

# Globalisation, Wealth and the World-Wide Financial and Fiscal System

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## I. Globalisation: Sketch of the overall problem dimension

A first important aspect of globalisation is the increasing number of people living on the planet<sup>1</sup>

1830	1930	1965	2000	2007	2050
1 bn	2 bn	3 bn	6 bn	6,8 bn	ca. 10 bn

A second important aspect of globalisation is consumption. The problem behind is the amount of resources needed to produce all goods and services consumed (gross domestic product GDP). What is the share of environment claimed by humans today?

Currently approx. 1.2 bn “wealthy” people are consuming more than 80 per cent of all goods and services. If our restriction would be a sustainable exploitation of the environment as the resource basis for our GDP we would need today more than one planet<sup>3</sup>. If all people on the planet would have the same level of consumption we would need more than five planets<sup>4</sup> – given our today’s technology. We plunder the past because we abolish depots of energy (especially oil, gas and coal) that developed during several millions of years. We eliminate forms of living from our planet. Our behaviour leads to the extinction of more and more species. We do not even think about possible consequences and whether the changing biotope lets us survive. We plunder the future because to reverse the climate changes driven by our

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emissions of green gases would take decades if not centuries<sup>5</sup>. Nobody knows actually whether these changes are reversible.

Today on our planet **5.6 bn humans are living in poverty** – by European standards. More than 10 Million people, mostly children, die of starvation<sup>6</sup>. Millions of people are dying from AIDS, malaria and other infections<sup>7</sup>. The number of living people would increase even more than estimated if there were not more than 45 million abortions per year<sup>8</sup>.

This situation is not sustainable. It is not consistent with the basic principle of **human dignity** and it is not consistent with the principle of **dignity of nature**<sup>9</sup>. The question is: How do we deal with this obviously problematic situation? Do we think our future is predetermined or do we have options to control the path we are going into the future? What are the alternatives? What should we do?

First of all it should be clear: If we spurn the “dignity of nature”, if we consume more than Mother Earth is willing and able to provide sustainably, if we continue littering and dumping into nature more than ecology can recycle in a reasonable period of time, the collapse of humankind will be the final result<sup>10</sup>. Mother Earth cannot be forced or convinced by humans to accept more waste than she is able to cope with. So for humans there is no other option than to accept dignity of nature if humans want to survive. Actually, we are living on credit. We are not conserving nature we spurn the dignity of Mother Earth.

## II. Future Options

To avoid over-exploitation in view of our present level of consumption and the efficiency of our current technology to produce goods and services, and to respect balance of nature we do have two alternatives<sup>11</sup>:

The first is “brazilianization”<sup>12</sup>. In this future only a small number of humans will have access to the limited resources and the derived goods and services. A considerably larger number will stay poor or become poor. This will result in a definite **two-class society** in which the principle “equal rights for all” does not count. **Human dignity will be abolished.** What we will see is even more hate, violence and terrorism than today. In consequence this has to be faced and will be faced with massive, even military, interventions and with the building of walls and fences as well. The majority of us does not want this future for mankind. But this future may be attractive for “elites”. A kind of global **feudalism**, with only a few “masters” and a lot of (dirt-cheap) “servants”.

The second option is to reach a fair distribution in the participation in wealth and consumption<sup>13</sup>. The production of goods and services has to keep the dignity of nature intact. That means each generation should not use more limited resources than acceptable under the perspective of sustainability. **“Prosperity for all” – for humans and nature.** To reach that goal, we need to be able to produce much more efficiently than today (the best would be at least ten times as much). This would allow to give more equal quality of living for everybody<sup>14</sup> as long as we reach a fair share of distribution<sup>15</sup>. We need growth because to freeze production on the current level or to reduce it and distribute only this amount of goods and services does not seem to be realistic<sup>16</sup>. “Wealthy” people would have to reduce their consumption to fifteen per cent of today’s amount. Those should live then with only one third of what

we in our “wealthy nations” call “poor”<sup>17</sup>. In the developing countries and underdeveloped countries the people would have to abandon the right to live in a way which we have shown them in the past.

### **III. How to reach “prosperity for all”?**

Analysing history we know: Educating as many people as possible to create the **maximum of creativity is the key** to maximise prosperity for all. Since education is costly, health is the second prerequisite. Infrastructure for communication, coordination and cooperation is a must. A healthier public will result in more older people living. And since we never need ten times as much gainful occupation even for ten times as much production we need a “new deal” for social security. We need art and culture and rules to keep a sound environment and biodiversity leading to human behaviour that respects the dignity of all living beings.

