

Excerpt from

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The Money Syndrome

**Towards a Market Economy
Free from Crises**

www.TheMoneySyndrome.org

Chapter 7

Interest as a Means of Redistribution

Credit costs interest. Interest burdens end-consumers and entrepreneurs who have to borrow money in order to satisfy their consumer and investment needs. Consequently interest takes away money from end-consumers and entrepreneurs, even when they do not have enough of it and gives it to investors who already have more money than they need.

Dieter Suhr *

Suppose somebody were to regularly extract a few hundred Dollars or Euros from your wallet every month. You would certainly report it to the police. You would perhaps react no differently if during each of your purchases, a specific share of the purchase amount were collected from you, Mafia fashion. That is exactly what happens to us! Every day, at every purchase, only on a larger scale!

We are not talking now about the state that, as is well known, dips twice into our pocket, namely once while earning money and again while spending it. What is meant is another attack, which competes in the same degree with the one from the state, and yet is hardly noticed by us: the claim of capital, better known under the name interest.

How is interest collected?

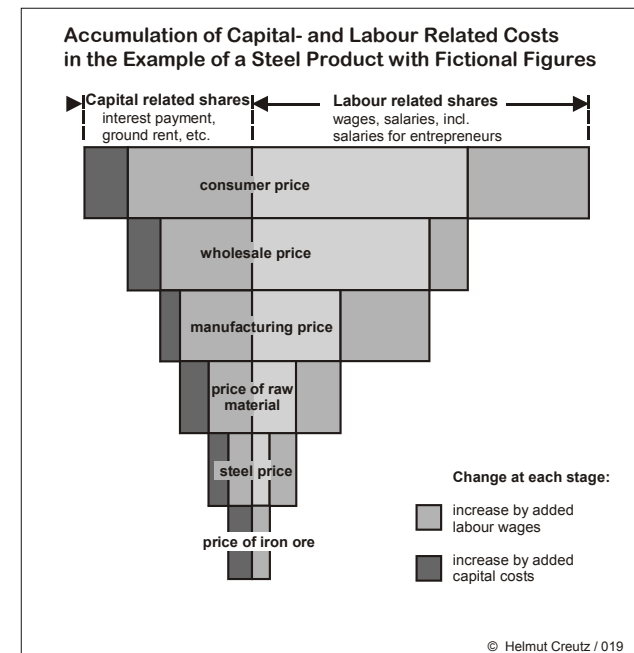
When the state increases the tax on wages, employees go home with less money. They know to the exact penny, how much less they can afford. On the other hand if the state increases value added tax by the same extent, the incomes of workers remain unchanged. Nevertheless they also become poorer in this case because the prices increase due to value added tax means they get less for their money when

* Lawyer and professor for Constitutional Law at the University of Augsburg, in his book “Wachstum bis zur Krise” (*Growth Until the Turning Point*), 1986

spending. What has changed is the method of tax collection: instead of at the earning stage, the extra amount is collected while spending, i.e. not while receiving, but while giving. Or stated differently: instead of doing it overtly, the state covertly dips into our pockets. But at least it announces the share of value added tax and we can calculate, with a little effort, the loss in revenue.

Interest is collected in a similarly concealed way, but its proportion of the price is not known. Even if we were to have access to the calculations for the purchased product, we would have no true picture of the level of tribute that has been charged. From these calculations we would have obtained, at most, the interest costs of the final step in the calculation, that is, the interest contribution that is being added at that step. This is because, capital costs – as well as labour costs – are already included in the material costs and other services of the previous suppliers, which enter the calculation as material expenses, thus already containing hidden interest charges. And in contrast to value added tax, where the tax contribution paid at each preceding stage can be shown this is not in the case for interest. *Figure 19* shows to what extent interest charges accumulate for a fictitious example where the original and the staged price development of a product has been broken down, from raw material to the finished product.

Figure 18



As can be seen, varying levels of capital and labour costs are added at each of the six stages of development. They are combined together with the previous ones, which contain the buying price of the initial product, to a new total price. The actual share of the capital cost in the end price of a product is difficult to estimate, as is the share of the wages.

Any incidental gain was not taken into consideration in the figure shown, nor were expenditures for tax and insurance etc. The share refers to the two basic cost factors, i.e. capital and labour.

Who receives interest payments?

If the government were to return value added tax to every household to the extent of the payments rendered, it could have spared itself the whole exercise. However, if it were to distribute the collected money mainly to socially weaker sections of society, their lot would have been improved at the expense of the remaining.

The share of interest contained in prices, (which, for example, nowadays in Germany is three to four times larger than the so-called value added tax!), when redistributed, do not benefit all households and least of all the weaker ones. The overwhelming part of it flows towards those who have the most interest bearing assets at their disposal. More precisely: the richer one is, this means, the more interest bearing tangible and monetary capital one possesses, the larger is the share that one gets from the pot of the interests collected. The biggest loss is borne relatively, however by those households that have no interest yielding assets, or at least, none worth mentioning. They only pay in without ever getting anything back. And since interest-demanding tangible and monetary assets clearly increase more rapidly than economic output and state revenues, even the most social state is less capable of making up for the redistribution of money that is conditioned by the flow of interest from the poor to the rich through a tax financed re-allocation.

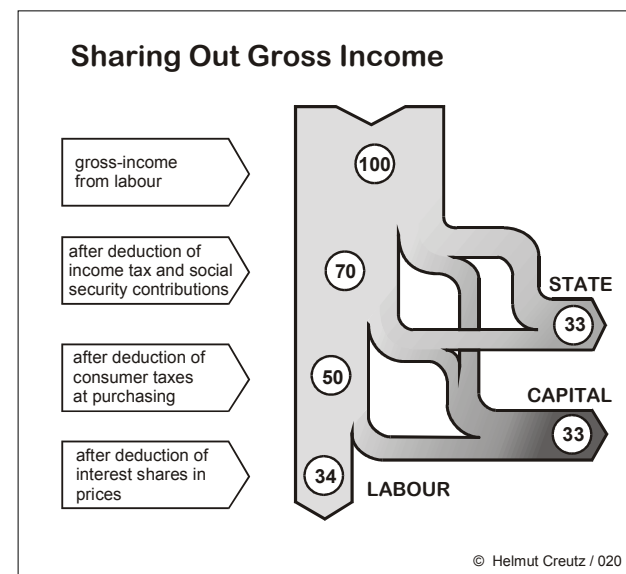
What is the effect of interest in the distribution of the national income?

The general opinion is that our economic output is approximately equally divided between the state and its citizens. If the duties for the national social and health system are added to taxes, then it results in a real state's quota of 50 per cent. Nevertheless, this view of the redistribution is still not correct. In reality, the apportionment of

the gross national product is not carried out between state and citizens, but between capital and labour. In this the capital has always the first access, since serving its interests is a prerequisite for having it at disposal. That means that the requirements of capital have to be met at all costs, regardless of whether the economy can afford it or not. The “rest of the pie” remains for labour, however this remainder is divided between employer and employees. The state, as the third party in the alliance, accesses the recipient groups of income only afterwards. In case of the employee's income its access is direct and inescapable, in the case of capital income, less diligent. Just think of banking confidentiality or the tax havens throughout the world.

The sharing out between capital, labour and state can also be conveyed when the path of all the expenditures from gross earnings is understood, as it is depicted in *figure 20* as a schematic flow diagram.

Figure 20



The result for the working population is that after deduction of the shares for capital and the state, only one third pure purchasing power remains. In the end this means that the whole output of the political economy is divided among labour, state and capital, each getting roughly one third. While the state's share – as described earlier – benefits the general public after all to a large extent, the capital earnings are primarily concentrated on the minority of proprietors.

What role does the interest rate play during redistribution?

The share of interest at all price-levels is calculated by multiplying the capital deployed with the actual market interest rate. It can increase with increasing capital investment as well as with increasing interest rates. The increase in capital investment is connected to savings and is therefore only a relatively slow and continuous process. Increase in the interest rates, however, can occur at relative short notice and can rarely be anticipated. Their effects are therefore particularly serious.

For example, if the interest bearing monetary asset increases by three per cent, then for an unchanging interest rate, the total interest charge also increases by three per cent. If, however, the average interest rates increases by three per cent, (more correct: three percentage points!), from six to nine per cent, then the interest charge escalates, when calculated, by 50(!) per cent. For, a six per cent interest on, e.g. a capital of 100,000 Dollars yields 6,000 Dollars, a nine per cent interest however 9,000 Dollars, that is one half more.

Increasing interest rates have therefore serious consequences for the interest share included in the prices. The consequences of increasing or high interest rates for the redistribution mechanism are also accordingly serious. The most massively and directly hit are all debtors, especially those with little capital of their own but with huge borrowed capital. This can be seen in the high bankruptcy rate among firms following interest rate increases.

Willy Brandt, the former Chancellor of Germany quite aptly called the extremely high interest rates in those days (1982) as “murderous”. Even normal interest ‘murders’ – just more slowly. The number of people, especially in the Third World, who have died due to interest-related burdens, cannot be expressed statistically. It could be running into many millions. The title of the book by Susan George, “*They Die of Our Money*”, was very appropriate.

In the same way as problems escalate through an increase in interest rates, so will the problems be are similarly minimized with falling interest rates., too. A capital market interest rate around zero would be distribution-neutral. This means, that to a large extent, the returns for work will remain with the productive worker, even though a part of it them takes a detour over channels of the state.

The statement of Ernst Abbe, physicist and founder of the Zeiss factory and who had an ordinary family background, is given in *Box F*. His words are still up-to-date and path setting, even though they were uttered a hundred years ago.

Box F

Interest as seen by an entrepreneur

“I had the opportunity to observe very closely today's phenomena of economic life in a single field of an industrial branch... According to the duties arising from my job, I had to observe these phenomena from the viewpoint of an entrepreneur and capitalist. At the same time I had to observe them with the eyes of a worker's son... That is why I observed these occurrences simultaneously from two very different sides and could make my conclusions from the viewpoint of public interest and public welfare...

As it is only labour that creates value..., there is no doubt, that it is the totality of the workers of a people that has to produce that sum for the totality of proprietors... so that the owners of the objects of national property retain or lend these objects of labour of the entire people as means of production.

Therefore... all workers in all fields of activity have to work on average two days per week for the totality of proprietors, i.e. for those who are co-proprietors of national property and whose interests have to be paid... From an economic point of view, interest is only the sign of a situation of constraint, where labour is opposed to property insofar, as the objects of value of the total property are absolutely necessary as means for productive labour...

Thus the elimination of the institution of interest from the economic system of all peoples is the prerequisite for a lasting economic activity that does not lead to disorganization.”

