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AN ALTERNATIVE PROPOSAL
TO SOLVE THE EURO-CRISIS
– AND TO RECONSTRUCT
THE WORLD'S FINANCIAL SYSTEM

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Summary

10 years after the introduction of the euro and 20 years after the Maastricht Treaty, this union and its currency, the second most important global trading currency next to the dollar, are facing major challenges, especially because technical mistakes, political ideology and underlying claims to power - but also improper conduct for populist reasons on the part of some governments towards their citizens and contracting partners - have led to abortive developments, which have now come back to haunt the European (Monetary) Union.

Add to this the growing divergence between (inter)national economics as it is practised in reality and the national economic *policy being stoutly defended by politicians and their parties*. Whilst industry is looking creatively for cheap production sites and distribution channels, politicians remain mired in egotistical thinking based around the national interest.

Caught in this ever-widening gap, the citizen feels politically impotent and betrayed. He has long since been unable to identify with the parties' political claims and is now only looking for ways to get the best out of the present situation.

The group of politicians which are mainly concerned with the aims of their own party and their own election chances make their decisions based primarily on their own opportunities, frequently lacking the necessary knowledge and understanding of the contexts involved. Whereas the citizens are largely helpless in the face of the resulting pressures and slew of regulations, the long-since denationalised economy, in particular major corporate groups and banks, regularly finds ways to safeguard its own advantages.

Although 350 million Europeans (500 million people worldwide) currently pay in euros, the *European Union*, on the other hand, has largely not yet become established in the hearts and minds of the people who played no *democratic* part in determining its introduction.

Politicians, parties and politically independent experts disagree over whether the current course should be maintained, come hell or high water and whatever the cost, or whether the euro area should be split, individual member countries excluded or the "euro experiment" simply given up.

Advocates of the status quo are left with cuts to public services, tax increases or unchecked continuation of a debt policy that is escalating dangerously. But even those in favour of splitting or dissolving the euro area have no real alternatives at their fingertips. This is because all the protagonists on both sides are committing the fundamental error of exclusively sticking with "**the system**", instead of considering a "*schematic opening*". The second error consists of always discussing economic, fiscal, social and legal policies singularly, in each case defending the national ego and casting a fearful glance towards questions of their own political power.

This work proposes truly *radical* (from the Latin "*radix*" – "root") alternative concepts, which in the author's view represent the only possibility of redefining national policies, and successfully shaping in the long term the future of the euro and the euro area.

In the process it is, however, important, that fiscal, economic and social policy no longer be *taken in isolation*, as before, but instead a workable concept for reorientation in terms of a social, economic and fiscal grouping – with the distant goal of a "**United Europe**", would have to take into consideration all the sub-aspects which constitute a body politic.

For this reason the author sets out below an

1. "**Alternative monetary concept**", an
2. "**Alternative fiscal, economic and social concept**" and an
3. "**Alternative democratic and legal concept**".

1. Alternative monetary concept

In order to on the one hand tackle the problems that have hitherto prevailed in the European (Monetary) Union and to establish a new European (Monetary) Zone, it is proposed that an **International Currency Union (ICU)** be introduced, which uses an artificial currency that is not dominated by any individual currency (**International Currency, IC**). All previous trading and monetary agreements, loans, mortgages, bonds, etc. could be transferred to this **ICU**, as both governments (including municipal governments) and banks and manufacturing or trading companies could join this **ICU**. Governments would thus be released from the stranglehold of the world of finance and currencies would no longer be the object of speculation on the part of governments, banks and corporate groups.

2. Alternative fiscal, economic and social concept

The "*Alternative fiscal, economic and social concept*" is based on abolishing all previous forms of taxation, subsidies and politically motivated intervention in citizens' natural social and economic behaviour.

Based on the concept that a citizen's consumption is on the one hand guided by his economic opportunities, and on the other by his individual interests and views, a five-stage **system of consumption tax** should be set up. This will ease the burden on anyone who can, or wants to, afford less, whereas in contrast the individual who burdens an economy with greater value in total also pays more for his lifestyle. It quickly becomes apparent that this alternative concept would not only offer far more benefits to the socially weaker, but the economy as a whole would receive a considerable boost and at the same time thousands of laws and regulations would become obsolete. This would create a massive clearing in what has now become a completely impenetrable legislative jungle in all countries. There should be no concern either about the government sub-systems (on all levels) which would thus become redundant or about the associated loss of public jobs: greater creativity and freedom of expression, lower production and trading costs (= lower prices), higher wages and less bureaucracy in all areas of life would give vital stimulus to the creation of new enterprises and (thus) jobs. There would be sufficient new jobs available for civil servants and public-sector employees willing to work. With the help of the combination of the following concepts, social, economic, fiscal and monetary policy would be created from a single "source".

3. Alternative democratic and legal concept

This would also have to be based, however, on a restructuring of that which we, in every European country, term *democracy*.

Democracy in the classic sense inevitably requires two things:

- The decision-maker must have the appropriate specialist knowledge to make a decision;
- and he must be genuinely affected by the consequences of the decision.

As both these conditions require the decision-maker's intellectual, emotional and local proximity, democracy can logically only ever be a *local* matter.

Consequently democracy can also only occur "*from the bottom up*", not conversely, as has previously been dictated and imposed, "*top down*" by (party) politics in every European country.

This is precisely the basic idea behind the following "*Alternative democratic and legal concept*".

All the alternative concepts set out here are based on 40 years' experience as a self-employed person in the economy, but above all on intellectual, economic and political independence.

This has also given rise to the conviction that the problems to be addressed within the scope of the *Wolfson Economics Prize* can definitely be solved if backed by expertise and independent thought.

The author greatly hopes that the private initiative behind the *Wolfson Economics Prize 2012* produces the desired success and with best wishes to those who *actively* work for all our futures.