This is the basis for value creation and wealth and has to be financed (to a large extent) via a **fair system of taxes and duties**. The fiscal system should follow the principle of fairness and economical ability which means the powerful have to compensate the abilities of economically weaker participants in the society.

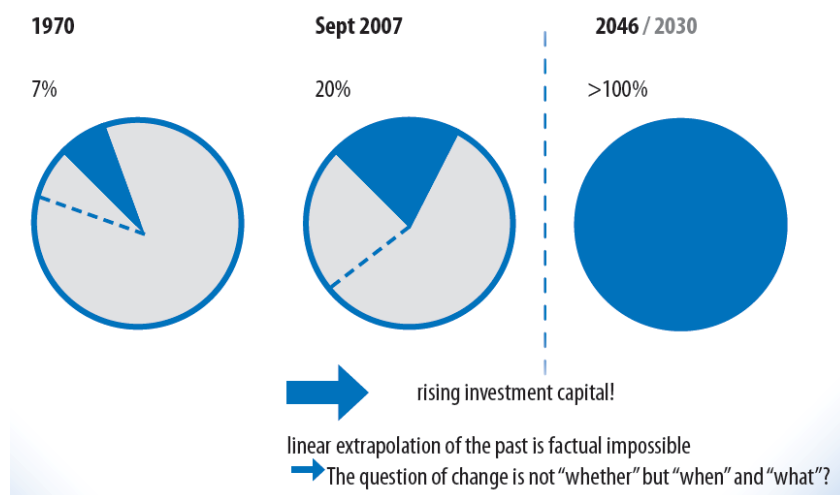
To sum up: We need **rules and regulations on a global scale** which are already implemented in wealthy economies. We need a **world-wide eco-social market economy**<sup>18</sup>. The globalised economy has to be organised following the principle of subsidiarity in the same way as wealthy nations are organised. The problem is that the current active rules and regulations within international or multi-national contracts (especially the World Trade Organisation WTO) do not cover social and ecological standards and rules. The opposite is true. WTO urges the compliance to quality stan-

dards but not to procedural standards and e. g. child labour is not a question of quality. It is a question of processing.

#### IV. The world's financial system at its limits

The world's financial system shows that the principle of market fundamentalism (free markets), which is dominant in the globalisation, erodes social democracies of wealthy nations<sup>19</sup>.

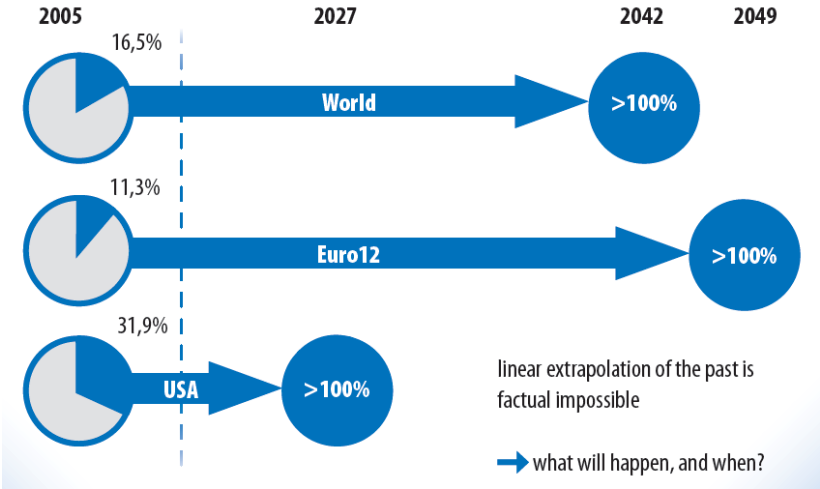
Globalisation as it is ruled and regulated (or rather deregulated) currently enables the **strongest globalised actors to minimise their payments of tax and duties**. Earnings will be taxed where the lowest rates are applied. Whereas the value creation takes place where the best infrastructure is provided<sup>20</sup>. The result is an increased net profit on investments and profitable financial or tangible assets. On the other hand it **reduces the income of states and public administrations**.



The total volume of financial and tangible assets increases faster than the world gross domestic product. As a result the share of earnings on profitable assets takes

more and more income from other economic activities (especially the income on gainful employment). This is another reason why public revenues are decreasing.

