

To  
my son Nicolas  
and his family

for helping me through difficult times  
and for all the support and encouragement  
which they have given me.

# **Lateral Thinking in Society**

**James Leslie Keedy**

# Preface

I have spent the last two thirds of my life living and moving between Germany and Australia and since 2016 my German wife and I decided to live permanently in Bremen, Germany in order to be close to our families. This naturally led to my interest in German life and politics, although I think very much as an Englishman, especially as a Yorkshireman, where I spent my early years in Leeds. Shortly after the BREXIT I received an invitation from the German government to become a German citizen, which I declined.

Despite this I have spent scarcely any time in England since I departed in 1974 to take an academic position at Monash University in Melbourne. The result is that I know far more about German (and Australian) politics and recent history than I do about English politics and recent history. Hence when I began to write this book it was inevitable that I drew mainly on examples from Germany. In one sense I greatly regret this, because this book is a critical – some might say radical – description of modern life. I hope that my German readers will therefore take my many German examples as they are intended, i.e. *not* as criticisms of Germany, but simply as examples of modern politicians, for example.

The book is intended to show those who are thoroughly disappointed with and disillusioned about modern politics that there are solutions and ways forward. When I started out I did not intend to offer radical solutions but I see no alternative if we are to solve the many problems with which we are faced today.

If you wish to learn more about my background you might be interested to consult my personal website at <https://www.jlkeedy.net/>.

James Leslie Keedy,

Bremen 30.6.2024.

# Table of Contents

<b>Preface .....</b>	<b>i</b>
<b>Chapter 1 – Lateral Thinking .....</b>	<b>1</b>
<b>Chapter 2 – Taxation .....</b>	<b>4</b>
1 The Fundamental Purpose of Taxation.....	4
1.1 Taxes Based on Income .....	5
1.2 Taxes Based on Property and Land .....	5
1.3 Taxes Based on Wealth .....	5
1.4 Taxes Based on Goods and Services .....	5
2 Problems with VAT as the Only Tax .....	6
2.1 Fairness .....	6
2.2 Personnel Costs.....	6
2.3 Property and Land Sales .....	6
3 Advantages of a Single Tax System .....	7
4 Preparing for the new System.....	8
<b>Chapter 3 – Democracy Today .....</b>	<b>9</b>
1 The Fundamental Reason for the Existence of Politicians.....	9
2 Political Parties .....	9
3 Costs and Problems in Representative Democracies.....	11
3.1 The Costs of Representative Democracy .....	11
3.2 Politician Attendance at Parliamentary Sitings.....	14
3.3 What happens when a member of parliament dies or resigns? .....	14
3.4 Long Term Decisions .....	15
3.5 Lobbyism .....	16
3.6 Special Privileges of Politicians .....	16
3.7 Undemocratic Decisions.....	16
3.8 Chaotic Decisions .....	17
3.9 Incompetent and Dishonourable Behaviour .....	18
3.10 Political Correctness .....	19
3.11 Political Self Preservation .....	21
3.12 Political Ideologies .....	22
3.13 Empty Promises .....	23
3.14 Plagiarism .....	23
3.15 Nepotism ("Jobs for the Boys").....	24
4 Future Democracies .....	25

<b>Chapter 4 – Genuine Democracy .....</b>	<b>26</b>
1 An Electoral Office .....	27
2 Advisers and Advisory Committees .....	27
3 Proposing Legislation .....	28
4 Voting Procedure .....	28
5 Hurdles preventing Proposals from becoming Laws.....	29
6 Objections to Direct Democracies .....	30
<b>Chapter 5 – Reorganising the Business World.....</b>	<b>32</b>
1 An Alternative to Left-Right Politics .....	33
2 An Alternative to Capitalism .....	34
2.1 The John Lewis Partnership Ltd.....	34
2.2 Evaluation of the John Lewis Idea .....	36
3 Conclusion .....	39
<b>Chapter 6 – Reorganising Banking .....</b>	<b>41</b>
1 Inflation.....	44
1.1 The Bankers' View of Inflation .....	44
1.2 What the Bankers do not tell you about Inflation .....	45
2 Inflation is not always "inflation" .....	46
3 The Causes of Inflation.....	46
3.1 Gold - an Almost Non-Inflationary System .....	47
3.2 Debasement.....	48
3.3 Paper Money backed by Gold .....	48
3.4 The Gold Standard.....	48
3.5 Paper Money not backed by Gold (Fiat Money) .....	49
3.6 Counterfeiting .....	49
4 The Role of the Banks .....	50
4.1 Private Banks .....	50
4.2 Central Banks.....	50
4.3 An Important Court Decision .....	50
4.4 Fractional Reserve Banking .....	51
4.5 The Business Cycle .....	52
5 Who Benefits from Inflation? .....	53
5.1 Big Business and the Rich and Powerful .....	53
5.2 Governments.....	54
5.3 The Banks .....	55
6 A Simple Proposal for Reorganising Banking .....	55
6.1 How should Money be organised? .....	55
6.2 Organising Money in a non-Fiat Environment.....	56
6.3 Must Gold act as a reserve currency?.....	57
6.4 How should Banking be organised? .....	57
6.5 Managing Money in a Country without Banks .....	58
7 Digital Money .....	59

7.1	Organising Digital Money .....	59
<b>Chapter 7 – Putting it all together .....</b>		<b>61</b>
1	A Fundamental Issue: Where has all the money gone?.....	61
1.1	Working Women .....	61
1.2	Rich Germans, Incompetent Politicians and Doubtful Legality .....	62
1.3	Rich Bankers and Excessively High Income Earners .....	63
1.4	Tax Avoiders and others.....	63
1.5	Lax Tax Authorities.....	64
1.6	The Shocking Truth about Incomes and Wealth .....	64
2	Where do we go from here?.....	66
2.1	How can Wealth be fairly and equitably redistributed? .....	67
3	How can the proposed Distribution of Wealth be organised in practice? .....	67
3.1	Valuing Wealth.....	68
3.2	What Happens to the Banks?.....	68
3.3	A House or Flat for All.....	69
3.4	Restrictions on the Ownership of Cars .....	70
4	Changing over to the new System .....	70
5	Tying up some Loose Ends.....	71
5.1	The Sovereign Debt .....	71
5.2	How can Investments in Expensive Innovations be funded in future? .....	71
5.3	Bureaucracy .....	72
5.4	What about the remaining aspects of our society? .....	74
Postscript .....		74
<b>APPENDIX 1: DIGITAL MONEY .....</b>		<b>76</b>
1	Background.....	76
2	A Future Kind of Money .....	78
3	The Operations on Digital Money .....	79
4	Authorisation to Use Money.....	81
5	Controlling the Money Supply .....	81
6	Digital Money Requirements.....	81

## Introduction

# Chapter 1 – Lateral Thinking

Without lateral thinking, the civilised world would be in a sorry state. Most of the fundamental discoveries which science has made have been a result of the work of great lateral thinkers. The Wikipedia article on "Lateral Thinking" begins with the description:

Lateral thinking is a manner of solving problems using an indirect and creative approach via reasoning that is not immediately obvious. It involves ideas that may not be obtainable using only traditional step-by-step logic.<sup>1</sup>

In some cases the solutions to problems which lateral thinking produces can later appear to be obvious, although before the solution was produced an alternative but less satisfactory solution was long accepted as the best solution. Consider, for example, Copernicus's discovery that the Earth rotates around the Sun. In the words of John Dewey, the American philosopher and educational reformer:

"But the easy and the simple are not identical. To discover what is really simple and to act upon the discovery is an exceedingly difficult task. After the artificial and the complex is once institutionally established and ingrained in custom and routine, it is easier to walk in the paths that have been beaten than it is, after taking a new point of view, to work out what is practically involved in the new point of view. The old Ptolemaic astronomical system was more complicated with its cycles and epicycles than the Copernican system. But until organisation of actual astronomical phenomena on the ground of the latter principle had been effected, the easiest course was to follow the line of least resistance provided by the old intellectual habit."<sup>2</sup>

There are many such examples of lateral thinkers in the history of science. To name but a few: Archimedes, Isaac Newton, Galileo Galilei, Benjamin Franklin, Marie and Pierre Curie, Albert Einstein, Stephen Hawking, and many others.

But lateral thinking is not confined to discoveries in natural science and engineering. In fact the inventor of the phrase lateral thinking, Edward de Bono, used the judgement of the biblical figure, King Solomon (when determining who the mother of a disputed child was) as an example of lateral thinking<sup>3</sup>. In the following chapters I intend to provide some non-scientific examples of lateral thinking which aim to provide a basis for a reorganisation of society.

Many lateral thinkers have a wide range of interests, and this probably in-

---

<sup>1</sup> [https://en.wikipedia.org/wiki/Lateral\\_thinking](https://en.wikipedia.org/wiki/Lateral_thinking)

<sup>2</sup> J Dewey "Experience and Education", 1938, p.30 (Collier Books)

<sup>3</sup> I Kings chapter 3 verses 16-28

## Introduction

spires them to carry ideas from one field to another. At this point, as a computer scientist with only rudimentary knowledge of subatomic particles, I will risk a prognosis about the nature of the most fundamental particles, the building blocks from which all other particles are built. Just as the most basic building blocks from which all software systems are based are bits (binary or two state digits, 0s and 1s), I anticipate that the most fundamental particles will turn out to have 2 states; this might for example be that they spin in two directions. But to be clear, I am not a physicist, and this prognosis could turn out to be wrong – or science may never be advanced enough to test this hypothesis!

But here is a further example, which I can be certain about, as it involves my own computer science work. I recently solved the well-known and widespread *operating system* problem of how to prevent hackers from accessing and stealing information from other computers, see my website

<https://www.speedos-security.org/>

by applying an earlier idea called qualifiers from my *programming language* work, which I had originally published in 1997, see my website

<https://www.timor-programming.org>

This is the only example of a carry-over from programming languages to operating systems known to me<sup>4</sup>. The important point here is that this illustrates how lateral thinkers sometimes develop their ideas.

One further point should be mentioned in this brief introduction. In Germany, where I have lived for many years, the usual German translation of 'lateral thinking' is 'Querdenken'. However, this has recently become an insult used by those who do not toe the normal line. For example I recall that Chancellor Kohl used the word 'Querdenker' as an insult against Kurt Biedenkopf, then Minister President of the new German state of Saxony, as a result of political disagreements between the two.

More recently some of those who organised street demonstrations against COVID-19 and who oppose Western sanctions against Russia refer to themselves as 'Querdenker'. But these are not genuine lateral thinkers, and I completely dissociate myself from them.

One final warning. Many of the ideas which appear in this book will not find immediate acceptance, but that is hardly surprising. Recall John Dewey's warning earlier in the chapter:

"But until organisation of actual astronomical phenomena on the ground of the lat-

---

<sup>4</sup> This solution cannot immediately be used, because it requires a hardware modification, which I have suggested to Microsoft, see <https://www.speedos-security.org/capability-systems-and-risc-systems.html>



## Introduction

ter principle had been effected, the easiest course was to follow the line of least resistance provided by the old intellectual habit."

## Chapter 2 – Taxation

Taxation is an issue which affects citizens throughout the world. Some countries have simple tax systems (e.g. Singapore) while others have more complicated systems. Germany reputedly not only has the most complicated system in the world but also annually publishes the most information about its taxation system. It probably also has the highest number of taxes and tax advisers. As a German taxpayer I am very aware of this. It is a disastrous system which defies reasonable description; it costs the state a fortune for public servants to calculate the taxes, to catch tax evaders (both private citizens and businesses) and even to provide taxpayers with information about the tax system.

I think that there are two main reasons for this complexity. First, competing political parties have very different ideas about who and what should be taxed and to what extent, thus providing a fertile field for politicians to invent new taxes and make changes to existing taxes. Second politicians like to think that their taxes are "fair" and certainly in Germany this plays a big role in further complicating the system, without actually producing a system which is regarded as fair for all citizens.

But equally remarkable is the fact that almost no-one (at least in Germany) ever seems to question the need for a complicated tax system. It seems to be accepted as a fact of life that a tax system should/must be complicated (and therefore expensive)<sup>5</sup>. No-one seems to consider why taxation exists at all and what purpose(s) it really serves. That is our starting point for the rest of this chapter.

### 1 The Fundamental Purpose of Taxation

There can be little doubt that taxation exists primarily to pay for the needs of governments. If that is the sole purpose then there is no innate reason which it should be complicated. So let us think about how we can keep it simple.

My proposal is that there should be only a *single* kind of tax. Simpler than that is not possible if one accepts that taxation is necessary! Ideally this tax system should be easy to understand, it should be genuinely fair and it should be inexpensive to administer.

But what should be the basis of such a system? According to the website

---

<sup>5</sup> I recall that Friedrich Merz, currently the German opposition leader, proposed a simplified income tax system many years ago, but this did not encompass the entire tax system

Debt.org<sup>6</sup> there are three main categories of taxes: taxes on *income*, taxes on *property*, taxes on *goods and services*<sup>7</sup>. To these we add taxes on *wealth*.

### **1.1 Taxes Based on Income**

To base a single tax system on incomes has many disadvantages. Above all it means that almost every individual in a state must be directly involved. It also implies that businesses must employ additional staff simply to do their part in administering the system. And to be "fair" there must be rules about what can legitimately be deducted from gross income before it is taxed. How such rules can really be fair, and how we can even begin to define what is "fair", remains a mystery for me. If you ask a rich man what is fair and then ask a poor man what is fair, you will certainly get widely divergent answers. For these reasons we disqualify a tax based on incomes as an inappropriate tax in a single tax system.

### **1.2 Taxes Based on Property and Land**

There are several reasons why taxes based on the value of property must also be disqualified:

- Calculating the value of property is enormously difficult and inequitable, as is evident from the current attempt in Germany to reform the property tax.
- As a single tax it would be unfair because it would enable income-rich citizens to pay little or no taxes.
- Similarly it would mean that vast numbers of citizens who rent their residences would also pay no taxes.

### **1.3 Taxes Based on Wealth**

Taxes on wealth raise issues which go well beyond the straightforward issue of taxation. They are political hot potatoes which involve ideological viewpoints that would lead us into discussions which we prefer to raise in later chapters. We therefore ignore them in this chapter.

### **1.4 Taxes Based on Goods and Services**

Most countries (with the notable exception of the USA) have some form of Goods and Services tax, often called a Value Added Tax (VAT)<sup>8</sup>. This tax is indirectly levied upon the consumers of goods and recipients of services and is collected by the providers of such goods and services, based on the value which they have added.

There are some good simple examples of how VAT works in the online In-

---

<sup>6</sup> [www.debt.org](http://www.debt.org)

<sup>7</sup> <https://www.debt.org/tax/type/>

<sup>8</sup> see [https://en.wikipedia.org/wiki/Value-added\\_tax](https://en.wikipedia.org/wiki/Value-added_tax)

investopedia article<sup>9</sup>. Goods (e.g. a motor-car) which are eventually sold to an end consumer usually go through a number of manufacturing steps carried out by different companies. Each company in the chain pays VAT tax to his own tax office based on the value which he has added to the product, i.e. they serve as tax *collectors*. (The VAT paid by earlier companies in the chain is deducted from the calculation.) The final consumer *indirectly* pays the overall tax in the price which he pays for the final product, i.e. the end consumer is the taxpayer, but he has no direct dealings with the tax office(s).

The tax functions similarly in the case of services. Each service provider pays the added value of his service to his tax office and the final recipient pays the full amount indirectly.

This is unquestionably a relatively simple form of tax to calculate, collect and administer and it has become almost universal in western tax systems (except the USA). Hence it is a potentially a very good candidate on which to base a tax system with only one kind of tax.

## **2 Problems with VAT as the Only Tax**

### **2.1 Fairness**

If the VAT tax had a single rate the burden on low income taxpayers would be proportionally higher than on high income taxpayers. This can be avoided by carefully defining different rates for different items. For example a low rate on food and other supermarket articles might be appropriate, while on luxury articles (such as luxury yachts) a very much higher rate would be more appropriate. There could be a substantial number of rates, not simply 1 or 2 (as for example is currently the case in Germany), perhaps in steps of 5%, and perhaps exceeding 100%.

### **2.2 Personnel Costs**

Personnel costs (e.g. labour, management and director's costs) can be an expensive part of the costs of manufacturing some goods and providing some services. But these are otherwise not directly included in the normal VAT calculations. That suggests that such costs (e.g. based on the previous month's personnel costs) could be included the proposed VAT calculation.

### **2.3 Property and Land Sales**

Although I rejected the idea of property taxes as such, property sales could be regarded as an appropriate source of government revenue. This can in fact easily be integrated into the proposed single tax system, without involving extra

---

<sup>9</sup> <https://www.investopedia.com/terms/v/valueaddedtax.asp>

work for normal citizens. I would suggest that the "added value" is the difference between the price which a property owner originally bought a property and the price for which it was sold. This tax is not only trivial to calculate, but it can easily be collected (e.g. in Germany) by the notary who handled the sale. (Whether the notary's own fees are treated as deductible is a matter of detail rather than a significant issue). More important is the issue of the amount of tax to be levied. It seems to me to be appropriate to have a range of tax levels depending on the price for which the property is sold, whereby highly priced properties could be much more highly taxed than much cheaper properties.

### **3 Advantages of a Single Tax System**

The advantages of a single tax system based on a VAT-style tax are huge. We now list some of the more obvious of these.

- 1) The calculations are simple.
- 2) The number of public servants required to administer the tax, are all miniscule compared with conventional tax systems.
- 3) No longer needed public servants can be assigned to other areas.
- 4) The number of computer systems needed in the tax offices can be considerably reduced.
- 5) The legal requirements (e.g. the costs of expert judges and the costs of litigation) can be considerably simplified.
- 6) The enormous complications of existing systems, which have grown historically to such a point that scarcely anyone can fully understand them, become understandable for all (and in fact need not be understood by normal taxpayers).
- 7) Above all citizens are not required to complete complicated forms each year.
- 8) Because there is no income tax as such many people who currently cheat the income tax system are immediately decriminalised. In Germany, for example, this applies both to the rich – a cum-cum/cum-ex system and most other tax fraud systems would simply not arise – but also for the poor, who (for example in Germany) often illegally work as odd-job men or as cleaning ladies, without declaring this as part of their income tax returns. Decriminalising the illegal earnings of poorer citizens would certainly help to eliminate poverty and would encourage a flourishing economy.
- 9) An interesting aspect of this system is that in effect citizens can themselves determine how much tax they pay by reducing or increasing their purchases.

**4 Preparing for the new System**

Careful thought and models using different parameters (e.g. for the tax rates best suited to individual sale articles and to property sales) would be needed to work out the effects of such a system. But two things remain certain. The cost of such a system would be enormously lower than present tax systems, and individuals (in contrast with businesses) would not need to declare their incomes annually or be concerned with the complexities of current tax systems.

## Chapter 3 – Democracy Today

The taxation reform proposed in the previous chapter will, I believe, be welcomed by many people, not only in Germany but in many countries throughout the world which currently also have burdensome tax systems. But there will also be much opposition, especially from politicians, who would lose one of their favourite toys. This chapter tries to explain how such opposition can, with the help of a little lateral thinking, be overcome.

### 1 The Fundamental Reason for the Existence of Politicians

The ancient Greeks were the first to experiment with the idea of democracy, in Athens and a few other Greek city states. Interestingly, especially in the current context, they did *not* adopt the more modern idea of *representative democracy* but developed a form of *direct democracy*. From the modern standpoint their idea of democracy can be regarded as faulted, because it excluded both females and slaves, but we can ignore those aspects and instead assume that any modern democracy will also include females and will forbid slavery.

In modern society populations have become vastly larger than the 30,000 or so citizens of Athens in the 5th century BC. Consequently it became necessary to install systems which attempt to achieve something approaching the ideal of direct representation. In this more modern environment the idea of politicians, i.e. representatives of many citizens, arose. Such systems have taken many forms, from the enormously complicated form of representation in the USA to the much simpler form of representation in Switzerland (which in my view is sometimes wrongly referred to as 'direct' democracy). These systems all have in common the idea that politicians theoretically represent a substantial number of citizens and that they are responsible not only for formulating laws but also for voting on these, thus taking decisions out of the hands of individual citizens. How well such systems actually represent the majority opinion of the citizens is in practice very questionable.

### 2 Political Parties

One of the pillars of such systems is the ever more stifling influence of political parties. These are groups of politicians who present themselves for election at regular intervals, offering ideas which do not actually represent the inter-

ests of the citizens in their constituencies<sup>10</sup>. Instead they almost invariably represent, and vote for, the ideas which are formulated by their parties.