An Alternative View Of The EURO-CRISIS

An opinion is sought on the question:

"If member states leave the Economic and Monetary Union, what is the best way for the economic process to be managed to provide the soundest foundation for the future growth and prosperity of the current membership?"

Prologue:

When discussing this question, some prior, fundamental considerations must be addressed, particularly in view of the six subordinate issues, because it is illusory (and completely meaningless) to seek a solution to the euro crisis – in reality a sovereign debt crisis with varying aspects and emphases – *solely* in economic, fiscal or financial policy concepts. A state, irrespective of its size, is a vehicle made up of social, financial, economic, fiscal, educational and legal policy entities and their (inseparable) abilities to interact and combine. There is thus a fundamental difference between *Greece* or *Italy*, *Ireland* or *Germany* leaving the European Economic Union, because there is already a considerable difference between these four countries in effectively all the areas which distinguish an economy.

- Whereas *Italy*, for example, has a more or less balanced *import/export ratio*, *Greece's imports* are three times higher than its *exports*. In *Germany's* case, consumer durables make up almost 60% of exports; in *Greece*, on the other hand, the figure is around 28%. In contrast, exports of foodstuffs, agricultural products and, above all, tourism, in *Greece* play (relatively) a much bigger role than in *France* or *Germany*, for example.
- The income type structures both of the European Union countries and the EMU members, which would have to be compared in order to answer this question, also differ greatly in terms of production, trade and services.

- Finally, the countries in the European (Monetary) Union differ considerably (length of working life, social insurance system, quantitative difference in income type (salaried employee/worker, self-employed, civil servant) in terms of the share of public service, SMEs and birth rate, standard of education, level of further education and training, etc.), so that, as said, if one abides by the present system, the question posed initially can only be answered highly speculatively, with only limited reliability and with scant regard for the long term.
- Since the mid-1990s, it has become increasingly difficult (it is today virtually impossible) to talk of "*national economic areas*" in view of international integration both of economic activities (above all major corporate groups) and international monetary streams (and thus currencies' dependency on actual and speculation-driven, partly manipulative, currency trends). Only politicians who (still) think *nationally* talk of unique economies, whilst banks and (major) corporate groups (and increasingly medium-sized enterprises) have long thought and acted *internationally*, with the help of foreign subsidiaries, where their production and trading chains are concerned, whereby in each case they select the cheapest production sites according to legal and fiscal policy conditions.
Profits and losses are relocated equally across the world in consideration of legal, monetary and fiscal policy, which leads to multiple profits being declared in the most favourable low-tax countries, whilst losses are declared in high-tax countries.

All this was already known and identifiable back in the 1990s, and it was also predictable that this trend would increase. Last but not least, countries (not just in the euro area, but worldwide too) engaged in fierce competition to relocate production and trading operations in order to strengthen their own gross domestic product, create jobs, commandeer taxes, improve infrastructure and to remain or become internationally competitive. Municipalities used different rates of business tax and countries used "relocation subsidies" as enticements. Different rates of value added tax were applied to the same products and services in different euro area countries.

It only remains to remark, somewhat heretically, that back when the European Union was created, there were a great many factors that were (consciously?) not taken into consideration, which then almost inevitably sowed the seed for the problems that we see today.

It is somehow a typical feature of politicians and parties in any countries which call themselves "*democratic*" that they think and act "*opportunistically*" and (therefore inevitably) "*reactively*" and are thus diametrically opposed to entrepreneurs and enterprises which strive to "*creatively*" and "*actively*" seek and take opportunities. With one eye on public opinion and the next elections, politicians (and parties) are thus often forced to *react* opportunistically to the situation. They try, under the heading of "*social responsibility*", to create legal and fiscal framework conditions, to install control mechanisms and, using political rhetoric, to be able to keep the situations created by others more or less under control and regulate them. This was precisely the primary underlying motive of the architects of a "*United Europe*", even if this was sold completely differently to the citizens of the founder members and accession countries of the euro area and the euro – peace, social security, exclusion of monetary risks, the same educational and legal standards, etc.

It is not possible, however, to *compel* completely different economies, social structures and cultures to unite and force them into line in a common fiscal, financial, monetary and social system.

The fact is that, ten years after its "birth", the euro is lacking in any popular *psychological* acceptance, *functional* flexibility, socio-political and cultural *philosophical* foundations (none of the original core countries decided democratically on its introduction), lacking in any legislative authority – 70% of all laws now originate from Brussels and Strasbourg.

The European (Monetary) Union can be compared to a coma patient who has received his fifth heart, sixth lung and seventh liver transplant, with nobody having any idea how long he will be kept in intensive care. The dilemma is only tempered by the fact that its "fellow patients" (the US dollar, the yen, etc.) are also having breathing difficulties and are hanging on by a thread.

In this regard there are only two alternatives: either one admits the false premises under which this pseudo-Union was forged, steps completely out of the system which has existed to date and radically changes the fundamentals of a common economic, monetary and social union, or one steels oneself out of necessity to continue on the path that has hitherto proved to be wrong, without regard for the growing problems (on all levels). Pursuing the *second* path would be extremely dangerous, as any attempts in the 5,000 years of human history to artificially unite that which has completely different fundamental conditions has sooner or later led to failure; the failure of the "*socialist community of states*" is only mentioned

here pars pro toto – even what appears at first glance to be a very sympathetic and conformist idea, such as socialism/communism, is experienced and interpreted so differently in the 43 countries concerned, that the artificial association under a common "ideal" ultimately had to lead, sooner or later, to the people's renunciation, greater and greater divergences and ultimately to the system's failure.

The same befell all the "empires" created throughout history – regardless of their cultural, religious, historical and traditional backgrounds and developments.

