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Globalisation and Public Welfare with Respect to the Money- and Land Order

Contents

I get the impression sometimes that most politicians still have no idea of how much they are already controlled by the financial markets and are even ruled by them.

Hans Tietmeyer [1]

Preface

On the one hand it is hardly comprehensible how financial currents around the globe are increasing so excessively and on the other hand there are growing complaints about a lack of money. On the one hand poverty is spreading in the world more and more, on the other hand a minority of people are accumulating a wealth that can only be measured in terms of the economic performance of dozens of smaller countries.

How do such contradictions arise? What are the reasons for such dysfunctional developments on international and national levels? How come that the turnover at global stock exchanges meanwhile exceeds the turnover of real economy by a multiple of times, so that global debts permanently grow, deepening the discrepancy between North and South, between the rich and the poor. How is it possible that three people on earth have gathered a wealth that surpasses the economic performance of 600 million people in 35 of the poorest countries? And how does it come that within individual countries there is an alarming growth of economic and social problems despite a steady increase of the economic performance and the escalation of monetary assets. How does it come that thirty years ago towns and municipalities were capable of building schools, public swimming pools, nursery schools and libraries and today, they aren't even capable any more of maintaining these existing public facilities? How does it happen that there are growing holes in public cashboxes even though costs are being reduced wherever you look, debts are made and often even public property getting sold - assets which once had been financed by tax revenues and therefore belong to the public anyway?

What are the causes and motivations behind these developments which are often contradictory and are increasingly becoming a threat for the public welfare?

If one analyses these questions systematically on regional, national and global bases, certain mechanisms and effects could be observed in our money and land distribution systems.

These will be described in the following.

1. Problem Area Money

In the money area the increasing problems of certain over-developments can be shown in a particularly clear way. One speaks about over-developments if, during the processes of growth, individual parts develop faster than the whole. If for instance the lungs or the liver of an adolescent grow faster than the whole organism, then we can talk about such an over-development. It would be even more critical if such an over-growth of individual parts were to continue to grow in an adult. Without control

[1] President of the Deutsche Bundesbank (German Federal Bank), Davos 1996

the organism would encounter increasing complications resulting in crises and finally collapse...

It is a natural law that all parts of a whole should develop proportionally and this does not apply only to biological but to economic systems as well. If, for instance, the economic performance of a country increases by a certain percentage, then the incomes of everyone can increase at the same rate. If a group claims more than a proportional part of the income, however, then the rest will have to settle with a lower income which inevitably leads to distribution conflicts in the social structure.

Such distribution conflicts become particularly evident in the global and national over-development of debts.

1.1. The Over-Growth of Debts

One speaks about over-indebtedness if a debtor cannot meet his obligations on his own any more. Such over-indebtedness became a topic in media for the first time, when Mexico and Poland went insolvent in 1981/82.

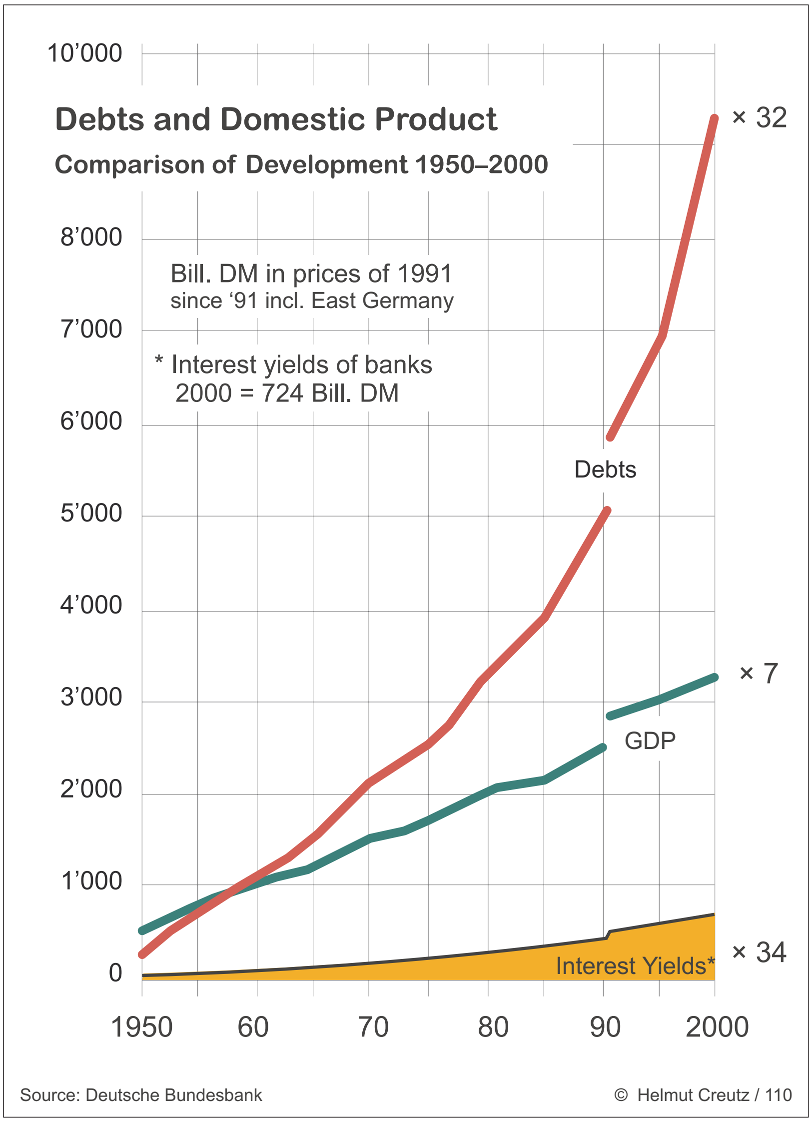

Figure 1

But it was ignored at that time that the total of domestic debts in Germany already rose to a multiple of the combined foreign debts of all developing and fast-developing nations. The developing countries had been blamed, but the German administration, too, was paying her debts by making new debts. This will be considered more closely later.

Figure 1 shows the magnitude of the total of Germany's debts which has been reached in the meantime and it also shows how debts have left the basis of development of the economic performance. As it can be seen here, the performance of the National Economy from 1950 has risen to an amount seven times as high in the year 2000 (inflation-adjusted). This means, we produce and consume today, seven times as much as 50 years ago! The total of indebtedness of the National Economy grew almost five times faster to 32 times. This means, however, that interest payments in servicing the excessively growing debts must be taken from a gross domestic product (GDP) that is growing at a much slower rate.

As the figure shows, these different rates of development result in increasingly diverging curves. Thus, even smaller growth rates at a largely constant absolute increase of the performance always lead to an almost linear increase in the productivity curve. While in the 1950ies the economic growth still required growth rates at around 8.5 per cent, nowadays 1.2 per cent would be sufficient! The growth curve of debts rises, however, at approximately constant rates of about seven per cent, which means acceleration at an exponential rate.

Signs of saturation and the ecological limits of growth are becoming more and more evident in the rich industrial nations. Hence we ought to have already gone over to a stable, growth free economy long ago. It would make it easier for other lesser developed countries to make up time, too. That we still need more growth despite our material abundance, is due to the over-development of debts which constantly demand greater shares of the national income by interest claims. If these growing interest claims are not to lead to a rapid fall of all other incomes, then a further growing economic performance seems to be indispensible, even though compensation becomes less and less possible.

1.2. How does Over-Indebtedness have an Effect on Individual Households?

All the billion amounts in the national economy become more grippingly, if one converts them to all households or employed persons whose numbers are approximately identical. This conversion has been carried out in figure 2 for the years 1950, 1975 and 2000. While in 1950 the share of debts for every employed person, i.e. household, still corresponded with the disposable income, its volume increased to more than the double in 1975 and it was almost five times as high in 2000. This can be drawn from the given nominal numbers below the columns which also show the accelerated effect of the opening scissors.

That this development cannot continue for another 25 years becomes obvious by the increase of the given interest transfer numbers. These numbers have been taken from the annual publications of the Bundesbank (German Federal Bank) about interest yields of commercial banks which can be understood as an approximately equal amount of the total debt-related interest burden. In the year 2000 the total amount of interest burden was 724 billion DEM for all households or employed persons and the disposable income was 2′564 billion DEM.

The result is a share of interest burdens that amounts to 28 per cent on the income of every household. In 1975 this share had been around 13 per cent and in 1950 even only 6 per cent. If these interest burden shares are converted into working hours, then every employed person had to work about three weeks per year for these interest burdens, in 1975 he had to work seven weeks and in 2000 almost fifteen weeks, that is more than the quarter of a year!

