

Ethics I: Context for arguments about tax justice

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1 Preparing the ground

This research is about the question, how far tax justice can contribute to a reduction of poverty, inequality and governmental dependence from external financing (Tax Justice & Poverty, 2013a).

1.1 *Trust what you see*

Given the complexity of this research it is impossible to have a commonly accepted starting point and discussion framework. As has been demonstrated in I/II# and I/IV#: In such areas, statistics can prove and disprove anything and everything. For example regarding the question whether the poverty and inequality is “objectively” increasing or decreasing, and, related to that, whether the situation gives rise to alarm or not.

The easiest explanation for the motivation behind this study and (eventually) positions taken is personal observations, experience and memory: I know that, when I was young, there were no refugees in Germany and I know that when I studied philosophy in Munich in 1982 there were hardly any homeless people or beggars. Now we have both, and we have too many. This is why I think inequality and poverty is on the increase over the years and needs to be fought better than it is obviously, apparently, eye-strikingly done. At the same time: The number of wealthy persons and the amount of wealth is rising, here all statistics agree and I can accept that even though I do not know too many personally. On the other hand: how did they get that wealth? By hard work, inheritance, exploitation, crime? Questions worthwhile asking.

1.2 *The Anglo-Saxon and European Model*

There are differences in the development of states and administrations emerging within the Anglo-Saxon (protestant) tradition, which is very much focused on the individual and their "pursuit of happiness" within the framework of a free (and strong) marketplace, and the central European (Catholic) tradition with an emphasis on community, common good, social partnership and state regulation. Accordingly, there are differences in how they handle the area of private initiative and state regulation. The difference is apparent when one looks at the taxes and Social Security Contributions in percent of the GNI and compares the dues of the USA with European states, which is the way it is because of different approaches to social security:

While in Europe, the Welfare State is financed by mandatory social security contributions or taxes, the Anglo-Saxon approach advances private options, for example

capitalized insurances against risks of health and ageing, because they assert that the European system implies the risk of keeping people in dependency, away from private responsibility. Yet another approach is taken by Nordic countries whose social security system is largely financed with tax revenue. Interesting is the share of taxes and/or social security contributions in relationship to GNI

Graphic 1 Share of taxes and/or social security contributions in relationship to GNI

Country	Taxes and Social Security Contributions in percent of the GNI								
	1970	1980	1990	2000	2005	2008	2009	2010	2011
Deutschland^{1,2}	31.5	36.4	34.8	37.5	35.0	36.5	37.3	36.1	37.1
Belgien	33.8	41.2	41.9	44.7	44.5	43.9	43.1	43.5	44.0
Dänemark	38.4	43.0	46.5	49.4	50.8	47.8	47.7	47.6	48.1
Finnland	31.6	35.8	43.7	47.2	43.9	42.9	42.8	42.5	43.4
Frankreich	34.2	40.2	42.0	44.4	44.1	43.5	42.5	42.9	44.2
Griechenland	20.2	21.8	26.4	34.3	32.1	32.1	30.4	30.9	31.2
Irland	28.2	30.7	32.8	31.0	30.1	29.1	27.7	27.6	28.2
Italien	25.7	29.7	37.6	42.0	40.6	43.0	43.0	42.9	42.9
Japan	19.2	24.8	28.6	26.6	27.3	28.5	27.0	27.6	-
Kanada	30.9	31.0	35.9	35.6	33.2	32.3	32.1	31.0	31.0
Luxemburg	23.5	35.7	35.7	39.1	37.6	35.5	37.7	37.1	37.1
Niederlande	35.6	42.9	42.9	39.6	38.4	39.3	38.2	38.7	-
Norwegen	34.5	42.4	41.0	42.6	43.2	42.1	42.4	42.9	43.2
Österreich	33.9	39.0	39.7	43.0	42.1	42.8	42.5	42.0	42.1
Polen	-	-	-	32.8	33.0	34.2	31.7	31.7	-
Portugal	17.8	22.2	26.8	30.9	31.1	32.5	30.7	31.3	-
Schweden	37.8	46.4	52.3	51.4	48.9	46.4	46.6	45.5	44.5
Schweiz	19.2	24.6	24.9	29.3	28.1	28.1	28.7	28.1	28.5
Slowakei	-	-	-	34.1	31.5	29.5	29.1	28.3	28.8
Slowenien	-	-	-	37.3	38.6	37.1	37.1	37.5	36.8
Spanien	15.9	22.6	32.5	34.3	36.0	33.1	30.9	32.3	31.6
Tschechien	-	-	-	34.0	36.1	35.0	33.9	34.2	35.3
Ungarn	-	-	-	39.3	37.3	40.1	39.9	37.9	35.7
Vereinigtes Königreich	36.7	34.8	35.5	36.4	35.4	35.8	34.2	34.9	35.5
USA	27.0	26.4	27.4	29.5	27.1	26.3	24.2	24.8	25.1

In some cases the difference is striking, e.g. when comparing the USA and Denmark, in other cases it is not as striking when, e.g. comparing the UK with EU states. But here as in the case of taxation systems only: It is difficult to compare different traditions and cultures since they follow very different approaches. For example, while tax revenue is lower in the Anglo-Saxon tradition is more developed than the Europeans when it comes to the willingness to give donation or establish charitable foundations.

Interesting enough, there are also common features, as an OECD Insights-Publication illustrates:

Most – but not all – transfers are made through welfare systems, the roots of which can be traced back to Otto von Bismarck, the 19th century Prussian statesman. In a speech in 1884, he outlined his vision of state support: “Give the working man the right to work as long as he