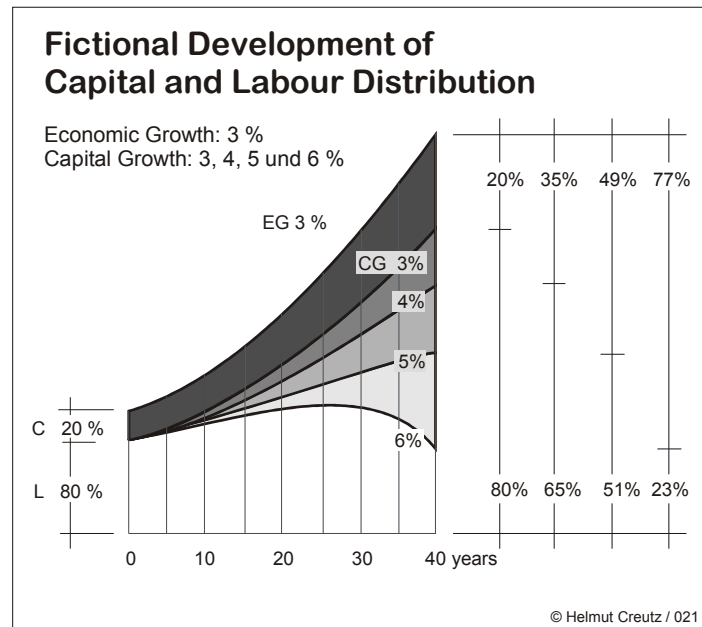
Prof. Dr. Ernst Abbe, in a lecture given shortly before the turn of the 19th to the 20th century, Excerpt from: *Zeitschrift für Sozialökonomie*, no. 61

What changes the distribution coefficient?

A pie can be eaten only once. This also holds good for the distribution of the economic output pie between capital and labour. If capital grows and with it the claim for interest in step with economic output, then distribution relations remain constant. If, however, the interest yielding capital grows faster, a shift in the share results at the expense of labour.

In *figure 21*, such shifts in distribution have been shown schematically for different variations. An initial distribution ratio of 20:80 as well as an unchanging economic growth of three per cent has been assumed.

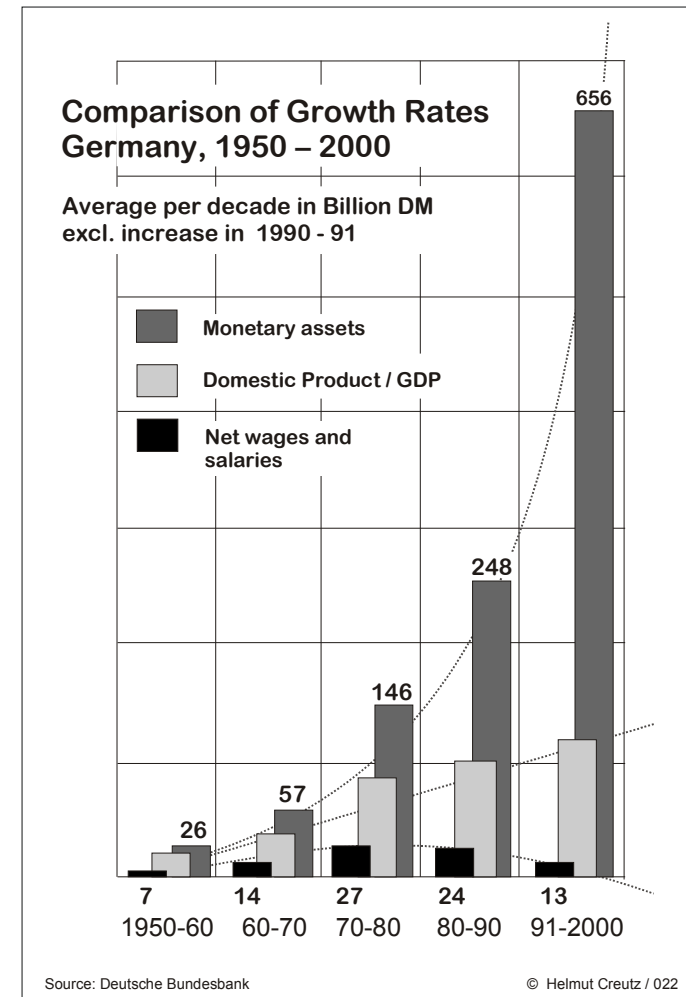
Figure 21



The economic pie to be distributed shows an approximate 3.3-fold growth in 40 years. If the capital to be serviced grows – as is shown in the top checked area – also year by year by three per cent, then the distribution ratio between capital and labour remains the same. However, a growth in capital by four per cent results in a clear displacement in both income groups within these four decades. It may be true that earnings from work have also gone up in absolute numbers along with economic output, but the distribution ratio between the two groups shifts from 20:80 to 35:65. The small shift in the growth rates by only one percentage point makes the share of labour fall from 80 to 65 per cent!

More obviously, the share of labour drops to 51 per cent, when economic growth increases by three per cent and capital by five per cent p.a. It can be clearly seen from this third distribution curve, how the rise of the labour share diminishes year after year. If one extends this development for a few years, then the curve flips over, even pushing the share of labour into negative territory. This means that not only do the increases in output go completely to capital, but also a continuously increasing share of the earnings from labour.

Figure 22



At a capital growth of five per cent, this problematic flipping over effect starts after 25 years. As a consequence of such a discrepancy in growth, the distribution ratio would almost reverse from 20:80 to 77:23 within forty years. This means that labour would get a mere quarter of the pie and the remaining three-quarters would be taken by capital. Such dramatic changes would also arise if the capital growth remains at three per cent and the economic output declines. From this it is clear why politicians are still so keen on continuous economic growth, even when the shops are overflow-

ing in our country. As the growth rates must inevitably decline in a saturated industrialized nation, an increase in the distribution gap is unavoidable. Even a minor downturn in the economic growth can trigger socio-political problems, especially during phases of increasing interest.

The discrepancies that have already arisen in reality are shown in *figure 22*, in which the average values of the annual growth rate of monetary assets, of economic output and of net wages in the last decade are entered.

Do interests raise the level of the gross national product?

Anyone looking at the interest flows in the national accounts, will normally find that the interest earned as well as interest paid out for each of the economic sectors, that is business, state and private households, that result from transactions with the other sectors, are listed out. The resulting net balance in the three sectors vanishes in the final balance. This means that the flow of interest has no influence on the level of the gross national product, however huge it is. Only the balance of interest that flows across borders influences this statistical quantity. If, for example, more interest flows into a country from abroad than flows in the opposite direction, then the aggregate product of that country increases by the difference.

This neutralization of all the inland interest flows appears surprising at first glance. It is however logical: the gross national product or the gross domestic product is the sum of the total net product. Interest however does not represent any value added, but rather only an internal transfer.

A consequence of this is that the increasing or lowering of interest rates and the extent of interest flows do not leave any direct trace in the gross national product. If when “tomorrow”, interest rates (and with them, interest flows) were to be doubled, that would have no influence, mathematically or theoretically, on the said gross national product. The indirect consequences, however, of such an increase, i.e. bankruptcies, unemployment etc., would alter the gross national product.

Many people draw wrong conclusions from the neutrality of interest with respect to the gross national product. They think that for this reason the interest problem should not be given too much thought. Others cling to those statistical quantities, which come under the heading “income from entrepreneurial activity and assets” when the GNP is broken down into its components. There, the quantity appearing under the heading “income from investments” has, in reality, little to do with the actual interest

or income from investments. In Germany, for example, only the positive interest flow balance is offset with the negative interest flow balance of the state and added to the “dividend distribution of incorporated enterprises”. The amount resulting from it is only a fraction of the income on investment, which is annually remitted to the creditors as interest by the banks alone.

Others refer to statements of professors of economics, according to whom indebtedness – and thus the interest to be paid for it – is without problems because these debts and interest charges are at the same level as the money assets and earnings on interest. For example, the German economist Robert von Weizsäcker held the opinion in an experts’ conference on state debts that only foreign borrowings are problematic:

“Where is actually the burden in the interest burden? The interest burdens that are financed by tax money flow to those who hold the credits. If we assume a pure inland debt, then we owe the debt to ourselves. A real problem comes about when the foreign share of the state debt becomes too large.” *

What about tax on interest?

A person who makes money through work must pay his pound of flesh in the form of taxes on each and every single Mark. The tax deductions for wage- and salary-earners are made at the time of payment of earnings, i.e. at the source itself. Delays in the payment of taxes, non-payment of taxes or tax evasions are virtually ruled out. A person who receives money without working for it is similarly obliged to pay taxes. But the same state that demands these payments, also guarantees at the same time that these earnings are not controlled thanks to conventions on banking confidentiality which exist in almost all countries. This fact is almost like an invitation for tax evasion. The consequence is accordingly: a very small part of the incomes from interest on monetary assets are declared in tax declarations!

A sufficient number of opportunities exist for a holder of money assets to evade taxes totally. One need only shift one’s savings into one of the many ›tax havens‹ within the EU, to Luxembourg or Liechtenstein, and one is out of the woods! The very careful ones withdraw the credit balance in cash and pay in the money on the other side of the border, thus ensuring that traces of their tax evasion are washed away for all time. This cover-up is itself only possible, at least to a certain extent,

* 'Die Zeit', Jan. 14, 1999

with the help of the state, namely with the currency issued by the state and which one can use for any sort of speculative business.

Just imagine a similar course of events were permitted to employees. More specifically: one would appeal to their tax obligation, but at the same time offer the possibilities to evade them, for example, by introducing an ›income secrecy‹ arrangement, that allows the tax authorities access to income lists only under very special circumstances. Or perhaps even by establishing anonymous current accounts abroad. - It is actually incomprehensible that the unions have not demanded long ago equal treatment for income from work or from interest according to the Constitution.

It is not only workers that face injustices regarding the special treatment money receives, but investors in the country are penalised, too. While the holder of liquid assets is able to smuggle all his proceeds from interest, almost without risk, past the tax authorities, proprietors of tangible assets have essentially fewer possibilities. Anyone who, under these circumstances, puts his money in a workplace or in a block of flats, has a clear disadvantage.

Why is the adage “Time is Money” correct?

Interest as the lending price of money is without doubt a charge for a specific period of time. Money that came into existence as a means of exchange, has, as a result to a degree a second dimension. For the moneylender, it becomes a time-related effortless income factor, for the borrower, it becomes a time-related cost factor, which he can pay for only with an additional effort and with it an additional expense of time. With interest, time is turned into money. The proverb “time is money” brings out this fact in the fewest words.

In earlier days, time was a gift to mankind. Today that applies only to the interest-profiteers. All the others – and that is the large majority- must work for these profiteers ‘during that time’. Michael Ende has made this stress-triggering change in the life of people, in an alienating fairy tale like, yet obvious manner the message of his book “Momo”.

Because time is money, i.e. interest money, people must nowadays be always up and about. As for machines, it is best if they worked round the clock. If possible they should run with fewer workers, better still, with none at all. With every laid off member of the workforce, the entrepreneur saves costs, but by shutting down a machine the costs remain, at least those that serve the interests of capital. If he replaces a person with a self-financed machine, he gains additional secure interest revenue.