The subdivisions of the debt column in the year 2000 show the different debt shares of the three sectors of the economy, i.e. commercial enterprises as well as public and private households. It has to be taken into consideration that under the term "enterprises" only capital companies are subsumed while partnership companies are classified as private households. The results for the year 2000 are a share of total debts for enterprises amounting to 56 per cent, for private households 24 per cent and 20 per cent for the state's administration. While the state's indebtedness became a public

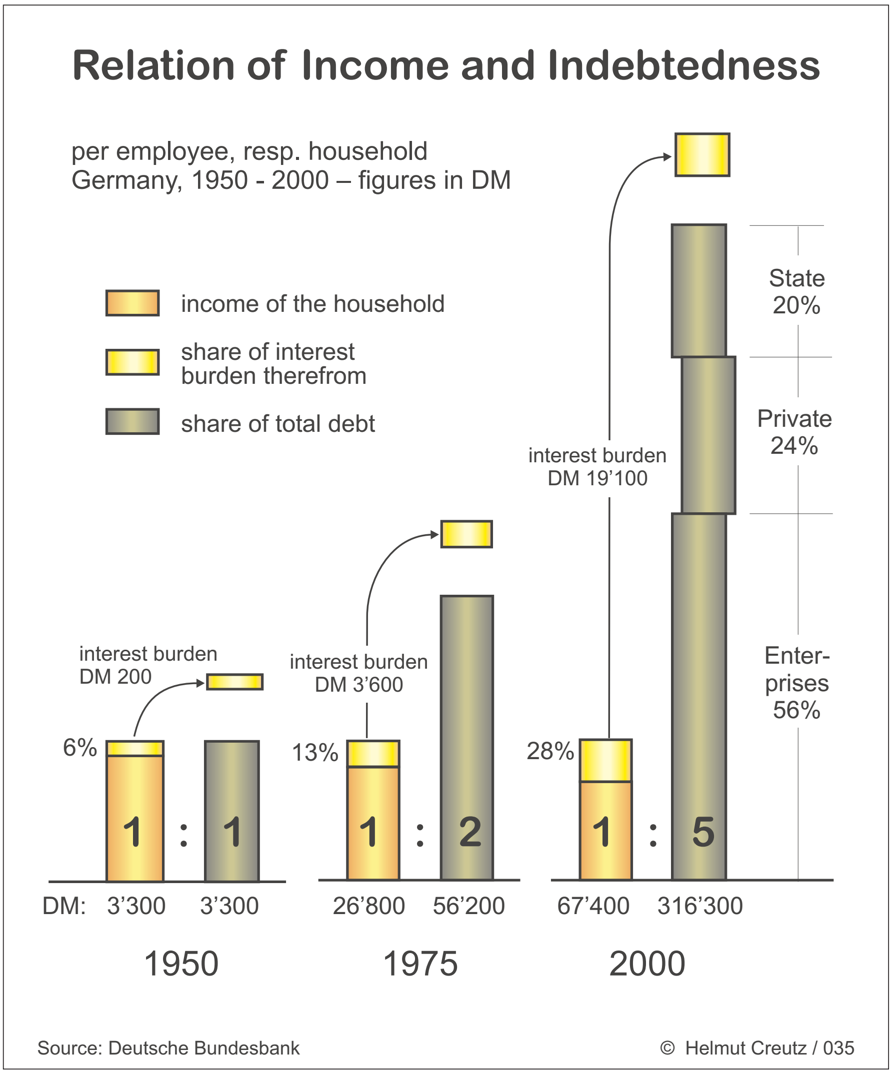

Figure 2

topic in mass media, primarily in context with conditions of the Maastricht contracts, the almost three times as high indebtedness in the sector "enterprises" has so far not become a subject of discussion although they are primarily responsible for increasing numbers of insolvencies and losses of employment in the economy. Instead, it seems easier to talk about insolvencies of private households which in the last years are particularly rapidly increasing.

1.3. The State's Indebtedness in Germany

How the total of debts of all public households have developed in comparison with the total of public revenues since 1970 can be drawn from *figure 3*. It shows a similar opening of scissors between the overall economic indebtedness and the gross domestic product as depicted in *figure 1*. While there is an intersection and divergence of the curves to be observed since 1960, this starts in public households at the beginning of the 70ies, more exactly in 1973. It coincides with the first great phase of high interest rates resulting in a first economic slump accompanied with declining revenues of the state at increasing expenditures.

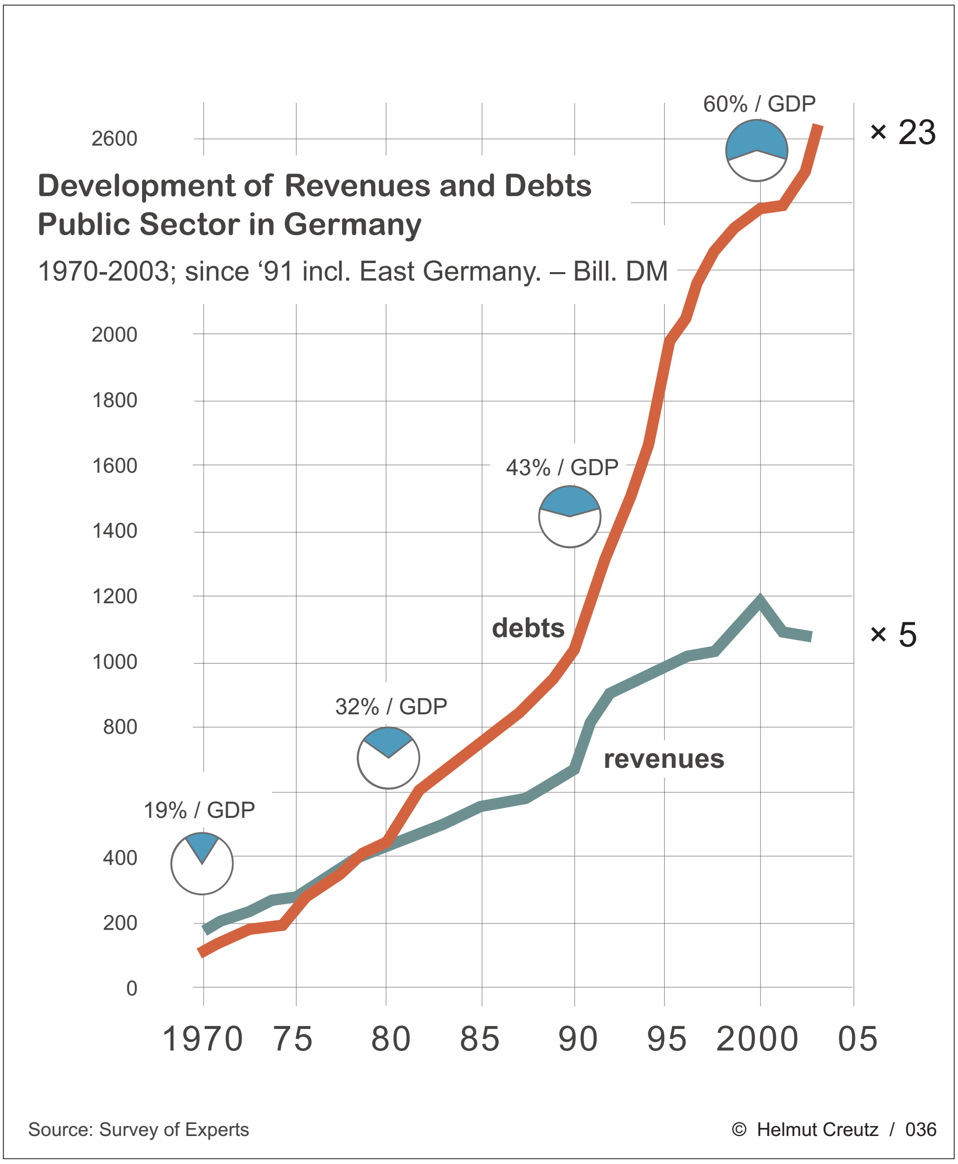

Figure 3

At the beginning of the 1990ies in the course of the German re-unification it came to a particularly obvious acceleration of this increase of indebtedness which was opposed by a clear push in the revenues of the state, though. This drive for indebtedness, however, can under no circumstances be seen in association with the re-unification alone, but rather with the high interest phase of 1988-92. The facts also prove that the public debts in the other G7 countries, except the USA, rose still more rapidly in the years 1990 to 1995 than in Germany. While the increase in Germany was around 14 per cent of the GDP, the average of the five other G7 countries (without the US) amounted to about 20 per cent of the respective GDPs.

If one looks at the development in Germany over the represented period of 30 years, it is notable that public debts nominally increased by the factor of 19 while public revenues increased by the factor of 6.4 only. This means, the indebtedness of the state grew 3 times as fast as the state's revenues. The respective ratio of indebtedness in relation to the economic performance (GDP) can be taken from the small circles in the figure.

1.4. The Development of Public Interest Burdens

Even more alarming than the development of public debts, however, is the development of interest burdens that are connected with it. In figure 4 their annual numbers are represented as a curve along with the annual new borrowings in the amount of net borrowings, which are sometimes above, sometimes below the amounts of interest payments. As can be visually recognized already, all numeric data of the last 30 years must add up to about the same sum. That means, however, that the total of new borrowings (and actually the total of new borrowings with the amount of 2'000 billion DEM in addition to that) have only been used for interest payments! Those figures don't stand for any investments nor for any other sensible expenditures!

Even the secretary of the Ministry of Finance, Manfred Overhaus, lamented over these facts at a debt symposium in Berlin at the end of 1998, about which the weekly newspaper DIE ZEIT[2] reported:

> *"In a long-term consideration one can say quite clearly that the whole performance has not been worthwhile. For, if we had done without loans in the long run we would not have to worry about interest payments today and not be afraid of any interest risks. However, we would have spent exactly as much on investments as up to now, ... because the borrowings were used up for interest payments."*

The editor of the paper summarized the facts of the matter and the resulting consequences in its heading still more briefly:

> *"With the loans of today the state always settles only the interests of yesterday - at the expense of the generations of tomorrow."*

If one considers, that the annual interest payments of the state use up an amount of 130 billion DEM or, in the meantime, 67 billion EUR and that the household gaps and the compulsions for reduction, discussed over months, often deal with only fractions of this sum, then it becomes obvious: the state has manoeuvred itself into a dead end!

