economy is self-adjusting, therefore, the government doesn't have to interfere.

I agree with this idea and the government officials and legislators

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should abide by this, but then again, they are politicians. They know nothing of economics.

Second, except for unusual circumstances such as war or speculative crises, the norm is full employment.

Two theories

Classical economics has two basic theories.

The first is Say's Law. Under Say's Law,

a) Supply creates enough factor income to clear the market and as a result inventories will not accumulate, and therefore, a slow down to use excess inventory, which causes unemployment, is not necessary and,

b) Savings is not a leakage because interest rates adjust to insure savings is borrowed and invested. Leakage describes the loss of a variable required to maintain a state of equilibrium (stable level of economic activity).

Interest rates drop when savings increase to ensure savings is invested and there isn't any leakage.

The second basic theory of classical economics is the Price-Wage flexibility. During periods of slow economic activity wage rates would fall and everyone wanting to work could find work.

All factor prices, not just wages, would adjust downward and all factors would be fully employed.

"Real" factor prices would therefore remain constant. Of course, in our daily experience, this theory is far from the truth.

Modern day slavery

As you can see in Exhibit 1 (Horrible domestic helper's wages), poor countries are characterized by low valuation of labor. Is this a result or the cause of poverty? Because our teachers are paid less than what domestic helpers in Hong Kong are earning (P24,000), they emigrate there as lowly domestic helpers.

In effect, Hong Kong or Saudi Arabia have very intelligent and talented domestic helpers courtesy of the Philippine educational system.

And what is the flow-on effect of this to Hong Kong? The domestic

helpers, being more educated than their masters, are the ones tutoring their children. Domestic helper and tutor at the same time. While our country does not even have enough teachers. How does modern economic theory address this issue?

Exhibit 1. Horrible domestic helper's wage

	RP Domestic helper's Wage	Hong Kong's Domestic helper	USA
Monthly	P2,000 =US\$37.00	P23,283 = HK\$3,320 = US\$426.0	P99,554=US\$1,820.00
Daily (26 days)	P77 = US\$1.41	P895 = HK\$128 = US\$16.5	P3,829= US\$70.00
Hourly (10 hrs)	P7.7 = US\$0.14	P89.5 = HK\$1.28 = US\$1.65	P383= US\$7.00
Comment	Be grateful	Take it or leave it	Effective: Apr 2007

By the way, as an exemplification of how Hyperwage may be implemented, the US has already planned well in advance its own wage hike.

By April 2007, the minimum wage will be US\$7 per hour (that's P383 per hour.) In this manner, all businesses will have time to prepare their own cost-structure management.

By 2007, since our government is pursuing the strategy of poverty, the domestic helper's wages will still be around P2,000 or P2,500.

Looking at Exhibit 1, we can see how horrible our own brand of religious compassion is.

For the same amount of work, the Philippines is paying P7.7 per hour, while Hong Kong is forced by its own government to pay P89.5 per hour, while in the USA P383.

Monthly, the domestic in the Philippines is paid P2,000 to P3,000 per month, in Hong Kong P23,800 while in the USA P99,500.

Now, are you still asking why the USA has the most intelligent dishwashers in the world (our engineers) and the most brilliant nurses (our doctors)?

Do you think this will redound to increased productivity in the US? Will they have a positive upward economic spiral? Yes.

Let me ask you, is the Philippines, despite being the most religious nation on earth, guilty of practicing modern-day slavery and even proud of it by selling this specific feature to the rich nations?

Look at the government's attitude. In Hong Kong, the government

Hyperwage Theory

mandates that you have to pay P23,000 to the lowest class of labor, take it or leave it. If you can't afford, don't hire a domestic helper. Buy a washing machine and you will add income to the washing machine appliances industry. Can you imagine if all houses in the Philippines bought a washing machine? The industry will employ many workers.

In the US, the government decrees that you have to pay the least of the workers P99,500 per month. Take it or leave it. All our engineers migrate to the US as gas pump attendants. In the Philippines, the domestic helpers are not even classified as workers. Whew. Not even as lowly workers.

They are completely ignored. I inquired with the NSCB and DOLE and they don't even know how many domestic helpers are being employed. (Funny, the official wrote me, "Are you asking about Filipinos working abroad as domestic helpers?")

The government will say to the domestic helper: Be grateful you have a job. Which do you want, P2,000 or no job at all?

But it's the wrong dilemma. Wrong game, but our President who is an economist thinks that this is the only game.

Wealth of a nation

Adam Smith had his own theory of the wealth of nations. The Street Strategist has his own. Incidentally, Hyperwage Theory has a biblical ring to it. Whatsoever you do to the least of my brothers you do unto the economy. If you keep them poor, the economy will be poor. If you practice modern-day slavery, you will not only be a morally bankrupt nation but an economically bankrupt one as well.

In other words, under the Hyperwage Theory, the wealth of a nation depends on its lowliest worker, its weakest link, its poorest of the poor, its lowliest of the low. As the most religious nation of earth, are we proud of this modern day slavery which we are vigorously perpetrating as a correct economic policy?

(Thads Bentulan, June 9, 2005)

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Is labor-hour a better economic currency?

- 7 -

Labor as Unit of Currency

The Hyperwage Theory could be the source of extreme ridicule or, the same could be the source of supreme honor for the Street Strategist in the annals of intellectual history.

There's no room for half-lives within the spectrum of extremes.

Before we proceed, I have constantly made you aware of my limited talents and minimal wealth. Therefore, I don't have the expertise, the fame and the fortune to enhance my credibility. After all, truth and logic alone are not sufficient to form faith and belief.

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If you are not convinced that the Hyperwage Theory is a concrete, actionable, elegant single-stroke solution to the Third World poverty, what can I do?

At least, you will never look at economics the same way again. This is probably the only contribution of the Hyperwage Theory to the world.

All these and more, courtesy of the Street Strategist, a one-man thinking machine of limited talents and unlimited imagination.

Recap

In Part 1 (*Strategy of Poverty*), I revealed the strategy of poverty unwittingly perpetrated by Third World governments and their economists.

In Part 2 (*Hyperwage Theory Unveiled*), I unveiled Hyperwage Theory with the surprise feature that the solution to a Third World country's poverty rests on the country's valuation of the labor of the poorest of the poor. I argued that domestic helpers should be covered by the minimum wage law, and that they should be paid wages with actual purchasing power.

In Part 3 (*Paradigms*), I laid out the paradigms needed to appreciate the Hyperwage Theory, and attempted to illustrate that it comes as a direct natural logical and elegant consequence of the same.

In Part 4 (*Aimless Strategies*), I disparaged the aimless strategies of the World Bank and government economists with their "beating around the bush" solutions and their insistence on an inflation-centric First World economic theory for Third World countries.

In Part 5 (*The End of Modern Theory*), I described the helplessness of modern economic theory in solving both the economic and non-economic problems of the Third World.

In Part 6 (*The Wealth of the Nation*), I argued that the wealth of the nation depends on the valuation of its lowliest worker and not on the accumulation of excessive profits by a privileged few.

In this part, I will discuss the World Bank's purchasing power

parity (PPP) and why I consider this an ineffective measure.

PPP and Exchange Rates

Let me quote the World Bank. Understanding the factors that affect levels of economic and social development in countries, and monitoring poverty reduction at the global level requires measures that convert indicators such as GDP and other economic statistics measured in national currencies, into a common accounting unit, typically the United States Dollar. Because market exchange rates are based on short-term factors and are subject to substantial distortions from speculative movements and government interventions, comparisons based on exchange rates, even when averaged over a period of time such as a year, yield unreliable and misleading results.

The problems associated with comparing indicators of social and economic development across countries have been known for some time, as have the shortcomings associated with the use of exchange rate conversion factors. Indeed it was the recognition of these problems by the international community in the sixties that first gave rise to the ICP, with a view to generating PPP data. By establishing purchasing power equivalence, where one dollar purchases the same quantity of goods and services in all countries, PPP conversions allow cross-country comparisons of economic aggregates on the basis of physical levels of output, free of price and exchange rate distortions.

ICP

I would like to quote from the ICP Handbook. The International Comparison Program (ICP) of the World Bank calculates Purchasing Power Parities (PPPs) in order to make comparisons of the volumes of Gross Domestic Product (GDP) between different countries. The PPPs are based on a global survey of prices. Volume comparisons can also be made between other expenditure aggregates, such as household consumption, in order to compare living standards and poverty incidence.

In international comparisons, however, the ratio of the values of the

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GDPs in two different countries splits into three components:

- the exchange rate;
- the volume ratio; and
- the price ratio.

The exchange rate simply converts the GDPs into the same currency units. Even when valued in the same currency unit, the ratios of GDPs in different countries still have to be split into their volume and price components.

As its name suggests, a Purchasing Power Parity is the rate of currency conversion at which a given amount of currency will purchase the same volume of goods and services in two countries. Another way of looking at a PPP is to note that when it is used as a currency converter, the price levels are the same in both countries.

The inter-relationships between the PPPs, exchange rates, volume indices, and price indices for GDP or other expenditure aggregates such as household consumption can be summarized as follows:

1. GDP or expenditure ratio = exchange rate x volume index x price index
2. GDP or expenditure ratio = volume index x PPP (by definition of PPP)
3. PPP = exchange rate x the price index

Not price index

PPPs are not price indices. They are not ratios or pure numbers that measure the percentage by which one flow, or level, exceeds another. Their dimensions are different as they measure ratios of currencies. Their values depend on the units in which the currencies themselves are measured. However, it can be seen from above that PPPs can easily be transformed into price indices by dividing them by the corresponding exchange rates.

Two common fallacies

Many users of the data assume that GDPs converted at exchange rates provide volume comparisons directly. There is immense

confusion on this point among many economists and other users of the data including the press, politicians and the general public. This fallacy leads to faulty analysis and inappropriate policy recommendations.

Because exchange rate converted GDPs are expressed in the same currency unit, such as the dollar, it often seems to be tacitly assumed that they must be valued at the same price levels. However, no one would commit the same fallacy when comparing the current dollar values of US GDP, for example, in two different time periods. Yet, the evidence clearly shows that the differences in price levels between developed and developing countries, for example, can be much greater than the changes in the price levels between successive time periods in the same country.

Another common fallacy is that PPPs are calculated because they provide estimates of underlying equilibrium exchange rates. There are no assumptions whatsoever about exchange rates, or their determination, underlying the ICP other than that, in general, exchange rates are different from PPPs.

The calculation of PPPs

The PPP between two countries is defined as the rate at which the currency of one country needs to be converted into that of a second country to ensure that a given amount of the first country's currency will purchase the same volume of goods and services in the second country as it does in the first.

The concept of a PPP is clear and simple at the level of a single good or service. For example, consider salt. If the price of a kilo of a salt in country A is P_A units of currency and the price in country B is P_B units of currency, the PPP_{AB} for salt is defined as the ratio P_B/P_A . The ratio is usually normalized by setting P_A equal to one, so that the PPP can be expressed as a certain number of units of currency B per unit of currency A.

If a given amount of A's currency is converted into B's currency at the salt PPP rate of P_B/P_A it must, by definition of the PPP, purchase

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the same quantity of salt in B as it can in A: hence, the name 'purchasing power parity'. However, the measurement of PPPs runs into traditional index number problems of the kind encountered in inter-temporal price indices as soon as more than one good or service is involved.

In practice, the relative prices of different kinds of good and services vary from country to country because demand and supply conditions differ between countries. The greater the variation in relative prices between a pair of countries, the greater the variation in the individual PPPs for different goods and services. In order to obtain a comprehensive PPP covering a wide range of different goods and services, such as the consumption goods and services purchased by households, it is necessary to take some kind of average of the individual PPPs. They also have to be weighted in order to reflect the relative importance of different kinds of goods and services.

Comparability

The individual products whose prices are compared between countries must obviously be the same. The prices in the numerators and denominators of the ratios that are fed into the calculation of the elementary PPPs must refer to exactly the same product. As the price collectors cannot observe the products that price collectors in other countries are pricing, each price collector must be given a very precise or tight specification of the product, including a picture where possible. The specification should be so precise that the same product can easily be identified in different countries.

In fact the international survey covered prices of such products as milk, garlic, mushroom, belts, dwellings and many basic commodities and services.

New terminologies

Gross national income (GNI) (formerly gross national product, or GNP) is the sum of gross value added by all resident producers plus any product taxes (less subsidies) that are not included in the valuation of

output plus net receipts of income from abroad.

Gross national income in PPP terms (GNI PPP) is gross national income converted to international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GNI as the U.S. dollar in the United States.

The Atlas conversion factor for any year is the average of a country's exchange rate (or alternative conversion factor) for that year and its exchange rates for the two preceding years, adjusted for the difference between the rate of inflation in the country. A country's inflation rate is measured by the change in its GDP deflator.

Income groups

Economies are divided according to 2003 GNI per capita, calculated using the World Bank Atlas method. The groups are: low income, \$765 or less; lower middle income, \$766 - \$3,035; upper middle income, \$3,036 - \$9,385; and high income, \$9,386 or more.

The Philippines is classified as "Lower-middle-income economies" one of the 56 in this group which includes Albania, Guatemala, Armenia, Russian Federation, Azerbaijan, South Africa, Iraq, Sri Lanka, Brazil, China, and Thailand.

GNI Ranking

As released in April 2005, here is the Total GNI 2003 Ranking, using the Atlas method as described above.

Exhibit 2 Ranking (US dollars, millions)

1 United States	11,012,597
2 Japan	4,360,824
3 Germany	2,085,464
4 United Kingdom	1,680,069
5 France	1,521,613 a
6 China	1,416,751
7 Italy	1,243,168
8 Canada	773,943
9 Spain	700,475

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10 Mexico	637,159
11 Korea, Rep.	576,426
12 India	570,760
13 Brazil	479,515
14 Australia	436,470
15 Netherlands	425,556
16 Russian Federation	374,810
17 Switzerland	298,975
18 Belgium	267,250
19 Sweden	258,882
20 Austria	216,903
21 Saudi Arabia	208,089
22 Poland	201,660
23 Norway	197,991
24 Turkey	197,788
25 Denmark	180,859

Source: World Bank

PPP Ranking

But the PPP ranking is different. In April 2005, The World Bank released the PPP GDP 2003 ranking of economies. Here are the top 25 countries. China is number 2 and the Philippines is number 24.

Exhibit 3 Ranking (international dollars, millions)

1 United States	10,923,376
2 China	6,446,033 a
3 Japan	3,567,804
4 India	3,078,024 b
5 Germany	2,291,007
6 France	1,654,018
7 United Kingdom	1,610,579
8 Italy	1,563,332
9 Brazil	1,375,756
10 Russian Federation	1,323,839
11 Canada	970,326

12 Mexico	937,836
13 Spain	920,292
14 Korea, Rep.	861,042
15 Indonesia	721,533
16 Australia	589,116
17 Turkey	478,891
18 Netherlands	476,454
19 South Africa	474,137 b
20 Thailand	470,992
21 Iran, Islamic Rep.	464,394
22 Argentina	445,148
23 Poland	434,626
24 Philippines	352,191
25 Pakistan	311,258

Source: World Bank

Skewed ranking

The World Bank and the member governments spent tens of millions of dollars to conduct this survey and calculate the PPP of each country.

But I have a favorite question: Of what value is that information? Does it lead us to rank economies in a useful manner?

Based on the PPP ranking, the purchasing power parity ranking of China is No. 2, the Philippines is No. 24, and Pakistan is No. 25.

World Bank, are you telling me that it is better to live in Pakistan or China than Hongkong (No. 40) and Singapore (No. 54) and New Zealand (No. 57)?

By just looking at this ranking, immediately, any ordinary person in the street may conclude that there must be something wrong with this ranking.

After all, it is a basic reality that we have a shortage of doctors, nurses, and teachers because the only way to remain alive as a citizen of this country is to leave this country. We leave to survive.

Sin of omission

Now, guys, do you have to be a PhD to realize that it is a waste of tens of millions of dollars for the World Bank to come up with a parameter than does not reflect the economic situation of the country?

This is equivalent to using the size of the thumb to rank phallic sizes. Wait a minute, at least the rule of the thumb actually makes sense.

Can you blame me if I call their strategies aimless? Can you blame me or declaring at the start of the series that the World Bank, the ADB are world-class failures?

You mean to say that the World Bank spent millions of dollars and wasted precious years to come up with a useless parameter?

Where did the geniuses of the World Bank go wrong? How can they arrive at a parameter that does little to understand the reality of economic conditions?

I have a minor theory for this monumental failure: Analysis paralysis. The economists are so enamored with academic mathematical theory that they failed to recognize certain simple basic truths.

In fact, probably, it is their PhDs that's their downfall. Why? Because they have been brainwashed to think along the same lines. Overdose of Laspeyres and Paasche indices.

They have less time for original thought, or they probably are brainwashed into thinking that there's no original economic thought left undiscovered.

Let me go back to the question: What is the defect of the PPP ranking? For me, inherently, PPP is a good data to have, it's nice to have. But the moment you use it for ranking economies, the PPP becomes an instrument of confusion.

Why? The error lies in what the PPP ranking tells you and what it does not tell you. The PPP tells you that the Third World countries such as the Philippines are cheaper countries. That's good.

However, it does not tell you this: The prices are cheap but the people have no money to buy.

Yes, that's the error of the ranking. It is the omission not the

commission that is the source of the fault.

Of what use are cheap prices if there's no money to buy? If the people have no purchasing power?

Have you read that expat survey wherein Manila is the most favorite of the expats? Because the expats are given their home country's purchasing power and pay only Third World prices for services in Manila.

Proposal

I think it's high time for the Street Strategist to take over the economic thought of the World Bank and its member countries.

Here's my proposal. Instead of an international dollar such as the PPP, I propose to use a new unit of currency, and that is labor hours.

Therefore, the question is not PPP international dollars to buy a certain basket of goods. Rather, how long does it take for a worker to buy such a basket?

Of course, labor hours are paid differently by skills, therefore inappropriate.

But why not use the minimum wage worker as the basis of the unit of currency? Since we are after the reduction of poverty, let's focus on the least of our brothers and sisters.

How long does it take for a minimum wage worker to pay for one kilowatt-hour of electricity, for one Big Mac, for a can of 330-ml Coke, or a liter of gasoline in their respective countries?

That's the topic for the part of this series.

For the moment, suffice it to say, labor-hours is a better parameter to determine purchasing power parity, and that is why the Hyperwage Theory rests heavily on labor economics.

Excited? As I said, you will never look at economics the same way again. Labor as a unit of currency, yes, I think that sounds exciting. Don't you think so?

(Thads Bentulan, June 16, 2005)

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Hyperwage Theory

Is labor a mispriced economic factor?

- 8 -

The Mispricing of Labor

The Hyperwage Theory could be the source of extreme ridicule or, the same could be the source of supreme honor for the Street Strategist in the annals of intellectual history. Not bad for a one-man thinking machine of limited talents and unlimited imagination.

I believe the Hyperwage Theory is a concrete, actionable, elegant single-stroke solution to Third World poverty. What is your counter proposal? The status quo? Is this the best our economists can do?

What saddens me is we have economists whose strategies have

Hyperwage Theory

maximum statistics and minimum analysis. I hate to jump the gun again, but I came across a factsheet by the government with the following analysis:

“Under Scenario 1 where a P78.00 increase in the wage across-the-board filed at the RTWPBs, total cost of production will increase by 9.7 percent. Cost of trading and construction are expected to post the biggest increases of 1.0 percent and 0.6 percent, respectively. Meanwhile, prices of all goods and services will increase by an average of 9.4 percent while cost of personal consumption expenditures will increase by 9.5 percent, above the “normal” inflation. This would mean that in general, if a household member spends 100.00 pesos a day, it could be expected that he or she will now have to spend at least 109.50 pesos a day.

“On the other hand, should a legislated P125.00 increase in the minimum wage be approved this would translate to a 15.5 percent increase in total cost of production with cost for trading products and doing construction likely to increase by 1.6 percent, and 0.9 percent, respectively. Price of goods and services are seen to increase by 15.1 percent, on the average while cost of personal consumption expenditures will increase by 15.2 percent; and

“Finally, if the businessmen’s proposal of at most P30.00 increase in the minimum wage is to be followed, it will increase the total cost of production by only 3.7 percent. Prices of goods and services are to increase by an average of 3.6 percent while the cost of personal consumption expenditures will increase by a moderate 3.6 percent.”

Experts as flunkers

If you have been following the Street Strategist, by this time, you shall have acquired the mindset of never believing the experts at once.

Yes, that’s what I am, a non-believer of experts. As much as possible I don’t accept the experts right away, although I use their judgment as my initial reference point. Being experts, they are almost always right; yet in isolated instances, I discover fresh viewpoints; and in all cases, I

learn anyway. It's a no-loss situation.

So what can you say about the report quoted above which was used as inputs for the wage boards a few weeks ago?

Of course, since you don't have a PhD, you don't find anything wrong with it.

As for me, since I am the Street Strategist, I give the report a grade of flat 5.0 (failure). See what I mean? Both of us don't have PhD's but we don't think in the same way. You presume their analysis is correct, while I presume it is wrong. And the burden of proof is on me to prove why they are wrong.

If a college freshman submitted the above analysis, I would have given it a 2.0 but since it was prepared by no less than the highest policy-making statistical and economic body of the country, I give it a flat five.

Analysis paralysis

Why? Wait a minute, you're asking me why? Come on, guys, if you have read Part 1, Part 2, and Part 3 of this series, it is so obvious why their analysis deserves a flat 5.0, notwithstanding their combined PhDs in economics and statistics. This is the reason why I insisted on an introductory paradigm exposition. With a framework in mind, it is very easy to identify a recalcitrant idea.

I don't have to be an economics professor to reject their analysis outright.

You still don't see it? Well, these are the hazards of being an author. Nobody actually reads you.

Okay, I give up on you. I'll spoon-feed you.

The main reason why the analysis of the PhDs deserves an outright flat five is that their analysis is limited to the expense side of the equation. They did not present an analysis of the revenue side. Their I/O model did not consider the Keynesian multiplier effect, the accelerator effect, and other macroeconomic data that will be affected in the revenue and domestic consumption side.

Hyperwage Theory

If the labor cost will rise, the businesses could also increase their selling price anytime. Will the price increase be greater than the wage increase so as to obliterate the latter? Well, never underestimate the Keynesian multiplier. Assuming a multiplier of 5, for every P1 increase in wages, which ultimately will be spent as domestic consumption anyway, it will result in a total income of P5 for the entire national economy.

And besides, I'm proposing a hyperwage, not a normal wage increase, so as to obtain a net positive purchasing power above the selling price increase.

As I have repeated many times before, all money given to labor will be spent on goods and services and will end up eventually as income to businesses. The money has nowhere to go but to the pockets of the capitalists.

Anyway, in other words, the government economists have analyzed only one face of the wage issue but failed to analyze the other side. That is a failure in analysis.

And no, they are not the only ones falling prey to such mind-trap. Almost every businessman, economist or layman I talk to are imprisoned in this inflation-centric, expense-oriented analysis mind-trap.

Don't worry, I was like that before, until I finally sat down and challenged myself to analyze exactly what happens when wages are raised. I realized many of my fears were based on economic myths including hyperinflation and unemployment. Yes, these are myths.

Anyway, in my book, any single-faced analysis deserves an instant flat five.

Again, this is jumping the gun. But this is just an example of how much thought I have allocated to the Hyperwage Theory. This theory covers both microeconomics and macroeconomics with equal elegance.

Isn't it exciting to follow this series? In each issue, we discover a viewpoint about economics that is not emphasized in textbooks. As I promised, you will never look at economics the same way again.

Recap

In Part 1 (*Strategy of Poverty*), I revealed the strategy of poverty unwittingly perpetrated by Third World governments and their economists.

In Part 2 (*Hyperwage Theory Unveiled*), I unveiled Hyperwage Theory with the surprise feature that the solution to a Third World country's poverty rests on the country's valuation of the labor of the poorest of the poor. I argued that domestic helpers should be covered by the minimum wage law, and that they should be paid wages with actual purchasing power.

In Part 3 (*Paradigms*), I laid out the paradigms needed to appreciate the Hyperwage Theory, and attempted to illustrate that it comes as a direct natural logical and elegant consequence of the same.

In Part 4 (*Aimless Strategies*), I disparaged the aimless strategies of the World Bank and government economists with their "beating around the bush" solutions and their insistence on an inflation-centric First World economic theory for Third World countries.

In Part 5 (*The End of Modern Theory*), I described the helplessness of modern economic theory in solving both the economic and non-economic problems of the Third World.

In Part 6 (*The Wealth of the Nation*), I argued that the wealth of the nation depends on the valuation of its lowliest worker and not on the accumulation of excessive profits by a privileged few.

In Part 7 (*Labor as Unit of Currency*), I discussed the ineffectiveness of the World Bank's purchasing power parity (PPP) and proposed to labor-hours as useful unit of currency for international comparison.

In this part, I will illustrate the mispricing of labor in Third World countries using the Big Mac.

PPP trash

Question: Which is the more expensive country Australia or Pakistan? Singapore or the Philippines? US or Thailand?

After trashing the efforts of the World Bank to come up with a

Hyperwage Theory

useless parameter worth tens of millions of dollars and years of man-hours wasted, I bravely proposed an international comparison program based on labor-hours.

What's the advantage of my proposal? It instantly creates a sense of magnitude and proportion which is important in any analysis. Is labor in Third World countries mispriced, or particularly, underpriced? Is the wealth equitably distributed? The PPP cannot answer these questions, and yet the answer to these questions are more useful than any answer provided by the PPP.

Big Mac Table

First, I am sure you are familiar with the Big Mac index of the *The Economist*.

But their analysis of Big Mac data suffers a major defect. They use it as non-scientific indicator of PPP and exchange rate valuation, which I find a useless exercise. So what if the Baht is underpriced to the US dollar? Nice to know but useless. For example, we all know that the Renminbi has been overpriced for a long time. But how does that affect the laborer in Shenzhen?

And so I took the data one step further. I used labor-hours as a unity of currency and used the Big Mac as a comparison.

In Exhibit 4 (Cost of Big Mac in Labor-Hours), I compared the time it takes for a minimum wage worker to buy a Big Mac in their country in their local currencies. This is an exemplification of labor as unit of currency. Then I converted all values to US\$ for instant comparison.

Exhibit 4 Cost of Big Mac in Labor-Minutes

Country	Big Mac US\$	Min Wage US\$	Minutes	Comments
Australia	2.54	10.83	14.10	Best
Chicago	2.75	7.05	23.40	
New Zealand	2.87	6.54	26.33	Good
Minneapolis	2.85	5.15	33.19	
New York	3.24	5.15	37.75	
Hong Kong	1.54	1.64	56.39	
Taiwan	2.42	2.33	62.50	
Singapore	2.16	1.85	70.00	
South Korea	3.18	2.49	76.49	
Philippines	1.46	0.71	123.87	
Thailand	1.80	0.65	165.60	
Indonesia	1.62	0.33	296.44	
Sri Lanka	2.66	0.45	353.33	Bad
Malaysia	1.26	0.32	386.58	
India	1.44	0.15	581.54	Bad
China	1.26	0.11	683.59	
Pakistan	3.12	0.20	925.00	Worst

Source: Street Strategist Research

In Australia, in one McDonald's outlet the cost of a Big Mac (no-add-ons, tax inclusive) is A\$3.25 but the minimum wage is A\$13.83 per hour. Thus, it takes only 14.10 minutes for an Australian to buy a Big Mac.

In Pakistan, using Chicken as beef substitute, the Maharajah costs PKR 1.85 while the minimum wage is around PKR 12 per hour. Thus it takes a worker 15 hours (almost two days) to buy the chicken burger.

The Big Mac in Hong Kong is about HK\$12.00 while the wage of the domestic helper is about HK\$12.8, thus it takes only 56 minutes for a Filipina teacher working in Hong Kong as a toilet cleaner to buy a Big Mac.

In the Philippines, a Big Mac costs around P80 while the

Hyperwage Theory

minimum wage is about P39 per hour. Thus, it takes about 2 hours to work for that same Big Mac.

Wait, if a domestic helper in the Philippines who is not covered by the minimum wage law buys a Big Mac, she has to work for 15 hours.

In US dollar terms, the Big Mac in Hong Kong is US\$1.54 while in the Philippines it is US\$1.46, not much of a difference really.

Hong Kong and Singapore have no minimum wage laws. However, in HKG, domestic helpers must be paid a minimum of HK\$3,320 per month thereby making it the reference rate.

In Singapore, the wage rates ranges from S\$3.00 to S\$9.00 while the domestic helpers earn about S\$1.7 per hour.

In the US, it takes half an hour to buy a Big Mac. I have gathered data from New York, Chicago, and Minneapolis.

Purchasing Power

Question: Which is the more expensive country Australia or Pakistan? Singapore or the Philippines? US or Thailand?

Hey, guys, watch your answers change. The Third World countries are more expensive.

But then you will cry foul. Because I choose a Big Mac, which is hardly a staple food.

Okay, can we change the good of comparison from Big Mac to oil prices? That should be good because everybody buys oil at the same price, and all the businesses and countries in the world are oil-based.

Do you think the comparison table will change? No, the table will be similar. Third World wages cannot afford world-market oil.

We can conclude that there is no purchasing power in Third World countries because their governments prevent them from acquiring so.

Whose fault is that? Why do the economists fail to share the view of the Street Strategist?

Mispricing of labor

As you can see, the most Catholic and most religious nation on earth does not value its labor quite well. And remember, we have not

used the data of the domestic helper who is a virtual non-entity in the country's labor economics.

Using the above comparisons, there is nothing about inflation, just plain comparison of labor and their purchasing power.

Is it safe to conclude that in Third World countries, labor is underpriced? Remember I said in Part 7, of what use are cheap products if the people have no money to buy these products?

Ignoring this question was the fatal mistake of the World Bank's PPP.

In my talks before large audiences, there's always one who points out: "But we can't compare ourselves to rich countries."

My reply is to show them the Big Mac index that I created, "Do you mean to say, that our laborers should work longer hours to buy the same amount of goods than in First World countries? Are you saying that an Australian has to work only for 15 minutes while we have to work for 2 hours for the same product, and that this is the normal state of things?"

In others words, is mispricing of labor a standard feature of Third World countries that cannot be remedied?

Absurd. Egregiously absurd. Our modern day slavery exists because the government does not realize that its economic policies perpetuate the strategy of poverty.

First vs. Third

Throw away the World Bank's PPP. Think in terms of labor-hours as a unit of currency. Have you noticed that the rich countries are those that give more purchasing power to its workers?

This is the paradigm or mindset that frames my Hyperwage analysis. There is only one conclusion, and there is no chicken and egg situation.

The rich countries are rich because they mandate a high minimum wage to their workers, which works out as a mechanism to stimulate domestic demand for more goods and services, and also works out as a

Hyperwage Theory

distribution mechanism for wealth equality.

Are rich countries rich because of highly paid workers, or are their workers highly paid because they are rich countries?

Under the Hyperwage Theory, this is not a chicken-and-egg situation. If you look at the mispricing of labor, you will realize the the labor's lack of purchasing power prevents the growth of the economy. Why produce 10,000 cars if the workers cannot even afford 500?

McDo

Will McDo close its operations in Sri Lanka if the wages in Sri Lanka will be topped up to Singapore or Hong Kong? No, it will not. McDo will still continue to expand. In fact, Big Mac in Sri Lanka is more expensive than in Singapore.

I can imagine McDo saying, "We'll if you increase your minimum wage to US\$5, we can still afford it, but why should we increase our workers' wages on our own volition? Actually, if your government mandates that amount, we can afford to pay, and we will not evacuate just because of that. But don't look at us. Look at your own government. They are the ones perpetuating the strategy of poverty."

Basket of products

I have contacted the staff at Penn World Tables who are keeping track of international comparisons but they don't have the data I need. So, I tried to gather them on my own. We can do the same labor-hour analysis for Coke, electricity, garlic, Nokia, Sony, and oil prices.

Haven't you realized that there is only one price for oil worldwide and yet we insist on not giving wages to our workers so that they can afford the same volume of oil for the same amount of labor-hours as a worker in the US?

Hyperwage Theory needs the kind of statistics such as the Big Mac or power rates or gasoline rates comparison to support its conclusions. The ADB or the World Bank could provide such funding.

However, being a one-man thinking machine, I have to satisfy myself with raw logic and analysis. Even without getting the actual

data, I can identify what kind of data I need for the Hyperwage Theory, and that alone is enough for me.

I have to go now. By the way, have you noticed something?

Our discussion has become more and more “economic” as against the “non-economic” discussions that populated the earlier parts. This is my way of telling you, the more you dissect Hyperwage, the more you realize that it is well-grounded on economic theory than you initially thought.

And, that my friend, is what makes the Hyperwage Theory powerful, and the Nobel Prize closer to the Street Strategist.

After all, Hyperwage Theory is all about seeing what everybody else has seen and thinking what nobody else has thought.

(Thads Bentulan, June 23, 2005)

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Hyperwage Theory

Which country is cheaper, France or Laos?

- 9 -

The Myth of Cheap Countries

The Hyperwage Theory is probably the most revolutionary economic thought in recent history. Before this, the last two recent ones could be Marxism and Keynesian economics. Thus, this theory could be the source of extreme ridicule or, the same could be the source of supreme honor for the Street Strategist in the annals of intellectual history. Not bad for a one-man thinking machine of limited talents and unlimited imagination.

I hereby challenge all the famous economists in this country and the world for that matter: As an economist, what have you contributed

Hyperwage Theory

to the intellectual history of mankind? That's the criterion of a PhD dissertation, isn't it? A dissertation is supposed to contribute to the overall knowledge of mankind.

But what have you accomplished so far? You have become a dean of the school of economics. You have become the highest ranking economic policy maker of the land. You have become a finance minister. You have become a central bank governor. Wait, you have even become a president of the country. Dr. Economist, you have become all these, but what have you really accomplished? Have you built a better mousetrap or have you realized that the mousetrap is not the solution? Remember this: do not do things right. Do the right things.

I believe the Hyperwage Theory is a direct, concrete, actionable, elegant single-stroke solution to Third World poverty. Why don't you join hands with me and put your PhD into good use for something revolutionary?

Recap

In Part 1 (*Strategy of Poverty*), I revealed the strategy of poverty unwittingly perpetrated by Third World governments and their economists.

In Part 2 (*Hyperwage Theory Unveiled*), I unveiled Hyperwage Theory with the surprise feature that the solution to a Third World country's poverty rests on the country's valuation of the labor of the poorest of the poor. I argued that domestic helpers should be covered by the minimum wage law, and that they should be paid wages with actual purchasing power.

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First World economic theory for Third World countries.

In Part 5 (*The End of Modern Theory*), I described the helplessness of modern economic theory in solving both the economic and non-economic problems of the Third World.

In Part 6 (*The Wealth of the Nation*), I argued that the wealth of the nation depends on the valuation of its lowliest worker and not on the accumulation of excessive profits by a privileged few.

In Part 7 (*Labor as Unit of Currency*), I discussed the ineffectiveness of the World Bank's purchasing power parity (PPP) and proposed to labor-hours as useful unit of currency for international comparison.

In Part 8 (*Mispricing of Labor*), I illustrated the mispricing of labor in Third World countries using the Big Mac.

In this part (*The Myth of Cheap Countries*), I will further illustrate that contrary to economic myths, Third World countries are actually more expensive than First World countries, this time using a very basic and very comparable commodity – electricity.

Comparable commodity

When I introduced my own Big Mac labor-hours index, I also pointed out that *The Economist* could have made a useful index rather than the exchange rate parity they focused on.

When I disparaged the ineffectiveness of the World Bank's Purchasing Power Parity (PPP) I pointed out that it could have gone a step further and made a labor-hours index.

But there's a lesson to all these. The Street Strategist is never afraid to stick out his neck and challenge established ideas, even if it means challenging the intellectual empire of the World Bank with its billions of dollars in annual maintenance.

By such a stroke of intellectual defiance, he arrives at fresh perspectives and radical viewpoints. Seeing what everybody else has seen and thinking what nobody else has thought.

Let me illustrate: Which is more expensive, France or Laos? Given the traditional textbooks in schools of economics throughout the world,

Hyperwage Theory

this is a trick question. After all, it would probably take a minimum wage worker in Laos a day's work to buy a 330-ml can of Coke in Paris.

However, as a result of the Hyperwage Theory and its appertaining paradigms this is no longer a trick question.

Without the guidance of the Hyperwage Theory we know by experience that people would leave Laos any minute for France, and yet somehow have this dissonant sensation that Laos is cheaper than France.

Using a very simple (emphasis on 'simple') index, we could now reconcile the dissonance. Using labor-hours, Laos is more expensive than France on products and commodities that really matter to the economy such as electricity and oil.

Yes, indeed, why not compare living conditions in terms of basic comparable commodities like electricity?

Examine Exhibit 5 where I compiled selected First and Third World electricity rates converted to US\$.

Exhibit 5 (Cost of Electricity: 1st vs 3rd World Countries)

Country	Cost of 100		Hours to Work for 100 KWH
	KWH in US\$	Min Wage in US\$	
France	9.59	9.60	1.00
UK	9.72	8.96	1.08
Germany	9.21	8.29	1.11
New Zealand	8.42	6.54	1.29
Australia	14.67	10.83	1.35
New York	7.40	5.15	1.44
South Korea	6.21	2.49	2.49
Taiwan	6.35	2.33	2.73
Japan	18.34	5.62	3.26
Brunei	5.49	1.37	4.00
Singapore	10.49	2.35	4.47
Hong Kong	13.46	1.92	7.00
Thailand	8.27	0.65	12.68
Philippines	11.16	0.66	16.86
Malaysia	6.58	0.32	20.83

The Myth of Cheap Countries

Indonesia	12.92	0.33	39.49
India	8.81	0.13	68.75
Cambodia	17.75	0.22	82.05
China	9.06	0.11	82.15
Myanmar	7.99	0.10	83.07
Vietnam	10.00	0.09	113.61
Bangladesh	8.04	0.05	176.45
Laos	12.79	0.05	263.49

Source: International Energy Agency, Department of Energy USA, Department of Energy Phils, Energy Regulatory Commission, Street Strategist.