National elections to choose these politicians are typically held at three, four or five yearly intervals, depending on the country. The party which receives the most votes usually chooses a leader who then, with his party, determines the political agenda for the next legislation period. This party leader (often called the prime minister or in Germany the chancellor) has tremendous power to control subsequent parliamentary events. There are usually so-called whips whose job it is to ensure that party members toe the party line laid down by their leader.

In some countries (e.g. the United Kingdom) this usually works out in practice as described above, but that depends on the numbers of politicians of each party elected to the parliament, since parliaments work on the basis of majority decisions. Hence if the party which has the most members in parliament does not have a majority of the voting members then the usual way to solve this problem is to form coalitions. (This is the normal situation in Germany.) Normally a coalition lasts for the entire period of a parliament. In the *very* unusual case that a coalition cannot be formed, the party with the largest number of members (or sometimes another party in the parliament) has to make compromises with other parties to pass individual items of legislation. The rule is almost always that the decision to pass legislation requires a majority of the members present in parliament at the time the vote is taken.

This description falls very short of adequately covering all the aspects of democratic practice in all countries with representative democracies. For example Switzerland has legislation which gives far more freedom to its citizens, e.g. by overturning politicians decisions via referenda and also proposing their own referenda (which is why some people describe the Swiss system as direct democracy). Germany, by contrast, has a system in which ministers need not have been elected, and in which party leaderships can determine in advance a list of politicians who have priority to become members of parliament without being directly elected by citizens<sup>11</sup>.

---

<sup>10</sup> They could in principle regularly take a vote on current issues in their constituencies and then reflect the results in parliamentary votes.

<sup>11</sup> In fact the German democratic system is the least democratic of all the representative democracies that I know. For example at the level of central government it makes no allowance whatsoever for referenda. One explanation for the many faults in German democracy is that the formulators of the German constitution after World War II deliberately set out to ensure that a new Hitler could not arise. This is at least understandable, but has led to a not very democratic system!

Some of Germany's national state governments actually allow referenda, but this turns out to be a blunt weapon. One reason for this is that not all referenda are binding on pol-



### 3 Costs and Problems in Representative Democracies

To list all the problems which arise in representative democracies would require an entire library. Here we can simply describe a few examples.

#### 3.1 The Costs of Representative Democracy

Politicians have very few controls on their freedom to spend taxpayers' money. Consequently they spend lavish amounts on projects which are often unnecessary. Here are some examples.

##### 3.1.1 The German Chancellery

Following the reunification of Germany in 1989, the German parliament decided that it would be good to move the centre of government from the provisional capital, at that time Bonn, to the traditional German capital in Berlin. Perhaps this was understandable as such, but the lavish buildings which it planned were certainly overkill. Initially it was decided that this project should be completed by the year 2000 and that the budget should not exceed 20 Billion German Marks (10.2 Billion Euros). Many new buildings were erected, including for example a new building for the German Chancellor's offices. This was originally allocated a budget of 398.5 Million German marks (ca. € 203,494,168.97) but in fact it cost 513 million marks (€ 262,292,735.05). It included a helicopter pad and a chancellor park. The overall area was approx. 73,000 square meters (m<sup>2</sup>) The building had a gross floor area of 64,413 m<sup>2</sup>, a gross volume of 283,646 cubic meters (m<sup>3</sup>), with a usable area of 25,347 m<sup>2</sup> and a main usable area of approx. 19,000 m<sup>2</sup>.

According to Wikipedia

"It [the German Chancellery] is considered the world's largest government headquarters, being around eight times the size of the White House in Washington DC. With a height of 36 meters, the building is higher than Berlin's "Traufhöhe" of 22 meters."<sup>12</sup>

The extravagance of this building (ca. eight times the size of the White House!) and its cost can only be described as mind blowing. It is difficult to avoid the conclusion that politicians, at least in Germany, live like the kings of old. But that is not the end of the story.

Plans emerged in January 2019 that the German Chancellery is to be ex-

---

iticians. But even where they are binding, politicians find ways to ignore them. For example, after the very questionable German Language reform of 1996, the citizens of the German state of Schleswig-Holstein forced a referendum in 1998 which rejected this.

But this result was reversed by a parliamentary vote in 1999! See [https://en.wikipedia.org/wiki/German\\_orthography\\_reform\\_of\\_1996](https://en.wikipedia.org/wiki/German_orthography_reform_of_1996)

<sup>12</sup> [https://en.wikipedia.org/wiki/Federal\\_Chancellery,\\_Berlin](https://en.wikipedia.org/wiki/Federal_Chancellery,_Berlin)  
"Traufhöhe" is the height of a house to the eaves.

tended. The planning process should take until 2023, followed by a four-year construction period. Staff should be able to move in by 2028, at a planned cost of 460 million Euros. These plans include 400 new offices and a new helicopter pad to replace the existing helicopter pad. The reason for this extension is that the staff housed in the Chancellery has increased from 410 to 750.<sup>13</sup>

### **3.1.2 Staff Costs**

The increase in the number of staff members who work in the Chancellery reminds us of another enormous drain on the German budget (and similar costs in other countries). These are advisors to the Chancellor and to his Chancellery Minister, whose primary job is to provide information to the Chancellor, e.g. by contact with the other Ministers. It is difficult for me to believe that 750 civil servants are really needed to fulfil this and related tasks! In addition to the Chancellery Minister there are currently 4 additional State Ministers associated with the Chancellery.<sup>14</sup> This seems to me to be more than just an excessive administration, for me it is bureaucracy gone mad. (Perhaps not surprising, as Germany is one of the most bureaucratic countries in the world!)

Should you think that that is the full extent of the German parliamentary system, you would be very wrong! There are 15 additional ministries and each has its own staff and offices. Six of these ministries are still located in Bonn, but all ministries maintain offices both in Berlin and in Bonn. You can find more information about these in the Internet<sup>15</sup>.

And now comes the hammer. In addition to the German central government there are 16 state governments, each with its own elected parliament and its own, ministries, laws, judges, etc.

### **3.1.3 Political Remuneration and Expenses: German Parliamentarians**

Members of the German Parliament, who receive what the ordinary citizen would consider to be exorbitant salaries, have many financial privileges.

Until 1906 members of the German Reichstag exercised their offices on an honorary (unpaid) basis and were not permitted to receive any remuneration for their parliamentary work. Since 1906 they have been remunerated.

Following a decision of the German Constitutional Court in 1975 the members of modern German parliaments (federal and state) determine the level of their own remuneration, which is taxable. Initially the basic remuneration was comparable with the salaries of judges of the German Federal Court, but after

---

<sup>13</sup> <https://www.bundestkanzler.de/bk-en/chancellery/extension-of-the-federal-chancellery>.

<sup>14</sup> <https://www.bundesregierung.de/breg-de/bundesregierung/bundestkanzleramt>

<sup>15</sup> <https://www.deutschland.de/en/topic/politics/the-german-federal-government>

occasionally refraining from raising their remuneration this has fallen behind that of the judiciary<sup>16</sup>. Nevertheless normal German citizens regard it as enormously high. (In comparison, the basic parliamentary remuneration of €10,012.89 per month from July 2021<sup>17</sup> is very considerably higher than the average monthly German income of €4,100.00 in 2021.) In addition to their remuneration, federal politicians receive an expenses package which includes

- a) a tax free flat rate payment intended to cover the costs of setting up and maintaining offices in the districts which they represent; this is at a level of about half their basic taxable remuneration, and how it is spent need not be justified by the parliamentarians. This contrasts with expense payments to normal citizens, who must justify them to the tax office, and if they cannot, must pay tax on their expense allowances.
- b) an allowance (about twice as high as their personal remuneration) for employing assistants (who at the federal level may not be family members).
- c) travel expenses, including free travel on the German railway network and refunding of flight costs within Germany in connection with the exercise of their office as parliamentarians.
- d) a contribution to health insurance which is equivalent to that which applies to normal employees. They can choose between the compulsory state system and private health insurance (which many normal employees cannot).
- e) no contributions to the official unemployment and pension schemes paid by most Germans (and no rights to receive benefits).
- f) interim financial help for surviving dependents if the parliamentarian dies in office.
- g) on expiry of their parliamentary service ex-parliamentarians receive a taxable monthly payment to help them return to their former profession. For each year in parliament (up to a maximum of 18 years) this amounts to a monthly payment which for the first month is almost as high as the remuneration paid to active parliamentarians. From the second month, all actual income which they otherwise receive reduces the amount of the payment.
- h) generous non-contributory pension rights. For every year spent in parliament 2.5 % of the current remuneration (up to a maximum of 27 years, i.e. 67.5 %) is payable (and taxable). After 18 years of service the pension is already payable at the age of 55. If a politician receives payments from several sources, rules apply which limit the total payment.

---

<sup>16</sup> The details in this section have been taken from the web page  
<http://de.wikipedia.org/wiki/Abgeordnetenentsch%C3%A4digung#Deutschland>

<sup>17</sup> <https://www.destatis.de/DE/Themen/Arbeit/Verdienste/Verdienste-Verdienstunterschiede/verdienste-branchen.html>

- i) the right to earn additional income (e.g. as a board member) in the free economy while serving as a parliamentarian. This does not reduce the parliamentarian's remuneration. The additional income of politicians is made public, but in a very limited way (hiding the real earnings of high earners).

Certain party officials who are members of parliament receive additional remuneration which in the case of the federal lower house is paid via the parties.

### **3.1.4 Political Remuneration and Expenses: German Ministers**

German federal ministers and the Chancellor receive a remuneration based on the highest civil service salary level (B11). In the case of Ministers this is  $1^{1/3}$  times the B11 salary, and in the case of the Chancellor  $1^{2/3}$  times. These salaries are based on a normal law (the Federal Minister Law), not on the constitution. According to this rule Ministers currently receive ca. € 24,000 and the Chancellor ca. € 30,000 *per month*.

At this point I will stop describing the German political system. I think that the point which I wish to make is clear: politicians and their system of representative democracy are incredibly expensive, even leaving aside their share in the enormous costs of maintaining the European Union. This is true not only of Germany but, to a lesser extent, in most other democratic countries.

## **3.2 Politician Attendance at Parliamentary Sittings**

One would naturally think that a primary duty of politicians is to attend parliamentary sittings both to listen to and take part in debates and also to vote on new laws. Not so! Since the televising of some parliamentary sittings it has become evident to all that for many parliamentary sessions most debates are sparsely attended. How can this be, when the decisions of parliament are (theoretically) determined by those attending the sittings? The answer is that the political parties reach agreements about how many need actually attend from different parties. The politicians defend this remarkable state of affairs by arguing that they are very busy with other matters and have no time to attend what I would regard as one of their primary duties. This means of course that many debates are in practice a waste of time, and that all the decisions have already been made by the political parties.

## **3.3 What happens when a member of parliament dies or resigns?**

In the UK a bye-election takes place to choose a successor. This can be a cause of concern for the party to which he belonged, because his constituency might then elect a new member of parliament from a different party. This might in the extreme case lead to a change of government. In Germany what normally happens is that the next candidate in the party's list takes his place. There are

two exceptions to this. If the party list has been exhausted his seat remains unoccupied. In the unusual case that the dead parliamentarian was an independently elected candidate, a new election must take place in his constituency.

Just occasionally a politician becomes so dissatisfied that he decides to resign from his party. In this case he does not lose his seat in the parliament, but can continue to vote, and may, but need not, join a different party. In the extreme case this could lead to a change of government. He may also be allocated a different seat in the parliament.

### **3.4 Long Term Decisions**

When on election day a citizen casts his vote, this decision is final for the next three to five years. If circumstances change drastically before the time is up, the elector normally has no opportunity to change his vote. This can have severe consequences. For example the present German coalition government led by Olaf Scholz was elected, I believe, for two reasons. First, the previous ruling party, Ex-Chancellor Merkel's Christian Democratic Union (CDU), put up a Chancellor candidate whom many Germans considered to be inappropriate, but who was clearly Merkel's choice for a successor. Second, the main issue was a realisation in Germany that climate change has become a serious problem, with the result that the Greens Party became a serious contender for the first time in many years. The outcome of the election was that the Social Democratic Party (SPD), with Scholz as Chancellor candidate, narrowly defeated the CDU with the Greens as third party and the liberal Free Democratic Party (FDP) in fourth position. Scholz chose to form a coalition with the Greens and the FDP, who respectively took the economics and finance ministries. The very different policies of the Greens and of the FDP parties have led to many internal disagreements. At first these were well hidden from the public but later they became very visible.

What has significantly changed since the election is Putin's invasion of Ukraine. The Greens-controlled Economic Ministry and the liberals Finance Ministry were both put in situations which they had never anticipated. Not only that. The German Defence ministry was also suddenly put under severe stress, as was evident when the SPD's Defence Minister initially offered only 5000 helmets to help Ukraine, which became the focus of world-wide mockery.<sup>18</sup> I will not go into more

---

<sup>18</sup> see for example <https://www.cnbc.com/2022/01/27/germanys-offer-to-send-5000-helmets-to-ukraine-provokes-outrage.html>;  
<https://www.nytimes.com/2022/01/27/world/europe/germany-5000-helmets-ukraine.html>; <https://www.theguardian.com/world/2022/jan/26/russia-ukraine-germany-under-pressure-to-back-eu-military-training-mission-in-ukraine>;  
<https://www.nytimes.com/2022/01/27/world/europe/germany-5000-helmets->

details except to say that I am sure that the German electorate would almost certainly now vote quite differently if they were given a chance! This illustrates one of the main shortcomings of the system of representative democracy, its inability to allow voters the opportunity to react to serious change.

### **3.5 Lobbyism**

It was pointed out in section 3.2 that parliamentarians frequently do not attend parliamentary debates. What do they do instead? One of the worst things which they do from the viewpoint of genuine democracy is to meet with lobbyists who attempt to influence their decisions, in particular with respect to legislation. According to the Wikipedia article 'Lobbying in Germany'

"Lobbying in Germany, like in many other parliamentary democracies, plays a significant role in the development of legislation. Lobbying has existed in Germany since 1956, when the Federal Constitutional Court issued a ruling legalizing it. A mandatory lobby register was introduced in Germany effective 1 January 2022, along with a code of conduct."<sup>19</sup>

The argument of the Court was that Article 38 of the German Constitution allows members of parliament to vote according to their conscience, even against the wishes of their parties. I accept this basic premise, but not the conclusion. One problem is that members of parliament are often offered rewards and many accept these, e.g. lucrative positions either in parallel with their parliamentary work or after retirement). A further problem is that important lobbyists are often given workspace (e.g. in the Chancellery or in Ministerial buildings) and are even invited themselves to write new laws! A further objection is that lobbyists are often given lucrative positions as "advisers". But above all, such positions can be used to give some companies an unfair advantage over other companies and also over normal citizens. Here one might think for example about industries such as tobacco, environmental pollution, gambling, etc.

### **3.6 Special Privileges of Politicians**

Politicians grant themselves many special privileges, in Germany as in other countries. For example they cannot be charged with committing serious crimes unless the parliament agrees to lift their immunity.

### **3.7 Undemocratic Decisions**

Ex-Chancellor Merkel was so well-liked by the German population that she was able to stay in power for sixteen years. I never understood this, because she made some momentous decisions which I regard as undemocratic and incompe-

---

ukraine.html; <https://www.theguardian.com/world/2022/jan/26/russia-ukraine-germany-under-pressure-to-back-eu-military-training-mission-in-ukraine>

<sup>19</sup> [https://en.wikipedia.org/wiki/Lobbying\\_in\\_Germany](https://en.wikipedia.org/wiki/Lobbying_in_Germany)

tent. In particular three stand out:

- her decision to allow around a million mainly Syrian immigrants to enter Germany. This was a good example of her making decisions without consulting others, within her party, within Germany and within the European Union. She presumably expected that other EU countries would follow suit, but if so this was a disastrous misjudgement, which has led to a polarisation in which East European countries such as Poland, Hungary and Czechoslovakia have become increasingly isolated from their western counterparts.
- her decision, again with little consultation either in Germany or in the EU, to phase out the use of atomic energy. One result of this is that Germany faced a very bleak winter in 2022/3.
- perhaps her biggest mistake, which explains much of what has subsequently happened in Germany (such as her neglect of the armed forces<sup>20</sup> and her support for the North Stream 2 pipeline) was to ignore President Putin's warning at the 2007 Munich Security Conference and subsequent warnings<sup>21</sup>. This neglect by Merkel and by other western countries has resulted in the current war which Putin has started against Ukraine, and which at the time of writing is the greatest threat to world peace since World War II.<sup>22</sup>

All of these decisions were apparently made by Angela Merkel alone, without previous proper consultation with the German parliament. They can therefore fairly be described as undemocratic.

### 3.8 Chaotic Decisions

The present ruling coalition in Germany, consisting of the socialist SPD, the left-leaning climate party Greens and the right-leaning FDP, can best be described as chaotic. One example of this was the so-called gas levy, which was proposed because one of the main gas importers for Germany (Juniper) was on the brink of bankruptcy. Since this supplied gas to many German city utilities a bankruptcy would have been a major disaster. Juniper asked the German government for help, and this was approved on 22/7/22, with a bailout package of 15 billion being arranged (together with the Finnish mother company Fortum). The coalition government, in this case at the suggestion of the Greens-controlled Economics Ministry, proposed a gas levy, payable by gas users, to resolve the

---

<sup>20</sup> and of much German infrastructure such as motorway bridges

<sup>21</sup> [https://en.wikipedia.org/wiki/2007\\_Munich\\_speech\\_of\\_Vladimir\\_Putin](https://en.wikipedia.org/wiki/2007_Munich_speech_of_Vladimir_Putin)

<sup>22</sup> This should not be understood as an excuse for Putin's aggression, but simply as a criticism of many Merkel policies. Throughout the last decade and more my wife and I have often expressed the view that Merkel has ignored the dangers presented by Putin. Even after his annexation of Crimea, Merkel has ignored the dangers presented by Putin's policies (e.g. by pushing ahead with North Stream 2 against the strong warnings from the East Europeans and the USA).

problem. This would be used to keep Juniper *and other gas importers* (German fairness!) afloat. This quickly became problematic because other gas importers (which were making enormous profits out of the crisis created by the Russian energy standoff) also claimed a share of the fund. Since then there has been much criticism and the situation is frequently changing. The most recent suggestion at the time of writing is that the gas levy may be abandoned and that the government might nationalise Juniper. For further details see appropriate websites<sup>23</sup>.

This issue is one of many examples in which governments (especially the present German coalition government) make chaotic decisions.

### 3.9 Incompetent and Dishonourable Behaviour

Early in the COVID pandemic there was a shortage of protective masks in Germany. The CDU Health Minister made an overgenerous public offer to buy masks in bulk with little regard for the costs. Apart from the disaster that masks costing around 1 billion Euros were bought, Minister Jens Spahn's marriage partner Daniel Funke was employed in one of the companies, and some CSU politicians and their contacts made small fortunes by involving themselves in some of these purchases<sup>24</sup>. In my view the way that the purchase was organised was totally incompetent and the actions of the CDU/CSU politicians taking up the offer can at least be described as dishonourable.

But such actions are not infrequent. For example in 2019 the German Minister of Transport signed a contract to introduce a disputed motorway road toll *before* the case against it was due to be decided by the European Union Court of Justice. The court decided against the toll with the result that the German government is now being sued for €560 million.<sup>25</sup>

In Germany it is accepted by the courts that "loss of memory" is an acceptable defence in court cases. Both the former CDU chancellor Helmut Kohl and the current SPD chancellor Olaf Scholz have used this defence in connection with their involvement in scandals regarding very large amounts of money. The first case involved illegal donations to the party, the second case related to the Cum-Ex affair. (Some would say in both cases with little credence, because otherwise their memories appear to be fully intact).

<sup>23</sup> e.g. <https://www.bundesregierung.de/breg-de/themen/klimaschutz/gaspreisanpassung-umlage-2068832>; <https://en.wikipedia.org/wiki/Uniper>

<sup>24</sup> e.g. <https://www.dw.com/en/germanys-health-minister-under-scrutiny-over-mask-purchases/a-56946274>

<sup>25</sup> e.g. <https://www.dw.com/en/german-transport-minister-blasted-over-autobahn-toll-debacle/a-51773179>



### 3.10 Political Correctness

When politicians of the main parties are agreed on a policy issue, such as immigration policy, it becomes politically unacceptable for individuals to hold another view. Such "political correctness" can lead to something approaching censorship, as occurred recently in Germany, when Thilo Sarrazin, until then a respected member of the Socialist party, a former Finance Senator in Berlin and a member of the Executive Board of the German Federal Bank, published a book<sup>26</sup> which considered the consequences that could arise from the reduction in births in Germany, in combination with a growing social lower class and immigration from Muslim countries. This was one of the best-selling books since the founding of the German Federal Republic (having sold 1.5 million hardcover copies up to 2012). Virtually all German politicians condemned the book. Even Chancellor Merkel (without having read the book!) criticised it as "dumm und nicht weiterführend" [stupid and not leading anywhere]. The then Socialist Party leader, Sigmar Gabriel, criticised the "gewalttätige Sprache" [violent language] and recommended Sarrazin's exclusion from the Socialist Party, should he continue to support the "Eugenik-Debatte" [eugenics debate]. This led to Sarrazin's resignation from his position on the board of the German Federal Bank, but the move to remove him from the Socialist Party was shelved until it finally succeeded in 2020.