[2] DIE ZEIT (weekly paper), January 14th, 1999

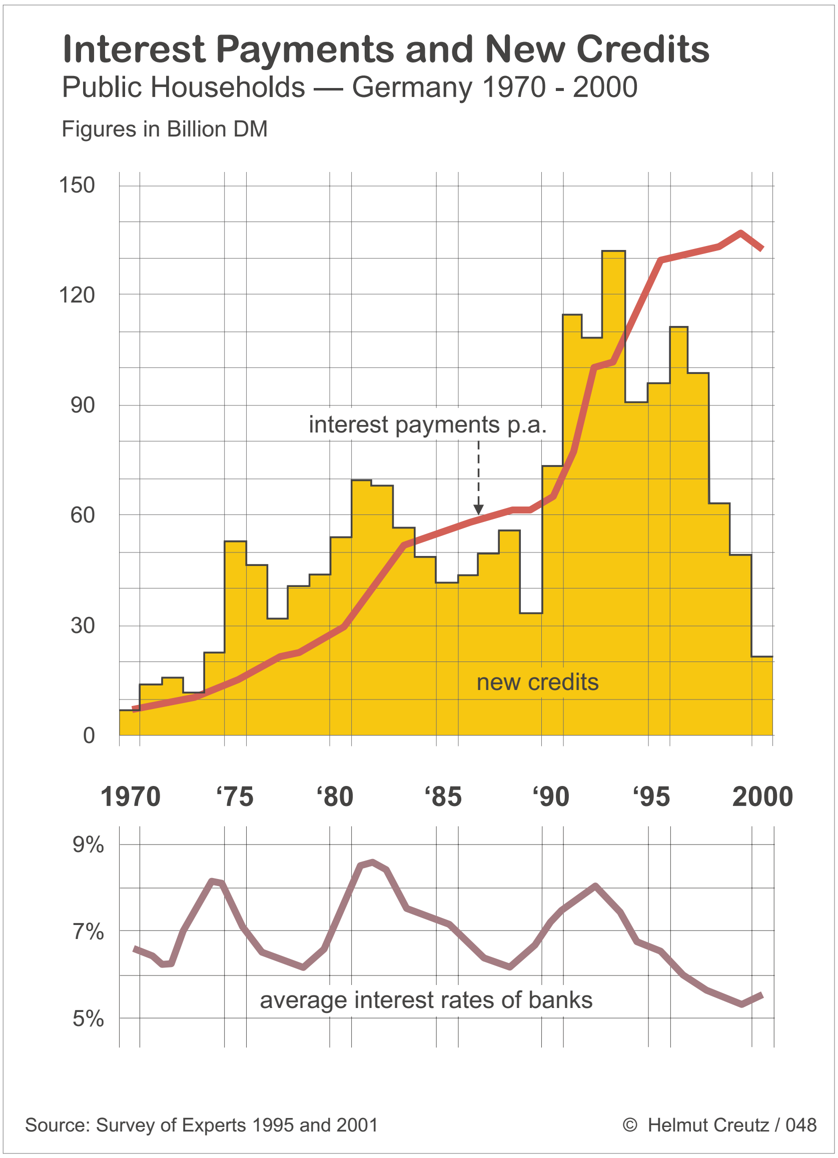

Figure 4

1.5. Causes of the Over-Indebtedness

One can always raise debts only with somebody who has money left, i.e. the owners of income surplus and therefrom resulting monetary assets. While originally these monetary assets were accumulating by reserves from labor earnings, their growth meanwhile happens "by itself", which is to say: by interest credit notes on the already available monetary assets. Even representants of the German Federal Bank have already talked about the "self-alimentation" of monetary assets ten years ago. The German Federal Bank had found out that the interest credit notes on the accounts of private households at that time amounted to a share of around 80% of new savings.[3]

This permanent, largely automatic increase arising from the interest credit notes of the monetary assets, however, does not only make a permanent expansion of the borrowings *possible* but it also *forces* them. Because without the regular return of the constantly collected surplus of incomes there would be a lack of money in the economy. In turn

[3] Deutsche Bundesbank (German Federal Bank), Monthly Report, October 1993

this would lead to interruptions in the demand section, with recessive and possibly even deflationary consequences. Therefore not only the income surplus can be led back via borrowings into the demand section in every national economy but in this way they *must be reactivated* if serious negative consequences for the economy are to be avoided. The economic scientist Rüdiger Pohl, a long time member of the Expert Council, has once confirmed that the state has a special responsibility and must stand in as a borrower in emergency for the necessary return of the income surplus:

> *"Please note: the state's borrowing is not an end in itself. But, if... the capital supply from private savings rises, and at the same time the capital demand... of the enterprises remains stagnant because of a weak inclination for investment, the state must then take the capital over-supply from the market because otherwise a deflationary development of the economy would emerge."*[4]

If the state withdraws from this obligation for new borrowings as it is increasingly practised, then others must take that job. Since the enterprises, however, no longer need so high borrowings - like e.g. in the USA - this role can only be assumed by private households. Otherwise, alternative trade channels must be found for the surplus of money within the country or in foreign countries, at a pinch also in the form of stock exchanges, land or other speculations or by purchasing existing real estate, enterprise or supply facilities, primarily from a public hand.

1.6. The Over-Developments of Monetary Assets

How the money capital has developed in Germany since 1950 and in which hands it is, is shown in *figure 5*. The inventory of money capital refers to the three economic sectors and is expressed in percentage of the GDP, i.e. in relation to the social product. Accordingly, in 1950 every single Deutschmark represented 60 per cent, i.e. 60 Pfennigs, monetary assets, in 1975 this amounted to 150 Pfennigs already and by the end of the year 2000 even 300 Pfennigs, five times as much as in 1950! If one looks at the allocation of monetary assets, then each of the three sectors were involved with approximately one third at the beginning of the 1950ies. Until 1960 even the state gained a considerable share from the growth of monetary assets, even more than the enterprises. Since 1960, however, the further increase then concentrated primarily on private households and since 1980 shifted more to the enterprises.

In contrast to the increase of wealth of the private households and enterprises the state is getting relatively poorer and poorer since 1960. Its share was only 6 per cent of all monetary assets in the year 2000 while the enterprises owned 34 per cent and the private households 60 per cent. (The cut in entrepreneurial monetary assets in the year 1991 depends on the Europe-wide accounting method already mentioned, according to which partnership companies are treated like private households.) As far as the concentration of monetary assets is concerned, in a democracy it is in principle correct, if wealth primarily accumulates with the citizens who also work for it. The problem lies, however, in the fact that bigger and bigger social discrepancies build up within the wealth of the citizens, the compensation of which we still generally expect from the state.

[4] DIE ZEIT, edition from December 11th, 1987

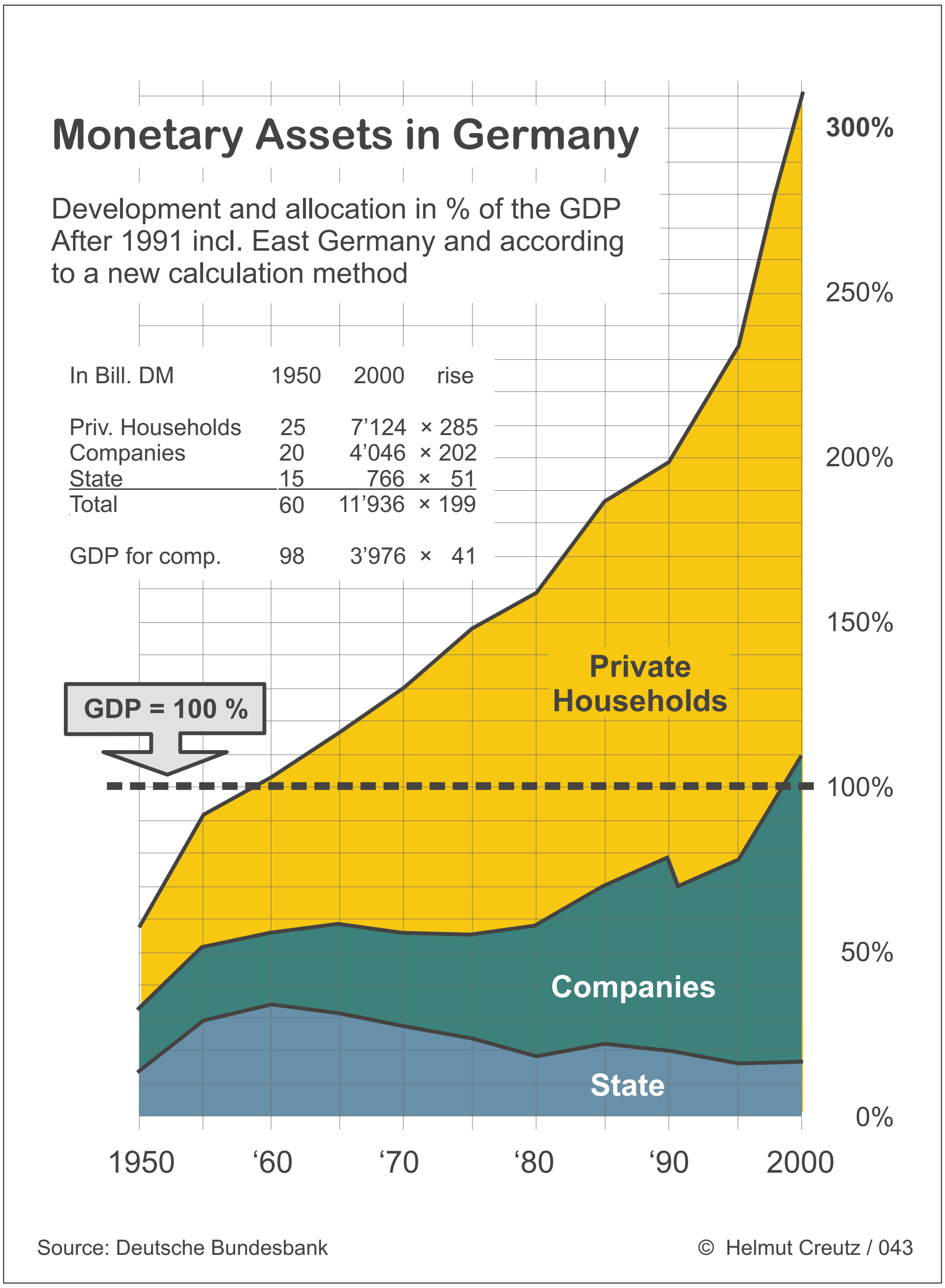

Figure 5

However, even the state has meanwhile fallen into the debt trap. In addition, the state manages less and less to take hold of the globally evaporating wealth by taxes. All the more the state then charges the working for whom it's not so easy to escape the obligatory taxes and other duties, unless the trade unions would succeed in demanding wage accounts for employees in Luxembourg or on the Bahamas.

1.7. The Development Differences with Rates of Increase

The speed with which monetary and real numbers drift apart in our country meanwhile shows particularly clearly if the respective annual rates of increase are compared with each other in the course of time. This is shown in *figure 6* in relation to national product, net wages and monetary assets with the respective average of nominal annual values for individual decades.