It is interesting in this context that there has hitherto been no official statement by the influential politicians (and parties), as to whether the "*United Europe*" should in future completely manage without *national autonomies*, which would mean a breach of all national constitutions and thus signal nothing less than **high treason**, which still incurred the death penalty in some countries until quite recently!

It is clear in this regard that no leading politician from a governing party would dare to address this so openly, although, realistically speaking, the future jettisoning of vastly different national autonomies would be the only way to continue to force all present (and future) European (Monetary) Union countries in to line, as before.

In the process, the question of where "*Europe*" actually begins and end geographically remains almost immaterial; *Russia* – a geographical term for 13 time zones – ends in the east at the China Sea; 90% of *Turkey* is in Asia; 11 members (and autonomous republics) of the CIS and some Eastern European accession countries/candidates are partly or wholly (south)east of the notional border formed by the Ural. And what do the overseas territories of *France*, the *Netherlands* and *the UK* (the Commonwealth) have to do with Europe?

Add to this France's former colonies in Africa, some of which settled their dealings with France (via their accounts with *Banque Nationale de Paris*) in the artificial currency of the CFA until the introduction of the euro; to date the accounts held in Paris have neither been closed nor clarified for the future.

Another aspect is the question of how not only the euro crisis in the countries which use the euro and the countries which are already members of the Union can be resolved – the euro is currently the second most important international key currency (there are more euro notes than US dollar notes), but also how the international agreements in euros and the international banking world's deposits and loans valued in euros might be

affected by any solution - whatever it may look like - to the euro crisis. In this case too, the banks (including the IMF and ECB) have long been guardians of the national governments in the euro area ("*too big to fail*").

All in all, the situation has become simply hopeless, in particular because every national government keeps an eye on its electorate's mentality and attitude to entitlements, so they don't have to expect being thrown out or fear social unrest. The members of the European (monetary) area are completely divided as to whether further debts should be allowed to pile up, or state payments (and subsidies) should be cut, or even taxes increased.

All these potential solutions, though, keep the debaters *in the existing* system, instead of looking for solutions *outside* the system, with completely new conceptual models and totally different parameters.

Systems per se are *unwilling and unable to learn*. As helpful and necessary as such very clearly delimited and applicable systems are – think of language (including grammar, spelling, semantics, pronunciation, etc.), road traffic, table manners – these are each complete entities, installed for a specific purpose, point and benefit. From time to time they experience slight changes and innovations, but remain fundamentally stable, proven and durable. They are geared towards providing a general benefit for all, although their advantageousness now and then serves some more than others and they are used to greater or lesser degrees by their users (abused, too, from time to time).

Generally, systems are neither "good" nor "bad"; it is incumbent upon the citizens¹ themselves and interest groups to make meaningful use (or even intentionally abuse) them. And it is precisely the abuse of established systems in politics and the media, in science and research, in the legal, financial, fiscal and social worlds that is involved when questioning the sense of creating necessary laws and controls and, should it be addressed, bigger entities, which bring those united under them more advantages and benefits than disadvantages and losses.

Even assuming that the parents of the euro and a united Europe had the advantages of a United Europe in mind, it must be observed that too much force, but not enough (historical) knowledge and regard for existing differences was applied in the process. Contrary to the original intention,

¹ A declaration of love and a curse use the same system – language.

also stipulated as such by the founding fathers, to *first* promote the harmonisation of social, fiscal and economic policy and *then* to "cap" this new federation of states with a common currency, in view of the increasing divergence it was decided to take the opposite route, in the naive hope that a common currency would then create political facts and sufficient feelings of community to be able to regulate everything else with the help of appropriate commissions and laws. But this route proved to be wrong, meaning that an authority in Brussels/Strasbourg, has practically assumed supreme command over 27 supremely different peoples despite never being democratically authorised to do so. Assent from the populations in the individual countries, who are not prepared to relinquish their sovereignty, their national characteristics as a people and the circumstances in which they live, is accordingly slight. However much the fanatical pro-euro politicians in the individual parliaments would like it to be otherwise, it cannot be the basis for a common federation of states (that is also perceived to be such).

If we, however, turn to the first alternative – complete exit from the previous system and a *formalised* opening, including all the relevant factors –, it would result in actual, meaningful alternatives, which would not only make it appear interesting and helpful to the individual peoples to be stronger and more efficient together, and above all to deal with and live with each other peacefully, but also, to a great extent, necessary.

However revolutionary they might appear at first sight, the *alternative concepts* introduced below are geared towards this.

These alternative "*economic, fiscal, financial, social and democratic concepts*" have emerged in recent years and decades and are based on one fundamental thought: contrary to the popular opinion of parties which have assumed the role of the former aristocracy in modern society, the different areas of policy (taxation and legal, educational and economic policy) cannot be seen, shaped and operated independently of each other, especially not from the point of view of (party) political claims to power; rather, they are inseparable and interact with each other to the extent that any attempt to view and operate them separately is predestined to create a great degree of confusion and rejection on the part of the population group(s) concerned.

It is therefore worth taking a completely different view of the interrelations which constitute coherent cooperation between different peoples (and economies) to establish the simplest possible new system which can be understood, which is clear to all and with which as many people as possible can identify in order to be able to live and work within this system.

It goes without saying that this runs significantly contrary to the political (and power-oriented) efforts being made by parties in all "democratic" countries, as well as those with authoritarian governments (the only reason many sub-systems exist at all is because of the problems that politicians/the parties have themselves created) and that this will not necessarily meet with unanimous approval; the power structure that the political parties use will be considerably restricted, or even functionally abrogated. But what really concerns politicians? Do they want to retain their power at all costs or do they actually want to serve the people and ensure justice, as they promise in their oath of office?

What would *alternative concepts* look like?