The head of the union of medium-sized businesses of the CDU, Klaus E. Bregger, put this reality into sharp focus in an interview in 1996: “Those who earn money with money become rich with little risk. Those who earn money with workplaces become poor with many risks.”

The fatal proverb, “stagnation is regression” can be explained with our money system, too. In view of ongoing interest returns, every kind of standstill means growing losses.

Even though every one knows that one cannot become poorer with a constant output, we cannot allow a stabilization of output in our interest system – it would be stamped as ‘zero growth’. In an economy without interest or with a distribution of neutral interest around zero, we could, in contrast, convert all the increase in productivity arising from technical developments into shortening of working hours for the same income. For a fixed positive interest rate, we have only a choice between economic growth or lowering the income from work, whether by wage reductions or layoffs.

Our fixed positive interest rate forces us not only to produce and consume without pause, but even to constantly expand both. And that too at the same pace as money assets and debts which, so to speak, grow further on their own ‘over time’ because of interest related redistributions. But we have internalised this to such an extent that we permit ourselves to be hounded to achieve and consume more and more without question.

Does interest alter the nature of money?

With the economy increasingly being determined by capital, the actual purpose of money, namely, to be nothing other than a help to facilitate exchange of service and commodities, is being increasingly displaced by the time factor. This original purpose of being a means of exchange seems to be of only secondary importance to the experts in the field of money matters, the bankers. A question was put to the former chief of the Executive Board of the Deutsche Bank, Hilmar Kopper in an interview in a TV network in the spring of 1991: “*What is it that gives money its actual value?*” One might have expected Kopper to refer to the performance of the political economy that provides the cover for our money. But the reply of the banker was short and to the point: “*The time factor means that it (money) increases through interest*”, and to the inquiry of the astounded interviewer: “*Money without time is then nothing?*”, he confirmed the same in more detail: “*Money without time means noth-*

ing, of course it can be spent right away. But that does not multiply money, money is then turned into something else.”

This definition of a former banking expert is significant. According to him, our money is not primarily for the purpose of mediating an exchange of goods and services in the economic system, but more for self-propagation!

This concept shows not only the extent of the malady of our money system, but also of our way of thinking about money, which is expressed in the title of the book, “The Money Syndrome”. The German-Dutch economist Hugo Godschalk commented on the above interview at a congress in May 1991 with the words, “*One might think that the role of money as a means of exchange was against its function*”.

The question as to how money multiplies with time was unfortunately not put to Kopper. It would have perhaps revealed the absurdity of his statement. Because, it is not money that multiplies in time, but rather it is the excess income and thus, the excess savings of the rich at the expense of all others that multiplies. And this again leads to an increase of exploitation and injustice in our societies.

Is there a just interest system?

In a true free-market, every price development is, in the end, always fair. It reflects the value-estimation of the commodity on which the participants have agreed upon during their transactions.

If one buys a shirt in a shop for twenty Dollars or Euros, then it is more valuable to the person than the money he paid for it. For the seller, it is just the opposite. Otherwise he would not have parted with the shirt for that amount. The transaction would not be fair if the seller had a shirt monopoly and could dictate the price.

This is precisely the case with the scarcity price of money, interest. Even this is fair, if it is an outcome of supply and demand, that is, when it solely reflects the ratio of money surplus on the one hand and money demand on the other. If both the sides are balanced, then the interest as the scarcity price (disregarding the bank margin) should go down towards zero. In contrast to the shirt, the production of which is associated with costs, the money holder does not have any expenses to be met for the production of money. Money is made available, free of charge, by the participants in the economy to clear and settle their exchanges and payments. One receives it, to a certain extent, as a transferable acknowledgement for services rendered. He who, under normal circumstances has money left over, has rendered more service than he has

asked for. For personal reasons, he should be interested in a borrower who closes this demand gap. Otherwise, a commodity would remain in the market, unsold and without demand, and it could be the excess of commodities produced by him. Because of the existing superiority of money as compared to commodities in exchange, everyone readily accepts money but no one likes to pass it on. This results in a constant shortage of money. Money becomes a monopoly commodity because of this, a monopoly which never allows the lending price of money to decline to a fair and just level.

A true and just interest therefore does not only depend on the balance between supply and demand. It depends rather more decisively on overcoming any eventuality of an artificial shortage, thus neutralizing the advantage of money that makes it a monopoly commodity. Only this neutralization can lead to an interest rate that is truly in line with market conditions, regardless of how high it is. And only such an ultimately distribution-neutral interest hovering around zero in line with market conditions can be a fair one.

What does science say about interest?

Economics came to an arrangement with interest about 200 years ago and “tabooed” the set of difficulties associated with it, as the National economist Hans Christoph Binswanger from Sankt Gallen once expressed it. And to live with this situation, a number of theories were developed that presented interest as harmless or indispensable.

“Interest is a reward for renunciation of consumption” is the best known of this reasoning. The fact that this is far from reality does not seem to disturb anybody. The normal citizen does not save in order to be rewarded for renouncing consumption but because he needs money for expenditures at a later time or simply because for the moment, he has a money surplus. And one can hardly accept that people with monetary assets, whose interest yields and fresh savings go daily into the thousands or even millions, would renounce any kind of consumption that could possibly justify a reward in the form of interest.

If interest really were a reward for giving up consumption, those who save their surplus money at home under the mattress would have to be rewarded. The fact that interest will be received only on lending out surplus money, is the evidence for interest being tied to the surrender of money. Interest is therefore a price for lending money, or more appropriately: a premium, linked to the period of lending, for giving up the

advantages that are connected with the possession of money, especially for giving up liquidity.

Incidentally, John Maynard Keynes, probably the most noted economist of the last century, had refuted the theory of interest being the reward for giving up consumption by the thirties. Despite this, this impractical academic nonsense is still widely prevalent in almost all the universities today. In his major work “General Theory of Employment, Interest and Money” (one should take notice of the selection of words and the word order in the title!), Keynes defined interest as “*the reward for not hoarding money*”. This means that interest is the means by which the money hoarder can be induced to lend his surplus money to others.

Of course, there are other explanations and justifications for interest in the science of economics. With regards to interest, however, they do not help to get over the fact, that the money hoarder is in the position today to override the market laws and extort a positive interest at all times.

Critical words on interest are rarely heard from economists, for example, those from Hans-Christoph Binswanger, who has been mentioned earlier. In his book “Geld und Natur” (*Money and Nature*), and also in the book “Geld und Wachstum” (*Money and Growth*), co-edited by him, he pointed in particular to interest-conditioned growth compulsion. It was almost the breaking of a taboo, when the economist Wolfram Engels, who was the co-editor of the German weekly “Wirtschaftswoche (*Economic Week*)” and who died in the nineties, took up the topic and commented on “The Ban on Interest in Religions“ in issue No. 1/93. It is even more valid for his concluding phrases in which he describes a world without interest as “perhaps economically optimal” and expressed his opinion that perhaps “Jesus, Moses and Muhammad”, who are known for condemning interest-taking, might have been “the better money theorists“. It is gratifying in this context to hear again critical voices about interest from church circles, as shown in *Box G*.

Box G

Church and Prohibition of Interest

“The rise of modern capitalism was decisively fostered by the Church's withdrawal of the prohibition of interest. Now as the interest economy has ruined the community of all human beings in an unprecedented way and the contrast between the poor and the rich has reached global dimensions, a transformation of the theologians and economists is indispensable. The tradition of the prohibition of interest has to be brought back to the consciousness of the public in order to establish a counterweight against the financial system and to search for ways and means that lead more efficiently to the realization of an interest-free economy than prohibitions which can be ignored. Today it has become observable, that international financial forces - which have mainly developed in 'Christian' surroundings - have established a practice of interest of criminal dimensions...

Economically viewed, the taking of interest is, after a certain point, the increase of money without being linked to production of goods or services. This process must lead to the collapse of any economy in the long run”.

Dietrich Schirmer, Head of the Lutheran Academy in Berlin, 1980

The Scale of Interest in the Corporate Sector

“The entrepreneur is a worker who earns his wages with the profit of the enterprise, which remains from the gains after the banks have deducted the interest payments, which the entrepreneur has to first take from the workers. Insofar, the profit of the enterprise is not an antithesis to wage-labour, but only to interest.”

*Karl Marx **

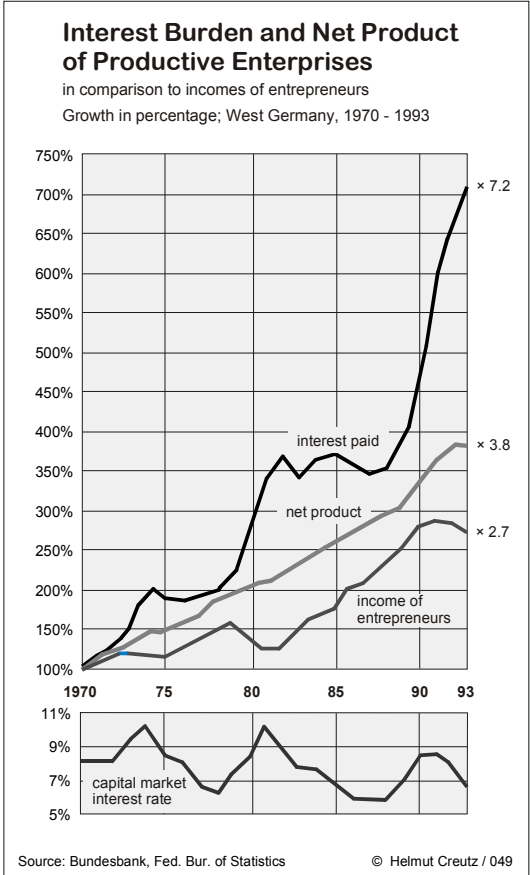
In the corporate sector, too, the interest burden has increased over-proportionally in step with indebtedness. This is true when measured not only against the output, but also in relation to tangible assets procured through credit, or credit secured by the value of tangible assets (see Chapter 15).

According to documents of the Federal Authority of Statistics, the interest burden of West German manufacturing companies for the year 1970 was 37 billion DM and amounted to eight per cent of net worth, for 1993 with an interest burden of 272 billion DM it amounted to 15 per cent. If the interest burden of 272 billion DM was allocated to the 23 million employees in the corporate sector, then in 1993 every workplace had to bear an interest burden of 12,000 DM, in 1988 – that is five years earlier and at the beginning of the high interest phase – it was just half the burden.

To what extent the gap widened between net worth and interest payments made by West German companies in the years between 1970 to 1993 (after that the West German figures were no longer reported separately) can be seen in *figure 49*.

Similarly to how the national economy is affected (*figure 47*), short-term changes of interest rates have had especially serious consequences for companies.