By disregarding the over-increase of the gross domestic product in the 1970ies, the economic performance increased relatively evenly during the five decades. The increases of net-wages and -salaries, however, considerably declined already in the 1980ies and 1990ies and melted to a minimum in the 1990ies. The increases of the monetary assets, however, rose more and more explosively from decade to decade.

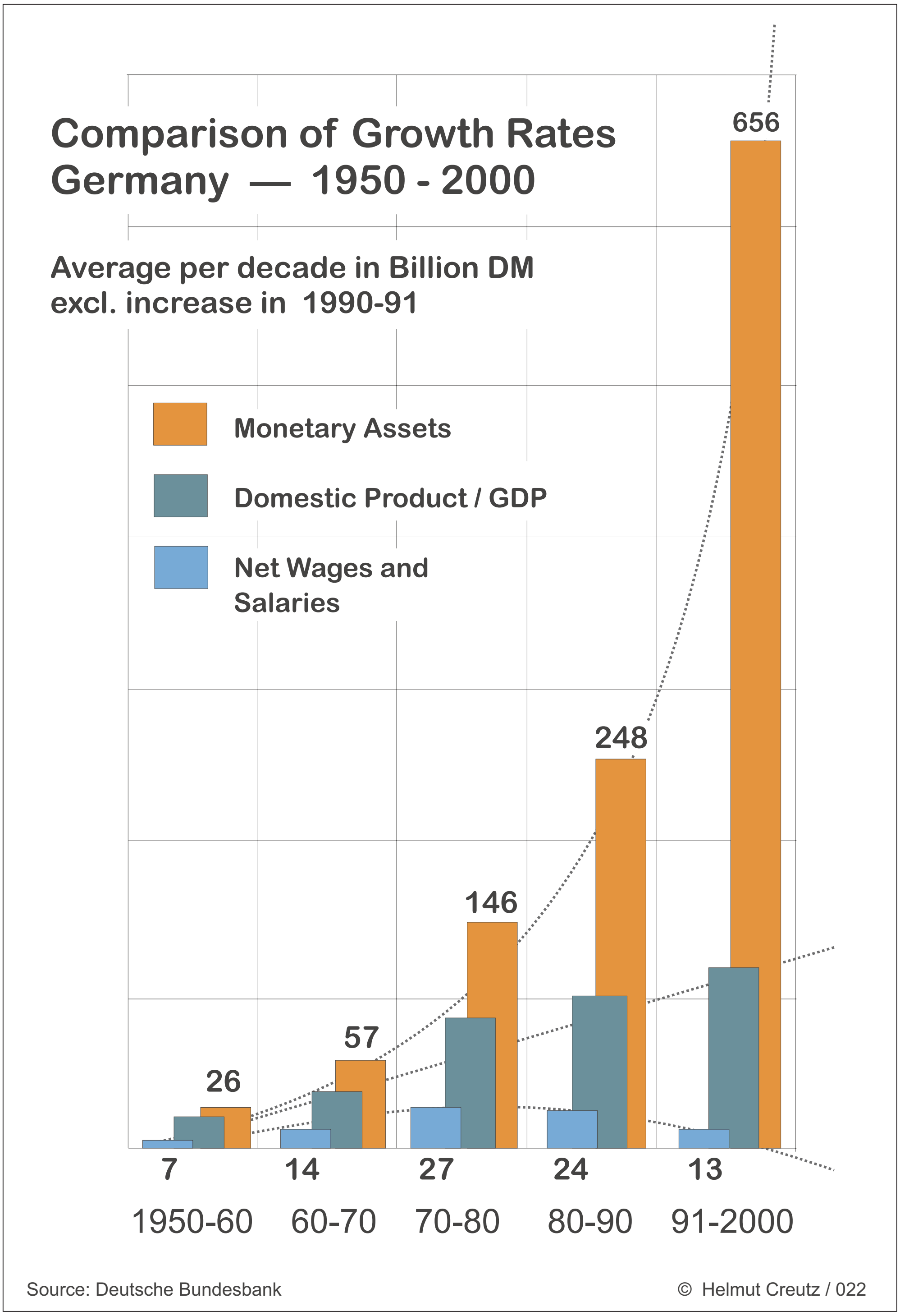

Figure 6

One recognizes this increasing gap between the figures particularly well if one compares the distribution relations between wages, GDP and monetary assets. While the ratio between these was still 1:3:4 in the 1950ies, they drifted apart in the 1990ies to 1:8:20. Correspondingly, interest revenues associated with monetary assets gained excessively. Due to the shifts in the purchasing power connected with this, the employees are less and less capable to demand the goods and services that were produced by them! On the other hand, the purchasing power, that flows more and more to the monetary wealthy, hits "cashboxes without need"[5], so that the money circle can only be closed by an amplified reflow of these surplus earnings by further loan expansions. Thus, however, all the problem developments inevitably accelerate in turn.

If one converts the average annual increase of monetary capital, which in the 1990ies amounted to 656 billion DEM, to calendar days, then this results in an average increase of the monetary assets of about 1.8 billion DEM per day. This means, that every day new borrowers had to be found and possibly at the same level available real assets acquired, not least for the material protection against these loans, or investments for about 1.8 billion DEM only in order to return the purchasing power bound in these capital increases into the monetary cycle!

1.8. Other Problematic Consequences of the Monetary Over-Developments

Just this permanent over-growth of the monetary assets which amounted to more than 8% every year in the 1990ies should alarm everybody who has ever heard about the calculation of compound interest. For, such a growth rate of 8% results in doubling the output quantity in approximately nine years, after 18 years in a quadruplication and after 27 years the output quantity will be 8 times as high! And these monetary assets which are growing explosively due to compound interest must be serviced from an economic performance the growth of which lags obviously behind and from time to time even more intensely!

Since these increasing interest payments are reflected in all prices and taxes as costs in the end, the final consumers at the end of the chain must bear these costs with every spent mark/euro. The interest proceeds of banks alone, published by the German Federal Bank for 2000 with an amount of 724 billion EUR, yielded in the same year 28 EUR-cent for 1 EUR of income, i.e. 28 per cent, as has been shown in figure 2! These, however, are only the interest payments for debts as well as for indebted tangible assets. Since approximately one third of all existing tangible assets committed in the economy are to be considered debt-free, however, approximately half of this debt interest burden must be added as interest service for this debt-free share of tangible assets. This means, any taken Deutschmark or any Euro meanwhile include about 42 per cent of interest burdens. Related to all budget expenditures which are left after deduction of savings from the disposable incomes, it makes arithmetically even 46 per cent even if a part of this amount is collected apart from the expenditures, e.g. via taxes. Or, in other words: since all costs, interest costs as well, have a direct or indirect influence on final prices, almost half of all expenditures go either directly or indirectly into interest payments. In the prices of particularly capital-intensive goods, e.g. rents or refinery products, the interest shares mount up to even 60 to 80%! With rents these interest charges can be checked in a rather simple way. If one assumes 1'200 EUR as total cost for land and construction for 1 square meter of living space, then the interest

[5] Dieter Suhr, *Money without Added Value*, Frankfurt 1983

burden for every square meter at an interest rate of 5 per cent would amount to an annual burden of 60 EUR or 5 EUR per month. In addition to the remaining costs of the object, primarily amortization, the final rent would amount to about 7 EUR per square meter including an interest share of 71%. It has to be taken into account that only the interest costs arising in the course of the construction financing are included in this calculation, but not those costs which have forced prices in all materials and advance payments!

1.9. Allocation of Interest Incomes

Of course, the interest payments with all expenditures which accumulate in the interest-monopoly-pot flow directly or indirectly back to the households again, too.

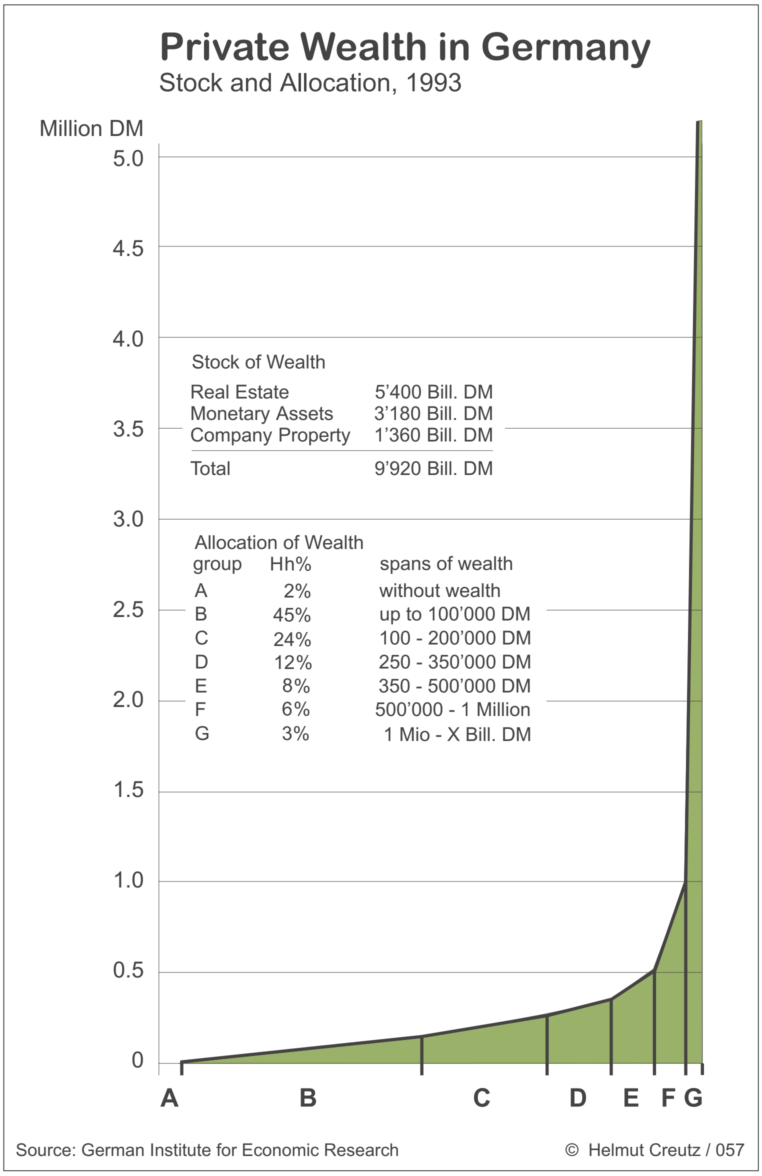

Figure 7

Not the incomes or the expenditures of the households are the key for these re-transfers, but their interest-bearing assets. Since their allocation, however, rises much more extremely and more progressively than the incomes and even more clearly than expenditures, the net calculation of interest earnings concentrate more and more on a minority.