Analysis

Based on my research, in France, using the simple non-weighted average of industrial and electricity rates, a kilo-watt hour costs about Euro €0.076, thus about €7.60 for a 100 kWh bill.

On the other hand, the minimum wage in France is €7.61 per hour. Thus, it takes only an hour for a laborer to work for 100 kWh of electricity.

In Laos, electricity costs Kip 1,053 per kWh, while the minimum wage is around Kip 400. Thus it takes 264 hours of work to pay for a 100 kWh bill.

Thus, under Hyperwage paradigms, we have arrived at a mathematical validation of the common sense fact that the people of Laos will fly to France any given day.

Before this analysis, our economic viewpoint (Laos is a cheap country) was not in consonance with everyday experience (people fleeing Laos).

Now the ranking of France, UK, Germany could be skewed either way because of the difference in averages and exchange rates but whether UK or Germany is cheaper than France on a labor-hour basis is not the main theme.

The crux of our argument is First World vs. Third World valuation of labor.

Sometimes, my estimate of minimum wage where the country has no minimum wage laws could be skewed but then the general trend is

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there. In my research, I have actually compiled almost every minimum wage in the world.

First World

In the above list of 23 countries, all the rich countries have the lowest electricity rates using labor-hours. This is purely consistent with the Hyperwage Theory's prediction that rich countries value their labor higher than poor countries. And this is not merely out of pure magnanimity. There is actually a positive upward spiral effect of giving purchasing power to the lowest workers due to increased domestic demand for goods and services. Plus, the Keynesian multiplier effect that redounds to the national income of a country.

Look at the performance of the First World economies.

It takes only an hour of work in France and UK to pay for a 100-kWh bill.

In Germany, it takes 1.10 hours despite the fact that Germany has long been a high-wage country, one of the highest in Europe.

The minimum wage in France is about €7.61, in UK it is £4.85, in Germany it is €6.57 per hour. In Germany, like most European countries, there is no law on minimum wage but their collective bargaining units are strong. We use these CBAs as reference wages.

New Zealand and Australia, the South Pacific twins, have almost similar labor-hour equivalence. It takes 1.29 hours in NZ and 1.35 hours in Australia to pay for a 100 kWh-bill.

East Asian countries

The herd of East Asian countries, some members of the OECD, and some of the most wealthy nations in the world occupy a middle rank in the electrical rankings.

In South Korea, it takes about 2.49 hours, in Taiwan 2.73 hours.

In Japan, one of the most expensive countries in the world, it takes only 3.26 hours while in the Philippines it takes about 16.86 hours. Which is more expensive, Japan or the Philippines?

In Brunei, it takes about 4 hours but then remember that the

minimum wage workers there are not the citizens of Brunei but the poor Thai, Indians and Indonesians. There is no minimum wage law in Brunei but these foreign workers get about B\$18 per day.

In Hong Kong, it takes 7.00 hours compared to a cheaper Singapore with only 4.47 hours.

However, bear in mind that in Hong Kong, it is the Filipino teacher working as a domestic helper that pays the 7 hours of work equivalent. The HKG natives themselves could well afford because they get higher than the domestic helpers. The poorest East Asian country would be Malaysia with 8 hours of work.

South East Asia

The supposedly cheap economies of China, Philippines, Thailand, and Vietnam are in reality not that cheap. In fact, they are more expensive than First World countries.

Poor countries are more expensive. Did you learn that from economics textbooks?

Thailand leads this region at 12.68 hours.

In the Philippines it takes about 16.86 hours while Indonesia weighs in with a bad 39.49 hours. Whew.

In India, it takes about 68.75 hours of work while remember it takes only 1 hour in France.

In China, it takes 82.15 hours to work for a 100-KWh bill. By the way, in poor provinces the minimum wage in China is 190 yuan per month (US\$0.11 per hour), while in Shanghai it is 635 Yuan (US\$0.37 per hour).

Cambodia, Myanmar, Vietnam, Bangladesh, and Laos are the worst in the list (not necessarily in the world). It takes 82 hours in Cambodia, 83 hours in Myanmar, 113 hours in Vietnam, 176 hours in Bangladesh, and 263 hours in Laos.

Based on these economic facts alone, where are human rights in these countries?

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In Japan, it takes only 3.26 hours. In the US, it takes about 1.44 hours to pay for 100-kWh. In the Philippines about 16.86 hours. That's a ratio of 11.7:1.

In other words, you would have to work in the US for only 1 year and that's the equivalent of 11.7 years in the Philippines.

You have only one life to live: Are you going to waste your life for 12 years in the Philippines when in fact you need only to sacrifice for a year in the US? Think, quick.

When I started this series, I know you dismissed the Hyperwage Theory immediately. Now, I have delved deeper and deeper into the realm of economics and economic data. This is no longer about paradigms and generalizations. This is about calculating data from a different angle. As I have promised under the tutelage of the Street Strategist, you will never look at economics the same way again. I have not changed the facts. I have changed the way you think.

Can you imagine that? We have turned economic theory on its head. The poor countries are actually expensive, and the rich countries are actually cheap. Tell me, isn't that exciting?

Funny, I heard that last week, one reader who is not even an intellectual brought a compilation of Hyperwage articles to the P1 million bingo bonanza at one of PAGCOR's casinos to read in between the games. A marine transportation graduate reading Hyperwage during lulls in a casino? Wow, that's more amusing than the office of the Secretary of Finance calling up *BusinessWorld's* librarian to get hold of Part 1 of this series. Very amusing, really.

Anyway, I have to go for the moment. The Street Strategist has once more shattered another economic myth – the myth of cheap countries.

(Thads Bentulan, June 30, 2005)

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How long do you have to work for a liter of oil?

- 10 -

The Perfect Commodity

The Hyperwage Theory is probably the most revolutionary economic thought in recent history. Not only that, it is the only economic theory that directly enforces the principle enunciated in the American Declaration of Independence: “We hold these truths as self-evident: That all men are created equal.”

Why not equal pay for an equal amount of work? Or better stated, equal working hours to buy the same amount of goods?

Obviously, the Hyperwage Theory does not seek mathematical equality among nations, rather, only a workable ratio between a poor

Hyperwage Theory

and rich country. A ratio of 1:263 in our previous discussion on electricity tariff is too much.

In Part 9 (*The Myth of Cheap Countries*), I have once more illustrated that contrary to economic myths, Third World countries are actually more expensive than First World countries, using a very basic and very comparable commodity – electricity.

In this part, we shall conduct the same international comparison this time using probably the most comparable of all economic goods in our energy-driven economy – oil. For the moment, let us focus on super gasoline. Nevertheless, the case for automotive diesel leads us to the same conclusion.

Normative vs. Descriptive

A descriptive approach is one that merely describes but does not prescribe. On the other hand, a normative approach proposes a norm or prescribes a norm of action.

In the past few years, I have scanned many papers on anti-poverty and wealth improvement of nations but I soon discovered that most of these studies are descriptive not normative.

Why are the papers descriptive? I think it is because they never really set out to solve the poverty of nations, as if the experts accept the fact that Third World will always be Third World with small incremental steps towards poverty alleviation.

We have a national commission on poverty, what is it doing? Handing out micro-finance loans? Wake up and smell the Hyperwage roses, guys.

Perfect commodity

Anyway, let's proceed. Our modern world runs on energy, undeniably oil-based. Given this, is there a more perfect good to use as basis of labor valuation across nations?

Move over Big Mac, Coke, electricity tariff. Oil is the perfect commodity of comparison.

A caveat before we move on. Oil pricing is tricky. Subsidies, taxes,

price stabilization funds, rebates, et cetera. All these are attached to the pricing of oil in various forms and combinations. After all, oil is not only an economic good but a political good as well.

The purpose of using oil as our point of comparison is not to mathematically and politically arrive at a perfect comparison. Rather, our purpose is to prove the purchasing power-centric philosophy of Hyperwage Theory.

With that in mind, let's analyze the data gathered by your one-man thinking machine with limited talents and unlimited chutzpah.

Expensive oil

The most expensive nation on earth in terms of retail pump prices of oil is Hong Kong. Gasoline costs US\$1.63 as of June 30, 2005 (Exhibit 8). Whew! It must be a tough territory to live in. Can you imagine that it will take a domestic helper 47.77 minutes of work to pay for a liter super/premium gasoline. That's because it has the most expensive gasoline in the world.

On the other hand, the Philippines, being a very cheap country, where a British chap told me he had a girl for US\$10, should fare infinitely better. That's a matter of course, right? Let's see, hmm, it would take a minimum wage worker 49.70 minutes.

Arrgh. The Philippines lost by two minutes. Should our government be worried? Wait, if we use the domestic helper's wage in the Philippines of about P2,000, then the new time would be 283 minutes or 4.7 hours. Domestic helper vs. domestic helper, the ratio is 47.77:283 or 1:6.

But why do we have strikes and rallies in the Philippines but none in Hong Kong? One possible explanation is that in Hong Kong, mass transport is by electric trains or public buses. Private cars are minimal. Hence, the average worker rides in a cheaper bus (economies of scale) or a cheaper train (no oil) or in an environment-friendly taxi run on cheap LPG.

Of course, the main reason is that their wages are high compared to

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the other commodities as shown in our Big Mac, and Electricity Index. In short, the people in Hong Kong have purchasing power, courtesy of their government.

Exhibit 6 shows the most expensive countries in the world in terms of retail pump prices of super gasoline. The data were obtained in 2002 and published by World Bank in 2004. (It takes them two years to encode data?)

Next to Hong Kong are Ecuador and Guatemala from Latin America. The Europeans come in next led by Norway, UK, Iceland, Finland, Netherlands, and Denmark.

France is No. 12, Germany is No. 15 and Japan is No. 21. Ireland, whose citizens have been complaining of very high prices comes in at No. 22.

Exhibit 6 Cost of Premium Gasoline Per Liter as of 2002

Most Expensive Ranking	Country	Gasoline in US\$/Liter
1	Hong Kong	1.47
2	Ecuador	1.30
3	Guatemala	1.23
4	Norway	1.23
5	United Kingdom	1.18
6	Iceland	1.16
7	Finland	1.12
8	Netherlands	1.12
9	Denmark	1.09
10	Madagascar	1.08
11	Sweden	1.06
12	France	1.05
13	Italy	1.05
14	Belgium	1.04
15	Germany	1.03

16	Turkey	1.02
17	Palestinian Territories	0.99
18	Djibouti	0.98
19	Portugal	0.97
20	Hungary	0.94
21	Japan	0.91
22	Ireland	0.90
23	Israel	0.90
24	Sao Tome & Principe	0.90
25	Croatia	0.89

Source: World Development Indicators 2004, World Bank, Street Strategist Research

Cheapest Oil

The cheapest retail price of gasoline is in Turkmenistan, wherever that is. It costs only two US cents per liter.

Being an oil-rich country, its oil is probably cheaper than water but that's almost as far as its advantage can it. The foreign direct investments (FDI) locate in the country and take its oil leaving its people with little benefits.

Actually, right now, I'm chaining myself to the wall to avoid lambasting the so-called Eclectic Paradigm of FDI. See you some other time E-P guys. I'm not in the mood now.

Anyway, Iraq comes in as a co-first placer. Venezuela is No. 3, Iran is No. 4 and Libya is No. 5.

Surprisingly Kuwait is only No. 9 while Saudi Arabia is No. 13. In Kuwait, gasoline is only US\$0.20 compared to the US pump price of US\$0.40, or half of the US price which is in the No. 39 position.

The Philippines is No. 28 at US\$0.35. Yippee! Its prices are cheaper than France, Germany and all the expensive European communities. Should the Filipinos be happy?

Exhibit 7 Cheapest Premium Gasoline Per Liter in 2002

Cheapest Ranking	Country	Gasoline in US\$/Liter
1	Turkmenistan	0.02
2	Iraq	0.02
3	Venezuela	0.05
4	Iran, Islamic Rep	0.07
5	Libyan Arab Jamahiriya	0.10
6	Egypt	0.19
7	Angola	0.19
8	Nigeria	0.20
9	Kuwait	0.20
10	Yemen	0.21
11	Peru	0.21
12	Algeria	0.22
13	Saudi Arabia	0.24
14	Indonesia	0.27
15	Bahrain	0.27
16	Ghana	0.28
17	United Arab Emirates	0.29
18	Tunisia	0.29
19	Sudan	0.30
20	Brunei Darussalam	0.30
21	Argentina	0.30
22	Oman	0.31
23	Guyana	0.31
24	Myanmar	0.33
25	Viet Nam	0.34
26	Afghanistan	0.34
27	Russian Federation	0.35
28	Philippines	0.35
29	Malaysia	0.35

Cheapest Ranking	Country	Gasoline in US\$/Liter
30	Kazakhstan	0.35
31	Thailand	0.36
32	Tajikistan	0.36
33	Laos	0.36
34	Eritrea	0.36
35	Azerbaijan	0.37
36	Uzbekistan	0.38
37	Mongolia	0.38
38	Kyrgyzstan	0.39
39	United States	0.40
40	Trinidad and Tobago	0.40

Source: World Development Indicators 2004, World Bank, Street Strategist Research

Purchasing power

Which is the more expensive country, USA or the Philippines?

Of course, the Philippines. It's not a trick question anymore due to our Hyperwage paradigm.

Having read the first parts of this series, since the beginning of this chapter, you know already how this international comparison is going to end. Isn't it amazing that I have already prepped up your minds into the possible outcomes of my discussion? I have already set you up for the Hyperwage Theory. How I wish every economist in the world will begin to use the purchasing power paradigm to correct the inequalities among nations.

After all, as I have said before, we are all created equal. A human being in Beijing should exert the same amount of labor as a human being in Norway. Yes, we admit there would always be differences but hey, if one has to work for 10 times as much for the same good, that's injustice.

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Exhibit 8 Selected Gasoline Prices Per Liter in Labor-Minutes as of June 30, 2005

Country	Gasoline in US\$	Gasoline in Pesos	Min Wage in US\$	Minutes to Work
Australia	0.91	50.90	10.40	5.26
USA (ave)	0.58	32.33	5.15	6.74
Canada	0.74	41.45	5.77	7.72
France	1.38	76.85	9.10	9.07
New Zealand	0.98	55.01	6.16	9.58
UK	1.50	84.05	8.58	10.52
Germany	1.42	79.53	7.86	10.86
Japan	1.15	64.10	5.42	12.70
Italy	1.46	81.53	5.72	15.30
Spain	1.10	61.48	3.29	20.07
Singapore	0.96	53.56	2.25	25.58
Hong Kong	1.63	91.03	2.05	47.77
Philippines	0.54	30.03	0.65	49.70
Thailand	0.60	33.78	0.65	55.64

Source: International Energy Agency, GasPriceWatch.com, Street Strategist Research

Pardon me if my list is short but I don't have the resources to obtain the data I need. Exhibit 8 shows average retail prices in the listed

countries as of June 30, 2005.

The resource-endowed Australia is a better protector of its poorest stratum of society than other big and small countries in the world (based only on this list, remember). It takes only 5.26 minutes of minimum wage work to buy a liter of premium gasoline.

Surprisingly, the supposedly expensive country of the United States comes in second with 6.74 minutes of work to buy its US\$0.58 per liter gasoline.

Canada is No. 3 with 7.72 minutes, while France is No. 4 with 9.07 minutes.

Japan is No. 8 with 12.70 minutes which is cheaper than Singapore which is No. 11 at 25.6 minutes. Japan is half-price cheaper than Singapore? Incredible.

The Philippines with US\$0.54 per liter requires 49.7 minutes of work while Germany requires only 10.86 minutes? Why is that?

I hereby challenge all government policy-makers: Now that I have exposed the human injustice of forcing our laborers to work for more hours than the First World workers pampered with their first class facilities, what is your next step? Burying your heads in the textbooks that you wrote?

To all citizens: Are you just going to stand there and laugh at my efforts to haul this country out of poverty?

To the World Bank: What in the world is your solution to Third World poverty?

To the Nobel Prize Committee: What in the world are you waiting for?

(Thads Bentulan, July 7, 2005)

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Hyperwage Theory

Viewing inflation with a new paradigm

- 11 -

Prelude to

Inflation

Analysis

The Hyperwage Theory is probably the most revolutionary economic thought in recent history. But the revolution may not be in its conclusions but in how it changes the way we apply economics to our economic and non-

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economic problems.

Hitherto, in our exposition of the Hyperwage Theory all the ideas we have discussed did not require a PhD in economics, yet, at the same time, these ideas are ones that PhD economists couldn't have thought of. Seeing what everybody else has seen and thinking what nobody else has thought.

Why? The economists have the fortune of a lifetime of academic education while the Street Strategist has the misfortune of a lifetime of miseducation. In other words, it is a war between the brainwashed and the iconoclast.

Yet somehow, as I have argued in *Certiorari Conundrum*, contrapuntal vectors of wisdom are additive. The weak ideas are annihilated by the strong ideas. And the strong ideas become stronger after such annihilation.

Even if you are an economist who doesn't believe in Hyperwage Theory, maybe you have watched how some of your economic ideas acquire a new meaning when I reformulated the same economic principles and ideas from a completely different vision.

For example, have you ever heard of an economist declare that our country is more expensive than Germany, France, Canada and the USA?

Yet, having reached this far, it seems that the Hyperwage Theory has established that the general rule is that Third World countries are actually more expensive than First World countries especially on economic commodities that really matter. Could you have thought of our economic condition in this way?

As for the non-economists, I hope you have seen how my discussion of Hyperwage Theory annihilated the mandatory popular economics you learned in school. I don't really mean annihilate but I guess you know what I mean. You are beginning to appreciate economics and how it affects the entire population on issues of poverty, wealth distribution, and respect for human labor. Now, you know what questions to ask, and what answers to expect.

Hyperinflation

I will be discussing about Asymptotic Hyperinflation. Inflation, you understand. But I doubt if you know what an asymptote is, much less understand it.

But don't worry, as usual, I'll enhance your vocabulary and refine your vision of things.

But first, allow me a little digression.

One of the most exciting things about conjuring up theories is the fun of drawing analogies from different disciplines of human thought and using these analogies to explain or arrive at a conclusion with the theory you are building up.

With the Hyperwage Theory I have gathered the basic paradigms I used in my original analysis of the Third World poverty problem, and discussed them in Part 3. I also added a few more paradigms in later chapters. Now, allow me to add more paradigms.

Rejections

The most common knee-jerk reactions to Hyperwage are:

1. Hyperinflation
2. Unemployment
3. Unaffordability

In tackling the first issue of hyperinflation, allow me to share the genesis of my thought on this issue.

Like most intelligent college educated chaps such as yourself, I immediately rejected the idea of a high minimum wage because even without thinking, my economics education taught me that higher wages leads to higher prices and that every dollar increase in wages will be wolfed down by a two-dollar increase in prices.

That's it, right? That's the intelligent way to approach any proposal to increase wages.

Intelligent vs. genius

Yet, no matter how I forced myself to find direct, workable and logical solutions to Third World poverty while I was wallowing in the

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luxury of a First World city, I couldn't refuse the one simple fact that kept leaping at me: All these *gweilos* from the far corners of the world are here in this city, drinking Singapore slings and rocking to the beat of a Filipino band, because of the high wages and at the same time they are not afraid of the high prices.

The more I thought about it, the more I thought about inflation. Hyperinflation will annihilate the increase in wages. That's the intelligent analysis.

But then I remembered what I usually tell a colleague of mine whenever he calls in his reports and analysis from his hotel in Taipei or Jakarta or Auckland. When facing some problems, I would always encourage him to offer a solution, no matter how crazy. I always encourage people to think freely.

After his analysis, I would comment: "That's a very intelligent analysis and solution. Very good. That's good. You are intelligent. Indeed, you are intelligent. But there's a big difference between the intelligent and the genius. Now, here's what a genius solution looks like..."

Boy, it was fun doing that, and it became a positive thing for us because we were then forced to outthink each other.

Anyway, let's go back to the issue of hyperinflation. The intelligent analysis was to reject it outright, after all, why rock the boat, and risk a two-dollar increase in prices with a single-dollar increase in wages?

Then again, I remembered the games I played. "Now that I have the intelligent solution, is there a genius solution? After all, I'm not intelligent. I'm a genius."

And so it came to pass, that I focused my genius on what happens in the twilight zone of hyperinflation.

Relativity

When I started looking for genius solution, I remembered Einstein.

When he was still a student, he was fascinated with the speed of light. When a BMW in uniform motion is traveling at a constant speed

of 120 kph, and a Benz is running at 100 kph beside it, the BMW has a relative speed of only 20 kph with respect to the Benz. That's obvious, right?

Consider a different scenario. What if the Benz is running at 120 kph as well? Then, the speed of the BMW is zero with respect to the Benz, and they will be running side by side. That's obvious, right? This is called Newtonian mechanics.

Now, listen closely to this different scenario. Light travels at 300,000 kilometer per second! If the Benz is running at the same speed of light, respect to the Benz, light will stop (zero speed). That's obvious, right?

Yes, it's obvious, but no, it does not happen that way. Why? The speed of light is constant in the absence of acceleration from any frame of reference. This was the startling conclusion of the Michelson-Morley experiment. The speed of light is constant.

The second scenario involves light and speed of light, in which case Newtonian physics no longer applies. Even if you are running at 90% of the speed of light, with respect to you light will still be running at 300,000 km per second. This was what triggered Einstein's research into relativity.

There is no more relative speeds. And, confusingly, this is called relativistic mechanics or Einsteinian mechanics.

Lesson: Cars running at normal speeds are analyzed using intelligent solutions. Cars running at speeds of light are analyzed using genius solutions.

Limit

Einstein's curiosity on what happens if he traveled at the speed of light has exemplified for us that things don't quite happen at hyperspeed levels the way they happen at ordinary speeds. Now, let me digress to another mathematical concept called the limit.

Unfortunately, not many of us have the fortune of studying limits. The concept of the limit is the single most important concept in

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calculus. No limit, no calculus.

When we studied limits in college, we did it in passing because we were interested in the application of calculus. The importance of the concept of limits is lost on most students.

In fact, although I was very fluent in the calculation of limits it was only much later that I realized the conceptual importance of limits in the entire discipline of mathematics. The concept of the limit is so pervasive that science and engineering would have been still in its infancy if the concept of the limit was not introduced.

Let me give you a few examples of the limit. For example, you have a square, that's a polygon with four equal sides. Try to imagine if the polygon have five equal sides (pentagon), or imagine a hexagon, a decagon, and so on and so forth.

Question: What happens when the number of sides is 100? Or 500 or 1000 or 10, 000? What will you have? You will eventually have a circle. You can then say that a circle is a polygon with an infinite number of sides. The limit of the polygon as the number of sides approaches infinity is the circle. While this is not a good mathematical example of the limit, at least you will have an idea of how it is used.

Another example: What is the limit of $1/x$ as x approaches zero but never quite reaches zero? The limit is of course, infinity. However, take note that if x is actually zero, then the ratio $1/x$ is not infinite but rather "undefined." That is why division by zero is not possible. However, the limit is infinity.

Another example, if $1/0$ tends toward infinity, hence its limit is infinity, what is $0/0$?

Hmmm, $0/0$? Anything divided by zero tends toward infinity. Good answer.

But don't forget, anything divided by itself is 1. So, is $0/0$ approaching infinity or approaching 1?

Good problem huh? The answer of course is not undefined, not infinity, not unity, not one.

The answer to $0/0$ is "indeterminate." Yes, indeterminate. You have

no way of knowing. It could either approach zero or approach infinity. Why? Because the answer depends on from which side or from where the zero is approaching fast. Is the numerator or denominator approaching zero faster? If the numerator is very near zero, the ratio could be zero. If it is the denominator, the answer could be infinity.

Try it on your calculators choose a number close to zero (0.000 000 1 and 0.000 000 000 000 1) and divide them and then reverse the numerator and denominator. Both close numbers are practically zero but their ratio is either approaching zero or infinity. In other words, zero divided by zero is indeterminate.

Why are we discussing this?

Things do not behave the way you expect them to at regions or zones that may have a different set of rules. Whether its the speed of light or the ratio of 0/0, some things are not necessarily what normal intelligence expects them to be. More of limits and asymptotes in the next part.

(Thads Bentulan, July 14, 2005)

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Hyperwage Theory

Why love inflation?

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I Love

Inflation

The Hyperwage Theory is the greatest folly of the Street Strategist. However, it is also his best thought-out and fully developed intellectual adventure subject to the limitations that the Street Strategist is a one-man thinking machine with limited talents and unlimited imagination.

Yes, it is my best thought-out folly, after all, I have thought about this theory for the last ten years.

It is not so much as the conclusions of the Hyperwage Theory that makes it exciting as the exercise of harnessing separate intellectual

Hyperwage Theory

thoughts from different disciplines into an integrated paradigm in order to provide a fresh perspective to the otherwise dreary world of economics.

The secret of the Hyperwage Theory is the principle that price modifies behavior.

Its beauty is its elegant handling of non-economic issues.

No other economic theory handles non-economic issues (social issues) such as petty corruption, inefficiency, population control, or brain drain as well as the Hyperwage Theory.

And I'm going to prove that. Don't worry.

Proving two points

By this time, you should have been convinced of the economic and especially the non-economic benefits of the Hyperwage Theory, even if I have not fully discussed these benefits yet. You should be able to extrapolate.

In fact, I've met a few people who realized the impact of the theory five minutes into my discourse. They were able to follow the ramifications of the theory on their own at the speed of thought.

On the other hand, I have met people who cannot or do not appreciate the theory even after I repeated it to them.

And I think you know this type of people. Yes, you are right, they are the ones who are knowledgeable on basic economic theory but are unwilling to get out of their brainwashed fixations. A little knowledge is a dangerous thing; drink deep or taste not the Pierian spring.

Yet, more knowledge is even more dangerous, and that's why the Street Strategist is dangerous.

If you are one of those who are slow to ride on the learning curve of the Hyperwage Theory, I think you want me to prove first that Hyperwage Theory can be reconciled with ordinary modern economic theory.

Yes, I am responding to that call, and with my current discussion on hyperinflation, I've taken the first step of reconciliation. And I'm

going to prove that Hyperwage fits within the framework of ordinary economic theory.

Second, you want me to prove that the benefits of Hyperwage, both economic and non-economic benefits, are better than the status quo, and worth the possible transitional disruption brought about by any implementation of Hyperwage.

Actually, I don't need to prove these benefits, because if you can't see them at this juncture, I don't think you'll ever see them at all. You've got to be a hopeless case to require proof of the second point.

Remember, Hyperwage is a comprehensive yet a single-stroke solution, therefore, easier to implement and with comprehensive results.

On the other hand, our anti-poverty efforts such as job fairs, socialized housing, micro-finance, livelihood programs, and labor migration will never approach the comprehensiveness of Hyperwage as they merely bring about pockets of success affecting a few people. These programs have had a hundred years of failure.

Why do you refuse to see that the First World countries implemented a high-minimum wage policy to protect its poorest workers and in so doing strengthened the latter's purchasing power resulting in domestic consumption resulting in increases in the Gross National Income (GNI) via the Keynesian multiplier?

The secret of the First World is high wages. Are you going to ignore that, all because you think that if we were to adopt this there would be hyperinflation?

Open minds

Okay, then let's tackle inflation. But before that I would like to set up your frame of mind. In Part 11, I opened up your minds to the possibility that general rules are always subject to exceptions.

We discussed the special theory of relativity where we found out that the speed of light is constant even if you are traveling at the same speed. This is a view incompatible with Newton's laws of motions.

I even had fun with the 0/0 question I posed last time. I realized

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many grownups do not know the answer. Under the rule that any number divided by itself is unity, then $0/0=1$.

However, there is another rule that anything divided by zero is infinite (or tends towards infinity), thus $0/0=\infty$.

Thus, is $0/0=1$ or is $0/0=\infty$?

Yes, the correct answer is neither unity nor infinity. The ratio $0/0$ is indeterminate, it could either be zero or infinity, you have no way of knowing. Unity, infinity, indeterminacy. Three completely different ideas.

Another example. The factorial of 5 = $5! = 5 \times 4 \times 3 \times 2 \times 1$. What is the factorial of 1? The answer is 1. Now, what is the factorial of zero? Well, $0!=1$. Why is that? That's by definition. Again, an exception to the rule.

What is my point? My background in science and mathematics has opened my mind to the possibility that a different set of rules applies to special cases.

Translating this mindset to economics, I am open to the possibility that a tremendous increase in wages does not necessarily result into hyperinflation.

I view hyperinflation as a twilight zone of economics where concepts such as Philips curves or Laffer curves do not apply.

Given this frame of mind, I was astonished at the things I discovered.

I love inflation

Yes, that's a confession; a very wild confession. I love inflation.

I warned you, the Street Strategist has a convoluted mind.

In fact, I have wanted to write about my love for inflation several years ago but never had the opportunity to do so.

How could a free thinker as perspicacious as the Street Strategist ever think of loving inflation? That should be the ultimate in economic ignorance, right?

Alright, let me share my ideas about inflation.

Although inflation is a historical datum I deem it as a leading indicator. In economics, a leading indicator is a statistical datum that indicates the future trend because the economic agents do something today in anticipation of tomorrow.

Here's how I view the process. When inflation hits high, there is an implication that the businessmen are raising prices because they think that the consumers can still afford them. Therefore, there is some kind of economic optimism. We will disregard price elasticity for the moment under the assumption of *ceteris paribus* (all others being constant).

Until such time when the consumers can no longer afford, the prices will keep on going higher and higher.

When businessmen think that the economy will become weaker and the people cannot afford non-essential items, the former will start lowering their selling prices. Thus, lowering of prices due to such consideration illustrates economic pessimism.

Of course, lowering of prices due to oversupply in the world market, or obsolescence is another issue.

By the way, I don't really mean that because inflation in Third World countries are higher than First World inflation rates, that Third World economies are better off.

All I'm saying is that it indicates more of economic optimism on the part of the businessmen. But to complete my exposition, please bear with me.

Deflation

But the greatest reason why I love inflation is that I hate deflation. The implied economic optimism ushered in by inflation is a minor consideration on my part as to why I love inflation.

Actually, it is my hatred of deflation that plays a crucial role in my appreciation of inflation.

Have you ever lived in an economy that has experienced deflation? Boy, it's scary. The experience is similar to a tropical person

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complaining of the heat wave until he lives in the coldness of snow. You can escape from the heat but you cannot escape from the cold.

What happens in a deflation? Let's follow a scenario.

The working parents, expecting they are about to lose their jobs anytime due to a fragile economy, do not spend on unnecessary items such as sports shoes. Before their pessimism, they used to buy two pairs every year. Now, they don't buy at all. Multiply this non-buying activity throughout the entire economy.

The shoe stores will have lower sales. Having lower sales, the store owners lower their prices and retrench some employees. The retrenched employees don't buy shoes anymore, hence still lower sales.

The retained employees fearing for their jobs, don't buy shoes and other products as well, in order to save for the rainy days.

Having lower sales, and lower volume of demand, the store owners do not place orders with the shoe manufacturers. With less orders, the shipping and logistics companies will have lesser cargos to deliver. The latter's business will similarly face the same problem of reduced income.

Since the storeowners nationwide have slower business, they don't travel anymore, thus affecting the travel industry.

The shoe manufacturers having lower orders from their retailers, in turn will retrench employees. The retrenched employees don't buy shoes. The remaining employees fearing for their jobs, don't buy shoes and other non-essential items.

The fabric and rubber suppliers to the manufacturers will have depressed sales too.

In short, due to pessimism, there is no domestic consumption, which will depress prices resulting in deflation. The deflation brings about retrenchment, and more pessimism, and so the economy goes downward in a negative spiral.

This is not a mere speculative scenario guys. I have lived in an economy which has experienced a deflation. Everywhere was a "closing sale" or "inventory sale" zone.

And yet, nobody was buying because they feared the future and

therefore saved their money for the rainy days.

The more they saved for the rainy days, the more the rain came.

As I repeated many times before, savings could be detrimental to the economy if the savings is not put in circulation.

Can you imagine the philosophy I have just shared with you? The more you save for the rainy days, the more the rainy days will come.

So now, let me ask you: Do you prefer deflation or inflation?

Ah, the lesser of two evils.

Q.E.D.

I love inflation. *Quod erat demonstrandum.*

Don't you love it when the Street Strategist overturns your economic knowledge into something more logical than you thought it was?

I mean, loving inflation now seems more logical than you thought it was. I warned you: You will never look at economics the same way again.

Enough. We will tackle hyperinflation in the next part. Of what use is a one-dollar increase in wages if it results in a two-dollar increase in prices?

But before I discuss hyperinflation, give this a thought. Look at all the assets you have, anything you own, especially the high value ones.

If the minimum wage of the domestic helper rises from P2,000 to P20,000 (US\$400), or ten-fold, will those assets also rise by ten-fold? Your computers, your TVs, your stereos, your cement, and everything, think about them. Where were they manufactured and what are the prices of these goods in the First World countries?

And then think about your domestic helper. If she has P20,000 how many stores and how many products will benefit from this purchasing power?

Will there be deflation? No.

Will there be inflation? Yes, and I welcome it.

Think about this. Make a matrix, a table of comparison of prices

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before Hyperwage and after Hyperwage. Will your HP Compaq Tablet PC currently worth P100,000 rise ten-fold to P1 million?

Or will it be lower because many people can now afford to buy them? Higher volume, lower price. Think, go ahead, think. Think of all the products you see in the world. Will oil prices rise ten-fold? Cars? Nokia? Aircons?

In the meantime, let me get back to our original question. How could a free thinker as perspicacious as the Street Strategist ever think of loving inflation?

That should be the ultimate in economic intelligence.

(Thads Bentulan, July 21, 2005)

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Do inflation theories obviate hyperwage?

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*Hyperwage and the
Theories of
Inflation*

*T*he Hyperwage Theory's greatest nemesis is the theory of hyperinflation. No, no, not because Hyperwage will result in hyperinflation but because the economists are brainwashed by their academic PhDs into automatically

Hyperwage Theory

thinking that hyperinflation is a natural by-product of Hyperwage.

In fact, in the ten years that I conjured up the Hyperwage Theory, it was the theory of hyperinflation that caused me the greatest theoretical challenge.

How do you address this challenge: For every dollar increase in wages, there will be a two-dollar increase in prices.

But the promise of Hyperwage was too much for me to ignore just because of a problem called hyperinflation.

One day, while I was eating my lunch in a park bench fronting a lagoon of water lilies in the park below the tower of the investment bank that was giving me my daily bread, I asked myself the question: "I have always assumed that hyperinflation will happen. What if that assumption is wrong? Has anybody really analyzed hyperinflation from the viewpoint of Hyperwage?"

And so I did, and so I whipped out all the paradigms on the twilight zones of science and mathematics and applied the same paradigms on the economics of hyperinflation.

And voila, the one-man thinking machine of limited talents and unlimited imagination found an oasis of hope for Hyperwage in a regime of hyperinflationary terror.

Theories of inflation

Before I attempt to annihilate your unfounded fears of hyperinflation, let me give you a summary of inflation theories.

There is no single theory of inflation because it can be caused by different factors. In turn, for each factor there are several different theoretical explanations.

Demand-pull inflation. A demand-pull inflation occurs when there is 'too much money chasing too few goods. Excessive growth in demand literally pulls prices up. This is the law of supply and demand.

Cost-push inflation. When costs increase very fast, companies have to increase their prices to maintain the same profit. This will cause inflation.

Quantity theory of money. This is monetary economics. Excessive growth in money supply may be one of the causes of inflation.

Phillips curve. The Phillips Curve is a relationship between unemployment and inflation discovered by Professor A.W.Phillips for data from 1861-1957. In his curve, reducing unemployment causes inflation. But don't swallow this theory hook, line, and sinker. because in the 1970s the curve did not hold true any longer when the economy suffered from both unemployment and inflation. This is called stagflation.

Price expectations and inflation. The economists are a weird group. They are still debating about the definite link between people's price expectations and the level of inflation. Isn't this obvious? Example, the mere discussion of an additional VAT already sends prices upward. The Street Strategist calls this the psychology of taxation.

Wage-price spiral. A wage-price spiral happens when both cost-push and demand-pull inflation interact. Now, hear ye. This is the kind of hyperinflation that scares the economists when contemplating Hyperwage.

Inflation-centric

Did I tell you First World economies are inflation-centric? Yes, indeed, they are. But I also told you such inflation-centric economics should not be applied to the Third World. In fact, under Hyperwage, Third World economies should be purchasing-power-centric, not inflation-centric.

Costs of inflation

Used to be, unemployment was the economic objective of the governments. In the '80s, inflation has overtaken unemployment in importance.

Why? The costs of inflation were causing the governments of nations more problems. And their economists believed that controlling inflation will result in the so-called "full employment" as a natural consequence.

Hyperwage Theory

Anticipated inflation

Inflation has its costs. The costs will be lesser if the inflation is anticipated but greater if the costs are unanticipated.

If the consumers anticipate the inflation, then there is a built-in psychological cushion. The effect of inflation will be lesser due to this expectation. Their economic behavior already integrates this expectation.

The companies and businesses will raise their prices and this is called the “menu cost” of inflation.