Figure 49



As with the growth of the GDP, net worth of companies also shows a relatively straight line course. The two other curves, namely those for the interest paid and for revenues from entrepreneurial activity, fluctuate more – and they do so inversely – because of interest rate changes. A few figures will show the extent to which the interest burden escalated due to this: In the high interest phase 1978–1982 it rose from 72 to 138 billion DM, in the phase 1988–1992, from 147 to 272 billion DM, thus almost doubling each time. Calculated per employee, it rose from 6,400 DM to 11,800 DM during the period 1988–1992. The reality of encumbered firms is difficult to discern in these average figures, since non-encumbered enterprises are also included. Thus the Deutsche Telecom had to raise an interest payment of 36,000 DM per

* “DAS KAPITAL”, Vol. III

workplace, which corresponded to two-thirds of the wage costs, at the end of the last high interest phase.

In the ensuing phases of declining interest rates, the company revenues did indeed recover each time and approached the output curve again. Due, however, to the intervening profit collapses and cost increases, which could not realistically be compensated for by price increases in largely saturated markets, postponing investments or cutbacks in the wage sector were almost the only remaining possibilities for the companies concerned. These measures, together with the interest increase resulting from increasing insolvencies, further reinforced the negative consequences of the collapse of an interest-defined competition.

How does the increase in interest rates affect the house building industry?

House building is traditionally a sector particularly encumbered with debt and is, hence, interest sensitive. Scarcely a tenement or a home is ever built without borrowed capital. The indebtedness of the housing industry in total (statistically, private mortgages have also been included) in Germany at the end of 1998 amounted to 1,925 billion DM.

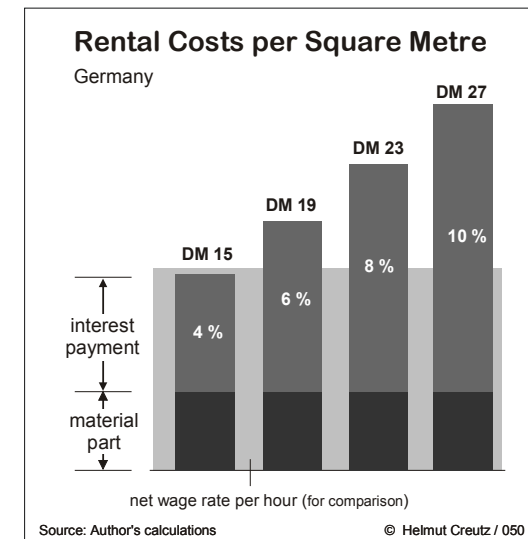
If one assumes an interest rate of six per cent, the housing sector had to bear an interest burden of 116 billion DM for external financing for the year 1998, which divided over all the 37 million apartments, gave an average of 3,100 DM p.a., that is, per month around 260 DM. In calculating the rent, this interest rate on the borrowings is normally added to that of the equity capital. Together, this results in an interest burden that is almost double the amount, which is about 500 to 700 DM per accommodation unit per month. Relative to the rental costs, an interest cost share of about 70 to 80 per cent results.

In Switzerland apartments are mortgaged to a particularly large extent. This has to do with the long-term housing credits that are common there and which are frequently not subject to regular repayment. With a population of 7.3 million, 3.5 million apartments and a total mortgage burden of 600 billion Swiss francs, every citizen is burdened with a mortgage debt amounting to 80,000 CHF and each apartment with 170,000 CHF. At an interest rate of four per cent (the Swiss rates are two percentage points below the German rates), it would be 6,800 CHF for one year and 570 CHF per month just for servicing mortgages.

Because a huge proportion of the rent is interest, changes in the interest rates in the housing industry have particularly serious consequences. A one percentage point increase in mortgage interest rates causes, according to a well-known rule of the thumb estimate, an increase in the rental costs from 10 to 14 per cent. This means that an increase, for example, in the mortgage interest rate from six to nine per cent, as was the case in Germany from 1988 to 1990, leads to an increase in the interest share of rental costs of 50 per cent for newly built houses! Such rent increases may affect even existing tenancies, namely, those for which the capital was borrowed at flexible interest rates.

The effects of changes in interest rates on the rent per square metre are shown in *figure 50*, similar to the calculations in Chapter 8, *Box H*.

Figure 50



Given the circumstances we have, we cannot avoid the existing high share of interest in rents because if one can no longer reckon with a cost-covering rent realization, the house will not be built - not even by a cooperative or unionised housing company, unless, of course, the state somehow reduces the cost by servicing the capital. The complete public housing-support, with which rents today are discounted, is there basically only to secure the interest claims of the lenders or of the building or property owners, this security being provided by the state.

What about the total interest burden?

Up to now we have dealt only with money-related interest burdens. Interest accrues not only for credit-financed goods but also for self-financed ones. When one invests in fixed assets – whether in a production unit or in a tenement – one does so only if the tangible asset procured generates at least the same interest as money does in the bank. It can even be assumed that for every investment a higher interest rate than is usual with banks is possible, as one expects at least some return for the business risk taken.

When we want to determine the total interest burden in a political economy, we have to be aware of the interest-bearing, debt-free tangible assets in addition to the magnitude of debts. Specifically, the total tangible assets invested in the economy, including land, must be taken into consideration as a basis for calculating the macro-economic interest flow. The interest on money dictates only the level of minimum interest rates which tangible assets are to be charged with. This means that the total interest burden in a political economy results from the total tangible assets profitably invested and multiplied by the prevailing interest rate, irrespective of whether they are encumbered with debts or not.

However, in contrast to money-related interest charges, there is no general, statistical data available on debt-free tangible assets. With regard to the total stock of profitably invested tangible assets, only inadequate information, at the most, can be found. Besides, only the so-called “replaceable tangible assets” are generally mentioned in statistics. About the non-replaceable ones, which includes, in particular, land and land resources, there exists almost no figures. Since, however, economically productive land is subject to interest charges, too, one largely draws on estimates about the general scale of these.

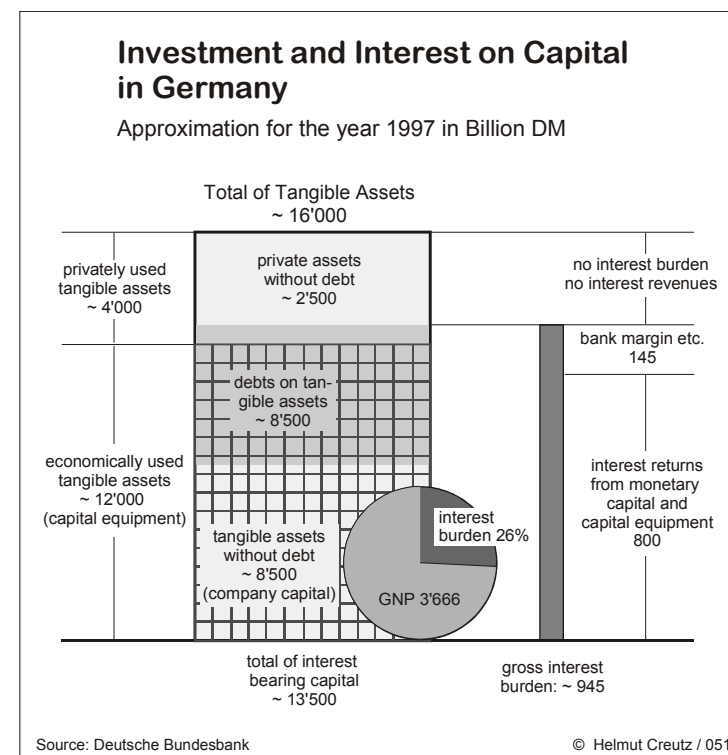
How large is the total of interest-bearing assets?

The replaceable fixed assets (buildings and equipment) in Germany were estimated to have a net replaceable value (current value!) of 10,300 billion DM at the end of 1996/beginning of 97. Together with supplies in the economy and public civil engineering, it amounts to 12,500 billion DM. If the land and economically productive resources are added to an amount of 3,500 billion DM (the current market value of real estate in the hands of private households alone in the year 1997 was given to be 2,500 billion DM by the Deutsche Bundesbank!), then the result is a sum of 16,000

billion DM for the total value of national tangible fixed assets. These figures then describe the situation for the year 1997, which is shown graphically in *figure 51*.

To make the ratios clearer, the areas in the figure are proportional to the approximate DM-figures. The dimension of the total tangible assets in Germany is shown as a rectangular block and the aggregate output as a circle. A quarter of the assets block is apportioned as privately owned share – largely as housing property – with a value of 4,000 billion DM. The remaining part of the block, which has a value of 12,000 billion DM, corresponds to the economically productive and interest-bearing tangible assets. Straddling both parts, as of 1996, the total level of debts standing at 8,500 billion DM, is shown as the grey area.

Figure 51



According to this, the total quantity upon which interest has to be calculated consists of the economically productive total debts amounting to about 8,500 billion DM (of which about 1,500 billion extends into the private sector) and the debt-free part of

the economically productive tangible assets amounting to 5,000 billion DM. According to this rough estimate, an amount of 13,500 billions was interest-bearing at the end of the year 1996.

If the calculation is based on an interest rate of seven per cent on all capital (debit interest), then a total gross interest burden of 945 billion DM is obtained, which is represented by the column to the right. After deduction of the bank margin and other similar costs, a net interest burden of 800 billion DM results, which again is identical to the interest revenues of all owners of monetary and tangible capital.

If the gross interest burden of 945 billion DM is related to the gross national product, then a total interest share of 26 per cent results.

If the interest burden of 945 billion DM is divided between all households or employees, then a total interest burden of about 25,000 DM for each is obtained for the year 1997, of which 15,000 DM was due to indebtedness, and of this, 4,000 DM is the state's.

Can the interest burden be estimated by other means?

Of course, some things in such rough calculations based on partly estimated numbers can be open to doubt. Let us try, therefore, another way to track down the reality using methods which can be checked by anyone.

In Germany, there were a good 34 million households or employees in 1997. That means, for each household, there were a flat, or a home, and one workplace. For both investments – that is house and workplace – let us assume a current value of only 180,000 DM each and the worth of the public facilities – from streets to schools, hospitals and barracks up to supply systems – 120,000 DM. Then we attain an average total investment per household of 480,000 DM. Multiplied by 34 million households, the result of the total of fixed assets will then be 16,000 billion DM. The total amount, taken from the graph, that is to be charged with interest, can be hardly overestimated.

Certainly the average interest rate levels can be argued about. Since the beginning of the eighties, official calculations in municipalities are generally based on an interest rate of 7.5 per cent. And capital equipment in the economy even strives, as is known, for a two-digit return!

The fact, too, that interest revenues of banks alone are now around 6,000 billion DM, is an indicator that the total interest charge calculated here might not be so far fetched after all.

What is the share of the interest charges in individual prices?