Starting from the premise that, generally, everything which constitutes a nation, a people or a state (see Prologue) must be put to the test, broken up and freed of absurd content, and also on the premise that only such a "purified" policy can lead to different populations being united under a common social, fiscal, legal and economic policy, the following suggestions are proposed:

1. To solve all the current monetary and debt problems (and with a view to *optimum reorganisation of the monetary system*), all the countries which are willing to do so found an "**International Currency Union**" (ICU). Every state democratically authorised by its population to join can do so, together with its currency. Every country thus mandated will make an annual contribution to the ICU corresponding to 1% of its gross domestic product. It will be incumbent upon this ICU to decide, by a democratic majority, whether to grant loans to individual countries in order to repay their debts or issue bonds. The ICU can also purchase government and municipal bonds and trade them like a stock exchange. Thus those countries which sensibly want to leave the European Monetary Union, could, for example, settle their debts on a transitional basis, return to their own (old or new) currencies and make a new start.

International consortia including banks, could also apply to the ICU for loans and sureties.

No-one should be shocked at the ensuing situation of several currencies simultaneously existing in one country; in many countries of the world it is already possible to pay for goods and services in two or even more currencies without a problem.

2. Of course, the impact on government debt, personal savings and domestic mortgages, as well as inter-bank trade, mutual relations between individual countries and transnational associations of an economic and monetary policy nature would be dramatic. In the process, it must be borne in mind, though, that globally, in almost all the OECD countries in which there are stable economic and socio-political structures, we have manoeuvred ourselves into, or have allowed ourselves to be manoeuvred into, this dilemma, that the "*democratically authorised*" parties and politicians thoughtlessly and relentlessly did this to us over several generations (and legislative periods).

It goes without saying that a rethink and the resulting new start cannot be achieved without pain and cost. It would be even more absurd, though, to defend the old, ailing system at all costs, a system which is already endangering the state apparatus in some countries (with many countries facing considerable social unrest), by throwing billions and trillions at it. It would be like trying to calm a rampaging alcoholic with more drinks.

It must be clear to any semi-intelligent person that, irrespective of which countries stay in the European Monetary Union or leave it, a solution to the euro crisis is simply impossible without deep cuts, and even losses, for private investors, banks and government budgets. Anyone who suggests "squaring the circle" and believes that it is possible to continue in the old manner until then is acting irresponsibly and irrationally.

In view of the exorbitant debt levels facing most Western countries, non-European industrialised nations and emerging countries alike, and the risky sums that are now being bandied about – the true extent will only be clear to the individual who includes not only the *explicit* debts in his considerations, but also the *implicit* debts (government commitments to old-age and other pensions) – by now practically no country can avoid having to put its entire fiscal, financial and social system, plus the associated legislations and laws, on a completely new footing in order to survive and remain (or return to being) competitive in the future.

By shifting bilateral financial and trading agreements to the ICU for a trading-fee of 2 to 5% (depending on the circumstances), for example, government liability for banks deemed ailing but of systemic relevance would dissipate along with the associated political blackmail. This means that, in future, taxpayers would no longer be liable for (national) banks and (major) corporate groups which speculate in securities trading (including derivatives, futures, options, swaps, etc.), but the trading partners themselves, or the ICU.

The marauding trading partner would then simply be wound up.

It is, in fact, impossible to communicate to the people that *they* alone foot the bill and have to pay for the mistakes of other countries' governments. All the new stability and growth pacts (ESFS, EFSF, ESM, SoFFin, Solvency III), the OECD's "Fiscal Sustainability" strategy or the next increases in banks' equity ratios ("*Solvency III*") will change nothing; the citizens neither believe the politicians, nor trust the banks, which in turn still distrust each other.

Central banks are nervously keeping interest rates at a record low, because it must be clear to any reasonably informed citizen - and above all politicians - what would happen if the base rate and commercial interest rates were to move up by just 1 or 2%. The *sovereign debt crisis*, which is what is really at stake here, would spiral completely out of control.

Now to an alternative form of practical approach:

Practical implementation:

Debtors of a country leaving the former euro area offer their creditors the following options (financed by the ICU):

- a) One-off 50% of its debt in the *new IC currency (International Currency)*² or
- b) 5 years 15% of the original amount owed or
- c) 10 years 8% or
- d) 20 years 5% or
- e) 30 years 4%,

² An international currency basket valued independently (daily/weekly) by the individual national currencies. The previous, virtually global dominance of the USD (and its political impact!) would thus disappear.

with quotas b) to d) relating exclusively to the debt, i.e. no interest is paid. Each creditor would be free to choose an option .

The ICU acts as guarantor for repayment of these debts if (and as long as) the debtor country is an ICU member.

In the same way (mortgage) banks and international corporate groups could join the ICU, in addition to creditors and debtors, with the annual fee here too amounting to 1% of these companies' balance sheet totals. This then relieves governments of the illogical obligation to use the public budget to support or rescue banks (or corporations) that do business *internationally*. This would have the side-effect of banks curbing their urge to handle as many transactions as possible through inter-bank trading and to act as currency speculators or carry out high-frequency trading, compelling them to act much more cautiously than has long been the case. Thus a currency/speculation tax ("*Tobin*" tax) on financial derivatives and currency trading, for which there have been loud calls on many sides, would not be required.

All international agreements (concluded previously or in future) could thereupon be transferred to the ICU, for a certain fee, comparable to a collection organisation, regardless of whether the agreements are denominated in euros, US dollars or another currency.

At the same time, this procedure would have the enormous benefit of stabilising (inter)national banking and restoring fair competition to this market too.

[The extent to which national policies and entire governments, ultimately even the whole European (Monetary) Union and the international monetary framework, have long been the "kitty" for manipulation by the banks (private and national banks) is unprecedented.