On the other hand, the consumers will spend their money now instead of holding on to it in anticipation of inflation. This means they will go to the bank very often to withdraw.

What will happen to their shoes because of all that walking? The leather will degrade. This type of costs are called the “shoe leather costs.”

Believe me, the economists have a term for it. The shoe leather cost refers to the costs of more transactions which would have been unnecessary if people did not anticipate inflation.

Unanticipated inflation

The costs of inflation are more serious when the inflation is not anticipated. The wage levels will be distorted and there will be effect on prices. (Note: These are the economists’ viewpoint. Hyperwage views this phenomenon differently.)

Prices, according to the economists, will be unpredictable because the inflation is unanticipated. Unpredictability causes inefficient allocation of resources.

In short, according to the economists, “The higher the level of inflation, the more difficult it is to predict. This will almost certainly lead to higher costs. The moral of this is: low inflation - good, high inflation - bad!”

Never

An economist with the above conclusion, and almost 100% of

Hyperwage and the Theories of Inflation

them think so, will never entertain Hyperwage. Much less, entertain Hyperwage as the most efficient, most effective, most direct way to address Third World poverty.

That's why Hyperwage Theory gets a perfect score for originality and a controversial score for plausibility.

But then again, of what use is the convoluted mind of the Street Strategist if he cannot lead you to abandon your old paradigms?

Hyperwage challenge

Previously, I gave you an assignment. What will be the effect on prices if the wages of the domestic helper rises from P2,000 month to P20,000 (US\$400) and the entry level of college graduates from P6,000 to P70,000.

Why don't you do this at home and fill in the blanks?

Product	Pre-Hyperwage	Hyperwage Price	Comment
Gasoline			
100 KWh elec.			
Cement			
Computer			
DVD Disc			
29" Color TV			
Nokia cell			
Rice			
Pork			
Sardines			
Cellphone calls			

Just think. Will the above commodities rise ten-fold? Hey, can you have gasoline more expensive than the USA? In fact, right now, our gasoline per liter is more expensive than in some US cities.

How about your Sony, or Nokia, or BMW or Toyota? Will there be a ten-fold increase in prices?

Our computers are more expensive than those in Singapore or Taiwan or in the US, so if we increase our minimum wage, will the

Hyperwage Theory

prices of the above commodities increase ten-fold?

iPod

Let me ask you a simple question: If an Apple iPod resellers earns P1,000 profit margin out of a retail price of P20,000, how much is his profits from all his sales to all the domestic helpers?

Answer: Zero because the domestic helpers cannot afford iPod. After all, iPod in this country costs more or less the same as in California.

Now, let me give you the scenario, if the salary of the domestic helpers is P20,000 (US\$400), will he have new business from the domestic helpers? What will be his new selling price? What will be his new total profit?

Those of you who are still skeptical of Hyperwage, why are you not convinced? Is Hyperwage illogical? Or is it too logical for comfort?

European beauty

I wanted to reserve this for a later section but I keep on getting messages that the legislature will never approve such a P20,000 (US\$400) minimum wage because they will be the first to spend for the costs, after all they have 10 domestic helpers, drivers, boys, gardeners, and salesclerks of their businesses.

Simple solution: When the minimum wage is P20,000, the congressmen are already free to hire as domestic helpers some Eastern European girls with beauties in the like of Anna Kournikova who are willing to accept P20,000 (US\$400) per month.

Hey, guys, you can have pretty European girls for domestic helpers. Now, pass that new minimum wage law.

That ladies and gentlemen is just an example of the much vaunted “non-economic benefits” of the Hyperwage Theory. Immoral but logical.

Oh, it never crossed your mind to have pretty European girls as domestic helpers? As I have declared before, the Hyperwage Theory is the Street Strategist’s greatest folly but also the best thought-out.

Hyperwage and the Theories of Inflation

Anna Kournikova, if I can't have you, can I have your poor rural
cousins?

(Thads Bentulan, July 28, 2005)

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Hyperwage Theory

Is there a limit?

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Asymptotic

Hyperinflation

The Hyperwage Theory's greatest weapon is that it is the only economic theory that requires only a single variable to be tweaked – the minimum wage – and all other factors of production and variables of the economy will adjust accordingly.

All the benefits, both economic and non-economic benefits will come down in an avalanche as a direct, logical, and natural consequence of protecting the poorest of the poor by giving them a wage that carries purchasing power.

Hyperwage Theory

The non-entities called domestic helpers will now become a huge source of revenue for sellers of goods and services, and of course, a huge source of taxation like value-added or amusement taxes.

Hyperwage can address such issues as petty corruption, laziness, inefficiency, tax evasion, and population explosion. Population control? Yes, Hyperwage is the only economic theory that successfully addresses population control as a natural consequence.

And don't forget that with the proposed minimum wage, you can hire young and pretty Eastern Europeans as domestic helpers. You didn't think of this specific non-economic benefit, did you? (Well, the manpower agencies of Hong Kong and Singapore don't have the insight to hire Eastern Europeans instead of Thais, Indonesians, and Filipinos, but upon reading this, I'm sure there will be a shift in recruitment geopolitics.) But the problem with Hyperwage is that it mandates a fundamental shift in paradigm. Hyperwage first has to break down the mindset of economic PhDs, and I don't think they are willing to admit that a solution as direct as Hyperwage is better than their econometrics and macroeconomics.

It is not the logic of Hyperwage that is the stumbling block. Actually, the greater obstacle is the humbling experience of having to abandon your PhD education and admit that a non-economist has discovered the only practical way to elevate Third World countries who have the natural resources to the economic status of First World countries who are exploiters of natural resources. Before you will be redeemed, you must first be humbled. Well, I was the first one to be humbled. I had to abandon whatever meager economics education I had before Hyperwage finally redeemed me. What am I talking, I invented Hyperwage, for Pete's sake, so there was never really any humbling effect.

Anyway, I'm sure you have many questions on the implementation of Hyperwage. Don't worry, I'll get to that soon. Implementation is easy once everybody is convinced that this is the way to go because in this scenario we will view obstacles as directional rerouting not as stop

signs.

Limits to hyperinflation

In the preceding parts, I have slowly unraveled that the hyperinflation scare is merely a scare. After all, almost all of our goods and services are currently at levels at par with First World countries. In fact, in some products, we pay more than our First World counterparts. We pay more for electricity, we pay more for computers, we pay more for oil which is the world's most common product. If we increase our minimum wage from P2,000 to P20,000 the price of Apple iPods will still be the same, in fact, it will probably come down because of more volume. The price of computers in our country is more expensive than the price of these same models in the USA or Singapore. The price of oil is now almost the same price as in the US. Don't forget, that all goods and services will eventually trace its pricing back to oil. The fare for a horse carriage in Carbon will rise when oil prices rise.

There is a limit to hyperinflation, and that is the current world market price. We cannot go beyond that by a large difference. And remember, we are already paying a bit above the world market price, so what are you worried about? We are already under hyperinflation. We are already paying hyper prices but without the Hyperwage.

Rice

During a talk show, one caller was very angry: He said, "If the price of rice is P25 per kilo given that a helper's wage is P2,000, then if we raise the wage to P20,000 (US\$400), the price of rice will be P1,000 per kilo!" Then he slammed down the phone.

My reply: "The first casualty of Hyperwage is our brains. The moment we hear of P20,000 as minimum wage, our brains stop working. You know, here's my answer to that caller. When the minimum wage is increased to P20,000 the price of rice will be P10 per kilo instead of the current P25. It will be lower."

"Why lower?" The host asked me.

Hyperwage Theory

“Well, we buy from Viet Nam or China. Their rice is cheaper that is why we have rice smugglers. If their comparative advantage is efficient rice production, then our comparative advantage is purchasing power. We buy from them, why let our poor consumers suffer? This may affect our own agriculture, but we’ll tackle that issue some other time. My point is that hyperinflation is not a necessary consequence of Hyperwage. Even if rice will double to P50 per kilo, hey, you receive P20,000 (US\$400) a month, what are you complaining about?”

Asymptote

I am now ready to discuss asymptotic hyperinflation.

What is an asymptote? Let me give you an example. You have a function $y=1/x$. This function is actually a hyperbola, a hyperbolic curve. Remember the word “hyperbole?”

Now, what happens if $x=0$? Then $y=\text{infinity}$. But look at it this way. Since x will never be zero (since division by zero is not allowed), then y will never be infinity.

In others, words, as x approached zero, y approaches infinity. The value of x will never be zero, hence the value of y will never be infinity.

You can imagine a wall. A curved object approaches the wall but will never ever touch the wall. That wall is the asymptote of that curved object.

Back to our equation, the limit of $y=1/x$, as x approached zero, is infinity. There’s actually a math expression for this relation but I’d rather not write it because last time my symbol for infinity came out as numeral 8 on these pages.

In other words, the line $x=0$ will never be touched by the curve $1/x$. Mathematically speaking, the line $x=0$ is the “asymptote” of the curve $y=1/x$.

Asymptotic hyperinflation

Why did I use mathematics to explain a simple thought such as an upper limit to hyperinflation?

My purpose is to demonstrate that the concept of asymptote is a common mathematical thought, therefore, not a surprising concept.

Thus, when I apply this concept to economics, I hope to exemplify that asymptotes are normal for economics as well.

In short, I want to elucidate this with utmost emphasis: The concept of a runaway hyperinflation is an abnormal concept while the concept of asymptotic hyperinflation is a normal concept.

What am I saying? When economists state that Hyperwage will lead to a runaway hyperinflation, they are not correct because the probability of a runaway hyperinflation is very low. Runaway hyperinflation is an abnormal concept whose probability of occurrence is practically zero.

On the other hand, Hyperwage will lead to asymptotic hyperinflation which means that no matter how prices will rise as a result of the Hyperwage, there exists a certain limit. This limit is the asymptote of hyperinflation.

And in the view of Hyperwage, that specific limit is the current world market price. It may not be strictly an asymptote under the rigors of math but the concept of the limit, the concept of the asymptote is there.

Converts

This concept eases my burden. When I explain Hyperwage to any scientist, mathematician, or engineer, and when they react about hyperinflation, I simply say: "There will be hyperinflation but it will be asymptotic with the world market price as the limit. In fact, right now, we have reached that level because our prices of computers, machineries, equipments, power plant generators are already asymptotic. It can go up but not by multiples."

See what I mean? This is the reason why the scientists are the earliest converts to Hyperwage, not the economists.

Hyperwage Theory

Illogical reactions

Economist: “But Hyperwage will result in a runaway hyperinflation!”

This is an illogical reaction because a runaway hyperinflation has no probability of happening.

Street Strategist: “Hyperwage will result in an asymptotic hyperinflation but you need not worry because almost all of our important and major products are being sold at that level already. The other items such as rice and hair-cut services will then be affordable anyway because of the P20,000 minimum wage.”

Now, this is what I call a more logical statement.

Price control

I’m always amused whenever our government officials try to impose price controls in one way or another. What is their way to reduce the price of medicine, the price of LPG, the price of diesel? Subsidies that :

1. are hard to implement
2. are fraught with loopholes
3. affect only tiny percent of our consumers
4. ricochet negatively to other products or sectors
5. eventually waste time and effort
6. never have a lasting effect

Guys, remember I mentioned before that the PPP ranking of the Philippines is good because we have lower prices on the goods defined in the basket of goods, but our purchasing power is low.

Wage-price mismatch

There’s one thing I noticed. Because our economists (including the World Bank economists) are brainwashed by inflation-centric economics they tend to introduce price control schemes that are funny and amusing.

The problem is wage-price mismatch. Prices are at First World levels because we buy oil and computers from the First World, while

our wages are Third World.

Solution? Come on guys, even a grade school knows the logical answer. Raise the wages to minimize the gap. That's it. One single stroke.

Education as liability

But what is happening? The high education of the economists has become their liability. To avoid a runaway inflation, they address the wage-price mismatch issue with an indirect, beating-around-the-bush solution.

Discount for LPG, discount for Senior Citizens, discount for diesel jeepneys, discount this, discount that.

Why all these beating around the bush? Because they are afraid of a runaway inflation. An irrational fear, that one, as I have discussed earlier.

What kind of a strategy is that? Beating around the bush? Inflation-centric?

Now, right now, let me correct your high education with my street education. Inflation-centric economics applies only to countries who are already at hyperwage levels.

Since we are still at hypowage levels, then we should use purchasing power-centric economics.

And don't worry about runaway hyperinflation. It will not happen. Only asymptotic hyperinflation will happen, and we are already on that level anyway.

So what's their solution?

The NFA sells rice at a lower price but there's one big problem. That particular cheap rice not available. Cheap but out of stock. Or again, loopholes. Mixed with commercial rice and sold as commercial.

Medicine? The government imports from India. Come on guys, you're making me laugh. The people don't need cheap paracetamol that is not available in Leyte. Besides the high cost of medicine in this country is caused by the corrupt practices of doctors demanding favors

Hyperwage Theory

from the salesmen (from concert tickets to lechon to travels abroad).

The people need wages that they deserve.

Is the airfare from Manila to Saudi Arabia cheaper because we are a Third World country? Is it 1/10th lower? We will still pay international prices even if we are Third World consumers.

Pricing strategy

And how do we address oil price increases? We want to keep prices of oil cheap so that prices of other commodities will not rise. How?

We will not increase wages because this will result in high prices of goods. That's the line of the economists and the government.

My reaction: Do you mean to say that increasing wages will increase prices?

Let me ask you, will the act of lowering wages result in lower prices?

I think the pricing strategy of Third World countries is inappropriate because we set prices to target low inflation. We target low inflation because we are afraid of high inflation.

We are afraid of high inflation because ... actually, I'm not sure why.

Ah, we are afraid of hyperinflation because our brains stop working just by the mere mention of the word hyperinflation in the twilight zone of economics. Is this logical?

Think of asymptotic hyperinflation. You'll soon feel comfortable. The only thing to fear is fear itself.

There is a price for labor, and it is the world market price.

If our workers are paid P25,000 abroad as helpers, then we should try to match that. This is not price control, ladies and gentlemen. This is world market pricing strategy. This will prevent brain drain.

But can we afford it? Of course we can. More than 52% of our wealth rests in the hands of 20% of the population. It's high time we use Hyperwage to address the Gini ratio of the country and redistribute this wealth to create a middle class. But more on this later.

Besides, more salaries income means more salaries tax, more transactions tax, more taxation base.

Low price or high volume?

Are you a businessman? Are you more afraid that your prices are high or that your volumes are low?

Suppose you are a retailer of MP3 USB players, which is a greater problem for you? High selling price or low volume of sales?

Any businessman will tell you that prices don't matter as long as the people can afford to pay them. The MP3 Players will have to be sold at prices higher than in Taiwan because we have to import them.

But you cannot sell them, even below cost if the consumers have no money.

Can you imagine the effect of raising minimum wages? Every helper will have one MP3 player, and if there are 5 million domestic helpers, you will have 5 million new customers. Even if you pay P50,000 salary to your sales clerks, you can still afford them if you sell 5 million units in a year.

Equation of Hyperwage inflation

Will a dollar increase in wages result in a two-dollar increase in prices? No.

Here is the summary: 1,000% in wages – 100% in prices = 900% net increase in purchasing power

Remember that the wages of domestic helpers will be P20,000 (US\$400) but do you really think the cost of computers will double from P25,000 per set to P50,000? No way. The world market price is only P20,000.

Do you think the price of TVs will rise from P30,000 to P60,000? No way, the price of TV in US is only P25,000 for the same model.

Do you think the price of rice will go from P25 to P50 per kilo? Assuming it will, you can now afford it. Besides how many kilos do you eat in a day? One kilo? You mean to say you are worried you'll spend an

Hyperwage Theory

additional P25 each day for rice when in fact you are now getting P20,000 per month instead on P2,000?

Will there be an increase in mobile-to-mobile call charges ten-fold?
Will the price of Nokia rise by 10-fold?

Think, think, guys. Will there be a runaway inflation? No?

Will there be an asymptotic inflation? Yes.

Let's take a look at this illustration. This is a simple one but if we analyze common products (vegetables, cooking oil, paper, newspapers, etc.) in this manner, we will have a clear idea of what asymptotic hyperinflation is.

Rice eater

Assume a person eats half a kilo of rice a day. With a domestic helper's wages of P2,000 per month, then a person earns PhP77 daily. Assuming the current price of rice is PhP30/kg then he will consume PhP15 of rice daily. He will have a net of only PhP62 per day.

On the other hand, under Hyperwage, is monthly rate is PhP20,000 and his daily rate is PhP770. What will be the price of rice under Hyperwage? About PhP50/kg? Where did we get this price? We assume a comparable quality of rice in the expensive city of Hong Kong which is priced about PhP50/kg.

Surely, we could not be above Hong Kong's price under our Hyperwage Theory.

Thus, after spending for a half kilo of rice worth P25, the person obtains a net of PhP745.

So which is better, a net of PhP62 under our current low wage regime or a net of PhP745 under Hyperwage Theory?

What if rice surges up to PhP100/kg? This means our rice will be higher than that in the US or Singapore or Hong Kong? That's seems impossible. We could not be above these expensive cities, could we?

Even assuming it is PhP100/kg, but how much rice can one eat? Still half a kilo so that will cost him PhP50 daily, and his net is PhP720 daily.

Globalization

Now, apply the same to a can of Coke, a kilo of cabbage, an IBM Laptop, an Ericsson cellphone or a Sony TV. How do we know what will be the prices when we adopt Hyperwage? Simple, call the US or Singapore prices, and you can use these prices as your reference prices.

Do you really think the price of an IBM laptop will rise 100% once minimum wages are raised 1,000%? No way. It may rise by 5% to 15% but never by 100% because the world market price for an IBM laptop is our reference point.

If laptops are being sold in this country at P100,000 each, do you really think it would be sold at P200,000 because the minimum wage is now P20,000? Why should we pay double than US prices?

See my point?

Price reduction

Question: Will there be a possibility of a price reduction instead under a regime of Hyperwage? Yes, there's a possibility.

Why?

As I have given in my Apple iPod example, the domestic helpers could now afford iPods which previously they can't. The volume of all the iPod sales will probably rise 1,000 times. The total profit can now justify a reduced selling price.

And remember, all these transfers of wealth from the huge profits of companies and individuals to the lower class of society in a scheme called Hyperwage will result in more consumption power of the poor. This consumption spending power will be spent by the poor, and all will go back to businesses anyway, eventually, because the poor will buy goods and services.

But before all the money finally goes back to the businessmen, such consumption money will have been subjected first to the Keynesian multiplier effect. And this makes Hyperwage even more logical as the solution to Third World poverty.

Hyperwage Theory

Nonlinear formula

Before I go, let me remind you that I have fully discussed that hyperinflation does not happen. The two other concerns regarding Hyperwage are loss of employment and affordability. Don't worry I shall tackle them next.

According to the Street Strategist, the asymptotic hyperinflation will be non-linear, meaning, a 1,000% increase in wages does not automatically result a linear increase of 1,000% in prices.

For instance, a 1,000% increase in the minimum wages of domestic helpers may only result in a 20% increase in prices in some commodities such as rice and vegetables, and probably zero or even negative increase in some durables like computers, appliances, and cars.

Isn't it cool, we have finally struck down so many economic myths with our Hyperwage Theory?

(Thads Bentulan, August 4, 2005)

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What are the non-economic and social collateral issues?

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*Repealing the Law
of Supply and
Demand*

*H*yperwage Theory is very controversial in the sense that it offends sacred economic thoughts such as hyperinflation, unemployment, and affordability of its hyperwage scheme. The ordinary intelligent discussion on economics

Hyperwage Theory

gives us a standard set of reactions to any proposal involving wage increases.

On the other hand, Hyperwage Theory mandates that economists should take a leap beyond the intelligent discussions and on to the twilight zone of economics where asymptotic hyperinflation prevails, full employment is possible, and the government and businesses can afford hyperwages.

Economists: critical key

The economists are the key to the success of the Hyperwage Theory. The overseas contract workers perfectly understand Hyperwage because on a day-to-day basis they feel and experience the economics of Hyperwage.

The economists are harder to convince because they have no practical experience in straddling both First and Third World countries, unlike the overseas workers, and more importantly, they are brainwashed with inflation-centric economics.

Yet, the economists in their ivory towers are the ones recommending and setting economic policies to uneducated political leaders.

I have already discussed that asymptotic hyperinflation is non-linear. In other words, a 1,000% increase in wages does not automatically result in 1,000% increase in prices.

For all we know, the prices of rice and vegetables will increase only by 50%, while the durables such as computers, cars, appliances will lower by 15% because more volume of sales will tend to drive prices down.

Non-linear formula

Is this non-linear formula for asymptotic hyperinflation anti-economics? No.

This is perfectly normal economics, yet it is perfectly Hyperwage economics.

In fact, the “runaway hyperinflation” feared by the economists is in reality abnormal economics, while the “asymptotic hyperinflation” envisioned by the Street Strategist is normal economics.

But you can only appreciate this difference if you refuse to be stopped by ordinary economic thinking.

Can you imagine that? What you originally thought as normal economics (runaway hyperinflation) has been exposed by the Street Strategist as actually abnormal economics, while what you thought as abnormal economics (asymptotic hyperinflation) is espoused by the Hyperwage Theory as the logical and normal economics.

What does this mean? Hyperwage economics is all about a shift in paradigm from inflation-centric policies to purchasing-power policies. All the economics principles still work under Hyperwage.

Utopian?

In summary, Hyperwage Economics is actually normal economics. It's just that we have been taught the abnormal economics for 1,000 years that we were brainwashed into thinking it was the normal way to think.

Guys, remember I promised that after reading about Hyperwage Theory you will never look at economics the same way again.

Thus, Hyperwage is a product of the mind, not a product of the body. Hyperwage still follows the physical rules of economics but the mindset is different.

Hyperwage Theory simply says that First World countries who are already at hyperwage levels should adopt inflation-centric economics but Third World countries must first adopt purchasing power-centric policies to bring them to First World status; only after having attained such status should the latter shift their focus to inflation-centric policies.

Sounds Utopian? Of course not. I have live empirical evidence of how hyperwage creates a larger middle-class, induces productivity, enhances efficiency, and stimulates research and development of new

Hyperwage Theory

products and technologies because there are markets that afford them.

Look no further. Some hyperwage countries are USA, Japan, Germany, France, Canada, Singapore, and Hong Kong.

Do these countries ever advertise, “Come to us with your foreign investment because our labor is cheap?”

No. Instead, they tacitly advertise, “If you don’t come to our country, you will lose out on the strong domestic market brought about by the purchasing power of even the minimum wage workers.”

Lesson: Having the cheapest labor in the world is the wrong battle to win.

Unemployment

Will Hyperwage result in unemployment? Yes and no, and I’ll explain why. Don’t worry.

There are many angles to analyze on the effect of Hyperwage on employment levels. The law of supply and demand is one of them. We are overpopulated therefore there are more workers than jobs.

Another factor is affordability. Small businesses can no longer afford their payroll and will have to close down. That’s what economists say. The anti-economist does not follow this line of thinking.

The government cannot afford hyperwage, and being the biggest employer in our economy it will retrench a huge number of workers and this will result in poor delivery of government services.

Even big businesses will suffer too. Their payroll will increase, their profits will be reduced, and they will retrench workers.

At any rate, whatever the angle, I have given it a decade of thought, and given the trade-offs, I think Hyperwage is the best alternative to the current useless economic strategy we have been pursuing for a hundred years.

Supply and demand

A few years ago, I was in town conducting a series of interviews for

a banking report. Some things just leap at you when you're jetsetting.

I was coming in from a jurisdiction where the salary of the receptionist was higher than the salary of an AIM MBA graduate.

Then upon touchdown I was swallowed by the poverty of a Third World nation.

Rushing to the interview, during a lull, I asked a director of the influential business club in our central business district: "Why don't we increase wages so the poverty of the people will be reduced?"

It was a very innocent question, in fact, if you took up college economics, it could be classified as a stupid question. Yet, I was testing my theory on real businessmen.

His reply was automatic and simple: "There are more workers than jobs. Besides, the companies will lay-off workers if the payroll will increase."

Well, it was the perfect standard reply. And I became aware of the mindset of the businessmen.

If Hyperwage is to be accepted, I would have to convince the businessmen that their way of thinking is not correct.

I thought about the irony. Here's a guy with no business attempting to convince businessmen their way of thinking is wrong. Furthermore, here's a guy with no economics degree attempting to tell economists their economic theory is wrong.

At that moment, I knew I had a tough road ahead.

And, after a decade, I came up with a few thoughts on unemployment under a Hyperwage regime.

Repeal the law

Minister: "Sir, the prices of goods have gone up due to the law of supply and demand."

President: "Then repeal that law!"

This was a very condescending intelligentsia joke perpetrated on our former president. This is the thinking of the intelligent.

But then, there's a difference between the intelligent and the

Hyperwage Theory

genius. What does genius have to say about this joke?

Hmmm, seeing what everybody else has seen. Thinking what nobody else has thought.

When I heard that joke, I laughed so hard. Then, after the echoes of laughter died down, there was some remnant of intellectual reverberation that swirled around my mind.

Repeal the law. Repeal the law of demand and supply. Repeal, repeal, repeal. Repeal! Yes, repeal!

Eureka! I found it! I must repeal the law of supply and demand. For Hyperwage Theory to succeed, it must call for a repeal of the law of supply and demand.

“Ah, great. This is great,” I shouted, silently.

More workers than jobs

Let me explain my eureka.

The mindset of the businessmen and the government officials is that there will be unemployment due to the specific ground that there are more jobless people than there are jobs. This belief will not hold true because under Hyperwage Theory, the law on supply and demand of jobs will be repealed albeit only for the minimum wage workers. It will be a partial repeal, specifically for the lowest of the low, the poorest of the poor.

In fact, this is not new. We already have a minimum wage law. Hyperwage Theory merely sets the suggested level above the current level.

Therefore, Hyperwage is normal economics but with a wage level set using a different objective and a different paradigm.

In short, even if the minimum wage will be set to P20,000 (US\$400), the demand for the workers will still be the same under the *ceteris paribus* assumption.

Take it or leave it. If you can't afford the new wage for domestic helpers, then don't hire one.

Use washing machines, use external dry cleaners, use day care

Repealing the Law of Supply and Demand

centers which should flourish, first class day cares, mind you, if there's a market for it. Can you imagine the demand for more washing machines?

Or, hire one, because this time, as middle level supervisor, you will have a high salary anyway.

For example, if a company needs a secretary, then even if the salary of the secretary is P6,000 or P20,000, it does not matter, the company will still hire that secretary. Therefore, the law of supply and demand for this worker at this level of job is repealed.

Ah, you will ask, the company will fold down because it cannot afford a secretary. Of course this is another our-brains-stop-working syndrome.

That simply is not true because it assumes that the company will not raise its selling price to cover for such increase in payroll. If the company freezes its price despite increases in payroll, that is not logical.

If the company sells computers, it cannot raise its price way above the world market, however, it can sell more computers to compensate the payroll increase.

And since even domestic helpers can now afford computers, the company will hire even more salesmen. Hey, there will be more jobs created. Did you ever think of this possibility?

Sales volume or price increase, these are the options to counteract a payroll increase.

But I'll discuss these issues in depth. But for the moment, let's focus on the law of supply and demand of jobs.

Under Hyperwage Theory, it is possible to repeal this law partially, and the number of jobless will still be the same as a result of this factor.

Will there be more jobless workers as a result of other factors? Yes, but we will discuss that separately.

Isn't it cool? We have repealed the law of supply and demand, and there seems to be no problem with it.

In fact, this repeal validates - not annihilates - Hyperwage Theory.

Hyperwage Theory

Retrenchment

“Are you saying that under Hyperwage, there will be no retrenchment? That’s crazy.”

No, no, I’m not saying that.

There will be retrenchment, yes, but that retrenchment is not a result of the law of supply and demand of labor. No, not that at all.

Let’s imagine a scenario. A large department store currently is paying P6,000 for its sales clerks, cashiers, and low-level staff. Will it retrench these employees given that the new minimum wage will be P20,000?

No, it will not retrench them for the specific reason that labor has become expensive.

But the department store will retrench them for the specific reason that because of the new cost of labor, the management will be forced to recognize inefficiencies in the operations of the store. It will then calculate whether computerization or automation or time and motion study will reduce their need for labor.

The store will never remove the position of cashier or salesclerk. It’s just that this time, only the necessary personnel needed to preserve the kind of service and quality that the store desires will be retained.

As a result, there will be retrenchment but it is one that is caused by efficiency and productivity measures not by the law of supply and demand, not because of affordability.

Ah, this is great. By merely tweaking a single variable – the minimum wage – all enterprises, both government and private will be forced to adopt efficiency and productivity measures. These benefits (efficiency and productivity) are both non-economic benefits.

Did I remind you enough that Hyperwage induces many non-economic or social benefits that are not found in other economic theories?

What will happen to those retrenched? We shall discuss that separately, and its part of the implementation phase of Hyperwage.

Productivity vs. wage hike

Now I'm ready to discuss what I consider is an economic fallacy. Under the normal economic and business mindset, we hear of policy makers and businessmen insist that the workers are not entitled to wage increases unless they improve their productivity, otherwise we cannot compete with other Third World countries with cheap labor.

This is wrong. Well, I think this an economic fallacy. They insist that a wage hike is a reward for productivity.

No, no, guys. Your PhDs in economics have turned your minds upside down.

Listen to my logic. Productivity is a result of a hyperwage hike, and not the other way around.

We will never achieve high productivity levels by simply motivating the people with lollipops. The greatest jump in productivity lies in the hands of management thinkers who are faced with a hyperwage payroll. The difference in impetus is huge.

Have you ever considered why all the automation of processes and machines that we buy are developed in high wage countries like Germany or the US?

Have you ever noticed why high quality items are made by them? It is all because of high labor cost.

Instead of spending time to repair, the companies in their hyperwage countries make better products to reduce repair manpower costs.

If the department store refuses to pay hyperwage and closes its operations, then the foreign stores from France or the US will come here.

Guys, have you forgotten that domestic helpers can now buy more things from your departments stores?

They will be buying in bulk. It's funny, but in Singapore or Hong Kong, our Asian neighbors, you cannot buy a single tablet of paracetamol. You have to buy a sheet of blister packs. Result? Volumes purchase outweighs payroll costs. The people have purchasing power.

Hyperwage Theory

In summary, we should stop this economic fallacy that a wage hike is the effect while productivity is the cause.

Under Hyperwage, the wage hike is the cause and productivity is the effect.

Before you get lost in the arguments, remember that ordinary wage increases do not work because they only seek to recover lost purchasing power. Hyperwage increases will give a positive net effect on purchasing power, not merely redeem lost ones.

What will happen to small businesses? I will discuss that later. But my answer is simple: Why, are there no small businesses in First World countries?

(Thads Bentulan, Aug 11, 2005)

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Self-consistent yet paradoxical?

- 16 -

*Hyperwage and the
Paradox of
Interpretation*

*T*he elegance of Hyperwage Theory is exemplified in its self-consistency and the way it perfectly resonates with the rudimentary principles of economics.

Thus far, in our gradual unraveling of the

Hyperwage Theory

Hyperwage Theory, have we violated any economic principle? No, I don't think so. Or has the theory ever made an illogical conclusion?

Paradox

Yet, the Hyperwage Theory has been at odds with current economic theory as we have analyzed in the previous chapters. How do we reconcile this apparent paradox of simultaneous perfect resonance and perfect antithesis?

The reconciliation lies in the fact that Hyperwage Theory follows the rudimentary principles of economics and treats as illogical the conclusions set forth by current economic theory.

Modern theory is an interpretation of the rudimentary principles made by modern economists.

Hyperwage Theory, therefore, is not a repudiation but a reinterpretation of the rudimentary principles of economics. Hyperwage Theory perfectly resonates with Modern Theory with respect to rudimentary principles but perfectly disagrees with the latter on the interpretation of the same.

The conflict between Hyperwage Theory and Modern Theory can be reduced into a matter of interpretation, application, and appreciation of which economic variables take precedence over the others.

Conflict of interpretation

I have always maintained that First World countries are currently implementing Hyperwage Theory but the irony is that they don't even know it.

The economists do not appreciate that it is exactly Hyperwage that brought these countries to First World status.

In other words, they don't know the secret of their own success; they don't know what they are doing right.

The economist is like Columbus. He didn't know where he was going. And upon arrival he didn't know where he was. And it was all

funded by the government.

To put Hyperwage in a proper perspective, this is a special theory that should be applied only to countries that undervalue the economic factor of labor.

Once the proper valuation is done, we can then shift focus from purchasing power-centric to inflation-centric economics. How do we determine labor's true value? We can make a reasonable estimate. Why do our teachers leave their young children behind to work as toilet cleaners in Italy? That brain drain alone gives you the true value of labor.

Therefore, there is no conflict at all with Hyperwage Theory and Modern Theory. The conflict is in the choice of economic weapons and the interpretation of the principles. It is a conflict of intellectual thought.

Viewed in the light of reinterpretation of principles, Hyperwage could be considered a hypermodern theory of economics. It could also be branded as hyperfolly.

Market-driven productivity

Productivity is the effect; hyperwage is the cause. This is a more logical interpretation compared to the view that the labor sector is only entitled to a wage increase if it can first improve productivity.

But productivity that is market-driven is more sustainable than productivity that is lollipop-induced.

Under Hyperwage, if the worker does not produce more than the cost of hiring him, the management will be forced to replace him.

This is logical, right?

The worker must be productive, after all, he is receiving hyperwages. This is market-driven productivity.

Automation will become the norm, and every waste will be scrutinized and any unnecessary labor or process will be eliminated.

High quality products will be the norm because it is costly to repair one TV than to assemble it right in the first place.

Hyperwage Theory

As I have repeated in my many talks before, one grain of rice in your table is extremely more expensive than one grain of rice in the ricefields where it came from because of the labor, logistics, transportation, and documentation of that grain of rice.

Thus, whenever, you waste a single grain of rice in the city, you don't only waste that grain of rice but all the added costs to that grain in processing it from the ricefields and bringing it to your table a few months later.

That's the value-added chain of rice distribution, and the corresponding value-added tax, of course.

Going back to productivity, a necessary implication is that a company will hire only a worker who can contribute a margin greater than his wages.

And if you haven't noticed, this addresses the problem of affordability.

Did you notice it? Can companies afford hyperwages? Of course, because the critical criterion of retaining an employee is that he must add value, not destroy the firm.

In short, affordability is automatically addressed under a regime of hyperwage.

If the enterprise cannot afford the payroll, it must increase prices. If it cannot increase prices, it must increase sales volume. If it cannot do either, then it must close down its business.

Don't worry, an American company will come over and establish their operations here.

After, all they are flourishing in a hyperwage country like the US. There's no reason they cannot flourish in a country with a minimum wage of only P20,000 per month.

But then that's jumping the gun. Let me get back to productivity and unemployment.

Wrong example

There was this amusing incident long time ago. During a televised

forum, the host threw the Hyperwage Theory at the president of a local business club.

The businessman argued that this will not work out and in fact, he has closed down a business because it was cheaper to import from China than to manufacture in this country.

And he also complained that the local laborers are not productive. He cited the case of a Taiwanese manufacturer who became frustrated because in Taiwan, one Taiwanese can operate two machines simultaneously while here, two local workers operated one machine. The Taiwanese eventually pulled out of the country.

This is a wrong example to prove that this Third World country is not entitled to a wage increase. In fact, this particular case study is an example of Hyperwage.

In Taiwan, the Taiwanese worker is paid at hyperwage levels, and therefore he must be productive enough to operate two machines, otherwise, management will replace him. This is market-driven productivity.

It takes four workers in a Third World country to do the work of one worker in a First World country. The Taiwanese could demand four times the wages of our laborers with the same productivity.

This is a case of market-driven hyperproductivity due to hyperwage.

Time and motion

Time and motion studies, computerization, automation, research and development, and even the adoption of the so-called “best practices” will be a normal way of corporate life because of the Hyperwage regime.

Are you aware there are small export companies who have three people doing nothing but the weekly payroll because they are not computerized?

Do you know there are employees in the Supreme Court who do nothing but count the number of hours in the time cards of all its

Hyperwage Theory

employees? Do you know that our companies have clerks who spend 30% of their time typing vouchers with typewriters?

And do you know we have government casual employees who are ghost employees or 15/30 employees?

Well, if they get P20,000 (US\$400) as monthly wages do you think our auditors will still turn a blind one on this anomaly? On a personal basis, if your child asks for a 15 daily allowance, you wouldn't mind. If he asks for a P1,000 daily allowance, you will be forced to study his request.

And if the postal worker gets P50,000 a month, will you still expect the same lousy service? We can hardly justify inefficiency at that wage level.

Consciousness

Why do we have the so-called Filipino time?

Because our time doesn't have value. We are not conscious enough of the value of time and labor, after all, we are getting US\$0.65 per hour compared to US\$5.15 per hour in the US.

But only the working students get \$5.15; our nurses in the US get from \$16 to \$20 per hour.

Hyperwage will raise consciousness regarding productivity, efficiency, value for money, respect for other people's time, redundancy, streamlining of operations and savings measures.

Remember that raising consciousness is a non-economic benefit brought about by Hyperwage.

Creation of jobs

The opponents of Hyperwage only emphasize the unemployment effects of the regime. Did it ever occur to them that Hyperwage may actually create more jobs?

Take the case of aircons. Almost each household can afford to buy aircons because the price of aircons will still be P10,000 while their wages will be already P70,000 (or P140,000 a month for working

spouses.)

Can you imagine that? When your salary as office worker was P10,000 the price of aircon was P10,000. Under Hyperwage, your salary will now be P70,000, the price of aircon will still be P10,000 because that's the price of aircons in Singapore and Hong Kong, we can't be higher, otherwise we will import directly.

