The Economic Manifesto

Five Fundamental Reforms to block the further Erosion of Prosperity and Democracy

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Preface

In the present book I want to deal with politics and economics in a rather uncommon way. Normally both are regarded as separate entities to be dealt with in distinct scientific disciplines. I hold this to be an error for, as a matter of fact, both are so intimately linked and interwoven as to constitute an integral whole. Policy is an instrument of power, because it is power that determines the conditions under which material goods are being produced and apportioned, and it is still power which determines how we deal with the ecosphere.

Seen from this vantage point, the time we live in appears to be a period of transition. In the past, too, there have been changes from systems of private initiative to those of monopolized power and vice versa, with the democratic ideal representing the freedom of all and feudal or communist dictatorship representing the freedom of one or of oligarchies. Both systems rely on the use of natural resources. They both demonstrated that they are unwilling or unable to preserve nature in a state where it remains useful for future generations.

In the economic sphere, the two alternatives of planned and market economy correspond to this fundamental political division. In planned economies a privileged caste dominates the apparatus of production and distribution of wealth while in market economies the management of the economy is entrusted to a maximum number of individuals. All actors together determine the rules - this is exactly what market economy means.

Ideally, the democratic market economy is based on personal skill and accountable performance as the only legitimate gauge for the distribution of material goods. Skill and performance disappearing with the individuals who possess them, such *an ideal society* need not worry about the concentration of wealth in a few hands.[1]

Obviously, a similar statement raises serious doubts as to the true state of our current politico-economic situation because in our societies *we do have to worry* about the accumulation of wealth.

Why did privilege again and again usurp the place of merit?

My thesis even goes beyond our present situation. I want to insist that so far there have never been societies that exclusively rewarded individual skill and performance. This explains why up to this day democracies never achieved a lasting political and economic stability. Always and everywhere we meet with a steady concentration of wealth and a steady accumulation of power in a few

[1] However, the skills and performance of individuals should not lead to an excessive exploitation of natural resources, whereby we risk an irreversible weakening and destruction of the essential functions and services of the ecosphere.

hands.[2] For this reason, Greek democracy as well as its extenuated echo in pre-imperial Rome transmuted into feudalism, and for this same reason, the same process threatens Western countries today. Everywhere – not just on the far right - parties and movements blatantly call for strong men thus preparing a return to non-democratic forms of government. Of course, dictatorships, where a single individual commands all thinking and acting, is hardly likely to guarantee more stability in the long run, men just don't feel happy in slavery. But in times of social upheaval or war people may lightheadedly renounce their own will. Only afterwards will they find out that it is quite difficult to get freedom back in the time of peace. However, the fact that slavery too can never be a stable condition of human existence is not much of a consolation, if we are forced to admit that even freedom has always been endangered.[3]

In fact, democracies carry the seeds of self-destruction within them. The distribution of political and economic power to as many heads as possible does after all, produce a paradoxical result. Such a distribution can be permanent only *if counterbalanced in one crucial respect*: A strong and undisputed authority must ensure that all inequality between democratic actors is only temporary. And such inequality must be based exclusively on individual skill and performance so that when these disappear equality reigns again. If such a supreme authority does not exist or is seriously weakened, those who are politically or economically better off will prevail against the less fortunate. In a mathematically predictable way *temporary* inequalities originally based only on skill and merit will harden into *permanent* ones, that is, into lasting differences of wealth and privilege, favoring certain families and classes – the privileges of birth. Large families and better-off classes then transmit their wealth to future generations.

All Western states are presently going through this stage of increasingly solidified inequality. In Germany alone, the number of billionaires has increased by 57% from 2009 to 2013, that is, even in a time of economic crisis.[4]

Countervailing strategies have become ineffective

However, the gradual substitution of merit by privileges of birth also provokes resistance. As governments have to rely on votes if they want to stay in power, they must endear themselves to the less favored part of the population. Normally they do so by counteracting the privileges of the happy few through redistribution and debt. This is the other side of the coin, which we must keep in mind in order to understand our present situation. While economic and social inequality is on the rise, governments do at the same time react with desperate and ultimately ineffective countermeasures.

[2] Thomas Piketty proves this point for Europe of the past two hundred years. Only the break caused by war and inflation from 1914 to 1945 has wrought a reset and thus an interruption of the prevailing trend (Piketty, 2004).
[3] Why systems thus oscillate between states of greater and lesser freedom (in the extreme case between democracy and dictatorship) is a main subject of my book *Wohlstand und Armut* (Wealth and Poverty); Jenner, 2010.
[4] As of now, 1,382,265 millionaires live in Germany. This is 7.6% more than in 2009 (Der Spiegel, June 6, 2014; p. 69).

The ineffectiveness of these efforts is obvious. Despite redistribution and debt the concentration of wealth continues unabated. It will keep doing so for so long as its real causes are not detected let alone corrected. In other words, as long as the top ten percent instead of renouncing unearned wealth continue to receive more and more of it. In fact, redistribution only operates among the bottom 90 percent, the richer part of which bears the brunt of taxation. And this is only half of the truth for government debt is still more obnoxious. Even if debt produces fruitful investment, those who profit most and almost invariably from public as well as from private debt are those figuring as the biggest lenders, i.e. the upper ten percent.

The above-mentioned paradox of democracy – the prime reason while at some point of its history it invariably failed - is the absence of a strong and undisputed authority ensuring that temporary inequality based solely on individual skill and merit does not coalesce into permanent privilege. Neither Greece nor Rome, where a handful of families eventually dominated the State, succeeded in creating such a body by means of their Constitution nor did they establish it in their institutions. Presently, Western states are confronted with a similar development. Leading magnates within the media, big business and banks not only direct public opinion but actively manipulate political and economic decisions thus promoting the concentration of power.

I have stressed this point in previous books.[5] Here it merely serves as a starting point to discuss a durable democratic system not threatened by decay. Such a durable system will only be possible once we understand the basic mechanisms underlying the uncanny shift of political and economic power that gradually weakens the many and strengthens the few while, at the same time, capital formation in the hands of the few enhances our ruthless dealing with nature. From the outset, we may assume that it must be a mechanism shrouded in secrecy, as those who benefit from it will do what they can to cover it up – transparency would indeed be dangerous as it is the most effective instrument against privilege.

We may even expect more than concealment: All means of deception will be used when it comes to create confusion as to the true causes of privilege. Speculation is often mentioned as one of the prime causes of great overnight wealth. But speculation works both ways: it may create tremendous wealth within a short time and likewise it may destroy such wealth immediately thereafter.

The actual mechanism must be sought for in greater depth.

This mechanism consists in the *automatic increase* of large fortunes - and only of large ones – by means of capital gains, i.e. largely by means of dividends, interests, gains on real estate etc. By ‘automatic’ I want to say that this increase proceeds without individual merit and skill. Money is, so to speak, ‘earned’ while sleeping, through a *parasitic transfer* that contradicts the very ideals and

[5] See Jenner, *Wohlstand und Armut*, 2010 and *Das Pyramidenspiel*, 2008.

foundation of democracy if, indeed, the latter is supposed to reward nothing but individual achievement. In this book I will calculate the parasitic transfer from the bottom 90 to the top 10%. This will be the subject matter of the first chapter and – in more detail – in the appendix.

I hold parasitic transfer to be a fundamental defect of our current economic system contributing in a major way to what I call its *economic disease*.

What about the author's credentials?

The reader confronted with such a serious accusation may well shrink back and ask, first of all, about the legitimacy of its author. In science, we are accustomed to trust only those who figure as recognized authorities. As far as Germany is concerned, we find these authorities or keepers of the Holy Grail of economic wisdom among the members of the 'German Advisory Counsel on Economics' popularly the called the 'economic sages'. Now, Professor Rürup, once chairman of this august Council, did not only promote the publication of my book on the dangerous effects of free trade[6] but even assumed personal responsibility for the thoughts and proposals I advanced in another book published 1999, which deals with the adverse consequences of wealth concentration.[7]

Prof. Gerhard Scherhorn, critical expert on economic matters and he, too, a former member of the aforementioned German Advisory Board, particularly honored me with an introduction to a book, in which I anticipated and described the debt crisis and its long-term effects.[8] So, if some reader may wonder whether or not to take seriously the thoughts offered to him in this book, he might feel reassured by the fact that two of the discipline's topmost authorities have openly expressed their assent.

A government punishing its citizens

The *economic disease* diagnosed in this book is not only due to the failure of democracies to prevent the concentration of power and wealth; they fail still in another way and with consequences no less severe. As a matter of course, we not only expect government to care for justice *among* democratic actors but also *towards* them - namely when demanding its share of their produce and of natural resources. How little government lives up to that expectation becomes obvious as soon as we examine its actual procedure. I think that everybody will agree that the state proceeds in an unjust and even stupid manner when it *punishes* those of its citizens who promote the common welfare or even create it through their endeavors. In other words, government should not demand taxes from

[6] Jenner, *Die Arbeitslose Gesellschaft*, 1997.
[7] Jenner, *The End of Capitalism - Triumph or Collapse of an Economic System?* (1999, published in German). Beneath the dedication Mr. Rürup made the publishing house insert the words "Expert advice: Prof. Dr. Dr. hc Bert Rürup." Both my thesis against free trade as well as my opposition to the concentration of wealth soon ran counter to the trend of the time so Mr. Rürup chose to forget or rather regretted his alleged expert advice.
[8] Jenner, *Das Paramidenspiel*, 2008.

those who contribute to the common good, but only from those who diminish it. Neither workers nor other personnel of little or even big business should be charged - these are contributors. Government should exclusively demand taxes from those who by way of consumption *reduce* the mass of available goods. And it should do so in a progressive way, by increasing its demand in accordance with the increase of individual consumption. Everyone consuming much more than his fellow citizens, diminishes natural resources and thereby the common heritage of all of us including future generations.

If this is what we may legitimately call democratic justice then there is, nowadays, very little of it to be found in Western states. When looking at their actual taxing procedure we find it to be unjust as well as counterproductive. They punish performance, and they even do so in a progressive way: The greater your contribution to the common good the more you'll be fleeced. It should, of course, be the other way round: The more you reduce the common good by consumption the more fair taxation should compensate the community. This principle should apply to companies as well as to final consumers. The first should be taxed according to their consumption of scarce resources. The last should be subject to a progressive consumer tax for this is the only way to provide for social justice – it is the only way, too, to ensure environmental health as it allows a fine-tuning of resource exploitation. This will be discussed in Chapter IV.

While all other chapters deal with the relationship between society and economy, chapter II is concerned with the impact of modern economy on nature. Better than any previous epoch we know about the ecological effects of modern technologies, but the reason why we are incapable of pulling the emergency brake and, finally, switch to sustainable economics lies beyond technics. It is due to political economics, more precisely to compulsory growth, which in its turn is based on debt and the parasitic transfer it entails.

Chapter III draws a conclusion: If we stop *parasitic transfer*, we would certainly reduce illegitimate inequality in the long run but not in the next decades to come. Illegitimate inequality is, however, the greatest threat to democracy and the welfare of future generations. We must, therefore, act here and now. Right and left wing parties alike should feel compelled to do so if, indeed, they share the basic democratic belief in personal merit instead of privilege.

The role of money in modern society

Certainly, right wing politicians use to be more concerned about personal freedom. But even they will not demand this freedom for big money, if it is the fruit of privilege instead of merit. The representatives of the left tend to place less emphasis on freedom once the latter comes into conflict with equality. But inequality is an engine of prosperity and bustling community life, provided it is based on skill and performance alone. As mentioned before, this type of inequality can cause no harm being only of a temporary nature. The danger to democracy comes not from inequality as such, but from its illegitimate, undemocratic fake.

However, I wish the reader to understand that the proposals of chapter four are not meant to express envy or even ill-feeling vis-à-vis the top 10 percent, nor do I want to demonize the elite. When making a huge fortune by speculating against the English pound even George Soros, the internationally known top speculator, merely applied the rules of the game without any legal offence. It is these rules rather than those who use them that we have to fight against in order to defend the public good.

International trade

In chapter V, I deal with a far more difficult topic, namely with the relationship between the State (or an integrated market like the EU) and the outside world. This relationship has been the subject of heated philosophical debates for at least two centuries. Theoretically, Adam Smith and those economists who defend free trade are on the right side. Under appropriate conditions the free or open trade provides the best foundation and even guarantee for the prosperity of all partners involved. So what actually matters are, indeed, those appropriate conditions. Sometimes conditions favor only one of the trading partners but not the other, psychologically they may, as I will try to show, even be wrong for both. Political economy, not economy tout court, is what actually counts. This proviso explains why the notion of 'trade war' is never far off when nations engage in mutual barter; and trade wars not infrequently risk turning into open warfare. Chapter V explains why a majority of Western States and, more specifically, parts of Europe no longer profit from free trade but are severely damaged by it, as free trade has destroyed whole industries together with millions of jobs. In this way it has further contributed to the widening gap between rich and poor.

The unbelievable blindness of leading experts

In the last chapter, I want to discuss a rather worrisome problem, which, I guess, may have intrigued most readers as well. How come that the majority of economists is so blind to reality - a blindness proved by their notorious inability to predict even the severest and most devastating crises? This question gives way to still another one, which, to my mind, is even more troublesome: Why does such blindness hardly impair their authority, which, as a rule, is only briefly shaken? I am afraid that my answer is not too pleasant, though I believe it well proven by facts. In the field of economics, scientists do not necessarily work for the sake of truth, but for the sake of the powers that be!

The overly aggressive and the overly meek

Let me conclude with a few remarks on those readers who will probably reject this book for opposite reasons: I mean the overly aggressive and the overly gentle. The former, whose number is swelling with the unfolding of the present crisis, will oppose this book for what they believe its too conciliatory stance. They rather want what they disparagingly call the 'system' to be shattered altogether. They do not see nor do they want to see that contemporary Europeans still enjoy a degree of individual freedom and general prosperity that are quite unique in the entire history of mankind. If both freedom and prosperity were permanently secured instead of being under heavy assault, we could hardly wish for anything better. Democracy and market economy are ideal systems, *so long as they work properly*. In this case a maximum number of people participate both in political as well as economic decisions. Democracy works properly if all inequality among citizens is of a temporary nature being justified by achievement. Market economy works properly if it is socially and ecologically minded: an eco-social market economy.

The too gentle will, so I guess, be dissatisfied for other reasons. They feel repelled by words like individual performance, skill or merit, which to them have a strange and anachronistic ring. They long for a kind of new paradise where man need no longer toil but instead enjoys an unconditional basic income the origin of which is of no concern to him. Personally, I have nothing against such utopias, but I'm afraid that people, who yearn for them, may easily become the defenseless victims of all those reckless, temerarious and success-driven people who on all sides surround old and nowadays exceptionally peaceful Europe. Such dreams are beautiful, but they may be life-threatening too.

I) How we allow the economic foundation of democracy to erode

Mafia, money and the German Federal Court of Justice

> Thilo Sarrazin, den meisten seiner Gegner an Klarheit und Folgerichtigkeit des Denkens überlegen, irrt dennoch fundamental, wenn er sagt: „Nie aber konnte ich eine Quelle der Ungerechtigkeit darin entdecken, dass jemand anders mehr Geld hatte als ich. Er nahm mir ja nichts weg.“ [9]

It is and, certainly, will remain a controversial topic never to be decided in a final and definite way whether it is fair that a company boss earns ten or a hundred times as much as simple employees. An excellent chef transforms a mere garage into a global company; a bad one drives it into bankruptcy. Usually it is quite impossible to compare respective performances or to give an objective account of previous training, knowledge and skill. There is, however, general agreement, that we are confronted with blatant injustice whenever any group of mobsters makes its living by extorting others, that is in a *parasitic way*.

What the police may do and what not

And anybody will likewise agree that the police are supposed to protect our property by preventing intruders from entering our homes. People would, however, fiercely protest if the police were to help property owners in the expansion or decoration of their houses. In this case the police would be harnessed to the service of particular interests instead of serving the public.

Money is allowed to remain outside the sphere of justice

But that is exactly what present-day democratic governments allow their economies to do. They allow it to be *harnessed to the special interests of the elite*, stated more simply: to the interests of the rich. To be sure, it would be unfair if the fortune acquired by my own labor melts like snow in the sun without any fault on my part. Hence, we hold it to be an act of justice that government prevents this to happen - just as it makes police care for the protection of my home. But only in dictatorial regimes will the police or other public organs be abused for the purpose of *multiplying or embellishing my house or other property*. This would, indeed, be tantamount to the parasitic practice of mafia organizations.

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[9] Sarrazin, 2014; Der neue Tugendterror. Einige Zeilen später räumt Sarrazin indirekt ein, dass ihm sehr wohl etwas genommen wird. „Allgemein steigt die Sparquote mit dem Einkommen, deshalb ist es leider mathematisch zwingend..., dass die Vermögensverteilung immer ungleicher ist als die Einkommensverteilung und dass diese Ungleichheit im Zeitablauf noch wächst, wenn sich das Vermögen auch nur maßvoll verzinst.“ Warum Sarrazin aber an der mit drei Pünktchen bezeichneten Stelle die Passage hinzufügt „und nicht Ausfluss einer besonderen Ungerechtigkeit“, ist mir unerklärlich. Ist etwas deswegen gegen den Vorwurf der Ungerechtigkeit gefeit, weil es durch einen (mathematischen) Automatismus bewirkt wird?

If this seems to be evident, how come that parasitic behavior is not only condoned but, on the contrary, regarded most natural as soon as *monetary capital* is involved? This is a truly astonishing, nay, a disturbing fact.

At the present moment, German pundits are involved in a discussion apparently concerning a fundamental question of justice. Is it fair that workers and employees are subject to income tax of up to 45% while capital only pays a little bit more than half, namely 25%? For the sake of justice, the German Federal Constitutional Court (Bundesverfassungsgericht) opts in favor of the same amount of taxation for both.

Villas just don't multiply all on their own, why does money?

Justice? I fail to see any reason why it should be just that a democratic government allows money to grow all by itself that is without the least performance or merit on my part. As a matter of indisputable fact, nobody ever saw a villa or other property grow all by itself – that is, unless its owner pays somebody for the work required. Nor does money grow by itself unless its owner puts his own skill and work into the process.