Opinion polls indicated at that time that almost half of the German population (including some SPD members) agreed with Sarrazin's political views and 18 percent would vote for his new party if he started one (which he did not).

The important point which I am trying to make here is not that Sarrazin's views are good (or bad) but that political correctness is a very undemocratic and opinion suppressing weapon. If politicians consider that an opinion which is held by almost half the population is incorrect, then they should not simply criticise it (especially if, like Merkel, they have not read the book) but should explain why they think that it is wrong. Otherwise they are more likely to damage their own position. If the politicians had not criticised Sarrazin's book even before its publication, it would probably never have reached so many readers.

"Political correctness is silencing an important debate" said Matthias Matussek of Der Spiegel magazine. "Sarrazin's findings on the failed integration of Turkish and Arab immigrants are beyond any doubt. He has been forced out of the Bundesbank. The SPD wanted to expel him from the party, too. Invitations previously extended to Sarrazin are being withdrawn. The culture page edi-

---

<sup>26</sup> Thilo Sarrazin "Deutschland Schafft Sich Ab", Deutsch Verlags-Anstalt, 2010; English title "Germany Abolishes Itself: How We're Putting Our Country in Jeopardy".

tors at the German weekly 'Die Zeit' are crying foul and the editors at the Frankfurter 'Allgemeine Zeitung' are damning Sarrazin for passages he didn't even write."<sup>27</sup>

Political correctness also distorts justice, as the case of the British Rotherham child sexual exploitation scandal proves. It has been estimated that at least 1,400 children were sexually abused between 1997 and 2013 in Rotherham in cases involving abduction, rape, torture and sex trafficking.<sup>28</sup> In 2010 five men with a Pakistani background were eventually found guilty of sexual offences against girls as young as twelve. Over this period the authorities, including police and city authorities who were apparently aware of what was occurring, did little to put a stop to these criminal events. This failure was described by the then British Home Secretary (Theresa May) as being the result of "institutionalised political correctness", arising out of the fact that the perpetrators had a Pakistani background.

The politically correct in Germany found it difficult to accept the truth about the events in Cologne's cathedral square on the eve of the 2016 New Year, when around 1000 Islamic male migrants and asylum seekers deliberately sexually assaulted and robbed young German women. The number of official complaints now numbers more than 650 for that one evening. One of Germany's leading public broadcasters (ZDF) has admitted that it held back the story for 3 days, despite being aware of it, and has also covered up other similar stories<sup>29</sup>. The police also initially covered up the story and referred to a decree from the local government that care should be taken about reporting stories involving foreigners. And well-known feminist Alice Schwarzer has reportedly claimed that the Cologne police have been covering up Muslim rape for 20 years<sup>30</sup>.

The feminist movement in Germany, perhaps the most politically correct aspect of current German life, has even developed a new dialect, which brings to mind Newspeak, the fictional language described by George Orwell in his novel "1984", which was designed "to limit the individual person's ability to think critically or to articulate subversive concepts, such as personal identity, self-expression, and free will"<sup>31</sup>.

For those who believe in the truth, in free speech, in the freedom of the

<sup>27</sup> <https://www.spiegel.de/international/germany/sarrazin-s-truths-political-correctness-is-silencing-an-important-debate-a-716648.html>

<sup>28</sup> [https://en.wikipedia.org/wiki/Rotherham\\_child\\_sexual\\_exploitation\\_scandal](https://en.wikipedia.org/wiki/Rotherham_child_sexual_exploitation_scandal)

<sup>29</sup> <https://www.spiegel.de/international/germany/cologne-attacks-trigger-raw-debate-on-immigration-in-germany-a-1071175.html>

<sup>30</sup> <https://www.spiegel.de/international/germany/german-feminists-debate-cologne-attacks-a-1072806.html>

<sup>31</sup> see the Wikipedia article Newspeak [<https://en.wikipedia.org/wiki/Newspeak>]

press and honest reporting, political correctness is a disaster!

### **3.11 Political Self Preservation**

Politicians are very good at devising mechanisms to ensure the survival and success of their parties, especially against the development of new parties. One example is the 5 % hurdle for a party to enter the German parliament.

The survival of political parties depends to a large extent on their financial resources. In Germany this is regulated by Article 21 of the Constitution and in detail by the Parteiengesetz [Parties Law]. Parties must provide an annual accountability report, setting out their income and expenses and their capital. The aim is to allow parties to contribute to the electorate's formulation of political objectives and to reduce their financial dependence on external donations from wealthy contributors. Furthermore party finances and state finances should be cleanly separated. Expenses should consist mainly of personnel and office costs, costs of inner party communication and election costs.

In reality the main sources of income of the German political parties are

- party member subscriptions (which in 2005 amounted to more than a quarter of total income of the parties),
- donations to parties (approximately 15 % of total income),
- profits derived from party activities (e.g. political events, sales activities),
- appropriations from state finances, calculated as follows:
  - 70 Eurocents for each vote they receive (increased for the first 4 million votes to 85 cents);
  - 38 Eurocents for every Euro received as a contribution (i.e. as a donation or party subscription). This applies only to contributions not exceeding €3,000 per natural person.

To benefit from this system a party must have received at least 0.5 % of all valid votes at the last federal election.

Experts consider that other sources of income should be counted as indirect state financing of the parties. These include

- contributions from parliamentarians to their parties,
- preferential tax treatment for member subscriptions and donations,
- subsidies for the parties, which in 2012 amounted to 190 million Euros,
- party related foundations<sup>32</sup>.

---

<sup>32</sup> A decision of the constitutional court in 1966 stated "The permanent financing of the parties from state sources for their total political activities does not accord with the [constitutional] model of the political party."

– the right to make senior appointments in areas such as the administration and judicial system (thus allowing politicians to appoint party members and thereby provide them with high salaries from the state).

Despite all this direct and indirect financing of the parties by the state and from other legal sources, there have been several major scandals in connection with illegal party financing, including the Flick affair<sup>33</sup> and the CDU affair of 1999<sup>34</sup>, the latter involving Helmut Kohl (then Chancellor), Wolfgang Schäuble (later Minister of Finance) and several other senior CDU politicians.

### 3.12 Political Ideologies

One problem with some political parties is that they are based on *ideologies* which are not shared by the entire population of a country. A good example of this is the Greens Party in Germany.

One of its roots lay in the in its opposition to atomic energy. The Greens campaigned for many years against the use of atomic energy in Germany, for example by trying to prevent the movement of atomic waste.

A second direction is the party's emphasis on preventing climate change. Largely as a result of some environmental disasters in Germany, such as the floods of 2013, when the river Elbe reached more than 16 feet in Magdeburg and the river Danube reached more than 42 feet above normal in Passau, and especially the Ahr valley floods of 2021, the German population began to take the Greens more seriously, with the result that in the 2021 German federal election they obtained a very strong third place result. This gave the German socialist party the opportunity to form a coalition government together with the Greens, which took two key ministries (Economics and Foreign Affairs) and the much smaller Liberals party (which took the equally significant Finance and Transport ministries). With this constellation it is not surprising that there were frequent, often publicly aired, disagreements between the coalition parties.

One such disagreement arose over the role of atomic energy. In a previous government under Chancellor Merkel the decision had been taken to shut down all Germany's atomic power stations, following the nuclear disaster in 2011 at the Fukushima Power Plant in Japan. By 2023 there were only three remaining atomic power stations in Germany and these were scheduled to be shut down by 2023. At that time Germany was in the middle of an energy crisis as a result of

---

The reaction of the parties was simply to redirect relevant monies to their related foundations. In the year 2011 this involved ca. 423 million Euros (ca. three times as much as the direct state financing of the parties).

<sup>33</sup> [https://en.wikipedia.org/wiki/Flick\\_affair](https://en.wikipedia.org/wiki/Flick_affair)

<sup>34</sup> [https://en.wikipedia.org/wiki/CDU\\_donations\\_scandal](https://en.wikipedia.org/wiki/CDU_donations_scandal)

the sanctions placed on Russia because of its war against Ukraine. To the surprise of many Germans the Greens Economics minister decided to follow the plan to shut down all three atomic power stations whilst at the same time going ahead with several coal fuelled power stations (which involved destroying houses in order to recover the coal under them). For purely *ideological* reasons the Greens were prepared to reopen atmosphere-polluting coal mines rather than postpone the closure of climate-neutral power stations, and to destroy the homes of normal German citizens. And all this at a time when the opinion polls showed that **71%** of the German population were against the closure of the nuclear power stations. That cannot be democracy!

### 3.13 Empty Promises

It has almost become a joke in Germany, when a politician promises that they will handle something "quickly and unbureaucratically". A good example is the promises made by countless German politicians to the people who suffered under the floods in the Ahr valley in July 2022<sup>35</sup>. The situation a year and a half later is described in the Globe Echo in the article "Reconstruction in the Ahr Valley: Why the billions are not arriving."<sup>36</sup>

One of the problems is bureaucratic procedures. German citizens were extraordinarily generous. Some, mainly skilled workers and building companies, travelled regularly from all over Germany to the Ahr valley to provide direct emergency help. Others contributed millions in Euros. So what is the problem? The answer is bureaucracy.

When German politicians promise "quick and unbureaucratic", which they do *every time* there is a disaster, they must know that they are lying to the public. They are the people responsible for the bureaucracy, but they take no steps to reduce it.

### 3.14 Plagiarism

In their desire to acquire a doctoral title an extraordinary high number of German politicians have been revealed as plagiarists. An Internet article lists 14 Federal Politicians whose PhD theses have been rescinded on the grounds of plagiarism by the granting universities<sup>37</sup>. On the list several names of politicians appear who are widely known, including

---

<sup>35</sup> see <https://www.theguardian.com/world/2022/jul/13/floods-then-and-now-photographs-germany-ahr-valley-flooding-disaster-july-2021>

<sup>36</sup> <https://globeecho.com/news/europe/germany/reconstruction-in-the-ahr-valley-why-the-billions-are-not-arriving/>

<sup>37</sup> <https://www.altersdiskriminierung.de/themen/artikel.php?id=5223>

- Franziska Giffey, who is a former Federal Minister for Family Affairs, Senior Citizens, Women and Youth and is currently Berlin State Senator for Economy, Energy and Enterprise.
- Annette Schavan, former Federal Minister for Education and Research, who nevertheless was later appointed as Ambassador to the Vatican.
- Karl-Theodor zu Guttenberg, former Federal Defence Minister, now a Lobbyist, Management Consultant and TV Moderator.

This clearly says something about the integrity many politicians!

### **3.15 Nepotism ("Jobs for the Boys")**

When the Greens took control of the German Economics Ministry, the new Minister (and Deputy Chancellor), Dr. Robert Habeck, appointed a remarkable number of family members and associates to important positions. According to the ZDF TV program "Berlin Direkt" on 30/4/23, he appointed two State Secretaries, a longstanding confidant Michael Kellner and his brother-in-law Patrick Graichen. Graichen's sister Verena (who is married to Kellner), and his brother Jakob Graichen work for the "Öko-Institut a.V.", which prepares studies for the Economics Ministry. Verena Graichen is also deputy head of the BUND environmental institute<sup>38</sup>. These four further develop the plan which Patrick Graichen previously initiated as head of the lobby organisation Agora Energy Policy. Felix Matthes, Research Coordinator of the above mentioned Öko-Institut a.V. is married to Regina Günther, former Berlin Senator for the Environment, who together with Rainer Baake heads the Stiftung Klimaneutralität (foundation for Climate Neutrality), which advises on climate politics. Rainer Baake was previously state secretary for the personal consultant Patrick Graichen. Baake founded the above mentioned lobby organisation Agora and was recently appointed as Special Representative for the German-Namibian Climate Cooperation. It is claimed that all was above board, until Habeck appointed Michael Schäfer (the best man at the wedding of Patrick Graichen) out of 18 applicants to the top position of DENA (the German Energy Agency). The parliamentary leader of the Left party commented: "In the coalition, in particular the Greens, they consider themselves as morally superior high-flyers, but continue exactly like the Merkel Government". Finally the film shows Robert Habeck's own brother presenting Habeck with the prize of the "energy coastal" for Schleswig-Holstein!

This remarkable example of nepotism was only made public after the 2021 federal election. I suspect that if it had been known earlier and more widely the

---

<sup>38</sup> see Bernhard Pötter "Wirtschafts- und Klimaministerium: Energiewende als Familienprojekt", Die Tageszeitung TAZ, 19/12/2021.

Greens would have not received so many votes. And they would probably have received even fewer votes if details of their drastic and expensive policies had been revealed in advance.

#### **4 Future Democracies**

The previous sections of this chapter have highlighted some of the many weaknesses of Germany's democratic system, but many of these carry over to other western democracies and the latter also have idiosyncrasies of their own. It is clear that this situation is not satisfactory and needs a drastic overhaul. Politicians will not agree with my assessment but most citizens have a different position with regard to the quality and the machinations of their politicians. But they do not know what can be done to improve the situation.

The next and following chapters describe a very radical solution, which will be scorned as unworkable by the politicians. But before readers come to the same conclusion, I can only beg their indulgence and ask them to read on with an open mind. The solution as such is very simple: we can eliminate politicians entirely (in the figurative sense of course)! Then the question arises, how can we manage without them?

## Chapter 4 – Genuine Democracy

As was shown in section 1 of the previous chapter, the main reason for the existence of politicians in western democracies is that with very large populations direct democracy, in which the opinions of all can be expressed and counted, is unworkable in practice – or it was until recently! This situation has changed fundamentally in the last two decades. There are now outlets via which individuals can easily voice their opinions. This occurs every day via the use of the social media. But unfortunately the social media outlets are almost totally uncontrolled. They can be, and often are, abused (e.g. by foreign governments, by fraudsters, by thieves, by spies, etc.). So let it be clear that I am not suggesting that social media can replace politicians. From the very beginnings I realised the dangers of social media and consequently I have never had a social media account of any kind. I was therefore very happy to discover that I am not the only person to hold this view. I strongly recommend that you read a book which sets out good reasons for this attitude<sup>39</sup>.

How then can a genuinely democratic system be organised? This chapter argues that politicians and parliaments in the conventional forms should be replaced by a system in which individual citizens take all important decisions regarding the government of a country via a carefully organised system in which all its citizens can propose and vote on new laws, can repeal laws and can modify laws. It is proposed that citizens cast their votes via a secure online system (e.g. using smartphones or computers) but for those unable to do this (e.g. some elderly or handicapped citizens) a postal vote can be cast.

This proposal may at first reading sound like an invitation for chaos. But that is far from the truth. I am not suggesting that we start again from scratch, but simply that we eliminate the need for politicians. There is no necessity to scrap the entire system, though hopefully we can trim away the unreasonable costs and other excesses of the politicians described in the previous chapter. This is not as difficult as it might at first appear. Remember that politicians themselves have *no special qualifications*; they are in many cases politicians because in most cases they are ambitious, sometimes greedy and in some cases people who want the best for their country. But that description also fits very many people in society. Furthermore, in the general population there are many people who are more skilled and more knowledgeable than the politicians. How then do politicians succeed (if that is the right word!)? The answer is that they

---

<sup>39</sup> see Jaron Lanier "Ten Arguments for Deleting your Social Media Accounts *Right Now*", Henry Holt and Company, New York, 2018.



have advisers. In Germany some of their advisers are close associates from their own party while others are more permanently civil servants. But if political parties exist at all in future their members should certainly *not* be advisers in a new system. Nor should political party members be civil servants in advisory positions! But many of the institutions of the state would of course continue to function more or less as they did formerly under politicians.

## **1 An Electoral Office**

The first essential is to have an electoral office which is responsible primarily for maintaining an up-to-date list of voters, for checking their entitlement to vote, for organising elections and for providing information relevant for voters. The important difference between future electoral offices and electoral offices under the current system is that political parties are not involved and that the voters themselves directly determine, by a majority decision, which proposals become law.

## **2 Advisers and Advisory Committees**

In representative democracies politicians rely to a considerable extent on permanent advisers. In a similar way the electorate in a direct democracy will need civil servants who carry out the routine tasks of government, who manage the everyday issues and who can make proposals about changes to the laws.

What is clear, however, is that the numbers of civil servants in various areas of government should be very limited in comparison with the huge staffs found in conventional ministries. I would suggest that at most a ministry should consist of no more than 30 persons qualified to carry out the routine work of their area of responsibility, led by a minister who has the final responsibility for his ministry. His powers should be restricted to providing advice to the electorate, except in the case of emergencies (e.g. pandemics, outbreak of war). He can propose laws but should have no power to legislate (in contrast with the Swiss democratic system). Such proposals for new laws must pass through the same stages as proposals directly from the electors.

A minister can represent his country, but he should always make clear in negotiations with other states that the final decision is only binding as a result of a popular vote in favour of his recommendations.

Finally, the contracts of all the civil servants, including the minister, can be cancelled as a result of a decision by the electorate. Their former employers must take them back after their work as civil servants ceases, except in the case where they have been publicly disgraced.

Voters may sometimes require specialist advice. Hence it should be possi-

ble to set up temporary advisory committees in particular fields, e.g. law, medicine, hospital organisation, computing and engineering, defence, trade and economics, etc. But these should also have no powers to make decisions, though they can propose laws on which the electors can vote. The advisers themselves can be paid, but not with exorbitant salaries and/or luxurious benefits and/or special privileges. They are appointed on the basis of their qualifications, which should be displayed on the electoral office website and decided, as always, by popular vote.

### **3 Proposing Legislation**

Proposals for new legislation, for changes to existing legislation and for the repeal of old legislation should be available to all voters on the electoral roll. However, to make this workable the following stages might be organised by the electoral office:

- a) An informal proposal can be formulated by any registered voter and is placed on a section of the electoral office website accessible to all voters.
- b) Other voters can register their interest in support of the proposal and/or can point out weaknesses in the proposal.
- c) If the proposal gains sufficient initial support, it should be passed to a legal section of the electoral office, which works with the proposer to formulate an acceptable legal framework for the idea.
- d) This interim proposal should then be distributed by the electoral office to all those who have expressed interest (see (b) above). It should also be published on a state owned TV channel. Then follows a further period for discussion, after which further interested electors can discuss it (typically online) and indicate whether they find it acceptable. The discussion should also be promoted by TV channels and by newspapers, etc.
- e) If a sufficient number of these indicate their support then it should be placed by the electoral office on its website in a "Proposed Legislation" section, with a time limit indicating the time when a final vote is permitted. Opportunity is then given for making further changes.
- f) When the time limit for this expires, it is placed on a published list of items to be voted on at the next voting session.

### **4 Voting Procedure**

Voting should take place at regular intervals (e.g. monthly) and the time limit for casting a vote should be about a week (e.g. the first week of each month). Interim results should *not* be made available by the election office.

The electoral office should publish the scheduled list of proposals for a

particular voting date at least two months before the planned voting date.

Soon after voting closes for a particular month the electoral office publishes the results for all the proposals voted on. It then determines which of these become law and accordingly makes appropriate changes in the laws and publishes these on an electronic noticeboard.

## 5 Hurdles preventing Proposals from becoming Laws

Only those proposals which meet certain conditions actually become laws.

The first hurdle (which is checked by a committee of legal experts) is to ensure that the proposal is constitutional (e.g. if there is a written constitution, that the proposal does not violate the constitution).

The second hurdle is to ensure that a fixed minimum number of electors have actually registered votes *on* (not *for*) the proposal, i.e. that there is sufficient interest.

The third hurdle is that the proposed law must be deemed workable by a committee set up for this purpose and the costs must be reasonable. This might be determined by a Finance Minister, who also has the responsibility of producing budget proposals. A final budget must be subject to a vote by the electors.

The fourth hurdle is that at least 50 % of those voting must be for the proposal. In the case of a constitutional issue this must be at least 66 % of *all eligible voters*.

A fifth hurdle should be an examination of the proposed law to ensure that it does not introduce avoidable bureaucracy. I would go a step further by introducing a new Ministry for the Elimination of Unnecessary Bureaucracy. Such a Government Ministry is long overdue in many countries, especially in Germany. Its purpose would not only be to avoid introducing new bureaucratic monstrosities but also to reform and simplify existing systems (such as the German health insurance system<sup>40</sup> and the land registry system<sup>41</sup>, to name just a few of the very many examples). It would be a duty of such a ministry to recommend improvements, and to learn from other countries' systems<sup>42</sup>. Such a ministry should also

---

<sup>40</sup> The German health insurance system has 96 public health organisations ("gesetzliche Krankassen"), 43 private health insurers, separate state schemes for the public servants of each of the 16 Federal German States and a further scheme for Federal public servants! This amazing system is described in more detail in chapter 7 section 5.3.1 (with a remarkably simple alternative in chapter 7 section 5.3.2.)