Suppose there will be five million households with aircons compared to the existing of, for example, only one million. How many engineers, technicians, salesmen, managers will be employed by the aircon industry? Two times the existing level? Three times?

How many more banking transactions, T-shirts sales, TV sales etc. will there be because of the additional purchasing power in the hands of the people of the aircon industry?

This is an example of the Keynesian multiplier effect.

Direct and logical consequences

These are direct and logical consequences of the Hyperwage Theory. Remember we touch only one, repeat, only one variable and the rest is automatic. Why do the government bureaucrats and economists refuse to see this solution?

Different mindset, different interpretation.

Yet, I have shown that instead of unemployment, there is a possibility that there will be net employment under a Hyperwage regime.

After all, which has lower unemployment rates, First World or Third World countries. *Res ipsa loquitur*. The thing speaks for itself.

In the next installment, I will share with you a very exciting study which I didn't know existed at the time I was tinkering with Hyperwage, and I will tell you how I interpret that study to validate my theory.

(Thads Bentulan, Aug 18, 2005)

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Hyperwage Theory

Is hyperwage incompatible with empirical data?

- 17 -

*Hyperwage and the
Card-Krueger
Controversy*

*H*yperwage Theory deserves a Nobel Prize because of its single-variable yet pandemic solution to Third World poverty, corruption, low productivity, inefficiency, tax evasion, thin tax base, thin middle class, weak domestic

Hyperwage Theory

market, inequitable income distribution, brain drain and many more economic and non-economic issues.

Can you imagine that? All we need to do is change one single solitary variable and our non-economic (social) and economic problems will be greatly diminished.

Yes, the Hyperwage Theory deserves a Nobel Prize but, no, it will never earn it. The members of the Nobel Prize Committee are the very same people that the Street Strategist accuses as lacking in original thought. The judges and the nominators are the brilliant economists whose economic theories, in my opinion, are the culprit of the perpetuation of Third World poverty.

We have granted them a hundred years of leeway, how much longer should we give to their theories? Another hundred?

Nobel Prize or not, there is no denying that this series has raised the consciousness of the students of economics and social issues to a level of critical thinking.

Now, they know what questions to ask, and what interpretations of economics are subject to reevaluation.

All told, Hyperwage maybe branded a folly but makes for a great tutorial in economics.

Defense vs. merits

So far, I would like to point out that all our discussions have been about defending Hyperwage from critics and detractors. And I hope you realize we have done pretty well in defending it.

So far, we have not made any conclusion that violates any economic principle.

In fact, we have shown the opposite. We have shown that modern economics is actually full of fallacies. Their theories lead us to believe we are a low-cost country when in fact we have to work almost 10 times harder to buy the same basic commodity compared to our First World counterparts.

Yes, so far we have been in a defense mode. Yet, Hyperwage

Theory has its own independent virtues in addition to its self-defense virtues.

Don't worry, after defending Hyperwage from all these attacks, we will then settle on the discussion of its own independent merits. For the moment, just bear in mind we are still in the defense mode.

Controversy in New Jersey

The idea of Hyperwage came to me sometime in 1995 when I asked myself: "Why am I here? Why is a foreign jurisdiction enjoying the benefits of my labor? Why do I have a British guy coming to my cubicle and polishing my Bally shoes while I am creating an origination pitch book for a prospective Korean banking client? Why can't this be a scenario in my home country?"

Unknown to me, about that time, there was a raging controversy in New Jersey. I learned of this controversy only in 2003, or several years after the idea of Hyperwage came to me.

But before we proceed, I would like to warn you that the New Jersey controversy does not directly support Hyperwage, rather, its virtue is that it does not exclude or preclude Hyperwage Theory.

Later on, I will elucidate on the difference between the New Jersey controversy and Hyperwage.

On April 1, 1992, the state of New Jersey increased its minimum wage from \$4.25 (P233.75 at US\$1=P55) to \$5.05 (P277.75) per hour while the minimum wage in Pennsylvania remained at \$4.25. This was an 18.8% increase in a single step.

Remember this was in 1992 or more than a dozen years ago. Do you agree that the US has always been a hyperwage country?

Almost 20%

Anyway, what was expected to happen?

A single step increase of 18.8% in minimum wage should drown out small businesses, resulting in more unemployment, and a depression of the economy of New Jersey.

Hyperwage Theory

In 1994, a stunning study conducted by David Card of University of California in Berkeley and Alan Krueger of Princeton University (CK).

This was “Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania,” American Economic Review, September 1994. Let’s call this “CK 1994.”

Then another study attempted to discredit the Card-Krueger study. This was “The New Jersey-Pennsylvania Minimum Wage Experiment: A Re-evaluation Using Payroll Records,” by David Neumark and William Wascher, (NW), Mimeo, Michigan State University, March 1995, August 1995, March 1997, August 1998. Let’s call this “NW 1995.”

Richard Berman came out with “The Crippling Flaws in the New Jersey Fastfood Study,” mimeo, Employment Policies Institute, Washington DC, March 1995. Let’s call this “Berman 1995.”

Then Card and Krueger answered the accusations of NW with a paper called “A Re-analysis of the Effect of the New Jersey Minimum Wage Increase on the Fast-Food Industry with Representative Payroll Data,” National Bureau of Economic Research Working Paper No. 6386, January 1998. They updated this paper in January 1999. Let’s call this “CK 1999.”

Battle of econometrics

I’ll summarize the controversy. In CK 1994, the original study on the New Jersey minimum wage increase, the authors revealed a very startling conclusion that is contrary to conventional wisdom.

In CK 1994, there was a slight or slightly faster increase in employment growth in New Jersey than in eastern Pennsylvania after the rise in minimum wage in New Jersey.

Berman 1994, NW 1995 attempted to question the data of CK 1994.

In CK 1999, Card and Krueger provided an even better data using confidential data from the US Bureau of Labor Statistics. I think they

actually went through the raw data reported by the companies to the government.

What is even amazing is that in 1996, there was an increase in the Federal minimum wage, which raised the minimum wage in Pennsylvania but did not affect the minimum wage in New Jersey.

What happened in 1996? Did Pennsylvania suffer increases in unemployment figures? CK 1999 did not find any relative employment losses. Thus, on two occasions, in 1992 and in 1996, the Card-Krueger studies confirmed that the increase in minimum wages did not result in huge unemployment, instead it resulted in slightly faster increases in employment.

Before I leave this topic, I would like to warn you.

There are so many think-tanks all over the world that try to debunk the CK study. Since a very long time has elapsed since the 1992 New Jersey wage law, some of the dust has settled and it is better to read the later versions of studies rather than quote information from the older ones. Thus, I suggest a reading of CK 1999 before you attempt to read the previous ones.

Virtues of CK

The CK 1994 study, which was revisited in 1999, is very significant for me because when I belatedly read it in 2003, for the first time since the idea of Hyperwage hit me in 1995, there is a study I can lean on, an empirical basis of sorts.

Again, I must remind you that the CK study alone does not espouse hyperwage but at least it does not preclude it.

But hey, don't forget, that in the first place, the US is already a hyperwage country. Remember that I have always emphasized that Hyperwage Theory, being purchasing power-centric, is applicable to Third World countries.

What is amazing in the New Jersey 1992 wage law is that it was a hyperwage jump (almost 20%) in a country that is already at hyperwage levels, and yet there was even a slightly faster increase in employment

Hyperwage Theory

contrary to conventional wisdom.

My question: Is a country like the Philippines capable of a single step increase (real, not nominal) of 20% a year for 5 years?

Whatever the answer, New Jersey's experience should give us some kind of confidence.

What I'm saying, as I have said all along, is that there is room for hyperwage under the rudimentary principles of economics.

Minimum wage controversy

While we are at this topic, there are so many First World economists who maintain that having minimum wage laws is anti-economics.

Singapore does not have a minimum wage law but then since its entire population is only around 3 million, there is always a shortage of labor and the law of supply and demand can be trusted to work.

In many European countries, there are no minimum wages but their industrial collective bargaining units are so strong that the workers are protected.

Hong Kong does not have a minimum wage law yet domestic helpers have must be paid a minimum wage. In effect, it has a minimum wage law, and that is the wages of the helpers.

I believe in laissez faire but in the case of minimum wage, the government must intervene in the law of supply and demand. Why? With oversupply of labor, a capitalist has the weapon to hire labor for a song.

At any rate, under Hyperwage Theory, this is the only variable that needs to be controlled.

I have met many foreigners running businesses in this country who agree with the Hyperwage Theory. In fact, they pity their workers who earn enough only to pay for their daily transportation and food expenses. But they lament this situation by saying it's not their fault because if they raise their wages, they will not be competitive in the local market.

But they agree that if all companies are subjected to the same increase in accordance with a mandated minimum wage law they are willing to follow it.

Look at our hotels. The most profitable hotels of the international chains are those in this country and other Third World countries. Why? Because they charge almost the same room rates worldwide yet their labor cost here are very cheap. Is it the fault of the hotel chains? I tell you, Shangri-la or Hilton will still be in the country even if our wages are high. After all, they have hotels in Canada and France. Are these hotels willing to pay P50,000 per month for a front desk clerk? Definitely, that's the rate of their counterparts in Hong Kong.

Hyperwage vs. CK

What is the difference between Hyperwage and the CK study? The CK study is an 18.8% increase, which is a large single-step increase. On a daily basis that is a rise from P1,870 daily wage to P2,222 per day, and this was in 1992, remember.

Hyperwage calls for an increase from P2,000 to P20,000 per month, or about ten-fold. This 10x increase is not possible under an already hyperwage country such as the US. The absolute amount of P20,000 is still lower than the US.

I must make this distinction: A slight increase in wages (18.8 % in the case of New Jersey) will lead to a slight increase in employment as found by the CK 1994 study. However, a huge increase in minimum wages such as 10x will result in the destruction of the economy. This is ordinary economics.

In contrast, under Hyperwage, we must enforce a 10x increase in minimum wages. This alone will crack the minds of the PhDs in economics. This is why Hyperwage will never sit well with World Bank economists.

Open minds

The promise of Hyperwage requires an open mind as a

Hyperwage Theory

prerequisite. To reap the fruits of the promise, we must abandon our current education. But then, our economist have been hopelessly brainwashed.

Since I am not an economist, I was not aware of existing economic literature. I simply used my personal experiences and the experiences of those who have actually lived in both First and Third Worlds. Had I known about the CK study ten years ago, my development of Hyperwage would have been hyper-accelerated. Before, that I have only used logic and reasoning to convince people that Hyperwage is the way to go.

In fact, in this series, this is the first time that I have used actual economic research to back up the possibility of Hyperwage. When I read CK for the first time, my mind leaped and jumped with joy. Here was an actual study of an actual wage increase that resulted in an increase in employment. At that moment, I knew I was in the right direction. But then again, I was bereft of any economic education enough to be credible to economists.

Anyway, I have to go now. When you read the first few parts of this series I knew you were skeptical. And you never even expected me to use any economic principle or study to support my theory. You thought I was merely babbling and rambling my thoughts. I did it intentionally. I also deliberately placed these empirical and theoretical back ups near the end because I wanted to tell you that logic and reasoning alone should convince any person that Hyperwage is possible.

Now, given these studies and principles which I am going to discuss later on, I hope that Hyperwage is not a mere scatterbrain's convolutions but is actually a serious theoretical challenge to existing economics.

After all, Hyperwage Theory is invented by the same person who invented the world's fastest, most effective, most efficient, and most accurate way to learn debit and credit.

(Thads Bentulan, Aug 25, 2005)

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Does hyperwage theory explain the controversial CK data?

- 18 -

Pard-Krueger:

*Evidence in Search
of a Theory?*

B

efore we proceed I'd like to share with you these emails. I have received many reactions from readers here and abroad and almost all of them support my theory. But printing them is another ego trip. There

Hyperwage Theory

are a few who have questions for clarification. So far, I received only two negative reactions which I quote below. This was forwarded to me by a reader. I don't know these letter-writers personally, but it seems they are not economics students by the way they argue their disagreements, but one never knows. Remember John Maynard Keynes: The difficulty lies, not in the new ideas, but in escaping from the old ones.

The first letter comes from a certain dante.canlas@up.edu.ph: *"Trust your instinct. This hyperwage theory is all rubbish."*

The second letter is from a certain felipe.medalla@up.edu.ph: *"Don't waste your time on this paper. It's junk. I don't know this guy, but he sounds crazy, or at the very least, so full of himself. The last paragraph of page 32 says it all. To wit:*

'One day, I just got tired of all these economics nonsense and said to myself: 'I am a genius. I will start from ground zero. Zero-based theory. I will ignore the fact there are a million economists ahead of me. I will identify the problems of the Third World. I will....'

A legend in his own mind. A self-proclaimed genius. In short, a nutcase who can not stop praising himself. Send this paper to psychiatrists. They are in a much better position to analyze it. On second thought, they may have to talk to the man himself to find out what's wrong with him."

The hardest person in the world to convince about Hyperwage is the Street Strategist. After all, being the inventor of the Hyperwage Theory I faced the prospect of eternal ridicule and there was nobody with a ready set of answer for my tough questions. And there were no empirical validation.

Forthwith, I became my own devil's advocate. And I tell you, it's not easy to match the Street Strategist as devil's advocate.

And so I started the process of theory development. There was one thing I learned in freshman algebra that I have been using ever since

and the fact I still use it today somehow justifies the flat one I obtained in the subject. It is one type of mathematical proof called *reductio ad absurdum*.

Those of you who have been my disciples for the last five years are familiar with this. First you assume that a statement is true. Second, you make conclusions out of that statement. Third, if the conclusions result into an absurdity, then the original premise was wrong in the first place.

Let's have an example. Premise: The U.S. is an expensive country with the price of gasoline being US\$0.58 (P32.33) per liter. In the Philippines, the price is only P30.03 per liter (June 30, 2005 prices). But it takes only 6.74 minutes for a US minimum wage worker to pay for a liter of gasoline while in the Philippines it takes 49.70 minutes. Therefore, it is absurd to claim that the US is more expensive than the Philippines. That's *reductio ad absurdum*.

Using *reductio ad absurdum*, I tried to destroy both Hyperwage Theory and modern economic theory, and lo and behold: Modern theory collapses while Hyperwage stands on its own.

Quick question, if modern theory is good, can you name to me how it solves the brain drain problem? You'll be amused at all the useless solutions they are proposing.

With Hyperwage, it's very simple. By paying the world market price for labor, we don't have to go abroad anymore.

In fact, the Russian nuclear scientist would be queuing up for visa to the Philippines to conduct research at hyperwage salaries near the beaches of Palawan.

How does modern theory address inequitable distribution of wealth? Well, they all have this non-sense about taxation, regulation, etc. to tax the rich and give to the poor. Good in theory but in practice, corruption swallows our taxes.

What is the Hyperwage solution? Instead of paying taxes, the companies pay this money to labor as wages, after all wages are tax deductible. Instead of going to the company as obscene profits and to

Hyperwage Theory

the government as objects of corruption, that money is given to the the people, directly, thus creating a strong middle class who can afford to buy and double the market size for cars, create entirely new markets for computers, and amusements, and many other economic activities.

And remember, with a high marginal propensity to consume, the gross national income of the economy will be multiplied by a factor. If the MPC is 80%, the income multiplier is 5, meaning for every P100 million pesos spent by domestic helpers the country earns P500 million.

Of course, bigger salaries means bigger taxes and more value-added transactions subject to taxes, which means the government actually earns more. With each helper earning P20,000 (US\$400) (instead of only P2,000) can you imagine the millions of new additional transactions subject to VAT?

Again, this is jumping the gun. I'm just giving you a taste of things to come.

But that's just to give a flavor of my hypothesis: Hyperwage is a far more logical theory than the existing economic theory and policy adopted by Third World countries.

Validation

When I started to develop the theory for Hyperwage, I devoured many economic textbooks hoping to find some validation.

But it was a failure. Every textbook I read warned of hyperinflation, truckloads of useless paper money, and catastrophic unemployment. I found no validation at all.

Yet, if hyperwage is not the solution, then why are the geniuses of the Third World migrating to obviously hyperwage countries? And why are hyperwage countries creating new technologies, new products with little hope of collapsing due to the specific reason of high wages?

After all, Intel designed and manufactured CPUs in a hyperwage country like the US. Similarly, Nokia dominated the worldwide cellular phone industry from a tiny but expensive country such as Finland?

These companies became giants in their hyperwage countries before they dominated the world. The success of these companies have nothing to do with exploiting the cheap labor in China. These companies are in China or Vietnam or the Philippines for profit maximization not for survival.

And don't tell me that we don't have capital, after all, we have almost any natural resource, and by the way, Microsoft is a multi-billion dollar company which does not require natural resources.

Anyway, going back to validation, I couldn't find any.

Until the day I accidentally read about the Card-Krueger study. The CK 1994 study as revisited in 1999, is that one empirical study that I needed to support Hyperwage. Not necessarily that I needed that for myself, but for my detractors. Because, as I have mentioned, in theory, Hyperwage is self-consistent, unlike modern economics.

Stark contrast

Yet, again, modern theory clashes with Hyperwage in its interpretation of economic facts and principles.

The CK study is one such battle. Unfortunately, for the First World economists, the CK study is a fluke, even dismal research, and even an exception that should not be generalized.

This is the reason why CK is controversial. Can you imagine that? I finally found an empirical research yet it's not supposed to be a credible study? The validation I needed was under attack.

So there you have it. On one hand, a research that is considered controversial and even debunked by many economists. While on the other hand you have Hyperwage Theory which predicts the results of the CK study.

Now, guys, hear me out, guys.

Under Hyperwage Theory the CK study is not surprising. It is not controversial, it is not dismal. Rather, Hyperwage predicts the outcome of the CK study. In other words, the conclusions of the CK study are a natural, direct, logical, and normal consequence of the Hyperwage

Hyperwage Theory

Theory.

In fact, I propose a much larger increase. The New Jersey increase was only 18.8% under an already hyperwage regime. I propose a 1,000% increase in a still hypowage country.

Therefore, Hyperwage seeks a greater increase. If the First World economists are already shocked at an 18.8%, can you imagine their reaction to Hyperwage?

Again, such a 1,000% increase does not have to happen in a single step. And by the way, 1,000% increase is not applicable to all levels of the job sector but only to the domestic helpers.

CK for Third World

Why is it that Hyperwage predicts the outcome of CK study, while the ordinary modern economics abhors it? As I have mentioned many times before, First World economics is inflation-centric. Yet, even a 20% minimum wage increase is still absorbed by their economy. In 1996, the same thing happened in Pennsylvania.

The Street Strategist is braver than the CK study. I propose a minimum wage for this country that increases ten-fold the salaries.

The CK study is controversial because the effects are not really that extraordinary. They found a slightly faster increase in employment figures. The question of whether such increase resulted in faster employment growth seems to be the focal point of the controversy.

However, the question of where such increase should result in a negative employment rate is an even greater important point for me. Why? Because the economists and businessmen in this country predict a negative employment growth.

Thus CK is important because: It destroys the prediction of negative growth, and also it posits a surprising result that growth actually is not negative, not zero, but positive.

The CK study should be studied by all Third World economists or by First World economists intervening in Third World countries.

But before you forget, Hyperwage Theory is infinitely a more

controversial proposal. If you dislike CK, wait till you hear of Hyperwage.

Lack of theory

Let me remind you of one thing: CK is not a theory but an empirical study. And Card and Krueger merely performed econometric and time series analysis without a theory to prove.

On the other hand, the Street Strategist has a theory looking for econometric validation. Like many theoreticians, I don't really need a validation but it would be good to have one for the peace of mind of detractors.

Thus, when Card and Krueger meet the Street Strategist, there is no assurance that the two camps will come to a meeting of the minds.

I'm pretty sure CK will find me crazy.

When I think about it, this is where the Street Strategist differs from the experts. CK, for example, found results that go against conventional wisdom, and stopped at that.

The Street Strategist goes against conventional wisdom even without results to back him up.

If only CK have been less brainwashed by their academic PhDs. Can you imagine if they had thought of the Hyperwage Theory first before they arrived at the New Jersey conclusions?

They would have been Nobel Prize winners by now.

Surprising validation

But then again, probably, that Nobel Prize is reserved for the Street Strategist. One thing for sure, the letter-writers above don't have original ideas enough for them to win a Nobel Prize within their lifetimes. At least, Hyperwage, no matter how crazy, is original.

When I was developing Hyperwage, I never expected I could bring it to a level of thought that can respond to theoretical negative attacks.

I thought I would be all air, no substance. I thought it was enough that I had a topic for arguments during drinking sessions.

Hyperwage Theory

Then I have found some validation in CK 1994. It was a validation breakthrough in the sense that the self-consistent logic of Hyperwage found an ally in such a famous study.

But a few months ago, while continuing my research by reading a history of economic thought, I found a theoretical basis that supports Hyperwage as well.

It is an obscure theory that answers the question: Will Hyperwage result in unemployment?

And I tell you, it blew my mind. Really, it did, and I shall discuss this exciting re-discovery next time.

Before I go, let me leave you this thought: A PhD is useless if your mind is just a copy of the experts before you. Do not be contented with absorbing the contents of other people's brains. It is a far greater endeavor to develop the originality of your own mind.

(Thads Bentulan, Sept. 1, 2005)

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Does an old economic theoretical curiosity support hyperwage?

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Obscure

Curiosity

If you want to solve world poverty or realign the inequitable distribution of income the last idea you would entertain is Hyperwage Theory. And that is why the concept of Hyperwage has continued to elude even the brightest and the best economists.

By the way, do not forget that Hyperwage has non-economic benefits and more often than not, economists attack Hyperwage without realizing that the theory has more non-economic benefits compared with other theories. I warn all economists, don't fall for this

Hyperwage Theory

trap of economic-only analysis. Hyperwage has both economic and non-economic benefits.

Non-linear thinking

I have often emphasized that the reason for this failure to appreciate Hyperwage lies in the fact that one has to go deeper than the ordinary theory in order to understand the logic and elegance of Hyperwage.

The fears of hyperinflation, for instance, is brought about by our ordinary sense of ratio and proportion. That is, if one variable is increase ten-fold, we expect the other variable to increase ten-fold as well. But such mathematical brainwashing applies only to linear relations. That is linear thinking. Since our usual mathematical education stops at linear ratios and proportions, we tend to generalize that all relationships are linear as well.

In fact, take an IQ test. The questions there are mostly linear. If one person can do a job in 2 days, how long will it take for 3 person to do the job. See what I mean? That is exactly linear relations, linear formulas, linear thinking.

But once I pointed out to you that the curve of inflation against wages could have an exponential decay, you were able to appreciate the value of asymptotes. Thus, I invented the term “asymptotic hyperinflation.”

Logic without theory

The next big challenge for Hyperwage is unemployment. In the past few chapters, I laid the foundation for the opposite, that in fact, jobs will be created in net positive terms. That was just using logical arguments. Then came the very surprising CK 1994 study which strengthened the arguments I built up earlier.

I never imagined Hyperwage could stand on its own this far, and even find an empirical study that could support the theory.

But aside from my own logic and arguments, and aside from the

empirical study of Card and Krueger, is there any economic theory that could support my thesis that Hyperwage will create employment rather than increase unemployment?

At first, I thought no, there couldn't be a theory like that, therefore, like all the knee-jerk reactions of the economists I did not waste my time looking for one.

Until a few months ago.

Bear in mind that I conceived Hyperwage about a decade ago but I relied on logic and actual observations of the economies I lived in. I never ventured into finding theoretical support for my idea of a high minimum wage. It was because I thought that all the economists of last 300 years should have discovered all the possible angles of world poverty and that we must accept the fact that some countries should be poor and some should be rich, and that the idea of an equal economic footing between countries is not possible. Poor-rich equilibrium but never rich-rich equilibrium.

Rediscovery

A few months ago I was going over old books discarded by a university and took home two of them. One was book on the history of economic thought. Although I have been reading books on economics and its history for the last several years hoping to debunk my own Hyperwage Theory, I never really knew what I should be looking for. It was all random reading.

Intellectual ecstasy

Then it happened.

I saw a chart that involved employment and wages. I have never seen this chart before. I have seen the Philips Curve, the Laffer Curve, and many other famous economic curves but it was the first time I saw this one.

Then I began to read the dusty book. I must have inhaled millions of 20-year old bacteria lying between the pages of the old book. With

Hyperwage Theory

each paragraph, my heart pumped faster. With each phrase, light bulbs in my head switched on in rapid succession. With each word, I swooned to intellectual ecstasy.

Eureka! Eureka! Eureka!

At that very moment, my search for a theoretical foundation for Hyperwage reached a tremendous milestone. I have re-discovered a long forgotten concept of economics that increasing wages may theoretically result in positive increase in employment – high wages, more employment.

I exclaimed, “My goodness. This is staggering. This is simply amazing. Incredible. Now I can say Hyperwage is in the right direction and I never realized I had theoretical backing all along.”

Theory of the firm

Ah, I guess you have to be a PhD in order to understand this but I will start with zero knowledge.

This is about the theory of the firm, the theory of markets, and macroeconomics.

Assume you are the only seaweed processor in the island. In fact, you are the only company or employer around. The people are begging for work outside your door.

Worker: “Sir, please give me a job. You are the only employer in town.”

Firm: “Okay, I will give you work. Will you work for zero pesos per day? No salary?”

Worker: “Sir, just give me a small salary.”

Firm: “Ten pesos per day.”

Worker: “Can you make it higher?”

Firm: “Twenty pesos.”

Worker: “Sir, that’s not even enough to pay for the tricycle from our side of the island. Sir, I wouldn’t even consider working if I’m paid less than P60 per day. I’d rather stay at home and watch the dolphins.”

Firm: “P60 then.”

Worker: "Sir, a little bit higher than P60, please."

Firm: "Okay, P70 per day, and that's my last offer."

Worker: "Okay, sir, P70. Thank you very much sir. I'll give you my chicken as a thank-you gift. I'll make you godparent of my child. I'll vote for you in the next election. I'll worship your photo. Thank you sir for saving my family from hunger. Thank you very much, sir."

Single employer

If you have noticed, the firm is only one employer in town. The worker's reservation wage is P60. The reservation wage is the threshold wage that makes jobless and having a job as equal conditions. The worker will accept wages higher than his reservation wage.

The agreed salary is P70. For this particular contract, the P70 is equilibrium point.

Question: Is P70, the best point for the firm?

Of course, you will immediately wonder at the logic of the question. Surely, P70 being the lowest wage that the worker will accept is also the point where the firm incurs the lowest wage expenses, therefore it should be the best point for the firm, isn't it?

Hmm, ahh... not really. The lowest cost is not really the optimum point. There's this concept of marginal utility.

Price and marginal utility

Under this particular market condition of single employer the price is lower than both marginal utility and marginal cost ($p < mc$).

If you don't know what these two concepts are, let me define them for you, but I probably cannot explain it to your level. I have already warned you in the beginning of this series that my target audience are the PhDs in economics. If you are not, sorry, I can't give you a tutorial.

Anyway, let's proceed. In contrast, when there are other employers around, the equilibrium happens when the price is equal to marginal utility and marginal cost ($mu=mc$). This is pure competition.

Now, what happens when the price of the commodity is constant,

Hyperwage Theory

even at varying levels of demand for a single buyer? Answer: The quantity purchased will be the same as in the case of pure competition. Is that good or bad? It's good because when this happens, the employer will be forced to pay above the agreed labor price of P70.

In fact the best level, the optimum point is for the firm to pay the labor price levels equal to the levels under a regime of pure competition.

So what?

Well, hold your breath. When this happens, the optimum level for the single employer when the price of labor is forced to be a constant is the price of labor corresponding to a pure competition. And then the magic happens – this equilibrium point corresponds to an increase in labor demand. Whew!

In case, you didn't understand the preceding few paragraphs, here is the summary. Under the case of a single buyer (or single employer in our example) there is an agreed price. However, there is an additional condition that if the price of a commodity rises above this agreed price, and such increase in price is constant notwithstanding the levels of demand, then the buyer has to buy more quantity in order to be optimal (that is, marginal cost = marginal utility).

Maximum profit

Translated to labor-wage (price) and labor-demand (employment), a higher fixed minimum wage will automatically result into a higher employment if the firm is to maintain its optimum equilibrium point at which marginal utility is equal to marginal cost. This is the point of maximum profit.

In short, under a market of single employer, maximum profit is attained by the firm by increasing its labor employed whenever the minimum wages are increased. Can you imagine that? Buried in the annals of economics is a theory of a firm that almost every economist ignores, and yet turns out to be a strong foundation for Hyperwage Theory. Higher wages means higher employment. It was an

overwhelming discovery for me. And yet, many economists do not know the concept and the staggering implication of this single buyer theory, and that is why they fail to appreciate Hyperwage. And I'll explain more next time.

For the moment, let me shout in maximum decibels: Hyperwage Theory loves monopsony!

(Thads Bentulan, Sept. 15, 2005)

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Hyperwage Theory

Does Hyperwage explain monopsony's paradox?

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Hyperwage

Loves

Monopsony

H

yperwage Theory loves monopsony. That's how I ended my last column and how it starts this one. Increasing wages will result in more employment. Isn't it beautiful?

Why? In the decade since I conjured up Hyperwage it was

Hyperwage Theory

only lately that I found an obscure theory in microeconomics that tends to support Hyperwage.

In contrast, the Keynesian multiplier is a macroeconomic theory which also supports Hyperwage, and I'll touch that later.

Will Hyperwage result in net unemployment? Based on my personal experience the First World countries which are hyperwage countries are economically successful because they give labor its true value.

And yet, look at World Bank statistics, unemployment rates in hyperwage countries are very low compared to low-wage countries.

Thus, using logic, argumentation and experience hyperwage does not result in unemployment but instead generates employment.

The irony is that the First World countries do not realize that hyperwage is their own weapon of success.

Then came the surprising empirical data of the Card-Krueger study. Again, the irony is that First World economists think that CK is a fluke, an outlier, and controversial.

Even CK themselves do not have a theory that predicts their controversial results. Of course, if they had a theory, it wouldn't be controversial.

On the other hand, the Street Strategist believes that the CK study is a perfectly natural effect predicted by Hyperwage Theory.

Now, finally, comes microeconomic theory to the rescue.

Monopsony

I have discussed monopsony in the previous column but probably you didn't understand it. Don't worry, I only heard of monopsony a few months ago.

Monopoly is market with a single seller. Oligopoly with a few sellers. Pure competition is a market with many sellers.

Monopsony is market with a single buyer. Oligopsony is market with a few buyers. Monopolistic competition is a market with many sellers of similar products but with distinguishing features. Pure

competition is a market with many buyers.

We all know what monopoly or perfect competition is but have you ever heard of monopsony? I asked a few economics majors, and I tell you some of them don't know what it is. Why? Due to time constraints in school we only discuss monopoly and how to regulate it.

What makes monopsony special and why does Hyperwage love it?

Hyperwage loves monopsony because of all the market structures, it is only monopsony as applied to labor markets that theoretically predicts a corresponding increase in employment whenever there is an increase in minimum wages.

Incredible!

Here is a theory of the firm that states that in monopsony the demand for labor increases whenever there is a minimum wage increase because doing so is the optimal action of the firm.

Can you imagine that? The reason for increasing employment is not merely out of generosity but economic necessity.

Practically, I jumped in the air at this discovery.

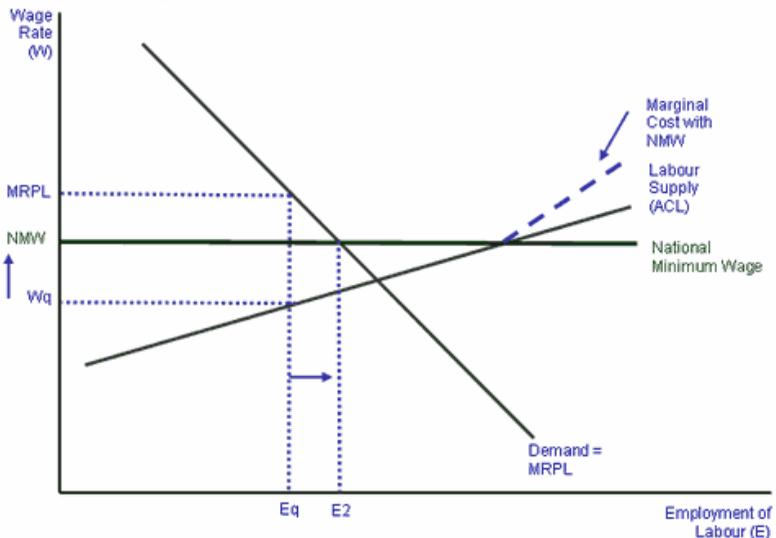


Exhibit 9. Monopsony and Minimum Wage

Buying power

Due to the tremendous buying power of the monopsonist as the only employer in town, it can drive the price of labor downwards.

To attract more workers, the monopsonist have to pay higher wages. This is signified by the labor supply curve in Exhibit 9. This is assuming there is a shortage of manpower as in the case of Hong Kong and Singapore and in the Middle East, especially the dirty lowly jobs.

That is why in Singapore, the government does not set a minimum wage because their market supply of labor is capable of working under the law of supply and demand.

In overpopulated countries, labor outnumbers demand. This is the time government should step in.

Again, I must warn you. I don't want government intervention in general, but in this special case of minimum wages, I make it the crux of Hyperwage Theory: Government intervention in the minimum wage setting.

Don't forget under monopsony without a minimum wage, the optimal profit equilibrium point of a monopsonist is when the marginal cost of labor (MCL) is equal to the Marginal Revenue Product of Labor (MRPL) of employing extra workers.

This is the marginal utility concept. This is the intersection point E_q and W_q in Exhibit 9.

Monopsony and minimum wage

When the government sets the wage floor (minimum wage), the national minimum wage (NMW) becomes both the average cost of labor (ACL) and the marginal cost curve of labor (MCL).

The point of intersection of W_2 (which is the NMW) and E_2 is the point where the monopsonist has optimal profit ($MCL = MRPL$).

But wait, E_2 is a point where the monopsonist hires more workers than before (E_q).

What does this mean?

It means that the optimal economic profitability of the firm is a point where it has to hire more workers.

More employment by economic necessity. Isn't this wonderful?

Look at E2 in Exhibit 9. It is a point of more employment that corresponds to W2 or NMW.

(Note, this chart is better appreciated with moving slides, you can email me for a copy.)

Obscure theory

What is happening here? Hyperwage Theory is not excluded by economic principles.

In fact, the more we delve into economics the more we realize that Hyperwage finds new friends in basic economics.

Monopsony theory is actually an obscure theory but with the advent of Hyperwage, all students of economics will be forced to learn its special quirk.

Think back. If I asked you several weeks ago that there is a theory of the firm in microeconomics that states that increasing the minimum wage will result in more employment, what would you say?

For sure, you would have called me an economic ignoramus.

Now, those PhDs who disagree with me, have you ever come across this special quirk of monopsony? Probably not, or if you did, you probably did not realize it could be used and integrated into a completely revolutionary theory.

Now that I have completed my defense of Hyperwage against the unemployment bogey, can you see now how everything falls elegantly into its own place?

Labor Market as Monopsony

Is our labor market a monopsony? In First World countries, there may be a big debate on this, but overall, I believe employers have monopsonistic features because almost always people are looking for

Hyperwage Theory

work, not firms looking for workers. In fact, that is why there is unemployment.

In Third World countries, it is almost an incontrovertible fact that the labor market is a monopsony.

There was one hotel who advertised for a hotel front desk clerk and 3,000 applied for the position. With the very high unemployment rate sometimes ranging from 8% to 14% in the Third World, the firms as an aggregate behave in a monopsony.

In countries where they produce tens of thousands of graduates in a year, could the labor market be anything else but a monopsony?

Here's another example that tends to support the monopsony regime. In Hong Kong, the banks recruit bank tellers with only a high school qualification, and even more than that some banks actually offer signing bonuses of HK\$6,000 (US\$769 = PhP43,064)).

In the Philippines, even a CPA cannot land a job as a teller. Indeed, an applicant will probably have to pay the P43,000 to the bank HR manager in grease money so that he will be given priority in the recruitment.

Can you imagine the quality of life for everybody when labor is given its true value?

In short, I believe that in Third World countries, the labor markets are monopsonies.

Elegance

I originally thought Hyperwage was for coffee shop retinues only. Some lively discussion about some crazy theory.

Then I realized that I could address almost every negative reaction to it. That encouraged me to tell people about it.

I saw different perspectives by their questions. What will happen to the exchange rate? What will happen to export prices. What will happen to the locators in our export processing zones?

Will Toyota leave the country? Will DeutscheBank abandon us? Will Nokia fly away? Will bakeries close? Will couriers go belly up?

Will power generators lose money because college graduates earn P70,000 or domestic helpers P20,000?

With every answer, I realized that Hyperwage is more elegant than existing theories, more consistent than the aimless poverty strategies by our so-called experts, introduces more non-economic flow-on benefits and is a comprehensive step that benefits the entire economy.

Epiphany

Can you see the vision of the Street Strategist? I only need to change a single variable and everything else follows. No need for micro-lending, housing, and rice programs that benefit less than 2% of the population.

Exactly, what is the poverty, brain drain or anti-corruption solution of our economists? They have a hundred different unrelated solutions that never work.

The Street Strategist has a single integrated comprehensive solution.

I have read the critique of my detractors and coming from PhDs I am frustrated because I realized these experts do not even understand simple concepts such as Keynesian multipliers and the circular flow models.

They know what they are but unfortunately they don't understand how they work. It's a pity, really.