Public authorities are urged to balance decreasing public revenues by reducing public expenditures and by privatisations but taking on **more and more public debt** as well.



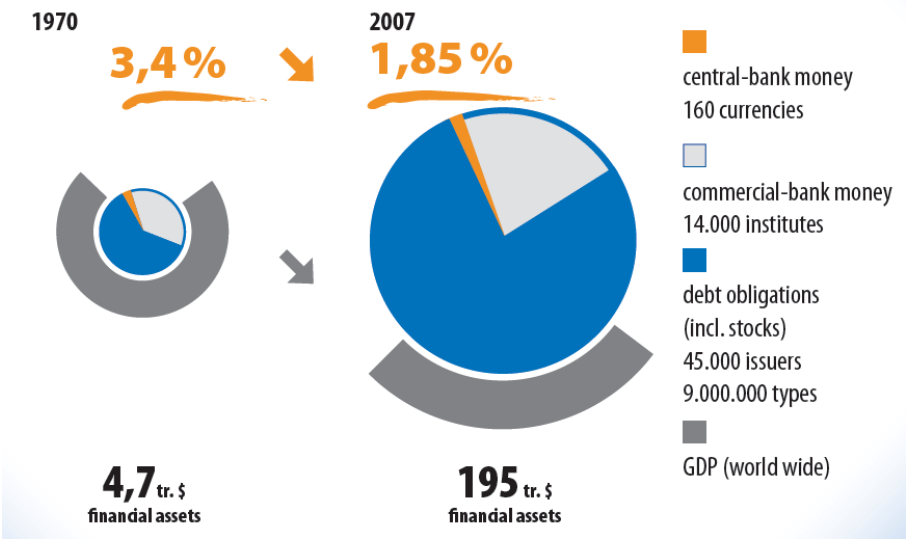
Enormous pressure on public finance (debt service/interest paid on debt in relation to public earnings

The emission of public debt obligations occur in an interplay with those who have the highest earnings but paying the lowest taxes. The deficit of “rich” nations is nearly equal to the amount of taxes that should but are not paid by the most powerful actors in the globalised economy. Especially these are actors of the world’s financial system. The deal between both sides (we see it implicitly fixed by systemic reasons and not as negotiated) allows a few very big creditors to use new so-called “innovative financial products” to enable the creation of new “fiat-money” to lend it to government. Government as a debtor has to provide rules and regulations to ease the “collection” of this money within the financial markets (e. g. possibility for securitisation,

derivatives, REITs, no minimum reserve on foreign currency accounts, no equity requirements giving credits to best-rated “nations” etc.).

In return “the big players” aim to provide stability in the financial system, currency exchange rate and are committed to buy all public debt obligations on request. The production of “new money” is a must since the savings rate of the world is not enough to serve all needed credits.

This has led to a situation where the overall world-wide amount of financial assets is four times as high as the world-wide gross domestic product (in Europe it is five times as high). In relation to the central banks’ money (M0 – currency in circulation) the securitised “claims on money” are more than fifty times as high.



Money and “claims on money”/money substitutes

**The world’s financial system is at its limits!** The current crisis of the financial system is not astonishing; it has been predicted based on an analysis of the described facts and effects (cf.<sup>19</sup> p. 159 et sqq.). What happened is a “run out of debt obligations” and “run into the ownership on real values” (non-financial tangible assets).

There is no demand on debt obligations (“money claims”), instead there is increasing demand on commodity futures which can be interpreted as claims on limited resources (e. g. oil and primary agricultural products). One consequence is a big problem of liquidity, partly asset inflation and partly asset deflation (because of fire sales to avoid illiquidity). Governments currently are reacting to this crisis without considering the problem of decreased public revenues and new indebtedness. This may stabilise the current crisis temporarily but the overall problem scenario will be even deteriorated. Insolvency of nation states comes closer. In consequence the global players from the financial sector will redistribute wealth to their accounts and redistribute losses to the general public. This could even be a strategy of some nations to reduce their indebtedness if they are able to repatriate and tax the earnings on the redistributed real values (cf.<sup>19</sup> p. 164 etc sqq.). Such kind of strategy could even be a means to get access to the relevant and limited resources. Meanwhile it is to be suspected that even sovereign wealth funds use this strategy.