In relation to the aggregate national revenue, which in 1997 amounted to 2,750 billion DM, the gross interest charges of 945 billion DM corresponded to 34 per cent. If the interest burden is related to the disposable income, which amounts to 2,350 billion DM, then it was around 40 per cent. Relative to household expenditures, which amount to 2,200 billion DM, the result is 43 per cent. If one were to relate the total interest charges to the total expenses of all the households, who, as end consumers have to bear the brunt of all interest loadings, one can assume that households, directly or indirectly, bear a load of 40 Pfennig interest burden for every Mark spent.

This amount of 40 Pfennig, in relation to every Mark spent, is, of course, only an average amount. The actual share of interest charges in individual prices is – as already described in Chapter 5 – without doubt, quite different. They are influenced not only by the magnitude of the invested capital and interest burden but also by the ratio of capital costs to personnel costs, material costs as well as all other items in the calculations of each particular case, including, for instance, depreciation.

As one seldom can have a look into private calculations, the calculations of some public prices are given, as examples, as they appear in the budget of the City of Nuremberg for 1991 in *figure 52*.

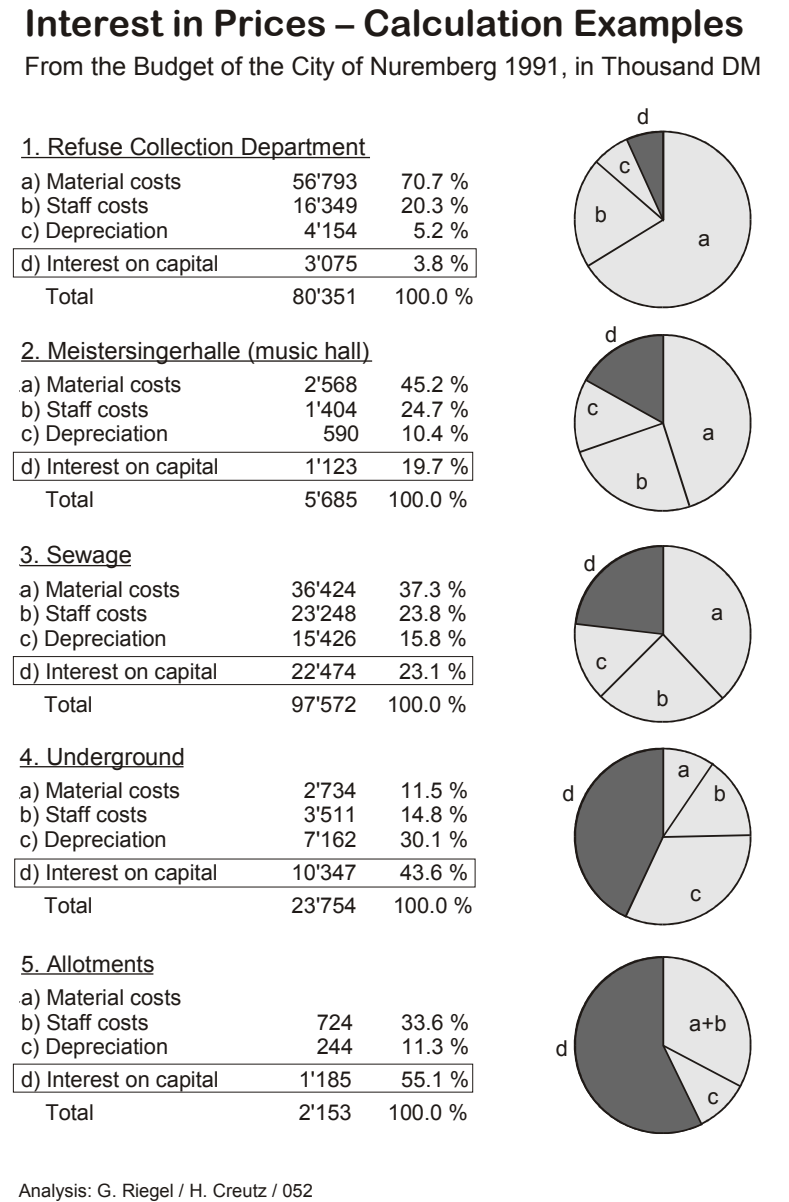
If labour costs and depreciation are particularly low, then interest charges dominate the pricing to quite a large extent – as in the calculation of the rent. If one assumes an interest rate of only 5 per cent and a depreciation rate over hundred years (as is usually assumed for residential housing), then the owner or tenant – over and above the one-off one hundred years depreciation charge – has to pay, in addition the construction costs, virtually five times over due to interest charges. Or, in other words (and this holds good for all tangible assets!), all material commodities used in a political economy are financed once again every twenty years as a result of interest charges. And that quite apart from the depreciation costs, which guarantee the asset replacement and which are included in all prices!

For example, if rents are felt to be too high, the reason would not be the unscrupulous character of the landlord (the houses owned by the trade union 'Neue Heimat'

were not any cheaper, either!), but the fact that all tangible assets in our economic system have to be serviced with interest payments throughout their lifetime.

Attention is drawn to the fact that in all the calculation examples up to this point, the total interest cost that is included in them has not been considered, but only those costs that have entered the final level of the calculation. The material costs entering the calculations consist, once again – see *figure 19* – of labour costs and capital costs to varying extents, which in turn are formed at the respective previous level. In contrast to value added tax, the amounts of which that have been charged in each succeeding step can be identified, this is not the case with hidden interest charges. There is only a constantly increasing accumulation.

Figure 52



Money and Justice – the Social Issue

“There are unfair structures that have come into existence, not due to evil intentions but due to lack of knowledge about facts and circumstances. Such an unjust structure is present in our conventional monetary system. Our conventional money is afflicted with a system failure, which impairs the free market economy by giving privileges to the possessor of money to a very high degree compared to all the other market participants.”

Peter Knauer SJ *

When are incomes unjust?

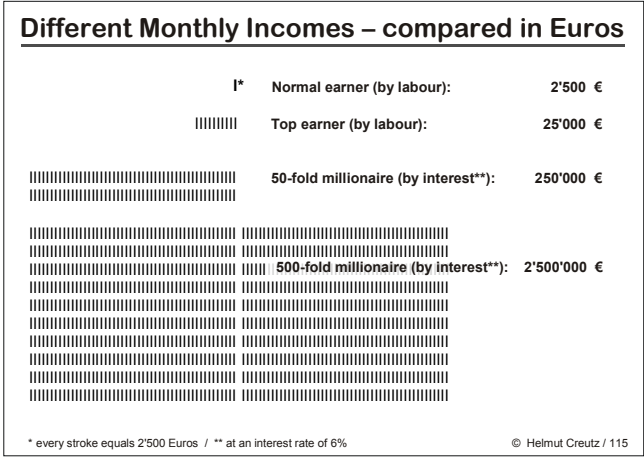
The term unjust income usually brings to mind the shop owner who earns ten times more than the salesgirl or a rock star who receives 20,000 Dollars or Euros for an evening performance. But as long as no one forces me to visit a particular shop or a particular show, these high earnings do not bother me. But it would bother me if the shop owner or the rock star were putting a large part of their earnings into a bank account, because these savings would, without any additional effort, double in ten years and multiply several times in twenty years. During this process of multiplication, even I would be expected to pay for their effortless earnings, even though I have never ever visited the shop or attended any of the rock star's shows!

Incomes that one receives without any effort are much more unjust than those that are effort-related, even when the latter are often completely over the top. This is particularly so when the effortless income far exceeds the effort-related one.

While ten times or a hundred times a quantity is still imaginable, a thousand times or a million times a quantity goes beyond imagination. Such differences are shown in figure 115 for a better visual comprehension.

* Ethics theologian in “Gerechtes Geld – gerechte Welt” (Fair Money – Fair World), 1991

Figure 115



If we assume that the income of a normal earner per working day amounts to 100 Dollars or Euros and that of a top-level earner to 1000 Dollars, these 1000 Dollars per day would be acquired, at an interest rate of six per cent, by a five-fold millionaire without doing a stroke of work. A 50-fold millionaire collects this sum every 2½ hours and a 500-fold millionaire every 14 minutes, equivalent to 100,000 Dollars in 24 hours. Every 90 seconds, about 1000 Dollars falls into the lap of a five-fold Dollar billionaire, which adds up to one million Dollars during the course of a day and night!

What kind of injustice arises from inflation?

Inflation causes a loss in the purchasing power of money. For example, this loss in purchasing power was almost 80 per cent in Germany during the second half of the last century. This means that the DM of 1950 was worth barely 20 Pfennig in the year 2000. If one looks at the long-term average, about three per cent of the purchasing power was lost every year.

In general it is assumed, that the consequences of such an inflation of three per cent would be compensated for by an increase in wages and salaries to the same rate. But this is true only as long as the inflationary adjustment only affects prices and earnings. If however, not only income earners but also the holders of deposits attempt to

compensate their inflation related losses, then this gives rise to problematic effects, because these monetary assets meanwhile exceed performance related amounts many times. Thus, for example, the total monetary assets amounting to 6,285 billion Euros in 2000 were 3.1 times the gross national product, 4.2 times the aggregate income, and seven times gross wages and salaries of 886 billion Euros. If the deposit holders claim a higher interest to compensate for inflation, say, by three per cent from 6 to 9 per cent, then the increase will amount to 189 billion Euros calculated on 6,285 billion Euros, whereas a three per cent increase of gross wages and salaries in compensation for inflation would result in an increase of only 27 billion Euros. This means that with a wage increase of three per cent, the inflation-dependent prices may be offset, but not the inflation dependent increase of the interest charges. Besides, these inevitably affect prices – though with a time delay – or they have to be met with cuts in wages and/or other earned incomes.

The interest yields and charges would develop *in step* with the general three per cent income adjustment only when they were calculated with three per cent based on the *interest sum*. This means that an interest recipient who has monetary assets worth a million Euros and who, at a six per cent interest rate, receives proceeds of 60,000 Euros could then claim 61,800 Euros instead of the previous 60,000 Euros, just as a worker with an annual wage of 60,000 Euros gets an increase of only 1,800 Euros to 61,800 as inflation compensation. But the possessor of the monetary assets applies his increased demands of three per cent on his asset worth one million Euros, and claims now 90,000 Euros instead of the 60,000 Euros to date, which corresponds to an increase of his revenues by 50 per cent!

From the point of view of the savers who want to offset the loss of the purchasing power of their deposits, this might appear correct and just. But it is also just to ask the question why savers expect the general public to safeguard their assets at its expense and be a loser in the game since the bulk of the interest charges are passed on to the end consumer through prices. In this way, all citizens are called upon to carry the load, even those who have little or no savings of their own.

This has particularly serious consequences for house rents, which increase by 10 to 14 per cent at each increase of the interest rate of one percentage point. This increase in rents is even regulated by law in Switzerland: for an increase of the mortgage interest by 0.5 per cent, rents are increased by seven per cent.

To what sort of injustices does interest lead?

Here it has to be noted again that – contrary to widespread belief – even those who have not taken credit have to pay interest. The majority of borrowers, particularly enterprises and the state, calculate their interest costs into prices or taxes and collect them from consumers and taxpayers. This means with every Euro spent, everybody pays interest continuously, mostly without being conscious of it. On the other hand, almost all households receive interest, as most of them possess some savings.