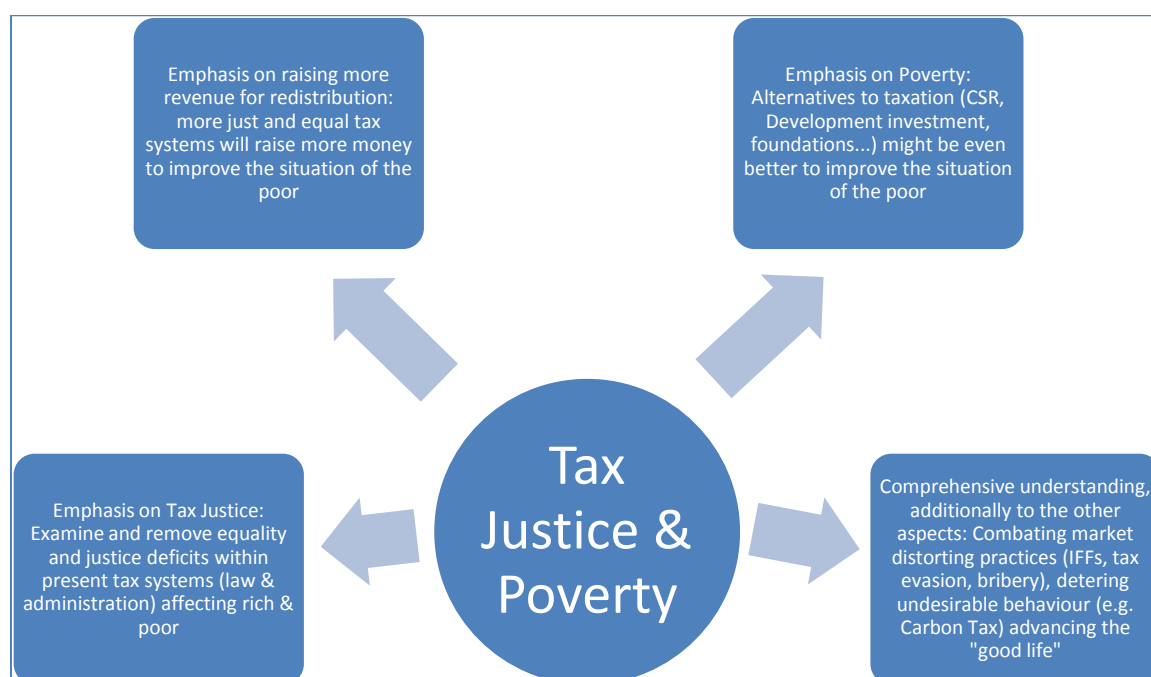
is healthy; assure him care when he is sick; assure him maintenance when he is old.” The Iron Chancellor was not acting solely out of benevolence. In that same speech, Bismarck made it clear that he was mainly interested in curbing the appeal of socialism. Today’s welfare systems have a broader scope than in Bismarck’s day, thanks in part to the influence of the “Beveridge Plan”, a programme designed by Lord Beveridge in the United Kingdom in 1942 that led to the creation of the first unified social security system. These days, they can be said to have the following broad objectives:

- Smoothing out people’s incomes across their lives: Welfare systems often provide people with pensions, funded – at least in part – by the taxes or social contributions they paid during their working lives.
- Helping people cope with the unexpected: Welfare systems provide support to people during crises such as job loss or sickness and disability.
- Limiting the impact of poverty or reducing income inequality: Welfare systems use a mix of two main approaches: Means-tested (bedarfsorientiert) support to people on very low incomes and universal benefits, regardless of family income, such as child support. (Keely, 2015, p. 98f.)

The previous points rather to difference in means, but not to differences in ends: Was it the avoidance of socialism for Bismarck, securing human rights, basic standards and the avoidance of social unrest are more likely desirable ends among policy makers in Europe and across the Atlantic. Heavily contested are, however, the means to be applied to achieve these ends.

1.3 Tax Justice & Poverty

The Tax Justice & Poverty research tries to see, how by a fairer taxation poverty can be relieved, i.e. the priority goal is not tax justice as such, but its contribution to poverty reduction. Since the causes of poverty are complex, this also applies to any solutions, which is also reflected in this project. By its very formulation the project title implies four tensions in the link between poverty and tax justice, enabling four research perspectives and emphases to resolve them, all benefitting the poor to a larger or smaller extent:



Obviously, all four avenues are legitimate, possible and important:

- There is unequal treatment of the wealthy and poor, resulting in a higher burden for the poor.
- There is a link between taxation and poverty, and a fairer taxation will relieve the poor and poverty both because of more adequate sharing of the tax burden but also due to raised revenue, redistribution, more public investment and (perhaps) better wages for publicly employed.
- There is a legitimate question, whether taxation, fair as it may be, is the best approach to combat poverty.
- And there is the comprehensive question whether taxation has, besides generating revenue, more potential, e.g. by discovering more (and combating better) crime, pushing back undesirable activities (“Taxing the bads”) in the field of financial products and high-speed trading, or making good things cheaper, and therefore more attractive and affordable (subsidies for public transport to protect the climate) etc.

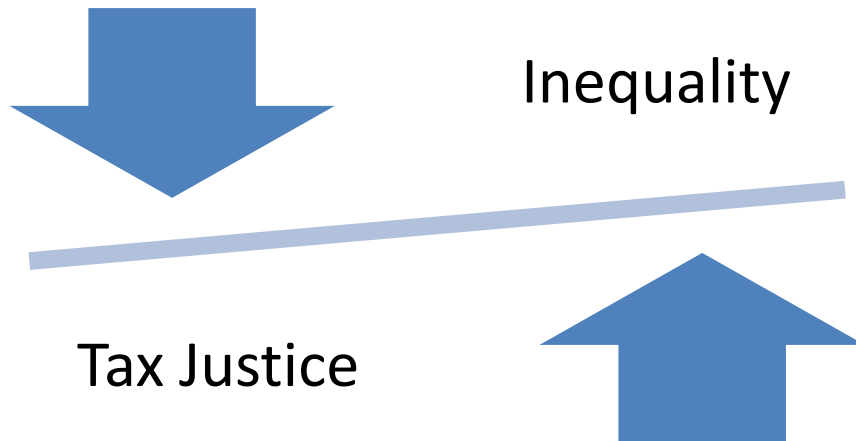
All those aspects have been looked into during the course of this research project.

1.3.1 Inequality and poverty

This research has two expressions in its headline and sub-headline, whose *prima facie* conjunction is contestable: Is inequality, which characterizes the wealth gap, necessarily linked to poverty or not (see I/IV/4)? This research holds the position that this link is not necessarily and always given, but all too often. It also follows Pope Francis who argues that “Inequality is the root of social ills.”¹

This research also holds that inequality might be an impediment to resolving poverty or developing solutions suitable to reduce poverty, e.g. by reducing growth, by putting too much power in the hands of some, which might impact on the amount of taxation which is collectible via lobbyism to decrease tax base or tax rate. Vice versa, curbing the power of wealthy private and corporate elites may reduce their influence upon tax policy, by that increasing adequate taxation, by that enabling better quality public services, e.g. education, by that better participation of more people in public reasoning.

