

**PROPOSAL  
for a new  
Taxation-, Economy- and  
Social Concept**

**(fourth edition, 1995)**

### The top secret of humanity

Legions of scientists, candidates and wise men have,  
throughout history, spend lots of time to disclose this secret.

None of them discovered, why  
“*it is always the start that really matters*”.  
So, what else can we do than simply start,  
without understanding why nothing  
was ever started without the beginning.

J.-L. Earl

The following concept was first developed and published in German under the title „**Plädoyer für ein neues Steuer-, Wirtschafts- und Sozialkonzept in der Bundesrepublik Deutschland**“ in 1978. Without ever changing the basic idea this script was actualized 1985 and 1989. In 1995 we felt that especially under the new situation in Germany we should give out a fourth edition since today's circumstances have caused an incomparably higher element of danger for the state as well as for the society, especially referring to the German reunification in 1989.

Opposing and criticizing is simple and seems rather modern in today's times. However it is much more difficult to develop alternatives which allow us to make critics fruitful and sensible.

The author, 2001

## Proposal for a new Taxation-, Economy- and Social Concept

<b>Contents</b>	<b>page</b>
Preface	2
Introduction	4
We can't go on dealing with singular problems	7
The duties of a state in a social economic society	8
The vicious circle	10
- We've got to build up reserves	11
- The German system of parties	11
- Undermining the state's finances	12
- The crisis came on soft soles	13
- The „key event“ <i>reunification</i>	15
The basics of a new taxation-, economic- and social concept	17
A. Consumption tax in five categories	18
B. Owner's tax	20
The consequences of such a „taxation of consumption and ownership“	20
Critics	24
Resume: We should not avoid a necessary <b>NEW THINKING</b>	25

## **Preface**

You are, allegedly, between 25 and 95 and labeled as Mr. or Mrs. average by the media.

Whether at the beginning of your professional career or hoping to be able to enjoy your well-merited pension in the near future - you are feeling the economical and socio-political problems we increasingly have to face.

*Amidst confusing variety we stand, mesmerized by horror-news about rising unemployment rates and companies going bankrupt. "Wise men" suggest an economic uplift no one really believes in. Other "augurs" predict a Cassandra-like threatening wave of rationalizations, resumption of increasing rate of inflation and a net wage cut with a simultaneously falling standard of life.*

*For years representatives of all political parties have been prattling on about lowering taxes, while at the same time we are being 'chimed in' by the government and the opposition to keep the "Solidaritätszuschlag" ("solidarity surcharge", a supplementary income-tax said to benefit the federal states of the former Democratic Republic of Germany) into the next millennium.*

The crime-rate is increasing alarmingly, especially if related to the percentage of foreigners. Enterprises transfer jobs and whole companies abroad (where profits can be taxed far more conveniently), while jobs are disappearing and companies closed down in the country itself. Subsidies are handed out and losses are written-off at the German treasury but in the mean time, labor costs and social welfare contributions keep climbing. All the calculations about the increase of the long-term care insurance are obsolete today (who had expected a 70%-rise of the rate of contribution in only two years?!).

The most recent "ghosts": The end of the Deutschmark; the complete socialization of the health sector; the leveling of the West-German down to the (far lower) Pan-European standard of life.

Insiders warn of the threatening over indebtedness, the export of the financial assets and the creeping "deflation" of human capital. While billions have been and are seeping away in useless and over dimensioned bureaucracies for many years, money keeps lacking in course-setting areas - universities and research institutions- to reengineer our economy and our society to the necessities of the 21<sup>st</sup> century.

The feverish maintaining and the foolish subsidizing of obsolete technologies -due to populism and the fear to confront overpowering trade unions and millions of voters- is hindering any development of the industrial society toward a service-, technology-, multi-media information and cybernetically orientated high-tech-society.

## Proposal for a new Taxation-, Economy- and Social Concept

Publishing and TV ratings, turn-over and return on investment, profits and per-capita-productivity determine the managers, who really consider themselves as leaders because they have never understood the difference between management and leadership.

If you already disagree at this point, any further reading would be a waste of time. But if it engages your thoughts, I urgently ask you to patiently read those pages until the end, to think about it, to copy them and to hand them over to friends and acquaintances with the request to do the same.

I am at least as discontent about the prevailing deplorable state of affairs in our country as you are. As a professional self-employed in the financial sector and as an economic and business consultant for about 25 years, confronted daily by the parameters mentioned above, as a father of a teen-ager who watches with awareness his environment and as well as a responsible, optimistic middle-aged man, I consider it necessary not only to moan and swear, but to look for alternatives and to become active.

And that is what it's all about.

## **Proposal for a new Taxation-, Economy- and Social Concept**

It is very important not only to read the following pages, but to pass them on to as many fellow-citizens, colleagues and friends as possible, in order to actively take responsibility and not to float in the, still quite well-off, silent mainstream, especially if you work in the relevant professions (lawyers and tax advisors, financial consultants, teachers and politicians, parents and tutors, pedagogues and as ethically and humanistic minded, aware persons).

Please help to preserve what is good and to solve threatening problems. Help to wake up passive people and to develop alternatives which lead us to a future worth living and loving. We are responsible today to think and act for tomorrow!

H.-W.Graf

## Proposal for a new Taxation-, Economy- and Social Concept

### Introduction

Daily reports in the media keep repeating: The public debt grows, the social-welfare-state has to be cut down and further a 1,5 million jobs are threatened by the end of the century, without a visible substitute. The sneaking poverty, the crowd of unemployed people, the number of welfare cases and homeless people increase as much as drug and alcohol abuse and crime rates (especially juvenile delinquency), while the real income shrinks.

**Every politician tries to jostle in the spotlight with (sometimes self-contradicting) appeals and "alleged solutions". Populism and amateurish market crying disconcert the very few who really want to participate in the public debate. The (overwhelming) majority has mentally taken its leave a long time ago. The crowd hopes and waits, fears personal losses and whines in pubs. But that's all.**

Whoever believes that the "normal" citizens watch the dawning and often threatening developments without participation nor interest is misconceiving the situation. The overwhelming majority simply considers itself as unable to grasp the connection of facts that really matter.

There is of no consolation to know that almost every politician (lacks this knowledge as well), but still utters loudly his opinion, . You cannot deduct real competence from the standardized statements and the statistics hastily handed to them by their under-secretaries of state, which often appear as the famous childish "whistling in the dark".

It is precisely the lack of knowledge about the interdependencies between fiscal-, financial-, economical-, and social-politics, i.e. the lack of a holistic overview that intermesh thousand of bills, amendments, decrees and regulations of implementation passed year after year as a grotesque patchwork. It is similar to a mended sock - closing a hole in one area only results increasing the tension at another.

The interconnections are not that complicated after all:

1. A state apparatus that is hungry for power (on a federal, regional and communal level) yearning sovereignty in increasing aspects of public life.
2. To this effect personnel is employed and public offices and agencies are installed (opening new career opportunities for long-term public servants). These public servants administer

## Proposal for a new Taxation-, Economy- and Social Concept

money which is not their own, without risk and personal liability. As a monopoly they do not have to face concurrence and declare the depending population more and more incapable of managing their own affairs (but provide a matchlessly poor standard). The unspeakably low productivity of public "enterprises" is, without question, far below the average of the private economy.

This personnel engages us into long-term liabilities (public servants do not even pay social-welfare contributions), pensions and support claims no one thinks of today.

3. Out of political opportunism and unlike the habits of the private sector, no reserves are being built and thus used to increase the productivity. Instead, future voters are caught by being offered them "*social security benefits*". Those privileges are readily taken and regarded as comfortable, as a "progress" and a gain of "quality of life".