<sup>41</sup> I was horrified when during the Euro crisis Germany wanted to force their very bureaucratic "Grundbuch" system on Greece! This adds considerably to the price of property and involves long delays in the formal transfer of a property.

<sup>42</sup> For example contributions for the excellent Australian public health scheme (Medicare) are automatically collected via the Australian tax scheme, with an option to join a pri-

be responsible for the digitalisation and interconnection of public systems, which in Germany lag far behind those of most other European countries.

## **6 Objections to Direct Democracies**

Politicians will undoubtedly protest loudly about the idea of direct democracy, as I have described it above. In Germany most politicians are even against the introduction of referenda. One reason why they are against referenda is clearly that these limit the freedom of politicians. But with the scheme which I have proposed they will obviously also be against their own abolition! But self-interest is not a good reason to rule out direct democracy.

They will undoubtedly find other grounds to reject the idea. For example I have heard arguments that they would fear populism, especially right wing populism as represented in Germany by the AFD party (Alternative for Germany), a party which flirts occasionally with Nazi-ism. At the time of writing, this fear is particularly strong. According to the opinion polls, the AFD is currently more popular than the SPD, the party of the German Chancellor! But it is clear that one reason for this (as opinion pollsters have established) is that this is a protest vote against the current government, in many cases not a genuine preference for the AFD. Nevertheless it would be a mistake to underestimate this very right wing party. The important thing is to strengthen the Constitution against all aspects of Nazi-ism, to eliminate political correctness and to vastly improve those authorities which are responsible for policing extreme political parties.

Strangely enough I consider that this problem would actually disappear in a genuine democracy, in which Germans would have the right to express themselves without restriction and to restrict the flooding of Germany with so-called asylum seekers, who in many cases are simply looking for a better life. One reason for the protest vote is that the chaotic political situation created by the current coalition government is a total disaster.

One positive sign is that recently almost everywhere in Germany (especially, but not only, in the eastern states, where the successes of the AFD are most evident and where there is a real threat that this party could capture some state governments), there have been spontaneous large gatherings of people expressing their anti-AFD feelings. It is quite clear to me that the AFD will never be in a position to change the constitution, which requires a 66% vote of parliament. This hurdle would certainly be even more difficult to attain if this requirement were to be clearly established in a *direct* democracy of the kind which I have

---

vate scheme for those wishing to get better hospital cover and extras such as spectacles. Refunds can be automatically paid into the patient's account before he leaves the doctor's surgery!

proposed earlier in the chapter.

I am fully convinced that if the Germans could *directly* decide on the issues facing Germany at the moment they would find solutions which neither tend towards Nazi-ism nor would they result in the solutions similar to those of the present German coalition government. (For example in a direct democracy the electors would certainly have decided not to close down the last three German atomic power stations, where opinion polls revealed that 71% of voters were in favour of retaining them.) The only way that Germany could possibly become undemocratic is if Putin were to march into Germany as a step towards achieving his perverse dream of restoring the former Soviet Empire.

The last thing that most Germans want is to fall back into Nazi-ism! Hence I see the fears which politicians would probably use against direct democracy would be quite groundless.

More effective opposition to the introduction of direct democracy would come from businesses and the rich, who rely at present on lobbyism and other ways of influencing politicians. But in the last analysis such opposition would be outvoted by the ever increasing number of voters who are dissatisfied with their present situation, as the poor become poorer and the rich become richer.

Finally, I would add that outright opposition to a genuine direct democracy would be an indication of how *undemocratic* the opponents of this idea really are!

## Chapter 5 – Reorganising the Business World

Chapter 4 described how we might eliminate the need for politicians by introducing a system of direct democracy, in which every citizen has the right to vote and even to propose new legislation, and can vote to repeal existing laws. The subject of this chapter is to consider the background of politics and political parties, why they were necessary at all and how related problems can be overcome.

The names of typical political parties, at least in Europe, in most cases reveal what they are primarily concerned about. Most of the significant parties regard themselves as somewhere in a spectrum between "the far left" and "the far right". The far left politicians claim to be extremely concerned about the plight of the poor, while we might anticipate that the far right politicians are concerned primarily about the well-being of the very rich.<sup>43</sup> Surprisingly this is not usually the case. The far right are in fact usually strongly nationalistic. One reason for this is that the politicians and their parties are all extremely conservative with respect to the treatment of the rich. Consequently the rich need no lobby. We could speculate about the various reasons for this, but that would not bring us further at this point.

The divisions between left and right have their roots in the Industrial Revolution<sup>44</sup>, which started in England around 1760. As a result of this, the distribution of wealth among the population became markedly uneven. Factory owners became ever richer, while the working class, who mainly worked in the factories, were significantly poorer. This situation led to the rise of trade unions in the 18<sup>th</sup> century<sup>45</sup> and to the formation of political parties in the 19<sup>th</sup> century<sup>46</sup>. Since then the rich have become ever richer and (relatively) the poor have become ever poorer.

One reason for this was President Richard Nixon's final abandonment of the gold standard in 1971<sup>47</sup>. Although he intended this as a temporary measure it has since never been reinstated. The importance of this (and earlier the silver standard) as a monetary standard is that it restricted the banks from simply printing ever more paper money (known as *fiat money*). However this is what has

---

<sup>43</sup> We do not wish to imply that these are the only matters which concern politicians.

<sup>44</sup> [https://en.wikipedia.org/wiki/Industrial\\_Revolution](https://en.wikipedia.org/wiki/Industrial_Revolution)

<sup>45</sup> <https://www.tolpuddlemartyrs.org.uk/history/early-unions>

<sup>46</sup> [https://en.wikipedia.org/wiki/List\\_of\\_political\\_parties\\_in\\_the\\_United\\_Kingdom](https://en.wikipedia.org/wiki/List_of_political_parties_in_the_United_Kingdom)

<sup>47</sup> [https://en.wikipedia.org/wiki/Gold\\_standard](https://en.wikipedia.org/wiki/Gold_standard)

now happened in practice and it is one of the reasons why the rich are becoming ever richer and the poor ever poorer, as politicians do nothing to stem this, despite the fact that the constitutions of most Western countries emphasise the equality of their citizens.

A significant development in this direction has been the rising influence of wealthy investors, who "commit capital with the expectation of receiving financial returns"<sup>48</sup>. I would venture to say that in modern society these are the people and companies who rule the world. We return to this issue in chapter 7.

With this background we return to our main theme, which in this chapter is how we can replace left-right politics with something better.

## 1 An Alternative to Left-Right Politics

The previous chapter showed how one might eliminate the need for political parties and allow the citizens of a country themselves to determine their own laws. But how can we eliminate the left-right struggle which currently exists and, significantly, how can we avoid a potential *revolution* which (in my opinion) might follow from the ever increasing marginalisation of the poor. (Recall the French Revolution of 1789!)

Let me say from the outset that I see no place for Marxism, for communism or a return to the Soviet Union in future. We have seen how that led to countless suffering and to dictatorship, which was built on extreme left ideas. That Putin wants to re-instate this evil empire is now clear, and N.A.T.O. is absolutely right in rejecting this and providing massive support for the Ukraine's attempt to save itself (and indirectly Western democracies) from such a fate.

The traditional alternative to Marxism is capitalism; that is where we are today and it turns out also, in my opinion, to be almost equally disastrous. Of course the superrich will not share this view of the world, but neither did the dictators in the Soviet Union share the view that their system was disastrous.

We live in a time when populations throughout the Western World are turning away in droves from conventional politics and politicians. I am convinced that the underlying cause for this is that very many people in Europe and in North America and in Australia are completely dissatisfied with the effects of modern extreme capitalism. Politicians are doing nothing to stop the ever increasing transfer of wealth from the poor to the rich. The result is that not only the working class, but also the so-called middle class is now being slowly but surely squeezed into poverty.

Nevertheless, capitalism has one improvement over communism. It is driv-

---

<sup>48</sup> <https://www.investopedia.com/terms/i/investor.asp>

en by what is usually called the "Profit Motive"<sup>49</sup>, i.e. the idea that businesses should maximise their profit. Marx was aware of the role of the profit motive<sup>50</sup> but this was not effectively put into practice in the Soviet Union, where all profits went to the state<sup>51</sup>. On the contrary, in capitalism the profits go overwhelmingly to the rich, as we shall describe in chapter 7. This is a mistake made by capitalists which is similar to that made by the Soviet politicians. But it gives us a clue into how the economy could be more effectively organised: profits should go not only to the rich but to all those who together produce the profit, i.e. to the "workers". This not only still leaves room for the profit motive, but allows it to be applied much more widely and fruitfully.

## 2 An Alternative to Capitalism

The model which I now describe is sometimes known as a worker co-operative. It is not new. What is new is my proposal that *all* companies and businesses should be based on a worker co-operative model. For a history and background of worker co-operatives see the Wikipedia article<sup>52</sup>. It has been put into practice with stunning effect in the John Lewis Partnership<sup>53</sup>, which I will here treat as my model<sup>54</sup>.

### 2.1 The John Lewis Partnership Ltd

The Partnership is based on a trust, which was brought into existence more than a century ago, in 1929 in London, by the owner of John Lewis (Oxford Street), John Spedan Lewis, by a deed of settlement. All the shares of his existing businesses (John Lewis & Co. Ltd. and Peter Jones Ltd.) were transferred into the trust. The plan was that all the profits of the company would in future be distributed to the employees, either as cash or as fixed-interest stock in the new company. In return, Lewis took £1 million of non-interest-paying loan stock in

<sup>49</sup> see [https://en.wikipedia.org/wiki/Profit\\_motive](https://en.wikipedia.org/wiki/Profit_motive).

<sup>50</sup> [https://en.wikipedia.org/wiki/Value,\\_Price\\_and\\_Profit](https://en.wikipedia.org/wiki/Value,_Price_and_Profit)

<sup>51</sup> There were exceptions, see <https://en.wikipedia.org/wiki/Khozraschet>

<sup>52</sup> [https://en.wikipedia.org/wiki/Worker\\_cooperative](https://en.wikipedia.org/wiki/Worker_cooperative)

<sup>53</sup> Wikipedia has several articles on the John Lewis Partnership, see

[http://en.wikipedia.org/wiki/John\\_Lewis\\_Partnership](http://en.wikipedia.org/wiki/John_Lewis_Partnership)

[https://en.wikipedia.org/wiki/John\\_Lewis\\_%26\\_Partners](https://en.wikipedia.org/wiki/John_Lewis_%26_Partners)

[https://en.wikipedia.org/wiki/Category:John\\_Lewis\\_Partnership](https://en.wikipedia.org/wiki/Category:John_Lewis_Partnership)

[https://en.wikipedia.org/wiki/Talk%3AJohn\\_Lewis\\_Partnership](https://en.wikipedia.org/wiki/Talk%3AJohn_Lewis_Partnership)

<https://www.johnlewispartnership.co.uk/>

<https://www.johnlewispartnership.co.uk/about/who-we-are/our-history.html>

Most of the information which follows was taken from an earlier version of the Wikipedia website which has unfortunately been removed from Wikipedia.

<sup>54</sup> This does not mean that every detail of the John Lewis Partnership should be slavishly followed in future. It should be considered as a source for inspiration, but not a complete blueprint.



the Partnership, to be repaid to him over thirty years. He retained personal control of the business, but received no other compensation (e.g. no salary, no fees, no interest); he lived on the repayments from the loan stock. Thereafter the Partnership expanded enormously, taking over many other companies<sup>55</sup>.

### **2.1.1 Organisation of the Partnership**

The employees of the John Lewis Partnership are called Partners and enjoy a far more democratic environment than is usual in normal companies. There are branch forums in which local issues can be discussed. At the divisional level there are divisional councils and at the company level there is a Partnership Council. This has 82 representatives, of which 80 percent are elected by the partners and the rest are appointed by the chairman. These councils can determine policy on non-commercial matters affecting the company, i.e. social and charitable activities.

Commercial activities are the responsibility the Partnership Board. This consists of five directors elected by the Partnership Council; five appointed by the Chairman; and the chairman and the deputy chairman. Hence under normal circumstances the chairman can count on a majority of votes on the Partnership Board. According to Wikipedia non-management partners also have "an open channel for expressing [their] views to management and the Chairman."

The company produces a weekly magazine for partners (the Gazette), and each branch has its own weekly magazine (the Chronicle). These keep the partners informed of developments, and they publish letters (including anonymous letters) by partners.

### **2.1.2 Social Facilities**

The company supports a quite remarkable programme of social facilities for its partners, including "two large country estates with parkland, playing fields and tennis courts; a golf club; a sailing club with five cruising yachts, and three country hotels offering holiday accommodation for the Partners." As a result of an arrangement with the National Trust and the Scout and Guide movements, the John Lewis Partnership secured the use of Brownsea Castle on Brownsea Island in Dorset as a holiday venue for employees.

### **2.1.3 Social Benefits**

According to the earlier Wikipedia report, the John Lewis Partnership provides "a very favourable pension scheme" and "death-in-service insurance". More details can be found on the Partnership's own website, which lists (with

---

<sup>55</sup> [https://en.wikipedia.org/wiki/John\\_Lewis\\_%26\\_Partners](https://en.wikipedia.org/wiki/John_Lewis_%26_Partners)

further details) the following benefits:

- Pension
- Discount
- Paid Holiday
- Extended Leave<sup>56</sup>
- Life Assurance
- Dining Facilities
- Holiday and Leisure Facilities
- Clubs and Societies
- Ticket Subsidies
- Education Subsidies
- Bursary for the Pursuit of Excellence
- Working for a Charity
- Special Help in Time of Need
- Voluntary Benefits and Discounted Deals.

This is a remarkably generous list compared with the benefits offered by the average company in the wealthy Western economy.

#### **2.1.4 Salary and Share of the Profits**

Each partner receives a conventional salary, which varies from partner to partner. In addition the profits of the company are distributed to the partners in the form of an annual bonus. This "is calculated as a percentage of salary, with the same percentage for everyone, from top management down to the shop floor and storage rooms." Since 2000 this bonus has varied between 9% and 20% of the Partners' annual salaries.

The turnover of the company in 2012-13 was £9.54 billion and the profit before tax £509.0 million, the net profit £409.6 million and total partner bonuses £210.8 million, which amounted to 17% of salaries. The retained profit was £198.8 million.

## **2.2 Evaluation of the John Lewis Idea**

As a thought experiment let us consider what might change if current models for companies and company organisation were to be replaced by the John Lewis Partnership model (on a *mandatory* basis), replacing other business or-

---

<sup>56</sup> According to the Wikipedia report, "upon completing 25 years of service for the company. Partners are given a paid six-month break, known as 'Long Leave'."

ganisations such as limited companies, etc. I concentrate on the advantages which I see, without discussing any disadvantages (which would mainly affect the superrich). At this point we ignore the question of the desirability of such a mandatory model, the problems of how such a drastic change might be achieved politically and how such a system might function in detail.

### **2.2.1 The Profit Motive**

Because all partners (employees) directly benefit from profits all have an interest in increasing profits. This seems to me to be an ideal way to harness the profit motive to company organisation.

### **2.2.2 Effect on Unemployment**

Although this scheme would not be a cure-all for current mass unemployment problems, it could have a dramatic effect on reducing the mass sackings of employees which are aimed to make banks and other companies "more profitable". What this unfortunately means in the modern business world can be defined as "more profitable for the C.E.O. to pay himself a massive salary, and for shareholders, investors and bankers to get better returns".

I cannot imagine that in a company which has no shareholders in the traditional sense, the partners (i.e. the body of employees) would want to sack some of their fellow partners without a good reason, and in any case it would not be so easy to achieve this if it were subject to a vote of all the partners. Similarly, partners would be unlikely to outsource their own work to cheap foreign labour markets. There would of course be a need to weed out lazy partners and others who are having a harmful, disruptive or other negative effect on the company (e.g. by selling company secrets).

In such an environment it would still be important for a company to remain viable, to be able to sell its products in the market place, and continue to be competitive and innovative. The John Lewis Partnership has so far achieved this very successfully, as the partnership has continuously expanded, and its profit and bonus figures have shown.

### **2.2.3 Social Security**

Since there is a UK government pension scheme to which employers (presumably including the Partnership) make mandatory contributions, the interesting question arises whether in the new environment which I am proposing it would not be better, assuming that the Partnership model were mandatory, to eliminate government pension schemes for employees entirely, but perhaps continue to provide subsistence pensions for the unemployed. This would allow companies to invest their former government pension contributions in a private

partnership pension scheme<sup>57</sup>.

#### 2.2.4 Stock Markets and Takeovers

In 1999 the John Lewis partners, not surprisingly in my view, rejected the idea of demutualising and floating the business on the stock market, and I think that in other similar partnerships the same would happen.

The corollary of this is that in a country where *all* companies were mandatorily organised as suggested, there would be no stock market! And this in turn would mean that there could be no hostile takeovers of companies.

This seems to me to have a great advantage, viz. that it would help to curb the – for normal citizens unproductive – excesses of predatory companies and bankers, and thus play an important role in reducing the ever increasing gap between normal citizens and the superrich.

#### 2.2.5 Eliminating the "Us and Them" Syndrome

The main political parties today usually fall into two categories, those who support business (conservative parties) and those who support employees (socialist parties). There are of course parties with other aims, but they are usually smaller. Similarly in the workplace the "us and them" syndrome<sup>58</sup> appears, in the form of management and trade unions. Hence political controversies are often, but not always, strongly coloured by this "battle", which found its strongest expression in the ideas of Marx. There will of course be people who continue to see life in these categories, but this "us and them" culture should be greatly reduced in my ideal environment, especially at the workplace, which would have the potential to become a more harmonious place. The removal of the "us and them" culture would benefit all, for example by eliminating the need for workers' strikes.

#### 2.2.6 Happiness

In his refreshing book<sup>59</sup> which suggests a revolution in modern economics by using happiness (rather than GDP) as the key criterion for making economic judgements, Professor Richard Layard of the London School of Economics referred to evidence that those Swiss who live in the more democratic cantons

<sup>57</sup> Such a topic is far too complex to be discussed at this point, since it raises such issues as the transferability of pensions between companies and how subsistence pensions are funded.

<sup>58</sup> I have borrowed this idea from Carne Ross's outstanding books "Independent Diplomat – Dispatches from an Unaccountable Elite", Cornell University Press, Ithaca, New York, 2007 and "The Leaderless Revolution – How Ordinary People Will Take Power and Change Politics" in the 21st Century, Simon and Schuster, 2011.

<sup>59</sup> Richard Layard "Happiness-Lessons from a New Science", Penguin Press N.Y. 2005.

were found to be happier than those with somewhat less freedom with respect to referenda.

I consider it probable that this tendency is likely to be even more pronounced in countries which have a mandatory Partnership model for company organisation than those which don't.

### **3 Conclusion**

None of the standard economic models seems to have worked well, from the viewpoint of ordinary citizens. Communism, with its centralistic planning, is widely agreed to have been both an economic and a social failure, though its original aim of equality for all was very noble.

Rampant unfettered capitalism has led to rounds of boom and often very painful bust periods, mainly caused by the excessive greed of the big capitalists and bankers, and leading to a situation in which the superrich are becoming ever richer while the poor are becoming ever poorer. The increasing wealth created by modern neo-liberal capitalism is being amassed almost exclusively by a very small "elite". According to Robert B. Reich (Professor of Public Policy, University of California and Former U.S. Secretary of Labor) almost all families in the USA are now poorer than they were before the turn of the century. The global financial crisis of 2008 has had a dramatic negative effect on such families; it "destroyed the value of their homes, undermined their savings, and too often left them without jobs"<sup>60</sup>. Furthermore, according to Reich, by 2007 the top 1 percent of earners in the USA received 23 percent of the entire US income, almost tripling the 1980 figure of 8 percent.

Margaret Thatcher introduced the recent period of rampant capitalism in 1979 as a result of the failure of the Keynesian approach to deal with stagflation. And still today we can hardly put any faith in the solutions of politicians – all they have managed to achieve is to amass massive government debts and create further crises, such as the Euro crisis, which have led to enormous social injustice and suffering especially in southern Europe.