¹ GS 202. The need to resolve the structural causes of poverty cannot be delayed, not only for the pragmatic reason of its urgency for the good order of society, but because society needs to be cured of a sickness which is weakening and frustrating it, and which can only lead to new crises. Welfare projects, which meet certain urgent needs, should be considered merely temporary responses. As long as the problems of the poor are not radically resolved by rejecting the absolute autonomy of markets and financial speculation and by attacking the structural causes of inequality, [\[173\]](#) no solution will be found for the world’s problems or, for that matter, to any problems. Inequality is the root of social ills.



For example: if inequality would have prevented to reach the dimension it has today, poverty could have been eradicated. Pogge points to the issue by referring to the World Bank Economist Branko Milanovic:

‘There is much celebration of the great efforts the world has supposedly made—in connection with the Millennium Development Goals, for instance—to —lift people out of poverty. But, clearly, the effect of all this heavy lifting was overwhelmed by structural forces working to magnify global inequality.’ (Pogge, 2014, p. 76)

Hence there is a link between inequality and the reduction of poverty: If less than that which has structurally been channeled to the top private and corporate wealth holder had been at the disposition to eradicate poverty, poverty would have decreased to a far larger extent. Looking at the increase of top global household income, Pogge states: ‘Had this substantial shift of nearly three percent of global household income gone into humanity’s poorer half instead, it would have easily sufficed to end severe poverty on this planet.’ (p.76)

Oxfam agrees: In their 2016 study the argue (even though they do not substantiate the issue): If the increase of income had not been focused at the top tail of income distribution, but distributed more fairly so that the bottom deciles of the income distribution would profit better, poverty could be reduced to a much larger extent than it happened so far.

Oxfam is unequivocal in welcoming the fantastic progress that has helped to halve the number of people living below the extreme poverty line between 1990 and 2010. Yet had inequality within countries not grown during that period, an extra 200 million people would have escaped poverty. That could have risen to 700 million had poor people benefited more than the rich from economic growth. (Oxfam, 2016a, p. 2)

1.3.2 Capability approach, not merely economic measurements

For the ethical debate of empirical findings also is of importance to remind of the poverty concept chosen and applied by this research, namely no focus upon financial and materialist criteria, but Amartya Sens “capability approach” (see I/IV/4). Similar to Amartya Sen is the approach taken by CST, which includes under the conditions of a life in dignity not only material aspects, but also cultural aspects.²

² Unter “Daseinsgestaltung” fällt nicht nur der Erhalt von Leben und Gesundheit. Zur „Erhaltung“ tritt auch die Möglichkeit zur “Gestaltung” des Lebens und damit kulturelle Rahmenbedingungen. (Nell-Breuning, 1980, p. 143)

This being the case, other results, conclusions and recommendations are to be expected. While the existence of poverty is more visible and uncontested for KEN and ZAM, it is a question of debate for Germany (GER/III/2.6#). If, however, Amartya Sen's capability approach is the evaluation context, poverty also exists and Germany to a considerable extent, hardened by the refugee influx of 2015 as much as to the problem of sinking redistributive effect of the social welfare system and/or decreasing social mobility.

1.3.3 The need to differentiate, multilayered approach

Certainly, poverty in KEN and ZAM is different from that in Germany. At the same time, this project pays attention of not play one problem against the other. Even OECD knows: 'In Scotland, for example, the life expectancy of a boy in Lenzie, a fairly affluent town on the outskirts of Glasgow, is about 82 years, according to data quoted by the World Health Organisation. Twelve kilometres away, in the deprived Calton area, a boy can expect to live to just 54.' (Keely, 2015, p. 83)

This snippet of information reminds of Wilkinson/Picketts research into indicators and consequences of inequality (see I/II# and I/IV/#) and following those observations, also in Germany absolute poverty exists for the many living underneath or outside the social security systems, surviving via private and networks, begging or petty theft (see GER/III/2.6#) without forgetting, that the poor in Africa, too, continue to require our attention and assistance.

1.4 Problem: Ethics and Morals of different worlds

The goals of the research project "Tax Justice & Poverty" are to narrow the wealth gap and to decrease governmental dependence from external financing. The solution to "how to achieve that best" is topic and (ideally) outcome of (in the end) an ethical founded analysis and discussion, resulting into developing ethical criteria with which to assess and prioritize different policy options.

Ethics in our view, however, is not about the ideal, but rather the best possible in a real world. In other words: ethical criteria and recommendations need to be working in the real world. They are useless if they cannot be implemented because they do not connect with real world situations. For example, they might be ideal in a way that nobody disagrees, e.g. "Today's injustice is unfair and needs to be changed". Everybody would agree, but this leaves open proposals of how injustice will be addressed and change via specific policy instruments. Equally useless are wonderful specific proposals which do not find any support for implementation or even opposition and/or in the real world would cause more harm than good, e.g. "Let's distribute the wealth of the wealthy among the poor!"

Ethics assists us to discover/recognize "the right" and "the good" and, at the same time, discover ways leading to its implementation. This requires the answering of two interrelated questions: First, what is "the right" and "the good"? Second, how can I implement that without causing unintentionally an ever larger damage?

This simple observation points to two hidden, but severely important context issues which one needs to observe before even starting any deliberation: First of all, what kind of society are we living in, in which we want to develop and communicate ethical criteria and guidelines? Germany, Kenya and Zambia are not homogeneous as far as people, social actors and their beliefs are concerned. Rather, they are multi-ethnic, even multi-religious and therefore pluralist societies with many competing views.

Each social group answers these questions within the moral framework of values and norms valid in this group and transmitted via families and other institutions and authorities. From these answers, rules and regulations arise which restrain the freedom of actors within this group for the benefit of the greatest possible freedom of the greatest possible number. And here, today's pluralist world has many world views to choose from. Some world views are close to each other, e.g. those who are influenced by enlightenment, others are very different from each other, e.g. neoliberalism and traditional African cultures.

If those different world views never engage or drift apart or clash, the common good of all in a state is endangered either way. No mere appeals can mend this gap. Only if we understand each other's diverging values and norms, we are able to understand his argument, bridge the gap between our different worlds and find a compromise regarding policy instruments which is acceptable to all or at least to as many as possible.