USD 5 billion in financial transactions of different kinds are chased around the world every day. This is USD 1.8 billion per year. With a global gross domestic product of USD 65 billion, this means that almost 97% of the international financial transfer does not have the slightest thing to do with any real value creation (manufacturing, trade, services)! This situation has developed exponentially in the last 20 years and is threatening to assume apocalyptic proportions in the course of ever more refined ("*high-frequency trading*") algorithms.]

This would clearly regulate the pending problems concerning a transitional process, problems accompanied by many fears, and would evade any political speculation and manipulation.

With the help of this institution, the *International Currency Union*, politically independent of any individual country and individual currency, institutions under public law (governments and local governments) as well as banks

and corporate groups would become competitive trading partners, without a (stronger) country being able to manipulate or blackmail another (weaker) country economically or through monetary policy.

There would be just as little likelihood of a major international corporate group being able to exert pressure on national policy by relocating its production or trading streams and thus shedding or creating jobs. Finally, however, the citizens/taxpayers in individual countries would stop being the playthings of political parties and governments (active and passive financial corruption).

As well as "purifying" the various monetary and trade streams, the associated legal systems and the different tax and duty systems in the individual countries, it would be advisable to put the individual economies' "*fiscal, financial and social systems*" on a completely new footing.

For this, we recommend the following basic features of an "*Alternative fiscal, economic and social concept*":

Basic features of an "*Alternative Fiscal, Economic and Social Concept*"

A. Basics

1. The entire fiscal system must be cleared out, completely redesigned and restructured in a form that is simple, clear and comprehensible to every citizen.
2. Performance, in the sense of a productive form which promotes social services, must be worth it financially.
3. At all levels, the state must withdraw to *the* areas which correspond to its original definition. Only those areas for which every citizen cannot be personally responsible, or which cannot be handled and provided for by the private sector, must still come under the heading "*sovereignty*". This exclusively concerns
 - a) internal and external defence (with protection of individuals and property being predominantly organised by the private sector),
 - b) the legal system and
 - c) the tax system.

All other areas, including science and research, education and schools, the healthcare system and social insurance, can be handled privately much more efficiently and competitively and undertaken more cheaply by the private sector because it is in competition.

B. Implementation

With two exceptions, all taxes will be abolished. All tax revenue will accrue from

1. a five-tier **consumption tax** and
2. a **property tax** which, within an approximate 25-year period, could be reduced to zero.

Re 1.: The **consumption tax** will be "subdivided" into the following "separate areas":

a) **Essential goods at 0% consumption tax**

These include any goods and services used for healthcare and old-age pension provision, and the hazards of life, for both individuals and family members. This covers all *expenses of a precautionary nature*, i.e. *health, life, accident, retirement and third-party liability insurance*.

Any *basic foodstuffs* also fall into this zero-rated goods category, such as bread, butter, cheese, margarine, sausage, rice, flour, etc., i.e. foodstuffs of which every citizen has equal need to maintain health. In the cold light of day, the fact that everyone, whether rich or poor, eats roughly the same quantity of such basic foodstuffs is nowadays an extremely unsocial fact insofar as they account for a much higher percentage of the monthly budget for people on low incomes than for those in receipt of higher incomes.

b) **Standard goods at a 20% rate of consumption tax**

These include all simple consumer goods which are part of a *normal* life, e.g. household items, consumables and commodities which are part of daily life, such as textiles, books and appliances of "normal" standard.

c) **Up-market commodities at a 40% rate of consumption tax**

This covers any up-market goods, which cannot be classified directly as *basic foodstuffs* or *standard goods*. A small car would thus come

under b) class goods, for example, whilst an up-market, mid-range car would come under class c). Normal trainers would come under class b), whilst high-quality (air-sprung and specially pimped) trainers would be included in class c).

- d) **Luxury goods at a 60% rate of consumption tax**
This would cover luxury cars, for example (more than 200 hp), luxury and second homes, jewellery and precious metals.
- e) **Resources and energy tax with a variable rate of consumption tax** for goods whose manufacture and disposal place a considerable burden on the natural world and the environment, e.g. fossil and nuclear fuels, electrical waste, non-biodegradable packaging waste, etc.

Benefits of this consumption tax concept:

1. All goods and services would be considerably cheaper, because there would be no social taxes, income tax or value added tax in the process of production.
2. At the same time, every employee would receive between 30% and 80% more (depending on country and occupation) in net salary.
3. Even goods and services at the highest rate of consumption tax would be cheaper than today (and thus internationally competitive once again). Here is a (German) example:
A top-class Mercedes today costs in the region of EUR 200,000. It is subject to value added tax at 19%. Final price: ca. EUR 238,000.

If this company no longer had to pay the previous taxes (including hidden taxes) and social contributions, which burden this firm's product with around 80% of the net production costs, this vehicle could be offered for sale for approx. EUR 110,000 net, and for EUR 176,000 gross, including a 60% luxury tax. This means that even class d) commodities and goods can be offered at a price around 26% lower on average.
4. Every citizen would be free to choose whether to take out private insurance in all areas of current social insurance and the private insurance industry, or whether to join a state-backed old-age, health, or occupational pension/invalidity insurance scheme, etc.

In the process, every citizen would have to fulfil a *minimum insurance obligation*, which would guarantee that no-one would fall into the state social "net".

Private insurance which goes above and beyond the basic insurance should come under class a).

5. In "return", almost all *subsidies, allowances, tax-free amounts* and *tax breaks*, which are currently mainly used by those who can afford to do so, through appropriate purchases which can be written off, would lapse. In the cold light of day, almost all tax breaks *per se* in fact represent flagrant discrimination against those who have no access to them.