When I read their critiques, I began to appreciate how brainwashed they are, and how limited their understanding of basic economics are.

At least, some of them. Funny, even my readers found out the mistakes made by the PhDs.

Or answer this: As a PhD in economics do you find it a normal state of things that domestic helpers work for 16 hours a day on P2,000 per month?

Where do we go from here?

There are three basic attacks on Hyperwage namely, inflation, unemployment, and affordability. I have already addressed the first two.

Hyperwage Theory

I will tackle the third one next.

Afterwards, I shall proceed to discuss the economic and non-economic features and benefits of Hyperwage.

Will Hyperwage result in more unemployment? If you still believe so, I'm sorry, you are beyond redemption. You must first open up your mind.

As for me, I had an epiphany. I had a vision. I saw the light. I saw the future.

I saw the future of economic history and its name is Hyperwage Theory.

(Thads Bentulan, Sept. 22, 2005)

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Is the Hyperwage Theory an observable reality?

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*Hyperwage is
Reality*

In the time of the Mercantilists in the 1600s, there was actually the so-called Theory of Low Wages, but never in the history of economics has there been a Theory of High Wages. Thus, for the first time in economic history, a fool on the hill proposes the Hyperwage Theory.

The rationale for the theory of low wages is quite obvious. The mercantilists were afraid the commodities they were exporting would become too expensive for their overseas customers. They controlled the price of labor because it was easier to produce more babies for child

Hyperwage Theory

labor in 10 years than to dig for gold in the rainforests. In other words, there was an oversupply of labor.

Unfortunately, the same theory of low wages is unknowingly being practiced in Third World countries, courtesy of their corrupt governments. I call this the Strategy of Poverty which is the title of the first chapter of this series.

Why is the theory of low wages accepted? First, it is the obvious intelligent solution. Second, only a stupid economist would have the courage to go against conventional wisdom.

But then again, I must remind you that I make a distinction between the intelligent solution and the genius solution.

In fact, I don't subscribe at all to the train of thought that low wages will result in lower prices of commodities. This is such a very stupid train of thought. Pardon, my language, but I have to give you a sense of proportion and magnitude according to the perspective of the Street Strategist.

Leontief Paradox

Harvard professor Wassily Leontief was credited for the input/output (I/O) analysis in economics which we shall touch on when we discuss the very important Keynesian multiplier soon.

He was also credited with the Leontief Paradox. There is a theory in economics called the Heckscher-Ohlin Theory that states that each country exports the commodity which uses its abundant factor intensively. For example, the US, being capital-intensive, would be exporting commodities which are, of course, capital-intensive. The Philippines, being labor-intensive, will be exporting products which are labor-intensive.

The H/O Theory seems easy to prove because, intuitively, that should be the case. However, there was no actual test until Leontief invented the I/O analysis.

And what did he find out in 1954? The US imports (k_m) was 30% more capital-intensive than US exports (k_x).

In other words, the US exports were more labor-intensive than their imports. That was mind-blowing! The US was selling products that were more labor-intensive than the products it imported.

Of course, the economists attacked Leontief and faulted his statistical analysis. The first Leontief test showed $k_m = 1.30k_x$ in 1954. The second Leontief test in 1956 showed $k_m = 1.06k_x$. The Baldwin test in 1971 showed $k_m = 1.27k_x$.

The debate continues for the Leontief Paradox, but from the perspective of Hyperwage Theory, the Leontief Paradox is no paradox at all. Why? Because the mere existence or the mere possibility of the truthfulness of the Leontief Paradox raises a cloud of doubt over the Theory of Low Wages.

In other words, the Leontief Paradox suggests that high labor cost does not necessarily turn off consumers; the US is selling products that are labor-intensive and this is ironic because US labor costs are very high.

Price reduction?

Let's take the case of computers. The computers made by HP are made in the US using high labor. Obviously, these workers are earning beyond the minimum wage of US\$5.15 because only the working students at McDonald's get the minimum wage. Let's say the HP workers are paid \$20 an hour (P1,120 hourly; P8,960 daily; P233,000 monthly at \$1=P56).

The CPU inside HP is made by Intel Corp. which also uses hyperwage labor. Eventually, the Notebook computer of HP is sold in the US for \$2,000 or around P112,000.

Question: When the Notebook is sold in a Third World country like the Philippines whose typical wage of workers is only P10,000 (or about $P233,000/10,000 = 23.3$ times), will the selling price of the Notebook computer be $P112,000/23.3 = P4,800$ only?

Of course not, and it would be stupid to expect such a reduction. What does this mean? The price of commodities from other countries

Hyperwage Theory

produced using hyperwage salaries already includes the cost of their hyperwage labor, and damn the Third World countries if they don't buy these computers.

Cost-plus approach

This is a reminder that hyperwage countries which are also the rich First World countries (surely, this is not merely statistical coincidence, but real cause and effect) include in the price of their goods and services their hyperwage labor and they don't care if the Third World countries could not afford them.

And this brings us to the question: Will Third World products still be affordable if the labor wage was set to a minimum of P20,000 (US\$400) (for the domestic helpers, or around P70,000 (\$1,250) for entry-level engineers?

You know, First World countries are laughing at us. It's not their fault that we inflict this pain upon ourselves, this modern-day slavery of P2,000 (\$35.70 per month)!

As for the rich countries, they have no qualms about selling their bakery equipment from Norway or Netherlands at prices which include their hyperwage labor.

Will the price of world commodities be divided into multiples (divide by 10 or divide by 15) to suit the purchasing power of the Third World? No way. They will probably shave off 10%. But they will never sell it for 10 centavos to the dollar.

Since Intel or AMD or some CPU maker control the world market, they can charge prices which already factor their hyperwage labor.

In short, the rich countries are operating under a cost-plus approach. Their selling prices are based on their costs plus profit. It does not matter if their labor wages are extremely high. They simply add on profits to whatever costs they incur.

Oil

In a previous chapter, I have already discussed oil, the perfect

commodity for comparison because every country's economy is oil-based as oil is still the cheapest, abundant source of energy.

Will the selling price of oil in Third World countries be cheaper because their labor is very cheap? No way.

Every price in the country, including the vegetables from Baguio, are set to the world market price of oil, and that is an economic reality. Its price ceiling and its consequent profitability depends on the purchasing power of the people.

In fact, one reader told me, in financial models for their foreign company in the Philippines, labor accounts for only 5% of their cost.

I dare say, even if labor was 45% of cost, consumers will still buy your products if they have the purchasing power.

If the people have no purchasing power, they will not buy your product. If nobody buys your product, you cannot maintain your store, you will dismiss your employees, your employees will not buy other products, and there is a downward spiral in the economy.

Affordability

I find it amusing to realize that in debunking Hyperwage Theory, the PhDs in economics find it abnormal for me to propose that the price of Microsoft Windows software (\$100) should not require three months of labor by a domestic helper who earns only \$35 a month. Why is my proposal abnormal?

I even find it amusing that they use wrong economics and logic to debunk the theory, and yet, in the same breath, finds it a normal state of events that a domestic helper has to work for four months for a DVD game software.

Guys, sorry, but I simply can't accept the status quo. The status quo is rotten and your questionable economic and labor policy is maintaining it. Why do you call yourselves poverty experts when you think that a domestic helper in the Philippines should receive lower than in France? Because we are Third class citizens of this world? Funny.

Hyperwage Theory

The attacks on Hyperwage are three-pronged: hyperinflation, unemployment, and unaffordability.

Sources and sink

Let me tackle affordability from various angles.

First, as a businessman, what is your greater worry? That your commodity is priced high, or that your customers have no money to buy it?

You may say, those are the two sides of the same coin. Actually, they're not. High price on one hand and low purchasing power on the other are two different ideas.

Take the case of a diamond jeweler. The price of diamond is dictated by the world market. Question: How many of your customers are domestic helpers? Answer: Zero.

Now, if the domestic helpers were paid P20,000 (US\$400), can they now afford to buy diamonds? Yes. Will you have a bigger market? Yes. Will you have bigger income? Yes. Will you have bigger taxes? Yes. Will your government have a bigger income? Yes. Can you afford higher salaries for your jewelry business? Yes. Finally, can you afford hyperwage? Yes.

I have a friend who is a jeweler. He attends many international jewelry fairs in Hong Kong or in Italy, for example. He talks about his cost of operations and how to improve profitability. Since he knows my stand on hyperwage, he tells me he cannot afford it.

I said, "But there are Germans and French in those jewelry fairs, right? Germany and France have one of the highest labor costs in the world, are they losing deals because of their labor cost? Or are you missing out on the deals because you cannot give the right quality and design?"

He even confirmed that he landed some deals because the clients liked their designs, not because their jewelries are cheap. And he bought German equipment which he used in his factory in the Philippines. This equipment introduced productivity, speed and consistent quality

that he had to transfer one of his craftsmen to another function.

On one occasion, when an office assistant resigned, he had the chance to implement hyperwage. He gave two options to the remaining assistant: Do you want me to hire a replacement for your colleague, or should I add her salary to yours, but you must do both jobs effectively?

The employee chose the latter option. The result? Her salary doubled, there were no more backlogs, she came earlier than usual, and left later than usual. And she was happy in her job. That is one result of hyperwage.

Of course, I don't have to point out that Hyperwage also solves software and video piracy. If software doesn't cost three months wages of a domestic helper, people will buy them. See what I mean by non-economic benefits? You never thought that Hyperwage is the solution to intellectual property protection, did you?

Small business

The economists always remind us that 95% of our businesses are small businesses. With Hyperwage, small businesses will be wiped out, there will be unemployment, inflation, and other economic disasters.

This is one of the funniest arguments I've ever heard from economists and businessmen.

Well, I've eaten baguette in the street-side cafes in hyperwage Paris and it was a small business. I've bought the Financial Times in a London newsstand and it was a small business. I've tasted Magnum ice cream from a deli in Zurich and it was a small business. I bought smoked salmon in Vancouver and it was a small business. I've partaken wonton noodle soup in Singapore and it was a small business. I've tasted the sausages in Frankfurt and it was a small business.

I mean, come on, guys, do you really expect me to believe that small businesses will close because people have a newfound purchasing power? That's absurd.

There are small businesses in hyperwage countries, and there is no reason to believe that there will be none in Third World countries

Hyperwage Theory

which are going to implement Hyperwage. In fact, Hyperwage Theory predicts the opposite: There will be more businesses big and small.

I will continue my argument in favor of affordability in the coming installments. But at this stage, I would like to raise the point that it is not logical for economists or businessmen to say that Hyperwage will result in closures. Why, are there no small businesses in Japan or Finland?

Secret of wealth

Before I go, I would like to remind you that Hyperwage Theory is not merely a theory. Hyperwage is reality. All First World countries are hyperwage countries and this is not merely a statistical coincidence. For me, it is a cause-and-effect situation.

Hyperwage exists in economic reality. What I am doing is simply explaining to economists using their own tools the secret of success of the First World countries because, unfortunately, the First World do not even realize why it is successful. The secret of a wealthy nation is the true valuation of its labor.

Right now, I am using your own tools and principles to explain to you what you should have understood right away.

In fact, when I said the solution to Third World poverty is to raise the minimum wage to P20,000 (US\$400) per month, you should have understood immediately the ramifications and consequences of this statement. Supposedly, I don't have to explain to you in many chapters the implications of the theory.

Hyperwage Theory is simply an integration of ideas that explain the secret of wealth of the nations. This theory is far different from Adam Smith and therefore strange to the economists.

But then, for the convoluted mind of the Street Strategist, Hyperwage Theory is rational, logical, direct and elegant.

(Thads Bentulan, Sept. 29, 2005)

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Does hyperwage kill small business?

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Hyperwage and Microenterprises

The Street Strategist is taking on the entire world of economics and politics with his Hyperwage Theory. Thus, the probability that the Street Strategist is correct is zero. When it's the Street Strategist against the world, well, you know whose side you should be on.

However, before you dismiss the Hyperwage Theory, let me open up your minds.

In everyday life, we know that mass couldn't pass through mass. Your body cannot pass through a wall. Yet, in quantum mechanics,

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such phenomenon of your body passing through a wall happens every second. Yes, mass passes through mass in the realm of quantum mechanics although the probability is very, very low, almost zero, (actually 40 zeros after the decimal point.) This is called quantum tunneling and it is a very important phenomenon. Without it, computer chips will be as large as a room. Your FM radios cannot fit in a thumb-sized MP3 player, and your mobile phones will be as large as refrigerators. Almost all electronic equipments now use the tunneling effect.

What's the relevance to Hyperwage Theory? Quantum tunneling has almost a zero probability of occurring yet, every second it is happening. How come? Because the events are being replicated trillions and trillions of times until a tunneling occurs. It's like this: You can find one genius in a million people. But if you are in China with 1,400 million people, then you have around 1,400 geniuses.

In other words, given infinite number of trials the probability of occurrence is unity. Which is my way of saying, even if the probability that Hyperwage is correct is zero, who knows it could still be correct?

Again, when it's the Street Strategist against the world, don't side with the world. Remember the time when millions of accountants in the world did not think that there is a better way to explain debit and credit? How lucky is the Street Strategist in his ignorance because he has invented the world's fastest way to learn debit and credit without realizing the world had already said it can't be done.

Res ipsa loquitur

Anyway, I hope I have open your closed minds. Let's go back to the Hyperwage Theory.

Can the government being the biggest employer in the country, and the small businesses being 95% of the enterprises afford hyperwage salaries?

The Street Strategist says yes. In the previous chapter I used another favorite argumentation technique of mine which is the *res ipsa*

loquitur (the thing speaks for itself).

Will the government collapse under hyperwage? Will there be no small businesses? I have illustrated that in hyperwage countries, there is a government, and there are small businesses. *Res ipsa loquitur*. The thing speaks for itself. There are small businesses in hyperwage countries therefore that speaks volumes about the myth that small businesses will collapse.

Apple and Microsoft

Let's analyze Apple Computer and Microsoft. Are these large companies? Of course, they are worth billions of dollars in the stock market. Were they big companies when they started? What about Dell Computers or Intel Corporation?

If you have read their histories, these companies started out in the garage with almost zero capital. Now, how did they become big?

Simple, there were people who can afford to buy their inventions. Come now, and stretch your minds a little bit.

Did Microsoft become a huge success because of its low labor cost or because it has customers with extra money to buy the thing called computer?

How could our economists miss this very obvious lesson? Small businesses survive and even grow into corporate giants not because they have low labor costs but because the people have purchasing power. And this is exactly the logic behind the Hyperwage Theory.

High wages give more purchasing power to the lowest class of society and they spend it to generate more demand thereby increasing the profits of small businesses.

Do you think SM will build a shopping center in southern Leyte because the labor cost there is lower than in Metro Manila? No way, that's not the decision point. Labor cost is never the decision point. It is purchasing power. SM opens in Cebu or Davao or Ilo-ilo because of the purchasing power of the residents.

Think of this guys. If I invent a biocomputer using microorganisms

Hyperwage Theory

for artificial intelligence and it will cost you a year's salary will you buy it? Of course not as eagerly as I would want you to. But what if it will cost you only a month's salary? There, you might buy.

That's exactly what is happening now. A notebook computer will cost you a year's salary in a Third World country but only a month's salary in the U.S. That is why computer companies in the US are growing despite very high wages. They sell in volumes because the people have purchasing power.

And do you think they will reduce their selling price to only 1/10th in a Third World country because salaries in poor countries are only 1/10th? No way, Jose.

Margin vs. volume

How does an enterprise address the issue of increasing payroll costs? There are two basic ways: 1. increase the profit margin for each unit of product sold, and 2. sell more units without increasing the profit margin.

In hyperwage countries, they focus on more volumes, and that is why they sell their products overseas, maintaining almost the same selling prices and margins while increasing volume.

Of course, if some stupid government in Africa or Asia adopts the strategy of poverty by forcing their wages very low to attract foreign investors, then the latter will only be too pleased to exploit this stupid strategy. The hyperwage countries will set up their call centers, their car assemblies, their dirty kitchens, their pig sties in these masochistic countries.

Guys, come on, Apple grew because of purchasing power, not low wages.

Creating new markets

Let's take a look at computer distributors in the Philippines. Their workers are paid about P8,000 per month. They are selling computers at P30,000 per set.

Now I ask, what will happen to the price of computers if salaries are raised 2.5 times to P20,000 (US\$400)? Will the price of computers also go up 2.5 times to P75,000?

No way. These computers are being sold for only P25,000 in Hong Kong, Singapore, Taiwan, and the US, and yet their salaries are almost 700% higher.

Instead, the distributor will sell more volume to recoup the increased payroll. And of course, since the domestic helpers earn P20,000, then they can buy their own computers in no time at all.

See what I mean? Markets that were never there, will become new sources of income for the businesses.

Isn't this neat? Creation of entirely new markets.

Micro-enterprises

What will happen to micro-enterprises? When the wages of the domestic helpers or store clerks are set to P20,000 will the vegetable vendor close shop? No. Why? Because he has no employee at all, therefore he is not subject to a payroll increase. Instead his volume will increase because the customers will buy 2 kilos instead of $\frac{1}{4}$ kilo of cabbage.

How about the fish vendor? Same thing, she doesn't have a domestic helper at home, therefore she is unaffected. But her selling prices will go up and so does her volume.

How about the *sari-sari* store? No more sachets. No more single tablets. Do you know that you can't buy a single piece of tablet of paracetamol in Singapore? You have to buy an entire pack.

How about the rice dealer? He cannot afford the laborers to haul the rice. Then, he can subcontract the delivery to another micro-enterprise doing only deliveries, much like a postal courier.

Who will watch the kids? There will always be a grandmother or an enterprise providing day-care services.

And again, population control. Given hyperwage, you will think twice about having five or ten children.

Hyperwage Theory

And productivity will rise because every enterprise will be cost conscious.

Exploitative FDI

Is Jollibee in the US because of low wages there? Or are they expanding there because of the purchasing power of the people? Can you imagine the implication of this scenario? A Third World country like the Philippines is now a foreign investor in the US? That's foreign direct investment (FDI).

Did San Miguel Corporation expand in Australia because of their low payroll costs there? No way. And yet, the Philippines is now an FDI in Australia. Isn't this ironic?

This simply proves the point that purchasing power of the people is the decision point, not low labor cost. In fact, low labor cost means low purchasing power means low foreign direct investment.

Of course, the Third World countries are getting their share of FDIs but these are the ones that exploit the host country's natural resources or exploit low wages, but never FDI that are meant to improve the host country. In other words, the low wage regime invites the wrong kind of FDI – the exploitative ones.

Phoenix

Can companies afford hyperwage? Yes, they can. And if they can't, then they will have to close their businesses. Will there be new ones that will attempt to operate? Yes.

If Fortune Tobacco will close down, then RJR Reynolds will come to the Philippines. If SM City will close down, then Walmart will come here. If San Miguel will close down, hey, why would it close down? It is the biggest selling beer in Hong Kong, one of the most expensive places on Earth.

In fact, San Miguel will be ecstatic with hyperwage. Why? Because beer demand is elastic. It is taken out of disposable income. Hyperwage gives people more of this type of income, and therefore beer becomes

less elastic. In fact, beer demand will increase.

The demand for telecom services, for beauty services, for any kind of service will increase not decrease.

Don't fall for this mind trap of closures. If a business will close down because of hyperwage, there will always be a phoenix that will rise out of the ashes. Probably in another industry with another product.

Tax deductible

Who will pay for the hyperwage? Remember that payroll expenses are tax deductible, therefore any increase in payroll expenses will correspondingly reduce the tax due, and in effect the government pays for a part of the payroll.

For example, where corporate income tax rate is 35%, the government in effect shoulders 35% and the company pays for 65% of the increase in payroll.

Isn't this neat? Instead of paying big amount of tax to the government, 35% of the amount is given directly to the people and not subjected to filching through government corruption. And again, don't forget that money in the hands of the people is subject to the Keynesian multiplier whenever they spend it.

So, the enterprise pays only 65% of the increase, but how to pay it? Again, more sales volume and possible increase in margin.

Tax evasion

How about those enterprises that do not declare correct income? With hyperwage this will be minimized. Why? Giving all their clerks hyperwage salaries is a form of taxation that is given direct to the people instead of the government.

Let these companies continue cheating the government but this cheating is minimized because hyperwage salary is a form of taxation that cannot be avoided.

What if they underpay their employees? Well, if the saleslady is

Hyperwage Theory

earning P2,000 and gets only P1,500, she has little incentive to complain.

But if the salary is P20,000 (US\$400) or the equivalent of four cellular phones a month, do you think the employee will let this thing pass without a whimper? No way.

And by the way, did you notice one thing? We have partially solved the problem of under declaration of corporate income. And this is a non-economic problem.

Do you now realize what I've been hammering all along – the non-economic benefits of Hyperwage?

Is there any other economic theory that is more comprehensive in effect and yet tweaks only a single variable in the entire economic system?

Poverty solutions

The elegance of Hyperwage is in the way it handles non-economic issues in addition to directly solving economic ones. We solve population explosion, tax evasion, brain drain, low productivity and many more.

I hope this far, I have proven enough that hyperwage is affordable. If a company cannot survive there will be another that will rise out of the ashes.

Anyway, I am just glad that with my exposition of Hyperwage Theory, the cause of domestic helpers has been top of mind lately. There has been a gathering of domestic helpers, and I am glad the importance of wages of domestic helpers is being given attention lately.

By the way, before I go, I would like to share this with you. I browsed a textbook on economics by two great economists in the US, one author was once a presidential adviser on economics and the other one is an icon in financial economics having written more than 500 articles.

Do you know what's their idea of addressing poverty? It's so amusing. They said, education is the way out of poverty. Guys, the

Philippines has over 95% literacy rate and yet is still one of the poorest in the world. I don't agree with you guys. Nice theory though. I mean, yes, education helps but it helps only the US or the Middle East because our brains are migrating to hyperwage countries.

In short, our doctors and engineers have realized that going to a hyperwage country is the ticket out of poverty. Why can't you see that?

Another solution they offer is through some kind of welfare. This is good but not the solution for the Third World country.

I have read their economics of poverty and I conclude that they are all aimless strategies, all talk, all theory, all trickle-down, all anti-hyperwage.

If they are in the right direction how come the Gini coefficients have worsened? How come only 5% of the population own 1/3 of its wealth?

How come after 500 years of economics many are extremely poor and few are wealthy?

How come there is a thin middle class?

Call me crazy but at least I have applied my mind to a direct solution.

Or maybe the economists couldn't accept that the solution was just this simple: rectify the mispricing of labor in Third World countries.

In the next installment, I will finally discuss the magic of the Keynesian multiplier.

(Thads Bentulan, Oct. 6, 2005)

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What has the Prince of Mathematics got to do with hyperwage?

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Gauss and the Multiplier

*H*yperwage Theory will never ensconce the Nobel Prize because it strikes at the heart of all previous economic theories, which by the way are mostly inflation-centric, and all the economists are synchronized along those theories. It is the Nobel season once again, and the award goes to another ultrafine revision of existing theories.

The Street Strategist is demanding that you at least capitulate and completely surrender your head and mind rather than split hairs over some econometric statistical deviation errors.

Hyperwage Theory

One of the benefits in studying Hyperwage is that the layman, or the economist for that matter, will be forced to review all the existing theories and principles of economics. And this was exactly what I did. In effect, I reviewed economics from the point of view of a contrarian, and therefore obtained lessons and principles that I would have not learned as a reluctant college student.

Again, if you are an economics teacher, you will probably add more value to your students if you assign them to write a critique on the Hyperwage Theory rather than require them to memorize irrelevant useless economic facts and figures.

Have we violated any economic principle so far? I dare say, no, we haven't. Then why all these vitriolic reactions from PhDs? If you notice, their reactions are knee-jerk wild generalizations, which was also my weakness before. I used to dismiss Hyperwage as a folly until I saw its non-economic elegance and its economic logic.

Look at their harsh reactions. It's all about hyperinflation, worthless paper money, unemployment, affordability, closure of businesses; all wild economic generalizations which I have analyzed in detail in the last few chapters.

Sad to say, I tend to lose respect for their PhDs whenever they succumb to such wild generalizations. You know, I even learned to respect the businessmen more. The latter are extremely profit-oriented yet they support Hyperwage because they realize that they can sell more non-basic goods such as computers, beer, insurance, fancy food, stocks and bonds, and even business newspapers, if the people have more purchasing power.

Of what use is cheap insurance premium if it takes a month's salary of a domestic helper to pay for 100 KWh of electricity? The credit card industry, the insurance industry, and the stock market will be rooting for hyperwage, not cheap modern day slavery.

Guys, given Hyperwage, all the domestic helpers will become your new market. Can you imagine the intense commercial activity surrounding the domestic helpers under a hyperwage regime? You don't

have to be a PhD to know that hyperwage brings more business, more employment, and more prosperity to the nation.

As for the overseas migrant workers, they understood Hyperwage from day one.

Gauss

There once was a lazy teacher in Germany named Büttner. He told his six-year old students to add up all the numbers from 1 to 100 ($1 + 2 + 3 + 4 + \dots + 100$) so that he could gossip around the school. But before he could leave the room, one student submitted his answer in no time at all. Not only that he had the right answer in lightning speed but the boy created the formula for adding such patterns. Did the boy have a super fast brain? Was he a savant?

Here's how the boy did it. $1+100 = 101$ (that should take care of 1 and 100). And he also did $2+99=101$, $3+98 = 101$, $4+97 = 101$. Do you see a pattern? Instead of adding all the numbers, the boy paired them, so all he had to do was count the number of pairs and multiply by 101.

What is going on here? That boy invented the formula for the so-called arithmetic progression which is a series of numbers, each term being added with a constant. For example, $1+2+3+\dots$ (the constant is 1) or $1+4+7+\dots$ (increment of 3).

Not bad for a six-year old named Karl Friedrich Gauss. Before the advent of the euro currency, I brought home as a souvenir a German ten-mark banknote with Gauss picture on it. (In our country, we put politicians and revolutionaries).

The formula for geometric progression soon followed. Funny, when I first studied progressions in freshman algebra, I could follow the derivation of the formula but it was only after I read the anecdote of how Gauss used pairs ($1+100$, $2+99$) that I understood the derivation. Truly, there's a difference between knowing and understanding. I knew how it was derived but I never understood it. You need both to be able to claim that you have learned.

Hyperwage Theory

Multiplier

Why Gauss? As usual, I will give the answer in a circuitous path.

One of the most intriguing concepts in economics is the concept of the multiplier. I never really understood what it was and my economic education was focused on microeconomics not macroeconomics where the multiplier is used.

How is the multiplier related to Hyperwage Theory?

While I was developing the theory, I was able to stand on my own using ordinary logic and price-modifies-behavior hypothesis. In case you haven't noticed, these are non-economic arguments.

Since I lacked an overview of economic theory, I couldn't use economics to support Hyperwage. Yet, in my mind, I had a hunch that somehow the economic multiplier could be used to defend Hyperwage. The problem was that I did not have PhDs to confer with, and the economics graduates I knew seemed to disavow any knowledge of economics (I forgot my economics, I am now a salesman, etc).

Since I didn't understand the multiplier, I didn't have an idea where to begin, and what books to read. I guess, it must have happened to you as well in other subjects. If I tell you to study Kirchoff's Circuit Law, where would you begin?

Will the multiplier work against or in favor of Hyperwage Theory? I really didn't know, and the economists I asked by email, never replied to me.

Mathematics

So I read about the multiplier not because I needed it for Hyperwage but because I needed to know if it was relevant at all. Was there something in the multiplier that destroys Hyperwage Theory? Or is the multiplier a completely independent idea that is irrelevant to the theory? I really didn't know.

But when I read the textbooks, I couldn't understand the multiplier. Sure there was a very simple formula, I understood it but I never really grasped what it meant. And one minor thing. The

multiplier was dependent on a variable called the marginal propensity to consume (MPC) Whew! What is that?

So I had to read textbooks on macroeconomics, and eventually I had to read economics history and finally, I had to read the original revolutionary book of John Maynard Keynes called *The General Theory of Employment, Interest, and Money* (GTEIM).

Don't worry, we will discuss Keynesian economics soon.

Anyway, the formula for the multiplier although a very simple one, was obtuse because I had to understand the marginal propensity to consume before I understood the multiplier. But then I had to know what is “marginal” and what is “propensity” and what is “consumption” as these words are used in economics.

The formula is $k = 1 / (1 - MPC)$, thus for $MPC = 80\%$, the $k = 5$. For every dollar spent by the consumer, assuming the propensity to consume is 80%, the income for the economy is five dollars. If the people spent \$1 billion, the economy will grow bigger to the tune of \$5 billion.

Which essentially means that if we give or lend money to the poor say P50 billion, and they spend 80% of it, the entire economy will grow by P250 billion, and that solves our economic problem. Simple, isn't it? Hey, that's not my theory, that is the theory of Keynes.

What is the implication for Hyperwage? If for every P20,000 given to the low and middle class, they spend 90% of it on goods and services and invest or save the 10%, then the entire economy grows by P200,000. The multiplier is 10. Give away P20,000 and it multiplies in the economy to as much as P200,000. That's magic.

That's not my magic, that is Keynesian magic, and I didn't even know about it while I was developing my Hyperwage Theory.

Confused PhD

But that's jumping the gun. Let me get back to the math.

Is the formula for the multiplier simple? Yes. Is the effect of the multiplier magical? Yes. But did I understand the formula? Honestly,

Hyperwage Theory

no. I didn't. Yes, I saw how the books derived the income multiplier using the marginal propensity to consume. Yet, honestly, I knew, but I didn't understand.

I originated the Hyperwage Theory about a decade ago. I have heard of the multiplier about 15 years ago, but I only understood the Keynesian multiplier a year ago. Yes, that's the truth. I only understood it recently.

Again, I make a distinction between knowing and understanding an idea.

Why did it take me so long to understand the multiplier? The formula is simple enough. There is only one variable, the MPC. How could a self-proclaimed genius like the Street Strategist be confused?

Do you want the truth? Do you really want to know why it took me so long to understand the multiplier even if I read the textbooks dozens of times? Do you really want the whole truth?

Well, I tell you why. Actually, it is for the same reason why it took me a decade to understand debit and credit.

The truth is, I failed to understand the concept of the multiplier for a very long time because the economists do not know how to teach it. Really, that's the truth. I realized the problem was not with me, the poor non-economist, the problem was with the way it is taught by the economists. As I said, it's the same scenario as with my famous problems with debit and credit.

Why? What is the problem? The problem lies in the fact that economists try so hard to teach it in a very simple way, that the student fails to grasp the sweeping implications of the multiplier. I soon found out that some PhDs do not even grasp the multiplier concept accurately.

What is the best way to teach the multiplier? I will discuss that next time including why one PhD made a monumental failure when he said that the Keynesian multiplier will not work in the same way the money multiplier works in the banking system because the multiplier in the banking system is due to the fractional reserve requirement while there

is no such fractional reserve requirement in the economic model. Big words from a PhD but merely betray his shallow understanding of the multiplier.

The concept of the multiplier is very significant in economics that I think it should be taught the best way possible by the best person available: The mind of a seven-year old named Karl Friedrich Gauss.

(Thads Bentulan, Oct. 13, 2005)

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Hyperwage Theory

Does the Keynesian multiplier violate the Conservation Principle?

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The Violation of the Conservation Principle

*H*yperwage Theory takes advantage of the concept of the multiplier although this was an unintended intellectual alliance.

I never really appreciated Keynesian economics until

Hyperwage Theory

I studied the role of the multiplier just recently.

And I never understood the concept of the multiplier until I appreciated it from the work of Karl Friedrich Gauss 300 years ago when he was still in his teens.

Of course, the Keynesian multiplier was invented or first used by Keynes' student Richard Kahn.

But then, I guess it was for good the teacher got the credit because Kahnian multiplier is harder to pronounce than Keynesian multiplier.

Higher rate or more transactions?

But first, let me remind you that we are on the topic of whether the government in particular and the economy in general can afford Hyperwage.

Currently, our government works on the principle that it is better off if it invents newer and more ways to exploit and rob the poor masses with more and more taxation.

This is bad in many ways.

First, already the people have almost zero take home pay and now they will be made to pay for higher tax rates plus new kinds of taxes?

Second, the government is such a corrupt institution and its leaders are so corrupt that taxes only fund their extravagant bureaucracy and corrupt personal lifestyles.

Third, any tax always dampens the effect of the multiplier.

Faced with a deficit, should the government raise the tax rates and invent new ways to tax the people or should it encourage more commercial activities given the same tax rate?

I prefer the latter because the economy is active with more employment, more consumption, more distribution of wealth around, and of course, purchasing power is placed first in the hands of the people.

Should we change the VAT from 10% to 12% or should we have 12 more transactions to obtain the same amount of tax? Should we have 12 transactions at 10% rate or 10 transactions at 12% rate?

The Violation of the Conservation Principle

Let me remind you that Singapore has only a 3% VAT and they were even reluctant to adopt VAT in the first place.

On the hand, Hong Kong has zero VAT and no sales tax. The latter earns in some other forms of taxation because they know that VAT is eventually inflationary if it is passed on to the end-user.

The psychology of taxation

Besides, there is the so-called psychology of taxation. Businessmen raise prices higher than the proposed tax increase to cover themselves. If the new increase is 2%, the companies raise prices by 15%. That's the psychology of taxation.

If the proposed tax is eventually rejected, the companies will never revert back to the original price.

Again, this is a non-economic factor, but a real world market psychology. That is why economists who have never established their own businesses are out of touch with reality. They think their theory being covered by economic equations are workable in the real world.

Before we move on, what's the link between Hyperwage affordability by the government, the multiplier, and Gauss? Don't worry, I'll link them together soon.

Conservation principles

As I said, I appreciated the multiplier only when I understood it from the point of view of Gauss.

Now, listen very carefully because I realized recently that even PhDs are not immune to confusion about the multiplier. If a PhD is confused about the multiplier to the point that he thinks I'm the one who is confused, that is dangerous.

When I was in high school, I was fascinated with the new mathematical and scientific concepts that I learned every day.

Now, some of these principles or theorems have universal application that if you understand them, it would be easier for you to understand new scientific concepts.

Hyperwage Theory

One of them is the law of “conservation of momentum.” Another is the law of “conservation of energy” which lasted for hundreds of years before Einstein modified it to become the law of “conservation of energy and mass.” And another is the “principle of least action.”

These principles are so basic that whenever a new theory violates them, such theory is subject to skepticism.

In other words, keep your conservation principles close to your heart and you will hardly be confused with the advanced topics.

Conservation of money

Then comes the danger that comes with little knowledge. When I was in college, I read a book about banking, and I was mystified with the explanation of how banks create money out of money.

The banking system that relies on the fractional reserve requirement actually creates more money.

If a person deposits \$100, and the central bank requires a reserve of 10%, then theoretically, the entire banking community is benefited to the tune of \$1,000 or by a factor of 10. If the reserve was set at 20%, the total money created is \$500 or a factor of 5.

That was mind blowing for a student like me. What happens when there is a withdrawal?

Supposedly, the money in the banking system is reduced by a factor of 10 or 5 in our examples above. That is why a bank run is a terrible thing if allowed to happen.

Anyway, I saw the formula explaining the creation of money, but I am not proud to say, I saw but I didn't conquer.

For the life of me, I just couldn't understand it. I knew the formula but I didn't understand. It was knowledge without understanding.

Two things prevented me from understanding how banks make money.

First, I was a prisoner of a kind of brainwashing in science called the conservation principles. I was brainwashed into thinking that there is such a thing as the “law of conservation of money” that is, money

can never be created nor destroyed, only transferred from one hand to another.

Second, the explanation involved the T-accounts, the dreaded debit and credit, and remember I read that book before I invented the world's fastest method to learn debit and credit.

Given this combination, I couldn't understand how banks created money, even after I knew how from reading the book.

In fact, it was only recently that I finally understood the entire scheme, and only after I appreciated the process using the mind of the seven-year old Gauss.

Don't worry, I'll link all of these together.

Anyway, what I want to say is that it was my brainwashing on the conservation principles that prevented me from understanding some economic concepts.

Now, going back to Hyperwage, one economist ridiculed the manner I cited the creation of money in the banking system as a manner of explaining the Keynesian multiplier to ordinary people in the street.

Conservation confusion

I have to confess I was a slave to the conservation principle which was the reason I failed to develop the Hyperwage Theory fast enough.

But I'm not the only one confused. A PhD in criticizing Hyperwage said something like this:

When the employer gives P10,000 to the helper, her purchasing power is increased by P10,000 but the employer will be set back by the same P10,000 thereby lowering his purchasing power by the same amount.

Therefore, according to this economist, there is zero net increase in purchasing power in the economy. This is a simple transfer of purchasing power.

The above argument succumbed to the conservation of money fallacy.

Hyperwage Theory

If you were like me when I was in college, I will forgive you for such ignorance. If you are a PhD in economics and you use this argument against the Hyperwage theory, think twice before doing it.

Why? Because that transfer is not a mere transfer. No sir, it's not that simple. There is magic of the multiplier that applies to the money once it is transferred to the poor. We will discuss the full implications in an integrated explanation later on.

Multiplier confusion

Another argument by PhDs, which I find very surprising because it comes from PhDs, is that the money multiplier operates as such because banks are under the regime of fractional reserves.

Thus, the critics are implying that since there is no reserve system in the economy in general, the Keynesian multiplier does not work as the theory of bank multiplier.

Again, if you are a PhD, think twice about making such statements. Why? Because it betrays your misunderstanding of the multiplier.

Gauss to the rescue

Now let me integrate Gauss, taxation, money creation and the multiplier.