But no! When it comes to capital gains, this is no longer true. In this case, things are, indeed, totally different. Money is allowed to grow without any effort or merit on the part of its owner. Government closes both eyes when money uses its age-old mafia methods. Either you, the public, agree that I may swell and grow all of myself or I will strike!

It is very strange indeed: The parasitic behavior of mafia clans is deemed unacceptable but hardly anybody stands up against parasitic fortunes that 'grow all by themselves' or rather – for this is the rather unsavory truth - by the work and sweat of other people. Money never grows by itself!

Only the extent of injustice is made a problem

So what do we make of the current discussion concerning the harmonization of income and capital tax? Let's be frank: The fundamental problem of justice is not even hinted at. Instead of being condemned as a matter of principle, the only question asked is *to what degree parasitic behavior may be allowed*.

In this case, however, there is a definite answer to the question of justice! Nobody contests that government is responsible for protecting my house from marauding gangs. Likewise I think that government is responsible for protecting the rest of my property as well, that one million Euro, for instance, to be found on my current account. Government should make sure that it does not become eroded through inflation or otherwise – in other words, government should *guarantee its full purchasing power over time*. Once this point is agreed to, what right do I have to demand its growth or multiplication other than through my own work and endeavors?

With achievement being zero, income too must be nil

No, here we need not quibble about justice as we do in the case of corporate executives whose performance we cannot determine in a purely objective way. In the present case our judgment is most definite and, indeed, totally objective. My own achievement is equal to zero in case the money on my current account or put into stocks, real estate etc. grows due to the sweat and work of other people. Any income 'earned' while sleeping and at the expense of other people, cannot be just. This insight is by no means new. Up to Margaret Thatcher, a tax of 98% was levied in England on parasitic capital gains.[10]

The very principles of modern society are betrayed

How can it be that people in England had a right feeling for the injustice of such unearned gains while the German Constitutional Court (Bundesverfassungsgericht) has not? It fails to see the fundamental difference between parasitic income and income that requires hard or even very hard work on my part. But this difference is the very foundation of modern democratic society. Why does society put up with a state of things that contradicts its hardest-won principles? Up to the French Revolution parasitic income was an obvious prerogative of the rich and powerful. Long and hard struggles were needed to abolish the privileges of birth and to make individual performance the only basis and justification of personal success.

What I earned by my work is mine – but no more

So, there can only be one right and just solution. If government guarantees the purchasing power of my money (in so far as the latter is the fruit of my own work), then *capital gains or any increase of money due to the work of others does not represent my property but theirs and hence should be left to the State*.[11] As far as I am concerned, I need not worry about my own benefit. It is, indeed, large enough since the public pays a lot of money in order that police and courts of justice do their work in safeguarding my home and other property.[12]

[10] See http://en.wikipedia.org/wiki/Taxation_in_the_United_Kingdom, and Roberts, 2013, pos. 649. It was not the 98% tax on capital gains, of course, which had weakened England's competitiveness up to Margaret Thatcher, but excessive wage demands by workers. English products could no longer be sold abroad.

[11] Let me emphasize that I do by no means want to 'abolish the interest system'. Debit interest (the price of loans) constitutes an important tool for the management of investments. The interest *received* (capital gains due to the work of others) is a problem in societies based on individual merit. The collection of debit interest by the government could serve the purpose of guaranteeing the purchasing power of savings (up to a certain level).

[12] As a matter of fact, even investors themselves do not necessarily demand high returns if instead they obtain maximum security. One example in case is Switzerland, where interest rates were often quite low or even near to zero, another example is the current attractiveness of German sovereign bonds. So the proposal to abolish the gains on capital while at the same time guaranteeing the latters puchasing power is by no means fantastic.

Not more than a minor adjustment

To be sure, such matters of principle are likely to raise a host of objections even with those who readily admit that parasitic income is contrary to the social contract of modern society. Such call for justice, they argue, may be right on theoretical grounds, but experts know all too well how many insurmountable obstacles any such reform would have to overcome.

Yes, certainly, but the same reasoning may be opposed to any actions against the Mafia. We easily find thousand different arguments why our fight against the status quo would be hopeless. However, it is simply not true that no one would be willing to invest his money if he did not receive the same parasitic return on capital as the average citizen receives for his or her labor. Once a just government guarantees the undiminished purchasing power of savings while, at the same time, permitting a slight inflation,[13] so that no one simply hides his money under the mattress, all money would be forced into circulation where it is used either for investment or for consumption.[14] Together with a minimum of control over gold, precious stones and the like government may easily prevent alternative means of hoarding.

No going back to the privileges of Money and Birth!

We are wont to argue about justice in many areas where a final judgment is difficult or even impossible to achieve. To be sure, many great fortunes are still *created* by way of outstanding personal performance – I am thinking of men like Bill Gates or Steve Jobs (though I refuse to include George Soros in this category as financial speculation can never be said to be in the public interest). But the real problem comes thereafter. Even if originally created by personal merit, these fortunes may subsequently be *automatically* increased by capital investment, so that they persist regardless of merit and performance and, finally, crystallize in the hands of specific families and dynasties of the rich.

When it comes to Mafia clans all of us are well aware of injustice and corruption that spreads like dry rot within a society. Why do only a few understand that parasitic growth of personal assets and the impoverishment of the working majority represent an evil at least as dangerous? The privileges of birth, once abolished by the French revolution, are now reborn as the privileges of Big Money – and they are, as I will show below, just as formidable!

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[13] Inflation used as a convenient means to prevent the hoarding of money *does*, of course, erode its purchasing power. But this erosion could be paid for with the proceeds of parasitic capital gains.

[14] There exists a whole series of proposals how to prevent the mafia-like accumulation of unearned wealth. The above-mentioned is the most simple, but by no means the most elegant one. I do not want to discuss any of these at this place. This makes sense only *after* people become aware of the fundamental injustice involved in our present-day system. Apparently, even a central organ of justice as the Federal Constitutional Court has not yet reached this stage.

Let us, therefore, state our goal in precise and unmistakable terms. Just like a fair and democratic society will deprive the Mafia of all its parasitic income, so it will insist on its right to collect *one hundred percent of all unearned capital gains* (while, to say it once more, at the same time guaranteeing the full purchasing power of savings up to a certain maximum level). As such action corresponds to the basic principle of modern society, which is the remuneration of merit and the condemnation of privilege, it is not linked to any party or ideology but to our basic democratic creed. It is, furthermore, a very urgent political action since in large parts of Europe it becomes increasingly difficult for more and more people to live by their labor income. The many suffer while a happy few pocket astronomical sums simply by 'letting their money work'. If the German Federal Constitutional Court really wants justice to happen then it should prohibit any unearned return on capital for it is not better than the protection money paid to the Mafia.

What does star economist Thomas Piketty say about parasitic capital transfer?

> To put it baldly, there are two ways to become wealthy: to create wealth or to take wealth away from others. *Joseph Stiglitz*[15]

In ancient times, slavery served to exploit the labor and efforts of others so that a privileged person might live without his or her own labor and effort. Since then open slavery has been largely abolished; but not so its hidden counterpart. Hidden slavery, too, relies on other people's achievements but it does so in a much more subtle way: As a rule, modern slaves do not even know their masters. This modernized type of slavery is based on what I call 'parasitic transfer' or all those capital gains that people 'earn' in an effortless way and, so to speak, while they sleep. The parallel with ancient times may be pursued even further: Just as open slavery was then accepted as a matter of course, our contemporary economic pundits either conceal its modern embodiment or treat it as a taboo.

In this matter French star economist Thomas Piketty may certainly serve as an outstanding representative though it must be added that he recently changed his mind turning rather unexpectedly from Saul to Paul. Piketty deserves to be called 'outstanding' because he never made a secret of his criticism concerning neoliberal ideology, advocated and established nearly worldwide by the United States. However, in his first work, *L' Économie des inégalités* (2008, *The Economics of Inequality*) Piketty is still very far from grasping the true causes of unequal distribution. Even after his spectacular 'conversion' testified by his seminal work *Le Capital au XXI siècle* (2013, *Capital in the Twenty - First Century*) critics may argue that the French economist is far from seeing the basic mechanism of inequality.

I propose to deal with his second book somewhat later discussing first what Piketty has to say in the first one. This procedure is of particular significance as it reveals the enormous efforts demanded even of star economists when wrestling with taboos. In *L'Économie des inégalités* we look in vain for any definite statement on a most obvious fact, namely that our modern economic system is only in part based on performance, merit and ability. The fact that a widening stream of income is produced without any effort and merit at all – this basic fact so disturbing to the minds of mainstream economists - is deliberately glossed over.

Mind you, Piketty *does* inform us that our knowledge with regard to great capital assets and the income flowing therefrom is indeed rather limited.[16] Obviously, its beneficiaries tend to have no particular interest in revealing their privileges to tax authorities and the public – in this respect there case is quite different from that of ordinary workers and employees whose incomes and assets are perfectly known to the State and its fiscal representatives.

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[15] Stiglitz, 2012; 118,7/1063.
[16] Économie, p. 7.

Be this as it may, Piketty is, anyway, not concerned with this lack of symmetry since he sees no need at all to deal with capital and its gains. Instead, he explores the field of inequality as arising from different *returns on labor.* In his first book on inequality, he still believes these alone to be of real importance. Presenting quantitative studies on the relative productivity of labor and capital in Big Companies during the past 100 years, he shows that these roughly account for two to one third respectively.[17] However, with the revenue generated by capital, that is one third of their entire revenue, companies have to pay for the replacement and renewal of their machinery as well as for their tax bill so that there is not much left for dividends and interest to be handed out to their creditors.[18]

Piketty further belittles the role of capital gains when dealing with its contribution to average household incomes. In all western countries, he insists, this contribution is roughly equal to 10%.[19] So he concludes that inequality in its present form is primarily due to the unequal distribution of the remaining ninety percent of *earned income*. The French economist sees but one solution to the problem. Government must take corrective action by means of fiscal redistribution.

What result may we expect from Piketty's proposals

Reading those recommendations I felt strangely reminded of ancient times. To be sure, even then there have been thinkers who argued for a more humane treatment of slaves, but the institution of slavery itself was never seriously questioned. The same attitude is adopted by Piketty. He proposes reforms that do not mention, much less resolve, the fundamental injustice of parasitic transfer, that is, income without work and merit. In this respect the French economist is quite in line with most of his colleagues. It seems as if serious scientific research necessarily leads to one and the same result, namely to the denial or belittlement of such transfer.

But let us for a moment turn to fiscal redistribution as proposed by the French star economist. What are we to expect from his reform, which is, in fact, nothing else than the usual procedure of modern welfare states?

No long term results. To be sure, *in the short run* major incomes and assets certainly are the result of labor and thus of merit and not of dividends and interests (leaving aside financial speculation which works in both directions: it may create as well as annihilate great fortunes in a rather short time). In this perspective marked inequality is a natural result of the contrast between five-Euro-Jobs and the fantastic incomes pocketed by top jobs in banking and industries. But, in contrast to what Piketty wants to make us believe, this type of inequality does not really represent a serious problem. In a society truly rewarding personal

[17] supra, p. 40.
[18] supra, p. 41.
[19] supra, p. 8.

work and achievement - and only these -, unequal distribution would do no lasting harm, because it naturally disappears together with the work and achievement in question. In other words, *it never sticks to certain families or social groups and not even to individuals beyond their working life*. Such income arises and disappears with the work and service from which it originates. It certainly creates temporary distinctions but no continuing inequality that solidifies into the privileges of specific families or social groups. *Transitory inequality based on achievement is harmless in view of its future results and it is invigorating in view of its present effects. It need not be suppressed at all nor, certainly, fought by means of fiscal redistribution as advanced by Piketty*.

An erroneous view

But such inoffensiveness is by no means the characteristic trait of our present-day neoliberal system. By now, it is a proven fact that differences in income and wealth do indeed crystallize within definite families and social classes, and they do so in all Western states: Statistically speaking, parts of the population remain on a permanently precarious level, while other parts permanently occupy the top of the social pyramid. The idea of equal opportunities, the true foundation stone of modern democracy, suffers from gradual erosion and is likely to turn into an illusion.

This, however, is a topic not dealt with by Piketty in his first book on inequality. The author simply dodges the subject by presenting a merely *synchronous* inventory of internal returns on capital versus labor within leading industries on the one hand and their share within disposable income of households on the other hand. What escapes him is the *diachronic* perspective, which causes a steady accumulation of capital gains over time. While different remunerations for work, that is personal merit and achievement, do indeed produce the greatest inequality from a synchronous point of view, it is *parasitic capital transfer that transforms these temporary differences into lasting ones.*

Examples are so well known as to require a definite willingness to overlook them if a specialist on economics fails to refer to them in a book on inequality. Any person with a large fortune, whether acquired by her or his own efforts or by mere inheritance - let's say a fortune of at least one million euros – may safely lean back and observe *how this initial capital increases without further efforts on the part of its owner* – the capital works, so to speak, all of its own. But this is, of course, a blatant misstatement since its increase is due and only due to the efforts of working slaves: These are required to pay for dividends, interests, rents etc.

But do not all of us profit from this system?

At this point, the reader may well object that even small stockholders and small savers enjoy such increase so that the system is really to the benefit of all.

Wrong. Both, the owners of small and of large capital, must consume and may save. This is, of course, obvious. And while consuming all kinds of products they necessarily contribute to parasitic transfer. They not merely pay for the work contained in these products but also for the dividends and the interest companies owe their creditors. This part too is contained in the prices of all products consumed. So small and large capital owners alike have their share in parasitic capital transfer.

Both resemble each other in still another way as each of them may assume the role of investor (stockholder or saver). With their savings (which via the stock market or via banks are channeled into companies in exchange for shares or bank statements) they then achieve the opposite effect: Regardless of whether they are small lenders or big investors, both of them now become *recipients of unearned income*. So, at first glance, it might seem as if all become beneficiaries of parasitic capital transfer.

A fundamental dichotomy – the bottom 90% pay income tax twice

On closer inspection, this argument turns out to be entirely misleading. In fact, small lenders and large investors find themselves placed in a *diametrically opposed* position. In order to live – or sometimes just to survive – small lenders are forced to consume the bulk of their income. Their savings are minimal or even nil when compared to those of big investors. These, namely people earning much more than what they consume, are the real winners for they save the bulk of their income. What they *give to others* by way of unearned income is insignificant in relation to what *they take from others* through their own savings. In other words, the balance of profit and loss is quite negative in the first and quite positive in the second case, and it is even the more positive the richer and the more negative the poorer those people.[20]

We may say that the working majority is de facto doomed to procure parasitic income for a minority (no matter whether the latter is or is not engaged in work from which it derives an additional share of truly *earned* income). Parasitic capital transfer or all income based on the work of other people is nothing else but a disguised form of slavery since people must consume in order to live. But it is so well disguised that most people – including a French star economist - don't even know about its existence nor do they conceive its extent. If they did, they would be shocked to learn that in Germany the parasitic flow from the bottom 90 to the top 10% *surpasses the total amount of the most potent of all taxes, namely the income tax*.[21]

In ancient Rome, the reigning elite did nothing against open slavery - on the contrary it lived from it. The result was predictable: Since the majority of

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[20] In his book *The Money Syndrome* German economic analyst Helmut Creutz had described this mechanism of redistribution in 1993.

[21] Five years ago, I had embarked on an approximate calculation of parasitic transfer from the bottom 90 to the top 10% of the population. This legal transfer *represents a multiple* of illegal tax evasion in tax havens, which, according to Gabriel Zucman, amounts to about 30 billion euros per year (Zucman, 2014; Pos. 55/1548). Why do people get excited about the latter when the former constitutes the real problem? See appendix.

people usually model their lives on the most successful people within their ranks, slavery was regarded as a matter of course so it finally poisoned the whole society. First, free peasants disappeared and afterwards free crafts (even if some of them were left to the care of freed slaves). In the current neoliberal economic system, the same poisonous trend is already well advanced. Most people follow the unspoken ideal of acquiring enough money in order to live from the work of others, that is, from parasitic transfer (all this accompanied by the brazen lie that even small lenders – the true victims of the system – would benefit from its proceeds).[22] Certainly, all Germans, not only the happy few, are doing better than half a century ago, but only because increasing incomes due to forced growth and the ruthless exploitation of nature initially surpassed parasitic transfer and until recently at least compensated its effects.

Redistribution is of no avail

This exploitation of a majority by the powerful few occurs among the silence of those who should know better – which means that nothing has changed since the times of Greece and Rome. Its consequences would, however, be far more noticeable, had not inflation and war periodically destroyed big fortunes and had not welfare government counteracted the tendency after World War II.[23]

Largely by fiscal redistribution the welfare state tried to lessen the burden of the most disfavored thus acting expressly against the prevailing neoliberal dogma. However, welfare redistribution has become less and less effective in the new century as it no longer prevails against the swelling flow of parasitic transfer from bottom to top. We should keep in mind that the exploitation of the many by the privileged few *exclusively* occurs by means of such transfer (pure speculation - financial and otherwise - though being at times quite important is not really needed for the constant increase of unearned fortune).[24]

For this reason Piketty's proposals turn out to be nothing more than wastepaper. Instead of limiting or abolishing unearned income and its steady accumulation in the hands of a minority, the French economist rather opts for distribution among wage earners themselves: Those who through merit or talent legitimately receive bigger incomes are made to pay for those with small ones. This is, however, an unfailing recipe for destroying the middle class or the very

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[22] This lie is quite effective. Time and again you will, therefore, be asked: Do you really resent the modest gains of small savers and small shareowners? No, of course not, but the biggest profit they could possibly make would consist in the abolition of all parasitic transfer. In this case their consumption bill would be cheaper by as much as one-third – a gain that dwarfs all profits arising from modest savings.

[23] As explained by Piketty in his second book (Piketty, *Capital in the Twenty-First Century*, 2014) such destruction of fortunes happened between 1914 and 1945. Since the 80s, the tradition of unimpaired wealth accumulation as it existed in the 19th century up to 1914, was resumed and by now produces similar results.