## Proposal for a new Taxation-, Economy- and Social Concept

4. Expanding benefits and pensions, decreasing working hours, increasing wages and incomes, 13 and even up to 15 monthly wages per year, holiday allowances and Christmas gratuities and innumerable support and bonus laws etc. constantly inflate the secondary wage costs, although the increase of productivity can in no way keep the pace. But those who benefit do not want to consider these costs. And the administrators of the public "cornucopia" keep spending thoughtlessly and without any responsibility.
5. Unfortunately in times of crisis we miss the surpluses gained and wasted by the public administration in booming-periods ("bread and circuses") . Now the governments in power manage the problem by quickly raising taxes, social security contributions and public fees - think of both oil crises and the payments in chronically empty "crisis-funds" (the IMF, the UNO and dozens of other organizations). The hypocritical waves of protest from the opposition camp are quite easily to be faced. On the one hand one can refer them to the identical proceeding in the federal states the opposition is ruling in, and on the other, you can rely on the fact, that the average voter can easily misled with some smart-sounding counterarguments thus being incapable of reacting politically.

In many cases the opposition and the government also sit in the same boat (parliamentary alliances or mixed coalitions).

6. Small groups in the state, who preferably lack their own lobby, are played off against each other in a machiavellian way. *House owners* are yet a minority in Germany, so you are on the tenants` side. But as a home of one`s own is regarded as a social self-fulfillment by almost everyone, first of all, the landlords are reviled - especially those with several houses and the owners of holiday apartments.

With about 8,2% of the total working population, the percentage of *self-employed* and *freelancers* is quite below the one of *public employees*, so you attack them, as they do not pay social welfare contributions and own the largest fortunes. But you have to concede that they have no pension claims towards the state and that they, themselves, cover their own health and income protection insurance.

Taking care of groups that have put themselves out of a lack of responsibility on the edge of society, you call them gently *socially challenged minorities* (drug- and alcohol-addicts and other dropouts) as well as of groups of people who became asocial or dependent from society by misfortune (the aged or the sick, parents with many children, the disabled etc.) enjoys growing success.

## Proposal for a new Taxation-, Economy- and Social Concept

*The one* politician who was and is considered clever (and is thus considered as the party's "crown prince"), is the one who understands how to approach the voters loudly but in a "sensitive" way. Those politicians - for instance *Mr. Lafontaine* and *Mr. Lambsdorff*, *Mr. Gauweiler* and *Mr. Rexrodt* and many others- obtain high positions in their parties and political responsibilities, regardless of their motivation and lack of skills. Some "faux-pas", greed and occasional red-light-affairs are generously neglected, as long as they do not stress too much the public sense of shame. And the latter is quite stretchy in Germany.

Large companies - forget the ridiculous so called "Cartel Act"- have been installing for decades structures similar to those of the state in terms of red tape, knowing for sure that the state would intervene in a case of emergency and grant further subsidies, because far too many jobs/voters would otherwise be endangered. The "big-players" are also those who always grasped the majority of governmental aids and subsidies (mining and shipyards, steel and international trade giants). Small and middle-class companies have neither the connections to the administrators of the "honey pots", nor the logistics to handle the paper war on the long and winding road through the jungle of administration.

## Proposal for a new Taxation-, Economy- and Social Concept

7. Only after it had become clear to every one that the state had to cut down its aids and subsidies through by necessity and that the secondary wage costs were higher than it had appeared on the balance-sheet [receipts plus write-offs and subsidies minus wage and additional expenses left no (dividend) payout after taxes], did the call for "*lean management*" get loud; in clear terms: cutbacks of manpower in favor of technology, machines, computers and robots. Due to the fact that small and middle-class companies were hardly able to get "*leaner*" than they already had been, only the big-players benefited from this "diet", while the situation grew even more dramatic for the small ones, leading to new records in bankruptcies and business close down year after year.

In public enterprises, offices, ministries and pseudo-privatized nationalized enterprises there was anyway only hot air, promises and eventually, omission of "*lean management*".

8. Only in a few middle-class companies, taxes and wage costs did get lower, whilst many big-players transferred manufacturing and production capacities abroad, the EEC making it possible. This allowed the large industrial groups to grant their shareholders record dividend payouts in 1995, whereas Germany had to register records in terms of unemployment rates - with a tendency to rise even further. Including people involved in public job creation schemes, early retirement programs and public retraining measures plus the estimated 400.000 people able to work who are resigned (but who are mostly willing to work), we have reached the mark of over 7 millions which corresponds to over 20% of the population potentially fit to work.

If politicians point out, that other (European) countries show much higher unemployment rates, they commit an almost pervert distortion of the facts. Countries such as *Spain*, *Portugal*, *Turkey* and *Greece* simply cannot afford comparable welfare catch basins.

9. Like a bunch of scared chicken, politicians, trade union leaders, EU-commissioners and even heavenly inspired churchmen spread "proposals" and even, quite impudently, claims among the population and the media (value-added tax up/down, solidarity surcharge up/down/abolished, "eco-tax" yes/no etc.. Hot air and ballyhoo at its worst).

## Proposal for a new Taxation-, Economy- and Social Concept

Having arrived at this point of this socio-economical "*spiral of madness*" where politicians, parties and trade unions have led us to, everyone should now, at the latest, become aware of the facts that:

*Things definitely cannot go on like this*  
and  
*The highly praised German social- and welfare State*  
*is at the end of its tether*

All the attempts from the political "*left*" or "*right*" to save what is left to be saved with singled out measures are dangerous patchwork and bad forms of ***political corruption***<sup>1</sup>.

Please believe me: the governors (officially voted for by all of us) of economic-, social-, fiscal-, judicial- and financial power in our country are to be divided in three groups: respectively 99,9% are *greedy for power and irresponsible, ignorant and naive followers* of their party (and they get rewarded for that with opportune positions and incomes, settlements, interim payments and pension claims they never would be able to gain in the free economy). The tiny little rest is not able to prevail, no matter to what party they belong and despite their high sense of responsibility.

---

<sup>1</sup> See: Hans- Wolff Graf: "***Korruption - Die Entschlüsselung eines universellen Phänomens***", Fouqué, 1999

## Proposal for a new Taxation-, Economy- and Social Concept

### Is there any alternative at all?

Of course, yes! But it would really require a complete "*head to toe reform*", as this would demand an *elementary learning process* for all those people and institutions, who today keep clinging to power. It would mean the end for the majority of "*puppet-masters*" in charge today and the whole population having to change its way of thinking, of course without being forced to do so. You need a pretty high dose of optimism to believe in the theoretical chance of avoiding the otherwise threatening financial-, economical- and socio political catastrophe.

The first step would definitely be that the population becomes aware of the how grave the situation is instead of being caught in the most popular form of political corruption, i.e. to stigmatize all *warners* and *Cassandras* as "*notorious pessimists*".

The second step would be that, scientists, experts and other people aware of the situation, stopped letting themselves being degraded to stooges and henchmen of the system and began, and there are already quite a few, to speak out loudly according to their responsibility, without fearing for their positions and connections.

If the real experts joined in a *concerted action of politically responsible people*, the whole entangled and cancrioid network of political corruption would collapse within a short time. Thousands of politicians (as well as their devoted underlings), trade union leaders and bosses of semi-nationalized and pseudo-privatized companies would land in jail for fraud, taking illegal advantages in their positions, tax evasion, aiding and abetting criminal offences and many other crimes. Others would only be thrown out of their positions for outrageous idiocy or inadequacy.

The - undoubtedly existing - alternatives could then be achieved with the scant rest of honest and responsible politicians - under the clear direction of true experts<sup>2</sup>.

Many intellectual approaches of renowned experts and institutions would indeed offer a considerable potential and be able to connect the necessities with the actual feasibility. A few examples: the *Professors Lord Ralf Dahrendorf* and *Kurt Biedenkopf*, *Dr. Lothar Späth*, *Gunnar Uldall* (MP), *Dr. Jürgen Borchert* (social court judge), the *Frankfurter Institut* (Frankfurt Institute), "*Der 3. Weg*" ("The 3<sup>rd</sup> path") and many others.

Not forgetting the "***Plädoyer für ein neues Steuer- und Wirtschaftskonzept in der Bundesrepublik Deutschland***" ("Proposal for a new fiscal and economic concept for the

---

<sup>2</sup> That is exactly the claim of the *LFD* (Liberales Forum Deutschland / Liberal Forum of Germany) founded on April the 4<sup>th</sup> 1995.

## Proposal for a new Taxation-, Economy- and Social Concept

Federal Republic of Germany") dating from 1978(!) by the "*Deutscher Bundesverband für Steuer-, Finanz- und Sozialpolitik, DBSFS, e.V.*" ("German Federal Association for Fiscal-, Financial-, and Social-politics").