**The world’s financial system is neither fair nor sustainable.** The rules and regulations of today will lead our system consequently into collapse or alternatively reach the brazilianization of the world. Rules and regulations have to be changed so that everybody – and especially the economically most powerful participants of the society – do their fair payments to finance the basis for wealth and value creation. This is the only way to reach “prosperity for all”.

## **V. Option for political action**

To avoid collapse and brazilianization, a consistent order of the world financial system is needed. The corner stones consist of more than rules and regulations for the



financial markets. Having the described facts and effects in mind, a consistent order has to cover at least three system dimensions:

- a) the monetary system
- b) the system for taxes and duties
- c) sources to co-finance an assimilation process to reach a balanced participation on wealth and consumption.

To cope with the problem of the “super-money-bubble” **and** the annual new indebtedness of public authorities, we propose an additional taxation element: A duty on money and leverage creation, a VAT on financial products. We propose a tax on any form of financial products, especially debt obligations, credit contracts but also e. g. repos (re-purchase agreements). We name it **leverage money tax** (Mehrgeldsteuer) (cf. <sup>19</sup> p. 168 etc. sqq.). For sure the negotiation and implementation of this new tax is anything but easy. Nevertheless such a “near-chaotic” situation as a sub-prime crisis and the escalating world crisis could be a chance. When, whether, not now? The core of the strategy for acceptance and implementation could be: There will be as much intervention by public authorities as needed to stabilise the crisis in order to avert recession and react on the failure of the markets’ “self-healing power” **if** the implementation of a leverage money tax, to partly finance the interventions, is accepted.

The current near-chaotic situation opens a window to implement ecological and social standards in the globalised markets as well. Kyoto-Plus as a follow-up of the Kyoto-Protocol to limit green gas emissions together with the social standards globally agreed within the ILO (International Labour Organisation) could be declared as mandatory processing standards within WTO. The world’s financial system (money

and taxation) could be given the new order in the so-called process of “Bretton Woods II”. Leverage money tax and international harmonization of tax bases would generate the money used to co-finance the acceptance of the standards within WTO and the needed implementation and assimilation processes. This is the blueprint for a better world for all.

## Notes and references

1. Kapitza, Sergey P.: "Global Population Blow-up and After", Report to the Club of Rome and the Global Marshall Plan Initiative, Hamburg 2005. In this book the so-called "quadratic principle" is described. In short this principle says that a doubling of the number of people living will result in a quadruplication of the innovation speed needed for the people to survive. That makes the current situation so different from the past. The innovation speed is already as fast that people have to change their behaviour during life-time. A higher innovation speed would result in the need of multiple changes of the behaviour during life-time. In the past that has never been the case. Earlier generations were able to prepare the change but only the next living generation had to adapt. Today innovation speed is also a problem from the economic point of view. Amortisation cycles of three or four years are too long if innovation speed is faster and equipment has to be replaced by new equipment within shorter time intervals.
2. Neiryck, Jacques: "Der göttliche Ingenieur", ISBN: 3-8169-1982-0, Expert-Verlag, 1994.  
In this book the role of technology for the survival of mankind to face the problem of limited resources is described. The main point is the observation that human societies in history had grown in their surrounding "biotope" until they reached local resource limitations. Technological innovation was always a means to extend resource limitations but new technology had always negative effects that Jacques Neiryck names boomerang. New technology, even with higher resource efficiency, lead to more consumption which over-compensated the positive effects from resource efficiency. As an example: the "paperless office" increased paper use enormously. In consequence the societies had to conquer new territories. They had to expand geographically. Today no geographical extension of societies is possible without conflicts. In addition with more and more people and the given resource limitations we need more and more innovations at a speed that over-burdens our brains and our economy.
3. Here a reference is made to the principle of the ecological footprint developed by Mathis Wackernagel and William Reese: "Unser ökologische Fußabdruck. Wie der Mensch Einfluss auf die Umwelt nimmt." Basel 1997, World-wide data are published under [www.footprintnetwork.org](http://www.footprintnetwork.org).
4. The film "The Planet" directed by Michael Sternberg, Linus Torrell, Johan Söderberg, 2006, explains this problems impressively. [http://de.wikipedia.org/wiki/Unser\\_Planet](http://de.wikipedia.org/wiki/Unser_Planet)
5. The world's climate situation has been described in detail in the forth IPCC Report/AR4 SYR ([www.IPCC.ch/IPCC\\_report/AR4SYR](http://www.IPCC.ch/IPCC_report/AR4SYR)) Several brief explanations can be downloaded at [www.de-ipcc.de](http://www.de-ipcc.de)
6. An overview about "hunger facts" can be obtained online at the World Food Programme <http://www.wfp.org>
7. Details can be found in the report "World Health Statistics 2007" of the World Health Organisation (WHO) <http://www.who.int/whosis/whostat2007/en/index.html>