This process is difficult, painful and full of potential failure. But in this global world there is no alternative to this adventure if we would like to rescue the stability and social peace of our globalizing world.

1.5 Problem: Influence of Market Ideology

The relevance of the second context, the market, is not as obvious since this project is about tax justice. Even though everybody would agree that the market is dominating our world, nobody would spontaneously see how taxation needs to be discussed in relationship to market economy and market mechanisms since taxation is seen to be within the sovereignty of parliaments and governments which, in turn, are elected and controlled by the people. This is a deception and for the following reason, a position towards "the market" is needed nevertheless.

- "the market" is no longer merely an economic model for allocating resources. It has long developed into an own ethics, trying to dominate social and political life in its entirety and competing with other ethical views, be they religious or not.
- Since we do this project with the primary goal at hand to fight poverty, an important discussion will be the role of "the market" in mitigating or increasing poverty. The answer given to this question will determine how much (or how little) taxation can justifiably be called for.
- "The market" is providing important structural conditions with which private and corporate holder of income and wealth can develop and implement strategies for aggressive tax avoidance, tax evasion and other forms of illicit financial transfers, ever increasing their position of dominance and power. This is where lobbyism of powerful interest groups comes into the game.
- Market thinking and related ideologies are strong opponents to taxation, because this would prevent private and corporate holder of wealth from investing or because private philanthropy knows better what to do than public institutions, known for wasting resources.
- Whatever taxation proposal one comes up with: they will have an impact both private and corporate market actors, thus changing the nature and makeup of "the market"
- This in turn will influence "the market" in its capacity to create growth, jobs and income.

1.6 Structuring the paper

Looking at the two preceding problematic context issues it seems obvious that, before even starting any ethical discussion, one has to be mindful of the world we live in, more particularly (a.) the context in which we live and have to argue and (b.) in which “the market” has a predominant position. And we do not only have to understand that ourselves, we also have to communicate to our readers and listeners what stance and position we favour and put forward.

The first context refers to the pluralist nature of societies we live in all three countries of this research: By understanding this nature better, we are enabled to identify potential areas of conflict avoid communication breakdowns or deadlocks. This will be done in the chapter looking into the trias Pluralism-Democracy-State.

The second context alerts towards the open and hidden influence market based ideologies have in today’s world and what distortions have arisen from there.

In a third step and arising from here the crucial question is: How do we perceive the role and priorities within the trias Market-State-Democracy in the quest to diminish poverty and to increase the common-wealth and common-good?

Finally, a fourth foundational discussion and decision which has to be clarified at the outset of any ethical discourse, namely: is our most basic conviction and belief, that human beings are to be considered primarily equal or primarily different? This question, too, has many implications for the position from which, and perspective with which, we judge global and national institutions and policies. Accordingly, depending on what position one adopts, here, too, very different prioritizations of conclusions and policy recommendations will arise, the area of tax justice included.

2 Pluralism-Democracy-State

The problems emerging from the fact that we live nowadays both nationally and internationally in pluralist contexts, has been illustrated by Amartya Sen’s analogy of three children fighting for a flute: Anne wants to have it because she is the only one who can play it. Bob counters that he is entitled to it because he is so poor that the flute would be the first thing he could own. Carla claims the flute because she has produced it. Those arguments, Sen points out, illustrate an utilitarian, egalitarian and libertarian set of reasoning and each of those reasonings are so convincing in principle that everybody is entitled to keep the flute if the correctness of deductive reasoning is the way we take. He is also sceptical that an umbrella theory could be constructed which would help in a theoretical judgement between those three sets of argument (Sen, 2010, p. 12ff.). We cannot judge between those three positions in a way that one of them is “closer to the objective truth”, which is why the others have to step back and subject under the winning point of view.

2.1 Increasing polarization and threat of conflict

This analogy illustrates the more complex situation when social groups or states argue in today’s world why there is inequality and what should be done about it.

It is increasingly agreed between various groups in national and global society, that inequality poses serious problems for social stability and security in today’s world - not the least due to spectacular incidences of terrorism and violent demonstrations in the context of the World Financial and Economic Crisis. And people would agree, that inequality needs to

be addressed. Here, however, two camps emerge which are increasingly opposed to each other without any obvious way to compromise, wonderfully exemplified at a discussion arising on the occasion of the 2015 Davos forum of the worlds powerful and influential in politics and economics:

One camp, lead by the NGO Oxfam and its campaign “Even it up”³ argued that inequality is result of neoliberal economic politics and that the main driver of inequality are the financial sector and big business and their egocentric advancement of interests via lobbygroups. That way, democracy is cancelled and a global “Oligopoly” is institutionalized. This view can be backed up with publications of Thomas Piketty and many others. It almost was overlooked that Oxfam had to correct its assertions later because of a shift in the underlying database of Credit Suisse – so much for “the facts”.⁴

The other view countered that Oxfam and friends ignore improvements which the free market generated e.g. in India and China and that, for example, in particular those two countries illustrate that democracy is not the best counselor when it comes to implement poverty reducing policies: Those succeeded more in authoritarian countries (e.g. China) than democracies (e.g. India). For them, the emerging hatred upon the wealthy and successful will result in a counterproductive “Ochlocracy”, which is the worst for of democracy.⁵

2.2 The wealth-spaceship - setting the tone for all?

Given this divide one has to be aware of an imbalance of power in this conflict: Clearly, there are advantages on part of the wealthy 1% of national and global population, which seems to be increasingly out of touch with life experience and reality of the rest. Research backs up increasingly that the world’s top private and corporate wealth elite, independently of their place of birth and residence, has a pretty unified mindset and that the “understand each other”, be it at meetings in New York or parties in Monte Carlo. This is possible since the largely share in the same worldview of norms, values and principles.