It is clear that a new approach is needed. The one ray of light, it seems to me, is the approach adopted by John Spedon Lewis. It is a capitalistic approach in that it puts the profit motive (which even Marx had grudgingly admired) at the centre, but it is socialistic in that it provides a framework in which profits can be much more fairly distributed than conventional capitalism has managed to achieve. It has many other positive attributes, some of which have been brief-

---

<sup>60</sup> See Robert B. Reich's comments in the Foreword of Richard Wilkinson and Kate Pickett's "The Spirit Level".

ly discussed in the previous section. However, of itself it is not enough. John Spedon Lewis was a rare capitalist; very few modern superrich capitalists are likely to voluntarily follow the path which he took, although a very small minority has taken similar steps. Yet this does not mean that a similar approach to his could not have a central role in a new economic model.

One final point. John Spedon Lewis was wise enough to ensure that his company could rely on the experience and insights of his top managers in the way that he handed over his company, and this too undoubtedly partially explains the great success of John Lewis & Partners. The basic point is that *decision-making for business matters* should be firmly in the hands of professionals under the control of a chairman and/or a CEO while the employees (partners) have very considerable freedom in making social decisions. If this model is put into practice a general pattern should be carefully developed, which respects these issues. The actual model which John Spedon Lewis created, based on a trust, is not suitable for every situation, but the general idea that profits are shared by all employees/partners is certainly better than the currently practice of transferring all the profits to investors, who are mostly only interested in getting the highest possible returns from company profits.

## Chapter 6 – Reorganising Banking

Banking is one of the fundamental pillars on which modern society rests. Yet it has a dark history, motivated mainly by greed. We only need to think of the cum-ex affair, in which bankers, stock traders and lawyers fraudulently acquired billions of Euros as tax refunds from the tax authorities of several European countries, most notably in Germany and France, by a scheme involving the rapid lending and re-lending of shares in large companies, and claiming multiple tax refunds on the same dividends, involving several billions of Euros<sup>1</sup>. This is just an example of how greedy and criminal some bankers are.

But before we consider how banking can be improved via a little lateral thinking, I will set the scene by describing my first serious encounter with banking.

As a young man I had a very naive view of banking. I regarded the banks as benevolent organisations which looked after my money for me and kept it safe. I could write cheques on my current account; the banks were prepared to pay interest on my savings account. They could pay this interest because the bank loaned my savings to others and charged them interest on it. Thus, for example, they were later prepared to loan me money to satisfy my modest youthful wishes (a saxophone, a clarinet, a motorbike), on condition that within a few years I paid back the capital which they had loaned out to me, together with a reasonable amount of interest. That seemed to me to be a very fair system, and I still felt this when I borrowed a much larger sum to buy my first house in England.

I began to have serious doubts about banks in the mid-1990s, while working in Germany. Presumably because my bank could see that I was earning a reasonable salary and I had no debts, its staff started badgering me to invest my surplus income, which had been sitting until then in a normal savings account. I rejected their suggestions that I acquire a portfolio of stocks and shares, explaining to them that I did not wish to take risks with my savings. But they were persistent and suggested instead that I buy and rent out a flat, which they described as a completely safe investment. Despite the fact that their proposal required me to borrow a substantial sum to pay for the flat, I was taken in by their arguments. So I found a flat which was for sale. I was surprised that the bank was prepared to loan such a large amount of money without checking that the flat was worth the price which I paid. Instead I was assured that the investment would pay for

---

<sup>1</sup> see <https://en.wikipedia.org/wiki/CumEx-Files>

itself, taking into account tax concessions, and leave me with a handsome profit.

In fact, two loans were organised, one from the bank and one from an affiliated insurance company (in conjunction with an associated life insurance policy which the bank required me to take out). The latter also promised to pay a handsome bonus on maturity, about 15 years later. I accepted the bank's advice to opt for fixed interest loans, since, they explained, interest rates were likely to rise in the foreseeable future.

After about nine years I had accumulated enough savings (independently of this investment) to pay off the amount still owing to the bank and the insurance company. Because interest rates had actually fallen considerably, in contrast with the bank's forecast, I informed the bank that I would like to pay off the loans. To my great annoyance the bank staff informed me that doing so would incur a very considerable financial penalty. The same also applied to the insurance company loan, which the bank had organised for me. I spoke to a consumer advisory organisation, which suggested that I threaten the bank that I would immediately change to another bank. As a result the bank offered to reduce the penalty payment by half, which I accepted. But with the insurance company loan penalty I could achieve nothing, because I was tied into their life insurance policy (and it would have meant even more severe losses to cash it in early).

Sometime after I had already signed the loan documents, I discover that the bank could have offered much more flexible loans, which I could easily have paid back at any time without incurring a penalty, and at about the same interest rates. But they did not mention this when I took out the loans; this showed me that I had deliberately been badly advised initially by the bank. Similarly they were wrong in their forecast that interest rates would rise, which meant that I had paid far too much interest over the period of the loan. And the final straw, as far as the bank's advice was concerned, was that the price of flats had dropped by about 30 % over the period in question! So the so-called "safe" investment turned out to be quite unsafe. With the benefit of hindsight I calculated that if I had just accumulated the amount which I had paid to the bank in a savings account over the same period, I would have saved about 50 % more! And I would have saved myself a lot of work and headaches associated with managing a rental property and cancelling loans. All this was before the global financial crisis of 2007-8.

So much for my insistence on having a safe investment! That was my first realisation that banks are not to be trusted. After reading about the causes of the global financial crisis (GFC) of 2008 I realised that no bank investment is entirely safe, since the bank itself speculates with customers' money. (At the time I was also angry with my bank because it had dismissed several thousand staff



members, despite its huge profits, as a "cost saving" measure.)

I was also enormously disappointed with the bonus paid by the insurance company, as it was far less than had been forecast. Fortunately in Germany there is a legal minimum which has to be paid out, which I received.<sup>1</sup>

That is how I lost my trust in banks and insurance companies. I do not expect readers to sympathise with me. I should have read the conditions of the loans more carefully instead of trusting the bank and the insurance company. And I certainly did not lose as much as the poor people caught up in the U.S. housing crisis which led to the global financial crisis of 2008 (GFC).

The rest of this chapter considers how banking might be organised in an ideal society, a banking system which would be far simpler than that found in modern western representative democracies. Fortunately, I found an excellent book by Murray N. Rothbard<sup>2</sup>, which explains the concepts of money and banking in relatively simple language, starting with first principles, principles that appear to have been largely forgotten, ignored or not understood by many modern bankers. Several sections of this chapter have been strongly influenced by Rothbard's book, which is well worth reading, as it explains important concepts such as the money supply, supply and demand, the effects of prices with a fixed money supply, counterfeiting, paper money with guaranteed gold redemption, fiat paper money (paper money not backed by gold) and how all of these affect inflation and can even lead to hyperinflation.

Rothbard also explains the fundamental principles underlying banking practice, for example how loan banking and deposit banking have different origins. Above all he explains the concept of fractional reserve banking, and how the so-called business cycle of booms and busts arises and he also explains the role of central reserve banks such as the U.S. Federal Reserve Bank (the FED) and the European Central Bank (the ECB).

Without the guidance of Rothbard's book, I would not have been in a position to write this chapter, and I acknowledge this with thanks. In the rest of this chapter I refer to the book simply as 'Rothbard "The Mystery"'.

Then recently I came across a new book, first published in 2022<sup>3</sup>, which helped deepen my understanding of inflation and confirmed that I am on the

---

<sup>1</sup> The German government has since reduced this minimum.

<sup>2</sup> Murray N. Rothbard, *The Mystery of Banking*, Ludwig von Mises Institute, Auburn, Alabama 2<sup>nd</sup> Edition 2008, which can be downloaded as a pdf at <https://mises.org/library/mystery-banking>.

It has also been republished as a paperback edition by the Dead Authors Society.

<sup>3</sup> Steve Forbes, Nathan Lewis and Elizabeth Ames "Inflation", Encounter Books, New York, London 2022.

right track! This too is an excellent book, which has very considerably helped me to understand what inflation is really about and has influenced what I have written about this subject. In the rest of this chapter I refer to the book simply as 'Forbes, "Inflation"'.

## 1 Inflation

The fundamental problem with modern banking systems is that paper money can easily lose its value, and continually does so in practice!

### 1.1 The Bankers' View of Inflation

This is not surprising because it is an explicitly formulated aim of many central banks, including for example the European Central Bank (ECB), to hold inflation at around 2% per annum. According to the ECB website<sup>1</sup>, for example,

#### **"Quantitative target**

The ECB primary objective is to maintain price stability, that is, to preserve the purchasing power of the euro. We do this by making sure that inflation – the rate at which the overall prices for goods and services change over time – remains low, stable and predictable. The price stability mandate is set out for us in the Treaty on the Functioning of the European Union. Price stability creates conditions for more stable economic growth and a more stable financial system. Trust that the central bank delivers on its price stability mandate gives people and firms more confidence to spend and invest.

The Treaty does not give a precise definition of what is meant by price stability. The ECB's Governing Council, after concluding its strategy review in July 2021, considers that price stability is best maintained by aiming for 2% inflation over the medium term."

It then explains the reason for this 2% target as follows:

#### **"Reasons for our inflation target of 2%**

An inflation rate of 2% is low enough for the economy to fully reap the benefits of price stability while also underlining the ECB's commitment to the following.

- **Providing a safety margin against the risk of deflation** and making sure monetary policy remains effective when it needs to respond to inflation that is too low. Having a margin against deflation is important because there are limits to how far interest rates can be cut. In a deflationary environment monetary policy may not be able to sufficiently stimulate the economy by using its interest rate instrument. This makes it more difficult for monetary policy to fight deflation than to fight inflation.

- **Providing a sufficient margin to allow for:**

- (1) a smoother adjustment of macroeconomic imbalances across euro area countries, avoiding inflation in individual countries persistently falling into negative territory;
- (2) downward wage rigidities, which risk raising unemployment excessively; and
- (3) a positive measurement bias in the price index, which could imply that the true

<sup>1</sup> <https://www.ecb.europa.eu/mopo/strategy/pricestab/html/index.en.html>

level of inflation is lower than the measured level.

**Avoiding inflation that is too high or too low**

We consider negative and positive deviations from our 2% inflation target to be equally undesirable. This target provides a clear anchor for inflation expectations, which is essential for maintaining price stability.

When the economy is operating close to the lower bound on nominal interest rates, it requires especially forceful or persistent monetary policy action to prevent negative deviations from the inflation target from becoming entrenched."

## **1.2 What the Bankers do not tell you about Inflation**

The above quotation from the ECB at first reading sounds very serious and very impressive, but a little careful thought shows that it does not really discuss the problems associated with inflation (except to say that it affects price stability) and does not even discuss why inflation arises at all and whether it can be avoided. Above all it gives the impression that 2% inflation is a negligible amount, which is certainly not the case.

While I was reading Rothbard's book I decided to check what the 2% figure really means. I checked the U.S. Bureau of Labor Statistics website to see how inflation has actually grown from 1980 (about the time Rothbard was writing) to 2014 (when I wrote an earlier version of this chapter). This was the result. One U.S. dollar in 1980 has the same buying power as \$2.88 in 2014. In other words since 1980 the U.S. government and banks have in effect "stolen" almost 2/3 of the money which American citizens or their parents had saved then! That is not negligible!

Bankers appear to fear low inflation, without really explaining why. For example while I was in Australia in 2014 the Sydney Morning Herald business pages contained the headline "Europe ready to act against low inflation, says ECB's Mario Draghi". The article went on to say:

"European Central Bank President Mario Draghi signalled policy makers are ready to take action in June should they see low inflation becoming entrenched.

"What we need to be particularly watchful for at the moment is, in my view, the potential for a negative spiral to take hold between low inflation, falling inflation expectations and credit, in particular in stressed countries," Draghi said in a speech at the ECB Forum in Sintra, Portugal. "We are not resigned to allowing inflation to remain too low for too long."

An important question which the bankers do not explain is *why* they fear low inflation. The answer is simple: bankers (and governments) are the beneficiaries of inflation, as I will now try to show. But before closing this section it is appropriate to draw your attention to a quotation from a former Chairman of the

U.S. Federal Reserve, Paul Volcker:

"Once you begin aiming at 2 percent, then you hear people say 'Well, maybe we can give the economy a little more juice by going to 3 percent. Well if that doesn't work, we'll go to 4 percent. This is one reason that "inflation finally feeds upon itself when it gets going."<sup>1</sup>

## **2 Inflation is not always "inflation".**

You might believe that rising prices are a good indicator of inflation. That may in some cases be true, but this alone is *not* a good indicator of the kind of inflation which we want to avoid. This explanation simply ignores the role of supply and demand in the context of money. Put very simply, as a commodity becomes popular, people are prepared to pay more for it, while as the supply of a commodity increases the competition to sell it increases, pushing down its price. This is a natural occurrence and is not the kind of inflation/deflation which people generally fear. Forbes calls this "non-monetary inflation"<sup>2</sup>. For example new products appear on the market frequently and old products disappear. This is not harmful. It reflects the natural course of events.

But "monetary inflation", as Forbes calls it<sup>3</sup>, is disastrous. This usually results from what I will call "government money meddling" with national currencies, and in particular the printing of new banknotes. This kind of inflation includes the 2% inflation aim which was described in section 1.1. If we want to eliminate harmful inflation, the best way to do this is to stop government meddling and to let the markets do their job!

## **3 The Causes of Inflation**

Inflation has not always been a major problem. One key issue which basically causes inflation is an increase in the supply of money. Rothbard (The Mystery, chapter 4) relates the following parable about the Angel Gabriel in order to illustrate why an increase in the money supply confers no social benefits.

Noting that people frequently complain about a lack of money, the angel decides to make people happier by providing them with more money. So he uses his heavenly power to double the amount of money in everybody's bank accounts, in their wallets and in their safes, etc.

But to his surprise – he has no knowledge of economics – the angel discovers that the instant happiness does not last for long. Everybody soon spends part

---

<sup>1</sup> This is quoted by Forbes, Lewis and Ames 'Inflation' p.67, who add that by late 2021, "Volcker's prediction had come true. Inflation exceeded 6 percent".

<sup>2</sup> Forbes, p.7.

<sup>3</sup> Forbes, p.8.

of their magically increased wealth. But the extra demand for goods and services results in prices increasing and consequent inflation, until prices are once again in equilibrium with the available cash supply.

However, not all are affected in the same way by this increase in the money supply. Those people who spend their extra money immediately gain the most, because it takes time for a new equilibrium to be reached. Hence although the net effect of the angel's misguided plan is not a gain for society as a whole, some individuals benefit while others (the late spenders) lose out.

One implication of this is that there are winners and losers from inflation. My own conclusion is that those who control the inflation process (e.g. bankers and politicians) and those who understand it (e.g. investors) have an inbuilt advantage and are the winners, while the rest of us are the losers. Hence I consider the inflation process as a form of legalised theft. There is little doubt in my mind that inflation is an evil which benefits the rich at the expense of the less rich. As more and more prices rise those who receive their money later or not at all, and those on a fixed income (such as pensioners) suffer the most. The corollary is that a non-inflationary system is the fairest money system. We now consider how a non-inflationary system might be achieved.

### **3.1 Gold - an Almost Non-Inflationary System**

For many years gold and silver acted as money in the form of coins. The advantages of using these coins, and of using gold and/or silver generally compared with the previous bartering systems, are as follows.

Gold has the following properties which make it attractive as money:

- 1) The amount of gold available in the world is limited and adding to this amount is difficult, involving mining operations which often only yield small additional amounts. Hence if money is based on gold then the money supply is virtually fixed, or only grows very slowly as more gold is mined. This means that it retains its value under all circumstances.
- 2) Since the amount of available gold is not determined by big business, by the superrich, by monarchs and governments or by bankers, none of these groups nor other interest groups are in a position to generate an inflation to satisfy their greed.
- 3) If two countries have currencies which each has a fixed relationship to gold, then they have a fixed relationship to each other. In other words they have a fixed exchange rate, unlike the current situation (in which exchange rates change from second to second and create a good deal of uncertainty for businesses and for travellers).

- 4) Another important advantage of gold is that it can always be trusted, both short-term and long-term.
- 5) The value of people's savings is not eaten away by inflation in a gold-based currency system.

A system based directly on gold could only be inflationary if substantially more gold is discovered, which involves difficult and costly mining operations (and consequently is negligible in contrast with the 2% target of modern central banks). Hence money based on the gold standard is normally regarded as non-inflationary.

### **3.2 Debasement**

Debasement is an inflationary mechanism which monarchs (and governments) in Britain and the rest of Europe practised over many centuries with silver and gold coins. Newly installed monarchs called in all existing silver and/or gold coins, on the excuse that they would be re-issued with the head of the new monarch. But the re-issued coins were (secretly) slightly reduced in size, thus allowing the monarch to issue more coins and thus enrich himself. In this way the money supply is increased, the effect of which is to raise prices throughout the economy, as Rothbard explains in chapter 1 of "The Mystery", where he gives the following example:

"Thus, in 1200, the French livre tournois was defined as 98 grams of fine silver; by 1600 it equaled only 11 grams." (Rothbard, The Mystery, p.12)

This example shows that even coin debasement, which mostly goes unnoticed, could lead to a debased coin losing 8/9 of its original value over 4 centuries.

### **3.3 Paper Money backed by Gold**

Eventually governments (usually via their central banks, such as the FED and the Bank of England) introduced bank notes which bore the promise that these could be converted to gold on request (so that at least in principle the central banks must have sufficient gold to redeem all the banknotes). This was in principle non-inflationary.

### **3.4 The Gold Standard**

Over time various countries agreed to fix their currencies to a standard price for gold. This resulted in a fixed exchange rate between their individual currencies, which brought some stability to their trade relationships. However, according to Investopedia, Britain (which had been the first country to adopt a gold standard in 1821) suspended the gold standard in 1931, following the stock market crash of 1929. In 1934 the U.S. government raised the price of gold from

\$20.67 per ounce to \$35.00<sup>1</sup>.

As the end of World War 2 was approaching, in July 1944 a conference was held in Bretton Woods, New Hampshire in which 44 countries participated. It was agreed that their currencies should be fixed in relation to the value of the U.S. dollar, which was set at \$35 per ounce. The Bretton Woods Agreement also led to the foundation of both the International Monetary Fund (IMF) and the World Bank.

### **3.5 Paper Money not backed by Gold (Fiat Money)**

President Nixon, fearing in 1971 that the U.S. no longer had enough gold to cover all the dollars in circulation, suspended the convertibility of dollars into gold, which by 1973 caused the collapse of the Bretton Woods Agreement on currency exchange, though not of the IMF or the World Bank, both of which still exist.<sup>2</sup> Since then the Bretton Woods Agreement has not been restored. This was a starting point of the present chaotic state of the world financial system and the enormous inflation and financial instability which is characteristic of modern banking.

With the removal of the promise to redeem the value in gold stated on banknotes the field was open for governments to print paper money at will. Of course they were careful not to flood the markets suddenly with fiat currency. One of the restraints was that the exchange rates of currencies, which had been fixed in the Bretton Woods system, began to float with the consequence that citizens could see how their own currency was being valued in relation to other currencies. But above all the situation had now become inflationary.

One of the advantages of gold (and therefore a currency guaranteed by gold) was that it could always be trusted, both short-term and long-term. But this advantage had now disappeared.

### **3.6 Counterfeiting**

Modern counterfeiting is a form of debasement, but there are two fundamental differences from the older form of coin debasement. First, counterfeiting can normally only occur in a system based in some form on paper money<sup>3</sup>. Sec-

---

<sup>1</sup> <https://www.investopedia.com/ask/answers/09/gold-standard.asp#toc-a-gold-standard-love-affair-lasting-5000-years>

<sup>2</sup> <https://www.investopedia.com/terms/b/brettonwoodsagreement.asp>

<sup>3</sup> This is not quite accurate. Coins can be debased by adding a coating of gold, silver or copper to a cheaper metal coin, to make this appear as valuable as a genuine gold, silver or copper coin. In fact modern governments now mint such coins as part of their normal activity. But counterfeiters would rarely do this, since it is much more profitable for them to produce counterfeit notes than counterfeit coins.

ond, counterfeiting is carried out by criminals, not by the monarchs of old (who had the authority to debase a currency, even though what they did was deceitful). Nevertheless, the effect is the same, viz. an increase in the money supply and therefore a potential for creating inflation.

## **4 The Role of the Banks**

### **4.1 Private Banks**

Leaving aside the investment banks (which are scarcely relevant to the themes in this chapter) there are two kinds of banks in the countries of the Western World: private (commercial) banks and central (government) banks. Only the private banks normally have dealings with the general public. Like other business institutions these exist to make a profit, and they are by no means as benevolent as I, as a young man, first considered them to be. They make their profits primarily by maintaining accounts for their business customers and for their individual private customers. In chapters 6 and 7 of *The Mystery*, Rothbard describes the origins of private banks and how there were separate but very interesting backgrounds for loan banking and for deposit banking. However, we leave these distinctions aside, because they are scarcely relevant to modern day banking.