[24] I am dealing with this subject in the appendix. Let me add that interest and dividends represent only one, albeit the most elegant way to parasitic enrichment. During its development phase, China practically forced interest and dividends down to zero, yet the Chinese oligarchy succeeded in amassing fabulous wealth. It simply used traditional practices of corruption. Whenever a new plant or project had to be approved, officials collected their due. The grandees also benefit from investments abroad, thus profiting from high interest and dividends elsewhere. The Chinese approach represents gross corruption, the parasitic enrichment by means of interest and dividends its subtler, but no less pernicious variant. Helmut Creutz and his followers are mistaken if they reduce parasitic enrichment solely to interest bearing assets.

foundation of modern democratic societies. Instead of the real culprits, the beneficiaries of parasitic transfer, the working majority itself is made to bear the brunt of the welfare state's most heavy burden.[25]

A half-way conversion

Piketty does somewhat better in his latest book *Capital in the Twenty - First Century*. In a remarkable though rather belated about-face with bags full of statistics at his hands, he proves that the privileged few are the ones who really benefit from neoliberal economics. To most of us this does not really come as a surprise though the statistical material may be of use for the still unconvinced. As far as theory is concerned there is much less to be gained. Piketty does not really offer any basically new insights. Rather he reclaims as his own intellectual property what has long been recognized by others, for instance the fact that with growth rates (g) lower than the rate of return on capital (r) the rich must necessarily live off the wealth of the majority.[26] Stated in simpler terms, when the national pie does no longer grow while capital maintains its previous claims, the working majority becomes a victim of progressive exploitation: It is forced to tighten its belt.[27] This finding is rather commonplace and anything but original. And we are, certainly, not really surprised to learn that the savings rate of the rich tends to be much higher than that of ordinary people.

Piketty ignores the prime evil: parasitic transfer

But the most cogent criticism of Piketty's work does not derive from its lack of originality but from the fact that it even signifies a theoretical retreat. In his 'rate of return on capital' Piketty mixes two kinds of revenues, which should and must be carefully kept apart, namely revenue as unearned income based on hidden slavery and revenue based on merit and accomplishment. The French star economist does not really break with neoliberal ideology: He fails to reveal the true scourge of modern capitalistic economies and indeed its central mechanism,

[25] Unfortunately, globalization has severely curtailed the freedom of action for individual states. For this reason they are incapable of limiting, let alone abolishing, parasitic transfer on their own. Such attempts may even turn out to be counterproductive as capital chooses other places where to invest. Europe could and should be the solution for this problem, but certainly not the neo-liberal Europe that primarily furthers the interests of big money.

[26] See *Capital*, page 36. In my book, *The End of Capitalism - Triumph or Collapse of an Economic System?* (S. Fischer, 1999), I literally said on page 142: " ... when the growth rate of the economy subsides without interest rates declining to the same extent, the result will be a redistribution in favor of parasitic capital." I continued to argue on this line in *Das Pyramidenspiel* (Signum, 2008). Nor was this a new insight with the Vienna Föhrenbergkreis, which I frequented for a certain time.

[27] Peter Bofinger, member of the German council of economic advisors, confirms the trend: "All over the world, workers and employees get an ever smaller piece of the pie. The share of labor income in national income has been declining for decades, while the share of interest income and capital gains rises" (Der Spiegel, June 2, 2014). Bofinger criticizes Piketty for misinterpreting his own data when comparing the rate of return on capital (r) and the growth rate (g). Since 1913 until today (g) was high when compared to (r) so that the share of capital could not possibly weigh too heavily on labor. I cannot share this criticism because the numbers given by Piketty represent *global averages* that conceal drastic differences between countries. Wealthy people from countries where the average growth rate is below the average rate of return on capital have no difficulty in finding more successful companies within their own country or abroad, for instance in Asia, where they are offered the returns they demand - otherwise they may still hoard their money and profit even more in times of deflation.

namely *parasitic capital transfer*.[28] With greater lucidity than most other among his colleagues Piketty teaches us that there is something wrong with present day economies but he fails to name the true cause because he does not distinguish between a *capitalistic market economy* based on personal merit on the one and its degenerate variant on the other hand: *parasitic capitalism* producing riches by mere exploitation.

So, all in all, the theoretical contribution of the French star economist remains rather modest; some will nevertheless appreciate his extraordinary zeal for comparative data on a large international basis. The thing most difficult to explain is the far-reaching tremor produced among economists all over the world – even in the US, the very heart of neoliberal capitalism. Obviously, it comes as a shock if a member of the economic clergy instead of closing his eyes in front of reality openly confronts a taboo and utters unsavory truths. This is something not easily to be expected as already noted by Meinhard Miegel, a German social scientist belonging rather to the political right: ".. what is offered … in a discipline like economics – which has in fact assumed the role played by theology at medieval universities - are rather beliefs instead of scientific evidence. According to the taste of the time these tend to be shrouded within a mathematical cloak."[29]

[28] This objection applies to the neoliberal economic school as a whole. The so-called Gini-coefficient, the most commonly used instrument for measuring the distribution of incomes and assets, does not distinguish between income or fortune acquired by personal merit or acquired in a parasitical way. But societies differ fundamentally according to whether the one or the other mode prevails. In other words, the Gini-coefficient tells us nothing about the real state of society. See Jenner http://www.gerojenner.com/portal/gerojenner.com/Gini.html.

[29] *Hybris*, 2014; p. 49. I take this cum grano salis, that is, as a lucid gibe at the actual state of macroeconomics not as a statement of what the latter could be.

II) How Money builds and destroys society

The chief problem of modern democratic societies, i.e. the cumulative increase of large fortunes, may be considered solved on theoretical grounds. Once the state is authorized to collect one hundred percent of all income not due to personal achievement, in other words, all parasitic transfer, such automatic accumulation no longer exists. The euthanasia of the rentier, already called for by John Maynard Keynes, would finally become true.[30]

Two functions of Money

However, despite its far-reaching impact this proposal alone is not sufficient to ensure social and environmental sustainability. The problem is money - not money in its function as a medium of exchange. In this function, it is almost as old as human civilization and of vital importance for its survival. The problem is money in its function *as a means for storing value*. For in this second role money is a blessing and a curse at the same time. On the one hand all material growth, whether ecologically harmless or not, is based on investment, that is, on savings;[31] on the other hand, an *excessive amount and hence the pressure of savings* has time and again produced that type of degenerate capitalism that artificially created investment opportunities through conquest and wars: Third World countries were bombed, so that they could be build up again.

Credits and Debits

Money as a means of storing value necessarily generates the twins of credits and debits; but since time immemorial these are very unevenly handed out. While a maximum of ten percent are enjoying tremendous credit, i.e. yield-bearing assets, the remaining ninety percent are burdened with the corresponding debt, which they have to service by means of parasitic transfer. The lamentations about this state of affairs are by no means a new phenomenon; people of ancient Egypt, Israel and India were crushed by the burden of unbearable debt.[32]

Certainly, a free society must provide opportunities to its citizens to make savings for old age, sickness and disability. These savings not only further pri-

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[30] Keynes, 1964; p. 376.

[31] In his major work *The Protestant Ethic and the Spirit of Capitalism* Max Weber points out how initially religiously inspired capital owners regarded the enjoyment of consumption as sinful in the eyes of God, while the inner-worldly asceticism of constantly saving and investing was held to be virtuous. This virtue has long since turned into the curse of capitalist 'power saving'.

[32] Graeber, 2011; pp. 223.

vate interests but also the common good as they serve as the basis for investments. However, savings and investments are not by themselves and under all conditions beneficial; in order to become so they require democratic oversight and control.

Two kinds of savings: deferred consumption and power-saving

This fact has been all but neglected by orthodox economics. Up to the present day they do not distinguish between beneficial and harmful savings because they fail to see that savings may be devoted to radically different ends. Saving may be intended to secure individuals against old age, protect them against disease, unemployment and other hardships. In this case I am speaking of *deferred consumption*, because I renounce part of my current consumption in order to put it off to a later time. About ninety percent of the population, that is, an overwhelming majority, saves exclusively in view of this purpose.

But in all modern societies a rich or even astronomically rich minority devotes its savings to a completely different end. Being immensely rich, it has no need to provide for deferred consumption; in fact it need not save at all. The fact that it does so to a much higher degree than the bottom minority is based on an altogether different motivation. It saves (invests) money in order to generate more money, which through a kind of snowball effect or 'parasitic transfer' generates still more money. *Instead of being used for deferred consumption, this type of saving is a means of acquiring power*: It is what I call 'power-saving'.[33]

Real power whether in a dictatorship or in democracies belongs to those with enough money to buy the media, to acquire shares to influence the behavior of big companies or to dominate parties and politics through their donations. Understandably, this power is used to enhance the position of one's own class, i.e. to further strengthen und solidify the privilege of the top ten percent.

[33] Keynes defines the rate of interest as the reward for parting with liquidity for a specified period of time. But his classic justification of interest payment does not apply to power-saving. In case of the top ten percent the money available for consumption only largely covers all the necessities of life.

Savings – a curse and a blessing

> If a man seeks to design a better mousetrap he is the soul of enterprise; if he seeks to design a better society he is a crackpot. *John Kenneth Galbraith*[34]

Power-saving is the prime cause of the tremendous accumulation of debts and credits, which runs like an epidemic disease through all history; it is the prime reason for the rule of privilege that regularly destroys democracies. In our time power-saving is, furthermore, the main cause for our unbridled destruction of nature.[35] To my mind, the most important task of political economy, therefore, consists in strategies how to fight this age-old evil.

Saving in zero-growth societies

To this end, I would like to tackle the problem by introducing a simplifying assumption. Let us assume that the state procures all the money he needs for minimum pensions as well as sickness and unemployment insurance by way of taxation.[36] This assumption offers the great advantage of making it very easy for us to specify the minimum amount of saving in any society. Supposed we live in an environmentally stable society with economic growth equal to zero, this amount need not be greater than the sum total required for replacing worn-out machinery and infrastructure. *In other words, the entire amount of all savings (equal to the corresponding investment) will be identical to the cost needed for maintaining the status quo.*

In traditional societies saving equals maintenance work

The same situation may also be expressed in an intuitively better understandable way. Every society devotes most of its energy to the production of goods but apart from this basic activity it must devote a certain amount of its work to the maintenance and renewal of appliances and means, by which it produced those goods.[37] Which means that it has to save and invest part of its work for renovation and conservation.

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[34] Galbraith, 1997; p. 80.

[35] "According to the Companies Act the Company's Board has the duty to preserve the assets of the shareholders, but *not* the duty of preserving the commons; on the contrary, he may be sued by shareholders if he reduces their profit by investments in environmental protection, in improved working conditions or by working time reductions meant to avoid layoffs" (Gerhard Scherhorn in a preliminary sketch for a planned publication, cf. Scherhorn 2008; p. 68).

[36] Freedom and initiative of individuals will, certainly, be more encouraged if they take provisions for their future into their own hands - which they do when deciding how much current consumption they will forgo for the sake of deferred consumption. On the other hand, there will always be a certain proportion of people whose income is too low for saving. For these people, government will have to use taxes.

[37] In the words of Friedrich Schmidt-Bleek by reducing the material footprint MIPS this work too may be substantially diminished.

On the whole, this is what all traditional societies did until the onset of the industrial revolution. Only after that time an ever larger part of collective work is used not only to preserve the status quo, but harnessed to the purpose of growth, so as to provide always new and better means of production as well as the necessary infrastructure.

A dangerous overhang of savings

If we want to change from permanent growth and waste of natural resources to an ecologically sustainable society, the amount of beneficial instead of harmful saving is of crucial importance. In Western countries, the last two centuries of economic development, especially the twentieth, were characterized by a huge overhang of savings. These were, first, used to enhance domestic growth, later on they streamed into developing and emerging countries in order to foster worldwide growth. For ecological reasons, the world may no longer go with quantitative growth. With 6 - 8 tons of yearly resource consumption per head human beings are well on the way of causing irreversible damage to the planet. For ecological reasons, permanent growth will have to stop at some point or else the globe will soon become uninhabitable.

What this means for saving and investment should be evident. *Eventually, developed countries will have to reduce the huge amount of their savings to that minimum, which they require in order to maintain the status quo.* Only if they do so, will they attain that ecological sustainability without which prospects for survival beyond the 21st century seem to be dim.

How do we tackle the problem of excessive savings?

The question to be answered is how to reduce savings and what type of savings? As a matter of course, this has to be done without interfering arbitrarily with individual freedom. In my opinion, there can be no doubt as to how the state must proceed in a democratic society. *It will not diminish saving as deferred consumption, but suppress power-saving*. The reduction thus concerns the harmful saving of the top ten percent, not that of the bottom ninety percent.

A badge of true democracy

In a truly democratic society, protest against this procedure will hardly arise as the majority is not likely to vote for its own expropriation by supporting power-saving and the parasitic transfer going with it. I would even suggest that true

In der Terminologie von Friedrich Schmidt-Bleek lässt sich dieser Anteil durch eine Verringerung des *materiellen Fußabdrucks MIPS* entscheidend verringern.

democracy as distinguished from its merely formal counterpart may be tested by this criterion. As long as the majority is strong enough to resist power-saving and parasitic transfer by a minority accepting only saving for the purpose of deferred consumption, democracy may be said to be unimpaired. If, on the contrary, it is powerless to do so, democracy is, certainly, on the retreat.

How does government proceed?

Depending on the degree of development and prosperity of a given society deferred consumption may be more or less generous. This should be a matter of democratic convention.

Technically speaking, such a program of controlled saving and investment may be realized in a rather simple way. While government guarantees the full purchasing power of small savings, compensating for inflation if necessary, it does not provide such compensation in the case of big savings beyond a certain threshold. Capital gains are fully withdrawn in either case (using the proceeds in order to finance the loss of purchasing power due to inflation). In this way government actively promotes small savings for the sake of deferred consumption while at the same time reducing power-saving. In doing so it abets wealth creation within the population at large.[38]

[38] Whenever large investments are required, government could encourage small savers by offering positive interest so that it would not only guarantee purchasing power but *increase* it. Since, however, money but does not multiply by itself, the small savers themselves would have to generate by their own work the interest paid to them. This is, of course, much better than the normal state of affairs where a majority of 90% works for the top 10%, but interest paid with the right hand in order to be received with the left one is, nevertheless, illusory.

Private property – a sacred cow or the main instrument in the service of eco-social market economies?

I think the above proposals naturally derive from the self-understanding of any democracy based on personal merit instead of privilege. But do they also agree with the German Basic Law? The relevant Article 14 of the German Constitution states the following three rules:

(1) Property and the right of inheritance shall be guaranteed. Its content and limits shall be determined by law.
(2) Property entails obligations. Its use should serve the public good.
(3) Expropriations shall only be permitted for the public good. They must be based on law or in accordance with a law that determines the nature and extent of compensation. The compensation shall be determined with due regard to the interests of the public and the parties concerned. The amount of compensation is arbitrated by courts of law.

The German Constitution assumes an equivocal stance with reference to private property. On the one hand it upholds its inviolability so as to draw a neat borderline against Marxism, which proclaimed the abolition of private property as its main goal, even if it only refers to property of the means of production. To the Article 14 Germany owes her alliance with the Western camp and an economic system that unleashed a tsunami of individual forces wherever it was able to prevail against collectivist or feudal tendencies. It exercised this tremendous effect already in the democratic city-states of Greece since the sixth century BC, and it renewed this forceful impact in modern industrial societies. Even the authoritarian Chinese regime owes its success to the economic liberation of the individual from the previous collectivist straitjacket.

On the other hand, the founders were well aware that property may be abused, so they explicitly added a paragraph in which they insist on the *obligation* of property owners towards the common good. But they immediately weakened their demand in paragraph 3. Obviously, the fathers of the Constitution understood quite well that for the sake of public interest it may be necessary to interfere with private property rights, but they prescribed a statutory right to compensation.[39] At first glance, this seems to be just and necessary.

But only at first glance. The Fathers of the German Constitution had a far too optimistic opinion of democratic society based on private property. They did well to leave no doubt as to their commitment to private property thus averting any suspicion of Marxist leanings. But in this way they chose to ignore valuable

[39] However, on closer reading it seems likely that the Constitution does, indeed, permit expropriations without compensation. Otherwise it would make no sense that the second sentence of paragraph 3 distinguishes between an expropriation 'by law' (that is without compensation) and an expropriation regulating 'the nature and extent of compensation'.

Marxian insights into the dangers of private property. Marx had portrayed 'capitalism' in a very gloomy way. His analysis led him to assert that the only way out of these dangers would consist in the "expropriation of the expropriators".

Since then only two opposing alternatives seem to exist, namely for or against Marx, that is either for communism or its capitalist counterpart. The German constitutionalists are no exception to this rule. They have not seen or did not want to see that in his analysis of capitalist societies Marx gave a much better account of the inherent dangers of private property (if not of its inherent virtues) than do neoclassic economists, who naively believe that by adjusting two or three screws any private property market system may be easily brought into a lasting *equilibrium*. This is, simply, not true. As a matter of historical fact these systems never attained a permanent state of equilibrium. Competition always produces winners and losers, and - statistically speaking - the former tend to become stronger and stronger, while the latter are left behind. Functioning market societies offer better chances of individual success than any other economic system but they are in constant danger of being subverted by their very success.

The fathers of the German Constitution chose to ignore these dangers. They have made no provision for what Marx had so clearly seen, namely the increasing concentration of wealth and of political and economic power in a few hands. This oversight is truly amazing, as even orthodox economics had recognized the danger arising from monopolies or cartels, which represent a classic instance of such destructive concentration of economic power. Economists were well aware that market economies become inoperable unless government intervenes in time and decisively. Without such outward regulation the most successful competitor would suppress all his rivals. Individual competition, the very foundation and vital principle of market economies, thus tends to destroy competition itself.

It is obvious that government must defend the system against such self-destruction. In order to do so, it has no other option than to resort to *expropriation*. This is a surgical operation meant to curtail an excess of power in the hands of single persons or individual companies. Regardless of whether the companies concerned are broken into smaller pieces or whether a cartel pays high penalties - in both cases the property of the few is lawfully taken away, as it has become a danger to the property of the many. The fathers of the German Constitution should have known that market economies based on private property remain functional only if *the state is expressly granted the right of expropriation*.