The rationale behind this "**consumption tax**" concept is that the goods that everyone needs to more or less the same extent should also be available equally to every citizen according to the basic principle of *social justice*, whilst those who can (and want to) afford high-value or luxury goods due to their income/assets, should also contribute to a correspondingly greater extent to the state's necessary tax revenue. As even the luxury goods subject to the highest rate of tax would on average be much cheaper than is currently the case, no-one would want to purchase expensive foreign goods.

The general principle must be: those who can afford higher value goods and luxury also make greater demands on the productivity of society as a whole. They should thus also pay correspondingly more for higher value services too. This is the most just and socially compatible way of taxing a society in which (in defiance of any utopias) there will be poorer and richer citizens and those who earn less than others.

Re 2.: **Property tax**

Property tax on existing (dormant) assets is a transitional tax for approximately 25 years³ during the system changeover, with all tax allowances lapsing in return. It is used to value and tax goods which are currently in private ownership and which are not covered by the consumption tax (e.g. major assets, property, land and real estate, consumer durables and means of production, etc.). This ensures that

³ Experience tells us that dormant assets will be completely reorganised during this period.

capital or major property portfolios are not taken away from society for years on end. As these portfolios will be gradually covered by the consumption tax as a result of sale or inheritance, over approximately 25 years the property tax can gradually be reduced to zero.

C. Consequences of a consumption and property tax of this kind

1. The consumption tax system represents a fairer form of taxation, because the pressure on young families and socially disadvantaged citizens in particular is noticeably relieved, as there will be much less tax on many basic goods. Those who want to and can afford more also contribute more to society for it.
This would relate above all to lower income brackets in the various countries, specifically in countries which are toying with the idea of exiting the euro area but which also fear that a devaluation of their new currency would lead to a drastic deterioration in living standards for large sections of its population. This is where monetary policy measures (**ICU** and **IC**) and alternative structuring of manufacturing and goods streams (and pricing thereof) would have a combined effect.
2. The lapse of all subsidies, tax breaks and depreciation models would also automatically lead to more social equality. Moonlighting, tax evasion and tax fraud would no longer be lucrative.
3. The "*slimmed-down*" *social state*, reduced to its real duties, could then in fact restrict itself to supporting those who really need it – the poor, the sick and the socially weak.
4. Provision for sickness and old age would then basically again become the responsibility of the individual. Personal initiative and hard work would once again be rewarded and the social burden for future generations made bearable again and financeable in the long term.
5. Investment of financial resources and the acquisition and development of companies would once again be viable and financially manageable. It would not be a problem to accommodate the administrative staff and civil servants rendered "unemployed" by this tax concept in the market.
6. The reduction in manufacturing and service costs caused by the abolition of taxes and social security contribution, together with the decreasing risk for entrepreneurs, would create new, permanent jobs. The prices for all products and services would fall by 25 to 80%, depending on the category and country. This would then remove any

motivation to "relocate" production sites abroad and to transfer profits to countries with more favourable tax regimes. International competitiveness would increase massively and unemployment would fall very quickly.

7. In the long term, education and schools, research and science, healthcare and social insurance would largely be privately run. With regard to the reprivatisation of state enterprises: it has been proved beyond reasonable doubt that many government enterprises (hospitals, rubbish tips, market gardens, dairies, abattoirs, employment agencies, railways, highways, etc.) could be privately managed much more efficiently and cheaply.
9. The citizen, whether self-employed or under an employment contract, would have comprehensible clarity, which would in turn contribute to creating trust in the legislator and in the fairness of taxes. Willingness to and enjoyment of work would increase enormously, social behaviour would improve, drug, alcohol and crime rates (primarily in the case of young people) could be drastically reduced, as could the burden on the healthcare system.

Of course, this change in the system could not be implemented and realised "overnight", but must take place with an "incubation period" of approximately three to five years. There can be no debate about this, however – as far as reducing the number of personnel in the administrative machinery is concerned (recruitment freeze for civil servants, dismantling of bureaucracies which become unnecessary, etc.) and gradually relieving the strain on the social budget, periods of 20-25 years must be allowed. But a start must be made today.

Basic features of an "*Alternative legal and democratic concept*"

A. Rationale

Although we have so far concerned ourselves with alternative social, fiscal, economic and monetary policy concepts, an alternative *legal* framework is also required in which all the above, but especially the citizens themselves, must feel involved to create a firm basis for the future growth and well-being of the current member states as well as citizens from countries which want to leave the euro area.

There must be an end to the efforts of politicians and parties and the national and transnational authorities and "democracies" set up by them to intervene in practically all matters concerning citizens and in all areas of their lives and to regulate them "governmentally". This is in fact the reason that the thoughts and actions of citizens in practically every country are increasingly tired and apathetic with regard to politics. The more lethargy and resignation spreads and the break with a mutually supportive society increases at the same rate as every individual's egotism, the state as a mutually supportive society is likely to collapse, which cannot be corrected by either additional laws and directives or by constantly tightened controls, constraints and appeals.

The readiness of politicians to stop disempowering their citizens, violating and harassing them bureaucratically and legislatively, and instead - as many politicians state, day after day - to encourage citizens to once again assume personal responsibility and to creatively shape the world in which they work and live, is important.

All the governments in all the euro countries describe themselves as *democratic* and use this as the "grounds" for their "mandate" to violate the respective constitutions or even to partly revoke them, without further consulting the citizens in their countries. This pours scorn on the assertion that euro area citizens live in *democracies*.

But apart from the fact that politicians in every euro country (and worldwide) in fact contravene real democracy whenever an important decision is made, the question arises as to how *democratically* a whole country (and much more so a group of countries) can be governed at all.

How *democratically* can a citizen, even one who is ready to do so, decide on individual circumstances of which he knows nothing and which are not on

his horizon, and how will he be at all affected by the impact of his democratic decision? How is an Irishman supposed to *democratically* help decide whether a new bridge should be built over the Rhine or the Tower of Pisa shored up?