At the same time, this global elite life increasingly isolated from other segments of the populations. As the little empirical research available to-day indicates, social mobility towards this group diminishes. For example, the once-legendary carrier from “dishwasher to millionaire” decreases in frequency, also marriages between the CEO and his secretary gets rarer. Normally, the elite picks schools for their children which secures their social position

³ See <http://www.oxfam.org/en/campaigns/even-it-up> and specifically for the Davos summit the publication “Wealth: Having it all and wanting more”, see <http://www.oxfam.org/en/pressroom/pressreleases/2015-01-19/richest-1-will-own-more-all-rest-2016>

⁴ They had to adjust their calculation when Credit Suisse updated their wealth data base: According to the October 2014 database, the number of billionaires had to be corrected upwards from 85 to 92. Reason:

In January 2014 Oxfam calculated that in 2013, 85 people had the same wealth as the bottom half of the world’s population, a number that was cited worldwide due to the extreme level of wealth inequality that it illustrated. The paper used data from the Forbes list published in March 2013 and from the Credit Suisse Global Wealth Databook with data for „mid 2013“.

In October 2014, Credit Suisse updated their wealth estimates; the share of wealth held by each global decile and the total global wealth estimates for the years 2000–2014 at the end of each year. The new estimates include an update to the wealth numbers for 2013, from which Oxfam calculated the 85 statistic. This briefing uses the updated number for 2013 and all other years as published in 2014. Based on these updated figures, in 2013 the number of billionaires holding the same amount of wealth as the bottom 50% was recalculated to be 92.’ (Oxfam, 2015a, p. 4)

⁵ Institutional Money: Androhung von Gewalt. Commentary, (2015, January 21) In: Institutional money. Retrieved from http://www.institutional-money.com/index.php?id=11&ref=2&tx_ttnews%5bttnews%5d=46806

later in life, which are not accessible for ordinary mortals, likewise marriage occurs rather among members of this global elite than across the boundaries. → See Hartmann 2016

Due to this seclusion of “us among ourselves” follows an empathy deficit, which has been researched and described by some US researchers and of which indications can also be found for German top private and corporate wealth holder (see GW/Intro#). In such a situation, own achievements, merits and entitlement gain priority over everything else, even philanthropic engagement does not have the need of the other in focus, but the public appearance and comparison of the donor with others of his class. With this seclusion diminishes the interest or willingness to deal with the “world out there”, to take part in discussions, to argue, question or defend their positions and actions because they have (unchallenged by their surrounding drones and peers) the conviction that they are doing right and well. Even less they are inclined to expose themselves or enter into social needs and situations of those worse off. Rather, it is exculpatory argued, it is their problem, they should try harder, they receive already adequate support which they do not use efficiently etc.

This hardened attitude is even more dangerous since it is this tiny elite which determines the course of the world: Via paying lobbyists towards governments and parliaments, via donations towards politicians and presidential candidates, via purchasing media and disseminating their views and manipulating public perception, via setting up Think Tanks and sponsoring University Chairs backing up their views with “research” and spreading their views via publications etc.

Not surprisingly, this class predominantly adheres a world view which is in tune with neoliberal market thinking, since it is this worldview, and the society built upon it, which brought about and secured their wealth.

2.3 Differences in judging that which is justified and due

But also among the remaining 99% of national and global population one discovers at times irritating varying judgements of one and the same “fact”: For example differences with which the population judges tax evading behaviour of different professional groups. It is striking how different they, for example, tax evading behaviour of a manager like Klaus Zumwinkel and Thomas Middelhoff on the one hand, or tax evading behaviour of Bavaria Munich President Uli Hoeneß or racing car driver Michael Schumacher, the latter openly admitting that he leaves his home country to Switzerland for tax reasons. Why do considerable parts of the public think that some do it right, while they condemn others, even though they do exactly the same?

2.4 Tax compliance between law/enforcement, incentives and social norms

It is further increasingly recognized that tax compliance is determined by a trias of influences which cannot be seen in isolation.⁶

1. There are the laws and options arising from there both legally and illicitly⁷ and, linked with this, are resources of tax administration to enforce those legal norms.

⁶ For the interconnectedness of those three areas see (Schöbel, 2008)

⁷ For the distinction see I/TV/6.1

2. Next one might think about incentives which make it attractive for tax subjects to pay honestly what is due, e.g. transparency and efficiency in public spending, fewer checks in case of evident tax honesty or even refunds or bonuses.
3. Finally there are social and moral values and norms of society influencing the individuals willingness and readiness to cheat on the tax bill.

In Germany this shift can be seen very clearly in the wake of two developments: First, when leaked data CDs increased the risk of tax dodgers to get known to authorities. Second, when increasingly prominent and wealthy people were accused and sentenced because tax evasion. The public discussion in politics, society and media going along with these two developments increased awareness regarding the importance of taxes for the community. Consequently, the willingness to cheat went down, not the least because it was no longer considered to be “normal” or “chic” to do it.⁸ The latter is also discussed in the context of Swiss Leaks revelation when it is noted that most tax evader are from a time where it was normal to have such a Swiss account.

One should not overestimate the impact of morale. As it seems, “tax honesty” did not come overnight without any outside impact, but increased greatly in the context of leaked tax CDs, the public prosecution of prominent people and the imminent automatic exchange of data.

Swiss leaks is also revealing, however, how sensitive the issue of ethics in the financial sector seems to be: Either the calls for more ethics after the World Financial Crisis were not meant to be serious but merely window-dressing, or those pledges are not possible to implement and enforce (see G/VII/SwissLeak#)

A research project at Nuremberg University is looking into the interdependencies of “taxation-social norms-compliance”, asking questions as the following:

- What determines the willingness of taxpayers to comply with individual taxes and the tax system as a whole?
- To what extent is tax compliance driven by social norms and how important is the collective adherence to these norms?
- What are the costs (and benefits) of tax enforcement including changes in the taxpayers’ behavior?
- What is the role of tax compliance in the trade-off between designing an equitable but complex tax system that attempts to take account of individual taxpayers’ characteristics and designing a simple, easy to administer, but perhaps unfair tax system?
- What lessons for institution design can be learned from the answers to these questions?⁹

2.5 Christian Ethics, place of the Church

Christianity, especially Christian Ethics and Catholic Social Teaching, should be an advocate for those who cannot understand the context and root causes of their situation and

⁸ A good illustration how the “mood” changed over the past years among the Hamburg wealth elite is given in the following portrait of a tax evader in Dam, J./Seibel, K. (2014, December 12) Eine deutsche Steuersünderin packt aus. In: Die Welt. Retrieved from <http://www.welt.de/wirtschaft/article135249926/Eine-deutsche-Steuersuenderin-packt-aus.html>

⁹ Retrieved from <http://www.efi.uni-erlangen.org/projects/taxation/about-the-project.shtml>

who lack a voice to articulate their position and desires. Even here, confusions abound, for example: There are indications that during the pontificate of John Paul II the supreme pontiff supports and endorses American style liberalism. This is, partly, understandable from John Pauls background and certainly justified by his assessment that the then-alternative, namely communism soviet style, is an inferior alternative. That there are ample indications that John Pauls doctrine is not that simple are, often, overlooked. For example, it was him who introduced the concept of “social mortgage” of private property (see#) or that it was him already who heavily criticized the “ethics” of market thinking.