However, it does not seem that this point was adequately taken into consideration, for otherwise the right to compensation would have been framed more cautiously. After all, compensation is nothing else than the restitution of property, albeit in a different form. Compensation is, certainly, a moral imperative in certain definite cases. For instance, if I have to give up my house or other real estate, because a railway line or a highway is planned at this very place. But as a general requirement, as pronounced by the German Constitution, compensation provides a sure recipe to destroy any market economy in the long run. It is only an apparent paradox that *expropriation without compensation* is a precondition for the well-functioning of societies based on individual property.

This assertion may seem strange and even offensive to the unaware reader. But let us consider the example of public debt. Early industrialized countries, among them Germany, have gone into debt to many small but, most of all, to a handful of very large private creditors. At first glance, it might seem as if governments may resolve their state of progressive indebtedness in a rather simple way by paying creditors with public property thereby creating a reset to the initial state without the burden of debt. The State would get rid of its obligation and the erstwhile holders of public debt would now hold an equivalent in money or public property. This is a widely held belief, which, unfortunately, is totally wrong as evidenced by that wave of privatization, which erupted under Margaret Thatcher. Government sold much if its property (especially power generating plants, railways, waste collection, post office, etc.) and with the proceeds paid its creditors.

But what kind of results did this action produce? Did government successfully abate the progressive concentration of wealth? Not at all, the progression got even stronger! Large creditors holding the lion's share of government securities, did, as a rule, not spend a single pound of what the government paid them on consumption – to them the money they had originally put into securities already represented superfluous wealth beyond consumption. Instead they used it for what I called above 'power-saving', in other words, they used it for investment in public companies put up for sale. These they immediately restructured after privatization so that they yielded *more profit* than they did previously under public administration (even if they greatly suffered from this shock treatment, as was, for instance, the case with rail companies in the UK). Creditors and investors thus got even richer than they had been before. In fact, the burden of debt had not been diminished at all but enlarged and in the process shifted from public to private. While the lower 90% previously had to pay for it with their taxes the burden was now paid through interest and dividends hidden in prices.

Those who require numbers to understand this progression need only look at the rising curve of total debts – public plus private - since the founding of the Federal Republic of Germany. In relation to GDP, it went steadily upwards. The same is true for Britain - despite Margaret Thatcher.

Please do not misunderstand me: I do not, of course, argue against a reduction of debt (whether public or private), but only against a reduction carried on in the manner described above. More and more areas of the economy are effectively controlled by a handful of individuals, who pocket a growing stream of dividends and interest, and additionally profit from real property rents. In its present state the market economy based on individual property is once again *on the brink of getting ruined by its overly successful players*. Never forget that the assets of the few are the debts of the majority. It should be evident that such a development of steady and apparently unstoppable debt inflation must suffer the same fate today as in all previous ages. The gradual change of democratic market economies based on achievement into pseudo-democracies controlled by powerful minorities is but a question of time.

Before the final stage of re-feudalization is reached, there do, however, remain further alternatives. Once government can no longer turn to privatization, as it already hawked most of its silverware, it may still try inflation. From the distant past up to now, states have regularly turned to this medicine. The Roman Drachma, for instance, lost 99.76% of its value between 30 and 300 AD. During the German hyperinflation of 1923 citizens, who had invested their money in government securities, lost in a few weeks all their savings for a secure old age. Inflations do not hit all social strata in the same way. Most of all, they destroy the savings of ordinary people, the rich are likely to move in time into tangible assets like real estate, production facilities, raw materials and the like.

Thus inflations do not greatly change existing inequality. That is why revolutions tend to turn bloody. People demand a new distribution of tangible assets as well. The Roman proscriptions and both the French and the Russian revolution put an end to an intolerable concentration of wealth (the latter being just as characteristic of feudalism as of the late phase of private property societies). They liquidated large properties and when in the process they met with harsh resistance they liquidated its owners as well. All over the world, where landed property had come to be concentrated in the hands of a few families, only expropriations, that is, its redistribution in favor of the unpropertied majority opened the way out of the impasse of stagnation and political repression.

This brings me back to the error of the fathers of the German Constitution. They clearly perceived the virtues of private property but they failed to see its inherent dangers. If we want to avoid social unrest in contemporary Europe to turn once again into a rebellion against the "rich", we must find a peaceful way out of the present impasse - a way, which is in the interest of the top ten percent too, because riots from below represent the worst of all possible eventualities for all parties concerned. We have to understand - even if this truth is simply overlooked by the prevailing economic theory and by politicians blindly following its lead - that societies based on individual property owe their strength and functionality to their use of expropriation, and even to expropriation without compensation, because otherwise it would remain ineffective. *Whenever property is misused as an instrument by the few to expropriate the majority – and this is exactly what happens through parasitic transfer - government is not only in its right but it is fulfilling a public obligation when confiscating this 'expropriating property' without compensation.*

Government may never touch income and assets acquired by virtue of personal merit without due compensation, as this would be an offence against the democratic order itself. *Voluntarily* we pay good doctors or actors multiples of what we are willing to give their average competitors. This is a basic practice in all democracies. But in a *completely involuntary and undemocratic* way we are forced to increase large fortunes by means of various types of parasitic transfer – against this accumulation we *must* stand up if we want to preserve the democratic order.

Needless to say that such procedure does not imply the least sympathy with Marxian therapies. Marxian expropriation is rightfully condemned as a deadly therapy and a relapse into a modern feudalism. In former times, the king alone had property, which he merely leased to the populace. In modern socialist feudalism, the politburo usurps the role of the king. While it controls everything, there is nothing left for the citizens to decide. The abolition of private property is the most effective method to suppress all economic and political freedom.

I want to contradict Marx even on a second item. As the State owes its entire wealth to the *productive forces* within its borders - be they individuals or companies - he should, as a matter of principle, encourage private initiative and private ownership of the means of production. However, this principle allows for two, albeit very weighty restrictions. Government must, first, interfere when the concentration of the means of production in a few hands creates monopolies or when cartels endanger competition and harm the general welfare. To a certain degree, government is thus forced to rely on expropriation without compensation. Secondly, government must raise taxes on scarce resources if it wants the economy to become ecologically sustainable.

It will have to proceed in quite a different way with regard to private property due to parasitic transfer. This includes all assets of individuals, not destined to serve as 'deferred consumption' but merely to 'power-saving' (that is, as a means to achieve such parasitic transfer). No doubt that government, here too, is forced to restrict private property rights. It will not treat on an equal footing savings for the sake of deferred consumption and savings for the sake of power. I think such different treatment to be essential if democracies are not to fail now as they did in the past.

III) The growth ordeal – how we destroy the ecological basis

Since 1972 when the Club of Rome for the first time invoked the consequences of limitless growth, worldwide awareness of the link between growth and natural destruction was dramatically sharpened. But it was clear from the beginning that growth in itself is not an evil. Societies are alive only when and as long as they go through phases of growth. They are aging and, finally, slip into infirmity and death, once no further growth is possible. So, we must, first of all, clearly distinguish between harmful and positive growth. *Quantitative growth*, which essentially consists of a constantly swelling flood of tangible goods and the ensuing over-exploitation of non-renewable resources has proven to be a destructive force, while growth based on renewable sources - and of course all growth of human knowledge and skills - is one of the greatest achievements of any society.

There is no lack of knowledge

Human knowledge and skill were never developed to such an extraordinary degree as in the present time. This also applies to our ability to determine the optimal conditions for the transition to sustainable economics. The pioneering work aimed at achieving this goal was already accomplished decades ago through the seminal writings of US-economist Herman Daly.[40] If the transition to sustainable economics nonetheless seems far away this is not due to a lack of knowledge. Nor can it be sufficiently explained by lack of awareness on the part of public opinion. The portent of climate disasters, nuclear contamination or, more generally, of a devastated planet no longer habitable by human beings has surreptitiously conquered the public imagination. So we should feel profoundly worried. How come that no parties and no governments may be found even within the richest countries that really want to embark on a policy of sustainability? Why do they, on the contrary, still cling to growth as the only recipe for success, although it is precisely the illusion of unrestricted growth that threatens us with apocalyptic dangers?

Ruthlessness brings more advantage than responsible behavior

One obvious answer ensues from the competitive behavior of states. Those states gain a temporary advantage in competition, which delay their transition to renewable sources by holding on to fossil and nuclear supplies. The fear of falling back in international competition certainly raises a formidable barrier on the road to sustainable economics. This fear is especially haunting developing coun-

[40] See *Steady-State Economics* (1977). For recent books see Weizsäcker 'Faktor Fünf' (Factor Five) 2014 and Schmidt-Bleek 'Grüne Lügen' (Green Lies) 2013

tries. So they stubbornly resist any reduction in fossil and nuclear dependence, which they deem unfavorable to their short-term interests. They want to put off any concessions with regard to sustainability until the time when they are on a par with the leading industrial nations. In other words, they are not ready to accept any restrictions on quantitative growth.

The greater threat comes from the North

However, we should take care not to put the blame primarily on developing countries. As a matter of fact, the rich countries of the North pose the biggest threat to a sustainable future. Their total throughput of material goods and their per capita impact on the environment leaves a much greater ecological footprint. And it is they, the early industrialized countries, that stubbornly cling to growth like to a collective fetish and mantra.

This paradoxical situation is not due to a lack of knowledge or even good will on their part. After all, nearly all political camps call for a decisive ecological turn. Green parties do so as a matter of course, but also the left and even the right have long since discovered their ecological conscience. Meinhard Miegel, a German writer on economics affiliated to the right, surprised with a strong indictment of what he calls the growth delusion!

Compulsory growth – the main problem of our time

Unfortunately Miegel like other economists misses the crucial point. A delusion may be resolved through enlightened education. Once we have recognized the delusion for what it is, we are able to get rid of it. But with regard to growth things turn out to be much more difficult. The leading industrialized countries are victim to something much worse than only delusion: they live with *compulsory* growth - and this they cannot get rid of simply by an act of better understanding. If we want to overcome compulsory growth we have to understand and eliminate its underlying causes. *Our present economic system is incompatible with sustainability*, because it is based on growth like on a life-sustaining drug.

The ecological change - primarily a social problem

The transition to sustainable economics is much more than a technical problem, the technical issues having, indeed, been largely resolved - it is primarily a political and social issue, because *compulsory growth is the inevitable result of excessive debt*. This statement may be easily verified as it is supported by elementary data. All early-industrialized countries have attained a total level of debt (public plus corporate debt) beyond 100% - most of them far above it. In order to service interests arising therefrom – these interests being rarely lower than 2% -, they need a minimum growth rate of 2%. Only then the burden of interest payment is cancelled out by the benefits of growth, otherwise, the lower 90% have to cut their standard of living as the latter will be reduced by taxes and parasitic transfer.

Needless to say, that no government depending on the votes of the majority can tolerate such reduction in living standard. It is at this point that the pernicious effect of debt (public plus corporate) becomes apparent. *Growth gets compulsory if government has to make sure that the majority upholds its standard of living instead of being crushed by rising debt*.[41]

So a simple calculation like the above explains why in early-industrialized countries suffering from increasing debt, politicians of all political colors are so easily transformed into mindless campaigners for growth regardless of what such growth may do to the planet.

Peace with nature must be based on social peace

With this formidable barrier to overcome, how do we get rid of compulsory growth? If the required technical solutions to this major problem of our time are already at our disposal, then the problem to be tackled will be quite different in the first place. What we really need is a compelling social response. The question, therefore, must be put in a different way: How do we create the right socio-

[41] Things are still a little more complicated as debt is pernicious only in combination with inequality. See http://www.gerojenner.com/portal/gerojenner.com/Wealth_without_growth.html.

economic conditions for the transition to sustainable economics? Or *how de we attain social peace in order to make our peace with nature*?

According to the foregoing argument, there will be no sustainable economy unless we free ourselves from growth resulting from the mere pressure of debt. In the preceding chapter *How Money builds and destroys society* I had proposed a method how we may solve this problem in a democratically acceptable way.[42]

[42] So far, neither the political left nor the right have made serious proposals, see, for instance, the intellectual swordplay between Ulrich Brand and Meinhard Miegel in the FAZ (http://www.faz.net/-1v0-7rnfw http: / /www.faz.net/-1v0-7rnfw and http://www.faz.net/-gqz-7su9k). Both are keenly aware of the danger of permanent growth for nature. And Brand, furthermore, knows that the majority is being ruthlessly squeezed, but how little he understands the deep-lying cause, namely parasitic transfer, becomes apparent when he pleads for a continuation of debt policy, the true culprit for such transfer. And he does not even mention the transition from a democratic market society to one of privilege. Miegel puts his finger on the power of finance capital, as long as he deals with the globe at large, but he carefully avoids putting it on the wound at home. His remarks about the attraction of capitalism as based on personal initiative and individual freedom are refreshing, but he does not see or want to see that the willingness to reduce our devastating onslaught on nature must be based on social peace if it is to have any chance at all. Without the example of the elites there will be no turning point. As long as the raison d'être of the upper ten percent continues to be what we may call the craving for always more, always bigger, always richer and always more powerful no change is likely to occur. Before the majority is willing to renounce any part of its standard of living the upper ten percent must serve as an example and forego their anti-democratic privileges.

IV) How government penalizes merit and achievement

Utter nonsense - we punish creativity

Did we not hear all kinds of people speak about the imminent task of *alleviating the fiscal pressure on labor and instead increasing the burden on consumption and ecologically valuable resources*?

Of these intentions hardly anything seems to be left, let alone implemented. On the contrary, every citizen will still be punished if he comes up with a clever idea or a promising invention. Being an author who writes a new book, I will immediately be taxed; being a producer who builds an airport I have to pay taxes. If I want to sell products, the State keeps a jealous watch over my accounts ready to demand his share. Wherever creativity is at work, government is eager to punish it - in other words, government treats creativity as a sin.

The more you give, the higher will your punishment be

And it does so in a manner hurting our elementary feelings of social justice, because it favors the strong while burdening the weak. I already criticized this injustice in my book *Das Pyramidenspiel* (The Ponzi Scheme), because it is by no means a new phenomenon though completely obscured even by professionals such as for instance Meinhard Miegel, a well-known German author on economics. "The strong shoulder heavier loads than the weak. In 2000, the economically stronger half of the wage- and income-earners paid 88 percent of direct taxes ... By contrast, the economically weaker half only contributed twelve percent of tax revenue, while the weakest fifth with a total of 0.4 percent contributed almost nothing."[43]

Too bad that these figures are totally misleading because the greater burden on the shoulders of the strong apparently proven by Miegel's numbers, owes its existence to a mere sleight of hand - the author has put the wage and declared income taxes into one and the same basket. As soon as these are considered separately, what emerges is, indeed, a completely different picture. Between 1960 and 2002, taxes on capital gains decreased from 35 to 12%, while taxes affecting the entire population (payroll, sales, fuel taxes and VAT) soared from 38 to 79%, the payroll tax alone jumping from 12 to 32%. However, declared income tax, that is, the tax affecting the upper ten percent, which in 1960 still amounted to 31% of the entire tax revenue, simply collapsed into no more than a pitiful 2% during the same period. Thus government almost completely lost the contributions of the most affluent part of the population. Even taking into account that during this period the proportion of the self-employed fell from 23 to 10% of the workforce, the loss in tax revenue still represents a drop to about one-seventh of

[43] Miegel, Die deformierte Gesellschaft, 2002; S. 232.

its original value. As a matter of fact it was still greater as the income of self-employed entrepreneurs was growing faster than that of wage earners.[44] *The wealthy in our country were de facto released from most of their tax obligation,* and meanwhile this situation got even more dramatic.

The situation was true even for Europe as a whole and it was so even one and a half decade ago. "In the spring of 1999, the International Factor-10-Club published a study ... according to which about eighty percent of government revenue in the European Union is due to the taxation of labor and economic production. The taxation of labor alone accounted for almost 50 percent. Capital income, however, contributed only about one percent..."[45] This disparity existed already in 1999!

The principle of just taxation

But I am here concerned with a much more far-reaching injustice, namely the taxing of creativity and achievement. Strange as it may seem, this malpractice has so far not really disturbed economists (the great John Stuart Mill being one of the few exceptions). Presumably, every nonsense turns into a readily accepted commonplace provided it is deeply rooted in current institutions. In most cases this seems to be a sufficient condition to paralyze all independent thought. Nevertheless, there is a fair and evident alternative to this malpractice, and it is obvious to all, who do not succumb to mere convention.

We, the general public (represented by the State), should never burden the individual with regard to what *he gives us*, but only with regard to what *he takes from us*. Once we accept this principle for what it really is, namely, the true basis for a just relationship between the state and its citizens, then we have to admit that there remains but one form of fair taxation.

In a rather nebulous way this idea has been among us since the time of John Stuart Mill.[46] Labor should be relieved and instead consumption be made the object of taxation. Today we have to further add an ecological imperative: Taxed consumption must include scarce and ecologically valuable raw materials. If we want to build an economy that counts human creativity and the protection of nature among its most precious goods, then this is how we want the State to proceed.

The social impact of just taxation

This is, furthermore, what a society looks like that deals with rich and poor in a socially acceptable way. People just able to afford their daily bread, will, of course, pay no taxes at all whatever their work. On the other hand, those frequenting the best restaurants or buying a third car and one more villa should pay for their extravagant consumption with *progressively rising* taxes. The larger the

[44] Diese Passage ist meinem Buch *Das Pyramidenspiel* entnommen, 2008; S. 28.
[45] Schmidt-Bleek, 2014; Pos. 2214.
[46] *The principles of political economy,* book 5, chapter 10.

part in consumption these people claim for themselves thus removing it from general consumption, the greater will and must be their contribution to the tax pool.

So why do we not cease to punish creativity? Neither individuals nor companies should pay for their services to the public, but only for what they consume in the shape of products or scarce resources - and they should do so in accordance to the extent of consumption.

The poisoning of our brains

In theory, no objection can be raised against this change for justice; practice, however, raises a number of obstacles, most of all the ideological poisoning of our brains. Socially minded left-wingers, for instance, will readily endorse any proposal to alleviate the tax burden on labor – had not Marx glorified workers as a kind of secular saints? But a similar proposal comprising entrepreneurs will be seen as an affront – had not Marx declared entrepreneurs to be the true source of all evil? Thus we still suffer from mental poisoning, which complicates a rational and sober discussion of the problems facing us today.