Gauss, at 6 or 7 years, invented the formula for the arithmetic progression. Naturally, he developed the formula for the geometric progression. At 17, he proved the fundamental theorem of algebra, a feat I have discussed a few years ago when I related how I invented the Street Strategist's accounting rules.

In my view, the best way to teach the multiplier is to teach it using the geometric progression.

In fact, it was only when I realized that the multiplier can be derived using geometric progressions that I finally grasped the intuitive aspect of the multiplier.

Of course, this method sounds absurd. How can we teach a strange concept such as a multiplier using another strange concept called

geometric progression?

I must admit, this method is unorthodox but it will prevent economics PhDs from suffering the two confusions discussed above.

One of the benefits of using the geometric progression concept is that you will not make the mistake of stating that the money creation concept of the banking system is not the same as the Keynesian multiplier.

Why? Because you will realize that these two are mathematically the same. Yes, they have the same mathematical basis and concept; only the environment differs.

Also, you will realize that transferring money from the employer to the domestic helper is not a simple process of transfer. This exactly has the same mathematical basis as depositing money with the bank.

In short, the process of depositing money with the bank and the process of increasing wages of helpers are mathematically the same. If there is money creation in the banking system, there is also money creation in the economy.

Thus, two concepts which confuse PhDs in economics, are resolved by using the mathematical formula developed by a 6-year old 300 years ago.

Isn't this neat?

Geometric progression

A geometric progression is a series where each term is a multiple of the previous term. For example: $1 + 3 + 9 + 27 + \dots$ the constant (or common ratio) is 3.

Now what happens if the we add all the terms from 1 to infinity of a geometric series (and the common ratio, r , is less than 1)?

The sum looks likes this:

$$S \equiv S_{\infty} = \sum_{k=0}^{\infty} r^k = \frac{1}{1-r} \quad -1 < r < 1$$

The above formula is valid only if the absolute value of r is less than

Hyperwage Theory

1.

Now, the sum of an infinite geometric series is dependent only on one variable, r , which is actually the ratio of the successive terms.

You are screaming by this time. That's more difficult than any other method of explaining the multiplier.

Well, yes and no.

In the first place, geometric progressions are discussed in college algebra, everybody is supposed to know this.

Second, this concept is so important because many economic and financial concepts can be understood or appreciated as geometric progressions.

Common concept

How do you value the stock of Microsoft Corporation? Probably you have heard of the Gordon growth model. Well, that formula is derived from a geometric progression. (The assumption of a 10% annual growth is a geometric progression.)

Have you heard of the dividend discount model? Have you heard of present value analysis? Have you heard of discounted cash flow?

All of these are geometric progressions in one way or another.

Thus, if you understand what a geometric progression is, then you understand its formula, then you understand the financial or economic concepts involved.

Geometric progressions are more common than you think.

Multiplier, money and consumption

When banks accept deposits and lend them onward, there's a geometric progression with $r=0.85$ if the reserve requirement is 15%.

When people spend 80% of their money, then the marginal propensity to consume is 0.80, and the multiplier is 5 given that $r=0.80$.

All I'm saying for the moment is this: whenever there is a geometric progression, we can adopt the multiplier formula. Adopting the

multiplier formula forces us to abandon the conservation principles.

Given this insight into the multiplier aspect of economic activities and their theoretical maxima we have an idea of the effect of our actions.

I will explain more about how geometric progression works but suffice it to say, it is a lot easier for us to understand the multiplier if we identify the presence of a geometric progression.

As a strategy policy guide, look for actions or policies that tend to generate a geometric progression and you will obtain the multiplier effect. Since a multiplier is a leverage, we achieve more with less.

For example, for a multiplier of 5 ($mpc = 0.8$), every \$1,000 dollar spent by a consumer redounds to the economy as income (not expense) of \$5,000.

That's the magic.

Before I go, I would like to point out that even Kahn or Keynes did not realize immediately the geometric progression aspect of the Keynesian multiplier because their derivation was different.

The student will learn deeper and wider if he is taught to identify a progression, then apply the formula, then derive the multiplier.

In this manner, he will not be as confused as PhDs who have weak grasps of mathematical foundations of the multiplier.

(Thads Bentulan, Oct. 20, 2005)

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Is the Keynesian multiplier a myth or as real as gravity?

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*The Reality of the
Keynesian
Multiplier*

The beauty of Hyperwage Theory is that it builds on both classical and Keynesian economics. From another perspective, it also builds on micro and macroeconomics. Paradoxically, these theories appear contrapuntal to

Hyperwage Theory

Hyperwage at first glance but once we actually delve deeper into economic and non-economic analysis we realize that the collision of ideas are merely a mirage collage.

Keynesians vs. monetarists

At this stage, we are focusing on the Keynesian multiplier in particular and Keynesian economics in general. Let me warn you that when I was younger, I was more familiar with Milton Friedman and his monetary theory, and I heard of Keynes only as name but never had any inkling of Keynesian economics.

In the aftermath of the 1997 Asian financial crisis, in “A Debate in Hong Kong” I wrote about directing a question at two famous economists whether Keynesian or monetarism is the solution to the crisis.

One was Allan Meltzer of Carnegie-Mellon University and author of books on monetarism and a critic of the IMF and World Bank, and the other was Lawrence Summers former US Secretary of Treasury and now president of Harvard University and nephew of Nobel Laureates Paul Samuelson and Kenneth Arrow.

Their opposing answers to my question, which included personal snipes at each other, were quoted in the *South China Morning Post* the next day and was aired on TV and carried by Bloomberg.

Monetarism and Keynesian economics need not be exclusive of each other. In fact, Keynes achieved an extraordinary feat of including a monetary theory in his revolutionary book *The General Theory of Employment, Interest and Money*.

Poverty

However, before we forget, these theories do not profess to solve poverty.

In fact, books on economics are about the wealth of nations and individuals.

The World Bank and the Asian Development Bank although tasked with eliminating poverty appears to me as being sidetracked by

too much focus on microlending, microhousing, microenterprise which are lollipop solutions to me because they affect only a micro number of people.

In contrast, Hyperwage Theory is comprehensive and single-stroke: Give labor its true cost and value. Is this an extraordinary theory? I don't think so.

Anyway, let's proceed. I would like to share with you my insights into Keynesian economics which like many other economic theories I have discussed earlier has become a nesting place for Hyperwage.

Who would have thought that the obscure theory of labor monopsony, the controversial study of Card and Krueger, the unknown features of asymptotic hyperinflation, and revolutionary thought of Keynesian economics are actually friendly theories and intellectual allies of the Hyperwage Theory? Not to mention the seven-year old Gauss.

Keynesian myth?

If you research on Keynesian economics you will come across economists who are anti-Keynesian. In fact, one respected journal published a paper on mythology of the Keynesian multiplier.

Now, guys, listen very carefully because what I'm going to say is not found in textbooks but my own insight into this Keynesian multiplier debate.

Some people think the Keynesian multiplier is a myth, an error in concept. Now the Keynesians who used deficit spending to save their economies defend the value of Keynesian economics and impliedly the Keynesian multiplier.

Is Keynesian multiplier a myth? I daresay no. And I further say that PhDs who believe it is a myth do not really understand the underlying principle behind the multiplier. And again this reflects their shallow understanding of basic economic concepts such as the Keynesian multiplier.

Let me explain in a roundabout manner because I explain things best this way.

Hyperwage Theory

My former accounting teacher found me obstinate when I pressed for an explanation as to why assets = liabilities + capital. I recounted this incident in “The Accounting Wizard” and “Inventing the Street Strategist’s Accounting Codes.”

Many accounting professors simply state that $A = L + C$ without deriving it or without any intuitive insight into it. It was only many years later that I found a better way to derive the accounting equation and now, I think it is the best way to explain it.

Why did I ask how $A = L + C$ was derived? Because I was brainwashed into thinking that all formulas are either postulates which we have to accept, or theorems which we have to derive from postulates or from the laws of nature.

For example, Force = mass x acceleration, Newton's second law of motion, is based on the laws of nature.

Another example Voltage = Current x Resistance, which is Ohm's Law ($E=IR$), is based on the law of nature.

Einstein's $E=mc^2$ is a law of nature.

Thus, if a formula or equation is based on a law of nature it cannot be a myth.

Physical reality

We go back to the question: Is the Keynesian multiplier a myth? In effect, the underlying question is: Is the Keynesian multiplier based on a physical law of nature?

This is probably the first time you've heard of this question: Is the Keynesian multiplier based on a law of nature thereby making it a real physical process?

If the answer is yes, it is based on a physical process, then the conclusion is that, no, it is not a myth.

Now that we know what question to ask, how do we answer that question?

Listen very carefully because even the Keynesian themselves are not used to this line of thinking.

The Reality of the Keynesian Multiplier

Ara earns \$100. His marginal propensity to consume (MPC) is 80%.

Thus, Ara spends 80% of \$100 on a product sold by Bobby. Ara's expense is Bobby's income which is \$80.

Assuming a constant MPC of 80%, Bobby buys the product of Charlie at 80% of \$80.

Charlies' income therefore is 80% of \$80 which is \$64. Charlie spends 80% to buy the product of Dylan.

Dylan's income therefore is 80% of \$64 which is \$51.2, and so on and so forth until infinity.

Thus, the total income for the community is Ara + Bobby + Charlie + Dylan + ... + until infinity. In amounts, this is: $100 + 80 + 64 + 51.2 + \dots$

Exhibit 9: Illustration of multiplier effect

Person	Income
Ara	100.00
Bobby	80.00
Charlie	64.00
Dylan	51.20
Edgar	40.96
Fiona	32.77
Gary	26.21
Harry	20.97
Ingrid	16.78
James	13.42
Kenneth	10.74
Loida	8.59
Miriam	6.87
Nancy	5.50
Until infinity	...
Total Income	500.00

Total income

Let's pause. One man's expense is another man's income is another man's expense is another man's income and so on and so forth.

Is this spending and earning a real physical process? Yes.

Is this a myth? No.

Therefore, if we can obtain a formula out this physical process, then the formula is not a myth but a physical reality.

Now, if you have noticed, the sum above is actually a geometric progression with common ratio $r = 0.80$. Thus, we have seen right before our very eyes that the spending and earning process follows a geometric progression.

And what did we say about a geometric progression with r less than 1? That progression can be simplified as the formula we discussed in the previous chapter.

The sum is $S = a(1/1-r)$. In the above example, $a=100$, $r=0.8$, therefore $S = 100 \times 5$ or \$500. The multiplier is 5.

What has happened? Think of the economy as a Keynesian magic box.

You give \$100 to a single solitary person, and out comes \$500 for the entire economy. Expense becomes income and individual corresponds to the entire economy.

In fact, it doesn't have to be called Keynesian or Kahnian because it is actually a physical buying and selling process.

Multiplier vs. gravity

What does this mean? The Keynesian multiplier is as physical as gravity, if we refuse to recognize the reality of the multiplier it is just the same as refusing the reality of gravity.

In other words, the discovery of the multiplier by Kahn and Keynes is equivalent to the discovery of gravitation by Newton. Gravity and the multiplier were there physically and these people only formulated the equation for it.

PhDs vs man in the street

Let's pause for a moment. We have PhDs claiming the Keynesian multiplier is a myth and that it is getting something out of nothing. After the explanation above by the Street Strategist do you think it is a myth?

Well, I don't think so. In fact, if you call it a myth, for me, it means that you have a shallow understanding of the physical process behind the multiplier concept.

As I have mentioned before, I confess that I didn't know whether the multiplier is a myth or not. I did not have enough education to decide so I believed the experts, the PhDs.

But when I integrated the concept of Gauss into the imbroglio, I had an epiphany. Eureka! I found it!

Remember I told you that the best way to teach the multiplier is via the geometric progression?

Having heard of my explanation, would you explain it another way?

That is my challenge to the teachers of economics.

Paradigm shift

If we learn of the multiplier via the physical process of buying and selling formalized as a geometric progression, then we are assured of certain benefits.

1. We will never question the reality of the multiplier, and we will be amused of PhDs who do.

2. We see the importance of buying and selling or the process of consumption. Even Keynes considers consumption as the most important factor in the economy. He devoted Chapter 10 of his book to this.

3. We see the paradox of thrift, that the more we spend, the better for the entire economy.

4. We see the benefit of transferring wealth from the rich (who simply hide them) to the poor who will spend them.

Hyperwage Theory

5. We see that transferring wealth from the rich to the poor by increasing wages is actually good for the economy as a whole.

6. We see that government can afford to pay hyperwage because the GNI or GNP is bound to increase to an amount determined by the Keynesian multiplier. Which government does not benefit from a greater GNI?

7. We see that taxation reduces spending therefore it dampens the effect of the multiplier.

8. We see that purchasing power does not operate on a “conservation of money” principle but on a “money multiplier” principle.

9. We see the Keynesian magic box that transforms \$100 of expense into \$500 of income and yet, this is not magic but a mathematical and physical process.

10. Hyperwage will exploit the Keynesian magic box. This is a win-win for capital, labor and government.

Can you offer a more suitable alternative?

Imperfections

I would like to remind you that I have not yet touched on the macroeconomic equation itself under the Keynesian theory.

I have only touched on the Keynesian multiplier. I deliberately focused on the geometric process of the multiplier because I realized that even PhDs do not understand the multiplier.

Is the buying and selling a perfect geometric process? No, but such imperfection does not eliminate the geometric nature of the process.

I hope I have justified my circuitous way of explaining a simple concept as the multiplier. Even Keynes in his book did not use the geometric process, which I think was a poor choice of weapon because his own method of explaining allowed his detractors to consider it a myth.

Brown, Wiener, etc

But had he gone by the geometric physical process, who can argue against a process as real as gravity?

In finance, there are many instances where a physical process or a process of nature (natural process) is the basis of an economic or financial formula.

Option theory uses the geometric Brownian process. Remember Robert Brown in 1827 and his discovery of particles in motion?

Then there is the stochastic Wiener process in finance theory. There's the Poisson process and the Bessel process.

At any rate, what I'm saying is that the mind process of the 6-year old Gauss gave me an insight into the Keynesian multiplier which I have never seen before.

As such, my appreciation of the Keynesian economics has been deeply enhanced.

Insights of a child

But if you didn't know the link between Gauss and Keynes, don't worry. I only learned of the linkage last year, although for several years I had this hunch that the multiplier would support rather than destroy Hyperwage Theory.

Where do we go from here? Hyperwage will use the Keynesian multiplier as a lever. And since we have already proved it is not a myth, we can proceed to an overview of Keynesian economics.

Now, I must warn you that Keynesian economics is not necessary to understand Hyperwage but since most of us do not know classical from Keynesian I will give an overview of the theory for completeness of our presentation.

I will discuss the minor concept called the accelerator effect, the investment multiplier, and the employment multiplier.

That should seal the macroeconomic aspect of Hyperwage. We have already tackled the microeconomics before.

After that, I will summarize the non-economic benefits of

Hyperwage Theory

Hyperwage, then provide a Q&A.

Isn't it great that we are now seeing the end of this series?

(Thads Bentulan, Oct. 27, 2005)

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Is Hyperwage harmonious with macroeconomics?

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Hyperwage and Macroeconomics

The Keynesian multiplier which was actually first used by his student Richard Kahn was unfortunately explain by both Keynes and Kahn using algebraic and finite difference methods. I think Keynes did this because he was afraid to use mathematics that may confuse his fellow economists and students.

This method backfired because those who are not apprised that there is an underlying physical process involved tend to dismiss the multiplier as some of a free lunch or getting something for nothing.

Hyperwage Theory

Even Nobel Prize economists became victims of this confusing concept.

To steer clear of this confusion, I introduced the infinite geometric progression of buying and selling, earning and spending to impress in your minds the real physical process behind the multiplier. It is the same physical process used by the banking system in creating money. The earning and spending process is as real as gravity, electricity and magnetism.

Now, I would like to remind you, the Keynesian multiplier is a process independent and separate from the so-called Keynesian economics.

Yes, the multiplier is part of the Keynesian theory, but what I'm saying is this: Even if Hyperwage or Keynesian or Classical theory is involved, there is still the real physical process of earning and spending. There is still the marginal propensity to consume. Consumption is a real process, whether or not you believe in Hyperwage Theory.

Hyperwage Theory calls on Keynesian Theory for hand holding but eventually Hyperwage zooms away with its hyper salaries which will scare even the Keynesians. But as I have mentioned and explained in the past chapters these fears are unfounded.

Macro

Now, we go into macroeconomics. In the earlier chapters, I have discussed the difference between classical and Keynesian but I will further discuss this topic later.

Let us have the macroeconomic equation according to Keynes. Keynes focused on the demand side (as against the supply side). The classical schools says that "supply creates its own demand." In the movie Field of Dreams, this is the principle of "if you build it, they will come."

On the other hand, Keynes says, "demand will create its own supply", or in other words, "if you demand it, they will build it."

You might think that these two are equivalent. Yes, in a way, but no, in the real world, they are not equivalent because the corresponding

fiscal and monetary policies for each theory will not be the same.

Then comes Hyperwage. But that's another story we weave into the two theories.

Since I assume zero knowledge on your part, let me define some terms.

Aggregate demand

Aggregate demand is the total amount that all consumers, businesses, the government and foreign entities plan to spend on all final goods and services of the country's economy. Note the four components of consumer spending, business spending, government spending, and foreign spending.

Consumption Expenditure

Of the four components of aggregate demand, consumption expenditure (C) is the biggest. It is about 60% to 80% of total expenditure. Note that Keynes has emphasized over and over again, that consumption expenditure is the most important of all the components.

Usually, macroeconomic analysis starts with a discussion of this particular component. This category of expenditure includes private or household or consumer spending on

1. durable goods (automobiles, appliances, etc.)
2. non-durable goods (food, clothing, magazines, etc), and
3. services (rentals, medical, transportation, education, amusement, etc.).

Of the three components of C, what needs special focus? We should focus on the third one, the service component. Why?

First, services represent the largest component representing, typically 50% of C in an economy.

In the Philippines, C could be from 70% to 80% of the Philippine economy.

Second, services include housing services measured directly by rents being paid from tenant to landlord in the case of rental housing. Or

Hyperwage Theory

indirectly as imputed rent that an individual would pay to himself in the case of owner occupied housing. There is no money exchange here but it is included in the computation. Ask the economists, not me.

Third, services cannot be inventoried. How can you store consultant's time or airline seats? Any change in the services aspect of the economy will have to be matched by changes in the other categories to maintain equilibrium. And this is not easy.

Consumption expenditure decisions are strongly influenced by household disposable (after-tax) income, household wealth, savings needs and plans, confidence in the future direction of the economy, and interest rates (in the case of durable-goods purchases).

Investment Expenditure

Investment expenditure (I) by businesses is a smaller but volatile portion of the aggregate demand in the economy.

This category of expenditure includes fixed nonresidential investment (factories, machines, transport equipment), fixed residential investment (new houses and apartments), and business inventories. Often the volatility in investment results from fluctuation in inventory levels due to changing expectation about business conditions.

Fixed residential and nonresidential investment refers to the creation of income-producing assets. Demand for the production of the asset will directly affect the revenue generated. Strong demand based on preferences, optimism, purchasing power, or demographics will lead to the desire for more investment expenditure.

Government Expenditure

Government expenditure (G) by the government is very important because it can change the economic situation in a large way. It can be used for fiscal or economic purposes, or for political purposes, or for legal regulation purposes.

Note that Keynesian economics surged after Keynes book was published because the governments loved this theory of government intervention. And in fact, Keynesian economics support deficit

spending which means that the budget need not be balanced. Which government does not find comfort in an economics that assures them that there is no need to balance the budget?

Net Export Expenditure

Finally, Net export expenditure (=export-import or $X-M$) is the export minus the import expenditures of an economy.

Formula for demand

Therefore, aggregate demand is = (consumption by consumers) + (investment by businesses) + (government expenditures) + (export - import).

In equation form: $AD = C + I + G + (X-M)$

Note, that this is the formula for aggregate demand and not income.

Equilibrium

Now, let us take a simple conceptual step.

The Gross Domestic Product (GDP) of an economy is defined as the sum of all the final goods and services of an economy.

What if the final goods and services produced in the economy (GDP, symbolized by Y) is also equal to the total final goods and services demanded (AD) by the same?

If the demand is equal to the supply, then we have an equilibrium $Y = AD$, or:

$$Y = C + I + G + (X-M) \text{ (equilibrium equation)}$$

where:

Y = total income (or specifically named as GDP)

C = household or private spending/consumption

I = investment spending by businesses

G = government spending/expenditure

X = exports

M = imports

Hyperwage Theory

Demand = Supply

If you have to know only one equation in macroeconomics this is it. But remember this equation is an equilibrium condition (where the aggregate demand is the same as the total goods and services supplied).

The income Y is known in economics as Gross Domestic Product (GDP).

Warning: Don't ever make the mistake that Y is automatically equal to $C + I + G + (X - M)$.

No, sir, it's not that way.

That equation is valid only when we assume that demand=supply or, in the words of the economists, there is a "general equilibrium."

Also, don't ever make the mistake of assuming that microeconomic (also named as "partial equilibrium") is the same as a macroeconomic general equilibrium.

In the US, using their own flow of funds data from the Federal Reserve, the GDP equation looks like this (in US\$ billions):

$$\begin{array}{rcccccccc} \text{GDP} & = & C & + & I & + & G & + & (X & - & M) \\ \$13,247 & = & \$9,269 & + & \$2,213 & + & \$2,528 & + & (\$1,466 & - & \$2,229) \\ 100\% & = & 70\% & + & 17\% & + & 19\% & + & (11\% & - & 17\%) \end{array}$$

Determinants

We have seen the determinants of the income of the economy under the assumption of general equilibrium. We can see a few things:

1. The economy grows bigger if there is more consumer spending (and yet, there is the additional effect of the multiplier which is not even seen in the equation above.)

2. The economy grows if the businessmen spend for expansion (investment) and yet, we have not even discussed the accelerator effect.

3. The economy grows if the government spends more (and even if it is in a deficit-spending mode)

4. The economy grows with more exports.

If you are in charge of the economic policy of the nation, what would you do? More government expenditure? More exports? More business expansion? More spending?

Look at the equation. Zoom in on the 60%-80% of the component (consumer expenditure), then zoom in on the purchasing power of the consumers.

How do you encourage them to spend? By giving higher wages, or by lowering price of goods?

If you think about it long enough, and if you read this series beginning Part 1, you will realize that the hope of any Third World economy realistically rests on the seemingly unrealistic Hyperwage Theory.

Thus, Hyperwage Theory weaves itself into Classical economics and Keynesian economics and yet it could be independent of the two.

Why? Hyperwage Theory relies on real physical processes that are immutable. It does not rest on some flimsy idea or principle but on physical processes as real as gravity and electromagnetism.

Is asymptotic hyperinflation based on a real physical process? Yes.

Is the income multiplier based on a real physical process? Yes?

Is hyperwage productivity and creativity based on a real physical process? Yes?

Is brain drain a real physical process? Yes?

In other words, Hyperwage is merely an integration of physical processes under the principle that price modifies behavior. Give labor its true value, and everybody in the economy will be benefited.

(Thads Bentulan, Nov. 3, 2005)

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Is hyperwage a social theory as well?

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The Greatest Social Theory

Before I start, I received many messages congratulating me on the following developments. First, there is now a strong consciousness in society and the government regarding the domestic helpers. There are seminars, forums, and studies on their plight.

Second, the unthinkable has happened, that is, previously only the leftists shouted for a high minimum wage increase but this year, even the majority congressmen are joining the chorus.

Third, many overseas workers are convinced of the theory at the

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same time many economists call it hogwash.

Fourth, most businessmen are in favor of Hyperwage than against it, some even asking me how they could implement the same in their firms.

Overall, my correspondents congratulated me for raising the consciousness of the stakeholders, that giving true value to labor need not be alien to our economy. But I'll reserve these correspondence for some other edition.

Street theory

I conjured up the idea of Hyperwage out of street experience. In attempting to formalize this theory with solid economic principles I conducted my own research because I did not know many PhDs in economics and those whom I know would rather stick to the status quo theory that has perpetuated Third World poverty than entertain ideas that lie beyond their normal horizons.

And still there are others I know whose knowledge on economics is limited to the word “economics” in their college diplomas.

That's an unfair statement but I tell you there are many economics graduates that come close to such unfair generalization.

Greatest social theory

I only learned to appreciate Keynesian economics recently when I was groping in the darkness of my economics background hoping to find some Keynesian candle in the dark.

I was extremely surprised at what I rediscovered. Not only did I find that Hyperwage could stand on the shoulders of Classical economics but also on Keynesian economics.

But my greatest rediscovery was that Keynesian economics is a huge bolt of lightning, a magnificent economic revolution, and probably the greatest social theory we have seen in the millennium. The intellectual jump from a hundred years of Classical economics built up by a hundred economists to the other side, Keynesian economics, conjured

up singularly by a gay mathematician was more than a leap of faith.

It was a flash of genius. It was Keynes vs. the world of economics.

Among the revolutionary ideas of Keynes was that he abandoned the *ceteris paribus* assumption (everything else unchanged) and adopted the “everything at once” principle.

And don't forget, Keynes was a true blooded monetarist before he became a Keynesian. After all, he wrote a book *A Treatise on Money*.

I must warn you though, that while Keynesian economics is the greatest socioeconomic idea of the millennium, it would soon be eclipsed in a decade by the Hyperwage Theory. You have been forewarned.

Keynesian Macro

Keynes probably invented the subject of macroeconomics, or helped define it separately from microeconomics.

Before Keynes, our macroeconomics was an imbroglio of amateur attempts at extending microeconomics to macroeconomics, which is susceptible to intellectual errors because macro is not as simple as a big micro.

If there's only one equation that you should know about macroeconomics, it should be the Keynesian equation:

$$Y = C + I + G + (X-M)$$

(national income) = (consumption spending) + (business investments) + (govt spending) + (exports – imports)

Multipliers and accelerators

The Keynesian equation has appertaining equations which are called the multipliers. These are:

1. income multiplier
2. employment multiplier
3. investment accelerator
4. other similar multipliers

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Income multiplier

This the multiplier that we have been discussing all along.

$$\Delta Y = k \Delta C$$

This shows that national income is proportional to the consumption spending by the consumers.

Investment accelerator

$$\Delta Y = \alpha \Delta I$$

This shows that national income is proportional to the investment spending by the businesses. This tendency for changes in consumption to induce changes in investment spending by businesses is called the accelerator effect. The accelerator, symbolized by the Greek letter alpha, α , is less than or equal to one.

Multiplier vs. Accelerator

New autonomous spending causes investment to accelerate (that's why it's called accelerator), so that aggregate spending is both multiplied by induced consumption and accelerated by induced investment.

What is happening? Until this time, I have only focused on the multiplier and hinted only on the accelerator. I deliberately focused on the multiplier alone so as not to lose your attention.

Yet, the economy is not benefited by the multiplier alone. There is also the so-called accelerator. The derivation of the accelerator above is similar to the derivation of the multiplier but unlike the multiplier, the accelerator can be derived using graphical methods without severe loss of intuitive content.

So is consumer spending good? Yes, in two ways. An increase in autonomous spending may increase national income via the accelerator more than the multiplier effect alone.

Employment multipliers

$$\Delta N_1 = k \Delta N_2$$

This shows that total national employment is proportional to

employment in the industries. This appears logical enough. If the helpers have high purchasing power, then they will consume more products. More products sold means more factory activities, therefore more employment for the factory and then more employment for the economy as a whole.

This is why I cannot understand why economists are vitriolic when it comes to Hyperwage. Maybe they have a hard time escaping from their old ideas and maybe the problem is not with the new idea.

Other multipliers

Many local governments in Europe and in the US are now focusing on the multipliers. Leontief started the so-called Input-Output Analysis. For example, in Australia, there is an input-output multiplier analysis of effect of establishing a local university. In China, you have the multiplier effect of establishing Coca Cola factories.

Warning: Don't be enamored by the multiplier alone. Just because the call centers give our economy the much needed multipliers does not mean that offering ourselves as the dirty kitchen of US tele-support is a correct economic policy. That would be the strategy of poverty that I attacked with all this Hyperwage Theory in the first place.

Keynesian prophet

So far, I have approached Keynesian economics from the multiplier effect. And yet this effect is not exclusive to Keynesian theory. It is a real physical process, and being such, any theory including the Hyperwage Theory can adopt it without resorting to Keynesian economics.

Does Keynes make sense? Many do not agree with him, but many in the US and European government now adopt his policies.

Recently, I found my old copy of the memoirs of John Kenneth Galbraith, the famous American economist.

Although the book was written in 1981, I bought my copy in 1988. I still can't remember why I bought that book. I didn't know

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Galbraith and I didn't know economics and why I bought that book with my hard earned salary, I don't know.

The only thing useful I got from that memoir is a technique on how to recruit employees, which I obtained from Galbraith's technique in how he chose his students.

Anyway, reading it again this time, gave me insights which I didn't get the first time around. Remember that it was Ken Galbraith who brought Keynesian economics to America from England. He was the disciple of Keynes and the guru of Keynesian economics in America.

Teaching millionaires

Allow me to relate an episode from that book.

Henry Dennison, then about 60, was a multimillionaire in 1936 having one of the biggest companies in the US. He was an inventor, lover of the arts, and interested in intellectual pursuits. Of course, he advised American presidents, being a millionaire qualifies him so.

Due to his position as government adviser, an idea was hatched that Dennison write a book that supports Franklin Roosevelt and Galbraith was tasked to teach the millionaire some economics. Dennison provided the latter with a lovely house, and his huge personal library as working space. It was some kind of a vacation paid for by the multimillionaire.

What was wrong with the economy? Remember the Depression started in 1929 and by 1936 there were still suffering. Galbraith, the Harvard professor, like many economists in Harvard and in the US believe that the problem was this: Big companies that control the economy as monopolies, oligopolies, or monopolistic competition. Solution: More competition, more anti-trust laws. This line of thinking was due to the famous Alfred Marshall whose book on economics has been the gospel of economics.

Incidentally, Keynes was one of Marshall's outstanding students.

But the millionaire's view was different. He saw income as having two streams. One stream flowing to the workers where it is spent

(spending stream). The second stream to businessmen where it is saved (saving stream). Dennison believed that the Depression was caused by the saving stream. His solution: that saved stream should be spent, which may include shifting from sales tax to income tax. (Note: in contrast, our VAT approach is not good according to Dennison philosophy.)

Heretic

Galbraith, the Harvard professor, wrote: *“To anyone properly learned in economics, it would be hard to imagine a more horrifying idea. Well over a century earlier Jean-Baptiste Say, the great French economist, had formulated the Say's Law of Markets, which established that all production created the purchasing power by which it could be bought. All of the income from the sale of a product accrued to someone, somewhere, in wages, payments for raw materials, interest, or profits. And in doing so, it provided the purchasing power to buy what was produced. Were some of these receipts saved, it made no difference; someone else would borrow and spend the savings, and if they didn't, the price of the product would automatically adjust itself downward so the reduced expenditure would still be sufficient to clear the market. In 1936, it was not only wrong but professionally unwise to reject Say's Law. It was a litmus by which the reputable economist was separated from the crackpot. The crackpot failed to pursue income from the sale of a product on to its use; thus his simplistic conclusion that there could be a shortage of purchasing power in the economy. Since I took seriously my reputation as well as my commitment to economic truth, my dilemma, given Dennison's heretical vision, was difficult one.”*

Indeed how does one refute errors in the economic thought of a multimillionaire who is providing you with a nice house and nice office in writing your book?

Shaken

How was it resolved? In the weeks that Galbraith was writing and refuting Dennison, he was reading at nights, the newly published

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General Theory by Keynes.

Galbraith wrote: *"I discovered that Keynes was with Dennison, and not with me. His explanation of oversaving was much more sophisticated than Dennison's but in the practical consequences precisely the same. There could be unspent savings when they appeared, prices did not adjust smoothly down to ensure that the same volume of goods would be bought by the reduced (after-saving) purchasing power. Instead output and employment fell until reduced profits, increased losses, and the need to spend from past savings ensured that all income from current production or its equivalent was spent. A new equilibrium was thus established, one with a lot of people out of work – the underemployment equilibrium. I was shaken. This was not the primitive instinct of a businessman; this was the sophisticated case of a greatly renowned economist."*

When Galbraith told Dennison, the latter replied: "I'm not surprised, Keynes had always made sense than most economists."

History repeats

Dennison's company is still alive, it's now called Avery Dennison, and we use their labels in our offices everyday. Galbraith became US Ambassador to India, and Keynes changed the world.

It was because of his encounter with Dennison that Galbraith applied for a grant to study under Keynes in Cambridge, England. When he returned to the USA, he brought Keynesian economics with him.

Why did I relate this story? Come to think of it, a Harvard professor in economics thought a millionaire with street strategies is a crackpot. And yet, the professor did an 180-degree turn. And not only that became the prophet of Keynes in America.

Remember the reaction of two former secretaries-generals of the National Economic and Development Authority? They could be as wrong as with Hyperwage as Galbraith was to Dennison.

The *General Theory* of Keynes was written heavily in 1935 and published in 1936. The Hyperwage Theory of the Street Strategist is

written in 2005 and to be published in 2006.

History repeats itself. And yet, Keynes was all about economics. In contrast, Hyperwage cover both economics and non-economic aspects of society.

Watch out John Maynard Keynes, the greatest social theory in the millennium – Hyperwage Theory – is about to eclipse yours.

(Thads Bentulan, Nov. 10, 2005)

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Hyperwage Theory

Are hyperwage and Keynesian economics harmonious?

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Hyperwage and the Keynesian Economy

Economic history is divided into two major periods namely, Classical economics and Keynesian economics. And soon a third period for Hyperwage economics. Classical economics includes the cumulative ideas of Ricardo, Walras, Adam Smith.

The book *Principles of Economics* by Alfred Marshall of Cambridge University became the bible of classical economics by which all great economists learn their economics including those at Harvard. Incidentally, one of Marshall's greatest students was John Maynard Keynes.

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That Keynes revolutionized economics single-handedly is a testament to the philosophy that all experts could be wrong and that it is possible a single person could be right. Keynes mastered all the principles of classical economics and then threw them away. Keynes practically invented macroeconomics as a separate discipline and is credited for formulating the equilibrium formula $Y = C + I + G + (X - M)$ or supply=demand.

Keynes bravely dismissed Say's Law which we discussed in the early parts of this series. He considered it false. Classical economics assumes that supply will remain the same while the prices will adjust. It also assumes that labor wages go up or down based on the law of supply and demand. Money velocity is a great factor in Classical economics. Keynes dismissed the classical assumption of Price-Wage flexibility.

But the reality is different. If an economic model is far from reality no matter how mathematically elegant it is, then it must be abandoned or reformed. Keynes observed that prices are sticky, that is they don't go up or down, just like that.

Thus, he invented a theory of aggregate demand, that demand creates its own supply, opposite to the classical view that supply creates its own demand. Keynes realized that following the Classical thought results in a depression, and in fact Keynes was able to explain the Great Depression.

Hyperwage Theory draws on both classical and Keynesian economics, and in fact depends heavily on Keynesian principles.

What is the difference between Hyperwage and Keynesian? Keynesian is inflation-centric while Hyperwage is purchasing-power centric. Thus, Keynes will be scared of Hyperwage.

But remember, Hyperwage is for the Third World not the First World. Thus, there is no real conflict at all.

Accelerator and Multiplier

Under the Keynesian equation, we have both the accelerator and the multiplier effect of consumer spending and business investments.

I have discussed the multiplier effect.

On the other hand the accelerator works this way. If the businesses invest \$400 million in capital equipment (I), it induces an acceleration to the total income of the country by an extra \$200 million in national income (Y) assuming the accelerator coefficient of capital output ratio of 1:2 or 0.50.

The accelerator effect is due to the fact that changes in consumption expenditure induces changes in investment spending. There is more demand because of more consumption and this means that the businesses will have to expand. Who says more purchasing power for domestic helpers is bad because businesses will close down? Again, note the importance of consumer spending.

The higher the value of the Marginal Propensity to Consumer (MPC) the larger the multiplier and therefore the greater the increase in income, output and employment from an exogenous increase in expenditure. Similarly the higher the capital output ratio the larger the accelerator and the greater the fluctuation in economic activity from any increase in Y.

Thus the combination of MPC and accelerator which will yield the smallest changes in income, output and employment will be that where the values are lowest.

By the way, there are two types of increases in consumption in economics. First is the induced increase which is a movement outward along the fixed consumption function. The second increase is the autonomous increase where the entire consumption shift up. I know I don't make sense but in my series *The Thaumaturge* I explained the difference between shifting of curves and moving along one curve.

Note that these are real physical process and not a product of the Keynesian thought. Thus, any theory can adopt these physical processes as its foundations and basis.

In other words, one doesn't have to be a Keynesian or a Classicist to invent his own theory as long as that theory is based on real physical processes.

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Government multiplier

Increase in government spending (G) results in a positive multiplier while a decrease in government spending results in a reduction of the GNP or GNI by an amount by some multiplier.

Tax multiplier

An increase in tax results in a negative multiplier, therefore, taxation should be moderate.

Export multiplier

Net export results in a multiplier that is the same as the consumption multiplier. However, net export is hard to control because it depends on foreign buyers.

Inflation

Inflation dampens the effect of the multiplier. However, don't worry because under Hyperwage Theory, inflation has an asymptote.

Circular model

There are two flows in the economy, 1) the money flow and 2) the factors of production.

This is simple enough. From households, the consumers spend and pay for goods and services. The businesses also give incomes to the households.

Managing the Keynesian economy

This is not part of or necessary to understand Hyperwage Theory but for those who have zero knowledge on macroeconomics, allow me to discuss the fiscal or monetary policies of Keynesian economics so that you will acquire an insight as to what can be done or what should be done.