The extremes to which the allocation of private fortunes in Germany have been driven by now, can be derived from *figure 7* and the specified tables in it. According to the numbers, the poorer half of households owns hardly ten per cent of the assets, the prosperous tenth, however, more than the half.

If one would remove the household groups which use their real estate for themselves without gaining interest, the allocation discrepancies would become even a lot more blatant. This is also shown by investigations which are carried through every five years with income and application sample surveys. According to these investigations only four per cent of all monetary assets belong to the poorer half of the population and 96 per cent to the richer half. But within these 96 per cent, too, there is in turn a concentration on the richest one to two per cent of all of the households. And even more glaring than the ownership of monetary assets is this concentration in company- and tangible assets!

1.10. Who is Loser in the Redistribution, Who Winner?

Whoever wants to find out whether his own household is winner or loser in this interest-caused redistribution, needs only to compare his interest payments into the interest-redistribution-pot, which make about 46 per cent of all his annual expenditures, with his own interest gains.

Assuming the average expenses of a household or employed person, which amounted to 60′600 DEM or 31′000 EUR in the year 2000, the calculated interest burden would amount to 28′000 DEM or 14′300 EUR. If this average household was to compensate his share of interest burden by his own interest gains, he would have to own an interest-bearing asset of 700′000 DEM or 358′000 EUR at an assumed average interest rate of 4%. From this a rule of thumb can be derived: in order to compensate for its interest burden a household must own an interest-bearing asset which is an equivalent to the ten- to twelve-fold amount of its annual expenditures!

If one divides the households into ten groups according to their incomes, then this rule of thumb only applies to the ninth household group. With the eight first groups the interest balance is negative and only the tenth group will have a positive balance. This means that in the course of the interest burden- and income-currents spreading out on everyone this richest tenth wins exactly that sum which the eight poorer tenths lose on balance!

In this way every single day net about 300 to 350 million EUR are redistributed by the majority of the households to an ever richer becoming minority in Germany. The biggest losers in this redistibution are those households which have no or only small interest-bearing assets!

In contrast to the general opinion that primarily a good performance should be honoured, in reality the greatest incomes flow in the opposite direction or more precisely: from the majority of people who predominantly make their living by working to the minority who live from their properties. This also explains the growing discrepancies between the rich and the poor quoted by newspapers as the "new poverty".

It's not only the social consequences of our monetary system which threaten the peace in our societies and also the peace in the world, but also the increasing ecological consequences that come along with it. For, the only answer to accumulating indebtedness and discrepancies of wealth that politicians, entrepreneurs (and unfortunately most economic scientists, too) seem to know, is a call for more growth which is possible only if the economic performance is permanently increased, in order to defuse the hardest social tensions even though this turns out less well from year to year...

Single debtors, whether private individuals or entrepreneurs, can only try to compensate for the increasing load by an ever increasing performance. From this also results a permanent pressure for growth within the society which finds expression in bigger and bigger advertising orgies. Even the trade unions tune to the choir of growth admirers although according to the laws of logic our living conditions should never become worse like in the previous year if the performance *remained the same*, i.e. without any economic growth!

What remains after all growth euphoria is the insight, that economic growth, as we measure it today, cannot be realised without additionally using up resources and degradation of the environment. This is particularly true, when the leading industrial nations participate in the race for growth rates whose material lead compared to the rest of the world is far ahead.

1.11. The Economic Consequences Primarily for Occupation

The responsible persons, whether they are entrepreneurs, politicians or trade unionists, have only one answer: growth! But no one asks the question why there has to be growth at all in a national economy which is largely replete and partially over-saturated and where new products can only be pushed into the market by advertisement costing millions of Euros. For, if in a normally operating national economy the need for labor declines due to decreasing demand and nevertheless increasing productivity, then the proper answer can only be the reduction of working *time* in general jobs, but not, as is the rule today, by reducing the *number* of employees!

How the employment market becomes distorted by the present capitalism can be seen in *figure 8*. There the influence on the economic situation by fluctuations of interest rates relating to unemployment can be noted. A long-term observation of unemployment shows that it was rising almost linearly since the beginning of the 1970ies. The increase, however, did not proceed continuously, but happened in time-phases of seven to ten years.

In the lower part of the figure which shows the course of the interest rates, primarily those of average payments of interest of the bank volume which to a large extent are identical with the interest burden of the economy, then the interdependence of the phases of rising unemployment with the increase of interest rates can be recognized. In the curve above the development of unemployment where the interest proceeds of banks are indicated in billion DEM, the running-ahead of the increases of interest burdens becomes recognizable, even though in a weakened fashion because of the run time overlappings of loans.

If the curve of interest proceeds of banks in billion DEM is inspected more closely, it turns out that they have risen from 49 to 724 billion DEM within the 30 year's period, which means a fifteenfold increase. The nominal economic performance has grown "only" six times within the same period. The scale, that bank interest returns or credit interest charges have attained in the economy in the meantime, shows in comparison with other economical relevant numbers. Those 724 billion DEM in the year 2000 correspond to 66 per cent of net wages and salaries or to 79 per cent of tax revenues, to 140 per cent of the federal budget or to the threefold amount of the much discussed costs for medical care! The three respective periods in which interest burdens have approximately doubled, concentrate - as can be seen in *figure 8* - on the respective periods in which interest rates went up.

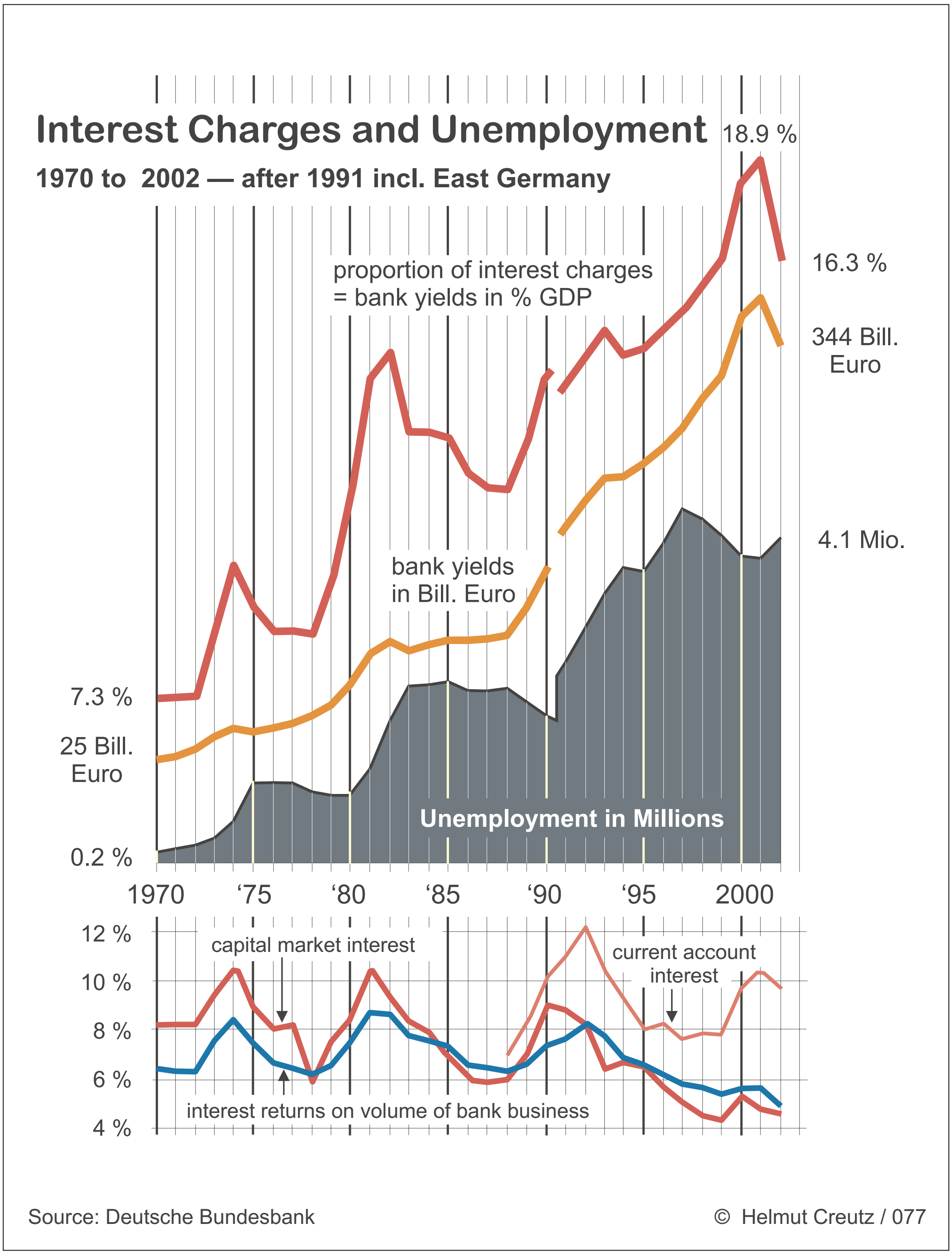

Figure 8

The fact that those interest returns of banks didn't fall back to their previous level but only stagnated for a short while, depends on the excessive rise of monetary assets / debts which compensated for the reduction by decreasing interest rates or even over-compensated for it. The higher and the faster monetary assets / debts rise, all the more serious will be the impact of interest rate increases while a decrease of interest rates will hardly show an effect. This shows particularly clearly in the time period 1995 to 2000 when interest proceeds of banks rose although interest rates dropped to a historically low level.