This concept was proposed, back in 1979, to the "*Rostankowsky*" group who was dealing in the middle of the 70s in the USA with the idea of a completely new system of taxation as a basis for a taxation to be *fair* and *of assistance to the economy*. *Rostankowsky*, a member of the Republican Party, stumbled over an affair in his party and the Democrats were in power in both Houses of Congress; so, the idea of a "*consumption tax*" was put on ice, but also the USA, as well as nearly every industrialized country, will not be able to avoid getting their fiscal-/ welfare- and economic-system on the test bed.

In recent times - the Republicans were holding the majority in both the Houses - our proposal was discussed as "*the royal road to solution and a real opportunity*" in the USA and *Bill Archer*, the *Chairman of the "committee of ways and means"* has meanwhile expressed it in many interviews in the media.

## Proposal for a new Taxation-, Economy- and Social Concept

A reason for the actual conditions in the fields of *taxation, social insurance, economical politics, unemployment* and actually in every *social* and *sociological* problem is the fact, that far too few citizens deal with the inter-connected and increasingly difficult questions and matters.

Why does the majority of people leave decision making of the most eminent problems of our times to unskilled politicians, notorious one-way-thinkers, braggarts and populists in parties and trade unions? Why are sport news and scary catastrophe reports more interesting than the actual problems of the present and the coherent problems of the future?

Hardly any employee knows the rates of his or her contributions to social security pension-, health- and unemployment insurance by heart. They amount to an average of 40% of his or her gross income but are concealed by the fact that employee and employer share the sum to equal parts. Neither does he know his taxation rate, although it adds up to 30% on average, despite all the "*taxation reform acts*". People keep their eyes shut at problems already discussed even in the tabloids.

*Secondary labor costs* have attained on average 80% and in some sectors even 100% of "normal" wages and have forced hundreds of small and middle-class companies abroad or into bankruptcy.

The big-players transfer their production facilities in tax havens but keep, nevertheless, grasping for subsidies and "socialize" their losses in Germany.

**Do not say you do not have the time to read the following explanations!** The facts that they deal with are too important for that. It does not make sense either to console ourselves that the consequences of our cover up and of ignoring these problems will only affect following generations. Everyone living in the 21<sup>st</sup> century will be concerned by them. Either later, as pensioners or as being confronted by social disorder and structural political struggles, rising crime rates and a degeneration of *education* and *sciences, research* and *development*.

Even former pillars of our national economy - heavy and automobile industry, building and chemical industry, steel plants and dockyards, electronics and high-precision engineering, the textile industry have not been competitive on an international level for a long time. The conglomeration of large companies into bureaucratically encrusted monoliths ("global players") becomes rampant, as if it would assure international competitiveness. The middle-class is thinning out, while the escape into niches is increasing the risk for those, who still have the

## Proposal for a new Taxation-, Economy- and Social Concept

courage for entrepreneurship and self-employment. Banks and other financial institutions are reluctant to partner with precisely this group, because they are not able to gain the necessary interest out of their assets which would be required again to bind free assets which could amount to attractive interest payments. This is also the reason why the percentage of "virtual deals" - options, futures and financial derivatives market with virtual money - has multiplied itself per more than one hundred, this harbors a dangerous financial time-bomb which insiders have acknowledged and warn about for a long time already.

**No doubt that the state is the biggest motor of inflation** as the largest employer and the, in terms of business administration, most chaotic squanderer of public money with a constant inflation of red tape, boundless numbers of laws, regulations and edicts. The "consistent" maintenance of old and obsolete structures and offices have made the federal, regional and communal institutions the most inefficient companies in this country. Among those are also the nationalized enterprises and companies with public majority interest, as well as the companies listed as *extraordinary assets*.

Subsidies were gathered and piles of debts accumulated, far from any understanding of business administration, without the use of closure of unprofitable segments and/or privatization, not even close to a degree which was required - regardless of what had been promised.

## Proposal for a new Taxation-, Economy- and Social Concept

Let us name the situation in the social insurance as an example among many others. The average rate of cost increase amounts to 7,33% (1950-1995) and thus exceeded the average rate of inflation by over 100%. Although the pension quotient simultaneously kept sinking ever since (see the summaries and graphics later on)<sup>3</sup>.

It is noticeable that even the most pessimistic expectation (tab. IV) was negatively surpassed after less than one year - due to the rise of 0,7 percentage points of the contribution rate of the long-term-care insurance on the first of July 1996, which de facto meant a rate of inflation of **70%**. This speaks volumes insofar, as it means that all the calculation work for the long-term-care insurance in the ministry of social-affairs was wastepaper after not even two years.

The (predictable) raising of the contribution rate for the *social pension insurance* decreed in the late summer of 1995 is supposed to need a further increase to 19,5% already in 1996, due to an *"unexpected deficit of about 10 billion Deutschmarks"* according to the minister for social affairs (December 1995). The social health insurance also will not get along with the predicted 13,5 % average contribution rate. We can expect - allegedly already in January 1996 - an average of 14% (in some needy regions the 20% level may be exceeded for the first time). A deficit *"of at least 3,5 - 4 billion DM"* (original voice of the minister for social affairs) has appeared *"to our complete surprise"* within four months and has to be compensated *"somehow"*.

But the public body proves to be in all its domains - and that is no cheap polemics - a highly irresponsible squanderer of our taxes; reckless and with an arrogant, sovereign-style display of abusing its power and far from understanding itself as *public servant* and to behave accordingly towards the citizen who finance it.

Because the exclusive goal of those public offices, having their own cost accounting centers, is to avoid a cut down of their budgets in the following year, millions and millions are wasted in a completely senseless and useless way far from any *thrift* or *economic thinking* and *acting*, to get a virtual *"requirement proof"* ensuring the next budgets, cost accounting centers and positions (even if there is not even the most distant relation to the manpower and equipment actually needed). The government body and politicians may have read something somewhere about *"lean management"*, but they did not deduct any relevance for their own behavior out of it.

---

<sup>3</sup> The pension quotient means the monthly pension interest you get out of every 1000,- DM paid. It dropped from 11,- DM in 1950 to 4,30 DM in 1995.

## Proposal for a new Taxation-, Economy- and Social Concept

After all, you have to show enough subordinate staff (jobs) when you create new ministries and ministerial positions. Of course, the structures generated that way will not be reduced, even if the positions in question have become obsolete due to rationalization or technological evolution, not even if ministerial areas get themselves dismantled.

Several hundred jobs should/could for instance have been dissolved after the dissolution of *the ministry for inter-German (i.e. the two German states) affairs*. This was avoided by transferring those public employees to "coordination centers" of other ministries or by sending them to the Trust Company, where they had to help privatizing former East German companies or managing the restitution of real estate, without having the slightest skill to do it.

In short: experts suppose there is a potential of economizing 25-30 billions DM per year in the public sector and its enterprises; others assume more than 40 billions - which corresponds to the complete public budget for *wealth creation and housing*.

Now you could object that this only means 3,5-4% of the whole social budget of Germany or only about 1,5% of the GNP. But this view is quite dangerous, the rates of inflation on this sector are breathtaking (6,2 to 6,4% on average), and we cannot afford such a waste nowadays even if it represents only a part of the total waste of the state.

## Proposal for a new Taxation-, Economy- and Social Concept

The least noticeable phenomenon becomes clear if you consider the resulting ongoing costs: the *pension claims* for public servants and the *maintenance claims* of public employees. As everybody knows, no reserves are built up for this purpose, but the expenses are paid out of the actual revenues from year to year, as public servants still do not pay social security contributions.

From an economic point of view, 13 of the 15 federal states would already today be a case for bankruptcy proceedings. Imagine the regional governments being sued for *bankruptcy delay*...

### There are no more individual problems

The insight that the problems of our times are not to be solved with a single action or by even more specific research if the view for intellectual or factual "neighbor disciplines" is obstructed, spreads more and more among scientists and researchers and in education and teaching.

It does not make any difference which discipline we are talking about, physics or chemistry, mathematics or technology, medicine or biology, sociology or economy: all those areas and other fields are determined by inner interconnections and cannot be handled in a singular-causal way any longer. We need a holistic thinking, i.e. an approach which considers the *entirety*.