### **4.2 Central Banks**

Central banks, such as the FED<sup>1</sup>, the Bank of England and the Central European Bank are government banks which control the supply of money in a country or group of countries. Their main aim is to control inflation and in most cases also to oversee the private banks and to promote financial stability. They also serve as bankers to the private banks and in a fiat environment are the only authorities which can legally create new money.

### **4.3 An Important Court Decision**

In his discussion of deposit banking Rothbard outlines a surprising court decision that later led to a deposit of money into a bank deposit account *not* being regarded in English law as a bailment<sup>2</sup> but rather as a debt, i.e. a transfer of *ownership* to the banker. In what Rothbard describes as a disastrous decision, Lord Cottenham determined in the House of Lords in 1848 as follows:

---

<sup>1</sup> Whereas most central banks are government owned, the FED is privately owned by a group of very rich bankers. The story behind this can be found in Appendix 1.

<sup>2</sup> "Bailment describes a legal relationship in common law where physical possession of personal property, or a chattel, is transferred from one person (the 'bailor') to another person (the 'bailee') who subsequently has possession of the property. It arises when a person gives property to someone else for safekeeping ..." (see <http://en.wikipedia.org/wiki/Bailment>)



"Money, when paid into a bank, ceases altogether to be the money of the principal; it is then the money of the banker, who is bound to an equivalent by paying a similar sum to that deposited with him when he is asked for it. ... The money placed in the custody of a banker is, to all intents and purposes, the money of the banker, to do with it as he pleases; he is guilty of no breach of trust in employing it; he is not answerable to the principal if he puts it into jeopardy, if he engages in a hazardous speculation; he is not bound to keep it or deal with it as the property of his principal; but he is, of course, answerable for the amount, because he has contracted."<sup>1</sup>

Rothbard comments that to this and earlier judgements "must be ascribed the major share of the blame for our fraudulent system of fractional reserve banking and for the disastrous inflations of the past two centuries"<sup>2</sup>. He points out how inconsistent this decision is with other legal principles. However, this remains the legal situation in modern deposit banking, as is confirmed in Wikipedia:

"To offset this deposit liability, the bank now owns the funds deposited (either in notes and coin or more usually as a debt owed by another bank) and the bank shows those funds as an asset of the bank."<sup>3</sup>

#### 4.4 Fractional Reserve Banking

The court decision transferring ownership of deposits to the bank opened up the way for bankers legally to introduce *fractional reserve banking*, which is best viewed as a form of legal counterfeiting, an adaptation of the goldsmiths' criminal embezzlement practice<sup>4</sup>. Basically the practice involves the bankers in lending out more money than their reserves would normally allow. This is the system which is currently used by banks.

Instead of limiting the loans which they make to the amount of their reserves (assets), with fractional reserve banking bankers issue loans well in excess of the amounts deposited with them. The bankers rely on the expectation that not all depositors will want to redeem their deposits together.

Suppose for example that a banker receives a deposit of \$50,000 but issues a loan to Smith for \$130,000 then the fraction in reserve, against which demands can be met, is 5/13. The money now in circulation has been increased by \$80,000 to \$130,000.<sup>5</sup>

Where does the new money come from? In modern banking it is simply the result of printing more notes, i.e. creating money out of thin air! Thus the practice of fractional reserve banking is clearly fraudulent (though legal) and infla-

---

<sup>1</sup> see Rothbard (Mystery, p. 92) for further details.

<sup>2</sup> Rothbard, Mystery, p.93.

<sup>3</sup> [http://en.wikipedia.org/wiki/Deposit\\_account](http://en.wikipedia.org/wiki/Deposit_account)

<sup>4</sup> see Rothbard, Mystery, pp.90ff

<sup>5</sup> The example comes from Rothbard, Mystery, p.97

tionary (by increasing the overall money supply). Modern commercial banks which take advantage of fractional reserve banking can (within limits<sup>1</sup>) simply create money (just like counterfeiters). The profits from this accrue to the owners of the bank (or its partners or shareholders), and the cost to the general public is inflation and therefore devaluation of their income and/or savings. This is unfair on all, but especially on those with fixed incomes such as pensioners and recipients of social welfare payments!

In modern systems the extent to which bankers can "create" new money (and a requirement to destroy it when the loan is repaid) is subject to banking law, which in most western countries permits fractional reserve banking.<sup>2</sup>

Allowing fractional reserve banking implies that banks are not subject to the same rules as other companies. If a normal company does not at all times have sufficient assets to cover its liabilities when these fall due, then it is insolvent. Not so the commercial banks. Their liabilities (i.e. money on deposit to them) are always due *on demand*, but if all their depositors request the redemption of their deposits at the same time, the bank would under normal rules be insolvent, which in fact means that they are technically in a *permanent state of insolvency*, because this can happen at any time as a result of the practice of fractional reserve banking.

Rothbard reiterates an argument sometimes used to justify fractional reserve banking, namely that this operates in a similar way to bridge building<sup>3</sup>. According to this argument a bridge builder does not attempt to build a bridge big and strong enough to allow all the citizens of a town to cross the bridge at the same time, and so bankers should not be expected to have to cope with a situation in which all its depositors demand their money at the same time. But Rothbard points to the crucial difference: the citizens of a town do not have a legal right allowing them to cross the bridge at the same time, but depositors do have a legal right to claim back their deposits at the same time, even under modern banking law!

## 4.5 The Business Cycle

The boom and bust business cycle, which has brought great personal distress to many individuals and bankruptcy to many companies (e.g. the Wall Street crash of 1929 and more recently the Global Financial Crisis of 2007-2008), has its roots in the practice of fractional reserve banking, because this makes bank cred-

---

<sup>1</sup> The limits are overseen by the central banks.

<sup>2</sup> If there is a central reserve bank (such as the European Central Bank), then this prints the notes and controls the limits on fractional reserve banking.

<sup>3</sup> Rothbard, *Mystery*, p.99.

its subject not only to expansion but also to contraction.

When a loan is repaid the extra money created to allow the loan must be destroyed. This implies that the money supply contracts and so has a deflationary effect on prices and can eventually lead to a recession. If for example, in an excessive boom, depositors become nervous and begin to request the redemption of their deposits, banks which have over-issued loans will have to recall these in an attempt to satisfy the requests of their depositors, which can result in a recessionary bust. In other words the natural successor of an inflationary boom which gets out of control is a recessionary bust.<sup>1</sup>

Rothbard also points out that such busts are virtually impossible in a system based on the pure gold standard, since due to the durability of gold, the money supply cannot decline. He continues:

"We already see here the outlines of the basic model of the famous and seemingly mysterious business cycle, which has plagued the Western world since the middle or late eighteenth century. For every business cycle is marked, and even ignited, by inflationary expansions of bank credit. The basic model of the business cycle then becomes evident: bank credit expansion raises prices and causes a seeming boom situation, but a boom based on a hidden fraudulent tax on the late receivers of money. The greater the inflation, the more the banks will be sitting ducks, and the more likely will there be a subsequent credit contraction touching off liquidation of credit and investments, bankruptcies, and deflationary price declines. This is only a crude outline of the business cycle, but its relevance to the modern world of the business cycle should already be evident."<sup>2</sup>

According to Investopedia<sup>3</sup>, on 26<sup>th</sup> March 2020 the US (privately owned) central bank, the Federal Reserve, "reduced reserve requirements of all depository institutions to zero. Instead, banks are now paid a specific interest rate on their reserve balance to encourage holding reserves". This in no way prevents the fundamental risks created by fractional reserve banking.

## **5 Who Benefits from Inflation?**

Generally speaking, big business, the rich and powerful, governments, and banks are the beneficiaries of inflation, at the cost of the poorer citizens. Here are some of the reasons why this is the case.

### **5.1 Big Business and the Rich and Powerful**

These groups are so rich that they have no difficulty in obtaining large loans from the banks. The way this benefits them is very simple. They can afford to

---

<sup>1</sup> Rothbard, Mystery, p. 101-3.

<sup>2</sup> Rothbard, Mystery, p.103.

<sup>3</sup> see <https://www.investopedia.com/terms/f/fractionalreservebanking.asp>

borrow very large sums of money, especially at today's minimal interest rates, which they repay later. The loan can in turn be invested either in equipment and machinery (which is at least productive) or in financial investment packages (which are generally unproductive in real terms). But by the time they make the repayments, inflation has taken its effect on the amount to be repaid, so that in terms of purchasing power they are repaying considerably less than they originally borrowed. This is one reason why the debt economies have become characteristic of western democracies.

## 5.2 Governments

Inflation is an evil which can be and usually is used by governments to their own advantage. For example government taxation systems frequently profit from inflation. This arises simply because they do not adjust tax rates to keep up with inflation. Suppose for example that you buy a house for \$400,000 and a few years later sell it for \$450,000 as a result of inflation, then, depending on the country in which you live, you may have to pay Capital Gains Tax on the \$50,000 "profit", despite the fact that the price increase is simply due to inflation, i.e. no genuine value increase has occurred<sup>1</sup>.

Similarly if your earnings are adjusted for inflation, you may not only pay proportionally more tax as a result of the increase, you may move into a higher tax bracket with the result that the percentage tax paid on your income also increases, perhaps leaving you worse off than before the salary increase (in terms of real purchasing power).

Governments also often benefit from not indexing fixed income payments. Suppose you live in a country where pensions are paid from a government fund; unless the government increases your pension annually to match annual inflation (which rarely happens in my experience), its buying power becomes less each year. And even if your pension rises to match inflation, the increase in your pension may bring you into a higher tax bracket with the result that you pay proportionally more tax on your pension.

These are just a few of the examples how governments regularly profit from moderate inflation. What is worse, governments (or central banks) can deliberately and easily create inflation by printing more bank notes! As we saw previously, Rothbard refers to this practice, rightly in my view, as *legalised counterfeiting*.

The only safeguard which the populations of most Western democracies theoretically have against such practices is the ballot box, i.e. by casting a vote

---

<sup>1</sup> Sometimes an exception is made for the family home, but not for rental properties.

once every few years. But even this has little practical effect, because the politicians have long since cartelized their representation by building political parties which *all* have an interest in continuing inflationary practises, and by building barriers which make it difficult to create new political parties.

### **5.3 The Banks**

As was described in section 3.4 the private banks are huge beneficiaries of inflation through the practice of the fractional reserve banking system.

## **6 A Simple Proposal for Reorganising Banking**

What I, as a young man, had regarded as a straightforward and benevolent banking system has been revealed in this chapter and especially in the first two appendices as a morass created by unbelievably greedy and power-crazy bankers and industrialists, aided and abetted by politicians, who were able to thwart the attempts of several U.S. presidents to put in place banking systems which were fairer and more beneficial to the normal citizens. It is difficult to envisage a more complicated banking system than the *privately owned* U.S. Federal Reserve Bank, which in effect guarantees that the rich get richer and the poor get (relatively) poorer.

Unfortunately the European Union's central bank (the ECB) has taken on many aspects of the U.S. banking system, and it has several problems of its own as a result of taking on the oversight of a group of very disparate economies. But this is not the appropriate place to review the ECB's problems.

Instead I will now describe an alternative banking system which is not automatically inflationary. As usual, my first question is whether the problem can simply be eliminated. The question is: Do we need banks at all? This may sound like a ridiculously stupid question. But before we attempt to answer it we must keep clearly in mind that there is a difference between the need for money and the need for conventional banking.

### **6.1 How should Money be organised?**

The need for money is quite clear, unless we want to fall back on a bartering system. But then we must ask how a money system should be organised. Particularly significant is the question whether this is gold (or is tied to gold) as in most older and relatively successful systems, or whether it should be paper money not tied to gold and to coins the value of which is not determined by their weight, as is the case today. Let me begin by saying that I am very prejudiced against fiat money, i.e. money which at the will of governments can simply be printed without limit. The reason for this is that it has led us into the present situation in which the rich have become ever richer and not only the "poor" but

also the "middle class" has become ever poorer. We will discuss this in more detail in the next chapter.

The arguments for basing a currency on gold are very convincing<sup>1</sup>. What makes gold attractive as a monetary value are the properties listed in section 2.1, in particular that it serves as a *fixed* money supply. Forbes, Lewis and Ames, in their excellent book "Inflation", describe in section 10 of chapter six how currencies, especially the US dollar, can easily return to a gold-linked standard ("The best way to end inflation, and to spur economic growth, is through a return to a sound dollar anchored by gold."). Their chapter four in the section headed "How to *Really* fix Inflation" describes in more detail how to eliminate inflation in the context of the present fiat money environment. It emphasises that as soon as a currency begins to lose its value, the relevant government should publicly declare its intention to support the currency, as investor perceptions are important and this gives them confidence. The government should then take steps to reduce the money supply. It is then also explained how the government should do this. As their solution is aimed at controlling money in a fiat environment, I leave it to the readers interested in such an environment to read this excellent book for themselves. My own interest is even more ambitious.

In the previous chapters I have developed ideas which describe an entirely new organisation of society, for example a society without politicians and a society in which workers directly share the fruits of their labours. The rest of this chapter should be read in the context of such a society.

## **6.2 Organising Money in a non-Fiat Environment**

We review again the properties which make gold so attractive as a money commodity, and return to the list in section 3.1. After reading this list again I realised that gold itself is not the central issue. Apart from point 3 (fixed exchange rates) the remaining arguments can be reduced to a single point, i.e. that by its nature gold guarantees a fixed money supply and therefore is not inflationary, provided that it can really be trusted. The important point from the viewpoint of inflation is not so much the gold as such, but the fact that it can scarcely be increased, and any increases are made only very slowly. What went wrong is that when in 1971 the gold standard was finally abandoned, no attempt was made to find a replacement which was similarly fixed in amount. Fiat money did not have this property. Endless paper money could be printed. Politicians and governments, bankers and big business, true to their history of greed, could

---

<sup>1</sup> see for example the excellent book by Nathan Lewis, "GOLD – The Once and Future Money", John Wiley & Sons, Inc. 2007. His arguments are strengthened by those in Forbes, "Inflation", of which he is a co-author.

not resist the temptation for creating money out of thin air with the result that we have suffered from huge inflation since 1971. Even the 2% limit which they imposed on themselves (and often did not keep) proved to be unsatisfactory. Another problem is that the bankers and economists have made a pseudo-science from the problem of inflation, inventing money aggregates such as M1, M2...<sup>1</sup>

### 6.3 Must Gold act as a reserve currency?

It can be argued that the use of gold as a reserve currency is unfair. In particular many third world countries cannot afford the luxury of hoarding gold in their banking systems to back their currencies.

But there is another problem which makes the use of gold as a basis for a new gold standard very questionable. The guardians of gold (at least in the U.S.) appear to have themselves practised "fractional reserve banking" (to put it nicely) with the gold which they are supposed to safeguard, with the effect that probably most of the gold claimed to be in Fort Knox is almost certainly no longer available to return to U.S. citizens nor to the countries which have relied on the U.S. as bankers of their gold!

In the light of these points a country is well advised to provide a system with a *fixed* amount of money but which is not necessarily backed by gold (in the way it was earlier). Such a system would not be inflationary.

One of the suggestions made by Forbes et al. is to link a currency to the *price* of gold (without having a Fort Knox in which gold is hoarded), but if we can find a way to guarantee that the amount of money in circulation is never increased this should do the job without linking it to gold. After all, gold was not "linked to" a fixed price when gold coins (and silver coins) *were* the currency!

The fundamental question remains "Can we find a system which guarantees that the commodity "money" cannot be increased or decreased?" At this stage we simply assume that this is possible. But we return to this question in section 7.2.

### 6.4 How should Banking be organised?

In the monetary system which I envisage it would theoretically be possible to have private banks. Even fractional reserve banking would be possible, although with a greater risk of banks going bankrupt, because they would be subjected to normal business rules (without special exceptions for banking), i.e. the disastrous judgement made by Lord Cottenham in 1848 and any similar laws (see section 4.3) would have to be nullified. When a private bank goes bankrupt

---

<sup>1</sup> see for example <https://www.clearcapital.com/resources/glossary-of-terms/m1-m2-and-m3/>

either its customers suffer or the government bails them out. In either case the result is disastrous. The simplest and best way to avoid this is simply not to allow private banks! This is the way which I recommend and will follow in the sequel.

## 6.5 Managing Money in a Country without Banks

But if there are no private banks, how can we manage money? Each national state which has a monopoly over its money needs an organisation which is responsible for its management. Let us call this the National Bank (NatBank). This can be regarded as a kind of central bank, but without all the usual responsibilities of a central bank. For example, its management is not responsible for controlling inflation, because inflation cannot occur in a system which has a permanently fixed amount of money.

Unlike the FED, for example, a NatBank should *not* be profit-oriented nor should it be privately owned, but it should be able to cover its own costs (e.g. buildings, staff salaries). One of its main functions is to provide basic banking services (including for example on-line banking) for the population of the relevant country. These will include those services which as a young man I thought were the essence of banking, as I described them in the introduction to this chapter, i.e. savings accounts, current accounts and loan accounts. (The details of such accounts need not be discussed here, but the important rule is that they must be simple enough for normal people fully to understand.) The NatBank would maintain such accounts for each person and each business applying for them. The loan accounts would bring income to the NatBank in the form of interest on the money deposited, while the NatBank would pay interest on savings accounts out of the interest which they receive from the loan accounts. The interest rates would be calculated by the NatBank to reflect supply and demand for the fixed money in circulation.

In the environment which we envisage new money as such is never created or destroyed<sup>1</sup>. This does *not* mean that if paper money is used the same paper notes must always be re-used. In this case it would be a responsibility of the NatBank to keep in balance the value of the new notes which are printed and the old notes which are destroyed.

One potential danger for this proposal could arise if foreign currency could circulate in large volumes and thus add to the money supply. To avoid this (if necessary) we could fall back on the solution which the U.S. Congress once used, viz. to outlaw the use of foreign coins (and in our case also notes)<sup>2</sup>.

---

<sup>1</sup> In times of war it might be necessary to break this rule temporarily.

<sup>2</sup> Rothbard, *Mystery*, p.10, footnote 4.



The NatBank will of course support on-line banking and other banking facilities such as debit and credit cards (which have no effect on the total, in our case fixed, money supply). And the records of the money information, which are held in bank accounts by the NatBank are simply that. Although they reflect the amount of money held in the bank accounts, they are not themselves money.

At this point the chapter can be regarded as complete. However, if you are interested in an idea which cannot yet be put into effect unless and until technology becomes available, please read on.

## 7 Digital Money

Appendix 1 describes a radical proposal that actually allows money to be stored not simply as records but as real money on future computers. I have not included this as part of the main text, because (a) many will view the content as speculative, and (b) at the time of writing it cannot yet be realised in practice. However, I am convinced that at some point in the future it will be realised in practice, i.e. the *commodity* money can be securely stored on computers in specially protected locations of computers known as Money Pockets (secure money locations). One can best think of a Money Pocket as equivalent *not* to a bank account but rather to a bank deposit box. There are only two operations which normal users can carry out on digital money:

- a) an operation which allows the owner of a Money Pocket to move money from one Money Pocket to another (a money move);
- b) an operation which allows the owner of a Money Pocket to acquire a readable representation of the amount of digital money held in a Money Pocket, which can be stored as normal data on the computer.

Since there is no operation which can otherwise reduce or increase the amount of money in a Money Pocket, and no operations to create or delete money, the amount of money in circulation remains fixed, and the country in question remains inflation-free!

The computers which store the money in Money Pockets must of course be very secure. They do not exist at present, but if Speedos computers are eventually built, they would be ideal for this purpose (see the Speedos website <https://www.speedos-security.org/> and Appendix 1).

### 7.1 Organising Digital Money

The NatBank would be initially responsible for making money available in the Money Pockets of individuals and companies. To do this an applicant must first register one of his computers (or smartphones, etc.) with the appropriate NatBank. This will then use a "money move" operation to transfer an appropri-

ate amount of money to a Money Pocket on the user's computer or smartphone, etc. The initial amount which it transfers is described in chapter 7.

# Chapter 7 – Putting it all together

The previous chapters have described a partial framework for a new organisation of society. Our somewhat radical ideas (arising largely from lateral thinking rather than from a wish to be an extremist) now need to be seen in relation to each other in the context of a sovereign state. But first we must consider a very important question.

## 1 A Fundamental Issue: Where has all the money gone?

As I write, the coalition in Germany is quarrelling about money<sup>1</sup>. The Finance Minister is refusing to increase the budget of the Family Minister. The Finance Minister's arguments are based on the fact that the budget should not exceed the sovereign debt officially allowed by the German constitution, while the Family Minister is pointing out that there are very many children in Germany under the poverty line. This is not an isolated incident. Virtually every German ministry plausibly claims to be underfunded. Even allowing for the recent pandemic and the support for the Ukraine's defensive war started by the Russian president Putin, the fact is that Germany, which is considered to be a rich country, is becoming poorer. As we saw in chapter 3, the politicians are not entirely blameless, but that is only a part of the explanation. A much more fundamental problem is that the investors and those born into rich families are taking an ever increasing share of the financial cake. That is true not only of Germany but throughout Europe. Here are some examples and some facts.