If both interest flows in each household were balanced out, then there would be no problem regarding justice. In reality, however, cases where interest payments equal interest revenues are very rare. This asymmetry of the interest that is to be paid and is to be received is the cause of the redistribution that is associated with it. As the total income eventually originates from labour, all interest flows are always a matter of redistribution of income from work to property.

The periodical “Wirtschaftsspiegel”, published by a German savings bank, confirmed the fact in an editorial of the issue on the occasion of the World Savings Day in 1989, as follows:

“Interest has a beautiful and an ugly side. It is beautiful to see one’s deposits multiply without having to do anything. The interest burdens for bank credits, however, are a source of constant displeasure. In the worst of cases, it means economic ruin.”

And further in the text:

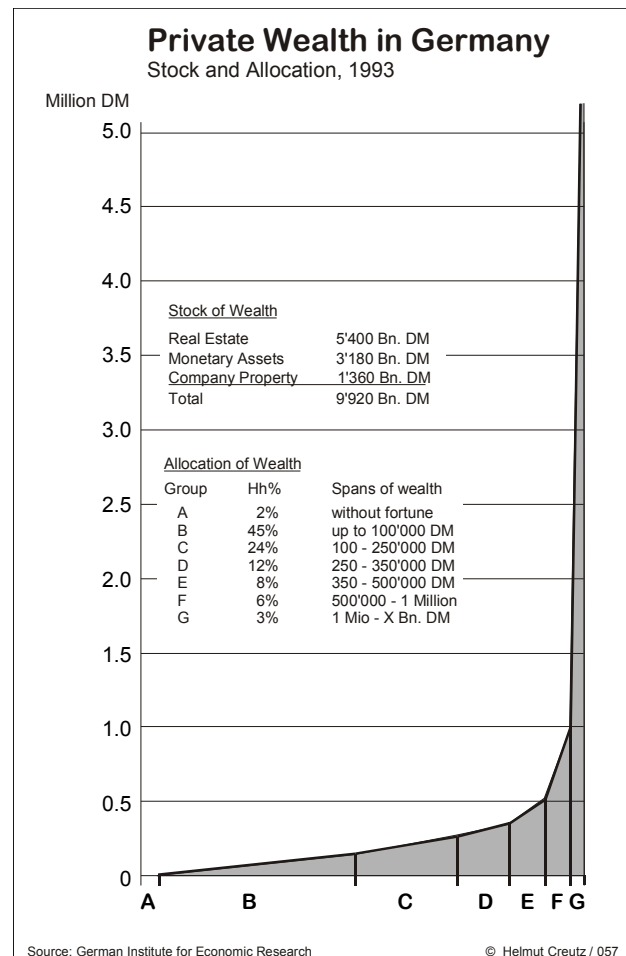
“Indeed, any person capable of contracting business can have the ‘pleasure’ of both sides, but in a full review of paying interest and receiving interest, it can be seen that happiness and sorrow are asymmetrically distributed. The reason is the unequal asset distribution.”

This unequal asset distribution has the effect that all citizens have to pay interest in all their expenditures and duties but the level of interest yields that flows back to them depends on the quantity of their assets.

As shown in Chapter 18, the rule of thumb is that an average of 40 per cent of all expenditures flow into the interest redistribution pot. For an annual household expenditure of 30,000 Euros, this amounts to 12,000 Euros. This interest charge is balanced only if it has interest revenues of 12,000 Euros, but this would require an interest-bearing asset of 240,000 Euros at an interest rate of five per cent, i.e. an asset that is eight to ten times the annual expenditure. In every case, the relationship

between interest bearing assets and annual expenditure determines whether the household belongs to the winners or to the losers in the interest monopoly game.

Figure 57



The suggestion arises that about half of the households would win in this game and the other half would lose. This would also be the case if the distribution of assets, like expenditures, increased in a linear or in the same progressive fashion. This, however, is not the case. Both quantities do indeed increase with acceleration, but the increase in assets is clearly steeper than that of income and expenditure. As a res-

ult, the point of intersection of the redistribution shifts towards the larger assets. This means that the number of losing households is considerably larger than that of winners.

How are assets distributed?

As an example of the distribution of assets amongst private households, the situation in Germany is taken as a reference.

To this end, figures published by the German Institute of Economic Research (DIW), Berlin, 4/96, have been used in *figure 57*. From the tables included in the graph, the composition of distributed wealth over seven household groups is detailed.

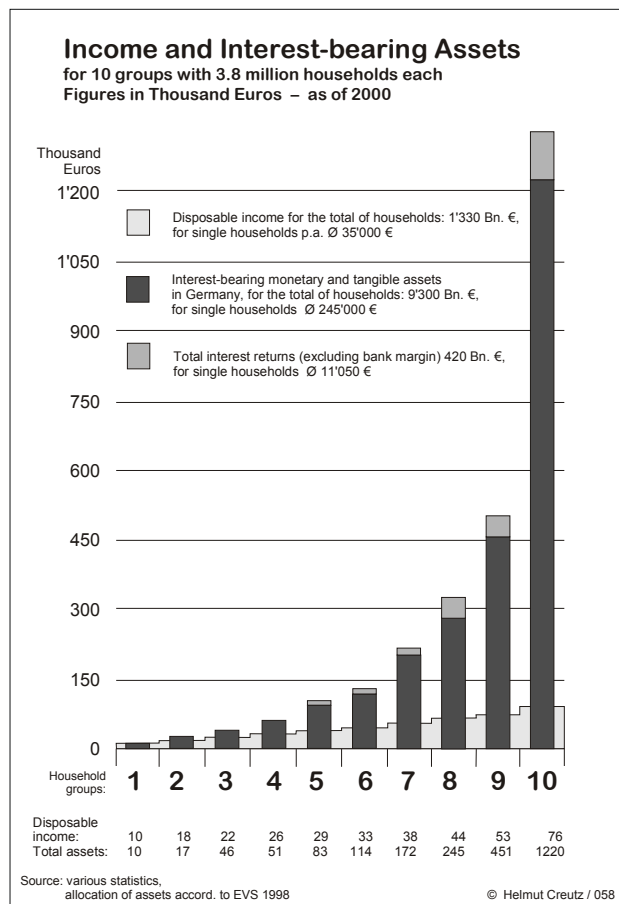
The numbers in the tables, and especially their graphical representation, make clear the differences in the asset distribution within households. In so doing, however, the assets of the richest household group G, could only be represented in a very limited way because if a height of 2 mm is set (about the size of printed letters in this book) as basic unit for group B (average 50,000 DM), then assets of five billion would correspond to almost the length of a page of this book. In order to represent assets of 5 billion, about 1,000 books would have to be stacked vertically on top of each other!

How can the extent of interest flows be determined?

The interest flow has been calculated as shown in *figure 58*, on the basis of the distribution of private assets and of disposable income of ten household groups of the same size by drawing on various statistical references.

The black columns in the figure represent the interest yielding assets of the households, the lighter ones in the foreground, the disposable incomes. The numbers given there are the average values for each individual household of the particular group in thousand Euros.

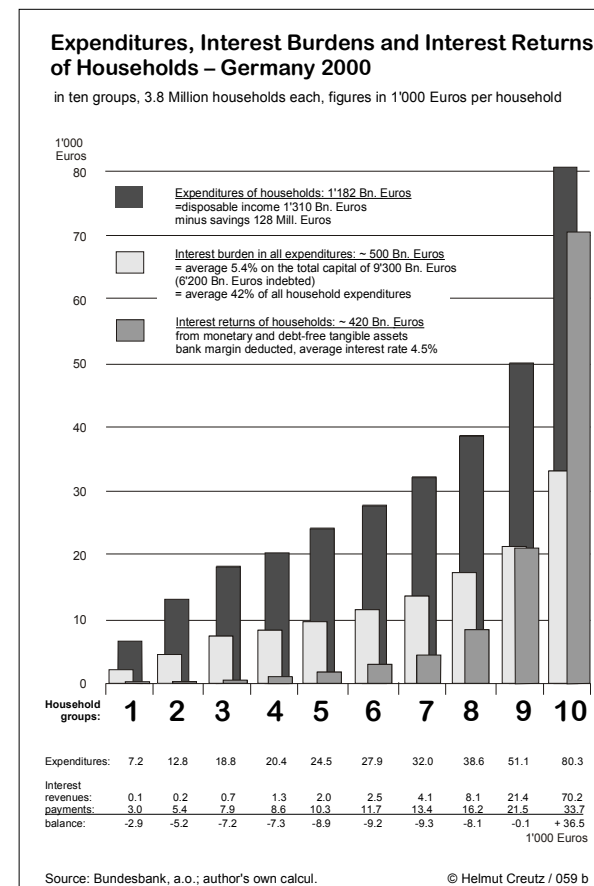
Figures 58



In order to estimate the expenditures of the households on which the interest burden depends, the respective savings have to be subtracted from the income columns, which in a long-term average are about 10 per cent. However, it must be considered that in the lower income groups the savings are small and that these increase over-proportionally with income. Similarly, the interest revenues placed on top of the asset columns are the larger the higher the assets are.

If the interest revenues of the ten groups are depicted graphically in an enlarged scale and put face to face with the interest charges in expenditures, then we can see the distribution picture as given in *figure 59*.

Figure 59

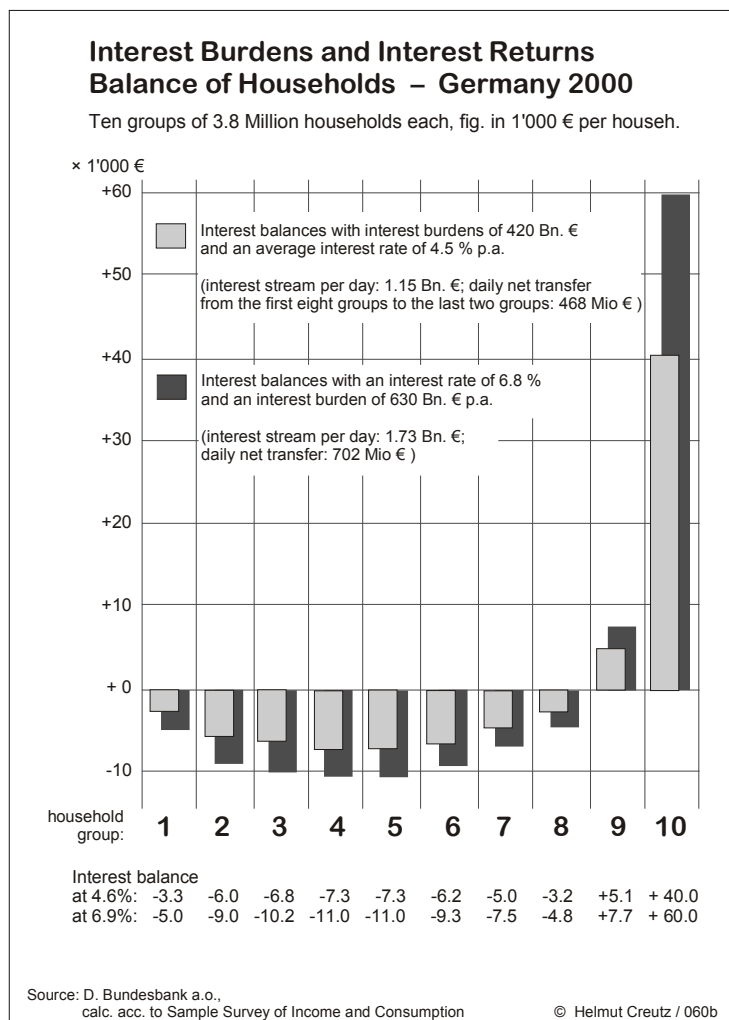


As can be seen clearly, the share of the interest burden is significantly greater than the interest revenues in the first eight household groups. In the ninth group, they more or less balance out while in the tenth group the share is inverted. Interest revenues clearly surpass interest burdens. The resulting positive balance corresponds to the total negative balance of the first eight groups. This means that the disadvantage of the interest transfer for the majority of the households accumulates with the minority as a gain of the same value! – What effect these transfers have can be seen in the balances given in thousands of Euros for each household group.