The acknowledgement that we carelessly mix up *cause* and *effect* far too often dawns more and more. Psychologists and doctors "treat" the symptoms (effects), often without knowing the causes - in most cases psychological problems and old hazardous waste from childhood, youth age and education. A close look at the patient's *entire* situation, development and his whole environment is required in order to act at the roots and causes instead of predominately acting with pharmaceuticals and surgery. Unfortunately there are "specific professions" yet completely unfamiliar with those thoughts: politicians, parties and trade union employees. The "*commitment to the parliamentary group*" (a *break of the constitution*) and highly populist motives as well as frequent lack of technical skills lead those "democratic" *representatives of the people* (or of its subgroups) to shut their hearts, brains and eyes in front of the actual urgent necessities. When the next elections and party conventions approach they will use all means necessary to widen or to save their power.

## Proposal for a new Taxation-, Economy- and Social Concept

Even those politicians who (still less corrupted) are really engaged in the interests of the population fail sooner or later due to the ruling epigones of the parties.

Those who want to only blame politicians, civil servants and trade unionists are totally wrong. All of us, the voters, bear a responsibility and if we leave the thinking and the acting to incompetent and power-greedy people we cannot blame them for what we have given them legal powers to do. Neither should we be surprised if, for instance, economic, financial, fiscal and social policies are managed separately from each other in their heads lacking any understanding of the inter-connections but rather treating them as unlinked fractional elements of the public body. We cannot expect answers to questions we are too lazy to ask.

If the working population does not care on who is going to pay off the mountain of debts and on how the huge burden of social insurances is to be handled in a lasting way for following generations, we must not expect from the representatives we voted for a sense of responsibility for the causal relationships and an awareness for the long-term consequences.

Growing unemployment rate, ongoing downsizing of human capital, rising crime rates, increasing polarization of different parts of the population, growing poverty and, corresponding, further destabilization of the social sector, overflowing red-tape, no longer bearable welfare burdens on top of environmental strains and energy consumption are illustrations of the problems of the future. As we see them clearly, we are not allowed to bury our head in the sand.

As nice as it might be to see that today's youth is making a switch in behavior and mind (a kind of renaissance of the readiness to achieve) it is just as important to put this young generation on a safe ground for tomorrow and not to lay the burden of former identification crisis and political laziness upon them.

We could carry on but we need to restrain ourselves in order to create the basis of taxation and economics policies along the lines of a radically new intellectual approach and within which new solutions could be found

for many other areas (social, technological, environmental, development..), as the necessary commitment awakens and financial requirements becomes provided.

**The opportunity for us and for coming generations to clear up the mistakes of the past and to develop solutions for problems already noticeable will only occur if a complete change of direction from its currently wrong path takes place in the German taxation and economic policy.**

**The tasks of the state in a social market economy.**

If you look upon the state as the sum of individuals living in it, you quickly become aware of the crucial problem:

nowadays, a variety of forces affect the individual into specializing in his /her area of expertise; with competition for top positions in professions and institutions doing the rest.

Everything not directly connected to one's own family, enterprise, and situation gets more and more neglected. This symptom, which is particularly influential in the highly developed industrial countries, narrows one's viewpoint. The 'system-analogous holistic ' way of thinking is declining. That is the only reason why small groups are able to dominate and to govern large majorities. The masses do not see through their actual incompetence and their ruthlessly egoistic goals while the rest is not caring at all.

A silent majority 'shuts off' mouth, eyes and ears to problems which do not directly affect 'its own door step'.

We only become enraged about rising crime rates when family members are affected, when our own house is burgled and when we personally get harmed. Famine in the world does not interest us as such (no one has been starving in the last 30 years) but if it does it does not often go beyond commiseration level. Violence and anarchy horrify us, remotely, television screens are far less dangerous than being right there, in Frankfurt, Berlin, Hamburg, Brokdorf, Wackersdorf. Bank customers do not care at all about bank robberies, they are insured.

This constantly decreasing readiness to take over political responsibility allows fringe groups to live up their own frustrations and fears at the expense of the entirety; if they gain enough publicity they will even manage to get and become telegenic. Publishing houses hope for more editions.

If we are to deal with single problems we have to keep in mind that the sum of single problems has to be understood as an entire problem and is only to be solved as such.

In general one should become conscious of the fact that the state's activities should be reduced to its actual task of acting where (and only there) it is only indispensable. Cheap vote balloting by having its *sovereign* fingers everywhere, by fostering even the tiniest fringe group without

## Proposal for a new Taxation-, Economy- and Social Concept

economic regard of costs and awareness of consequences is irresponsible; it needs to be pointed out and to be understood as part of every citizen's own responsibility. To give to all citizens more and more 'Trojan Horses' under the disguise of being social is politically corrupt and highly un-social.

## **Proposal for a new Taxation-, Economy- and Social Concept**

This political swindle is only possible because it lays in the nature of man to accept offered comforts without caring who is paying for them. It is up to all of us not to follow blindly this pseudo-social farce anymore and to ask at every voting time: ' who is going to pay for it? '

This responsibility starts with actively and thoroughly examining the following crucial problems!

### **The 'vicious circle' of the democratic-pluralistic 'social' market economy in the Federal Republic of Germany**

Germany, being poor in raw materials has been and will be to a high degree depending on exports. This requires high productivity and matchless depth of production of high standard products; in turn this demands a high qualification within the working population, especially in high-tech areas, as well as intelligent interconnections of the parameters needed (logistics, infrastructure, transport, and communication). Furthermore, a country like this will need to keep up to date with the latest technical developments.

Irrespective of the fact that Germany has already lost touch in some high demand areas (e.g. genetic technology) it is, with the parameters mentioned above, leading the way world-wide in others, as for instance in environmental technology. Germany's geopolitical and climatic position is extremely advantageous but the transport, logistics, and information sectors are yet to be found at the top level of all industrialized countries.

This also applies to the standard of qualification of employees and self-employed and to a lesser degree, to the educational sector, to universities, to the domain of research and development. The last item suffers from a specific German phenomenon: while technical alliances (even outside subsidiary branches) are formed in other countries, German companies keep doing things on their own, highly subsidized by public money.

The other particularly typical German phenomenon of long approval procedures and high bureaucratic conditions together with the fact that the major part of the middle-class enterprises is excluded in terms of money, time, know-how right from the start also deserves a mention.

Germany is an extraordinarily rich country and could afford to live from the results of the reconstruction

## Proposal for a new Taxation-, Economy- and Social Concept

('Wirtschaftswunder': 'economic miracle'), perfidiously advantaged by a new completely new beginning after WW II. Germany offers wages, holidays and welfare expenses which are amongst the highest in the world whilst net working hours are amongst the lowest in the world.

An economic and socio-political paradise was created in the heart of Europe from the middle of the 1950's onwards when the country, wounded by war, bloomed in more or less one generation to become Europe's leading power. Thanks to the diligence of its population and a foreign manpower it switched from a predominantly agrarian to a leading industrialized nation in a way envied by the whole world within three decades.

People readily and confidently drew on the plentiful resources and perpetuated the boom in their mind.

The national debt remained on an internationally low level until the middle of the seventies (a fact, which was not changed by the oil crisis of the early seventies), the personal wealth increased and Germans enjoyed the belated repercussions of the 'made in Germany' economic miracle: 'Wirtschaftswunder'.

Unfortunately ugly mistakes sneaked into the system as a consequence of this spoiling which contented and satiated people into inattentiveness and idleness but this was only recognized by a few:

## **1. No reserves were put aside**

In an almost imperturbable mania of growth and progress, the reinvigorated Germany pumped up its standard of life to a worldwide top level. Wages of workers, employees and civil servants were affected and this only left the pensioners who did not want (and were not supposed to have to) stay behind.

## **2. The system of political parties in federal Germany**

While workers, employees, self-employed and civil servants had been represented proportionally according to their part of the total population in the first two parliaments, power in parties and parliaments became occupied by civil servants from the middle of the 1950's onwards. This was due to the fact that no other profession had a guaranty of employment and reintegration into professional life, a system unique in the world (and of course impossible in the free market economy). So, while 'normal' employees and freelancers only could enter and pursue a political career (e.g. as a politician) at their own (high) risks, civil servants (especially teachers) did not have to face such risks.