### 1.1 Working Women

When I was a child and then a young man in working class northern England following World War II, it was normal for fathers to earn the income and for mothers to look after the children and the family home. Please do not think that I am arguing for a return to this situation, although I do think that women should have a much greater opportunity to spend more time with their families than is possible today.

Life was hard for the men. My father, who had been trained as an aircraft mechanic in the Royal Air Force, took a job after the war as a car mechanic. I recall that he often had to work late in order to earn overtime payments. To sup-

---

<sup>1</sup> This chapter was written *before* the German Constitutional Court declared the government's plan to transfer more than €60 billion from its pandemic emergency fund into a climate fund as illegal. This does not affect the findings of the present chapter, but it does strengthen the arguments in chapter 3 about chaotic political decision making and political incompetence.

plement the family income he also formed a dance band which played in workmen's clubs once a week. Even then he could not afford to buy a car.

Life was even harder for the women. They did not have washing machines, dish washers, vacuum cleaners, food mixers, etc. and they really had to work hard to keep the household in a reasonable condition. My grandmothers both worked like slaves. My mother could not afford a sewing machine.

As time went by, this situation improved, especially for women. Work saving devices such as washing machines, washing dryers, dish washers, food mixers, vacuum cleaners, etc. gradually became affordable. And the result was that housewives had more time to spare. Many of them therefore had the good idea that they would find jobs and so (as they thought) supplement the family income. However, things are never as simple as they might first appear. The resulting increase in the workforce gave employers the opportunity to be choosier about whom they employed and so (indirectly) led to a general lowering in wages and to less bargaining power for the trade unions. This trend has now gone so far that many women *must* go to work – and often must have two or more jobs to supplement the family income, despite the blundering attempts of politicians to introduce equal pay laws.

And who has gained most out of this? The answer is of course primarily the employers, and more generally, the rich and the investors. In modern society it is often necessary for both marriage partners to work (often at two jobs), which is scarcely a win for families.

## 1.2 Rich Germans, Incompetent Politicians and Doubtful Legality

I was astonished recently to learn from a German TV documentary<sup>1</sup> how the very rich in Germany are shielded from paying Inheritance Tax. For example, if they inherit more than 300 properties they are automatically regarded by the tax authorities as "housing companies" and are then ***completely free*** of inheritance tax for these inherited properties. This ruling was declared invalid by the responsible lower German Finance Court, but then the higher Finance Court declared this judgement as "not to be applied" – with the approval of the then Finance Minister (and current German Chancellor) Olaf Scholz<sup>2</sup>!

According to the documentary this is just one of many "exceptions" for the superrich in the German Inheritance Tax laws. The German Constitutional Court has also *three times* declared parts of the Inheritance Tax law as unconstitutional (but this can only take effect when the politicians actually change the law, which

---

<sup>1</sup> Plusminus "Erbschaftsteuer bei Immobilien - wie Super-Reiche geschont werden broadcast by the German TV channel ARD on 16th August 2023.

<sup>2</sup> This is the same politician who lost his memory with respect to the Cum-Ex scandal.

they show no sign of doing) and a commentator in the documentary estimated that at least 5 to 10 billion Euros in tax is lost annually as a result!

According to another German documentary<sup>1</sup>, 5% of the Germans are as rich as the remaining 95% together. The wealth of many of these is inherited. It is estimated that ca. 300 billion Euros is inherited each year in Germany. And in a further documentary<sup>2</sup> the Germans (i.e. mostly the rich) currently have a combined wealth of approximately € 7,492,000,000,000.00 i.e. € 7,492 billion.

### **1.3 Rich Bankers and Excessively High Income Earners**

Appendix 2 ("Banking Practice: Investment Banking) describes some of the tricks of the investment bankers mainly from the perspective of US Banks. But "investment banking" is not just the prerogative of the bankers in the USA. For many years the City of London has been an investment banking hotspot, as was described in a news item<sup>3</sup> from the German overseas broadcaster in October 2014. This indicated that in 2014 there were 2714 bankers in the City of London who had an annual income (salary and bonuses) of more than a million Euros<sup>4</sup>.

At that time the UK was a member of the European Union, and so was subject to EU laws. When these laws limited the amount which could be paid in this way some banks simply invented new kinds of "bonuses" and Germany's Deutsche Bank simply increased the salaries of its top managers!

### **1.4 Tax Avoiders and others**

When more than 370 investigative journalists from the ICIJ (International Consortium of Investigative Journalists) jointly published the "Panama Papers" in 2016, the public worldwide was amazed to discover how many famous and rich people (including politicians) cheated on their taxes by using the off-shore legal firm Mossack Fonseca, based in Panama, to hide their fortunes<sup>5</sup>. This leaked private information consisted of more than 11.5 million financial and legal records; it "exposes a system that enables crime, corruption and wrongdoing, hidden by secretive offshore companies"<sup>6</sup>. The Panama Papers were followed by further similar ICIJ revelations, including the Pandora Papers, the Paradise Pa-

---

<sup>1</sup> "Die Wahrheit übers Erben" available in the ZDF mediathek.

<sup>2</sup> PlusMinus, broadcast by the ARD on 6th December 2023

<sup>3</sup> Deutsche Welle, 16<sup>th</sup> October 2014.

<sup>4</sup> The second largest number in the EU at that time was Germany, with only 212 salary millionaire bankers.

<sup>5</sup> [https://www.icij.org/investigations/panama-papers/video/?utm\\_source=email&utm\\_campaign=panamapapers-workflow&utm\\_medium=link&utm\\_content=b26cb41f67](https://www.icij.org/investigations/panama-papers/video/?utm_source=email&utm_campaign=panamapapers-workflow&utm_medium=link&utm_content=b26cb41f67)

<sup>6</sup> <https://www.icij.org/investigations/panama-papers/>

pers, the Bahamas Leaks and the Offshore Leaks investigations<sup>1</sup>.

## 1.5 Lax Tax Authorities

An interesting report was published recently in which the ICIJ describes how the U.S. Tax authority goes easy on large corporations and the ultra-wealthy.

"During his 30-plus years at the IRS, now-retired agent Michael Welu watched his colleagues struggle through rolling budget cuts. But his concerns about the agency went beyond its resource constraints.

"Welu told ICIJ that he was exasperated by the reluctance of leaders in the division that audits large corporations and the ultra-wealthy — the Large Business and International Division — to hold powerful taxpayers to account.

"I was putting butchers, bakers and candlestick makers in jail, but the big stuff we really wanted to go after was being ignored," Welu said. "It could be the most egregious, ridiculous scheme and they were just not interested."

New data obtained by ICIJ reflected what Welu and other current and former IRS agents observed: Over the past five years, LB&I flagged no more than 22 possible tax crimes for the agency's criminal investigators to review, despite the division overseeing trillions of dollars in annual income. Meanwhile, in the same period, the division covering small businesses and the self-employed made roughly 40 times more criminal referrals.

In comments to ICIJ, the IRS said that comparing referrals between divisions was misleading and that LB&I conducts "the most complex audit situations the IRS faces, and there are unique circumstances around each examination." And yet, some agents warned that years of softer auditing rules for elite taxpayers had fostered a sense of impunity.

"Normal taxpayers are scared of the IRS — they fear real consequences," one current LB&I agent, who spoke on the condition of anonymity, told ICIJ. "These highly wealthy people, it's more like a game to them."

For more information see the ICIJ website (<[website@icij.org](mailto:website@icij.org)> "How the IRS went soft on billionaires and corporate tax cheats", ICIJ Newsletter 12/6/24)

## 1.6 The Shocking Truth about Incomes and Wealth

Oxfam is a group of 21 charities which aims to alleviate worldwide poverty<sup>2</sup>. Each year it provides reports on the wealth and incomes of the world's richest people. The figures involved are staggering. Here are a few details from

---

<sup>1</sup> <https://offshoreleaks.icij.org/>

<sup>2</sup> <https://en.wikipedia.org/wiki/Oxfam>

the 2023 Oxfam report entitled "Survival of the Richest"<sup>1</sup> (with the subtitle "How we must tax the super-rich now to fight inequality"). Here are a few examples.

- Since 2020, the richest 1% have captured almost two-thirds of all new wealth – nearly twice as much money as the bottom 99% of the world's population.
- Food and energy companies more than doubled their profits in 2022, paying out \$257 billion to wealthy shareholders, while over 800 million people went to bed hungry.
- Only 4 cents in every dollar of tax revenue comes from wealth taxes, and half the world's billionaires live in countries with no inheritance tax on money they give to their children.
- A tax of up to 5% on the world's multi-millionaires and billionaires could raise \$1.7 trillion a year, enough to lift 2 billion people out of poverty, and fund a global plan to end hunger.

Here are some more examples, in this case from the Oxfam 2016 report: Oxfam has calculated that:

- In 2015, just 62 individuals had the same wealth as 3.6 billion people – the bottom half of humanity. This figure is down from 388 individuals as recently as 2010.
- The wealth of the richest 62 people has risen by 44% in the five years since 2010 – that's an increase of more than half a trillion dollars (\$542bn), to \$1.76 trillion.
- Meanwhile, the wealth of the bottom half fell by just over a trillion dollars in the same period – a drop of 41%.
- Since the turn of the century, the poorest half of the world's population has received just 1% of the total increase in global wealth, while half of that increase has gone to the top 1%.
- The average annual income of the poorest 10% of people in the world has risen by less than \$3 each year in almost a quarter of a century. Their daily income has risen by less than a single cent every year.

From the 2019 Oxfam report:

- In the 10 years since the financial crisis, the number of billionaires has nearly doubled.

---

<sup>1</sup> This was downloaded simply by searching in Google for "survival of the richest pdf"

- The wealth of the world's billionaires increased by \$900bn in the last year alone, or \$2.5bn a day. Meanwhile the wealth of the poorest half of humanity, 3.8 billion people, fell by 11%.
- Billionaires now have more wealth than ever before. Between 2017 and 2018, a new billionaire was created every two days.
- Wealth is becoming even more concentrated – last year 26 people owned the same as the 3.8 billion people who make up the poorest half of humanity, down from 43 people the year before.
- The world's richest man [at that time], Jeff Bezos, owner of Amazon, saw his fortune increase to \$112 billion. Just 1% of his fortune is the equivalent to the whole health budget for Ethiopia, a country of 105 million people.
- If all the unpaid care work done by women across the globe was carried out by a single company, it would have an annual turnover of \$10 trillion – 43 times that of Apple.

If you are interested to see who the richest billionaires are, look up in Google "Forbes List of Billionaires".

So finally we return to the question: Where has all the money gone?

The answer is: Almost all of the money has gone to the billionaires in ever increasing amounts. Unless somehow this trend is stopped it will continue to increase until not only normal people will be squeezed of their last pennies *but also governments will be unable to govern properly!* We are already seeing signs of this, for example in Germany.

## 2 Where do we go from here?

I regard the situation which is described in section 1 as nothing less than scandalous. How can this be remedied? In Germany and certainly in other European countries many people will probably suggest that the taxation laws should be adjusted to collect more taxes from the superrich.

I consider that this approach would scarcely scratch the surface of the problem! The superrich would still remain superrich and would certainly find ways, as always, of perverting any tax system to their own advantage, just as they do today.

The fundamental problem, in my opinion, is not the tax systems but the current distribution of wealth and the system which has allowed the current gross distortion to take place and continuously to grow<sup>1</sup>. The more appropriate question should be: How can wealth be *redistributed* in a fair and equitable

---

<sup>1</sup> One of the reasons why this state of affairs became possible was the introduction of fiat money, as described in chapter 6.



way?

## 2.1 How can Wealth be fairly and equitably redistributed?

The problem, as always with such issues, is what does "fair and equitable" mean? How the rich man and how the poor man view this issue is obviously quite different. My aim here is not to devise a perfect system but to present a plan which will allow the poor man to live a life with dignity (which is the first requirement of the German constitution, often ignored by the politicians) and to allow the rich man to live a life which they would themselves not consider to be luxurious, but which the poor man certainly would.

It is important to understand that the aim is not to inhibit the innovative and hardworking activities of the numerous family businesses which play a significant positive role in maintaining the economies in many countries<sup>1</sup> but to prevent investors from impoverishing society.

I tentatively suggest that the maximum requirements of such a "fair and equitable" lifestyle (for all) might be defined in terms of a family's<sup>2</sup> total wealth, which may not exceed 50 million Euros in total. This can include

- a house or flat with a value which should not exceed 10 million Euros;
- a car for each family member holding a valid driving licence and for each additional registered resident of the house with a driving licence, and one additional car for the general use of the family and visitors.

This list may appear to be far too generous to many normal people. But to the billionaires it is more likely to seem grossly unfair. Nevertheless I regard it as a reasonable working compromise.

## 3 How can the proposed Distribution of Wealth be organised in practice?

A fundamental element in any new system, in my view, is how money and banking are organised. This was discussed extensively in chapter 6. Without further discussion I assume that the ideas presented there in section 7.1, including a National Bank (NatBank) which controls a *fixed total amount of currency*, are implemented and that neither private banks nor central banks exist nor can be established. As was explained in chapter 6, a fixed total amount of currency is the only way to avoid inflation, which is one of the factors which have led to the massive growth of wealth today and to its concentration in the hands of a few

---

<sup>1</sup> e.g. the so-called German *Mittelstand* (often misleadingly translated as "middle class"), see the article "Mittelstand" in Wikipedia (<https://de.wikipedia.org/wiki/Mittelstand>). A more appropriate translation of "middle class" is "Mittelschicht".

<sup>2</sup> i.e. marriage partners and their children

multi-billionaires.

Similarly the plan for restructuring the business world, described in chapter 5, is put into operation. Consequently stock exchanges no longer exist and the profits of businesses are distributed to the partner-workers of their own businesses, thus ensuring (via democratic votes) that the profits of the partnerships are more fairly distributed and that workers cannot simply be treated like pawns in a chess game. Above all, through this system workers have a strong interest in ensuring that their companies prosper. Crippling strikes become not only unnecessary but their absence also benefits the public at large.

### 3.1 Valuing Wealth

It remains now to determine how the redistribution of wealth proposed in section 2.1 can be realised in practice.

The first step in the changeover is to determine the worth of all the items which have a significant value, such as dwellings, paintings, used and vintage cars, etc. Assessors of such items can be appointed, but their work should be carried out anonymously. The assessors can rely on known price lists (possibly adjusted) and on government information (e.g. house valuations for tax purposes), etc.

The most difficult issue is how to ensure that the limits to wealth are not exceeded. To ensure this the easiest way is to issue a *new currency* which becomes the only valid currency in a country that introduces the proposed system. We assume that a sensible exchange rate with the existing currency has been fixed. We also assume that each resident has an account at the NatBank. In order to obtain new dollars (ND) one must cash in all one's old currency at the NatBank, and the appropriate amount of ND will be credited to one's account at the NatBank, up to the equivalent of the maximum limit determined in section 2.1. Any money exceeding the limit is placed in one of the NatBank's own investment accounts. Notice that checking the limit in this way in effect invalidates (at least for use in the country concerned) most currency which has been hoarded in off-shore hideouts! Reserves held in other currencies are also not valid, but can be transferred to ND within the limits. Imports are also checked against the importer's limits.

### 3.2 What Happens to the Banks?

Before they cease to exist the private banks are required to cooperate with their customers to transfer their assets to the NatBank. When any customer's wealth exceeds the permitted limit the surplus is transferred into a special account of the NatBank itself, which is public property. Then the private banks

cease to exist. They can opt to become branches of the NatBank and the bank employees then become employees of the NatBank. The *owned* premises of private banks are automatically transferred to the NatBank.<sup>1</sup> Rented bank premises are treated like normal rented premises. In appropriate cases they may be re-rented by the NatBank.

### 3.3 A House or Flat for All

Most families already have a roof over their heads, which corresponds to the proposal in section 2 of this chapter. In some cases this home is owned by its occupants, but in many cases (at least in Germany) this is rented. Here the simplest solution would be to transfer the ownership of rented accommodation to the occupant. In some cases this would be unproblematic, but there are some cases where it could create difficulties.

For example, if the house or flat belongs to an older person who has bought it with the specific aim of supplementing a small pension with the rent which it would in future bring, it would be grossly unfair to confiscate the rented dwelling without some compensation for lost rental income. This can be paid out by the NatBank as a rental until the person dies.

Another case is the confiscation of flats which are owned by a housing company, the business of which is to rent and make a profit from the rents. The problem here is that the business has no future because rentals are no longer necessary or appropriate in most cases of apartments. Here the employees of the rental firm need some sort of compensation, which can be taken from the surplus which has accrued as described in section 3.1. This can be paid out as a pension until that person dies.

A quite different case is that of companies which make their profits from *short term* rentals (e.g. for holiday accommodation or for student accommodation). In such a case it is neither necessary nor appropriate to confiscate the properties owned by the company, provided that the rentals are bone fide short term and become the capital of the business.

And yet another decision to make is: What happens to the properties of the large, usually rented, departmental stores, which are mostly situated in town and city centres? I think that these should automatically be taken over for rental by the city and town authorities.

What happens to the homeless? I find it scandalous how in recent years many people, often with families, have been forced into homelessness as a result of illness, losing their jobs, inflation, sale of the company for which they worked

---

<sup>1</sup> I assume, without evidence, that most banks rent their premises.

or any similar reason. These should be given a home from the pool of houses or flats which become free, e.g. as a result of deaths. It should be enshrined in the constitution that no family or individual should be homeless. This applies to citizens, but not to refugees nor to persons illegally resident<sup>1</sup>.

I consider that a further restriction on the sale of property is necessary. One hears from time to time that people who have lived for many years in a particularly attractive area are often priced out of the housing market by the wealthy and by investors, with the result that they cannot afford to live relatively close to their workplace. This has happened in Sylt, an attractive holiday island in northern Germany. In such cases the town or city authority must first check whether there is a local buyer prepared to pay a reasonable and give priority to such buyers.

I recall that rich investors took over the French vineyards, etc. see chapter 5 of the Book "A Vision for the Future", which describes how the world famous Burgundy wine region has also become a concern of the local population. Although it has always been owned privately, the Chateau de Gevrey-Chambertin was sold to a Chinese owner of gambling establishments in Macao. The purchase price was a record: 8 Million Euros. The other local vineyard owners were outraged. They claim that there are two or three Chinese in the area willing to offer up to 30-50 Million Euros for a vineyard, and they cannot compete financially with such offers. They fear that they are being taken back 200 years in history to the time when their forefathers were serfs for the rich landlords. They point out that they are not on the stock exchange. But every year the annual local auction, organised by Christie's, sees more foreign investors and ever higher prices, putting ever further out of reach the possibility that locals can buy vineyards as they come up for sale. Such a case would in future best prioritise local buyers offering reasonable prices.

### **3.4 Restrictions on the Ownership of Cars**

Here the rules are straightforward (see 2.1 above). But for clarification, these rules do not apply to the motor industry itself. Neither do they apply to taxi firms nor to car hire firms. However, the limits above set on private car ownership include also long-term rentals of cars.

## **4 Changing over to the new System**

Let us be clear about one thing. Not everybody will be happy about changing over to the system which I am proposing, especially not the politicians, the

---

<sup>1</sup> Germany, for example, treats legal and illegal "refugees" very generously, with the result that it attracts ever increasing numbers of such persons. Providing these with even more benefits would lead to an immigration disaster.

bankers and the billionaires. How then can we hope to overcome their resistance? Short of a revolution, the only possibility is to beat the system with its own weapons, in this case to organise a political party which has the sole aim, e.g. in Germany, of changing the constitution to allow such a system or in other countries of taking whatever democratic steps are necessary.

In the German context I have one particular concern: that the AFD party<sup>1</sup>, which in my opinion started out with the reasonable aim of opposing the Euro currency (as did other members of the original European Union, such as Great Britain and Denmark), has become an extremely radical right wing party, with which I do not wish to be associated. I would hope that any new party in Germany would take steps to ensure that it is not infiltrated nor subverted by extreme right wing groups, as happened to the original AFD.

## **5 Tying up some Loose Ends**

The proposals which I have made in this chapter should not be treated as absolutely fixed, but should be regarded as negotiable suggestions. My purpose was not to provide a perfect recipe for changing to a new system, but rather to show that such an undertaking actually possible. There could, for example, be open discussions in the new party which I have suggested to organise the transition. Before closing this chapter, we now turn to some further issues which it has indirectly raised.