Critique regarding neoliberal market ideology, greed and avarice continued with Pope Benedikt XVI and certainly culminates in Pope Francis who, different from Benedikt, also commands and eloquence and simplicity which enables him to spread his views via mass media in a way unknown to previous Popes and Catholic Social Teaching proponents. Interesting enough, even Pope Francis is eager to link his statements to church tradition, e.g. to capitalism critique by Pius XII in his encyclical *Octogesima Anno*.

Samuel Wells/Ben Quashs distinguishes in the book „Introduction into Christian Ethics“ three categories of Christian Ethics: “Universal ethics” (for everybody), “subversive ethics” (for being partial on the side of the excluded) and “ecclesiastical ethics”. For this research, all three components are of interest and relevance: Universal, because one needs to develop arguments which also move those outside the church. Subversive, because our institutions are committed to serve the poor first and most of all. Ecclesial, because the best argument is worthless if it is not backed up by a credible example. A more detailed and explicit presentation of our position towards Catholic Social Teaching, its principles and values and its implications for policies aimed at inequality, poverty and tax justice contains (Alt, 2014).

2.6 Key areas for conflict

There are some conflict areas of paradigmatic and priority importance for our present deliberations:

2.6.1 Merit and Need

A first conflict arises from the Principle of Ability to Perform. Those in power argue that they have earned that, which they possess by their character (willingness to risk something), capabilities and hard work. In other words: They merit that which they earn and society has no right to tell them what to do with his money or to tax it away and “waste” it. And there is some justification for it since especially responsible business people do work hard, long and take risks in order to move their business forward and create jobs and wealth for others. This indeed merits rewards. On the other side are those who argue that, all human beings perhaps being different, are basically equal and therefore merit some basic support in coping with their material needs and most certainly to a society which guarantees equality in chances and opportunities. This, however, would require a larger contribution on part of those who have or control the assets. Interesting enough, both groups can claim to be “entitled”: The first to what they have because they have worked for it, the second because of Human Rights and Human Nature. Turning words against the first group, however, one can use their “merit argument” against them by arguing for a hefty inheritance tax or property tax: For income arising from that they did not do anything in return.

2.6.2 Equality of Opportunity and Ability to Pay

This brings in the question of whether there is equality of opportunity at all and what could be done to safeguard this. The present situation is characterized by decreasing social mobility within societies, where the family somebody is born into is more important than other determinants (see I/IV/# and GER/III#). At the same time, everybody agrees that there are ways out of this situation by offering earlier and better education options for all. This needs to be financed, which once more makes us turn to those who have the Ability to Pay. They, of course, will argue that they are happy to contribute but that they want to do it their way, e.g. not by paying taxes but by setting up foundations. This opens up an entire new discussion of the freedom to do what somebody pleases with his private property, and whether perhaps this is a better, more efficient way than wasting money via state bureaucracies.

2.6.3 Private Property and the Common Good of all

The largest conflict certainly arises when it comes to the question of what people are entitled to do with their property: Are they totally free with it, since they earned it, or are there restrictions? Even Wealth Reports admit this crucial issue. The 2014 Wealth Report of Credit Suisse, for example, states: 'Property rights and inheritance customs are core subjects in understanding the level of wealth inequality and its transmission over time.' (p. 35f.)

Here Pope Francis holds against it in an interview given to (Tornielli & Galeazzi, 2015): 'Private property is not an absolute right but rather subordinate to the common good.' And similar to that which was put forward by Pope Francis:

The development of global capitalism over the past decades indicates that this kind of globalization protects and advances private interests, entitlement and greed, not the common good of all. Doing this, it is endangering the survival of all. This was not always the case.

As long as private property was thought to be a stewardship over commonly owned goods, as long as the right of property went along with an equally engraved sense of obligation towards the community, the problem did not exist as much as it developed over the past decades, when powerful private and corporate interests, arising from an overemphasized individualism, freedom and agency, dictated their will to state and democracy.

2.7 Conclusion

It is important to always communicate to each other clearly prime and normative principles and values because only if all participants understand those "hidden agendas" a clearer communication is possible, misunderstanding excluded. A dialogue ignoring underlying values differences will not resolve anything, but create miscommunication and further tension.

This clarity and transparency cannot be decreed by the state: It has to be established in social dialogue reminding ourselves that our states and societies are being built on preconditions which markets and states cannot generate and secure:

„Der freiheitliche, säkularisierte Staat lebt von Voraussetzungen, die er selbst nicht garantieren kann. Das ist das große Wagnis, das er, um der Freiheit willen, eingegangen ist. Als freiheitlicher Staat kann er einerseits nur bestehen, wenn sich die Freiheit, die er seinen Bürgern gewährt, von innen her, aus der moralischen Substanz des einzelnen und der Homogenität der Gesellschaft, reguliert. Andererseits kann er diese inneren Regulierungskräfte nicht von sich aus, das heißt mit den Mitteln des Rechtszwanges und autoritativen Gebots zu garantieren suchen, ohne seine Freiheitlichkeit aufzugeben und – auf säkularisierter Ebene – in

jenen Totalitätsanspruch zurückzufallen, aus dem er in den konfessionellen Bürgerkriegen herausgeführt hat.“ – [Ernst-Wolfgang Böckenförde](#): *Staat, Gesellschaft, Freiheit*. 1976, S. 60.

Only if such an openness about underlying principles, norms and values exist, communication can succeed, acceptable compromises can be found.