Law guaranteed their position (including promotion) in case they were not re-elected. Their affiliation to the largest 'company' in Germany, the Civil Service, granted them at the same time a membership in the country's largest lobby. The consequences of this low risk political career was that personal competence and integrity did not build the pillars of the members of federal, regional and local parliaments but instead built a patchwork of personal greed for power, egomaniac 'self-realization' and irresponsible diletantism. For example: proven is the fact that the last four German Ministers of the Economy had no economical qualifications and had virtually no idea about economical context. Since the 1982 coalition the Ministry of Economy had traditionally become the domain of the junior partner of the FDP (Liberal Democratic Party) No matter what party formed the government or the opposition, the relevant positions were distributed internally and the only thing to do was to keep the potential voters misinformed and to bait them to the ballot boxes with striking catchphrases. Competence, farsightedness and responsibility rarely counted.

Streamlined conformity and a party-opportune behavior within the party or towards the voters were demanded.

Really competent ministers and party strategists of the caliber of Ludwig Erhard, Karl Schiller, Helmut Schmidt, Ralf Dahrendorf and Kurt Biedenkopf were the exceptions. They mostly rejected the internal corruptibility of the party and thus made themselves very unpopular as troublemakers. Their careers in the control of political power were consequently short. Power-greedy, party conformists and populist market criers were required; as opportunistic systems managers they were successfully able to intermingle their own and the party's interests and every four years, be presented as epigones to the politically less and less interested citizens.

A proverb says: "It is easy to play with a well tuned piano". How true: the stormy boom procured Germany and its population a wealth never seen before and everybody wanted a share in it. Trade unions and lobbies, people who wanted to build house or found enterprises, pensioners and families with many children, students and people with a relatively low (or very high) income far too readily accepted gifts and were spoiled. The group of poor or really needy people which still existed in the rich Germany was too small in

## Proposal for a new Taxation-, Economy- and Social Concept

numbers and had no lobby with which to articulate politically. Civil servants and employees of the public services, but especially members of parliament, helped themselves out of the over-abundant cash box. The cheerfully sparkling tax fountains supported the growth of the civil servants red tape apparatus to international level. Cities and municipalities built sports' grounds, indoor pools, conference sites etc. often totally oversized.

## Proposal for a new Taxation-, Economy- and Social Concept

However, not every public office was concerned in the same way. According to ability and connections luxury found its place in some parts of the public sector whilst some civil servants and employees in other parts had to work at prehistoric desks and whilst the lower hierarchy kept its income progression moderate. Things were handled much more hedonistically in the middle class and especially in the highest ranks of civil servants where the additional income, regularly neglected in income benchmarks, was the most relevant. So, from the middle of the sixties onwards, the delegates' revenues grew about 60% quicker than the average income of the German industrial workers. Parliamentary allowances and special bonuses (free flights and rail tickets, etc...first class of course) went on the increase. Pensioners were kept happy by relating pensions to gross salary. In return, Social Security contributions increased by an average of 10% per year from the middle of the sixties. In 25 years a handful of the fifties' taxation laws turned into a flood of ten thousands of laws, decrees, edicts. Just before the end of the 20<sup>th</sup> century, Germans face about 100 different taxes and permanent tax-like burdens. Public service wages has grown three times quicker than the average income and even five times quicker than the average net wages of all the employees since 1970.

Back in the middle of the 1970's the "***Deutscher Bundesverband für Steuer-, Finanz-, und Sozialpolitik (DBSFS) e.V. München***" (***German Federal Association for Fiscal, Financial and Social Politics***) computed and published a 'scenario of the German Social Security': All the predictions of that time, even the most pessimistic ones, have been surpassed and by a long way.

At the end of 1994, the **DBSFS** drew up again a prognosis with the last data and for the future four different scenarios with differing more optimistic or more pessimistic assumptions for the development of the next 35 years. You can see the best case as in if measures are immediately taken (see table I)... only one year later, all you can do is to smile at it with melancholy but table IV, the worst case if nothing happens, has already become wishful thinking.

We are heading into a socio-political catastrophe of unimagined extent and honest experts do not deny it.

### 4. The crisis sneaked in on soft soles

The system's error only gradually came to light after 30 years, in the middle of the seventies, but they were substantially neglected by all the political parties and minimized because of the complete lack of understanding of the real causes. The (party) political contrasts were settled on almost meaningless secondary battlefields and in exhibition fights of the political "stars". The consequential costs of the relation of pensions to the gross salary for the state budget remained as unnoticed as the exemption from social security contributions for the civil servants which grew gradually to triple digit billion amounts of ensuing burden. Obsolete technologies and whole sectors were kept alive with subsidies without hesitation, only because people believed to still be able to afford it. Political worries and a danger for the victory at the next elections were thus avoided. Steel workers from Rhein and Ruhr were thankful when politicians spoke in favor of the maintenance of their job. Who was going to pay for the extremely expensive preservation of their jobs was of no importance to them and their unions. It is almost unimaginable: for years the jobs in the German mining industry have been kept alive with contributions exceeding the salaries of the employees (an average of 75 000 DM per annum per person), an inconceivable fact in the free market economy which gives an impression of the madness of the German welfare state.

In Saarland, almost no one is thinking about whom they have to thank for the highest degree of indebtedness to all German 'Lander' (i.e. federal countries). More important to them seems to be to have the smooth hedonist Lafontaine as their head, who never tires of praising his own achievements and to blame menacing problems on political adversaries.

In Hamburg and Bremen people were proud in an almost English way, Berlin was subsidized with 17 millions per day, something no politician dared to touch because of the division of Germany and the exclave status of the capital and all the more since politicians of all parties were engaged in a carefully fostered 'vice-versa' favoritism.

Baden-Württemberg and Bavaria were tightly in 'black' hands (black being the color of the conservative christian-democratic party). Under the dominion of local sovereigns they presented new success figures almost every year.

Who cared much on how the political protagonists co-operated fruitfully with the local enterprises? In short, despite the already dawning economical and social problems, politicians in the two Houses of Parliament cleverly kept muddling through, always careful not to hurt each other too much. The citizens who had been declared politically unable of managing their own affairs a long time ago still believed to 'have a place in the sun'. They enjoyed collectively negotiated shorter hours and increased wages, the working hours reduced to five days a week and the longest holidays in the world on sunny beaches. People were proud of the strong *Deutschmark* and enjoyed the envy abroad and the wealth at home.

## Proposal for a new Taxation-, Economy- and Social Concept

The axis industry/politics worked brilliantly; the large scale enterprises guaranteed jobs and one foreign trade surplus after the other. The exports (high-tech weapons amongst others) ensured Germany's influence on the international stage. As a countermove, the large scale industry (especially) was helped with subsidies and in turn every trust rewarded political parties with donations.

As the third pack involved, the trade unions cleverly moved on the German political stage (exclusively to ensure and to enlarge their own power and influence). Sometimes the clergy took part as well.

It secured its influence and its membership in the cartel of power with different 'connections', secret societies whose members held positions at significant levels in economy and in politics (sometimes right at the lever of power). A real 'who is who' of German economy is to be found among the members of 'Opus Dei', the 'Knights of the Holy Tomb of Jerusalem' and about two dozens of other laymen clubs, lodges and organizations close to the Vatican. Do not forget that the two Churches, especially the roman catholic, are the most important owners of large estate after the state and even have their own social jurisdiction which is hardly compatible with the constitution. It is suggested to the people that they have to thank the clergy for the most part of the social and charitable institutions. It remains unmentioned that they are significantly subsidized out of tax revenues and blessed with various tax relief paid by tax payers.

The most important tax-payers were and still are the middle and small class entrepreneurs, freelancers, self-employed who have become more and more 'ground down' between the millstones of the employer's associations (where they never played any role) and of trade unions. Who actually gives a dime if a small craftsman's business, a freelancer's livelihood, a little trader's shop or a small 5 men band enterprise goes bankrupt?