The effect that even rather low increases in the interest rate have under these circumstances, showed in the year 2000: the low increase in the average bank interest rates of only one percentage point made the interest proceeds of banks increase by 92 billion DEM within a year, i.e. about 15 per cent! Imagine the headlines in the media if once in a year the wages, taxes or the expenditures of the federal budget would rise by 15 per cent! But above all imagine, what cost explosions it would mean in today's debts, if the interest rates would rise again as in the last high interest phases to a level of nine or ten per cent!

Under the aspect of business revival it might seem wrong not to increase the state's indebtedness and to keep the inflation low. This is nevertheless urgently required against the background of the conditions described before. Although a loose debt and money policy could cause a short-term business revival, the following rise of inflation would push the interest rates and interest burdens higher, which could be fatal for the economy!

1.12. The Changes of the Interest Burden Quota

Even more evident than the curve of the bank interest proceeds in billions of DEM will become the relationship to the development of unemployment in the topmost curve of figure 8, where the interest proceeds of banks have been converted into per cent of the GDP. Thus, the "interest burden quota" becomes directly comparable with the debt interest burden of the respective economic performance.

Obviously, this interest burden quota is considerably stronger than the quota of the interest burdens itself. The reason for this is, that every time the increasing interest burdens slow down the economic performance, so that increasing burdens are contrasted by a respective slow-down of economic growth and at the same time dropping incomes. The resulting highlights of the interest burden quota became particularly clear in the years 1973, 1982 and 1993.

The comparison further shows a particularly close relationship between the fluctuations of the interest burden quota and unemployment. A rather clear hint for this relationship can be seen in the fact that unemployment ceases to rise just about one year after the respective quota has stopped to increase. The further dropping of the interest burden quota then leads to a revival of the business cycle, however with increasing delay and finally to the reduction of unemployment figures. The reason for just a short fall of unemployment figures after the last economic drop in 1993/94 might be due to the early reinstating increase of the interest burden quota in 1995. Nevertheless, the long time of a deep interest valley as well as invigorating measures of politics and economizing on wage costs led to a downturn of unemployment within the years 1998 to 2000. After the particularly dramatic increase of bank interest revenues along with the rise of the interest burden quota in 2000 the development turned back to a new increase as of 2002, though.

Imagine now, the interest rates along with the development of monetary assets / debts and the interest burdens resulting from it would adapt to the development of the economy, therefore only rise at the same pace. Not only the problems of unemployment might then vanish from the world but also the compulsion for economic growth in a largely saturated national economy. For, in such a national economy, where the growth of monetary assets / debts and the interest rates decline with the growth rates of the economy, the national income would increasingly remain in the hands of the working. They wouldn't then not only be able to purchase all the goods they had produced by themselves; they would also be able to reduce their working hours with a further increasing productivity and to make place for all those who are willing to work without any loss in the personal prosperity or the public welfare.

1.13. Monetary Over-Growth, Global Excesses

In priciple, a globalisation that promotes the merging of mankind would be something very positive. This also applies to the increasing exchange of goods and services. If the financial currents, however, grow much faster than the real commercial relations, then problems will arise here, too, particularly if the medium of exchange, money, becomes the object of speculation itself.

Thus, the over-development of the monetary assets is the relevant trigger and amplifier for problems at a global level. Because the steadily growing monetary assets which cannot find sufficiently paying opportunities for investment in the industrialized North are looking for new investment opportunities in other parts of the world. The globalisation which basically started with the first long-distance trading routes several thousand years ago has now reached hardly conceivable dimensions with monetary currents and financial investments across all borders and beyond any control. The speed of these financial movements driven by speculative motives was then once more accelerated by the progress of electronic communication technology.

This development is still intensified by the activities of large corporations across all borders. In this process of internationalization they do not only recognize the advantage to move their profits into countries with the most favourable tax conditions but meanwhile also the advantage for shifting the production into countries with lower social and ecological standards! Even with the mere threat of such a location shift they have developed means of extortion they are confronting nation states with, similar to those they have already practised with federal states against communes and vice versa (in a less dangerous form).

Under the pressure of the roving billions the hectic rush in business events is increasing. Primarily the competing money collecting institutions like banks, investment or pension funds, are pushing this hectic rush by offering short-term credits and purely speculative business. They keep their option in crises to quickly shift their investments to more profit-promising investments, although such crises are in turn frequently triggered or amplified by such concentrated short-term retreats. Again, in order to hedge against such risks, additional instruments of the financial world had been created like financial futures or hedge funds which others can counter-hold with purely speculative intentions, exactly just like in gambling.

However, since not all of those types of investment and speculations do not suffice to bind the roving funds, a collapse of the world financial system becomes more and more possible, in the meantime parts of the oversupply of capital meets its doom by self destruction, not only by crashes in stock exchanges but also by ruining the exaggerated foundation of companies in the consequence of which a partial destruction of too much availabe capital occurs.

It still remains open how long this "peaceful" method for the reduction of surplus capital is going to work. Certain developments in the whole world - for example in

Afghanistan and in Iraq - allow the conclusion that the readiness grows to take up even more effective means for this, like armament or even wars which also lead to a partial destruction of too much capital. As is well known, even peace conscious economists speak about "necessary cleaning crises" or even like the Austrian economist J. A. Schumpeter of the occasional necessity for "creative destructions" instead of considering how to avoid the over-developments in the monetary sector beforehand!

1.14. Capitalization and Privatization of Public Property

In spite or even because of the burst stock exchange euphorias there are still some wealthy persons to whom solid and low interest-bearing investments are dearer than all insecure promises of higher profits. These investment seekers all over the world are about to search for the last still existing secure possibilities of privatization which, till now, had not been accessible to investment and profit interests on a full scale yet. These are almost only facilities and institutions in public, municipal or the state's administration.

These ambitions of private fortunes now meet the readiness of the aforementioned public maintenances which, till now, have closed their bottlenecks by permanently piling up debts. Since they have recognized the dangers of thereof resulting interest and debt traps by now, there seems to be at least a preliminary solution for the dilemma by the sale of public property. It will be ignored in these cases, that with these sales the public property gets lost for ever, which had once been erected by the efforts of citizens who had paid their taxes and contributions for financing the public property! Likewise it will be ignored, that along with these sales the calculated interest for these objects had been included in public taxes in favour of the public at large. In the future, however, these payments will flow into the bags of a private minority which, today, has already more money than it really needs and more influence on politics than is good for the public at large.

At these privatizations which are declared to be a progress by politicians who are unsuspecting or maybe bribed in some cases, objects like the supply- and disposal enterprises especially in the area of energy- and water-supply and -distribution are the most wanted objects. For energy as well as water are, just like air, light and land, not only indispensable basic living conditions for all people but because they cannot be reproduced they are getting scarcer and more valuable and therefore they can be exploited as monopoly goods.

In contrast to all other opportunities of investment in reproducible as well as in destructible goods, the financial investors in unreproducible goods have a security in their hands, which not only earns them safe dividends almost eternally - in a similar way as is the case with land since a long time - but they also gain through an increase in value. In addition it must be feared that the primary concerns of private owners of such supply- and disposal enterprises are increases in the quantity of the turnover rather than ecological aspects.

2. Problem Area Land

2.1. Basic Considerations

In a similar way as citizens are not aware of exploitation mechanisms in the monetary system, they are not aware of them in today's land order. In both cases these are systems of higher order which because of their importance for the general public should be and remain beyond private speculative interests and manipulations.

In the case of land this is even more comprehensible than with money. For land - just as light, air and water - is provided by nature and all human beings born on this earth have an equal right to claim an appropriate part of it. In contrast to goods that are produced by human beings no private property or privileges must be connected with these natural resources. The implementation of the equal right of all human beings for natural resources is an essential prerequisite for the general welfare.

While light and air, today, are quite naturally considered to be 'free goods' and while the transformation of water into a private property is still in the initial stage, the private property of land is hardly questioned by anybody. Since the times when private land property became an established right, the term 'fief', i.e. the idea of being granted the basic things for life on loan, has practically vanished. Along with it disappeared the natural insight, that private gains from the use of general goods - in case of land it's the ground rent - should be up to the general public.

Conflicts around rights of ownership on land have led to bloody fights in history again and again. Almost all fights and wars in the world served directly or indirectly the conquest of land, even though, meanwhile, the mineral resources often play a stronger role than the land itself. What kind of dependances and exploitations close to slavery and serfdom are connected with the privatization of land can be observed today particularly clearly in the southern hemisphere of the globe. For land utilization tenant farmers have to pay there a rent that often amounts to half the crop yield. And while in former times they had to give away the tithe, which was only a fraction of the actual harvest, nowadays they have to pay a previously fixed and much higher sum in money, no matter whether the harvest was bad or even a failure! This means, they have to borrow money ever more frequently and pawn their last property just in order to pay the rent. Some large landowners somewhere in the world then, who can't even keep track of their property any more, have the rent payments collected by property managers and live in a luxury that even slave-holders of the ancient times couldn't afford!

One might be inclined now to dismiss the question of landownership mentioned here as a problem of the developing countries in the area of farming, which is of little concern for us. All the more it concerns us in the areas of living and working, even though the arising costs are hardly perceived as components of consumer prices in a similar way as in the case of interest. Tenant's rents liable for payment, for instance, do not only contain the payments of interest for the costs of the building but also the payment of interests on the costs of the ground, the so-called ground rent. Because of the natural scarcity of ground those ground rents permanently rise, even much faster than construction costs.

Therefore, the payment of interest on ground costs takes up a bigger and bigger portion of the rents, in the centres of metropolitan areas up to half and more. These different ground prices are also the reason that, for example, the flat rents in Munich are more expensive than in less popular towns with over a million inhabitants. Savings of builders of small houses often lag behind permanently rising ground prices or they must do with smaller plots.

2.2. The Ranges of Ground Profits

A rise in value of private land of several thousand billion DEM during the past 60 years would be a pretty sound assumption. In addition to these increases of land values without productivity have to be counted the incomes without productivity through interest payments for the land at the costs of the working.