National income = consumption expenditure + investment expenditure + government expenditure + net exports

Consumption *uber alles*

Keynes has emphatically stated that consumption (or consumer spending) is the key to managing the national economy. And yet, our current policies do not give purchasing power to the poor. This is where Hyperwage comes in.

Why consumption? Because C is the factor that can be directly controlled while the others are indirectly controlled. And remember, consumption has a multiplier effect.

In addition, in some economies, C could range from 60% to 80% of the economy.

I have to point out that under Classical economics, there is no need to intervene in the economy to maintain equilibrium because of its self-adjusting assumption. But what worker wants to accept reduction in wages?

ISLM

The Keynesians have two approaches to the economy namely, demand = supply approach and the savings = investment approach (IS). This is called the ISLM approach popularized by John Hicks.

Now, listen to this: Keynes has determined that the chief cause of unemployment is “insufficient spending.”

Remember the arguments between Dennison and Galbraith? And lo and behold, this is exactly the objective of Hyperwage Theory, to provide spending power.

We have direct control over consumer spending by giving them the purchasing power in the first place.

What affects consumption? Here are some factors:

1. fiscal and monetary policy that affects interest rates
2. reducing interest rates encourages people to borrow and buy goods
3. increasing interest rates dissuades people from borrowing and slows consumption
4. reducing tax rates increases consumption

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5. higher disposable incomes increases consumption

Managing the Investment Expenditure

What affects investment by businesses for expansion?

1. interest rate
2. actual output of the economy
3. replacement expenditure or depreciation

Investment cannot be controlled directly by policy measures, therefore, we go back to consumption as the key to managing the economy.

Separation theorem

Monetary policy as to interest rate are indirect ways of controlling investment expenditure. By the way, lowering of interest rate is not a guarantee that investment expenditure will increase.

After all, the financing decision is separate and distinct from the investment decision (separation theorem). Therefore, whenever our central bankers talk about using monetary policy to control interest rates in order to induce investments, don't really believe them, hook line and sinker. Throw the separation theorem at them. And don't be surprised if they don't know what it is.

Policy changes have indirect effects on the components of the GNP. For instance, increase in money supply tends to increase investments that tends to increase consumption.

Budget

The policy maker exercises indirect control over the budget because budgeting is a legislative function. Fiscal policy controls directly the government expenditure.

Policy Making

The two main variables to focus on are 1. Potential output which is the supply potential of the economy and 2. Actual output which is the demand for the output of the economy.

Based on current policy directions, there is little that can be done to control “potential output” but you can do a lot about “actual output.” According to the Keynesians, if you get it right, you get unemployment right, and inflation right.

Again, this is the inflation-centric policy-making process that Hyperwage is against. This is where Hyperwage departs from Keynesian economics.

Role of government

Government under the Keynesian economy usually provides demand whenever the consumers are not in a position to provide it. But it is never the intention of Keynesian economics that government should intervene in the pricing mechanism or in commercial decisions. Government intervention should be minimal in other respects.

Is a balanced budget necessary? Pump priming through deficit spending is justified in the Keynesian model but the government should not compete with private business in other ways. That is why infrastructure spending is the common mode of pump priming by the government. The government has no business being in business. We must privatize as much as we can. I wrote a few years ago that government should be a service regulator not a service provider.

Almost paradise

We are nearing the end of our exposition of Hyperwage Theory. According to classical economics the Great Depression was due to loss of incentive to produce due to heavy market concentration (monopoly, oligopoly, and monopolistic competition and their appertaining “kinked” demand curves.) The economists analyzed the Depression and identified such is the cause. Another implication of the Classical analysis was to reduce wages to maintain the demand=supply equilibrium for wages and labor.

To Keynes, this was absurd because prices and wages in real life were not flexible downwards. They can go up yes, but not really go

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down.

Keynes believed that excessive savings was the culprit, thus was born the Paradox of Thrift. Thus, if you cannot force businessmen to invest, then the government steps in to put money back to the economy to offset the savings of the businessmen.

Don't forget, not everything that is saved is actually invested and therefore Keynes provided different theories for savings. Savings is based upon "liquidity preference," the need to hold money could be for:

- 1) Transactionary Motives: for every day use
- 2) Speculative Motives: save because prices may drop
- 3) Precautionary Motives: save due to uncertainty (when a recession is expected).

General equilibrium for the economy (as opposed to partial equilibrium in the micro level) is explained by the Classical economics this way:

1. Prices are flexible, output is stable.
2. Changes in Aggregate Demand (AD) cause prices to change, Aggregate Supply (AS) determines Real GDP.

The Keynesian explanation for general equilibrium is this:

1. Output adjusts, prices are stable.
2. Changes in AD cause changes in employment and Real GDP.

Hyperwage Theory, on the other hand, looks at the failure of Keynesian economics to solve the poverty and the economic problems of the Third World countries.

Both Classical and Keynesian economics are inflation-centric.

Hyperwage Theory states that both theories are ineffective because they suffer from the unwarranted fear of hyperinflation.

Hyperwage loves one type of inflation called the asymptotic hyperinflation. This theory states that Third World economies should be purchasing power centric, not inflation-centric.

The Keynesian model has been prevented from fully blooming in Third World countries because the policy makers have ignored the

fundamental success of the Keynesian model: consumption *uber alles*.

Hyperwage Theory surprisingly weaves elegantly into Keynesian economics in providing the consumption power to the poorest of the poor.

And that will solve the economic problem.

And then again, there is the non-economic aspect of Hyperwage.

(Thads Bentulan, Nov 17, 2005)

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Hyperwage Theory

Does price modify non-economic behavior?

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The Secret of Hyperwage Theory

*I*t is high time to recapitulate the secret and the beauty of Hyperwage Theory. The secret of Hyperwage Theory is that price modifies behavior. The beauty of Hyperwage Theory is its elegant handling of non-economic issues.

Yes, price modifies behavior. The other face of Hyperwage Theory is about using economics to solve non-economic problems.

While Classical economics and Keynesian economics are only concerned with unemployment, interest rates, monetary velocity, and

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other economic variables, Hyperwage Theory addresses these issues as well by standing on the shoulders of these two schools of economic thought, plus, yes, there's a very big plus, Hyperwage Theory handles non-economic issues as a direct logical and natural consequence of the theory.

Classical vs. Keynesian

Assume an economy of 200 million consumers consuming 20 pounds of apple per capita annually or a total of 4,000 million pounds of apple at the price of US\$0.23 per pound.

If the consumers have lower purchasing power due to loss of jobs for example, under the Classical model, the price of apples will go down to say US\$0.19 per pound so as to maintain the supply-demand equilibrium.

In other words, the 4,000 million pounds of apple will still be consumed – same quantity - but the new price of US\$0.19 will be the new price. Same quantity, new price. This is Classical economics.

Now Keynes observed that this is false. The price will still be US\$0.23 because prices are sticky, and will not go down easily. However, the new demand will be lower, say, only 3,800 million pounds.

For Keynes, it is the demand that will adjust first, not the price. This insight is revolutionary and heretical.

Same price, new quantity.

Of course in the long run, both demand and prices will have to change, but Keynes was tired of all this “long run” arguments. Keynes said: “In the long run, we will all be dead.”

Markov chains?

Keynesian economics effectively dismissed the *ceteris paribus* (changing one variable while holding other variables constant) assumption, and proposed an “all at once” approach to the macroeconomic equations.

However, you must be aware that the Keynesian equations are not to be solved “simultaneously” because there is some kind of a time sequence to the effects of Keynesian policies.

Warning: Blind and wrong interpretation of Keynesian principles may lead one to conclude that the government can supplant market forces. This is wrong. Government provides the pump priming or impetus but must withdraw from the market once it has achieved that purpose.

Anyway, a thought came to me a few days ago. If Keynesian equilibrium is not to be solved simultaneously, is there another approach that the economists throughout the world have missed?

I remember what I did in my marketing management class many years ago. I used Markov chains which are usually used in nuclear scattering processes in atomic reactions to analyze a marketing problem. Is it possible that Keynesian equations can be solved using Markov chains which are transitional probability matrices?

Guys, econometricians, I have just given you a lead. Why not use Markov chains to analyze Keynesian economics? I’m too old for that stuff. And I’m sure my mathematical ability is inferior to the new generation of math wizards.

Economic issues

I have written the “economic” aspects of Hyperwage Theory against the backdrop of Classical and Keynesian economics. At this stage, it must be clear in your mind what makes Classical economics classical and what makes Keynesian economics Keynesian. If not, it would be difficult for one to analyze how Hyperwage weaves into these schools of economic thought.

Also, it must be clear by this time that Keynesian and Classical mechanics do not kick out Hyperwage Theory, and that only the unfounded fears of inflation, unemployment, and unaffordability prevent us from accepting Hyperwage.

Having demolished such unfounded fears, I see no major obstacle

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to Hyperwage being applied to Third World countries where the poor people are getting Third World salaries and paying for computers, cars, heavy equipment, aircons, cellphones, steel, oil, and other global goods and services available in this internet age at First World prices.

Hyperwage Theory engenders possible quantum jumps in economic activity and employment due to a quantum jump in purchasing power. This will catapult any Third World country into a positive upward spiral with greater demands for goods and services.

Again, the implementation could be staggered, and we could strategize a safety net during the transition period.

However, let me remind you that minor increases in wages that merely serve to recover the loss of purchasing power is not the increase contemplated by the Hyperwage Theory.

Non-economic issues

Whenever, economics experts call Hyperwage Theory hogwash, I always reply: You are looking at the economic aspects of the theory using your academic brainwashing. Forget about the economics, and look at the non-economic benefits.

As an economist, how do you solve current real issues like doctors going abroad as nurses, or law graduates working as call center telesupport girls, or teachers working in the Middle East as domestic helpers, or children growing up with no mothers or fathers because the latter are working abroad, or people in the streets stealing manhole covers?

You know, the economists cannot answer these problems because these are non-economic problems.

There are no economic equations for these problems. The economists simply do a Pontius Pilate.

On the other hand, Hyperwage is comprehensive. It addresses both economic and non-economic issues. And the solution is very simple: Correct the mispricing of labor. And I'm proposing minimum wage for the poorest at P20,000 per month.

Price modifies behavior

This time we will be using economics (Hyperwage Theory) to solve non-economic problems or social problems. While you may think that I'm out of touch with reality in writing a theory while the rest of the world are facing real world problems.

But come to think of it, what problems? Housing, unemployment, inequitable distribution of income, brain drain, petty crimes, petty corruption, expensive oil, expensive computers, low productivity, lazy workers, inefficient systems, bloated bureaucracy, silent majority?

Many of these are non-economic or social problems and our economic policies are scattered and confused. There are so many agencies doing projects resulting in more corruption and less impact on small number of beneficiaries. Very pathetic.

But price modifies behavior, and Hyperwage Theory banks on this weapon to finally attempt to propel Third World countries to First World status.

Hyperwage Theory addresses many "non-economic" and even economic issues with direct, proximate and logical connections, which current theories either address separately with separate isolated strategies, or never address at all.

Population control

How do you address population explosion? Guys, you won't believe this but the United Nations spends tens of millions of dollars to address the population issue.

Stephen Hawking, one of greatest scientists of our time, was asked by CNN's Larry King: "What worries you the most?"

Hawking replied: "My biggest worry is population growth, and if it continues at the current rate, we will be standing shoulder to shoulder in 2600. Something has to happen, and I don't want it to be a disaster."

Can you imagine Stephen Hawking being stumped by the population issue, or thousands of experts in the United Nations spending hundreds of millions in dollars solving this problem with no

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major result?

Let the Street Strategist solve this problem: Give the poorest of the poor the correct labor price. If you give the domestic helpers a minimum wage of P20,000, do you think parents will consider having four children with four domestic helpers as is common among the middle class?

No way. How can the parents afford four domestic helpers? Price modifies behavior. This is the reason why Hong Kong, Singapore and Japan and other First World countries have low birth rates. The Third World is growing 300% faster than the First World.

Did it ever occur to you that Hyperwage is a better weapon than any other UN program? The control is at the mother-father level, and it is a real control because helpers will be very expensive.

I am hurling a challenge at you: Find a more elegant, cheaper, more direct, more grassroot solution than that.

In other words, Hyperwage automatically addresses the non-economic issue of population explosion.

Or at least, even if Hyperwage will not solve the issue comprehensively, it will dampen the explosion.

Hyperwage tends to solve the problem rather than exacerbate it.

Did I warn you in the earlier chapters that the solution to population explosion and low productivity is the same?

Tax evasion

What is our policymakers' solution to tax evasion? If you read the newspaper they invent all types of rules and regulations. That's good, but you know each new rule is a new source of petty corruption.

Furthermore, each rule is a new productivity-wasting procedure for compliance.

Let me tell you my solution. There are millions of middle-size and small businesses that evade taxes by under-declaring income in connivance with tax examiners. We can never eradicate this. Why not pursue a different strategy?

The solution: minimum wage of P20,000 (US\$400) so the sales clerks will get about P25,000 to P35,000 per month. Now, watch this line of thinking closely. Even if the owner cheats his taxes, he cannot cheat on the salary.

Thus, the high minimum wage is actually a tax on the income of the business owner but instead of this “tax” going to the government where it will be subject to corruption, it is given directly to the workers. From business firms directly to the workers.

Therefore, never mind if owner does not pay these “taxes” to the government because he will simply evade taxes. As long as he is “taxed” in form of higher wages to be paid to his laborers, the entire economy would be benefited.

At any rate, the workers will pay more taxes because of their new high salaries, and more consumption taxes whenever they spend. There will be more sales because the workers will have to spend that money one way or another. The government will still get its share in the end.

But what if the owner cheats on the payroll? Guys, if your pay is worth one color TV set per month (P20,000 (US\$400)) will you allow your employer to cheat you? No way, one TV set or two aircons per month is too big to be cheated out of you. This time, the workers will be empowered to complain. The amounts are not negligible anymore.

And the government should be strict in enforcing the regulations, this doesn't cost them more than not enforcing them.

Did you think in the beginning that Hyperwage is a good weapon in our tax collection process? Now, isn't Hyperwage Theory elegant?

Cost consciousness

There are so many processes that we take for granted in our daily operations because the price of labor is cheap.

For example, without planning the day, many companies send out their messengers to do errands which are not critical to the business. Because if you pay only P4,000 a month, you can afford to have a messenger.

Hyperwage Theory

But if the pay is P25,000 for a messenger, (P20,000=US\$400) for the domestic helpers), the business owner will ask: Do we really need our own messenger or, should this person become his own Messengerial Service and he can charge us and other companies a per-transaction rate?

In this manner, we are cost-conscious, efficient, and the messenger has become an entrepreneur. Isn't it elegant?

Instead of hiring an in-house Xerox operator, all Vice Presidents do their own photocopying. The top executives of San Miguel Corporation always have this culture shock when they visit SMC Hong Kong.

No more one-to-one secretaries, no more pantry janitors, no more unnecessary costs. But don't worry about unemployment because there will be more businesses and they can be employed under a different set of skills.

I have to go now but I will discuss more non-economic benefits of Hyperwage next time.

(Thads Bentulan, Nov 25, 2005)

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What is the beauty of Hyperwage Theory?

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The Beauty of Hyperwage Theory

The beauty of Hyperwage is in its elegance in handling non-economic issues. Here are some more non-economic benefits of Hyperwage.

Slow wheels of justice

One is the very slow wheels of justice in Third World countries. In Hong Kong, a conviction for murder can be obtained in three to four months compared to about five years in a Third World country.

Here's an example. Asia's biggest "shabu" laboratory was discovered

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in Mandaue City in central Philippines recently. Their mastermind was arrested in Hong Kong a few days later. The Hong Kong case was tried and the mastermind served sentence in less than a year and has since been released.

In the meantime, the trial of his cohorts in Mandaue has not even started after one year. This is a very glaring difference in the speed of dispensing justice.

Think of this, the trial in a First World country is extremely faster because the lawyers and all the court personnel are expensive. And the lawyers themselves are conscious that they are charging an arm and a leg for an appearance. I heard the lawyer of the drug lord mentioned above was charging HK\$100,000 (US\$13,000 or P700,000) for his first appearance alone, not to mention the first class hotel and first class tickets from London. And to think nothing much was done on the first day.

Once we realize that court janitors and court stenographers are getting P20,000 (US\$400) to P40,000 per month, and that if there's a cancellation without sufficient notice such costs are charged to the litigants, then we will be super productive. Relatively, the slow wheels of justice will turn faster, not slower, under a Hyperwage regime. Therefore, Hyperwage can only improve, not delay, the dispensation of justice.

Filipino time

This is not only Filipino time but Third World time. Because we don't value our labor and our own free times, we expect everybody else not to value their own times as well. So, it isn't abnormal in Third World countries for friends to arrive two hours after the appointed time. Or for government functions to start an hour later.

Under a Hyperwage economy, this bad habit will be eradicated almost overnight. Don't waste my extra hour because I could have been babysitting our neighbor's baby.

Even the government will be conscious of the huge waste of

productivity of 200 people waiting with nothing to do but wait for the event to start. At P100,000 per month, their daily rates are simply too high (P625 per hour x 200 = P125,000 per hour of delay).

Again, Hyperwage will reduce, not increase, the waste due to the Filipino time.

Bad quality

We are used to bad quality because we cannot afford high quality items. (Puede na yan). But the repair, loss, or waste of time due to bad quality products eventually costs more for the economy than buying a better product. And yet we are not aware of this because we are more interested in our own cash flow than in the waste of time and opportunity.

We do not demand good products because we don't have the purchasing power to buy quality products. Since we don't buy quality products, we don't make quality products. And since we don't make quality products we can't sell them abroad. And since we cannot sell abroad we have no inward earnings.

And, the irony of it all, we buy quality equipments from the US or Germany or Japan or Finland where those goods are made using Hyperwage salaries.

In a Hyperwage economy people demand quality products to avoid wasting their time and productivity, and maybe we can then export our quality products. All these are good for the Hyperwage economy.

Bad service

Another non-economic benefit of Hyperwage is the reduction of bad service providers. Since we can afford a higher level of prices for services, we will be seeking the best service providers and we will tell the bad ones in the face that they are not doing their best. The cost of services will rise but maybe a rise of 300% while the domestic helpers have their salaries increased by 1,000%. Not a bad prospect really.

Therefore, Hyperwage will encourage high service quality. We will

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demand brownout free electricity, high quality water in our pipes, and LPG via pipelines to our homes.

Empowerment

There's no denying that Hyperwage will empower the consumer. Poor service by government agencies? Today, we lack the moral courage to castigate a government agency worker who renders poor service. But if our consumers are with hyperwage incomes, then they feel righteous and courageous. They will file complaints, they demand better government service, they will raise hell.

But now, given our hypowage salaries, we are too meek because as helpers, as janitors, we earn only peanuts and we don't even have the courage to complain to the Department of Labor the violation of minimum wage laws.

But if we received Hyperwage, there's no way you will allow the employer to cheat you of your minimum wage. After all, the domestic helper will now be earning the equivalent two aircon units, or five cellphones, or one computer unit per month.

Enrichment of a few

In Third World countries only a few are enriched such as the politicians and corrupt government officials. With Hyperwage, the poorest of the poor will be able to share some of that enrichment. Remember, they are entitled to it as provider of the labor that enriched them.

Red tape

Bureaucratic red tape will be reduced under a Hyperwage economy because the people will be demanding faster services such a issuance of licenses and permits. Since the government by that time will earn more from the taxes of Hyperwage salaries, then it will have money to buy computers and systems that will improve systems, and also to bypass procedures which have no real added value to the system.

Overtaxation

Right now, our people are overtaxed because there are a few taxable transactions and the government tends to increase tax rates rather than increase the number of taxable transactions. In a Hyperwage economy, the rates could be lowered while the transactions increase. The government will be able to reduce rates avoiding overtaxation.

Reliance on human labor

There is an unnecessary reliance on human labor because labor is cheap. Slow, inefficient and prone to repetitive errors. This will prevent or discourage research and development in innovation, computerization, systems studies, and invention of labor-saving devices. In a Hyperwage economy the incentive is automatic because price modifies our behavior.

Protection of industries

When Third World countries protect an industry, usually that industry is labor-intensive because it is not efficient. This protection results in more inefficiencies. And there is poor desire or incentive to improve to compete against the world market. In a Hyperwage economy, the companies will be forced to think: Should we be in this business at all? If so, how can we improve productivity?

Time and motion study

Have you encountered a company that has conducted a time and motion study in a Third World country? Hardly. Because labor is cheap. In fact, I have seen building owners who simple change designs of their building components after everything has been done. They change the tiles, they rebuild partitions, and relocate lamp posts. Why? Because labor is cheap. But these changes could have been prevented had the owner and the designer sat down and gave themselves some thinking time.

And look at government procedures. The Third World governments are so fond of introducing new regulations and new

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procedures that are supposed to prevent corruption but are actually causing more avenues of petty corruption. But have you heard of a time and motion study to reduce the procedures?

In a Hyperwage economy, there is a positive pressure to do time and motion study to reduce unnecessary costs.

Automation

Why are automation machines, computers, and equipments imported from First World countries? Is it because they are more brilliant than Third World countries, or is it because the First World countries are the ones who have the necessity of inventing these automation machines? In a Hyperwage economy, the companies will be forced to automate whenever possible. This will result in more productivity and faster development and delivery of products. This means more opportunities and more profits.

Low selling prices

Are low selling prices bad? Yes, they are bad because the maker of the product takes shortcuts, or does not value his own labor. We sell Banana cues or Halo-halo in the street corners only at very low prices that people can hardly afford because they have low wages. What will happen? The maker will not find it worthwhile to continue doing because it is too time consuming, too tiring and unrewarding. Lower prices are possible only because the maker sets the value of his own labor to zero.

In short, the entrepreneurs' spirits are dampened by the fact that their handmade Xmas cards, and special *Torta* cannot be sold at a price that is rewarding to him.

In a Hyperwage country, even the domestic helpers can afford handmade Xmas cards. The domestic helpers will be completely new markets where now there is none.

No entrepreneurs

If you look at the so-called entrepreneurs in this country and in

other Third World countries as well, they are actually children of multi-millionaires. Perhaps only less than 10% are really from the ranks of the poor.

There are many would-be entrepreneurs with new products and new ideas but they cannot implement them because the people have low purchasing power and they cannot charge a reasonable price. Furthermore, a would-be entrepreneur has no capital because his salary as a minimum wage worker cannot even afford him decent meals for a day.

No middle class

Entrepreneurs are usually from the middle class, and there are no middle class in Third World countries. According to the World Bank, 5% of the society owns 33% of the wealth in the Philippines. Isn't this obscene? In effect, there is practically no middle class in this country. What we usually call middle class in this country have the same purchasing power as a domestic helper in Singapore or in Italy.

Why is there no middle class? Because our wages are too low. The lower court judges earn about five low end cellphones a month, about the same number of cellphones that a salary of a domestic helper abroad could buy.

No purchasing power, no middle-class, no entrepreneurs, no small business, no good.

(Thads Bentulan, Dec 1, 2005)

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Hyperwage Theory

Could an economic theory address non-economic uses?

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*Hyperwage and
Non-economic
Issues*



lassical economics and Keynesian economics which are inflation-centric economics do not have direct solutions to non-economic problems. This is the reason our opinion makers, policy makers, and the government

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executives are at a loss as to how to solve problems like the lack of doctors and nurses because they have all gone abroad. Even lawyers and Supreme Court personnel are now taking up nursing courses in the hope of finding their place in the sun in some Hyperwage country like the US or Europe.

They have no coherent policy for solving poverty, for solving the obscenely inequitable distribution of income, for the housing problem, or for the petty crimes and corruption.

Because they are not thinking along the lines of Hyperwage mentality, these policy makers think that these problems are not correlated, and that is why there are hundreds of disconnected strategies for these hundred problems.

Paradigm shift

The Hyperwage Theory is a paradigm shift, and quite a revolutionary one at that. Imagine this. To compete with our Third World neighbors, instead of the usual strategy of lowering costs, I am proposing to increase our costs. Increase the minimum wage 1,000%.

Yes, Hyperwage apparently is a stupid idea but not really that stupid because I received invitations by economics professors in universities to conduct a lecture-forum. Naturally, because I'm a hermit I refused some, and besides, I want to concentrate on finishing this book first before the lecture tour.

Actually, I'm not such a good speaker. I speak the way I write, meaning, I never get to finish my sentence or thought because I hyperjump to some digression or another. This is also the reason I will never win awards for writing, I concoct the most acrobatic syntax in this part of town.

But answer this: After you scan all the papers in the morning, which or whose article captivates your mind most of the time? Whatever or whoever is your answer, that is also my answer as to how to judge the effectiveness of communicating with the reader.

Personally, each time I strive so hard so that the answer to that

question is the Street Strategist. I always fail though but at least I make the attempt. Funny, in the last few months, my friends have met people who want to meet me in person. Which is a surprising phenomenon for my friends because they themselves don't care for me much and don't even read my column.

Anyway, so much for digressions. I have accepted two speaking engagements, though, because their timing was right – I was in the neighborhood – and their students really sought me out that I had to repay their efforts with a yes.

Many economics professors, some in masteral level on advanced macroeconomics, are giving Hyperwage Theory as discussion material for their students.

Staff of congressmen have been seeking updates, and I have some CEOs who agree with Hyperwage Theory especially those companies who see the domestic helpers as a huge market for products and services including fashion accessories and life insurance policies.

But for now, let's continue our survey of more ways by which Hyperwage Theory elegantly handles non-economic problems.

Rebellion

The root of rebellion is injustice; the root of injustice is poverty. You solve poverty, you solve rebellion. No need for negotiation panels, no need for a strong army, no need for more armored trucks.

Consider the current strategy of our government. How many billions were spent over the last 30 years on a destructive war against our own people whose only original sin is poverty?

Think. If all those billions were released to the poorest of the poor in terms of minimum wage, and then subjected to the multiplier and accelerator effects, our economy will be in an upward spiral.

This is the reason, I view our current strategy with the rebels as useless. The rebels are not even asking for P20,000 (US\$400) per month, but Hyperwage is giving it to them.

Isn't Hyperwage great?

Hyperwage Theory

Employee forever?

A bank manager does not want to be an employee forever. He is a prime candidate as an entrepreneur but he doesn't have capital because his salary is just slightly above that of the domestic helper in Singapore, and all our equipments are purchased from Singapore and Taiwan and Hong Kong or Europe, all hyperwage countries; how can he start his own business?

With Hyperwage, many middle managers will be able to save enough capital to pursue his own business dreams.

Currently, you have to wait till you are 65 years old to retire and use your pension funds to start your own business. The prime of your productivity has long since elapsed.

Export quality

One furniture exporter told me his business will close down under Hyperwage. Of course, not. Right now, his export quality products are affordable only by the First World countries.

Given Hyperwage, the domestic market will be as powerful as the export market. Does Intel or Microsoft export abroad to survive? No, they became successful in their own domestic markets.

Why can't it be the same for the furniture industry?

Shift your minds. Don't look at the expense side, look at the revenue side. You can increase both your volumes and your prices under a Hyperwage regime.

And another non-economic benefit, our homes will have high quality furniture, unlike the current cheap ones we have.

Hyperwage will build and expand not destroy the cottage industries and any other industry for that matter.

All these benefits and above in just one single stroke. Give the workers their true value of labor based on world standards. Isn't Hyperwage elegant?

Medical care

It costs about P5,000 for a normal delivery in hyperwage Hong

Kong but about P50,000 here in this country? Why? I don't know.

The Hong Kong government has so much money from the taxes of the people who are paid at hyperwage salaries, and no corruption, such that they can subsidize medical care for the general public.

And did I tell you their public hospitals look like four-star hotels?

And for those who want private hospitals they can enroll for medical insurance, which they can afford because they have hyperwage salaries. Can you imagine our own country's insurance industry boom under hyperwage?

Our medicines are inordinately expensive compared to our incomes because they are invented and copyrighted and priced based on the pharma firm's hyperwage costs. We are paying for these hyperwage-priced medical products (NMR machines, X-rays) using our Third World wages, isn't this bad economic strategy?

Public services

I have written some time ago the time when one Christmas I entered the newly opened Hong Kong central library. I actually wept. I did not cry. I wept. It's like a five-star hotel, with wall to wall carpeting, elevators, escalators, and interior decoration. Internet plug points are free if you bring your laptop or you can use their computers. The books are hardbound glossy book paper. Only the novels are paperbacks.

Our people deserve such high quality of service as much as these Hongkongers do.

With an economically empowered public, we will demand world-class service, after all, we will be paying world-class taxes too. In Hong Kong, income tax is maxed at only 16% of gross even if you earned \$1 billion.

Political enrichment

Actually, if you still don't realize it, we are partially in Hyperwage status but only for the politicians with their travel expenses and huge allowances and kickbacks from the projects.

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This is grossly unfair, and the only way I see to correct this situation is to slice some of those extremely egregious allowances and give it back to the people in terms of high wages.

Vote buying

Speaking of politics, why do we sell our votes for a kilo of rice, or even for P500? Are we that poor that we are willing to sell our political souls to the highest bidder?

How are we addressing this issue?

I think only Hyperwage will solve this problem realistically. Yes, realistically. An economically empowered people are usually morally upright people.

I have to go now. More non-economic solutions next time.

(Thads Bentulan, Dec 15, 2005)

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Will Hyperwage reverse the brain drain?

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*The Center of the
Intellectual
Universe*

*H*ere are more non-economic but natural consequences of Hyperwage.

Hyperwage Theory

Traffic

I have always wondered why the First World countries such as Japan, Hong Kong, Singapore, and European countries have lighter traffic jams. Yes, New York is a mess, Los Angeles is another mess but compared to Bangkok or Manila, their traffic jams are a minor event. In general, taxis in Hong Kong can speed up to 100 kph in the business district. Take a land trip across Europe and you will wonder where the people are.

One way to reduce the traffic jams in Third World countries is to resort to Hyperwage. Sounds obtuse?

Not really. Under a hyperwage regime, we will value our time and productivity. We will refrain from unnecessary trips. If it costs you P700 per day to maintain an office messenger, you will think twice about keeping one. Instead, you will rely on intra-city couriers who will pick up and deliver your packages within the same day. Result: lesser traffic due to lesser number of in-house messengers.

Also, since one can engage his time productively such as babysitting, unnecessary trips will be reduced.

Taxi fares will be expensive, bus fares will be expensive and our personal times will be expensive (though still affordable given Hyperwage) leading to cost rationalization. In short, Hyperwage will tend to reduce traffic especially if the government can afford high speed trains and tunnels. After all, for every dollar given the minimum wage workers the entire economy gets five dollars assuming a multiplier of five.

Reservation wage and indolence

A reservation wage is threshold that will force the voluntarily unemployed to seek employment. Remember that some unemployment in Third World countries are voluntary. Why?

To work across town, you need food, clothing and transportation expenses. But if wages in the factory are just about the same as these expenses, there is no incentive to work. It would be better to stay at

home.

Say, if the wages are only P4,000 per month, and your monthly expenses in going and coming from the factory is also P4,000, why bother? That is the reservation wage.

Given Hyperwage, many of those who are voluntarily unemployed will be going to work. There will be no shortage of plumbers, carpenters, and electricians.

In fact, those who are unskilled will be forced by the new economic situation to attend trade skills programs by the government.

Who says the Filipinos are indolent? Is it because they are lazy or it is because of the reservation wage?

How many wives are breadwinners because their husbands are unwilling to find work? In this way, the indolence of the husbands will be cured. Under a Hyperwage regime, he will learn plumbing because plumbers will be handsomely paid and could now afford to buy their own cars or yachts.

Rape, abuse and dignity

I once interviewed a 50-year old male OFW operating heavy equipment. I said, “Frankly, even at your age, how many times have you been sodomized by your boss in the Middle East?”

He was shocked I asked that question but he confessed: “There was nothing I can do about it. If I refused, my daily life will be hard, and my boss can ship me out anytime.”

How many women and men have been raped and sodomized and remained silent about it to avoid embarrassment while working in foreign countries under menial conditions?

Everyday, our embassies and consulates are full of young women crying and complaining because they have been forced to do oral sex on their bosses, punched and whipped by the wives of their employers, their faces burned with sizzling flat irons.

Yet, what is our government doing? If you surveyed our OFWs you will realize that our government is inutile when it comes to defending

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our OFWs. The ‘new hero’ slogan is a mere slogan. Our government is only interested in getting its share of fees, charges, and taxes.

And I’m not being a cynic. This is the actual day to day experience of our abused OFWs.

Our government “requests” the foreign companies or employers. If such abuse was perpetrated on a US citizen, the USA will “demand.”

As poor citizens, we are not assertive enough to demand action from our government to demand action from the governments with abusive employers.

Given Hyperwage, our citizens will find courage and assertiveness. Economically empowered citizens demand better service from the government.

Of course, our politicians don’t care. They get special treatment every time.

Strategy of broken homes

The government thanks the overseas migrant workers for their inward dollar remittances.

Yet, despite the short term benefit to the economy in terms of government dollar reserves, what is the long-term effect of encouraging our people to leave this country?

Broken homes, separated families, homesick fathers, while the mother works as a sexually abused domestic helper in Hong Kong.

This is the strategy of broken homes ironically being perpetrated by the state.

I know of one employer who places a camera inside the bathroom, and the domestic helper knows but can’t do anything about it. These are the kinds of abuses that they never tell their husbands back home.

Back in the country, her daughter gets pregnant at 16, her son is into drugs, and her husband has a woman. This is very common among OFWs, such that if these are your only problems, your fellow OFWs will simply ignore your complaints and continue their karaoke singing. These are nothing compared to the abuses they’ve endured.

You need to have a greater problem like a husband impregnating the daughter to catch the attention of fellow OFWs. This is the reality not seen by our families back in the country.

Politics

Why is it that our daily fare is political gossip? Because we have no business to run, no employment, and nothing to do. We consider politics as a way to climb up economically, via corruption obviously.

Third World countries spend so much time politicking. In Hong Kong, during elections, about 50 to 75 positions are automatic because only one is running as representative. In some districts nobody runs at all. This despite the salary of about half-million pesos a month (how many TVs can that buy given that TV prices in HKG and the Philippines are about the same?)

People with purchasing power usually have a reduced interest in politics.

Petty crimes and corruption

It's very sad. You hear about people stealing telephone cables, rice kettles, manhole covers, and even street railings.

You hear about police stopping foreigners for a pack of cigarettes, or a government clerk asking for P5.00 for a xerox copy of a government form that is supposedly free.

Due to the very low wages, we sell our souls for a few pesos. We cannot obtain a permit with giving some grease money.

And let me make this generalization: The poor people are not angry at high corruption; they are angry at petty corruption. The former does not affect them. Millions in kickbacks for fat contracts do not bother the citizens. It is the petty corruption at the local government units that angers the people.

And petty corruption will be wiped out in a large way with Hyperwage. There is high crime in Singapore, Hong Kong or Japan, but the people in the street don't care because there are no petty crimes.

Hyperwage Theory

Yet, what is our solution to petty corruption? Large banners of “beware of fixers?” No sir, that is not the way. Hyperwage is the only viable solution. An economically-empowered citizens will be assertive enough to stand up to petty corruption and any government worker will not stoop so low as to sell his morality and dignity.

High corruption

Large infrastructure contracts always mean high corruption in Third World countries. Yet, if the individuals comprising the bureaucracy will not sell their souls, high corruption will be minimized.

Furthermore, if the wages of the workers are of hyperwage levels, there will be lesser money to corrupt because while a government official can get kickbacks from materials, it would be difficult to get kickbacks from wages.

Therefore, instead of kickbacks, the money goes to the workers as high wages. Before hyperwage, 40% goes to kickback because wages are low. Under a hyperwage regime, the kickback will only be 10% because the budget for labor is transparent.

And the contractors cannot simply overprice the project. Otherwise the project will be more expensive than its American equivalent.

Factor prices

The economists are an amusing group. They always preach about paying for market price, that markets should be left alone. They call it factor prices or prices for the factors of production.

Okay, what is the factor price for oil? Then all economies, rich or poor, have no choice but to pay for the world market price of oil. And the economists will tell you that a poor country like the Philippines should not tamper with market price and that we should pay that. They don't even favor any form of subsidy. Indeed, they even add import duties, specific taxes, and VAT for oil.

We should pay for the market price of oil. Shouldn't we also pay for the market price of labor?

Now, what is the factor price for labor? We have a reference. In the US, the federal minimum wage by 2007 will be \$7 per hour or about P3,000 per day at today's exchange rates.

Yet, what is the reaction of the economists when I say that we should pay workers using the factor price for labor in the world market which is P3,000 per day? (Actually, P20,000 (US\$400) per month works out to only P770 per day!!). They say, that's impossible.

I can't even imagine the logic. We pay the market price for oil but we don't pay the market price for labor. Is human labor of lesser importance than a mere commodity like oil?

Computers, cars, mobile phones, photocopy machines, printers, control circuits, all are produced in First World countries using hyperwage salaries. Their selling prices include hyperwage labor, yet we still buy these equipment.

In other words, every day, we use imported equipment and machines and yet we claim we can't afford hyperwage? Are you telling me that our businesses and the government can afford to pay the hyperwages of some foreigners who built these imported equipment but cannot afford to pay locally-made machines if hyperwage is imputed?

Isn't that reverse discrimination? Where is the logic of it all?

Or is it because the government can afford to abuse its own people while at the same time protect the rights and pay the hyperwage of foreigners who built the imported equipment?

Is this what is called dignity of labor? Hyperwage is probably the most Christian of all economic theories. The Church should support it.