What has all this to do with taxation? As has been argued, social cohesion is crumbling, tension are rising within our states and between states. One reason is that the social contract and its values upon which post-World War II societies have been built and whose foundation came to a peak during neoliberal globalization is crumbling. This foundation has been shaken by the 2007 World Financial and Economic Crisis as well as the growing insight that the present system is overexploiting natural resources and, by that, undermines our very foundation of existence. There is need for a new social contract, but this search for a new common ground, guiding social and political deliberation, is a very complex endeavour, but taxation might have a place in it (see below Transformation#). Provided that every human being merits equal dignity and rights, the frame of this social deliberation is very important, most importantly, that not some dominate and manipulate the discussion. Not only Piketty, also the IMF sees dangers in the concentration of income and wealth: ‘The notion is that, at least in democracies, political power is more evenly distributed than economic power, so that a majority of voters will have the power and incentive to vote for redistribution. However, as pointed out by’ numerous researchers ‘this need not be the case if the rich have more political influence than the poor.’ (Ostry, Berg, & Tsangarides, 2014, p. 8).

Finally: given the widespread silence and withdrawal of private and corporate elites and wealth holder about the increasingly explosive situation, they, too have to be convinced that they have to participate in that dialogue openly to a greater extent, stopping attempts to manipulate public debate as is, for example, the case regarding discussions surrounding the German reform of the Inheritance tax.

3 Developments due to dominating “market ideology”

3.1 Victory of “competitive capitalism”

Looking at the primary goal to improve the situation of the poor, over decades “the market” was the first address to go to: Nobody except the market knew best how to increase growth, create jobs, improve payment and allocate money via consumer choices. Any governmental interference, of which taxes were one of the nastiest bits, curtailed those positive effects, even worse, the state squandering those revenue ineffectively.

Ever since Reaganomics and Thatcherism, ideologies arising from Hayek, Friedmann and the “Chicago Boys” school gained global sway, dynamism fortified by the collapse of communism, so far the alternative to American style free market capitalism. And it is here, where the dominant paradigm of competition enters all segments of society. In his influential book “Capitalism and Freedom”, Friedmann declares “competition” to be the defining mark of his kind of capitalism:

This book discusses some ... great issues. Its major theme is the role of competitive capitalism the organization of the bulk of economic activity through private enterprise operating in a free market as a system of economic freedom and a necessary condition for political freedom. Its minor theme is the role that government should play in a society dedicated to freedom and relying primarily on the market to organize economic activity. (Friedman, 1982, p. 12)

Friedmann was confident that “competitive capitalism also promotes political freedom because it separates economic power from political power and in this way enables the one to offset the other.” (p.16). As history illustrated, however, what rather happened was that economic power hijacked political power.

At the beginning of its victorious emergence the situation was such that some even proclaimed the “End of History” because it was assumed that the victorious paradigm will now generate jobs and wealth for all, not only within nation states but, communicated via transnational institutions, worldwide.

And indeed there was good arising from it: Globalization and market based economies contributed to a huge reduction of extreme poverty over the past decades, most importantly in countries of Asia and Central/Eastern Europe (see wealth distribution graphic in I/V/2.7), with sub-Saharan Africa being largely excluded. Economic development also disproved the Malthusian trap, i.e. that every economic development is followed by an increase in population which in turn spoils gains of growth because gains have to be divided among too many people (UNIAPAC, 2015). At the same time, a number of developments started under whose consequences we suffer today – and this will be the chapter to sketch at least some of them – but always related to the question, whether taxation could be a remedy to the outlined problems.

It would be a discussion of its own to specify exactly what is meant under “neoliberal market ideology” or “American style free market capitalism”. This, however, is not the place to do repeat what more intelligent people have said to that already elsewhere, especially after the World Financial and Economic Crisis.

3.2 Market ideology as comprehensive ethical system

Faith in the market and its regulative forces, as frequently adhered to today, displays all features which normally are attributed to metaphysical and faith systems, i.e. their “ethics” require respect and validity not just in some parts of society, but are promoted for the regulating of everything. Faith in the market and market forces is as metaphysical as the belief in the existence of God or Cinderella. Adam Smith attributed it already with quasi personal features when he was talking of the ordering activity of the “invisible hand”. How the market works and behaves depends on a set of a priori assumptions upon which the entire thought building is constructed. Accordingly, markets are not merely about economic rules, but also about ethic and culture. This has been made particularly clear by Pope John Paul II as early as 2001 when he stated

One of the Church's concerns about globalization is that it has quickly become a cultural phenomenon. *The market as an exchange mechanism has become the medium of a new culture.* ... We are seeing the emergence of patterns of ethical thinking which are by-products of globalization itself and which bear the stamp of utilitarianism. But ethical values cannot be dictated by technological innovations, engineering or efficiency; ... *Ethics cannot be the justification or legitimation of a system, but rather the safeguard of all that is human in any system.* Ethics demands that systems be attuned to the needs of man, and not that man be sacrificed for the sake of the system.¹⁰

Equally outspoken is Pope Francis who laments today's “culture of waste”, which subordinates human beings to economic exploitation.

¹⁰ Pope John Paul II Address to the Pontifical Academy of Social Sciences Friday, 27 April 2001

In spite of all that, market “ethics” is still propagating neoliberal free market ideology when it is more than obvious since the 2007 World Financial Crisis, that this model generates grave disadvantages.

3.3 Individualism, private property, community

The devastating consequences arising from the ruling paradigm is not merely an exaggerated faith in “the market”, but also an exaggerated emphasis upon the individual. While in earlier times there was a balance between the individual and the community and a broad based understanding of mutual interrelationships and responsibilities, the emphasis shifted under the influence of liberal thinker (Rousseau, Locke, Mill) to the individual as starting and culmination point of society, its interest and rights, by putting the communal aspect on second place.

However: individualism found an adequate and fitting complement in market ideology, for example, when Adam Smith characterized the working of markets as the mutual convergence of individual interests.

This shift is most visible in the understanding of “property”. While in European Middle Age (Allmende!) or African traditional cultures there is an understanding that there are resources which cannot be owned by one person/family only, but are “priceless” and therefore owned by all, it is nowadays spreading standards that everything, including soil, air, water, even space can get a price tag to it and ownership by one excludes usufruct by others.