The ranges of increases in value and along with it monetary gains through speculative land sales was documented in the sixties by the Association of German Architects in an exhibition called "Profitopolis". According to this documentation, the seven biggest landowners in Munich and its environment had become richer every month to the same extent as the citizens of Munich paid rent! And the biggest landowner among these, Baron von Finckh, made millions by selling meadows for newly planned satellite towns, whereby he also accepted green areas of the same size further away as an additional part of the deal. So, by selling land he did not lose anything in size of his property. Years later he was able to sell those additionally presented meadows again as developing area with a gain of more millions. It may be mentioned incidentally, that he didn't even need to pay tax on land acquisition because keeping acquired land in possession for two years is not subject to taxation in Germany.

But landowners cannot only gain huge riches by sale but in connection with public planning decisions, too. The example of the Munich airport development in Erding shows on which scale private profits on the one side and losses for the general public on the other side can occur. Not only the sellers of land for the airport have become millionaires with this decision. The building up of the suburban rail network between Munich city and the airport and therefrom resulting development possibilities the landowners on both sides of the 30 kilometres long way had been given a present amounting to billions. The late Professor Wolfram Engels, economist and publisher of the "Wirtschaftswoche" (Economy Week), had estimated the profits until the end of the 1980ies at 30 billion DEM. These profits are to be looked at as gifts at the costs of the general public which does not only have to pay for the construction work along the track but the consequences of increased land values, too. And this does not only apply to a possible acquisition of land but also to tenants who are living and working there and to purchasers of products which are made in that area!

It has to be taken into account in that respect that more than half of the citizens are not involved at all in these increases in value and ground rents because they do not have any ground of their own. This half of the population is the only loser and cannot compensate for losses by revenues from land. In addition, the major part of landowning households are owners of a small ground with a house for one family in the best case. That means as in the case of interest, only a small minority of landowners gain net profits on land increases in value and on ground rents - though often in ranges which are beyond our imagination.

Which losses municipalities can be subjected to with the sale of public ground shows the example of Zurich which released its embankment areas to construction and sold them to private parties in the 19th century. If the town had kept these areas and only leased them, it would be able today, to finance all of the public costs of the town with the lease takings alone. This means, citizens wouldn't have to pay any municipal taxes for the budget of the town!

2.3. The Restrictions of Public Welfare

The public welfare of citizens and societies is undoubtedly restricted by a number of processes and predefined structures. While most of these restrictions are discussed publicly (just think for instance of public traffic in streets), the restrictions of public welfare emerging from dysfunctional structures in our monetary system and land order have hardly found the necessary attention despite their importance. The reason is not only the long habituation to the conditions but also the fact that practically everybody feels as a winner at the consequences of money related defective structures, even if he only owns a small savings book where a few Euro interest payment are credited at the end of the year. And in the case of landowning at least the landowners see themselves as winners, although - similar as in the case of monetary assets - most of them are losers on balance. On the face of this so to speak invisible structural exploitation of human beings through unproductive incomes from just owning money or land, Margrit Kennedy once called it the most cunning slavery system which ever existed. It is a system in which the major part of the "slaves" still feel to be winners due to self-deception about economic structures.

3. Possible Starting-Points for a Solution

3.1. Which Improvements are Required and Possible in the Monetary System?

In order to answer this question the money-related processes and matters are again schematically summarized in *figure 9*.

The left part of the figure shows the developments in the money area, the right part shows the social and ecological consequences; the economy in the center is the connection between the two parts.

The left part represents a cycle of processes which is self-accelerating: monetary assets grow through interest returns and banks also grow by performing these transactions. Someone who is surprised about the growth of bank towers in Frankurt or elsewhere may find the explanation in the over-growth of monetary assets. Monetary assets grow through mediation of banks at the same pace as debts through credits the service of which has to be assured by the performance of the economy and this again leads to more growth of the monetary assets.

The left side of the figure shows a self-accelerating development or - as cyberneticians say - a cycle with "positive feedback". However, all operating cyclic processes must receive a negative feedback if they are to run in a stable manner! This means, they must have control mechanisms which prevent excesses, similar to a shock absorber in a car or to a thermostat in heaters. For, all processes involving a positive feedback are self-accelerating and end in a self-destructive collapse.

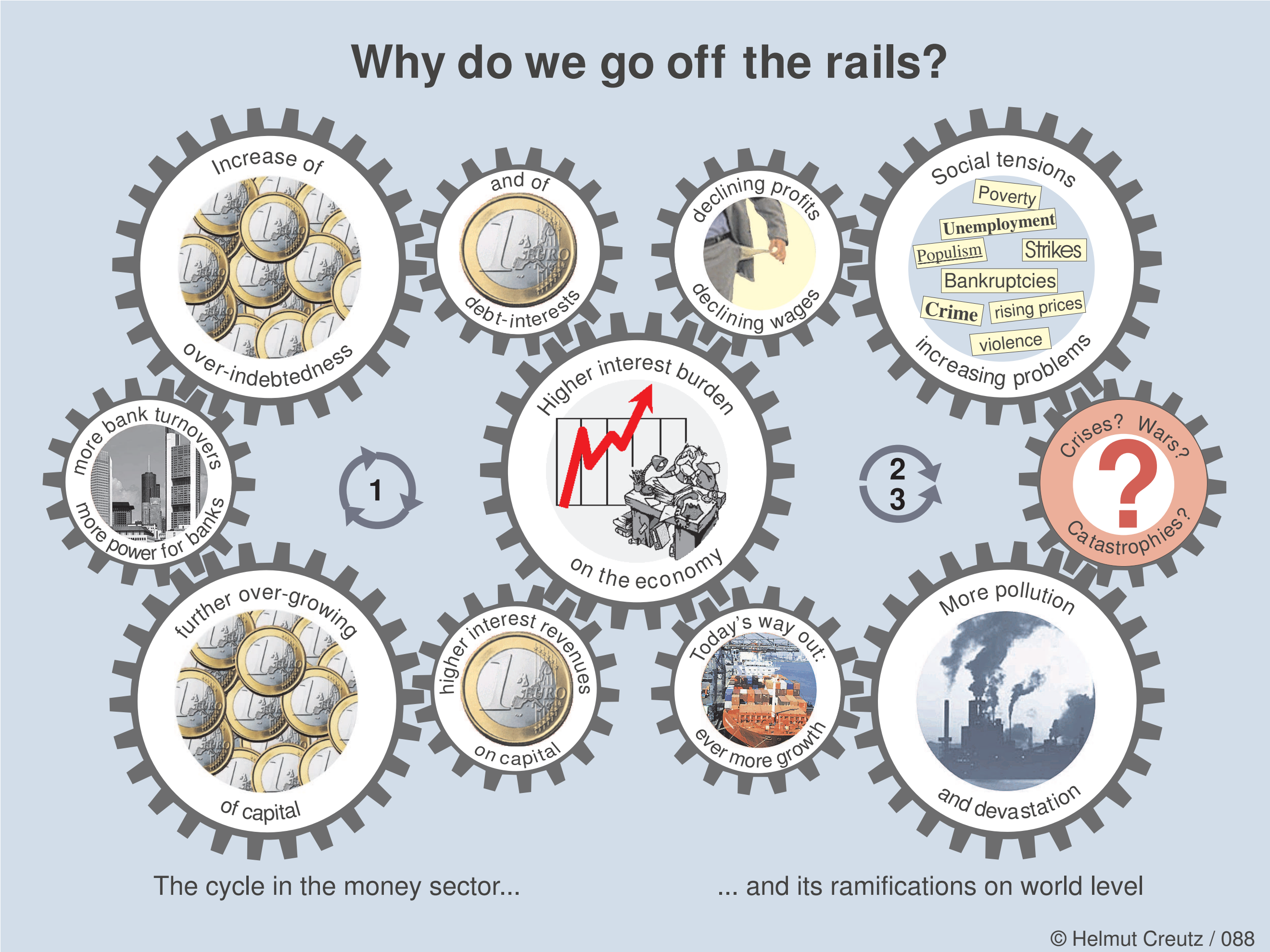

Figure 9

The consequence of this self-accelerating and dysfunctional development in the area of money is an increasing burden on the economy due to interest. This burden can only be relieved through corresponding permanent growth of the GDP. Since this growth, however, cannot keep pace any more with the growth in the money area since decades, it shows results in decreases of really earned incomes as well as in bottlenecks of the public finances which had been described here.

The right side of *figure 9* doesn't represent the developments in a closed cycle but in two semicircles. The upper semicircle shows that dropping profits and earned incomes which result from the increased drain of gained earnings in the monetary circulation, lead to insolvencies and unemployment and in association with that to social tensions and dangers of strikes. These in turn arouse increasing crime and disturbances up to riots and rebellion, which may even lead to violent fights in the community up to civil wars and more.

The lower semicircle represents the conventional solution for the dilemma, i.e. the attempt to counteract the arising social and political problems by increasing the economic performance again. Besides the fact that these increases in performance cannot compensate sufficiently for the redistribution problems since a long time, this way out cannot be an enduring solution, primarily with respect to the limited natural resources. In the end, here too, violent fights worldwide about raw material like water stocks are threatening, as it is already happening about mineral oil in the Middle East.

On the search for a solution, let us go backwards along the described chain of problems:

The compulsion for growth only declines, if we can avoid the increase of social tensions. These can only be avoided, if the increase of interest-conditioned redistributions can be dismantled. However, this is only possible when the excessive growth of the monetary assets and debts declines which in turn can only be attained if interest rates decline and the prerequisite for this is their adaptation to a reduction of growth rates in the economy.

3.2. How Can Interest Rates Be Made to Drop?

Undisputedly, interest is the most important measure in the economy and it is indispensable as far as control and allocation are concerned. Additionally, as a measure of scarcity it signals the supply and demand situation to credit markets. Above all, however, the interest is responsible for money surplus to be re-invested in the economy. In order to fulfill these indispensible functions, interest rates don't have to be as high as they generally were in the past. They could fulfill their function just as well if they could swing around a new balance level which differs from zero only by the bank margin and risk compensation.