The large potential of voters, the 'political maneuverable mass' had always been elsewhere. Large companies with ten of thousands of employees, trade unions with millions of members and political rulers imbedded in international nets of interest ruled the procedure and readily blackmailed each other - without any scruples but above all without any personal risk. The indemnification for members of the directing board of big trusts, for trade union leaders, Secretaries of State, Members of Parliament and ministers is the

## Proposal for a new Taxation-, Economy- and Social Concept

among the highest in the world. Those top protagonists of the cartel of power would be personally prosecuted only in extremely few cases - they would have to behave very foolishly indeed in their hunger for power and their greed for personal profit for them not to escape scot-free to higher positions (Brussels if needs be) or to be sent into early retirement.

Up until today nothing has changed.

### **The “crucial experience” reunification**

Future historians could mark the 9<sup>th</sup> of November as “*the day of no return*”, as “*the day of awakening*” in history. From the day of the reunification onwards, the German social welfare state quickly began to unveil itself as what it really had been: a pseudo-democratic, pseudo-social political cartel, rotten to the core, economically overstrained and politically corroded by its own self. If almost all the leading economic think-tanks were not depending on public money, an honest stock-taking would bring to light the real extent of the German social and welfare state catastrophe.

The whole German social body including the social insurance and its individual constituent (unemployment, social security, pension, health and long term care insurances) are not to be financed any longer. The same applies to the German tax system and tax legislation which forces every entrepreneur - I am talking about real entrepreneurs, not about the bosses of big joint stock companies and nationalized industries - to either escape abroad or to give up their business.

The deficit of the social security pension insurance, admitted for the first time in 1995 (almost 10 billion Deutschmark) is probably going to triple by the end of the decade because the unemployment rate is going to climb to an official 10.5 % - 11% if we include hidden unemployment, may be even, 17 to 18%-contrarily to all the loud-mouthed promises of those in charge.

Surrounding circumstances such as a culminating wave of bankruptcies, a crime rate of almost American dimensions, social and sociological problems- even in today's relatively calm parts of the country -, strikes and trade disputes endangering existence to an unprecedented level (the

## Proposal for a new Taxation-, Economy- and Social Concept

witnesses of the 20's depression will by then have died) will dominate the scenario which is, slowly but surely, preparing itself for us.

We should not even waste a thought on the other theoretical alternative, higher taxes and social security contributions as this is not politically realizable and would entail the beginning of the end.

In the mean time, whole libraries have been filled with books about the falling birth rate and rising life expectancy, shrinking working hours (and consequences), the untenability of Bismarck's pension formula and of the contract of generations, the social welfare state getting out of hand and the fatal consequences of a consumer society living more and more extravagantly as well as about the deeply disturbed relationship between employers and employees.

Individual persons or organizations rarely go public with real alternatives and there are obvious reasons: initiatives of this kind are very expensive and courageous publishers and political outriders, facing economical risks not to be underestimated, are hard to find.

Who is actually willing to have the truth spelt out in black and white that we cannot go on the way we do, and to have to acknowledge how painful the alternatives are going to be?

How much quicker and how many more voters must he, who understands how to tempt the masses with melodious siren chants, gather? Karl Marx sends his compliments.

We would now like to show a real alternative which may surprise and amaze everyone by its main attribute: clear simplicity.

## Proposal for a new Taxation-, Economy- and Social Concept

One has to make finances so easy that they can be understood by everybody  
and managed by a few.

Colbert - French Minister of Finances (1661-1683)

### **Basic principles of a new taxation-, economy- and social concept**

#### **I. Root Ideas**

1. The whole tax legislation and taxation system has to be cleared of old lumber and rebuilt from bottom up in a way which is understandable to every citizen.
2. Achievement (benefiting in a productive way to the society) needs to become economically remunerative again.
3. The state must - on all levels - realign itself in the areas outlined to be its original purpose. When certain subjects cannot be handled in a responsible way by every citizen or supplied by a free market economy, then and only then should they be addressed by the term 'sovereignty'.

This refers exclusively to:

- a) The defense against interior and exterior threats (incidentally, the protection of persons and goods can be predominantly organized privately).
- b) Legislation
- c) Taxation

All other domains such as scientific research, education, schooling, health sector, social security etc.. can be managed and supplied by privately, in a much more effective and cheaper manner because of competition.

## **II. The realization**

One claim: All taxes are to be abolished but for two exceptions

The whole tax yield results from:

- A. a four-scale consumption tax
- B. a tax on possession which could be gradually reduced to zero within 25 years  
(as will be explained later on)

## Proposal for a new Taxation-, Economy- and Social Concept

In addition to A. the consumption tax is to be divided into the following “particulars”:

### **A. The four steps consumption tax**

a) **Vital Basic Goods**, with a taxation rate of 0%:

This includes all the goods essential to and required for the provision of health and old age, precautionary measures - for oneself and members of one's family.

Also included are today's precautionary expenditures such as health, life, accident-, pensions and third party insurances (but not third party insurances for dogs and horses, hunter, boat owners, etc... which are deductible from taxation according to § 10 of the current German income tax law.

Basic food like, bread, butter, cheese, margarine, sausages, rice, flour, etc... (i.e. food which every one needs to the same degree for the preservation of one's health) is included too because everyone, whether rich or poor, consumes more or less the same amount of those basic goods. This is extremely unsocial as the price has a much higher impact on the monthly budget of people with low income than on that of people with a higher one.

b) **Normal goods**, to be taxed at a rate of 20%

This includes all the every day life goods as in normal every day life and are things such as household goods, normal average clothes, books, utensils.

c) **Superior goods**, to be taxed at a rate of 40%

This includes all of the more sophisticated goods unsuitable to be classified as basic or normal goods. A small car, for instance, belongs to category b) whereas an upper middle class car belongs to category c). Common sneakers belong to category b) but high quality, air cushioned, specially enhanced track shoes would belong to category c).

d) **Luxury goods**, to be taxed at a rate of 60%

This includes luxury cars (e.g. with more than 100 H.P.), luxurious and/or second dwelling, jewellery, precious metals etc...

## Proposal for a new Taxation-, Economy- and Social Concept

Whoever might already now disapprove in anticipation should not forget that:

- 1) As a counterbalance to it, an average of 40% of social security contributions (shared 50/50 by the employer and his employee) and about 50% of income tax and the former Value Added Tax would be abolished.
- 2) On the average, every employee would receive about 35-40% higher net wages (even more employees with an income above the limit for social contributions).
- 3) All goods would become 30-50% cheaper on the average (and thus internationally competitive again). For example: the top end Mercedes Benz model costs about 200.000 Deutschmark today and with the 16% Value Added Tax a consumer pays 232.000 DM.

If the company did not have to pay the existing taxes (nor the hidden ones) and the social security contributions which burden the company's product by around 80%, this car could be sold at a net price of around 110.000 DM, inclusive of the 60% luxury tax, a gross price of 176.000 DM.

This means that even goods and products of category d) could be offered on the average at prices about 25% lower than nowadays.

- 4) Every citizen would have the free choice of either getting privately insured in all the areas of the existing social security and the private sector or of contracting a state pension-, health-, occupational risk-, etc... insurance. Everyone would have an obligation to hold a minimum insurance in order to avoid relying on the (currently in existence) public welfare social security "hammock" which seduces most people today.

All the precautionary means exceeding this minimum insurance determined by law are to be included in category a)

## Proposal for a new Taxation-, Economy- and Social Concept

5) As counterbalance, almost all kinds of subsidies, tax-exempt sums and tax shelters would be abolished. Today they only seem to benefit those who can afford it or who can afford their 'investment' to be written off. With a closer look, almost every tax reveals itself to be per se a damage for those who cannot afford it, I will come back later on to that matter. The root idea of this system of consumption tax is that the goods required by everybody should be available to everybody in order to apply the root principles of social justice, whereas the superior fancy goods afforded voluntarily by higher income people should accordingly be taxed at a higher rate in order to contribute to the amount of tax revenues required by the state.

The highly taxed luxury goods would become far cheaper and people would be more inclined to buy at home rather than abroad. German luxury goods would enjoy being competitive again on the global market.