However absurd the question may seem, if *democracy* is to be actually lived (and not just opportunistically mouthed), it can only be built from the bottom up, and not the other way round, as heretofore practised worldwide. *Democracy* that is truly lived can only ever happen at a local level limited to regions, as every democratic decision presupposes both the decision-maker's competence and concern about the consequences of a decision.⁴ In diametrical opposition to this logical theory, today whole countries and (sub)continents call themselves *democratic*, which can wholeheartedly be regarded as mere absurdity or fiction, as in truth they are "*institutionalised party dictatorships*", which are a priori postulated, gradually developed and systematically strengthened. There is no area of public life – media, law, finance, education, the economy, logistics, transport, construction, information and postal services and (tele)communications, even lotteries and large parts of industry – which is not taken up and controlled by party politics. The majority, if not all, of the "democratic" state has long since passed into the "ownership" of the parties. Citizens are thus increasingly being robbed of their personal responsibility to the same extent and are being socially, economically, educationally and socio-politically disempowered and imposed on by (party) politics.

B. Implementation

As an alternative, all three powers – the legislative, the executive and the judiciary – should be implemented in *local* matters at exclusively local and regional level. By the same token, operational matters should play out in an internal company context, which would of course go hand in hand with depriving the trade unions of power and abolishing the collective bargaining law in exchange for the workforce being strengthened via works councils. The state should no longer be dominated by the parties and trade unions, churches and big business, but the democratic structures of the individual citizenries ("*demos*") with their representatives delegated according to plebiscite-based principles.

⁴ In ancient Athens, democracy did not even last 150 years, because the Athenians thought that they would have to usurp their neighbouring countries with this idea.

Such a departure from the pseudo-democracy that has hitherto been maintained would open up undreamed-of opportunities for human creativity, social initiatives and individual entrepreneurialism. Via the underlying focus of opinion- and decision-forming, people would be in a position to freely and authoritatively determine and decide together what represents, within their own citizenry, the opposite of the party-led pseudo-democracy.

What exactly would this look like? There is only one way out of the self-induced misery – helplessly and without objection, the increasingly disempowered citizen lets the state, i.e. the parties, provide – although this way goes hand-in-hand with epoch-making changes and thus has a fundamental impact on the global understanding of the state that has previously been propounded (and defended): as an entity, the sham democratic and social state which has been imposed on citizens has finally had its day, which has long been the case in terms of economic policy in any case.

Aside from the fact that, globally, there is not a single, genuinely *democratic* state, in future there will be no more "*social state*" either. The social insurance systems which are collapsing worldwide are eloquent testimony to this. All the matters which come under the heading *social policy*, can at most be the concern of *municipal/regional* entities. Accordingly the "*social principle*" must also be delegated once again, namely to small and, realistically speaking, also *democratic* entities ("demoi"), which could also regularly meet the socio-political needs of their citizens in a more meaningful, less bureaucratic and more efficient way. Such democratic citizenries would accordingly also once again give rise to *social* culture in the sense of neighbourly aid. The leaders in question would once more be elected according to competence and experience, not as a consequence of internal party careers and power struggles. Individuals' sense of responsibility towards the other members of society would grow rapidly and homogeneously. Pseudo-social distortion and perturbation per se would cease to exist. *Social* behaviour only flourishes in the soil of close, personal relationships and common goals, interests and concerns, but not through legislative control in the face of increasing impersonal alienation. After all, crime of all things is mostly the consequence of alienation and social instability. Everyone takes what he or she can grab.

To facilitate this state of real socialism and democracy in action, the parties that have heretofore ruled in every western nation must, however, sacrifice their powers, political sinecures and privileges and grant the communities ("demoi") full autonomy and self-sufficiency.

This also includes absolute freedom as to how the latter develop the social, fiscal, legal and economic policies for their area, the manner in which they establish themselves in increasing competition between the separate communities, which ultimately also includes a decision on which currency to base their economic processes at municipal or national level. The conditions imposed on citizens and enterprises wishing to immigrate and how they wish to govern their territorial circumstances would also be left to the municipalities.

[In response to those who would criticise these thoughts as a return to the *provincialism* of Europe in the eighteen and nineteenth centuries, this term describes an era in the history of Europe when hundreds of feudal lords ruled autocratically over their principalities, baronies and earldoms. It would have been impossible at this time to talk of *democratic* communities, as set out above.]

It has never been possible to stop the future, it has only been temporarily delayed (and subdued), because we persist in fearing change and lack the belief, the insight and the will, to face it with curiosity and interest. We should develop courage and learn to look it in the face, for the benefit of and with responsibility to future generations, in order to meaningfully and peacefully shape and experience it. It is with precisely this in mind that this "*concept of alternative democracy*" is based on developing a real, liveable "*bottom -up democracy*".

The basic requirement for "*democracy in action*" is that the municipalities/regions are able to *organise themselves, provide for themselves, enact autonomous legislation* and possess *financial autonomy*, with *organisational ability* meaning the *independent administration, free of outside instruction, by its own entities or individuals acting on their own responsibility*. *Ability to provide* presumes that the community is in a position to autonomously cover its members' essential basic needs, or to provide for their coverage.

These citizenries ("*demos*") do not allow themselves to be centrally planned or structured, but instead must be given the opportunity to grow organically. If this were allowed, efficient nuclei for new societies and alternative economies would arise, based on decentralised, publicly organised and ecologically harmonious life-forms. Development of such societies is not a pipe dream, because they exist in isolation in countries such as Switzerland, the United States and Canada, New Zealand and Scandinavia.

The legislative, executive and jurisdictional power in local/regional matters would have to lie in the hands of the citizenry ("*demos*"), which can give itself a locally adapted constitution by means of a popular vote. Via the basic

organisation of shaping of opinion and decision-making, people would be in a position to freely and authoritatively determine and decide together, within their own citizenry, in contrast to the party-led pseudo-democracy which currently prevails.