8. cf. "The World Health Report 2005. Make every mother and child count" of the WHO  
[http://www.who.int/whr/2005/Archiv2005\\_en.pdf](http://www.who.int/whr/2005/Archiv2005_en.pdf)
9. Projekt "Weltethos" (global ethics), München 2004. Hans Küng has liberated fundamental values that could be seen as common to all religions in the world. These basic common values had been declared by the Parliament of World Religions of the year 1993. In the declaration ([www.weltethos.org](http://www.weltethos.org)) it is written: "We are interdependent. Each of us depends on the well-being of the whole and so we have respect for the community of living beings, for people, animals and plants and for the preservation of the earth, the air, water and soil." Later it is written: "We must treat others as we wish others to treat us. We make a commitment to respect life and dignity, individuality and diversity so that every person is treated humanely – without exception." From this perspective "the dignity of nature" encompasses the survival and living of any kind of species. It is not only the sustainability request that following generations (of human beings) should have the same opportunities for development and consumption.
10. Diamond, Jared "Collapse. How Societies choose to fail or succeed"; ISBN 978-0670033379; published by Viking Adult 2004;
11. Radermacher, Franz Josef: „Balance oder Zerstörung – Ökosoziale Marktwirtschaft als Schlüssel zu einer weltweiten nachhaltigen Entwicklung“, ISBN: 3-7040-1950-X, Ökosoziales Forum Europa. Wien 2002
12. Radermacher, Franz Josef; Beyers, Bert: „Welt mit Zukunft - Überleben im 21. Jahrhundert“, ISBN 978-3-93017-86-9, Murmann-Verlag 2007
13. Kämpke T., Pestel R., Radermacher F.J. „A computational concept for normative equity. Europ. J. of Law and Economics, No. 15, Vol. 2,129-163, 2003“; „The authors have developed a concept to measure participation on wealth and consumption. They have developed the equity concept where the equity factor describes the distribution of income in a society. Investigations have been made to relate the distribution of participation with the wealth of the society. An observation is that wealthy states have a distribution pattern where the 20 per cent richest people in a society participate in 35 per cent to 50 per cent of the overall income (GDP). The poorer part (80 per cent) receive 50 to 65 per cent of the overall income. An extreme unbalancing as well as too high equality lead to less wealth of nations.
14. Schmidt-Bleek, Friedrich: "Das MIPS-Konzept. Weniger Naturverbrauch, mehr Lebensqualität durch Faktor 10", München 1998
15. The question is whether 10 times as much gainful occupation is needed to produce 10 times as many goods and services than today. Taken into account the needed innovation there should be scepticism that one really needs so many employees to produce the future gross domestic product. That is why one should even think about new forms of the organisation respectively the ensuring of a fair participation in wealth and consumption. One can think about concepts like "unconditional basic income" as it is proposed by Götz Werner in his book "Einkommen für alle"; ISBN 346-2037-75-7; 2007

16. Radermacher, Franz Josef, "Die neue Zukunftsformel" Bild der Wissenschaft, Heft 4/2002, S. 78-86, April 2002
17. The European Definition of Poverty defines poor people as those who have less than 50 per cent of the average income at their disposal. 15 per cent of the average (the 85 per cent reduction of the average) is only one sixth of the average.
18. Riegler, Josef: „Antworten auf die Zukunft, Ökosoziale Marktwirtschaft“, Adolf Holzhausens NfG., Wien, ISBN 3-900-518-05-X, 1990
19. Solte, Dirk: „Weltfinanzsystem am Limit – Einblicke in den „Heiligen Gral“ der Globalisierung“, ISBN 978-3-9811715-2-2, Terra Media Verlag Berlin 2007
20. Jarass, Lorenz; Obermaier, Gustav M.: „Jeder sollte Steuern zahlen – Ein Beitrag zur Unternehmenssteuerreform 2008“, Global Marshall Plan, ISBN 3-9809723-9-9, CPI-Books Ulm 2006
21. Radermacher, Franz Josef: "Global Marshall Plan – A Planetary Contract", Global Marshall Plan, ISBN 3-9809723-0-5, 2004.