Gini coefficient

The Gini coefficient one way to measure the distribution of wealth. According to the world bank, the top 5% of the country owns 33% of the wealth. Definitely, that is obscene.

Yet given the current economic policies pursued by the World Bank, the Asian Development Bank and other poverty-alleviating banks, the Gini coefficient has illustrated an increasing gap between the

Hyperwage Theory

rich and the poor.

In 2000, the Gini coefficient of the Philippines was 0.46.

Distribution of wealth

What is the economic solution to the problem of extreme inequality in the distribution of wealth? Not much. Taxation is usually their answer. Very lame, very questionable solution. Taxation can be evaded, and in the hands of the government taxes can be corrupted.

The only realistic solution is Hyperwage. Excessive profits at the expense of the dignity of workers is injustice.

And yet, the businesses should not be concerned because all of these hyperwages will be spent by the minimum wage workers to buy goods and services anyway. All money will go back to businessmen.

Plus the economic multiplier. The government will be extremely happy with the quantum increase in the number of commercial transactions and the multiplier effect on our GNP.

Isn't hyperwage elegant? It solves poverty and inequitable distribution of income and hundreds of non-economic problems in one single stroke with a multiplier effect. It is actually a cheap and efficient solution.

Center of the intellectual universe

I envy the position of the US as the center of the intellectual universe. Given our current economic policies, there is no way we can be such a center. No way.

But with Hyperwage, there is hope.

I dream of such a center. I will create a center for theoretical physics, or mathematics, or economics right in Panglao or El Nido. Those studies that don't require heavy machinery, for a start. I will pay the Nobel Prize winners to come and stay for a year, and they can do all their thinking while scuba diving and lying in a hammock among the coconut trees.

Given the same amount of salaries but with the ambience of the

beach within walking distance from the Center, will the Nobel Prize winners come?

Yes! And they will teach in the local universities and hire research assistants.

The only reason why the Philippines is not the center of the intellectual universe despite its beautiful landscape and weather is the lack of financial enticement for the intellectual giants to come and converge in the beaches of Boracay for a year or two. The internet has bridged the world but the low wages perpetrate the intellectual divide.

Anyway, this is the only realistic way to stop and even reverse the brain drain.

How I wish. A home in the beautiful beaches of the Philippines for 1,000 intellectual giants in their own respective disciplines - the Street Strategist's Center for Strategic Thinking.

(Thads Bentulan, Dec 22, 2005)

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Hyperwage Theory

Is Hyperwage Theory worth the Nobel Prize?

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*Hyperwage Theory
and the Nobel Prize*

*I pictured a rainbow
you held it in your hands
I had flashes
but you saw the plan
I wandered out in the world for years
you just stayed in your room
I saw the crescent
You saw the whole of the moon*

- The Whole of the Moon, Mike Scott and the Waterboys, 1985



nce in a while a song comes along that makes you think and one such anthem is *The Whole of the Moon*. It has since been covered by half a dozen artists including Mandy Moore. In 1985, I listened to Mike Scott and the Waterboys, way back in the time when Bruce Springsteen was mistaken for Rick Springfield. I had written about this mistaken identity a few years back. Even today, almost nobody knows about Mike Scott.

Why did the song inspire me? At a time when I was in the height of my intellectual curiosity attempting to imbibe any discipline of knowledge that I came across, the anthem put it all in perspective for me.

Was I to be the one who merely sees the rainbow or the one who actually holds one in his hands? Was I to be the one who merely sees the flashes or the one who sees the whole plan? Was I going to be the one who merely sees the crescent or was I the one who sees the whole of the moon?

Right there and then, I decided I was not the one who is grounded rather the one who fills the skies. Not the one who is dumbfounded by truth but the one who cuts through lies. Not the one who sees the lone empty valley rather the one who sees Brigadoon. Not the one who speaks about wings rather the one who just flies, not the one who wonders guesses and tries rather the one who just knows. Not the one who sees the crescent rather the one who sees the whole of the moon.

Normative vs. descriptive

Due to my intense desire to be the person who sees the whole of the moon rather than the one who merely sees the crescent, I sought to conjure up a normative economics rather than a descriptive one. By normative, I mean, a kind of economics that does not spend all its research efforts merely describing how poor the Third World is but a kind that actually prescribes a norm. For me descriptive economics is merely seeing the crescent. For me, normative economics is seeing the

whole of the moon. Hyperwage Theory is one such normative economics.

Sutton's Law

What is your action plan to solve poverty? Ask any economist or government policy maker, or the World Bank, and you will get the most circuitous, roundabout, indirect, beating-around-the-bush, skirting-the-issue reply. This is the intellectual equivalent of "Honestly, I don't know."

Sometimes, the most brilliant of ideas comes from the most criminal of minds. In this manner, I am always guided by Sutton's Law.

Reporter: "Willy, why do you rob banks?"

Willy "The Actor" Sutton: "Because that's where the money is."

Government: "Doctor, why are you going abroad?"

Doctor: "That's where Hyperwage is."

Economist: "How do you solve poverty?"

Street Strategist: "By giving them money directly."

Hypowage is the problem, and hyperwage is the solution. Why beat around the bush? That is the application of Sutton's Law.

Sometimes, we make the mistake of dismissing the simplest of solutions not because it is wrong but because our proud high education makes us think it ought to be wrong. On the other hand, simplistic solutions could really be wrong in the first place.

Skirting the issue

The solution to our poverty is federalist or parliamentary government. The solution to our poverty is to emigrate to another country as exported labor. The solution to our poverty is to remove withholding tax but still pay the same accumulated tax at the end of the year. The solution to our poverty is a slogan campaign against

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corruption. The solution to our poverty is to hold a summit on poverty.

We are too intelligent for our own good in thinking of these complicated but indirect solutions. Our problem is economic and the solution is economic. The solution is not political, not sloganeering, not separated families, not legislation.

The problem is lack of money for the poor, the solution is to give them money. Poverty is the problem; money is the solution.

180 degrees

Hyperwage is a 180-degree solution, a complete opposite of our economic brainwashing. This is the reason it was very hard for me to come up with this theory and that only an uneducated non-economist like the Street Strategist would ever dare to conjure one which proposes to increase the cost of production rather than reduce it.

If we ignore Hyperwage Theory we can always stay with the current practice of modern day slavery, where we pay hyperwage prices for all imported items and demand to pay only hypowage prices for domestic items, where we pay hyperwage salaries to government-owned and controlled corporations and private corporations and pay merely hypowage salaries to labor that has no power to negotiate on an equal footing because they cannot afford to lose a day's meal.

Disbelief is not untruth

I have always wondered: If we know so much about economics, and if our economic models are correct, how come the world is divided into two extremes, the super rich and the super poor, and hardly anything in between?

How come economics has not solved world poverty? How come I could not understand economics as a weapon of solving world poverty?

In my book *Strategy Myopia*, I recounted the time when I finally discovered the reason why I could not understand debit and credit. How did I understand them finally? It was when I realized that the

problem was not me. The problem was in the defective way by which debit and credit are taught. Eventually, I resolved the issue by throwing away their textbooks and invented my own.

The same thing is happening with economics. Now I realized why I couldn't understand economics, why I couldn't reconcile current economic theory with the reality of perpetual poverty. Hence, I threw away all their economic models and invented my own.

At this stage, the only logical way to analyze and prescribe a solution to poverty is through the controversial lens of Hyperwage Theory. In the same manner that Keynes overturned the Classical economics that he once mastered, with Hyperwage, the Street Strategist is overturning all inflation-centric economics including Classical and Keynesian.

Now I finally understand the limits and defects of Classical and Keynesian economics with respect to the problem of perpetual poverty. I can finally say, I have understood economics.

The proposition is simple: Give labor its world market value.

Sometimes, the solution is too simple you disbelieve. But what one disbelieves is not necessarily the untruth. The truth is the truth even if you disbelieve. Disbelieving the truth does not make it the untruth.

Competing with China

The first test of Hyperwage is this: How does the Philippines compete with China?

The first reaction to Hyperwage is an automatic rejection. I can't blame the economists and the general public. Come to think of it. How do we compete with China?

The obvious answer is that we should lower our costs, but since our materials are imported, we can't lower these materials. Oil, computers and factory machinery are imported and based on world market prices.

Who says we can't afford Hyperwage? All those imported materials are made with Hyperwage salaries which the First World companies have passed on to us.

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We are paying Hyperwage to companies abroad, and we don't even realize it.

So, if we can not lower our raw materials input what else is there to lower?

The only remaining way to lower our costs and to compete with China is to lower the one variable over which we have control. And that is our labor cost.

But there's just one big problem. Chinese workers will even work for no salary at all. They are willing to work for food.

So how can we compete with China? With our English skills that are rapidly deteriorating as we speak? With the quality of our workmanship that is being eclipsed by China as you read this?

We still have this wrong notion that China is a low-wage, low-quality source. That is wrong. Many of the first class quality products in the US are made in China. China in fact makes two generic classes, the Class A which goes to the First World, and the Class B quality which goes to the Third World.

Quality-wise, China is already above us. The FDI's (foreign direct investments) going the Philippines is minuscule compared to the amount going to China. We are given the brownies and lollipops.

Let's get back to the question: How do we compete with China?

Big question, big answer. And yes, I have spent much of my time conjuring up a strategy to compete with China.

And as usual, given the convoluted thinking style of the Street Strategist, my strategy will shock you.

Yes, I have formulated a strategy to compete with China, and yes, it will shock your intellectual senses.

Finally, here's the Street Strategist's strategy to compete with China: We should not compete with China because we cannot compete anymore.

Yes, you heard me right, throw in the towel. The head of the largest textile mill in the country went to China and conceded we can no longer compete with China. The local government officials who have

visited China on a goodwill tour conceded we can not compete. I have spent a birthday celebration in China and I declare we cannot compete with China.

Oh yes, we do get orders from US and Europe for our products but then, not to douse cold water on our local export industry, we are getting the brownie orders. Our exports are nothing. And if we continue to compete, we will eventually be wasting our prime youth desperately trying to win an unwinnable game.

Hong Kong

How does Hong Kong, Taiwan and Singapore compete with China? Remember that Hong Kong is just a tiny geographical province of China, a special administrative region. Surely, Hong Kong with one of the highest labor costs in world would collapse in the face of competition from China with one of the lowest in the world.

Come to think of it, the highest labor cost in the world, Hong Kong, is separated from the lowest labor cost in the world, China, only by a small creek in Shenzhen. (And yes, you are not allowed to photograph that bridge but I did get away with it.)

Yet, most of the Asia-Pacific headquarters of US, European and Japanese are in Hong Kong. It is because Hong Kong bends over backwards to accommodate businesses with its business-friendly politicians, government, and infrastructure. Their bad English does not deter foreign investments to Hong Kong, nor does their expensive labor.

Business-friendly

Let's have an overview of Hong Kong taxation for example.

- No sales, or value-added tax
- Company profits tax at 16% maximum only for income derived inside Hong Kong
- currency gains are not taxable
- income from subsidiary is not taxable on the parent company.

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- No withholding tax
- salaries tax maxed at 16% even if you earn \$1 million
- no estate or inheritance tax
- depreciation deductions even for salaries tax
- educational deductions

A number of taxes that exist in most jurisdictions do not exist in Hong Kong. Thus, there are no capital gains taxes, no withholding taxes, no sales taxes, no VAT, no annual net worth taxes and no accumulated earnings taxes on companies which retain earnings rather than distribute them. In the long term it is intended to completely phase out stamp duty on the sale and issue of shares and securities and to reduce direct taxes further.

Different ball game

If the competition is on labor cost, don't compete on labor. Maybe we should change our paradigm. Instead of acting like some Third World country adopting the strategy of poverty, we should act like a First World country that gives the poorest of the poor some protection by providing labor its true value.

Science and Psychology

Economics combines both science and human psychology and to ignore this linkage is fatal to any economic theory. Two equally good choices under economic equations may not be equal in the eyes of the human consumer.

Hourly wage rates

Corollary to Hyperwage, here is another convoluted proposal from the wild imagination of the Street Strategist. You'll thank me for this, trust me.

Let me illustrate that economics combines both science and human psychology and that two equally good choices under economic equations may not be equal in the eyes of the human consumer. After

this illustration which an example of non-economic analysis, I hope you will appreciate why I have been harping ad nauseam on the non-economic aspects of Hyperwage Theory.

I hereby propose to change our minimum wage calculations into hourly wages instead of daily wages.

Economically, it is the same. And yet, hourly wages and daily wages are not the same from the non-economic viewpoint.

This is another exemplification of the difference between the economist and the Street Strategist. For the economist, there is no difference. After all, the economics of daily and hourly wages is the same.

For the Street Strategist, there is a huge difference because he analyzes the non-economic aspects of a decision due to the plain reason that he is not an economist.

What are the non-economic advantages of an hourly wage rate?

Work attitude. “You mean to say that you came in 30 minutes late at 8:30 a.m., then you powdered your face for 15 minutes, and then arranged your table for another 15 minutes? I paid you for the hour from 8 am to 9 am and you have accomplished nothing?”

Proper overtime calculation. “Sir, I worked until 6 pm, but I did not get paid from 5 pm to 6 pm.”

Unambiguous daily calculation. “Sir, one working day is 8 hours, not 10 hours, not 12 hours even if our department store closes at night. I’m being paid by the hour. Anything in excess of 8 hours is overtime.”

Time consciousness. “Don’t waste 30 minutes on the phone with your girlfriend because the company paid you for that half-hour.”

Productivity mindset. “Sir, I have a proposal that can save our operations 45 minutes per day, in one year’s time we will save \$500,000 but we have to buy an equipment \$300,000 should we adopt this productivity measure?”

No more slow men at work. “Look guys, I paid you for 8 hours, you work for 8 hours, no smoking breaks at your leisure. Work, work, work.”

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Eliminating non-essential work. “I saw you surfing porno sites for 30 minutes, shall I deduct it from your salary?”

Efficiency. “Your output per hour is lesser than your hourly rate, shall I replace you with a robot?”

Time and motion study. “You tire easily if you work continuously for 8 hours, shall I get a parking meter to do your work as parking aide?”

Thinking time. “Are you telling me that I am paying you for staring out of the window for 5 hours and you claim it as thinking time?”

Opportunity cost. “It took you three hours to deliver a letter worth \$1?”

Filipino time. “For this one-hour delay in starting our event, we have 500 people who lost productivity worth \$50,000.”

Father of non-economics

I trust that you can enumerate more advantages of the hourly rate. Do you appreciate now the importance of the non-economic benefits of seemingly non-economic decisions? Yet, how come nobody has ever proposed the change? It is because the policymakers think they are economically the same and one has no advantage over the other.

Somehow, this is another instance of seeing what everybody else has seen and thinking what nobody else has thought. Somehow, I don't like this hourly thing. I'm the thinking type and I don't have anything to produce on an hourly basis. Of course, salary workers such as supervisors and managers, in contrast to wage workers, are paid monthly, not hourly.

At any rate, with all these emphasis on the non-economic aspects of economic decisions, you may call the Street Strategist as the “Father of Non-economics.”

SOS

Throughout this exposition I have expressed my consonance with

the brilliant, daring, and revolutionary ideas of Keynes especially regarding the importance of consumption and the economic multiplier and their corresponding implications for setting economic policy.

Yet many of our economic policies are geared towards reducing consumption and dampening the multiplier effect – completely the opposite of what Hyperwage intends to do. Why? Let me explain why.

Our country, or Third World countries for that matter, is like a sinking ship. The rats are leaving the ship and are going abroad as domestic helpers or caregivers. What does the captain of the ship – the government - do? It imposes a higher VAT in order to survive. The VAT is like a life jacket. The captain of the ship secures the only life jacket in the ship and tells the passengers to save their own souls. With the VAT the government survives at the expense of the lifeline of the public.

Isn't the VAT an example of government selfishness and callousness to the plight of the poor citizens? The problem with VAT is that it is shifted to the consumer in the final analysis eventually reducing their purchasing power – exactly the opposite of what Hyperwage seeks to achieve.

Alternative

Instead of the increased VAT, what could have been done given the Hyperwage Theory?

Let me think. Suppose the government intends to obtain an incremental P1.5 billion with the new VAT. Under Hyperwage, any increase in wages will be paid and shared between the government and the employers in the same proportion as the corporate tax rate, currently 35% by the government and 65% by the employer.

Instead of a new VAT rate, the government can impose a new minimum wage package totalling the estimated P1.5 billion. Eventually, using the multiplier effect, assuming a multiplier of 5, a total of P7.5 billion will be added to the economy. The economy will be stronger.

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Can you see the difference? Direct taxation dampens the economic multiplier and increases the incidence of government corruption while a wage increase will directly benefit the hungry stomachs of the people and in a bigger sense sets the economic multiplier in action which eventually benefits not only the workers but the economy as a whole.

Completely opposite strategies but only the Hyperwage is a positive win-win solution.

The Hyperwage mindset ushers in a greatly different economic policy.

Monetary and financial economics

One of the most common questions about Hyperwage is its effect on monetary and financial economics. I can understand where they are coming from.

It is due to the heavy emphasis these days on the monetary, financial and stock markets because these are the newsworthy fluctuating markets on a daily basis.

For example, will there be egregious devaluations like P1,000 to \$1? What will happen to the currency rates and interest rates? Will the deficit spending affect the value of the economy? Will we be printing new money?

As I have written in the earlier chapters, because of the nature of my work and background, I started to seek the poverty solution in monetary and financial economics but failed to see any ray of hope until eventually settled on the minimum wage guided by Sutton's Law.

Since then it has been my belief that monetary and financial economics will favorably follow the major structural reform brought about by Hyperwage. Given the multiplier effect, there is no way that currencies will devalue, in fact, most probably, the currency will appreciate.

After all, if the wealth that is saved by the rich will be redistributed to the poor in terms of hyperwages, then a \$10 billion such increase in wages will redound to \$50 billion for the entire economy. How can

there be an increase in currency and interest rates? In fact, the rates in First World countries are very low precisely because of the intensive domestic commercial activity engendered by the huge purchasing power of the public.

But that's not all. When I thought to myself that monetary and financial economics are not that important compared to the importance of the minimum wage as the weapon for purchasing power, it was only borne out by a logical chain of reasoning. It was without any serious economic thought on my part.

I don't care if $\$1 = P1,000$ because the Korean Won or the Japanese Yen have shown us that it is not the exchange rate that matters, rather it is the labor hours of work needed purchase goods and services.

And I have proven that Third World countries are actually expensive countries.

But then I got another surprising, unexpected theoretical support. By the way, throughout this exposition you have seen that I keep on getting unexpected theoretical support for Hyperwage.

Unknown to many, including students and teachers of economics, one of the greatest contributions of Keynes's General Theory was the incorporation of monetary theory into the general theory of supply and demand. I need to emphasize this because to the general public, Keynesian economics is merely equated to deficit spending.

What is the implication of the integration? Keynes emphasized the markets for goods and services as the source of macroeconomic perturbation. He de-emphasized monetary and financial sources. Keynesian economics assumes that all the exciting action takes place in the goods and services market, and that all other markets adjust passively, including the financial markets.

In contrast, the quantity theory of money assumes that the exciting action is in the market for money balances, and the market for goods and services adjust.

But as we have seen in the 1997 Asian financial crisis, while the monetary markets are volatile, Keynesian policies still carry the biggest

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impact in the long run, and the markets with strong macro structures in place bounced back easily like Korea and Taiwan. As if Keynesian is for major swings while monetary is for small refinements.

In other words, my original uneconomic logic that monetary and financial matters will adjust accordingly once Hyperwage erects a superstructure of economic purchasing power was supported by Keynes all along.

Thus, I see no cartloads of useless paper money to buy a kilo of rice and any such generalization is not warranted under the intense domestic commercial activity, the increased employment, the larger tax base, the strong economic growth under a Hyperwage regime.

In summary, whenever you have a monetary or financial issue, try to acquire a sense of magnitude and proportion as to how that issue impacts the economy in comparison to the benefits of Hyperwage and the purchasing power it brings.

In a manner of speaking, Hyperwage builds an economic superstructure, a huge cathedral, while financial and monetary economics are merely interior decoration. Don't be confused with the cathedral and the interior decoration.

Magnitude and proportion

Now, there are thousands of economic variables, and a macro model for a country's economy involves hundreds of equations.

Economic theories differ in the interpretation of the variables, which are important and which are not.

For example, for Marx and his labor theory of value, the commodity is owned by labor after paying off the capitalist for use of his money.

According to Marx, capital is an expense while labor is capital. Ironic, isn't it?

Well, this could be true of a painter. The painter owns the painting after paying off his benefactor for the cost of the painting materials and canvass. But this painter-owns-the-painting model is an exception.

In the real world, the capitalist does not merely provide the funds but also the intellectual capital to build the commodity.

Remember, the ideas and brainpower used to design and build factories come from the capitalist as well. Thus, it is far more realistic to state that the capitalist owns the commodity not the laborers.

But without doubt, the labor theory of value could easily seduce the workers into forming a communist or Marxist economy.

But such a communist economy is against the human nature of individualism, freedom of choice and the desire to be above the rest.

That is an example of what I mean by differences of interpretation of the same economic variables.

Anyway, let's proceed.

Classical economics considers production and savings as the more important variables and that prices are adjustable upwards and downwards.

Keynesian economics considers effective demand as the important variable and considers financial and monetary economics as lesser in importance. This was revolutionary such that many so-called "famous" economists are famous because of their defense or attack of Keynesian economics and because they don't have their own original theories.

Hyperwage economics considers the minimum wage as the most important factor and considers the same as the only variable that needs to be seriously tampered. The other variables will move in a domino effect and could be refined further with less impact as the setting of minimum wage.

Christian economics

What is the linkage between Keynesian and Hyperwage? Keynesian economics places great importance on the consumption function. And yet, despite the importance it accords to the consumption function, Keynesian economics fails in one thing. It does not have a great theory on how to increase the consumption.

Yes, Keynes correctly identified that the rich who save should share

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their wealth with the poor who spend and consume.

But his method of such wealth sharing is weak, namely, taxation and similar remedies. This failure to provide enough firepower to the consumer to consume is caused by their steadfast adherence to inflation-centric policies.

In other words, while Keynes was arguably revolutionary, he was not revolutionary enough.

Keynesian economics doesn't go far enough. There is a failure to empower the consumers directly, relying instead on trickle-down economics. Hungry stomachs can't wait for any trickles.

Keynesian economics is inadequate in the sense that it is inflation-centric and that it failed to make a distinction between First World which should be inflation-centric and Third World economies which should be purchasing power-centric.

By focusing on the plight of the poorest of the poor, Hyperwage is probably the most Christian of all economic theories: Whatsoever you do to the least of my brothers you do unto me.

Hyperwage is the only theory that can enforce a distribution of wealth under a win-win proposition.

Minimum wage debate

Should there be a minimum wage at all? Many economists do not want any minimum wage at all. Yes, economics is their expertise. How about the non-economic aspect of the debate? That is their strategic failure.

Minimum wage is not about economics, it is about justice and equality. A labor contract is never a meeting of the minds, because left alone, labor is not in a position to bargain.

An equipment if not purchased because of lack of meeting of the minds can stay in the warehouse and can wait forever.

But a hungry stomach is never a bargaining weapon. Thus, this no-minimum wage debate is futile.

I have the same argument for the economists who want to legalize

narcotics. Economics cannot take precedence over chemistry. Drug addiction is a non-economic chemical problem, not a problem of supply and demand.

Sometimes, economists could be too enamored with data forgetting that there are physical laws that overpower their models.

Issues of the day

Throughout this exposition, you may have wondered: What is the relevance of the Street Strategist's columns with the issues of the day?

What is the relevance? Let me try to relate Hyperwage with the issues of the day. Hospitals closing down because doctors are going abroad as nurses. Broken homes because the father is in the Middle East while the family remains in the country. Lack of housing because workers cannot afford them. Parliamentary government to bring us out of poverty. More VAT on goods and services. Church and state warring over population control. Abused migrant workers. Tax evasion. Selling political souls. Low productivity. Competing with our Asian neighbors, and many more. Aren't these the issues of the day?

You probably don't realize this but due to our Hyperwage discussions you already have the intellectual firepower to critically analyze the implications of the above issues and such intellectual gain remains with you in the long run. At least you now have a frame of mind, and you are aware of the economic and non-economic aspects of the issues. You know what questions to ask, even if you don't know what are the answers.

The economy is 70% dependent on consumer spending but are we dampening or enhancing this spending activity with more VAT? Since the VAT is a dampener of the economic multiplier effect should we pursue this strategy? Why does Singapore has 3% VAT and Hong Kong has zero VAT?

Since consumer spending depends on purchasing power, are the current policies strengthening or destroying purchasing power?

What is the paradox of thrift? Is saving on a personal basis harmful

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or useful for the economy?

Will saving for a rainy day a self-fulfilling prophecy that it actually brings on the rainy days?

Zero-sum game?

Is Hyperwage a zero-sum game? I don't think so, and in fact, I have discussed the overall positive impact to the economy as a whole. Hyperwage is not a Utopian theory. All First World countries are hyperwage countries.

But if all Third World countries adopt Hyperwage then would be no poor countries to provide cheap labor?

Well, not everybody will be convinced of Hyperwage so those countries which refuse to leap to Hyperwage status will become our dumping ground for the dirty work. We will exploit their labor to maximize our profits.

What if all the countries adopt it? Well, by that time, we will be equals. The world will be better if we are all equal right? Is that vision too foreign for you? Hyperwage is a win-win solution. Don't be afraid.

Economic and Non-economic analysis

Hyperwage is a folly, but let me give you a small advice. Don't ever study economics without reading Hyperwage Theory. Why? Because at least you will not be brainwashed completely by the traditional economics.

Furthermore, even if Hyperwage is wrong, the theory highlights the defects, inadequacies and the inequities of the current economic models.

Even for awareness or awakening purposes only, Hyperwage achieves its goal.

Besides, the constant emphasis on the non-economic aspects of Hyperwage will guide the economists and policymakers that economic decisions are not necessarily correct just because they are academically, economics-wise correct. The non-economic analysis should also be

considered.

By the way, one tip for scientists and technologists who want to study economics, marginal analysis is actually differential calculus, and try to equate the economic term “marginal” to the mathematical term “derivative”. And try to equate “average” with the mathematical term “delta y.”

Thus, marginal revenue=marginal cost is actually the point of tangency of the curve where the derivative is zero or $dy/dx=0$. Remember the maxima and minima analysis in differential calculus? That is exactly what maximum profit analysis is.

In my view, it is the fear by economics teachers to use mathematics that makes economics hard to understand. I believe that it is faster to teach economics if differential calculus was used to introduce marginal analysis, rather than the current method of “average cost vs. marginal cost.”

In fact, whenever I read an economics textbook today, I ignore the “average” and “marginal” explanations because they confuse me and I pity the student who has to distinguish average from marginal. I focus on the derivative of the curve and everything else falls into its own place.

Also one thing I noticed is that modeling in economics has extremely lagged that of other fields. Mathematics is always ahead of its time but economics is lagging far behind in using mathematics for its models.

Quality of life

Again, another non-monetary non-economic indicator is quality of life. People who are hungry have no regard for the garbage in the streets. They don't care about pollution. They don't care about ugly wires and transmission lines above the streets which Hong Kong and Singapore don't have. They don't care about the potholes in the streets, which again our rich neighbors don't have. They don't care about unlighted streets.

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We have wrongly assumed that high income in First World countries will be eradicated by the high cost of living. Yet, that isn't simply so.

There are no potholes in Singapore's roads, that is a telling indicator of the quality of life they enjoy which we don't despite our supposedly low-expense living.

In First World countries, the domestic helpers are working in air conditioned flats, the janitors are working in world-class structures of glass and steel, the vendors are selling in clean public markets, the drivers are driving new and clean aircon buses, the taxi drivers are driving expensive taxis, the workers are riding in fast clean pollution-free electric trains, the commuters wait at glass and steel bus waiting sheds, and the buses arrive on schedule just like trains.

Lighted streets, well-paved roads, efficient postal system, high quality of products are simple things that First World countries take for granted but are contributors to their quality of life which Third World countries don't enjoy and which the Third World governments don't take into consideration when comparing their economic status with the First World countries.

Implementing Hyperwage

The implementation process needs its own study but as long as the public, the businessmen, and the government are synchronized that this is the way to go, then we can surely work out a less volatile transition period.

I have not given it much thought yet but here are my sketchy ideas.

1. Economists must believe that Hyperwage is the long term viable structural solution to poverty. That Nobel Prize for Hyperwage will certainly help. This is the biggest hurdle, and I doubt if we can hurdle this in a decade, if ever at all.
2. Political leaders with political will to implement Hyperwage
3. Businessmen who can see beyond the tip of their nose.
4. Legislated wages for stronger legal teeth

5. Staggered implementation maybe over five to ten years on a constant wage basis. But remember the CK study where New Jersey took a single 18% step.
6. Safety net for the initially displaced workers during the enterprising streamlining stage. This may include interest-free loans, free skills training, entrepreneurial development
7. Support from World Bank, IMF, and the rest of the world governments such as financing the Hyperwage Institute's research and education projects
8. Educate the populace for hand holding
9. Elect me senator.
10. Elect me president.

13th-Month Pay

For the non-believers of Hyperwage Theory, and for those who really want to see a practical method of implementing it, here's a scenario that may convince you.

In the Philippines, every December, the labor payroll costs of the government bureaucracy and private business enterprises are doubled because of the 13th month law requiring companies to pay 13th month salaries to all workers, subject, of course, to certain exceptions.

With this doubling of labor costs, ordinarily, we should expect prices to double, and we should expect businesses to lay-off employees or go bankrupt. That's the normal reaction, isn't it?

That is the expectation of the non-believers of Hyperwage: that doubling of labor costs will result in doubling of prices, that increasing wages ten-fold will result in a ten-fold increase of prices.

Yet, lo and behold. What happens during December? Do the prices double, do companies lay off workers, do businesses suffer, do consumers suffer?

No. That's a very big "No." There's no economic disaster during the Christmas season because of the 13th month pay.

Instead, the best season for most businesses is the Christmas season.

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The best time for workers is the Christmas season because they can spend for more goods and services. The best time for the government is the Christmas season because of the collection of more taxes due to the increase in volume of taxable transactions, more VAT.

This is a win-win solution. The consumers with double purchasing power for that particular month, buy more goods and services. Due to the increased sales, the businesses enjoy their best month of the year. The government gets more VAT collections due to the increased volume of transactions. The manufacturers employ more workers in preparation for the December volume buying. The financial services firms get more transactions in insurance, credit card sales, banking transactions, and many other products that normally consumers would not touch if they had no purchasing power.

More consumers buy more laptops, more TVs, more aircons, more clothes, more food, more groceries.

And most of all, the prices don't actually double as expected by the non-believers of Hyperwage Theory.

The Hyperwage Theory works, not only in First World countries, buy even in Third World countries like the Philippines as exemplified during the Christmas season under the 13th month pay.

Are you convinced now, that doubling the wages in December, which actually doubles the labor cost, does not result in the doubling of prices?

The volume of transactions increases, therefore, the demand is high.

Will there be higher prices because of the law of supply and demand? No.

Why? Because there is a lot of supply. There are so many laptops, so many clothes, so many products, therefore, there is no shortage. Therefore, the law of supply and demand does not apply.

Remember this always: The law of supply and demand applies only if the quantity supplied is not changed. This is the so-called *ceteris paribus* assumption (meaning, assuming all others remain constant). In

this case, assuming the quantity is constant (say, 100 laptops), then price of laptops supposedly will rise if there were more people wanting the same 100 units of laptops.

However, since the supply of laptops is practically unlimited, then the prices of laptops will not change. The law of supply and demand does not apply in this case.

Lesson: Be careful when you blindly follow the law of supply and demand especially if you don't know the assumptions behind such law. A little knowledge is a dangerous thing.

Anyway, let us summarize: Every December, there is Hyperwage because the labor wages are doubled for that month. The labor costs are doubled and yet the businesses do not suffer from it. Instead, the businesses are benefited because they register increased revenues because of the purchases made by the consumers. And yet, the law of supply and demand does not apply to this case, and the prices of goods and services do not actually double by the mere fact that labor wages are doubled. The 13th month pay, therefore, is a source of many economic benefits. The Hyperwage Theory is adopted every December in the Philippines, and yet, we do not realize it. What do the economists say to that? What do the non-believers say to that? What more proof do they want? Hyperwage Theory hits us in the head every year and we still don't know what hit us. That's a really sad thing: When something very profound hits you and yet you don't realize its profundity. It's sad, really, it's a sad thing. Do you remember what I wrote in my first book *Strategy Myopia*? Seeing what everybody else has seen and thinking what nobody else has thought. There is Hyperwage but there is no hyperinflation. Isn't that elegant?

14th-Month Pay

Now that we have established a very profound conclusion that without our economists and government leaders realizing it, Hyperwage Theory is currently being implemented with tremendous success in the Philippines every December using the 13th month pay as the

Hyperwage Theory

mechanism, how does this affect our implementation strategy for Hyperwage Theory?

We must not forget that Hyperwage Theory is a policy not a number. The reference number of P20,000 per month (or PhP770/day or US\$1.50 per hour) is a proposed number but this does not erase the fact that Hyperwage Theory is a theory of higher purchasing power.

What can we learn from the Philippine experience of the 13th month pay that can be used as a mechanism or implementing strategy for Hyperwage Theory?

If the ten-fold increase in minimum wages is too much for our economists and government leaders to imagine, though I think that fear is unfounded, we can go by the slower but more familiar route.

After the successful 13th month pay, I propose that the government legislate a 14th month pay (June), a 15th month pay (in March), a 16th month pay (in September). Before we know it we will have double pays on all months.

Whether these are done successively over a few years, or simultaneously in a single year, that's fine by me, either way. At least, it is a step in the direction of increasing purchasing power by the direct method, instead of those roundabout subsidies, non-wage benefits, and change of political systems mumbo-jumbo.

But this method gives merely a two-fold increase not a ten-fold increase. The sooner we realize that the faster we increase our purchasing power the faster we create wealth for the lowest class of workers the better.

The 14th month pay mechanism is one of the ways to implement Hyperwage. But somehow, that is not revolutionary enough.

If the Hyperwage Theory of increased purchasing power is the correct economic solution to Third World poverty, then why aren't we brave enough to accelerate its implementation for Third World countries?

Hyperwage Theory works now, and will work in the future. Again, I saw the future of economic history and its name is Hyperwage

Theory.

Intellectual history

One flow-on benefit for me in conjuring up Hyperwage is that I have sort of created my own personal intellectual history.

I'd rather create intellectual history rather than memorize the intellectual history created by others.

I'm pretty sure there are millions out there who can memorize faster, and memorize more than I could, of the thoughts of other intellectuals.

That Hyperwage Theory is an original thought is without question but whether Hyperwage is a correct or wrong theory is the greatest question.

The scales of current modeling and economic thought are heavily weighted against the plausibility of the Hyperwage Theory.

On the other hand, assuming zero knowledge in economics, if we start from zero base and build up from there, Hyperwage is a self-consistent logical natural and direct theory.

If Hyperwage came first, then Classical economics will not be accepted in the first place, and Keynesian economics will be considered incomplete.

I am therefore caught in a dilemma. Using the current state of economic thought, Hyperwage has got to be a folly.

Yet, if we build from zero base, Hyperwage Theory is the only theory that can explain, and most of all, remedy the poverty of nations.

Indeed, in my opinion, Hyperwage Theory is the only possible economic theory that can explain and solve poverty.

As intellectual history, Hyperwage could be completely wrong but at least before you reject it, you have seen the thought process behind the theory.

Thus, when you reject it, you deliberately know what you are rejecting.

Hyperwage Theory

In general, the strength of the final decision also depends on what ideas you have rejected before the decision was finalized.

After all, it is highly improbable that Hyperwage is correct. Hyperwage Theory has got to be wrong.

Otherwise we will be forced to conclude that all the economists in the world are wrong and the Street Strategist is right.

Unthinkable.

Yet, somehow, somebody must tell Third World economies that they are not slow moving caterpillars; rather, economic butterflies.

The Street Strategist is that person. Climbing the caterpillar pillar is not the solution; in fact, it is the opposite solution.

The Third World must give themselves some thinking time, and act and pursue matters in preparation for the lepidoptera metamorphosis such as building their cocoons.

Consumatum est

Exactly 70 years after John Maynard Keynes destroyed Classical economics with his *General Theory of Employment, Interest and Money*, the Street Strategist supersedes Keynesian economics by focusing on the minimum wage and by dividing the science of economics into inflation-centric and purchasing power-centric theories.

The Hyperwage Theory could launch the Street Strategist as the world's most infamous intellectual lunatic.

In the same breath, the Hyperwage Theory could land the Street Strategist the fastest Nobel Prize in Economic Sciences in history.

You bet on the former, I'll bet on the latter. No in-betweens. Indecisiveness is for the faint-hearted.

Yes, the Hyperwage Theory deserves a Nobel Prize but, no, it will never earn it. The members of the Nobel Prize Committee are the very same people that the Street Strategist accuses as lacking in original thought.

The judges and the nominators are the brilliant economists whose economic theories, in my opinion, are the culprit of the perpetuation of

Third World poverty.

The Nobel Prize Committee will have to oversee their own intellectual destruction just like Gorbachev did in breaking up the USSR.

I have come to the conclusion that the reason economics failed to solve our problems is not that the people are out of touch with economic theory but that economics is out of touch with the people.

I have come to the conclusion that the reason I have been confused by economics was not that I couldn't understand economics but that economics cannot be understood.

I have come to the conclusion that the reason I couldn't understand economics was not that I wasn't right but that the science of economics, as we currently know it, is wrong.

Consumatum est.

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