A thorough reevaluation is required: Companies are places of creative work involving all its members whether simple workers or top mangers. Together they are the source of prosperity. They should be taxed only in accordance to *what they take from the public*, i.e. their consumption of scarce resources.

Up to recently taxing consumption war practically impossible

However, it is more than just die-hard thinking patterns that stand in the way of change. John Stuart Mill's proposal of taxing consumption rather than creative work and performance was satisfactory from a theoretical point of view, but it was unfit for practical implementation. Until the end of the 20th century it would have been technically impossible to tax consumption in a comprehensive and consistent way. Obviously, it was relatively easy to post tax collectors at the gates of companies, but how could the State supervise and register individual consumption? Such a task was beyond the power of any government since it would have required an army of tax collectors equal in number to the whole population.

Please do not object that we already have a consumption tax, namely VAT or value added tax. It has been wrongly declared as such, only because the consumer has to pay for it. As a matter of fact, VAT is just another form of corporate tax calculated according to the business volume of companies. It is *antisocial* because it most affects the poor, and it is *unfair*, as it does not allow progressive taxation of individual consumption. Furthermore, it is *simply useless* as a means of ecological control.

Only after the end of the past century, progressive taxation of individual consumption has become a practical alternative to the existing system, and this turnabout is due to a technical revolution, namely electronic data collection. For the first time in history states may relieve creativity – its most precious good – from all burden, instead of continuing their age-old practice of punishing it. What the new system, revolutionary and yet compellingly simple at the same time, will look like, I want to explain below.

New Fiscalism

Any good taxation system must perforce compromise between two conflicting objectives: the demand for social justice on the one hand and the desire to encourage every citizen to fully devote himself to his own and to the common good on the other hand. In order to attain the first objective the state must tax consumption; if he wants to attain the second objective as well, he may not act in a way so as to paralyze individual performance. Instead of punishing those who increase the prosperity of the community by *enriching it by means of their work and talents*, he should exclusively tax companies and individuals for what they *take from* the common stock of resources and products.

A perfect system needs neither revenue officers nor tax consultants

Once we accept this general principle, we will look for an implementation requiring a minimum of personnel to protect the public from fraud on the one hand and outwitting on the other, i.e. from tax evaders and from tax advisors in the service of the powerful. A perfect system would need neither revenue officers nor tax consultants. In the following I will present such a system. I call it N*ew Fiscalism*.[47]

As already mentioned before, the principle of just taxation is by no means new. Indeed, it is obvious. So it is no surprise that it had already been conceived and advocated in mid-19th century by no less an authority than John Stuart Mill. Quite new, however, is its practical application by means of technologies not available up to quite recently. Indeed, a true consumption tax has become feasible only since the beginning of the present century.[48]

Electronic reading devices and a central computer

The technical breakthrough making a true consumer tax possible concerns, first, *electronic reading devices* for registering individual consumption and, second, *a central computer* located within the tax administration office. The central computer is not a Deus ex Machina, but simply the electronic hub for the whole of all automated transactions. For Germany with its population of 80 million people such transactions represent a huge volume of daily inputs.

Only three kinds of taxes will remain

In a system relying on consumption and unearned income from capital gains as the only legitimate object of taxation no more than two kinds of taxes remain (all other taxes like VAT, income tax etc. being abolished):

[47] In its basic outlines I had presented New Fiscalism already in a book published 2010 (*Wohlstand und Armut*) and in more detail on my website: http://www.gerojenner.com/portal/gerojenner.com/Neuer_Fiskalismus.html.

[48] Individual consumption may be calculated as the difference between income and savings. But doing so we would gain nothing in social justice, as the highest incomes tend to remain stubbornly in the dark.

1) One hundred percent tax on unearned investment income (with purchasing power guaranteed up to a certain maximum amount). This tax was the subject of the first chapter.

2) a *producer-consumption tax* to be laid on all resources needed and processed by producers. This tax is chiefly, though not exclusively, aimed at serving ecological purposes,[49] and, second:

3) a *direct final-consumer tax on individual consumption*, which constitutes the very essence of New Fiscalism and represents its key innovation.

At this place, I will only explain the latter, starting, for the sake of simplicity, from an economy where all payments are non-cash transactions.[50] Domestic payments are, therefore, made exclusively electronically. Cash money is needed only for payments abroad as foreign countries cannot be forced to adopt the new system.

Recording the final-consumer tax

Every time consumers buy products or services they do so by means of a *consumer card* similar to today's debit or credit cards, except that the debited amount is not made known to the bank alone but to the central tax computer as well. The same twofold transaction is carried out if I use my home computer in order to buy an article on the web. The central tax computer thus notes each individual purchase *together* with the identity number of the respective consumer. As a rule, that is, in more than 95% of purchasing transactions, the tax authority *is not interested in the specific nature of items bought*; it merely records monetary values.

Thus, all particular amounts paid electronically in supermarkets or at home are automatically transmitted to the central computer, which then automatically calculates the sum total for a given period of time (let's say one week or one month). Reading appliances for consumer cards are, of course, to be found in all trading premises.

Calculating final consumer tax

As for the central tax authority itself, it need not consist of more than a very powerful central computer (at least in so far as it deals with the final-consumer

[49] "Wherever companies have to pay taxes for their use of nature - the use of resources -, they are forced to look for solutions, in order to avoid disadvantages with regard to competitors". Schmidt-Bleek, 2014; Pos. 2063.
[50] As of today, this is true for roughly half of all German consumer transactions (in value terms).

tax). Let us now turn to how the computer deals with incoming information. Supposing that the sum total of all purchases of an individual X within a certain period of time (for instance, a month) lies *beneath* the minimum living standard for that period, the computer will not issue any tax bill at all.

If the sum in question amounts to *average* consumption, the tax authority will levy an average tax bill. Individual consumption *beyond this average level* will, however, be taxed progressively so that – according to the steepness of progression – anybody consuming ten times more than the average may well have to pay twenty to one hundred times more in tax duties. The steepness of progression should be determined democratically.

While all consumption below a minimum will not be taxed at all, it becomes progressively more expensive as it exceeds the average. Beyond a certain level luxury consumption necessitates substantial sacrifices for the public benefit. This is exactly what the new tax wants to achieve.

What does current consumption mean?

Current consumption includes goods of daily use such as food, furniture, etc. as well as durable goods like washing machines, cars, and the like, and, finally, imperishable goods such as real estate. Consumer tax must be specifically devised for durable and imperishable goods. In other words, while the central computer does only record value items in the overwhelming majority of purchases it must, here, add its specific nature. In addition, special arrangements will be made for consumption when individuals are unemployed, in need of medical service or when they are old. Finally, consumers also differ as to their status as single individuals or as members of families. Such particulars do not affect the principle of final-consumer tax, but they require special treatment.[51]

Ecological fine-tuning becomes possible

Progressive final-consumer tax does not only assess the contribution of every citizen according to his or her consumption, it may be used for ecological fine-tuning as well. For this purpose the producer-consumption tax is, certainly, the primary instrument, but it may be efficiently supported by an *ecologically orientated final-consumer tax*. In this case government obliges companies to disclose the relative share in value terms of work and natural resources within their products. So far as off-the-shelf or high-priced articles are concerned, companies would provide the relevant information in the shape of a work-to-resources coefficient transmitted together with prices. It varies between one and zero,

[51] For details see http://www.gerojenner.com/portal/gerojenner.com/EinzelheitenI.html.

where zero signifies a total absence of scarce resources, the product in question requiring only work. A coefficient of one means the opposite: one hundred percent scarce resources, no work, as in automatic processing.

Now, if resources are the primary object of taxation, then the central tax computer is so programmed as to correct the product price by means of the work-to-resources coefficient so as to appropriately adjust the tax rate. In this way, government creates an additional incentive for companies to use a minimum of resources if these may be substituted with labor.[52]

Tax evasion

Tax evasion is hardly possible in the new regime. So whole armies of revenue officers, now feeding on a substantial part of tax income, will be superfluous. When local consumers use their consumer card abroad, the same rules apply: They will not only be linked with their domestic bank, as happens now, but via the latter with the central tax computer as well. In case the consumer is obliged to pay in cash, because foreign countries cannot be forced to accept electronic payment, he needs either to previously obtain cash from his bank or from a cash dispenser. In each case the bank forwards the amount withdrawn to the central computer, which treats it as the sum spent abroad up to the time when it gets its first information about resumed consumption at home. On the basis of time and money spent abroad it again calculates final-consumer tax.

Purchases abroad no real alternative

However, purchases abroad do no longer offer advantages when compared to consumption at home. Since the tax on labor (income tax) and mixed taxes like VAT have been abolished, domestic products will be much cheaper - at least until the new system is introduced abroad too. Domestic consumption will be greatly promoted, at least insofar as it is not brought into conflict with standards set by environmental objectives.[53]

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[52] Hans-Peter Aubauer, professor of physics and environmental science at the University of Vienna, opts for exclusively taxing scarce resources leaving the consumption of products produced by mere labor completely untaxed (see Journal of Social Economics, Eine wirtschaftlich und sozial verträgliche Ressourcenwende, October 2011). I cannot agree with his proposal. Paul Krugman observes that luxury consumption of the American super-rich consists in magnificent villas as large as castles and corresponding expenses for lots of personnel. Should their consumption of human labor remain untaxed? This would increase the incentive for the super rich, to promote a society of servants, well know as the disease of Third World countries. In other words, government should be barred from taxing labor because this constitutes its most precious resource, final-consumers, however, should be progressively taxed when doing so because by their consumption they reduce a common good.

[53] „Eine Senkung der Arbeitskosten würde es den Unternehmen erlauben, mehr Arbeitskräfte einzustellen, was wiederum dazu führen würde, dass sie auch international konkurrenzfähiger produzieren können." Schmidt-Bleek, 2014; Pos. 2056.

Germans are not prepared to give up cash

The transition to a system of exclusively non-cash payments is, therefore, an unrealistic option.

This objection seems to be unfounded. In actual practice, the choice between cash and cashless payments is determined by utilitarian considerations. If electronic payments turn out to be more convenient or even more profitable, consumers will easily and without hesitation adopt the new system. As for government, it may offer incentives in order to stimulate such a transition, for instance by reducing the consumption tax by a certain percentage provided it is paid electronically. In this case we may expect the transition to be immediate.

All cash payments above the level of a few Euros will anyway proceed in the previously described manner, that is, the consumer must identify himself by means of his consumer card. Paying cash, therefore, becomes more costly for all parties concerned as the cashier must manually enter the exact amount received together with the consumer's identity number. So non-cash payments represent a substantial simplification.

Once 90 to 95 percent of all purchases are made electronically, government will declare all domestic transactions to be carried out exclusively in this way. This is a necessary last step because there is reason to fear that the remaining 5 to 10 percent cash transactions predominantly serve the purpose of tax evasion.

New Fiscalism destroys privacy creating a 'transparent consumer'

I hold this objection to be irrelevant for several reasons. First of all, because real and indeed highly dangerous snooping is already omnipresent - seemingly without disturbing consumers. The buying behavior of almost each of us is being spied out ruthlessly for private purposes. This is done primarily via the Internet, but also by supermarkets and companies using discount cards so that they are well informed of both the extent of purchases *and of their specific nature*. This information is not used for private advertising purposes alone. As we all know, the collected knowledge of our consumption habits is sold to other agencies or clients for whatever purposes it may serve.

By contrast, the central computer calculating the final-consumer tax is so programmed as to retain only numbers for 95 percent of all daily purchases, that is, mere monetary values. Thus, in most cases, it only knows the *extent of individual consumption*, not its material nature. Indeed, the tax authority acquires no more knowledge of its citizens than it already possesses at present for nowadays most of the population is wholly transparent as to personal income.

Final-consumer tax will skyrocket to unbearable heights.

This criticism was raised against my proposal by German tax expert Lorenz Jarass.

Let's compare a system X characterized by progressive taxation of work (income) plus taxation of scarce commodities (mineral oil etc.) with an alternative system Y characterized by progressive final-consumer tax plus taxation of scarce commodities. It should be evident that both can be made totally equivalent in terms of total tax revenue. So in this respect there is no advantage or shortcoming on either side.

On the other hand, it is certainly true that we get rather elevated taxes for final-consumers *unless* the focus of taxation is shifted on the taxation of commodities. In the new system a substantial part of the tax burden should, therefore, be placed on scarce and ecologically sensitive resources. This requirement will be welcome to all those who voice their protest against the negative environmental impact of the current tax system.[54] In Appendix 2, I present a tentative quantification of the new system.

[54] We should, however, be careful not to confuse the final-consumer tax with current VAT. This is a hybrid tax, charging both the final consumer (but in a socially harmful way, because it specifically hurts the lowest income strata) and companies, which it treats in a uniform way regardless of their efficiency. Furthermore, VAT is bereft of any ecological value. This tax as most of other current taxes owes its origin purely to expediency, namely the fact that prior to the emergence of electronic payment governments found it near to impossible to tax single consumers in a socially acceptable way, while it was quite easy to turn to companies for that purpose.

V) How we annihilate labor and export capital

> In the eyes of fanatics free trade means justice, but free trade may be tantamount to the absence of any binding laws. *Ernst Ulrich v. Weizsäcker*[55]

The first four chapters of the present book have led to conclusions that many will think incontrovertible even if some will fiercely oppose them as they fear for their privileges. However, in any democratic society relying on individual performance and skill as the sole justification for individual advancement, parasitic transfer will be held to represent an unjustifiable evil. Likewise more and more people become aware that a state punishing the creativity of its citizens acts in an antisocial way. Finally, no unbiased judge will contest our statement that the ever widening gap between rich and poor, where the debits accrue to the many while the credits are the prerogative of the few, threatens to lead to the undoing of our society.

Free trade

Things are less easy to judge when it comes to free trade. Some praise it as the source of all prosperity; others are skeptical or even hostile. Adam Smith, who expressed his approval in the very title of his seminal book, *The Wealth of Nations*, published more than two centuries ago, does, of course, belong to the first group. More recently, Robert Reich, professor of economics and former advisor to Gerald Ford and Bill Clinton, has adopted the same position in his book *The Work of Nations*. Practically the whole camp of western school economics has adopted this credo. However, skeptics had already voiced objections in the 19th century, for example, the great economic theorist Friedrich List (1789 - 1846), who occupied the first chair of economics in Germany.

Conditional acceptance of free trade

List was the word most powerful, the most ingenious and the most stubborn critic of the English "cant", i.e. that kind of hypocrisy that hides one's own interests behind a veil of pseudo-scientific and pseudo-idealistic motives. "In the times of Lord Chatham and North people were not afraid to say in open parliament that not even a single horseshoe nail should be produced in North America [as it would compete with English industries] ... Adam Smith, however, added a new ... officially used maxim ... In order to prevent other nations from imitating Eng-

[55] Justice, where did you go? Keynote speech by Ernst Ulrich von Weizsäcker, German Protestant Church Congress, Bremen, 23.5.2009.

land [that is, its industrialization] the true policy of England was concealed with cosmopolitan phrases and arguments."[56]

Free trade among or within nations

We should not forget that these words belong to a man who became the *founder of the German customs union*, and as such was a staunch supporter of free trade - however, of free trade as long as it takes place *within a politically unified territory*. All his life List was never tired of pointing out the fundamental difference between fair trade in such a unified territory, and the mostly unfair and exploitative trade between unequal nations. "... in this manner the freedom of trade has become popular, without people distinguishing between the freedom of internal trade on the one and international trade on the other hand, though both are diametrically opposed as to their nature and effects."[57]

Developing countries and protectionism

In England it was John Stuart Mill (1806 - 1873), who uttered the same warning. Voicing an obvious truth – although rather cautiously - he exposed himself to the blatant wrath of his colleagues, who were ideologically programmed in a different way: "... protecting duties [import duties] can be defensible, when they are imposed temporarily (especially in a young and rising nation) in hopes of naturalizing a foreign industry."[58] The great Englishman had the United States in mind, but soon afterwards his words would apply to Japan, which since 1867 undertook enormous efforts to get rid of its status as a desperately poor agrarian nation. The U.S. as well as Japan owed their ascendancy to the rank of major industrial nations to the unswerving protection of their own infant industries, in other words, to protectionism.

More than a century after List and Mill others have openly criticized the doctrine of free trade, for instance, James Goldsmith in his 1993 book *The Trap*; economists like Herman E. Daly or Ravi Batra and myself in *Die arbeitslose Gesellschaft* 1997 (Jobless Society), more recently, Paul Craig Roberts, the former economic advisor to Ronald Reagan.

Adam Smith pronounced a basic truth

From a theoretical point of view, it can hardly be denied that free trade offers the best opportunity for increasing the prosperity of all parties involved, because non-free trade means that powerful go-betweens – mostly governments but sometimes even simple highwaymen – constrict and burden trade with duties and other obstacles, so as to channel substantial parts of its profits into their own

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[56] List, 1910, p. 475
[57] List, 1910, p. 87.
[58] *The Principles of Political Economy*, book 5, chapter 10. Exactly the same thesis we find in Chang, Ha-Joon, *Kicking Away the Ladder* (Chang, 2002) and, in a more general way, in Paul Bairoch (Bairoch, 1995).

pockets. In this way goods may become very costly to customers, at times so costly indeed that trade is all but paralyzed. Seen from this perspective, free trade simply constitutes the greatest possible bonus for the benefit of consumers. Up to the present day it remains the great intellectual achievement of Adam Smith to have clearly perceived this elementary truth and defended it against practices of highway robbery still prevalent at his time and carried out in the name and to the profit of governments.

The conflict between private and general interest

The warnings raised by men like List and John Stuart Mill already during the 19th century remain, nonetheless, valid and perhaps more so than at their time. To be sure, *free trade may increase prosperity, but it may as well stifle all development and kill prosperity in the bud* - this truth is either overlooked by naive advocates of free trade or even studiously denied.