The following principle must be applied in general: Whoever can afford superior and/or luxury goods normally also claims more of the capacity of the social community as a whole and should accordingly pay more for superior benefits. This represents the fairest and most social mean of taxation for a society in which there will always be (despite all utopias) poorer and richer people, people with a lower income and people with a higher income.

### **B. The tax on possession**

It is impossible to deal with all aspects of today's situation without - just for the sake of justice - including a tax of possession, at least in the beginning. It seems highly unsocial to not involve today's existing high capitals, concentrated mostly in the hands of a few in the responsibility of such a dominant change of taxation.

Whoever already possesses properties (capital, production facilities, real estate etc.) would otherwise have the opportunity to stockpile it, i.e. withhold it from society until he actually needs it and thus, profiting overproportionally from its additional growth of worth.

## Proposal for a new Taxation-, Economy- and Social Concept

This applies especially to large fortunes, because they would only be taxed in case of a sale and even then the tax would be payable only by the buyer. This tax could be reduced step by step during the next 20 to 25 years, since every selling act would, thus, switch inactive worths to active worths, embedded then in the common circle of economy. This tax on possession would not exceed 1 % if, at the same time, all granted subsidies would be cancelled.

### **What would be the consequences of such a taxation on “ consumption” and “possession”?**

- 1) A fairer taxation, because everybody supplies the community according to his personal wants and needs with money for the tasks attributed to it. Whoever wants and can afford more, does in turn give more back to the community.
- 2) Due to the omission of all subsidies, existing social inequality with all its injustice would be cut down gradually.
- 3) The 'lean' welfare state, reduced to its real job could restrict its assistance to the really needy ones
- 4) On the whole, healthcare and third age caring would return to be within the responsibilities of the individual. Use of initiative and individual achievements would be rewarded again. Parasites of our social welfare would be given a socially fair refusal in favor of the truly needy, thus making social burdens bearable again for future generations.
- 5) The display of financial means, the purchase and the setting up of enterprises would become profitable and the economical risks surveyable again. The three millions employees and civil servants who became unemployed because of the system of taxation could easily be absorbed by the market if there existed a sincere will to work. There would also be a natural reduction amongst those really unable to work and the already older generation through natural aging. The fact - unique in the world- that in this country we have today more civil servants than self-employed must not be an argument for feeding them till pensionable age in a less than desirable way or for preserving an estimated 1.5 million senseless jobs.

After looking at the existing data (GNP, the cost of the individual budgets of the Federation, of the Federal States, of the communities, age pyramid and social welfare) every economist will quickly be able to calculate for himself that the figures of the consumption of tax revenues mentioned above would bring much more than the new shrunken state would cost.

In other words: the tax rates sketched under point A) would still provide enough

## Proposal for a new Taxation-, Economy- and Social Concept

clearance to support the old hazardous waste gathered until now (which includes pensions, maintenance forecast and claims). As an ongoing matter the consumption tax rates outlined in b) c) and d) could be gradually reduced parallel to the old type's wastage reduction.

- 6) The lowering of production costs and of service costs due to the abolishment of taxes and social security contributions together with the shrinking of entrepreneurs' risks would lead to the creation of new durable jobs.

The price of all products and services would drop between 35 % and 80% according to their category.

Any motivation to transfer production facilities abroad and to export gains to other countries with more convenient tax rates would thus stop. Germany's international competitiveness would rise enormously and the unemployment rate would sink very quickly - we estimate that about 4 million new jobs could be created within five years.

Such a taxation system - it would turn Germany into a low tax country - would moreover attract billions of capital with investments in such a new defined economic location proving to be interesting (and amongst others, to the Germans again).

- 7) Private health insurers and old age pension insurers do not work according to the principles of solidarity but according to the principles of individuality which renders them much cheaper. The utopia of the real socialism in the East and the costs of the social security which run completely out of control in the west show us where the pseudo-social over equalization has lead us. The typical hydrocephalus of nationalized and public enterprises would drop away. A private life insurance can accumulate, for instance, 7 to 18 times (depending on the age at the beginning and the duration of the policy) more money out of 1000DM contributed during the same period than the public pension insurance which cannot gather gains as investment because it is spent immediately.

- 8) The grey capital market, tax evasion, (e.g.: by leaving the country), black market investments and illicit work together with economically detrimental write-off practice would become a thing of the past.

It remains to be checked whether the redemption of coupons or the sale of O.T.C. (Over

## Proposal for a new Taxation-, Economy- and Social Concept

The Counter) papers should occur only after the proof of fiscal ownership was determined by a law enacted overnight. This compulsory intervention - morally legitimized in full by judiciary measures - could remove Germany's deficit totally, from one day to the other.

As for the re-privatization of nationalized enterprises, it has been proven beyond doubt that many state-run companies (hospitals, waste disposal, dairies, slaughterhouses, employment offices etc...) could be managed cheaper and much more efficiently by private owners.

The constant patchwork - which solves one fiscal or legal problem in one area only to create one in another - would stop once and for all. Citizens, employees or self-employed alike, would acquire a clear understanding and this in turn would restore the faith in legislation and the justice of taxation which all of us lost a long long time ago.

The armada of civil servants who 'administer themselves' would be drastically reduced; Germany being, in the world, the most civil servant overcrowded state runs, at the current rate of increment, the risk of having a 1:1 ratio - 1 citizen administered by 1 civil servant - by 2017.

The pruning and leaning out of state departments and their sub departments deriving from the new system would ensure that Germany became 'interesting' almost overnight whilst it dealt effectively with the most haunting of problems: the unemployed masses.

Whoever wants to take the time to think it through will come to the conclusion (is it asking too much from the politicians?) that there exist a vital side effect: psychological impact. Within a short time millions of people would be affected by an improvement in the health sector, in social behavior - with a decrease in alcohol and drug abuse, in crime rate and an increase in readiness to work and joy to work.

The perspective is mind blowing for a country and makes current politicians' hair stand on end at the mere thought of having to confess the true extent of their incompetence and irresponsibility.

How could they possibly explain to their 'dear' voters what they cannot understand themselves!

Most parliamentarians could not and would not survive if their 'lambs' suddenly woke up and

## Proposal for a new Taxation-, Economy- and Social Concept

started asking the right questions.....

## Proposal for a new Taxation-, Economy- and Social Concept

**Completely out of control.....**

	1989	1990	1991	1992	1993	1994	1995	1996
Tax revenue from self-employed entrepreneurs and corporations	100	102	105	101	97	92	87	83
Tax burden	100	96	100	101	103	103	109	109
State consumption	100	101	107	109	112	112	112	111
GDP growth	100	106	111	113	112	115	118	118
Rate of inflation	100	105	109	117	122	126	128	130
Federal tax revenues	100	105	129	143	144	153	149	141
Income tax revenues from employees	100	107	119	124	131	135	140	144
Total tax revenues	100	106	124	137	140	147	153	154
Federal debt	100	110	119	124	140	145	155	171
National debt per capita	100	111	97	110	123	139	173	183
Unemployed persons	100	104	127	146	168	181	177	213
National debt	100	113	126	144	162	183	227	238
Interest burden in the budget	100	101	123	175	177	232	307	310
Some economically important parameters compared with each other. We do not consider the <i>absolute numbers</i> , but the <i>degree of comparison</i> , i.e. how the parameters evolve in relation to each other.								

.....is the correlation of single important economic parameters.

While the tax revenue from self-employed, entrepreneurs and corporations fell from 1991 onwards and amounts only to 83% of the 1989 figures, all the other parameters rose from about 9% to 210%.

Yet the tax revenue from self-employed, middle class entrepreneurs and companies above mentioned - as separately as they might be need to be considered - represents precisely the proof that after the founding euphoria in the states of the former GDR, more and more self-employed and companies had to give in under the circumstantial pressures of not being able to reach noticeable profits and instead, exported their production facilities beyond German borders.

While the tax burden and the state consumption more or less counterbalance each other and while they stay (currently) below the GDP growth and the consumer prices (administrative consumer prices are not included) the rate of inflation, which has increased by 30% within seven years, speaks clearly for itself - incidentally, the administrative consumer prices have

## Proposal for a new Taxation-, Economy- and Social Concept

risen twice as much as the others.