What is the result of balancing?

The effects of this interest-defined redistribution become even more evident if the positive and negative balance results are spread out again on a larger scale – as in figure 60.

Figure 60



If the situation in the individual groups is compared, then it is clear that, in absolute figures, the household groups 4-6 had to accept the largest negative balances. Regarded relatively, that is, measured as a ratio to earnings, the poorest household groups 1 and 2, however, turn out to be the biggest losers, because the interest burdens are opposed to almost no corresponding interest revenues.

Alongside the (dark) columns, which correspond to an assumed average interest rate of 4.5 per cent, the (light) columns corresponding to an average interest rate of 6.8 per cent are also given. They show to what extent the losses as well as the profits increased with increasing interest rates. Specifically, to what extent the interest dependent redistribution increases from the poorer majority to the richer minority of households and what social explosion is associated with high interest phases.

The former Chancellor of Germany, Willy Brandt once talked, and not without justification, in the 1980s about the “murderous high interest rates”, without taking into consideration, though, that even the normal interest rates “murder”, only more slowly!

The comparison of different interest rates in the graph reveals the positive effects of interest rate reductions. Thus a halving of the normal mortgage interest rate would lead to a medium term decline in the rentals of new constructions by about one third. And at interest rates around zero, only the bank margin would have to be considered as an interest share in rents.

The former mayor of Munich, Georg Kronawitter, (Social Democrat), once commented on the income shifts associated with interest transfers in the 1990s:

“Within a span of ten years, a huge shift of assets and fortune was brought about in the Federal Republic of Germany, which destroyed all social balance. I am certain that the distribution battle will become more acute and there will be less to distribute.”

The redistribution did not just start ten years before this quotation; it only started to become more conspicuous.

Chapter 22

The Consequences of Interest-Based Income Redistribution

“The fact that a fifth of the people get richer all the time and four-fifths get poorer is clearly due to our type of economy and especially due to our monetary system. I think, that something must be changed in this monetary system in order to achieve some sort of balance in the world.”

Michael Ende *

The background to the ‘new poverty’

At the end of the eighties, the former trade union leader, Ernst Breit, spoke about the fact that an increasingly humiliating poverty stood face to face with an increasingly shameless opulence. Not long after that, one could read in a South German newspaper, that “poverty in the rich republic is growing” and, at the same time, the number of millionaires is too. In Germany this new development was termed ‘new poverty’ and in Switzerland, the ‘working poor’, in order to underline that this poverty does not affect only the unemployed. Even in parliament there were debates on this topic and the so-called ‘poverty reports’ were presented. To date very little attention has been paid to the other side of the coin, namely, the development of wealth, the increase in which is, after all, the reason for the increase in poverty, even if at first it appears contradictory.

Can there be poverty without wealth?

Wealth is without doubt a relative term. Eighty per cent of the inhabitants of the earth would, for example, rate a recipient of welfare aid in the industrial nations as rich and envy his affluence. From the view of a manager in rich countries, however,

he is poor. It is therefore meaningful to analyse rich and poor in the context of national conditions. The basis of such analyses could, no doubt, be the distribution of wealth, but due to lack of sufficient documentation, it is easier to have a look at the earnings from which assets are built.

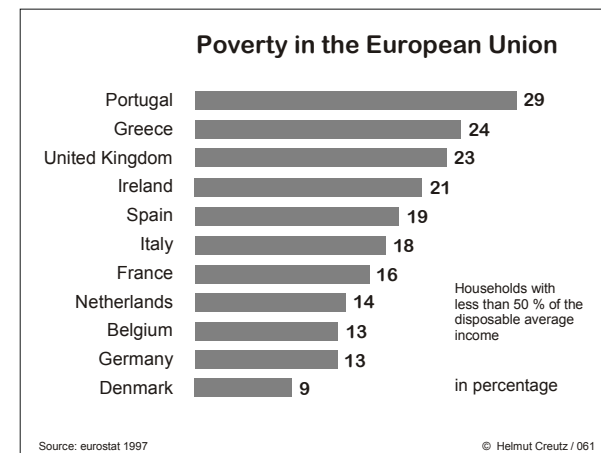
In order to create a uniform basis for a comparison across countries, an approximate framework has been agreed upon. In the social sciences, poverty is defined as households with incomes below 50 per cent of the national average, and wealth is defined as incomes that exceed double the average. This means, income differences in the middle region can diverge up to a ratio of 1:4. Only below or above these income levels is the agreed upon classifications of poor or rich valid.

Of course, such boundary delineations can be argued about. Nevertheless they allow and facilitate comparison between the past and the future within a country, as also the comparison of differently developed countries or regions. But above all – and with this we touch the crucial point – with the help of these delimitations the mutual dependence of poverty and wealth is demonstrable and that is particularly true for their increasing polarization.

How does poverty vary in Europe?

If the above poverty standard of 50 per cent of the average income is applied to the majority of the EU-nations, the percentage share obtained is illustrated in *figure 61*.

Figure 61



* Author, quote taken from a brochure of the “Munich Folk Theatre”.

As can be seen, the differences shown are considerable. In Portugal, Greece and Great Britain, there are two to three times more poor households than in Denmark, Germany or Belgium. Even if the high level of poverty in Great Britain is somewhat disturbing, the conditions in the South European nations might too easily be taken as confirmation of familiar prejudices. But this interpretation would be correct only if the European average had been taken for rating the poverty in those countries. The poverty levels shown in the figure, however, are based on the internal average of the country under consideration. Thus, they represent the relative poverty within the borders. These could only become greater in each case, if the wealth, and with it the discrepancy, between the two categories increases.

How does the inter-relationship between the poor and the rich come about?

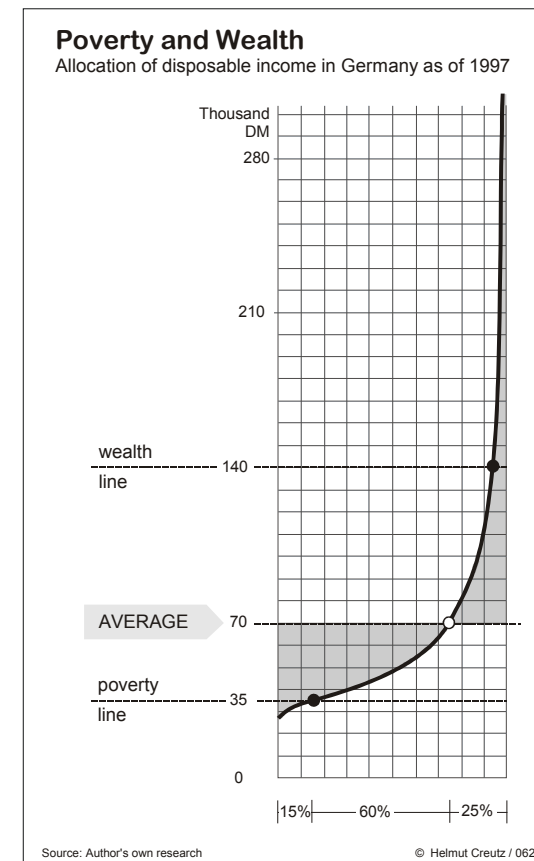
As already stated, the so-called disposable income of households is taken as the basis for the determination of this relationship. This income factor results from the net earnings from work and assets as well as transfers from the state to households. In Germany the disposable income was 2,470 billion DM in 1999. Distributed amongst approximately 36 million households or employees, the annual average income would be 70,000 DM, and per month therefore 6,000 DM.

Starting from this average figure of 70.000 DM, the position of the poverty line, fixed at half its amount, is at 35,000 DM. The wealth line's position, fixed at double the amount, is at 140,000 DM. Households that lie beyond these lines, either below or above are therefore statistically rated as poor or as rich respectively.

On account of the fluctuation of incomes around the average value, one could at first assume that one half lies below and one half lies above this average. As in the case of the pivot of a seesaw, one side of the beam would go down to the same extent as the other side goes up. As the sum of all the incomes above average should always tally the sum of all the incomes below average, the pivot's position can be off-centre. If the distribution is to reach not only the poverty line but also the wealth line (at twice the distance), the pivot has to be shifted towards the right of centre.

Starting from a few specifications (about 25 per cent of the income are above average, 5 per cent above the wealth line and about 15 per cent below the poverty line), this results in an allocation picture as in *figure 62*.

Figure 62



The shaded areas show that the income shares above average on the right side must be of the same size as that below the average to the left side. And the more the incomes shoot up on the right side, the more the incomes fall on the left side below the poverty line. Increasing poverty in a country is therefore always a sign of disproportionately growing riches!

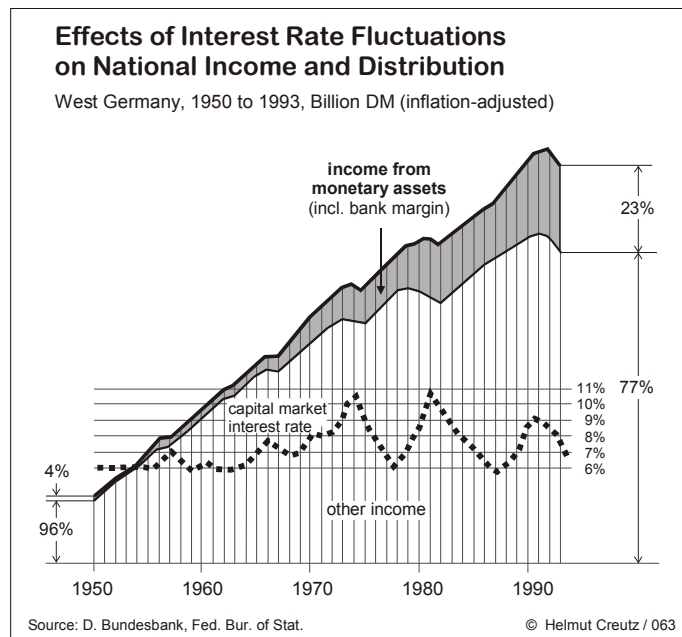
That the poverty level is high in countries like Portugal or Great Britain, is not evidence of a general lower standard of living. There too, the average income might correspond to the one in Germany. The higher poverty ratio is only evidence that wealth is subject to wider extremes of distribution, that is to say that the discrepancies between the rich and the poor are wider than in countries with lower poverty ratios.