Free trade among unequal partners

Its harmful effect is evident when free trade occurs between economically very dissimilar partners, as, for instance, a fully industrialized country and one at the mere threshold of development. Affluent consumers of the latter will in this case buy the manufactured goods of the former thereby preventing the industrial rise of their own country. From the standpoint of the individual citizen, this behavior is, of course, quite reasonable. Why should he acquire homemade products that either not yet exist or if they do are of inferior quality?

Successful nations invariably relied on protectionism

Looked at from the vantage point of general interest, such behavior based on the unrestricted freedom of the individual consumer is simply devastating. Among developing countries the successful ones, therefore, opted for a policy of rigorous protectionism in order to shield their infant industries. So did the United States up to the first decades of the 20th century and so did both Japan and the former Asian Tigers and, of course, China. As long as these countries were not competitive on world markets, they strictly controlled the import of foreign goods. For the sake of future benefits to all their citizens they suppressed the current benefits for some of them. In other words, they restricted the present freedom of the individual consumer in order to lay the foundation for the future freedom of the whole community. Only after having themselves reached the stage of international competitiveness they suddenly forget their previous attitude. Looking for places where to dump their surplus production they suddenly turn into the most fervent advocates of free trade. So self-interest leads truth around by the nose – and, horribile dictu, numbers of academic economists with it.

Stupid were those who let themselves be deceived by ideology

Nor is it difficult to find out why other developing countries have fared so badly. They accepted the bible of free trade at its face value rather than seeing it as an ingenious ideology to promote the particular interests of certain countries or classes. Accordingly, they put no limits to the import of luxury and manufactured goods thus abolishing the protection indispensable to nascent industries.

Economists – at least the most successful among them – are wont to act in collusion with government and therefore in opposition to truth. Which means that they are simply wrong when arguing that prosperity has the best chances where and if government grants total economic freedom to individuals. To say it once more: Only those nations acquired wealth and power who initially suppressed the freedom of individuals in order to attain all the more freedom for the entire community at a future time.

A new situation: developed countries are threatened by free trade

Weighing individual against collective freedom is an act of *political economy* beyond the pale of pure economics. It represents a kind of wisdom rarely found in the textbooks of specialists but urgently needed in our time. This is because the evils of free trade among dissimilar partners once confined to developing countries have by now reached a further dimension, which neither List nor Mill did and could foresee.

Again we are faced with the fundamental problem of freedom. Do we have to accept the freedom of individuals in their role as consumers as a basic and incontestable principle or must this freedom always be judged in connection with the future of the community? We already discussed this problem with reference to developing countries. At the present we are faced with the same problem but within a historically totally new and, indeed, very dangerous constellation. *A high level of development may be reversed and finally even destroyed by free trade*.

Free trade with China

Exemplifying this type of development - or rather its opposite - is the effect on the West of free trade with China. There is no doubt that Western consumers benefit from purchasing low-price Asian goods instead of buying their much more expensive homemade equivalents. Since domestic wages are far higher, so must be product prices. However, the wage gap has a sound historical justification. In early-industrialized countries, workers and employees succeeded after prolonged struggle to secure a level of income that gradually approached that of civil servants, teachers, lawyers, judges, pharmacists and other professionals. The incomes of this part of the population are not in danger even today, because these professions do not suffer from competition with Asia. But it is exactly the competition with Asia that threatens employees, workers and domestic industries.

Citizens, including workers, benefit as consumers. Without such low-priced imports their consumption bill would be much heavier. But citizens as members of a workforce relying on income to pay for their living soon discover that they have been turned into victims. The history of the past hundred years provides a most chilling testimony to this change.

How history repeats itself

England, once a pioneer of the industrial revolution and until the late 19th century the world power par excellence, has to rely on its financial sector and oil resources to survive – and no body knows how long both will last. Most of her renowned industries had to give way to low cost competition first from North America and afterwards from continental Europe. But meanwhile even the United States has lost its lead, which had remained undisputed between World War I and the 80s. Its competitive edge has narrowed down to information and military technology.

As for Europe, competition with low-wage countries has already driven the South out of the race. Only the North still benefits from free trade because of its technological lead in a few areas like automotive production. Given the fact that Asia in its technological race with the West has already conquered most of the terrain, it is only a matter of time until the whole of Europe will suffer the same fate as once glorious England. Against this outcome I had already warned in a book published 1997.[59]

Résumé: For reasons of political economy free trade, which may be a blessing between equal partners, may turn into a curse when these are dissimilar. Free trade either prevents the weaker partner from ever rising to the same level as the stronger, or he causes the originally stronger one to embark on a process of regression, that is of de-industrialization. Economically, the U.S. has followed this path since the 80s of the past century. Southern Europe is now following its example.

How statistics even mislead a star economist

Up to the present day, economics have been unable to adopt the perspective of political economy. They only manage to see the citizen as a consumer, failing to see him as a democratic designer of his and his country's future. Even such a narrow economic outlook may, however, lead to strange shortsightedness. In Piketty's book *L'Économie des inégalités*, the effects of globalization on unemployment and wages are played down with a rather simple statistical argument. Free trade with developing countries, so Piketty maintains, cannot possibly do any harm because its volume has always been insignificant. In 1990, for example, total imports of Western states from these countries only amounted to a value of 2 - 2.5% of their GDP. In other words, it was ridiculously low.[60]

Cost reductions establish new standards

This objection is not really convincing, even if Piketty himself sees it as 'irrefutable'. We should not forget that for the sake of survival companies must keep their competitors constantly in mind. If these offer equivalent goods at a lower

[59] Jenner, Die arbeitslose Gesellschaft - Gefährdet Globalisierung den Wohlstand?, 1997.
[60] Piketty, 2004; S. 69.

price they feel compelled to follow suite - if possible, immediately. So when the first products arrived from Asia, their prices soon became the new standard threatening with early extinction those unable to adopt them. As it turned out lots of domestic industries, among them many which up to then had been the pride of Western countries, were unable to resist the onslaught and simply disappeared. The result lies openly before our eyes: The globe's workshop is now centered in Asian countries. Hans-Werner Sinn was right when he declared that even Germany has shrunk to a kind of 'bazaar economy'.

The actual percentage was multiplied!

The effect of free trade on the early-industrialized countries is so obvious that the blindness of Piketty and of almost the entire range of school economics is simply stunning – even if the evidence of statistics is used to give it some credibility. But the statistics concerning the value of imports are in fact misleading. Supposed that in 1990 goods imported from China and other developing countries on average cost only a tenth of their domestic equivalents, *then they could displace ten times as many domestic products*.[61] The real effect of these imports was, therefore, not 2.5% of GDP value, as maintained by Piketty, but ten times as much, that is, 25%. A simple consideration like this suffices to demonstrate that the ongoing de-industrialization of Western countries is anything but a mystery.[62]

Deindustrializing the West

In my book *Die arbeitslose Gesellschaft* (Jobless Society) published in 1997, I had already exposed the rather misleading use of import statistics. A year ago, in 2013, Paul Craig Roberts has expressed similar objections against free trade. „The US has become an import-dependent country, depending on foreigners for energy, manufactured goods and advanced technology products... Approximately half of U.S. imports from China are the offshored production of U.S. firms for the U.S. market... „free trade" is a shield for greed. Short-term gains for management and shareholders are maximized at the expense of the labor force and the economic welfare of the country. Jobs offshoring is dismantling the ladders of upward mobility that made America an opportunity society.[63] It is for this

[61] In my book from 1997, I coined the word 'displacement trade'.

[62] Man wende nicht ein, dass sich die Preise mit der Zeit angleichen werden, wie man etwa am Beispiel Japans sehe. Gerade das Beispiel Japans zeigt, dass die Billigoffensive erst einmal heimische Industrien in großer Zahl dauerhaft vernichtet, bevor es zu einer solchen Angleichung kommt. Chinas Bevölkerung ist zehnmal so groß wie die Japans. 9/10 seiner Bevölkerung sind immer noch bereit für Mindestlöhne zu schuften.
Those who argue that price differences will surely narrow down over time - as happened with Japanese goods - miss the crucial point. The Japanese case clearly demonstrates how a large number of native industries are permanently destroyed in the first place before such an approximation finally occurs. China's population is ten times as large as that of Japan and 9/10 of its huge population are still willing to toil for minimum wage.

[63] Roberts 2013, Pos. 705, 772, 806.

reason, Roberts adds, that nowadays all stimulating measures, be they fiscal or monetary, have become ineffective.[64]

What will become of Western countries?

> Asymmetric globalization has also exerted its toll around the globe. Mobile capital has demanded that workers make wage concessions and governments make tax concessions. The result is a race to the bottom. *Joseph Stiglitz*[65]

What such economic retrogression means, is now dawning even on those who originally had no qualms about embracing free trade ideology. Francis Fukuyama, a veteran neo-liberal, recently revealed what he thinks of current developments. In an interview given to the German weekly *Der Spiegel* on January 30, 2012, he declared that the U.S. had in effect lost their industries and there previous status as the world's leading economic power to China! "We believed to dominate globalization by leaving production to others, offering ourselves nothing but services. But actually we forgot that socialism is no issue in the United States because there were always enough people who made it into the burgeoning middle class. Nowadays, this no longer works, because these worked in industries we have left to countries like China ... "

As a military power, the U.S. is still a giant. But having allowed its economy to erode, its power is built on sand. Unfortunately, Western countries like to imitate not only each other's strong points but also each other's weaknesses. Europe has recently replaced the United States as China's largest trading partner. In other words, Old Europe is just about to imitate the American example of progressive industrial demise.

What about Transatlantic Partnership?

Would things change with the United States establishing a so-called transatlantic partnership with Europe and Japan? To be sure, we would get a free trade zone between *equal partners* ready to abolish remaining tariffs and other obstacles. According to theory, as upheld by school economics, such enlargement would be entirely beneficial. In other words, it would significantly promote the prosperity of the entire Western camp.

[64] Monetary and fiscal policy cannot help when the problem is that American jobs have been relocated offshore. Because of offshore production, stimulating demand stimulates production in China and other offshore sites. As high-productivity jobs have been offshored, American incomes, except for the super-rich, have ceased to grow. Thus, there is no effective way to boost consumer spending short of printing money and giving it to the population, or handing out tax rebates accomodated by monetary expansion. Roberts, 2013; Pos. 684.

[65] http://opinionator.blogs.nytimes.com/2013/10/13/inequality-is-a-choice/?_php=true&_type=blogs&_r=0

A further incentive to outsourcing

Unfortunately, the theory is wrong even in this case, and it is so for obvious reasons. True, the U.S., European countries and Japan are equal partners, but if only one among them maintains free trade with a very unequal one, for instance with China, then *the benefits of free trade are nullified for all of them*. With all Western states fiercely competing with each other, only those among them will gain a decisive advantage that use a maximum of Asian components in order to produce at lower costs. In this way, Western countries will force each other – in fact they do so since the late 80s - to cede more and more of their production to Asia. Under prevailing conditions a transatlantic free trade area will only accelerate the process of Western de-industrialization.[66]

The three strategies against outsourcing

I only see three conceivable strategies if the West wants to halt its own dismantling. The first – which seems rather utopian - would consist in an extensive automation of industrial processes so that Asian advantages in labor cost may be compensated. However, the use of machinery is not always more cost- and resource-effective than human activity. The necessary investments would, furthermore, strengthen the role of capital and thus parasitic transfer, which means that the gap between rich and poor would become even wider. From an ecological perspective this would be the worst strategy.

A real defense against low-cost competition would, however, be possible if government ceases to punish work and creativity and instead introduces a progressive consumer tax as advocated earlier in this book. In this case, production costs would steeply decrease and western industries would get a new chance. However, even this chance would only last up to that moment when Asian countries adopt the same strategy.

The only sustainable alternative

In the long run the evil of destructive retrogression needs a more decisive remedy. It will not be healed *unless we abolish or at least considerably limit free trade between unequal partners*. Ecological responsibility of nations for their respective territories as well as industrial, social and political independence would simultaneously profit from such a cure. For we must not forget that outsourcing does not only have devastating effects on society, but even more so on nature. The high ecological standards, to which local industries had to conform for the benefit of the environment, could be disregarded in China - that was another reason why the cost of production could be substantially reduced. But the poisoning of nature does not stop at national borders. We do not get harm out of our way by transferring it to other countries. It will, however, be rather painful

[66] And I have not even mentioned investment protection provided by TTIP, which will transform formerly sovereign states into powerless puppets of big corporations.

to reverse this trend, as developed countries have already lost much of their previous industrial substance. This in turn has led to a symbiosis with the rising industrial hot spots of Asia that effectively blurs the more and more unequal distribution of benefits and harms. For the time being, there are no indications of such a cure being earnestly envisaged.

Free trade and the demolition of democracy

We should, however, be wary to suppress the truth. Unrestricted free trade among unequal partners not only dismantles all protection of one's own economic base but together with it dismantles democratic self-determination as well. The word 'protectionism' is inappropriate because it only considers the economic dimension, while in this case the effects of free trade reach much further: They are a threat to democracy. The U.S. enjoyed a maximum of self-determination and independence up to the seventies of the last century - probably the happiest time in its history, if we leave the Great Depression apart. There was more wealth to be found in North America than anywhere else, and the U.S did not pose a threat to anybody. The reason for this blessed state of affairs had been clearly perceived by one of its great presidents when comparing his country with contemporary Europe. "I… proceed to… show," said Abraham Lincoln, "that the abandonment of the protective policy by the American Government must result in the increase of both useless labor and idleness; and so, in proportion, must produce want and ruin among our people."[67]

Regional self-determination in the economic and ecological spheres

We will not attain peace by a "World War for Wealth," as described very realistically by Gabor Steingart in a book with that very title, but by gradually abandoning our reliance on foreign resources and even on foreign work as long as such dependence implies the destruction of existing industries. Like the United States up to the 70s Europe too is able to find the greatest part of vital resources within its own borders once it has attained self-sufficiency in energy supply. Outsourced jobs, destroyed industries and the increasing pressure on wages together with the ensuing enrichment of a minority – in sum all we mean when referring to a "race to the bottom" as the most visible result of globalization for Western countries – could be reversed by a more democratically minded Europe relying on self-responsibility and self-determination. The planet's ecological future strictly depends on such self-reliance. Just as we should not transfer our environmental toxins to Africa polluting other countries and continents but must find appropriate methods either not to produce them at all or make them innocuous, we cannot shirk our responsibility in the area of production. But that is exactly what happens now when we outsource to Asia or expose our wages and

[67] See: http://lincoln.lib.niu.edu/cgi-bin/philologic/getobject.pl?c.1128:1.lincoln.

standards of living to global competition.[68] The world is one and it will and must be more so in the future but the right way to achieve a peaceful transition to this final stage cannot consist in the rise of one part if this is accompanied with the downfall of others.

[68] For quite a time our bad conscience towards Third World countries prevented us from impartially judging the impact of free trade. We were afraid of succumbing to national egoism or even xenophobia. After once exploiting these countries do we now resent their rise? In fact, something quite different happened. We allowed big corporations and big business to outsource dirty production to Asia, Mexico, etc. - with devastating consequences for the local environment. There they could pocket profits that were unattainable at home.

VI) How economic science serves the interests of the powerful and the rich

> My major concern about my profession today is that our disciplinary preference for logically beautiful results … has reached such fanatical proportions that we economists have become dangerous to the earth and its inhabitants. *Herman E. Daly*[69]

Up to the present chapter I did not answer a question which must have intrigued the reader from the beginning: How is it possible that parasitic transfer - this powerful suction pump, whereby a minority acquires huge amounts of wealth at the expense of the majority – has so far not only escaped the notice of economic science but was either assiduously overlooked or at best denied with specious arguments?[70]

And how is it possible that the punishment of personal merit and creativity by means of an openly unjust tax system did no evoke any protest from school economists though it too is in open opposition to the interests of a democratic majority?

How come that school economics still ignores the fundamental opposition between two kinds of saving, saving for deferred consumption on the one and power-saving on the other hand, though the latter bears the main responsibility for the destructive tendencies of modern capitalism?

And, finally, how do we explain that free trade, the consequences of which are beneficial only under very specific conditions, has so thoroughly been misinterpreted by mainstream economists? Against all contradictory evidence they still praise it as the best recipe for creating and increasing prosperity under all conditions.

There is no lack of intelligence

Surely, we cannot explain such blindness to facts by assuming a lack of qualified personnel within universities. Now as in the past, the best theorists of any discipline are compelled to seek a career in academia if they want to pursue their interests and research in a materially secure position. The apparent blindness of academic economists cannot be due to a lack of skills and talent – it must have deeper causes.

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[69] Daly, 1993; p. 24.

[70] There are exceptions to the rule. The results of parasitic transfer are clearly spelled out by Joseph Stiglitz, though not its underlying mechanics: „Of the advanced economies, America has some of the worst disparities in incomes and opportunities, with devastating macroeconomic consequences. The gross domestic product of the United States has more than quadrupled in the last 40 years and nearly doubled in the last 25, but as is now well known, the benefits have gone to the top — and increasingly to the very, very top“ (http://opinionator.blogs.nytimes.com/2013/10/13/inequality-is-a-choice/?_php=true&_type=blogs&_r=0).

If we want to delve into these deep-lying causes we have to discuss the relationship between economic science and politico-economic power. Economic science may either delegitimize the powers that be or support them. In the first case, it is a threat, in the second a prop to power. In this respect economic science resembles theology of bygone times. While in the past the latter served as the point of reference for terrestrial power, it is science, which, in our time, has acquired a similar task and function. Theologians appealed to transcendent revelation whose instructions they interpreted in a manner as to justify the existing order and its secular masters (unless they themselves tried to usurp secular power).[71]

Likewise, modern economists, too, are at the service of power. They know that they will only receive those coveted and most highly paid commissions granted by government and other official agencies when standing in line with dominant ideology, belittling conflicting proposals or disqualifying them as unscientific. In other words, behaving much like theologians in former times when these disqualified all opposition as the work of the devil.