It is obvious to see where the increase by 41% of the federal tax revenues comes from when the tax revenues from self-employed, entrepreneurs and corporations have fallen: mainly from the taxation of employees. The slowly unveiling development is extremely dangerous: the exoneration of those who earn less goes hand in hand with a constantly growing burden for those who earn more and well and leads to a feeling of injustice, undermining the readiness to achieve since it became intolerable a long time ago already. More precisely, people in higher income brackets are taxed over-proportionally (in comparison to their foreign colleagues) and have been fed, for years, hopes of a fundamental reform of taxation.

While the federal tax revenues of 1996 are clearly under those of 1994, the total tax revenues have kept climbing, they are more than 50% higher than in 1989. Federal debts have grown even more: 71% within the last seven years.

Because of the debts of municipalities and the federal states having increased even faster, the national debt per capita has multiplied at 1.83 times the number of 1989, the unemployment rate has grown by 113 % to 2.13 times the number of 1989.

The interest burden in the budget heads the list with 3.1 times higher than the 1989 figures, having grown much more than the national debt - in spite of a low rate of inflation and of interest rates being at an almost all time low.

From the relationship between the last 2 sets of figures one realizes that the state is only able to settle old debts with new loans and debenture bonds. The repayment is unthinkable.

In the annual taxation law of 1996 it could be seen how amateurish the legislators' work in the field of fiscal legislation was - and it was not the only field suffering! Apart from the fact that it was ratified far too late, it did not make the tax laws any easier - despite all the loud promises - but instead made them more complicated as expressed by all the professional groups who had to deal with them. Moreover, and typically so, it had to be amended right after the ratification because major aspects were issue items and many points had either been omitted or unintelligibly edited. With nearly every ratified tax law and amendment of the fiscal legislation

## Proposal for a new Taxation-, Economy- and Social Concept

we can count on floods of appeals, complaints and law suits at the constitutional court. The very poor situation of fiscal legislation in Germany revealed itself when the head of the chamber of tax advisors threatened the constitutional and administrative court, mentioning that the actual German fiscal legislation was not workable any longer and was extremely unjust in many areas.

The author of this publication can confirm this insofar as during the last 25 years he has been (and is still) facing considerable scruples again and again. Being a financial consultant on the one hand, he has to analyze every possible way to avoid taxes (e.g. in financing, entrepreneurial decisions and asset management) for his clients. This in turn is detrimental to the community of tax payers (e.g. those who can not afford to cut their taxes because of their low income).

Example: an unmarried person with a taxable income of 200 000 DM buys a highly subsidized freehold flat in Berlin, worth 542 000 DM (according to the law of supported regions, 1995). He thus cuts his taxes - in a completely legal way and without a penny of his own capital - by 82 384 DM in 1995 and in 1996 and in the whole period of seven years 266 534 DM which corresponds to four or five times the annual income of an average wage earner!

If he sells the flat after seven years only and at the acquisition price, which is grantable in this case, this client/tax payer will obtain a total surplus of precisely 100 000 DM, net and tax free. With a careful forecast of a 2% growth rate per annum, the tax-free total surplus already amounts to 168 000 DM after seven years; this corresponds to an average extra net income of 24 000 DM per year or 2000 DM per month.

Taking into account the client's satisfaction - and justified pride for the achievement as a consultant - the end result cannot be fair, cannot be socio-politically wanted nor economically intelligent.

To sympathize with one lobby or an other, to be subjugated by one or the other, depending on the level of the argumentation, to mend fragmental problems with patchwork principles is morally questionable and unsustainable with respect to the totality. To grant every one full satisfaction of his demands, with the full knowledge of the impossibilities of implementation is tantamount to irresponsible opportunism geared to catch and keep voters.

To confer political mandates upon real experts would be up to the voters but the majority of

## Proposal for a new Taxation-, Economy- and Social Concept

voters is unable to do so because of the lack of expertise (and also probably of social skills). This makes it the more urgent to demand, legally, a far-sighted concept for political survival and a social and economic future from those currently in charge.

### A response to the critique:

- This unique tax is too stiff. A flexibility in many taxes is needed to react to corresponding economical situations.

>>> This is a little bit like a chemist mixing colors, adding more red, more blue, more yellow for testing purposes, instead of relying on his knowledge of mixing certain amounts of blue and of yellow to obtain a specific green. This argument, in truth, is about trial and error to be able to use political levers, to intervene with 'sovereign' power and in a dirigiste way in economic processes instead of leaving them to the natural powers of the market.

We all know of the best way to make the traffic of a big city collapse: switch off the red lights and put a traffic constable at the crossings.

- Germany is not autarkic but imbedded in EU guidelines in matters of Value Added Tax which may be good in theory but not practically realizable.

>>> It is well known that the idea and the budget of the EU is principally founded only on the VAT, i.e. the turnover and consumption of exchangeable goods and services.

To continue with this root idea means to rely on the principle of taxation of (economic) goods, based on the efficiency of the national economy and thus to install a product related taxation orientated on achievement, (and thus probably representing the fairest and the most verifiable taxation) as a principal standard.

It is self evident that this complete new orientation will face the same objections among the politicians of the neighbor EU states as among the Germans but it is complete nonsense to go on with a literally catastrophic system based on the idea that others do it too.

The one to be the first to dare stepping into fiscal, economic and political new ground would poach the neighboring trading partners - who have the same problems - into his camp.

Would it perhaps appease German politicians if they saw the neighboring countries go downhill because of catastrophic economic and social circumstances as it is currently happening in Germany.

As a marginal note, the question of what alternatives to the existing situation would be, is thinkable and practical. Of course this systemic switch is not to be installed overnight and realized overnight but requires an incubation period of about three to five years. With reference to the reduction of civil servants and administrative staff, to the gradual offloading

## Proposal for a new Taxation-, Economy- and Social Concept

of the welfare burdens we have to calculate a period of twenty to twenty five years.

BUT WE HAVE TO START TODAY.

## Proposal for a new Taxation-, Economy- and Social Concept

**Final remarks:**

**WE CANNOT AVOID A NEW WAY OF THINKING.**

Even with the proviso that we bear the costs of the effort of choosing this alternative in the fiscal and social sector, we would at least stop the present misery.

But a long term solution can only be resolved if connected to a reform of our educational system as a whole.

Please do not regard this as a silly idea if I state that our entire educational and schooling system from preschools up to universities has to find a new footing. As long as our humanitarian activities are limited to the gathering of funds for “charities” five times a year or to the organization of advertising shows for “charity” we are only pursuing piece-work and cheap consciousness hygiene.

Peace in the world, a co-operation and cohabitation without fear within our ‘large family’, the state, as also in our ‘little state’, the family, will only be reached when more emphasis is, from early childhood onwards, put on the understanding and the fostering of tolerance.

This would have consequences on literally every aspect of life. Take a look at the aggressiveness used today in traffic, in work promotions, in law suits, in strikes, in protest marches.....

As long as no one is willing to recognize the teacher as perhaps the most important profession and as long as we do not hand our children out only to excellently educated people, philosophically and pedagogically and as long as we do not devote ourselves to the education of adults, parents, superiors, we will pay the social and economic price of such diseases as fear, jealousy, dread, envy.

We muddle with the symptoms (of physical, mental and emotional diseases) instead of researching and removing the causes.

The meaning and the goal of this publication was not to create a concept for a completely new understanding of ‘state affairs’ or a new mankind. Here and now it is only about a new fiscal and economical system.

But as it is embedded in a holistic new thinking concerning every aspect of life and needs to be connected to it, we allow ourselves to recommend the following publication for further readings.

1. *Proposal for a new understanding of the term “work”*, DBSFS 1990
2. *Corruption - the decodification of a universal phenomenon*, DBSFS 1995
3. *The bursting Welfare State*, DBSFS 1994

## Proposal for a new Taxation-, Economy- and Social Concept

Many concepts of thinking and scholar attempts have been initiated during the last three millenniums and everywhere you meet people who implore peace and who search for contentment. To realize those thoughts and wishes would be appropriate to the real mental potential of the homo sapiens and would show true humanism.

*Ratio and understanding are not extinct at all, they may at the most lie frozen in the highly modern refrigerators of our civilization. All we have to do is to "thaw" them before it is too late.*

J.L.Earl