### **5.1 The Sovereign Debt**

Ideally the sovereign debt of a country should be repaid, thus giving it the opportunity to become debt free. Whether this is possible and reasonable depends (a) on the amount of the debt and (b) on the amount of "spare" money held by the NatBank, when the system is ready to start. This could be a democratic decision of the population after the consequences have been explained to them by experts.

### **5.2 How can Investments in Expensive Innovations be funded in future?**

If the very rich in society have been limited in their wealth and incomes, how can society fund very expensive new innovations? Even the USA's government has stepped into the background regarding such expensive undertakings as space travel, allowing the richest of the rich (e.g. Elon Musk) to step into the government's shoes. I regard this as a dangerous development, as it allows a few private (unelected) individuals to make decisions which affect the future of humanity. That the billionaires always make the best decisions is more that questionable. We only need to look at what happened when Elon Musk bought Twit-

---

<sup>1</sup> see [https://en.wikipedia.org/wiki/Alternative\\_for\\_Germany](https://en.wikipedia.org/wiki/Alternative_for_Germany)

ter to see that billionaires can make disastrous decisions! So what can be done about this?

This issue in fact raises the old question of nationalising/denationalising industry. The billionaires want denationalisation, because it opens up for them more opportunities. They often argue that private industry is more efficient than the public service. This argument has doubtful validity for me, because on the other side of the coin I have seen how, for example, the privatised railways in the UK have been neglected to save the investors the costs of their maintenance, and how a recent head of the German Railways closed down many routes as part of his plan to privatise the German rail system. I admire Maggie Thatcher, who started the privatisation trend in the 1980s, but even she was not far-sighted enough to see what her ideas and those of her advisors would lead to. Hence we assume that privatisation of important industries will be forbidden in states which follow the suggestions in this book. Society as such must determine (via the voting system proposed in chapter 4) what investments it chooses to make. The money for this could come from taxation and from the investment funds of the NatBank.

### 5.3 Bureaucracy

The danger with forbidding the privatisation of industries which are central to the smooth running of the state is that of bureaucracy. This must be avoided like the plague. Germany is a good example of this danger. I have never seen such a bureaucratic society. Here is just one of many potential examples of bureaucracy in Germany

#### 5.3.1 Medical Insurance

There are currently **96** statutory health insurance companies in Germany. In addition there are **42** private medical insurance companies. A German resident must officially have either statutory health cover or private health cover, but the rules are complicated about the category to which individual persons belong. In general the cost (and amount of cover) is much higher for those with private health cover, but as is usual in Germany the situation is far more complicated. In reality there are *three* categories, the two normal levels (i.e. statutory health cover or private health) plus a third level, which was introduced about fifteen years ago to cover those who are not covered by the other two.

I will call this third category *basic private*. It is an (in my view unsuccessful) attempt to accommodate those who do not conform to the requirements of either of the two main categories. To take one example, there are age limits on entering the statutory level, and the private level can reject applicants who do not comply with their health requirements (e.g. who have had certain illnesses). Nevertheless persons who do not comply with the normal categories must have a

German insurance; they fall into the category *basic private*.

This form was forced on the private insurers by the German government. They must accept persons at the equivalent of the statutory level (and costs), but the procedures involved are a disastrous attempt to fit it into the normal procedures for private insurers. Those insured under the rules of the normal statutory group do not even see any bills, but those insured under the basic private group must comply with endless regulations<sup>1</sup>. For example they must privately pay the bills of doctors and hospitals, then each bill must be handed in to the private insurer with a proof (in the form of a unique doctor number) that the doctor is recognised as a doctor in the "statutory" scheme. Doctors must use a special level of payment which is less than the normal private level, and there are many more complications.

And that is not the end. Civil servants have special rules which allow free medical benefits up to a certain percentage (e.g. 50%, 70%) of their medical bills (again according to various rules, including for example whether they are married and how many children they have). They must normally also have private insurance to top this up to 100%. These benefits are checked by the *civil service employers*, who therefore have their own health insurance experts! Consequently after a civil servant visits the doctor he must provide an official bill both to his employer and to his private health fund. This situation is even more complicated by the fact that apart from the central German Civil Service there are **16** separate semi-autonomous States in Germany with their individual civil services, each of which has its own rules and officials (e.g. for medical insurance purposes)!

Germans would probably consider it as a good step in the direction of reducing bureaucracy if they could reduce the number of statutory health insurance companies from 96, which would at least save the cost of up to 96 top executive salaries, but this would simply be scratching the surface of the bureaucratic problem, as we will now show.

### **5.3.2 Medical Insurance in Australia**

Australia provides a good example of a non-bureaucratic medical insurance system. Every official resident of Australia pays 2% of his taxable income to cover the costs of the Australian Medicare system<sup>2</sup>. This system is fair, since the more income one has the more he or she pays. It is also cost effective since it

---

<sup>1</sup> I received a document with 65 pages in small print (mostly rules) from my insurer after I returned from Australia!

<sup>2</sup> There are separate provisions for example for foreign students who study in Australian Universities and for visitors to Australia.

does not require a separate payment system, it is simply paid into the tax system with the normal tax. It is possible to take additional insurance for those who wish to have a private room in hospital and to have cover for items not covered by Medicare such as physiotherapy, dental and optical costs.

If a doctor charges more than the scheduled fee (as is often the case) the patient pays the difference. Refunds for doctor's bills can be more or less immediate. The doctor's secretary inputs the bill and your card into the Medicare system after being treated, and by the time you get home the refund is on your bank account!

That is an example of how bureaucracy should be simplified. Germany has a lot to learn!

#### **5.4 What about the remaining aspects of our society?**

In an attempt to apply lateral thinking to the needs of society, we have considered how taxation could be simplified, how the democratic system could be reformed, how the business world could be reorganised and how banking could be greatly improved. In each case costs could be very considerably reduced and I believe that at the same time the quality of life for most citizens would be greatly improved (e.g. no complicated tax forms, no strikes, no inflation, no poverty).

A large number of themes have not yet been considered (e.g. the justice system, universities, pensions, road and bridge building, climate change, chemical and pharmaceutical industries, transport, etc.). These also leave much scope for improvement with a little lateral thinking. But such themes are best left aside for a second volume.

#### **Postscript**

And now a final thought: At the time of writing, the war in Ukraine is beginning to look very bleak for the Ukrainians. The Republicans in the USA are currently preventing the US government from providing support to them, and this promises to get worse if Donald Trump wins the next presidency race. In his former presidency he made it abundantly clear how very angry he was that Germany was not paying its full agreed share into NATO. And now it could become very serious, first for the Ukraine, but then also for us. If Putin wins the war, he could well try to achieve his aim of restoring Russian influence in Europe. To defend Europe (without US help) would be very expensive. It is NOW time that the superrich in Germany (and other European countries) should begin to make major contributions to re-arming not only Ukraine but also Germany and the rest of Europe. It will be too late if Germany's aversion against rearma-



ment does not very soon change. And the superrich could also say goodbye to their wealth if that happens. They must use some of their money to help Ukraine and also thereby help themselves. As an Englishman I recall how essential it was to get rid of Chamberlain (the appeaser) and to install Churchill as Prime Minister. This is one of the lessons which Germany should now also learn.

When I began to start writing, this was not the message which I wanted to impart, but now is the time to wake up to the danger.

# APPENDIX 1: DIGITAL MONEY

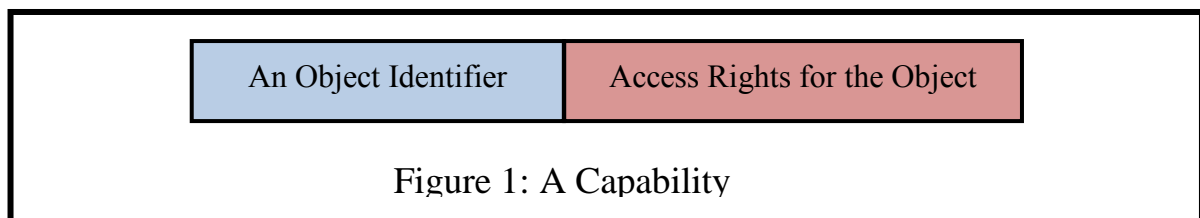
This appendix describes the idea of secure digital money, a new form of money which can be directly stored on appropriate computers, if and when the technology becomes available.<sup>1</sup>

## 1 Background

As a retired professor of computer scientist I have spent most of my professional life researching and designing secure operating systems<sup>2</sup>.

In the period 1976 – 1982, together with 3 PhD students, we designed and built a novel *capability-based* operating system (hardware and software) called Monads at Monash University in Australia.

In the 1970s and early 1980s the most promising research into secure operating systems was based on capabilities. A capability identifies an object which needs to be protected together with the access rights which the presenter of the capability is permitted to exercise over the object (see Figure 1). For example, if the object is part of a program (i.e. a program segment), it will be identified by a pointer to the segment. The access rights might, for example, allow the data associated with the pointer to be read but not modified. It is also important that the capability itself is protected (see below).



The Monads website<sup>3</sup> describes the ideas behind this system in considerable detail. The hardware was built from discrete logic chips, and although several Monads-PC systems were built and successfully used in a few universities in Australia and Germany, it was virtually impossible for researchers from other projects and other interested parties to try it out. We were criticised for this by other research groups (who themselves attempted to build secure systems on *conventional* hardware with evidently little success!). But it would have been impossible to make Monads computers generally available to the public without the availability of massive financial resources (equivalent to a second Microsoft and a second Intel organisation)! The problem was that commercially available

<sup>1</sup> The design for such a computer is available at <https://www.speedos-security.org/>

<sup>2</sup> see [www.jlkeedy.net](http://www.jlkeedy.net)

<sup>3</sup> <https://www.monads-security.org>

hardware lacked the key features which allowed secure capability systems to be built. At that time, as today, Microsoft<sup>1</sup> dominated the operating system world, despite the fact that its record shows that its operating systems were, and still are, somewhat insecure.

In the 1980s a purely hardware oriented group of U.S. researchers described an alternative way of designing computer processors, which became known as RISC computers (Reduced Instruction Set Computers). These were much *faster* (and *simpler*) than conventional computers at that time (now known as complex instruction set computers or simply CISC). RISC soon became fashionable and began to replace the old CISC processors, because of their superior speed. But the RISC design did not include those key features needed to build capability-based systems, in particular the ability efficiently to support both small and large segments in a system with which uses fixed length pages. We had already included such a design and demonstrated its efficiency in practice in in Monads<sup>2</sup>

Meanwhile after completing Monads, my own research had concentrated almost entirely on designing a programming language suitable for programming capability based systems<sup>3</sup>. I have now a complete design for a language called Timor (an acronym for "Types, Implementations and More")<sup>4</sup>.

Around the year 1999, while I was at the University of Ulm in Germany, I decided to consider how Monads could be improved. Together with a single research student, we came up with some important new ideas, and we called the resultant system Speedos (an acronym for "Secure Persistent Execution Environment for Distributed Operating Systems"). But without the special hardware which we needed to support capabilities efficiently I had to shelve the ideas at that stage, despite the fact that this work resulted in an excellent PhD.

After my retirement in 2005 I decided to work out how some of the more unconventional ideas of Speedos could be implemented in practice. This resulted in a 2 volume book entitled "Making Computers Secure", which can be downloaded at the Speedos website<sup>5</sup>. If you are not a computer scientist you might like to try to read volume 1, but *not* the very technical second volume.

---

<sup>1</sup> With respect to fundamental system security Apple computers, which are not capability-based, are not better than Microsoft.

<sup>2</sup> J. L. Keedy, "Paging and Small Segments: A Memory Management Model", Proceedings of the 8th World Computer Congress, Melbourne, Australia, 1980, pp.337-342.

<sup>3</sup> Programming language design as such can be largely carried out independently of the computer on which the work is carried out.

<sup>4</sup> For those interested this can be downloaded at <https://www.timor-programming.org/>.

<sup>5</sup> <https://www.speedos-security.org>

Volume 1 was written at the level of first year computer science students and explains all the basic ideas from scratch.

What has all this to do with secure digital money? The first part of the answer lies in the fact that I have now also worked out how a relatively simple modification to RISC computers could allow them to support capabilities *and* at the same time remain very fast. Furthermore the proposed adaptation would allow existing RISC applications to continue to run on them<sup>1</sup>. That means that computer manufacturers could well be interested in defining a new RISC standard without losing their existing customers.

The second part of the answer is that the technique which Monads and Speedos use to protect capabilities can be easily adapted to making digital money secure, as is explained in the rest of this appendix.

## 2 A Future Kind of Money

Since a representation of money currently sits primarily in bank accounts on bank computers, it seems reasonable to consider why the entries in the bank accounts are not regarded as the money itself. The answer is of course quite simple. If that were the case, banks really could create money out of thin air at will, simply by changing the entries in bank accounts or creating new bank accounts<sup>2</sup>. (Actually it is possible to change the data representing money in bank accounts, but that does not create new money as such; it simply opens up the possibility of fraud.)

Another reason why we cannot define money representations in bank accounts as the money itself is that it would be impossible to store one's own money at home, for example, or spend it. Put simply, a bank account contains a representation of money, but is not the money as a commodity.

At this point it is worth considering why (in terms of *computer technology*) banks cannot create money out of thin air by simply changing information in their computers which represents money. The answer is simple: the representation of money in bank accounts is treated by the computers merely as *data*, like any other data held in computers. Data stored in computer devices can be created and copied by computer programs. Hence if data items in a computer were also real money there would be nothing to control the process of creating money stored as data. It would be as easy as writing a sentence in a letter on your computer as it would be to create new money.

---

<sup>1</sup> This is described in detail in my paper "S-RISC: Adding Security to RISC Computers" which can be downloaded at the Speedos website.

<sup>2</sup> As was explained in Appendix 1 the FED can create new money, but if my concept of digital money were to apply to them, this would be impossible.

Let us now suppose, however, that the commodity money (not just its representation) could really be stored very securely in computers (regardless whether this money were held in bank computers or on private computers). I refer to such money as *secure digital money*. By storing it *securely* I mean that this money would *not* be directly accessible to bankers or for that matter to other users; it would be stored in what I call *money pockets* on computers. (A money pocket can be viewed as a virtual safe deposit box or wallet into which you can put digital money, not just a representation of money.)

It is important to distinguish between

- the commodity *digital money*, which, in the computers that I envisage, is always and only held in secure money pockets, and
- representations of money as data, which can also appear in computers (as at present, as data).

A money pocket holds only digital money as a commodity and nothing else, and digital money can only be held in money pockets. This characterises digital money as such and distinguishes it from other information held in the computer.

To understand this better, let us suppose that in such computers there were two related security mechanisms. The first mechanism determines *which operations* can be carried out on digital money held in money pockets, while the second mechanism determines *which users* are authorised to use which of the operations provided by the first mechanism on which money pockets. If these two mechanisms could be securely implemented, then it would indeed be feasible to store real (digital) money safely on computers.

### **3 The Operations on Digital Money**

To give you a feel for this idea let us first give some indication of the kinds of operations which could be provided by this mechanism. Remember however that these operations alone are *not* intended to replace banking systems. They merely provide primitive actions which can be invoked by authorised users (e.g. in computer programs such as banking programs, but also in other business and private computers). It will possibly come as a surprise to you that in fact only two such operations are needed by normal users in the computer system which I envisage. Here they are.

- a) **Move X currency units from Money Pocket A to Money Pocket B**  
This first operation allows the owner of digital money stored in a particular money pocket A to move the (positive) number of currency units specified in a parameter X to another money pocket. This might be used for example to move money between different money pockets of its owner, but also to

move money to money pockets of another user (e.g. to pay for goods which you have bought from him).

A *normal* memory move operation in a computer system is in fact usually implemented as a *copy* operation, i.e. after moving information from location A to location B, A and B will contain the same information. But in the case of moving money from one money pocket to another the move operation is definitely *not* a copy operation, but is instead what I will call a *money move*.

By a money move I mean a move which reduces the amount of money stored in money pocket A by a specified number of currency units and increases the amount of money stored in money pocket B by the same amount.

Before a money move operation is carried out, the computer's basic security mechanism (which is *not* an ordinary computer program, but is what is known as the system *kernel*) checks that all of the following conditions are met:

- i) Both location A and location B must be money pockets.
- ii) The amount of money held in A before the money move operation is carried out must be greater than or equal to the value indicated in the parameter X (which specifies the amount of money to be moved and must be a *positive* number of currency units).
- iii) The invocation of these operations is restricted to persons or computer programs authorised to do so.

Checking the authority of users (e.g. normal programs) attempting to carry out the money move operation is the purpose of the second mechanism mentioned above. This will be explained below.

Here is the second operation which can be applied to a money pocket.

**b) Write into data location C the number of currency units stored in money pocket A.**

The purpose of the second operation on digital money is to allow a user to check the amount of digital money in one of his money pockets and to store the result in a normal data location of the computer. It is equivalent to opening your wallet so that you can see how much money it contains, then writing the result onto a piece of paper. This does *not* change or in any way affect the money stored in the money pocket.

This second computer instruction operates like a normal computer copy operation in the sense that on completion of the instruction the source location A is not changed, i.e. the amount of money held in money pocket A has been neither increased nor decreased, and the location is still secure. But as a result of this operation a representation of the amount of money stored in money pocket A

now appears as data (i.e. not the commodity money) in a normal data format in data location C. The result in C is not digital money but is merely a representation of money, as in current banking and accounting systems. As in current systems this money representation (not the money itself) forms the basis for accounting, etc. Thus anything which current systems can do, can also be achieved in the system being proposed. (The reverse is not true!)

Operations of type b) require location A to be a money pocket and location C to be a normal data location. Both are checked as part of the operation.

The computer also provides a mechanism for creating money pockets; these are initially set automatically to 0 currency units. How they are initially filled is explained in the chapter 7.

#### **4 Authorisation to Use Money**

Money pockets are held in segments, which are protected by segment capabilities. Access to a segment implies access to its money pockets.

#### **5 Controlling the Money Supply**

Since money pockets are initially set to zero and can only be operated on by the instructions described above, they are always non-negative, i.e. there is no negative money and no way of creating fresh money. (The existing money can simply be moved around by the money move operation and inspected by the second operation.) Consequently the total money supply is always constant, and inflation should not occur. Similarly there is no mechanism for destroying money, so that contractions in the money supply cannot occur.

This very secure computer system design for the operating system Speedos, which differs very substantially from conventional computer designs and which contains a number of protection features not present in current computers, is described in the two volume book "Making Computers Secure", which can be downloaded from the Speedos website<sup>1</sup>.

Above all, the system has been designed from scratch with a keen awareness of security issues in mind. (In contrast, conventional computer systems have a basic design that was created long before security became a major issue, so that security in them means patching up holes in insecure systems.)

#### **6 Digital Money Requirements**

To round off this discussion of my digital money proposal, I compare its features with the requirements which Rothbard described<sup>2</sup> for choosing a medium

---

<sup>1</sup> <https://www.speedos-security.org/>

<sup>2</sup> see Rothbard, *The Mystery of Banking*, chapter 1 section 3.

for money. In his opinion a useful form of money should be:

- a) already in use, preferably in heavy demand;
- b) highly divisible;
- c) portable, with high value per unit, and
- d) not counterfeitable or forgeable.

We now consider these points in turn, in relation to secure digital money.

*Already in Use:* Money Pockets, as I have described them, are not yet in use, though it can be argued that representations of money have been used for many years in bankers' computer systems and in other computer systems. Modern banking could not survive without this. Once confidence exists in the new system it will not be difficult for users to accept it.

*Divisibility:* Digital money, represented in the computer as numbers, can easily represent any positive sum. The special operations which I have proposed above, while deliberately limited to a subset of normal arithmetic operations, still leave digital money highly divisible.

*Portability:* Digital Money can be rapidly and easily transferred on computing and memory devices which contain secure money locations, e.g. smartphones, USB sticks). This contrasts with gold, which, when transferred in large amounts as gold bullion, is not only heavy but creates the risk of large scale theft. And even when theft does not occur it is highly inconvenient and costly to move (and to guard) large amounts of gold bullion.

*Unforgeability:* What is at stake here is the reliability of the protection mechanisms. By reading "Making Computers Secure" you will see that the proposed protection mechanisms are in principle far more secure than those of current computers, and yet we rely on the latter every day to keep our money secure in banking systems. (While it is true that information in bank accounts only *represents* money, the result of illegally manipulating a bank account is still in effect theft.) For those interested in understanding exactly how Speedos protects digital money see the more technical paper "Digital Money in Speedos", which can be downloaded from the Speedos website <https://www.speedos-security.org/>.

One issue remains. How does digital money initially get into the system? This question is answered in chapter 6 section 4.4 and chapter 7, in connection with the changeover to a new banking system.