This attitude extends to the most influential scientific journals and book publishers since most of them are dependent on contributions by influential sponsors; they are – even without ever acknowledging their dependency - the natural allies of the ruling powers. Accordingly they determine the standard of what may be considered scientifically sound and what not.[72]

Crises just do not happen

This explains in a rather simple way why school economists failed to anticipate even the biggest economic crises, let alone predict them. Neither the great crises since 2007 were previously announced by the leading pundits nor even the Great Depression of 1929. No lack of intelligence is the reason for this apparent failure, but a lack of moral courage since this would have been disastrous for ones personal career. Economists know that the powers that be only reward such opinions and findings that 'scientifically' proof that there is but one recipe for current prosperity and future welfare, namely the prevailing economic order.

Science misused

So, the stunning fact that almost no one among trendsetting economists ever recognizes great crises in advance and warns the public against them, turns out to be nothing but an apparent paradox. Science as a servant to power is not supposed to speak of crises and thus to delegitimize power. Even if some of its

[71] See the above quote from Meinhard Miegel, p.29.
[72] However, any in-depth analysis must further distinguish between the law-bound knowledge of the natural sciences and the value-bound knowledge, with which the humanities have to content themselves. See: http://www.gerojenner.com/portal/gerojenner.com/Kreation_und_Freiheit.html. I further deal with this dichotomy in my book *The Power of Dreams and the limits of reason - a philosophy of freedom* (as of now only published in German).

more clear-sighted representatives actually do believe a major crisis to be imminent, they are supposed to keep quiet, ignore any warnings or rather discredit them as scientifically unsound. For any serious crisis constitutes a direct challenge to the ruling class which it puts in the wrong. This class wants and expects to be put in the right – that is how it conceives the role of economics and its potential usefulness. So we need not wonder that economists tend to be utterly surprised by any new crisis. Only in hindsight when its existence can no longer be denied or glossed over, they muster all tricks and maneuvers of their art in order to explain why they were indeed ineluctable.

Suppressing knowledge

> "… the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else." *John-Maynard Keynes*[73]

The blindness of school economics with regard even to imminent and most deleterious crises has its logical counterpart in the blindness to *alternative concepts*. Just as the powers that be are loath to hear of crises, so they are loath to be confronted with alternative social or economic propositions, which would endanger their own position. The incessant refrain that "there is no alternative" owes its persistence to that ideological self-defense. And at this point we come close to the real reason why school economics does more than just convey knowledge, i.e. all knowledge, which confirms and protects the existing order. Apart from conveying knowledge it devotes itself to its second task as a tool of power, that is, to the task of *actively suppressing knowledge*, in other words, all knowledge that would endanger the ruling class and its interests.

This subservience to outward interests need not be based on direct economic dependency. It is entirely sufficient that among really successful economists we find only those who firmly stand by the ruling paradigm and staunchly defend it against all objections and broadsides.[74] As a rule, success alone is a force that makes for ideological conformity.[75]

It need not be emphasized that the submission of economics to the requirements of power has greatly contributed to the present-day 'economic disease'. A science that far from striving after truth for the sake of truth rather tends to suppress it whenever it hurts the interest of its sponsors, is constantly in danger of becoming a pseudoscience.[76]

[73] Keynes, 1964; p. 383.

[74] In democratic countries today, you are less likely to risk your reputation and your livelihood (or even be physically threatened!) if you disagree with the political mainstream than if you are a scientific dissident. (Jakob von Uexüll, jr.; https://www.ut.ee/SOSE/sss/pdf/uexull_jr_3212.pdf).

[75] This success becomes evident in the close ties between the academic environment and finance: Harald Schumann speaks of a 'plutocratic coterie' (Schumann, 2008, pp 121).

[76] In Germany, historical reasons contributed to the aloofness of economics: namely its original roots in a bureaucracy, which thanks to its proximity to the state felt particularly obliged to the latter while it deemed itself far superior to ordinary citizens. Such aloofness has deeply marked the style as well as the content of economic

writing up to the present day. One hundred years ago the great William James had already remarked sarcastically that German professors write for other professors in a style only to be understood by professors. The intellectual inbreeding resulting from this seclusion explains the striking lack of willingness to deal with what other people, that is ordinary mortals, might have to say.

Appendix

1. Tentatively calculating parasitic transfer in Germany for the years 2001 and 2007

Introductory remarks

The following calculations are of little interest to the general reader, who cares more about results than about how to reach them, but they are of crucial importance to the expert, who demands proofs for the main theses to be found in this book. Parasitic transfer, so the book says, causes a steady accumulation of wealth in the top segment of society interrupted only by wars, revolutions, and other major disasters. Destroying the equality of opportunities and thus democracy itself, it further provides the main impetus for a swelling surplus of savings in the hands of the upper ten percent together with a swelling amount of debt on the shoulders of the lower 90%, which in turn is the most powerful cause of the growth ordeal and the consequent destruction of the environment. The numerical foundation for theses assertions will be provided by the following appendix. *These figures also form the basis of Annex II, which deals with a concrete proposal for a radically changed tax system based on consumption.* As parasitic transfer by now equals the biggest of all taxes, that is the wage tax, the latter will be totally replaced by a hundred-percent levy on capital gains within a future tax system deserving to be called socially equitable.

The following calculations were made in 2008. They represented a first attempt to capture the magnitude of parasitic transfer from the bottom 90 to the top 10%. The formulas used are in principle very simple and may be applied to any year and any population segments, it is, however, quite difficult to find the correct data for the parameters used therein. This explains why my demonstration is restricted to the years 2001 and 2007, for which I was able to find the relevant data. Since I only deal with interest bearing securities and deposits, the result can only denote a *lower limit* - the huge mass of returns on debt-free capital (such as rents etc.) being left out of account.

The designation as ‘parasitic transfer' was added recently. In the following text dating back to 2008 but partly revised I substitute this term for the less fortunate expression ‘private taxation’. Since 2007 average interest rates - though not necessarily those paid by Big Companies - have been reduced to a minimum and are even negative in real terms because of inflation; but big investors – and only these! - may still find high returns in other parts of the world. We should not forget that some time ago the Deutsche Bank still promised such big investors an unbelievable 25% return on their capital. If only the fourth part of such gains remains valid, then the top ten percent may still be better off than evidenced in the following calculations. On the other hand gains accruing from debt-free real capital have not been included (for instance rental receipts from real estate with their especially high proportion of interest!). It should be, furthermore, kept in mind *that deflation acts exactly like positive interest rates* since the value of money increases while that of real goods is diminished.

The effect of parasitic transfer in 2007

Let us divide the German population into two groups according to income and financial assets, the lower group comprising ninety and the top group containing ten percent. As a result of interest payments, the lower group was burdened with at least € 233 billion in 2007, *out of which it had to transfer 141 billion to the top 10 percent* while a margin of 92 billion went to the banks. The total interest input of all German banks taken together amounted to € 419 billion while their total interest output was equal to 327 billion.

In other words, via the system of interest flow from bottom to top the lower 90% had to pay an amount of no less than 233 billion euros or almost double the value of the wage tax. It is, however, the amount spilled directly into the coffers of the top ten percent, which is central to our argument, namely 142 billion. *This sum surpasses the largest mass tax, i.e. the wage tax, which, in the same year, added up to 132 billion euros.* Reducing the tax burden on labor is, certainly, very important, but such demands seem strangely hypocritical in view of the burden arising from 'parasitic transfer'.

A rather simple example

Let me illustrate parasitic transfer by means of an example of intuitive evidence. If a person has a monthly net income of 2900 euros spending per year 30 000 euros for consumption, he makes interest payments of approximately euro 10 000 - assuming that on average one third of product prices is destined to pay for interest and dividends with which companies have to satisfy their shareholders and creditors.[77] His own savings together with the modest amount of interest he obtains from them are quite insignificant in comparison. At an interest rate even of 4 percent, he needs a quarter of a million on his savings account merely to offset his loss of euro 10 000. Only those who possess interest- and dividend-bearing assets beyond a quarter of a million, count among the winners of this monopoly.[78] *Only this very small number of winners gets more out of parasitic*

[77] With 419 billion euros, the total interest input of all German commercial banks in 2007 amounted to slightly more than a quarter of all household disposable income of 1502 billion. After subtracting from this sum the inconsiderable portion of interest on consumer loans and the fluctuating amount of interbank interest, what remains is the sum total with which companies had to pay their debts vis-à-vis their lenders. As parasitic income from debt-free real estate etc. represents a huge mass we may safely assume a third rather than a quarter part of all disposable household income dedicated to debt service. Helmut Creutz had already proved this number in his book *Das Geldsyndrom* (*The Money Syndrome*).
[78] See Jenner 2008, *Das Pyramidenspiel*, p. 45.

transfer than what it pays into the system. Statistics tell us that less than ten percent of all Germans belong to these happy few.

This example only serves as an easily understandable introduction. But it, certainly, challenges most readers, who will hardly believe that an average of one third of German product prices is due to interest. So let me emphasize that the following calculations *do not* rely on this assumption!

Basic operation

Together the bottom 90 and the top 10 percent can only gain so much interest as corresponds to the sum total ‚I' of all interest input of all German commercial banks. How much of the cake each group obtains depends on its relative share of interest bearing assets 'v'. On the other hand both groups together generate the total interest volume 'I' through consumption, wherein companies hide the interest on their loans. Each group's contribution depends on its respective share in consumption 'k'.[79]

For simplicity, I assume that banks hand out as much interest as they obtain ($I_o = I_i$ or total interest output equals total interest input), thus leaving aside the bank margin (of about 20% for Germany), which banks normally retain as a fee for their service. Setting ‚I' equal to one, we see that the balance of gains and losses exclusively depends on factors v' and 'k' so that we obtain the following general formula:

Interest gains minus interest losses

$I*v - I*k = I*(v - k)$; if ‚I' = 1 then

General transfer formula = v - k

This general formula determines, what any specific group or even particular individuals gain or loose not because of their own effort and merit but because of a mere automatism: the mechanics of capital gains.[80]

However, both factors still require a significant correction. First, interest incomes differ depending on interest rates paid to savers. Large investors receive far higher rates than small savers, while big mobile capital can choose best returns anywhere on the globe. Taking into account this correction, we obtain the real wealth factor 'v_{real}'.

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[79] Since the state does not pay the interest for its debt by passing them on to prices as do companies, it is not consumption that carries the burden but household income, which is diminished by an equivalent amount of taxation. So this amount has to be reckoned with when determining the consumption factor 'k' (see below).

[80] In principle the formula applies to any kind of capital gains in the private sector of the economy, not just to interest, but likewise to dividends and the returns on debt-free capital (such as rents etc.). But it is relatively easy to determine interest flows, especially for Germany, where more than eighty percent of capital gains are indeed earned on interest (the proportion of stocks within total financial assets amounting to no more than about 15%). Calculations are much more difficult for Anglo-Saxon countries, where companies largely obtain fresh money on the stock market. The above formula must be changed accordingly: Capital income minus capital loss = $C*v - C*k = C*(v - k)$; if ‚C' = 1 then = v – k.

On the other hand, its relative share in available household income does not tell us how much any group really consumes - part of its income will be saved. The richest one percent, for instance, saves most of its income while the lowest one percent usually saves nothing (because the poor tend to consume their entire income). Taking into account this correction, we obtain the real consumption factor 'k_{real}'.

<u>Real transfer formula = $v_{real} - k_{real}$</u>

The larger the share in interest-bearing assets, and/or the smaller the share in consumption, the greater the resulting interest income or parasitic transfer but interest rates and saving propensity substantially modify the result. If asset and consumption shares are identical, no parasitic transfer occurs.

On the other hand, gains and losses of both (or more than two) groups necessarily add up to zero: *What one group looses the other wins.*

<u>Interest gains minus interest losses for two groups A and B</u>:

A: $Av_{real} – Ak_{real} = AL$

B: $Bv_{real} – Bk_{real} = BL$ (where $AL + BL = 0$)

(This mutual cancelling out results from: $Av_{real} + Bv_{real} = 1$ and $Ak_{real} + Bk_{real} = 1$; therefore $AL + BL = Av_{real} – Ak_{real} + (1 – Av_{real}) – (1 – Ak_{real}) = 0$)

Computationally speaking, parasitic transfer is nothing more than a zero-sum game, socially it is a devastating wedge driven into the body of society.[81]

Parameters used in calculating parasitic transfer

It is more difficult to calculate the interest flows between the two groups using all relevant parameters.[82] Six of them are of crucial importance:

1) total interest input of commercial banks (I_i = interest input); 2) total interest output ($I_o = I_i$ minus bank margin); 3) the distribution of asset wealth; 4) the distribution of disposable household income; 5) the ratio of consumption for each group; and 6) the difference of interest rates.

[81] The above formula may be used to quantify the parasitic transfer between any two groups. Suppose we examine the parasitic flow from the lower 99 to the upper 1%, assuming the latter to own 20% of all profit bearing assets ($v_b = 1/5$), so that the lower 99% must content themselves with the remaining 80% ($v_a = 4/5$). Let us, further, assume that those billionaires will consume 10% of their incomes ($k_b = 1/10$) while saving the rest. The consumption factor of the majority will therefore amount to an average of 90% ($k_a = 9/10$). Hence we obtain the following parasitic transfer:

A: 4/5 - 9/10 = -0,1

B: 1/5 - 1/10 = 0,1

Thus, every year 10% of the returns from yield-bearing assets are being shoveled from bottom to top!

[82] At this place, I want to partly revise and correct the corresponding formulas on pages 264-268 of *Das Pyramidenspiel*. Let me add that I am indebted to Mr. Friedrich Müller-Reißmann and Prof. Jürgen Kremer, (Business Mathematics, Rhein Ahr Campus, Remagen) for important suggestions.

Once we know the total interest input and output of banks for a given year together with the four remaining parameters, we may calculate the amount of parasitic transfer. The first two parameters are beyond dispute as they result from yearly statistics provided by the German Central Bank. Likewise I was able to find data on the distribution of disposable household income for 2001. The distribution of asset wealth and the ratio of consumption are of critical importance for the extent of parasitic transfer (the ratio of consumption describes the relative shares of disposable household income that is actually consumed and not saved). *If both were identical for the whole population, there would be no such transfer as everybody would gain as much as he looses (apart from bank margin, of course).* I deliberately choose a low value for the difference of interest rates so as to obtain the minimum level of parasitic transfer.

Distribution of asset wealth and consumer behavior: scarcity of reliable data

But I have to start with a caveat: Though whole mountains of data exist on all possible subjects, data on income and wealth distribution are few and rather unreliable *especially with regard to the upper ten percent.*[83] Older research goes back to Engels, Mierheim and Wicke as well as to Meinhard Miegel; recent studies were made by BBE-Business Consulting and by Helmut Creutz, who was the first to compare the relative interest gains and interest losses of German households split into ten different classes according to income and assets.[84] In addition to the data collected by Merrill Lynch and those of the Statistical Office (Statistisches Bundesamt), I have used the information provided by Hauser and Becker.[85] Data neatly distinguishing between the relative shares of consumption and savings within the two groups do not seem to exist. We will have to infer them.

Distribution of asset wealth

Investigations by Merrill Lynch/ Cap Gemini Ernst & Young revealed for the year 2000 that 55% of German monetary assets then belonged to the upper 10%; accordingly, 45% were in the hands of 90% of Germans.[86] This distribution is also evidenced by the income and expenditure survey 1998 initiated by the Statistical Office (Statistisches Bundesamt, Wiesbaden). It identified a share of 48% for the top 10%. The distribution arrived at by Merrill Lynch for the year 2000 certainly understates the true amount of wealth for the upper 10 percent in 2001 so we are on the safe side when basing our calculation on the lower figures for 2000.

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[83] As a matter of deplorable fact, the financial situation of the rich is conscientiously kept under a very thick veil, cf. also (Zucman, 2014; Item 1310/1548).
[84] Creutz 1997:286; 2001:386.
[85] Richard Hauser and Irene Becker: *Income distribution in cross section from 1973 to 1998*, a study commissioned by the Federal Ministry of Labor and Social Affairs, Bonn:2001.
[86] *German Wealth Report 2000*, Bad Homburg/ Munich (www.de.cgey.com).

At that time, the total interest input of all German commercial banks taken together (I_i) amounted to 382 billion euros, from which the banks subtracted a margin of 20 percent. The part available for total interest output (I_o) could, therefore, not exceed € 306 billion. Now, the proportion of interest income received by the lower 90% corresponds at most to their relative share of financial assets equal to 45%, so it may not exceed 306 times 0.45 or € 138 billion. In line with its larger share of financial assets, maximum interest income of the upper 10% is substantially higher. It equals € 168 billion.

In general terms:	with actual values for 2001:
A: interest gains	interest gains
I_o*v_a	$= 4/5*382*0.45 = \underline{138}$
B: I_o*v_b	$= 4/5*382*0.55 = \underline{168}$

(where I_o = total interest output of banks; v_a and v_b = share of financial wealth of group A and B respectively; 4/5 I_i = I_o or I_i minus bank margin)

2001: Interest paid through consumption

This brings us to the second step of calculation. From the interest *gains* accruing to the bottom 90% we must deduct their interest *losses*, suffered by way of consumption and taxes.[87] To this end, we have to determine the relative share of consumption with regard to total household expenditure, which in 2001 amounted to 1218 billion Euros. In the above-mentioned study commissioned by the Federal Ministry of Labor and Social Affairs it was shown for the year 1998 that ninety percent of households received 78% of income, the upper 10 percent the remainder of 22%. Income distribution is, of course, not identical with consumption as part of it is used for savings. These results do, furthermore, only apply to West Germany. However, as no other statistical documents are available and since correcting possible errors would rather increase the amount of parasitic transfer, this lack of exact statistical is of minor consequence.

Since, as already mentioned, no direct data for the respective ratios of consumption and savings exist for the two groups, we have to infer them. For this purpose I start with the assumption that both groups consume *the total amount* of their respective incomes. The total interest losses incurred through consumption then add up to the banking system's sum total of interest input, that is, to € 382 billion.

[87] Three quarters of these losses derive from product prices containing the interest companies have to pay to their creditors while one quarter is paid via taxes with which government has to pay for sovereign debt (private debt being approximately four times as large as the latter).

In this case the interest losses of each group are equal to their respective income shares. Thus, interest losses for the 90 per cent majority amount to € 298 billion (382 times 0.78), while the losses occurred by group B are substantially lower. They amount to € 84 (382 times 0.22).