A steady circulation of money is the prerequisite for a well operating and stable economic situation. Even in the (German) vernacular the sayings, "Money, money, you must wander, from one hand to the other"[6] or, "The rouble must roll" hint at a steady circulation of money. For, any interruption in the circulation of money leads to demand failures, which inevitably are followed by cuts in the production and therefrom resulting unemployment. With reference to the popular saying of "the stick and the carrot", interest could be compared to 'the carrot' as an indispensable means for money to keep in circulation in a similar way as inflation safeguards the circulation like 'the stick' by punishing a holding back of money with a loss in purchasing power. Both means for safeguarding the circulation, however, are unsatisfactory in their effects, especially with dropping interest and inflation rates. Falling interest and inflation rates therefore induce interruptions in the money circulation, because money still has the feature to be used any time and in any place as "a joker in the economy game" (Dieter Suhr[7]) and can temporarily be withdrawn by hoarding or evade in speculative investment. A dropping of interest and inflation rates would therefore be highly desirable. But the "liquidity premium" is still a prominent feature of money. An interest rate falling too fast would be bound for devastating consequences up to recession and the risk of deflation.

Liquidity premium means, that below a certain level of interest rates (around 2.5 to 3 per cent), the readiness to invest spare money in the real economy declines. These facts are doubted once and again, although money issuing banks even confirm this effect. It can be proven with the changes in holding cash, especially bank notes of higher nominal value. In the two years 1987 and 1988 for example, when the interest rate had reached a minimum level, the demand for cash and holding cash required an expansion of the money volume which was three times as high as the corresponding growth of the economy. And this happened only through an extreme rise in demand for 1000-DEM-notes at a scale of 58%! In the following phase of rising interest rates, things went the reverse way: despite an increase of the economic performance of 15 per cent, the cash volume increased by only 3.5 per cent and the stock of 1000-DEM-notes even declined, because investing money had become more attractive again.

[6] "Taler, Taler du musst wandern, von der einen Hand zur andern"

[7] Dieter Suhr (1939-1990), Professor for Constitutional Law at the University of Augsburg

An examination ordered by the Bundesbank (German Federal Bank) showed in 1995 that about one third of the funds emitted in Germany had disappeared abroad. According to estimates of insiders another third of the complete money supply in Germany was suspected to be hoarded, primarily in criminal and tax evaders' safes. Such phenomena also appeared at the time of conversion of the DEM to EUR when almost half of all of the DEM inventory was already dissolved before the qualifying date and this occured almost exclusively with big bills of high nominal value. And the same is true for the building up of the new stocks after the exchange, particularly because this happened considerably more hesitantly, for, why should one get out of money hoardings of Swiss francs or dollars so quickly again?

Besides the classical hoarding of cash the increasing shifts of surplus funds into speculation also leads, however, to a shortage of the normal money supply in the capital markets. Declining interest rates that would conform with the market situation can be stopped by either hoarding money or diverting it into financial markets. Or in other words, by blocking money and thus creating an artificial shortage of money in the real economy, the further decline of interest rates can be averted! They persist on a level from where market forces would otherwise make them lower. This complies neither with economic reason nor with the principles of a democratic state under the rule of law. In order to change this situation, a necessary prerequisite would be to subject money to an equivalent treatment as all other public goods in the legal system. The general characteristic of public goods is, that they can be used by the general public under the same conditions and no one must block them or prevent others from using them. This should apply to transactions with money in a similar way as for public traffic. Someone, who blocks the free flow of traffic in the streets, does not change his behaviour by receiving a reward but only by making him liable to a charge. The same should apply to those who block the free flow of the public good called money.

As the only legal means of payment in our economy, money should not only be connected to an acceptance compulsion - as is already the case today -, but it should be associated to a (much more important) obligation to pass it on, so that disturbances in the circulation of money come to an end, which are harmful for the future of public welfare. In order to achieve this end, the only available means of ascertaining the circulation of money at present, i.e. interest and inflation, have to be supplemented or rather be replaced by a constructive, steadily effective means of safeguarding circulation - a circulation safeguarding that guarantees the circulation of money, even if the interest rates drop to zero in compliance with the market situation. With a constructive circulation safeguarding method of such a kind, it will not only be possible to overcome the problematic question of high interest rates; money issuing banks, too, would be capable of precisely regulating the volume of money and thus free from inflation - another prerequisite for stable economic and political conditions.

More than one hundred years ago, Silvio Gesell has already pointed at these options, mainly in his basic work "*The Natural Economic Order by Means of Free Land and Free Money*". With a circulation safeguarding of that kind, which can be called money fee, money holding fee or money usage fee, the superiority of money compared to human labor and exchange goods could be dismantled. Up to now money has a "liquidity premium" - as John Maynard Keynes called it in following Silvio Gesell. Just as humans have to expend work for their survival and maintenance and produce is to be sold at right time (to avoid losses due to aging), money ought also to be equipped with a "maintenance fee". Today, however, money can escape the compulsion for being offered because of its superiority over goods and labor because it doesn't age or become spoiled, it doesn't become oldfashioned and doesn't cause any costs for hoarding.

John Maynard Keynes, who had studied Gesell's theory and proposals, has suggested to implement carrying costs on holding money in order to thus prevent the economy to fall into a "liquidity trap" through an otherwise desirable dropping of interest rates. In his major work "*General Theory of Employment, Interest and Money*", he literally wrote that such a measure would lead to "*the gentle death of the man of private means*" and would be "*the most sensible way to gradually get rid of some of the most offensive phenomena in capitalism*". And he further wrote: "*It would still be up to a person to accumulate his earned income with the intention to spend it later. But the accumulation wouldn't augment any more.*"[8]

The meaning of the last sentence becomes clear, if the reader has a new and deeper look at the first pages and graphs of this treatise. An economy with interest rates that are in compliance with its development would not be subject to a growth compulsion any more and it could remain socially and economically stable even at a growth rate of zero!

Monetary assets would only grow by interest as long as the economy is in need of additional savings. When the economy gets saturated more and more, interest rates and the resulting increase of savings would decline which also means that the compulsion for indebtedness would diminish. Monetary assets would not increase automatically any more, but only within the scale of reserves which result from earned incomes. By dropping incomes from interest, the incomes from independant and dependant labor would become identical with the national income. This means, there would be no more interest-related incomes without economic performance. Then incomes would keep pace with the general economic performance without driving the discrepancies between rich and poor into socially intolerable dimensions.

3.3. The Amendment of the Land Law

The first steps for this end should be a stop of every further close-out sale of public ground and to stop the privatization of the access to water and other resources of nature. Instead of the right of ownership, private and legal entities should only receive a status of beneficial interest (usufruct) against a charge on natural resources. In addition to that, communities and federal states should be obliged to use their privilege for acquiring land more intensely. In the end, the repurchase of all land and goods of nature in common possession (not property of the state!) and the release of land on conditions of hereditary leasehold or on planning and building laws and regulations would be the optimum solution.

Even though this seems utopian at first sight such a repurchase of land and natural resources in accordance with Silvio Gesell's suggestions would thus be possible in an elegant way. He suggested to buy them up against interest-bearing government bonds, which then would be serviced by lease takings. As interest rates would slowly decline in the course of the monetary reform, the former landowners then wouldn't be in a worse condition than the owners of monetary assets.

The revenues from lease, which gradually are not needed any more for the payment of compensations, could then be distributed to the actual owners of the land and natural

[8] John Maynard Keynes, *General Theory of Employment, Interest and Money*, Berlin 1936, p. 184 and 316 ff (according to the German edition)

resources, namely, to the people who live in the country. Whether this is being carried out in form of a subsidy for children or education as Gesell had suggested, or as a lifelong and equal per capita share can remain open. Doubtlessly fairer would be the redistribution of an equal amount to all residents of a country because it's eventually them who pay the rent for their direct or indirect need of land.

While, today, these ground rents are flowing - calculated net - into the bags of a small minority in the end, the land reform would be of benefit to all citizens. Those who claim less ground and natural resources than the average (which e.g. can be influenced considerably with housing requirements or traffic behaviour) would receive higher returns from the ground rent than they had contributed. And since an equal per capita share will be paid to all children as well, a socially compliant and desired support of the family would be associated with it.

This ground rent does not only contain all revenues from leases for utilizing the surface of the earth but from all leases for utilizing mineral resources including water as well. Furthermore, all revenues from environmental taxes could be redistributed to the citizens on a per capita basis as suggested by Fritz Andres and the Seminar fuer freiheitliche Ordnung (Seminar for Liberal Order) in Bad Boll[9]. The general resistance against environmental taxes could thus be reduced and stimulate a responsible handling of the environment.

Just imagine what positive effects such regulations would have with regard to ecological concerns, to welfare and the general human rights! And since people are nowadays extending their grip on land and mineral resources beyond all borders, it would be an even more worthwhile thing to distribute or settle those rights for claims and rents to all humans worldwide. Then all human beings in the world would have an equal claim for this rent which results from utilization of land and all other natural resources! The beneficial effects of a fair redistribution are almost unconceivable. In addition, it would reduce the polarisation of poverty and wealth in the southern and northern hemispheres of the earth, thus improve the justice and peace on a world scale!

Undoubtedly, not all problems in the world would vanish into thin air, if the dysfunctional structures in the monetary system and land law described here are improved. But without these corrections they will get still bigger and more indissoluble for simple mathematical reasons.

Further publications of the author on the subject:

The Money Syndrome - Paths to an Economic Order Free from Crises, ISBN 3-928493-46-9 / 6th paperback edition (German), Publishing House Mainz, Aachen

[The English edition of the above mentioned title will presumably be available in spring 2007, ISBN 978-3-00-020089-2]

The 29 Misunderstandings around Money, ISBN 3-85436-352-1 / 2nd edition (German), Signum Wirtschaftsverlag, Munich/Vienna 2005

(http://www.Helmut-Creutz.de, e-mail: helmut.creutz@iit-online.de)

English translation: Robert Mittelstaedt

[9] Fragen der Freiheit (Questions of Liberty) Nr. 250 and 261, Bad Boll 2000 and 2002