Apart from the fact that such a change of direction would open up undreamed-of possibilities for human creativity, social sensitivity in society, initiatives and independent entrepreneurial spirit, there would then also be no more wasteful management at the state's expense (in the expectation of necessary subsidies). The pseudo-democratic *state society* would be transformed into a *democratic citizenry* in the course of the transfer of state duties. The citizenries would be free to switch to alternative, decentralised (sustainable) energy supply technologies, to consequently increase self-sufficiency and respond more flexibly to requirements. Interest in an economy based on the utility value rather than the market value of goods and services would be promoted and also the number of self-employed would increase in leaps and bounds, as the local economic areas created would be ideal for artisanal, service and manufacturing professions, and more suitable, cheaper, more social and also more environmentally friendly for the development of smaller-scale sustainable technologies. The citizenries would be politically self-sufficient and sovereign. They would maintain their own police forces and infrastructures. The introduction of their own, local currencies would also be perfectly possible.

They would also decide to whom they would grant or refuse the right to immigrate and naturalise. At the same time, it would be up to the individual citizenries to make themselves a possible location for companies to locate, i.e. to make themselves attractive to investors and job-creating businesses, or to prevent them from relocating.

Without exception, they would be responsible for choosing forms of taxation. There would thus no longer be a national tax law.

All of this would promote the autonomy and safety of the individual and of families and would promote neighbourly relations while at the same time shaping the social cohesion of the community ("*demos*") more cheaply and with less administrative effort.

It is obvious that, in these circumstances, natural *social* communities would again emerge, expertise and responsibility would come to the fore and this would have a very positive impact on all areas of society (criminality, integration of children and new citizens, etc.). Responsibility would once more lie with the citizen and would no longer serve party-political power games, which have virtually usurped every country and disempowered their citizens.

True peace in action cannot be prescribed by law, but is a "product" of co-existence, based on socialism in action in the community on the lowest level – the citizenry (in keeping with the motto "*Think globally, act locally*").

It is necessary to ponder on the citizenries' right of self-determination reaching its limits for matters which are not exclusively local. If one thinks of supra-regional infrastructures – ports and bridges, hospitals and schools, universities and airports, etc. –, it is possible that citizenries interested in the project in question could unite for the purpose of realising supra-local objectives, i.e. set up a kind of supra-regional parliament, in which project-based representatives represent the interests of their citizenries. These representatives would be *democratically* elected by the citizenries according to their expertise, and could be dismissed at any time, if they represent their own interests instead of the citizenry's instructions ("*delegation principle*"). In their political work, these delegates would no longer be subject to the political-power constraints of a party or lobby, but exclusively to the will of the majority of its citizens. As these parliaments would not be permanent, but would only be mobilised on a project-related basis, this would clamp down effectively on the spread of idle political functionaries representing a party's particular interests.

The *democracy* principle thus mutates into the supra-local *delegatocracy* principle in matters of trans-municipal interest.

Conclusion:

Legislation concerning the local constitution, immigration and emigration law, the right of abode and extradition, as well as reporting, the monetary, banking and financial systems and coinage in the citizenry would be solely incumbent upon the citizenry, as would fiscal and revenue law, the legal relationships of all people in the service of the citizenry, the right of association and assembly within the citizenry, security and criminal law, public welfare, education and transport law, care of children and senior citizens, employment agency services, waste disposal, hospitals, agriculture and forestry, environmental and nature protection law, generation and utilisation of energy, land and real estate law, the law of lease and tenancy, the construction industry and construction law, etc.

Regional matters will be delegated by deputation of authorised representatives, who meet in a *regional parliament* and who legislate exclusively on a common monetary, banking and financial system and coinage, regional transport (airports, etc.), regional education (colleges, universities, etc.), legal relationships of people serving the region, regional generation and use of energy, regional hospitals and regional waste

disposal and processing, which is incumbent upon them through the (voluntary) cooperation of the region's citizenries.

Authorised representatives could again be deputed to parliaments dealing with other, supra-regional matters, to negotiate and pass resolutions in the same way at national or international level, but always exclusively in the interests of the representatives of the corresponding citizenry that gave them legitimacy in the first place.

[The word limits specified for the *Wolfson Economics Prize* do not permit a more detailed explanation of the "*Alternative democratic and legal concept*".

This can be viewed, however, in German, on the following website:

<http://www.d-perspektive.de/konzepte/demokratie-und-recht.html>]

Those who think that this opens up the way for anarchy are wrong, because it is to be assumed that the majority of citizenries created will abide by tried-and-tested rules and regulations, or will quickly develop better ones.

However great the resistance may be from specific interest groups – parties, trade unions, transnational associations and organisations, who must initially oppose this plea for an "*Alternative democracy and law concept*", we can be sure that *true democracy in action* can be achieved more sooner than later with this model.

The farce of "*democracy*" propagated today has no chance of being experienced in reality. This concept is also an appeal to every individual to participate in the political process and work together towards the goal of a *humane* local, regional, national and global society. The new view of reality offered here is a social, economic and ecological illustration, which far exceeds the imaginations (and goals!) of our current politicians who are part of the system.

Epilogue:

I hereby declare in lieu of oath that this competition entry is entirely my own work. The "*alternative concepts*" enshrined therein are also my intellectual property.

If many things in this work are only outlined in fragments and many concepts have not been comprehensively reproduced, this is solely because I wanted to restrict myself to the essentials, in keeping with the question posed.

I extend my sincere thanks to the private instigators of this competition; as the founder and financier of two charitable organisations, I have a very good idea of what this means.

In the hope of a truly humane future, I remain



H.-W. Graf

Munich, January 2012