	In general terms:	with actual values for 2001:
A:	interest losses I_i*k_{amax}	interest losses = 382*0.78= 298
B:	I_i*k_{bmax}	= 382*0.22= 84

2001: Balance of gains and losses

Now the balance of gains and losses describes the flow from bottom to top. The top 10% are the great winners of the interest game while the bottom 90% are its great loosers.

	In general terms:	with actual values for 2001:
A:	interest gains – interest losses I_o*v_a – I_i*k_{amax}	interest gains – interest losses = 4/5*382*0.45 - 382*0.78= -160 = 138 minus 298
B:	I_o*v_b – I_i*k_{bmax}	= 4/5*382*0.55 - 382*0.22= 84 (+76 = 160) = 168 minus 84

(where I_i and I_o represent total interest input and output respectively; v_a and v_b = share of financial wealth of groups A and B; k_{amax} and k_{bmax} = maximum consumption share of groups A and B without saving)

Of course, balances for groups A and B are opposed – the first group looses what the second wins (so that, once we add the bank margin of 76 to 84, we must obtain identical sums!). If financial wealth and consumption shares within a group were identical (which means that they are necessarily identical in the other group as well), then the balance of gains and losses is zero and no parasitic transfer takes place. *Generally speaking, the balance is the more unfavorable the smaller the share of monetary wealth or the greater the part of interest bearing consumption.*

The propensity to save

However, the above results still require a triple correction by a) the proportion of taxes, b) the propensity to save and c) the interest rate advantage. Since total debt consists of about three quarters of corporate and one-quarter of sovereign debt, only three quarters of total debt are actually paid for by interest rates charged by companies through product prices. A quarter - the interest on sovereign debt - is collected by way of taxation thus reducing available household income. When balancing this reduction on the one hand against the increase of interest on the other side, the result is likely to leave the present calculation pretty much unchanged (just think that even a reduction of up to 50% of total interest input does not produce a fundamental change, see below).[88] Parasitic transfer chiefly depends on wealth distribution, the consumption factor, the propensity to save, and interest rate advantage. It would, however, be desirable to find an exact formula for different proportions of sovereign debt.

The propensity to save: In a rather unrealistic way we assumed that both groups completely consume their respective household incomes – we had to do so because there are no separate data on consumption and saving rates for these groups. But as a matter of fact they exhibit a *marked difference* as to their propensity to save. And this fact, does, of course, directly determine the amount available for consumption. It is well known that people with low incomes tend to put only small parts of their income into their savings account; on the other hand, the rate of saving strongly increases with disposable income.[89] An estimated savings rate of 20% for the top 10% is a rather conservative guess since the upper 5 or 1% will definitely save much more – indeed, sometimes 90% or more of their income. I will, however, adopt this conservative estimation so that consumption of group B will be reduced by no more than 20%. Thus multiplying the maximum consumption factor k_{bmax} by 0.8 we obtain the *real* consumption factor k_b.

We may, furthermore, estimate the saving rate of group A, once we know the total average saving rate for A and B together. According to the available statistics on disposable income of all German households, this total saving rate amounted to roughly 10% in 2001. Total household consumption was therefore reduced by 10 percent, i.e. by a factor of 0.9 (factor 'x'). Knowing the total savings percentage for groups A and B together (10%) and the savings ratio of group B (20%), we may deduce the savings ratio of group A by means of the following formula (where s_a and s_b represent the savings ratios of groups A and B respectively).

In general terms:	with actual values for 2001:
$(s_a * k_{amax}) * H + (s_b * k_{bmax}) * H = 0.9 * H$	$s_a = (0.9 - s_b * k_{bmax})/k_{amax} = (0.9 - 0.8 * 0.22)/0.78 = \underline{0.93}$.

(where H amounting to € 1218 billion in 2001 is total household income available for both groups, of which together these save 10% (0.9*H). The real consumption of both groups taken together is, therefore, not equal to the theoretical maximum $k_{amax} * H + k_{bmax} * H = H$, but is reduced by their respective savings rates s_a and s_b)

On average the bottom 90% thus saved 100 minus 93, or 7%, of their disposable

[88] At present, German interest rate on national debt has fallen to a historical low level, so overall interest input remains nearly unchanged. Thus, government does not need to raise taxes for its newly incurred debt: available household income, too, remains nearly unchanged. In this rare and extreme case, the above calculation requires no adjustment.

[89] "According to statistics, well earning citizens put about 20 percent of their income on their savings account." See Marc Brost in DIE ZEIT, April 12, 2008 Nr. 50).

household income. Slightly modifying the above formula we get the *real consumption factors* for both groups.

<u>In general terms</u>: <u>with actual values for 2001</u>:

$(s_a/0,9*k_{amax})*H + (s_b/0,9*k_{bmax})*H = H$ $(0,93/0,9*0,78)*H + (0,8/0,9*0,22)*H = H$

Instead of $k_{amax}*H + k_{bmax}*H = H$, expressing the unrealistic assumption that both groups consume the entire sum of their disposal incomes, we now obtain real consumption values k_a and k_b:

<u>In general terms</u>: <u>with actual values for 2001</u>:

$k_a = (s_a/0,9)*k_{amax}$ $k_a = (0.93/0.9)*0.78 = \underline{0.8}$

$k_b = (s_b/0,9)*k_{bmax}$ $k_b = (0.8/0.9)*0.22 = \underline{0.2}$

After correction for diverging propensities to save

These *new* consumption factors describe the different saving behaviors of groups A and B and lead to a slight shift in interest balances favoring the top 10%.

<u>In general terms</u>: <u>with actual values for 2001</u>:

interest gains – interest losses Interest gains – interest losses

A: $I_o*v_a - I_i*k_a$ $= 4/5*382*0.45 - 382*0.8 = \underline{-168}$
$= 138$ minus 306

B: $I_o*v_b - I_i*k_b$ $= 4/5*382*0.55 - 382*0.2 = \underline{92}$ $(+76 = 168)$
$= 168$ minus 76

Adding the bank margin of € 76 the losses and gains of both groups must, of course, again give a sum of zero.

Final correction for interest privilege of top 10%

Finally, the above calculation still needs correction by a factor ‚f' taking into account the higher interest rates paid to big investors. Factor 'f' is equal to 1 as long as both groups A and B obtain the same interest rates, but this never occurs in actual practice. We certainly underestimate 'f' when assuming that big investors receive just 25 % more interest than small savers, in other words, that factor 'f_b' equals 1.25 for group B. But let us be content with this conservative estimate, which works out in exactly the same way as if we would increase the interest bearing assets of group B by this factor while diminishing those of group A accordingly. Instead of $v_b = 0.55$ we now obtain $v_{bk} = 1.25*0.55 = 0.69$. Since $v_{bk} + v_{ak}$ must equal to 1, $v_a = 0.45$ now changes to $v_{ak} = 0.31$.

$v_{ak} = \underline{0.31}$
$v_{bk} = \underline{0.69}$

In general terms: with actual values for 2001:

	In general terms	with actual values for 2001
	Interest gains – interest losses	Interest gains – interest losses
A:	$I_o*v_{ak} - I_i*k_a$	= 4/5*382*0.31 - 382*0.8 = -210
		= 96 minus 306
B:	$I_o*v_{bk} - I_i*k_b$	= 4/5*382*0.69 - 382*0.2 = 134 (+76=210)
		= 210 minus 76

The interest incomes of A and B, 96 and 210 billion euros respectively, add up to a total of 306 billion (the total interest output of all German banks), while the balances of A and B, -210 or +134 respectively, become zero once we add the bank margin of 76 billion to the latter. The bottom 90 % are thus forced to forward € 210 billion, 76 billion of which are retained by the banks, while *the remaining 134 billion Euro are sucked up by the top ten percent.*

It seems, however, probable that this sum still substantially underestimates the actual transfer from bottom to top. To be sure, interbank lending and the ensuing interests could reduce these numbers. Though this would not change the ratio of bank gains and losses for both groups, it would, of course, diminish absolute values. But the above calculations ignore all money transactions occurring outside of banks and, most important, they ignore parasitic transfers from debt-free real capital (rentals etc.). Even if interbank lending would occasionally be of some importance, the ensuing reduction of absolute values is likely to be offset by transfers ignored in the above calculation. Let me add, that I have chosen a very low and therefore rather unrealistic value for factor 'f_b' (1.25).

Parasitic transfer in 2007

The situation has further worsened in 2007. Total bank interest input now amounts to € 419 billion and the interest output to 327 billion - the bank margin of (419-327=) 92 € billion having slightly increased. Understating the actual situation, by assuming that the distribution of wealth as well as consumption patterns remain the same as in 2001 and assuming furthermore an unchanged savings rate of 10% (the rate really amounted to 11.2% in 2007), we arrive at the following balance in gains and losses.

	In general terms	with actual values for 2007
	interest gains – interest losses	interest gains – interest losses
A:	$I_o*v_{ak} - I_i*k_a$	= 327*0.31 - 419*0.8 = -234
		= 101 minus 335
B:	$I_o*v_{bk} - I_i*k_b$	= 327*0,69 - 419*0.2 = 142 (+92=234)
		= 226 minus 84

In comparison the wage tax amounted to only € 132 billion in 2007. The largest mass tax levied by the German treasury was thus neatly surpassed by parasitic transfer.

There is only a modest change to this bloodletting even in the case that total interest input of German commercial banks were substantially reduced. Let us suppose that from one year to the next total input shrinks by 50%, so that it equals 210 instead of 419 billion while output amounts to 168 billion (with a bank margin of 20% or 42 billion). We then obtain the following transfer:

	In general terms:	with actual values
	interest gains – interest losses	interest gains – interest losses
A:	$I_o*v_{ak} - I_i*k_a$	= 4/5*210*0.31 - 210*0.8 = -116 = 53 minus 168
B:	$I_o*v_{bk} - I_i*k_b$	= 4/5*210*0.69 - 210*0.2 = 74 (+42=116) = 116 minus 42

Even with such a huge drop in the volume of interest input parasitic transfer still amounts to more than half the German wage tax - merely by way of interest flows from bottom to top.

Interbank lending

Those who argue against the overwhelming evidence of these figures tend to cling to interbank interest as their last resort. Although numbers are missing, they give full reign to their imagination when assuming that it may comprise up to 30% of total interest input of all German commercial banks – which would mean that € 419 billion euros would have to be diminished by 30%! The preceding example where we assumed a reduction of up to 50% clearly demonstrates that even then parasitic transfer would still amount to about three quarters of the German wage tax.

But let us take a closer look on the situation in 2007 when the whole volume of debt equaled 7,583 billion euros (composed of household debt: 1,547; corporate debt: 4,447; and public debt: 1,589). As total interest input of German banks amounted to 419 billion for the same year, the average interest rate for total debt could not exceed 5.5%. Fortunately, the interest payments for public debt of 1,589 billion are listed separately. They amounted to 66 billion euros, which corresponds to an average interest rate of 4.2%. The interest rate for the remaining debt must therefore be somewhat higher. After deducting 66 billion in interest as well as the public debt of 1,589 billion, debts of 5,994 billion remain for business and households together with a corresponding interest burden of 353 billion. This results in an average interest rate of 5.89%. By 2007, ten-year investment rates equaled 4.09%.[90] Thus cross-footing indicates that it is hardly possible to hide any larger portion of interbank interests within the mentioned 419 billion euro.

[90] http://www.wallstreet-online.de/nachricht/2024784-interhyp-zinskommentar-kapitalmarktzinsen-vorerst-stabil.

The real damage wrought by parasitic transfer is due to its cumulative effect. Immediately after the Second World War, when large asset wealth was for a great part destroyed and currency reform had worked in the same direction, this transfer was still minimal. As explained above, it is even equal to zero as long as the distribution of asset wealth and the ratio of consumption are identical in both groups. However, once wealth begins to accumulate in the hands of a few, parasitic transfer likewise starts to operate making the wealthy every year still more wealthy and the poor still poorer.

in general terms:		income change:
	interest gains – interest losses	
A:	$I_o*v_{ak} - I_i*k_a$	loss of income: $\underline{-L_a}$
B:	$I_o*v_{bk} - I_i*k_b$	growth of income: $\underline{+L_b}$

(where I_o is total interest output of all German commercial banks und I_i is total interest input)

Since the top 10% will save at least 20% of this increase, their total assets will grow by $1/5L_b$ in the following year, while the bottom 90% suffer a corresponding loss. As long as no economic collapse or revolution interrupts this steadily swelling flow from bottom to top, the rich will necessarily become still richer with every year while the poor must become poorer.[91] So far modern states have only found one answer to this fundamental problem: unlimited growth. This explains why up to now all capitalist countries are driven forward by the lash of constant growth (see chapter III) destroying nature and destroying society in the process. We will only free ourselves from this devastating automatism once we finish parasitic transfer.

[91] Since asset share, consumption factor, the propensity to save and interest advantage all favor those at the top of the wealth pyramid, the top five percent profit still more from parasitic transfer then the top ten percent, and the top one percent more than the top five. People belonging to the top one percent do not save 20 but 90 or more percent of their yearly gains – a snowball effect.

2. Revenue-neutral shift from taxation of performance to consumption taxes

Examplified for Germany

German tax revenue in prices of 2010	2013		20??	
1) Income-related taxes thereof	**273**	**49%**		
1.1) Wage tax	169	30%		
1.2) Income tax	56	10%		
1.3) Corporate tax	13	2%		
1.4) Business tax	36	6%		
2) Asset-based taxes thereof	**21**	**4%**	**1) Asset-based taxes**	
2.1) Property and business tax	17	3%	1) Capital gains tax	30%
2.2) Inheritance tax	4	1%		
3) Consumption-related taxes thereof	**269**	**48%**	**2) Consumption-related taxes** thereof	
3.1) VAT	180	32%	2.1) Producer-consumption tax	20 → 40%
3.2) Energy and electricity taxes	46	8%	2.2) progressive final-consumer tax on individuel consumption	50 → 30%
3.3) other taxes	43	8%		
4) Total tax revenue	**563**	**100%**		**100%**

The figures for 2013 are taken from a book by Lorenz Jarass appearing October 2014 ‚Faire und effiziente Unternehmensbesteuerung'

In the context of reorganizing the tax system, we may take the 100% tax on capital gains as a starting point, because its yield is objectively determined. As can be seen from Appendix 1, parasitic transfer has by now attained a staggering 30%, ie the level of the wage tax. Although we currently pass through a period of historically unprecedented low interest rates, this does hardly affect the highly mobile capital in the hands of the top 10% as it may still pocket high returns abroad as well as in the most successful domestic enterprises.[92] Some years ago Deutsche Bank could, after all, still lure major investors with incredible yields of 25%! If only half or even only a quarter of such yields may still be attained today, the calculations carried out in Appendix 1 will be exceeded.

Given the 30% of the capital gains tax, the producer-consumption tax and the progressive final consumer tax must together amount to 70% of total tax revenues if we want the latter to remain unchanged. It is up to the government to decide how these 70% are divided between both taxes.

I would guess that the transition is most easily accomplished if we initially choose a modest rate of 20% for the producer-consumption tax. In this case, the transition represents an enormous gain and boost for industry. At a single stroke, it is exempt from all income related taxes, which account for a substantial part of their costs, that is a total of 30 + 10 + 2 + 6, ie 48%. Instead, industry merely pays a modest twenty percent being at the same time relieved from a heavy and very costly administrative burden.

[92] Even at home debit interest will by no means be abolished, because it serves as an important steering mechanism for sensible investment; only credit interest – the true cause of parasitic transfer - will be skimmed off albeit with simultaneous adjustment for inflation as far as small savers are concerned.

The average wage earner and consumer too is better off than before. Total final consumer tax attached to every purchase now amounts to 50%. Previously, he was taxed 30% income tax plus 32% value added tax (VAT), in other words 12% more. Although the state's overall tax revenue remains the same, producers as well as consumers perceive it as more advantageous. Defining, calculating and administering producer-consumer taxes for scarce resources will undoubtedly be quite costly; on the contrary final consumer tax collection requires almost no effort. As shown in Chapter 4, it can be automated to a large extent.

By introducing a 100% tax on capital gains we pave the way for a socially just tax system making sure, at the same time, that it does no longer stand in the way of merit and achievement as we are able to block the current trend toward a society of illegitimate privilege. My suggestions for the different treatment of ‘power saving’ as opposed to ‘saving for deferred consumption’ is a further step in this direction.

But what about the turn to ecologically sustainable economics? Given the fact that mankind currently consumes two and a half planets, the taxation of scarce resources has become a necessity of human survival. If we want to save nature, a modest 20% producer-consumption tax will not suffice. After going through a period of transition, we will have to change the relationship between the two consumption taxes so as to substantially raise the tax burden on scarce resources. The latter should finally be taxed with approximately 40% (thus bringing the final consumer tax down to 30%).

However, environmentally responsible companies need not fear such a burden. Substances they obtain by way of ecologically sound recycling are not subject to the tax. And a 40% producer-consumption tax is, of course, still lower than the current total burden amounting to 48%.

Overall, the transition to consumption-based taxation leads to greater social justice and ecological sustainability, *indeed it is the very condition* to render both goals possible, in the first place.

Never loose sight of the principle of taxation!

Of course, this general scheme leaves a host of questions unanswered. All particular problems may, however, be satisfactorily clarified, as long as we never lose sight of the basic principle. Our aim is to abolish all taxes on merit and achievement, because these are the source of our wealth; the sole object of taxation should be all incomes not based on achievement, the depletion of nature and excessive consumption. For this reason, the tax on assets is here replaced by a 100% tax on capital gains. Inheritance tax, once meant to abolish privileges, is practically nonexistent – it has shrunk to a ridiculous level. Unfortunately it not only damages privilege, but also performance, for instance when putting an unbearable burden on family enterprises. Much more effective and without such undesirable side effects are measures against ‘power saving'.

As can be seen from the above table, the overall tax burden on companies will be substantially reduced during an initial phase. We need, nevertheless, not worry that some especially successful companies will generate disproportionate profit in the new system. Monopolies generating such profits or unduly prolonged patent protection will not be tolerated. In a well functioning market society competition naturally kills exaggerated profits.

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Index (of persons; technical terms - in italics - only if discussed by the author

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