An increase in economic output would lead to a decrease in poverty levels in the relevant countries only if the rich reduced their claim on the growth of aggregate output. Since developments in reality proceed in the opposite direction, as a result of the excessive growth of monetary assets and the ensuing interest claims, the origin and the increase of 'new poverty' or the 'working poor', even with a growing economy, can be explained.

When did the discrepancy set in?

How new poverty emerged in Germany, quietly, so to speak, follows directly from the figures in Chapter 21. The long-term developments can be seen in *figure 63*, where the shifts of income components within the disposable income in West Germany are shown.

Figure 63



According to this, incomes from monetary assets, including the bank margin that is borne by the general public, increased from four per cent of the national income in 1950 to 23 per cent in 1993. The remaining incomes, in which, besides the incomes

of employees and entrepreneurs, the interest charges of tangible assets are also included, correspondingly declined from 96 to 77 per cent. In view of the real fivefold increase of the aggregate national income and its linear increase, the shift in the two income groups is hardly visible. But it becomes apparent if one places a scale on the demarcation line between the two and recognizes the upward trend of the curves.

The apparent indentations can be explained with the inserted interest curve. They result from economic slumps following the high interest phases. These initially lead either to a relative or increasingly to an even absolute decline in wages.

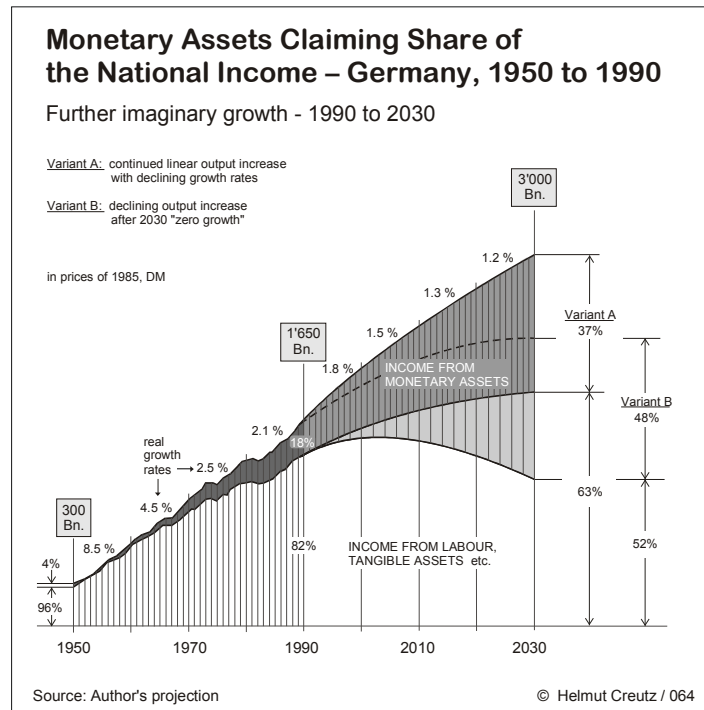
What are the consequences of a further widening of the poverty-wealth gap?

The mayor of the city of Hamburg, Ortwin Runde, complained in his time as a social senator, that in his city-state, two sectors of the population would grow the fastest, namely the recipients of social welfare and the millionaires. He further concluded from it that – if there was no change to this trend – “disputes like those in Latin America” would threaten us. This scenario may perhaps look somewhat far fetched and all forecasts for the future are always questionable. However, one could attempt to extend the previous development into the next decade according to the motto: what might happen, if...

Of course, such predictions are in the end speculative. This is not only true for insider prophecies but also for the annual forecasts of the highly renowned ‘five wise men’ who advise the government in matters of the economy. Their bulky annual expert surveys are regularly handed over to the Chancellor with a lot of publicity, but according to a “Bon (n) mot”, no one in Bonn seems to have read them not least because these forecasts have rarely been found to come true.

If forecasts about something concrete are intended, these are possible at best through a projection of developments that are well documented over a long time and also by considering effects due to money, as for example, through an extension of the real development in our national income and the interest burden of the past. In *figure 64* that follows, the *figure 63* is shown again in smaller scale and – in line with the experience of West Germany from 1950 to 1990 – projected 40 years into the future. In so doing, two variants A and B had been assumed.

Figure 64



In variant A, a further continuation of the linear increase in the national economic output is assumed. That means, an increase of real output is added to the national aggregate every year. While an average rate of growth of 8.5 per cent was necessary in the 1950s – as can be seen from the growth rates mentioned – a rate of 2.1 per cent in the eighties and of 1.8 per cent in the nineties, was sufficient. In the first decade of our new millennium, a growth rate of 1.5 per cent would be enough to maintain the same pace of growth. This means that a growth rate of 1.5 per cent in the present quantitatively equals an output increase of 8.5 per cent in the fifties!

It is further assumed that monetary assets (and with them also money related interest transfers) continue to develop as previously. Since the monetary assets in the previous ten years grew in real terms by an average of 4.7 to 4.3 per cent, the rate for the next forty years is assumed to decline from 4 to 3 per cent.

As can be seen from the figure, the incomes of workers would continue to grow till the year 2030 under these conditions, but in comparison with the growth of the increase in money related interest revenues, they would decline. Whereas in 1950 the

distribution ratio between monetary capital and income from work and tangible assets etc., was still 4:96 and in 1990 was 18:82, it would change to 37:63 by the year 2030. As can be seen from the distribution curve, this would have reached its peak in a few years after 2030, and would thereafter turn negative, so that from then onwards, the bulk of the remaining incomes would decline not only in relative terms but also in absolute terms. However, this variant A, which presupposes a continuing and constant increase of our GDP, is hardly realistic. A repeated doubling of the economic output over the next 40 years is just absurd in view of the existing damage to the environment and of the already achieved levels of prosperity. Still more unrealistic would be the attempt to maintain the 1990 distribution ratio of 18:82 into the future. That would require a growth that would stay in step with the growth of monetary assets, that is to say, a present real three to four per cent p.a. increase, which, in turn, would mean a real growth that is four times the level of 1990 by the year 2030.

Taking the environmental factor into consideration, the variant B, as an alternative, assumes a slowing down in economic output and its stabilization by the year 2030. Since monetary assets, even in an economy that is no longer growing, continue to increase due to the effect of interest and thus also their claims on the national economy, the distribution curve between the incomes derived from monetary assets and the remaining incomes would start to reverse in our decade. That means that we could anticipate, in ten to twenty years, redistribution processes, which could indeed be similar to those of Latin America.

These scenarios are not utopian, as can be seen in the developments in the USA and Great Britain, where the incomes of employees in the lower third have already clearly fallen back. In Germany this process of impoverishment has concentrated more in the unemployed sector. But even for those who still have work, increasing reductions in wages become the order of the day.

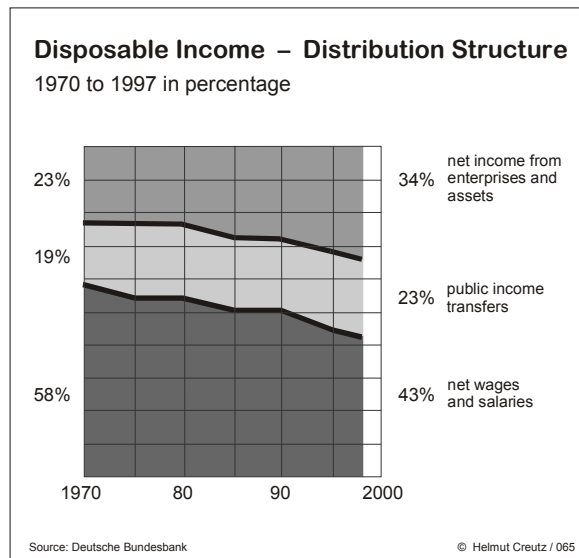
Does any other corroborative evidence about these discrepancies exist?

Looking again at statistical figures, we can observe an increase in the economic output in Germany by a factor of 1.6 in real terms and by a factor of 3.6 in nominal terms between 1970 and 1990. One should assume that everybody has contributed equally to this increase in wealth. But the employees have been left out. Their nominal gross income increased certainly by a factor of three, but the net amount – the money they take home – increased by a factor of only 2.7. That means that in comparison to the general increase in wealth, a tenth is missing from their pay packet. On

the other hand, the interest poured out by banks to creditors increased 7.3 times, i.e. double the growth rate of the GDP. The social welfare statistics are no less informative. Here, the number of welfare receiving households grew 2.5 times between 1970 and 1990, the expenditure even by a factor of 9.5.

This trend of the shift in incomes at the expense of workers becomes all the more obvious when the disposable incomes in Germany are broken down into their constituent parts, as was done in *figure 65*.

Figure 65



As can be seen from the figure, the shares of net incomes from entrepreneurial activity and from assets went up by half, while the shares from net wages and salaries declined by a quarter. The public transfers, however, remained relatively constant until 1990, only to increase until 2000, particularly because of increasing unemployment and family support.

The shift between the two income components referred to earlier is all the more serious as the number of self-employed workers clearly went down and that of employees went up in the time period considered. That means that a conversion per capita would exacerbate the redistribution to the disadvantage of workers.

Exponentially diverging developments have the tendency to accelerate. This becomes all the more obvious the longer an economic period lasts. Anyone who wants

to know about our future situation needs only to look around for political economies in which development was not interrupted by a new beginning after a previous collapse by war. That is the case, for example, in the United Kingdom and the USA.

Referring to newspaper articles about the situation in the United Kingdom in the last ten years, the real incomes of one third of households went down despite clear economic growth. In the USA, the downturn in incomes has even reached the middle class. According to a report of the German weekly “Die Zeit” dated Nov. 26, 1998, in the richest country in the world, 14.4 million people have to manage with an annual income of 5,000 to 8,000 Dollars and the top fifth of income earners get eleven times as much as the bottom fifth of earners whilst in 1969 this was still only 7.5 times.

In Germany the difference is already 1:6 and shows an increasing trend. 2.6 million families are caught in a debt trap and in Berlin there were already 10,000 homeless people and ten soup kitchens – developments that were unimaginable 20 years before. The discrepancy between the poor and the rich is increasing, not only between the nations of North and South, but also within the rich industrial nations.