However, problems arising here are as old as the bible and are, for example, forcefully brought to the point as follows by Basil the Great¹¹

Naked did you not drop from the womb? Shall you not return again naked to the earth? Where have the things you now possess come from? If you say they just spontaneously appeared, then you are an atheist, not acknowledging the Creator, nor showing any gratitude towards the one who gave them. But if you say that they are from God, declare to us the reason why you received them. Is God unjust, who divided to us the things of this life unequally? Why are you wealthy while that other man is poor? Is it, perhaps, in order that you may receive wages for kindheartedness and faithful stewardship, and in order that he may be honored with great prizes for his endurance? But, as for you, when you hoard all these things in the insatiable bosom of greed, do you suppose you do no wrong in cheating so many people? Who is a man of greed? Someone who does not rest content with what is sufficient. Who is a cheater? Someone who takes away what belongs to others. And are you not a man of greed? Are you not a cheater? Taking those things which you received for the sake of stewardship, and making them your very own? Now, someone who takes a man who is clothed and renders him naked would be termed a robber; but when someone fails to clothe the naked, while he is able to do this, is such a man deserving of any other appellation? The bread which you hold back belongs to the hungry; the coat, which you guard in your locked storage-chests, belongs to the naked; the footwear mouldering in your closet belongs to those without shoes. The silver that you keep hidden in a safe place belongs to the one in need. Thus, however many are those whom you could have provided for, so many are those whom you wrong.

3.4 Inequality destroys growth

So far it was assumed that “the rising tide lifts all boats”, or: the greater inequality at the top, the more is there to tax and to redistribute - meaning, that increasing inequality does not interfere with growth and redistribution and the more growth.

¹¹ <https://bekkos.wordpress.com/2009/10/08/st-basil-on-stealing-from-the-poor/>

Here the IMF did some remarkable research into the relationship between inequality, economic growth and the role of redistribution. A study (International Monetary Fund, 2014a) concluded

1. Income inequality has increased in both advanced and developing economies in recent decades
2. There is growing evidence that high income inequality can be detrimental to achieving macroeconomic stability and growth.
3. Fiscal policy is the primary tool for governments to affect income distribution.

Or, in the words of another IMF study which examined these links more comprehensively by discussing empirical evidence:

‘Inequality has a statistically significant negative relationship with the duration of growth spells. A one-Gini-point increase in inequality is associated with a 6 percentage higher risk that the spell will end the next year’, i.e. there might be growth, but it might be short, erratic or otherwise unsustainable, unpredictable or less suitable for reliable planning and revenue. For that reason it would be ‘a mistake to focus on growth and let inequality take care of itself.’ (Ostry, Berg, & Tsangarides, 2014, p. 23+25)

Even the G-20 mentions at the meeting of Finance Ministers and Central Banker in 9-10 February 2015 in Istanbul that income inequality as a problem, because it is bad for growth which is still supposed to be the best way to lift the poor out of poverty.¹² Now, there is also evidence that redistribution may, besides regulation, a better way for both securing the quantitative AND qualitative aspect of growth (see below#)

3.5 Inequality destroys markets

Free markets work best if a large number of actors interact with their creativity and resources without any of them having the power to dominate interaction. For that “rules for the game” are helpful in order to safeguard a “level playing field”. As (Piketty, Capital in the twenty-first century, 2014a) and (Fernholz & Fernholz, 2012) demonstrated convincingly, free markets without regulation tend to generate inequality and a misbalance of power which is why the fight against monopolies and oligopolies is an important issue in the attempt to preserve the best which the market concept can offer to humanity.

Another interesting point which is of relevant here is offered by Piketty who sees the declining spending power of all other households than the super-rich to be one of the major reasons behind the triggering off of the 2007/2008 crisis:¹³ Which makes a lot of sense because: If net wages are declining and hardly anything is left for consumption, then indeed there is too much power left for the whims of the very few.

¹² Nr. 7 of the Istanbul Declaration: ‘We will also strive to ensure that growth is inclusive, including through policies that address income inequality. Thus, we agreed to develop a robust framework to hold each other to account and monitor progress towards our collective growth ambition.’ Retrieve from <http://www.diplomatie.gouv.fr/en/french-foreign-policy/economic-diplomacy-foreign-trade/events/article/communiqu-e-g20-finance-ministers>

¹³ ‘In my view, there is absolutely no doubt that the increase of inequality in the United States contributed to the nation’s financial instability. The reason is simple: one consequence of increasing inequality was virtual stagnation of the purchasing power of the lower and middle classes in the United States...’ (Piketty, 2014a, p. 297).

As has been demonstrated in our introduction (I/IV/5), spelled out in more details in our country reports and In Depth study on wealth, transnationally mobile private and corporate elites from the financial and economic sector have a disproportionate influence both on society and politics: On society via their manipulative power in media and advertisement, on politics via lobby groups.

This power destroys democracy because it is both able to seduce (uneducated) populations into voting for certain positions and to blackmail governments and states into doing something which does not advance the common good, but the good of the few.

3.6 Financial capital destroying social and natural capital

Even if the “trickle-down theory” worked in some instances (which is good) its consequences in our view outbalance its advantages. Today’s understanding of neoliberal market economy is too much focused upon material growth and financial capital – preferable as quickly and as high as possible, that way destroying social capital (by destroying labour, increasing inequality) and natural capital (by overexploiting natural resources).

This destructive side of the present neoliberal market economy has been recognized even by writer of the FORBES magazine, which normally does the ranking of those profiting most from the present system. In February 2016, for example, the “Leadership” section” of Forbes brought the article ‘Unless It Changes, Capitalism Will Starve Humanity By 2050’. Interesting enough, one of the reasons seen was the concentration of assets in the hands of a few.

Fund managers at global [financial institutions](#) own the majority (70%) of the public stock exchange. These absent owners have *no stake* in the communities in which the companies operate. Furthermore, management-controlled equity is concentrated in the hands of a select few: the CEO and other senior executives.¹⁴

Pure market ideology is even more questionable since the original idea, namely bringing capital to investors who are willing to open businesses and jobs, is increasingly abandoned by the financial industry creating their own products and practices, that way turning into mere rent-seeking activities without proportionate use for the real economy and people other than themselves. That way, economical processes threaten to become as detached from the world as the living environment of private and corporate wealth holder in their respective “spaceship” are detached from the rest of society.

3.7 Capital as master, no longer servant

Another disbalance in the present global economic system is the dominating role of capital. As long as capital was serving the real economy, there is no point in protesting. Over the past years, however, capital developed into a master by seducing investments into its own sector for larger profits and no longer serving real economy (See I/IV...). This problem is by now seen even by experts such as the former Chairman of the British FSA, Lord Adair Turner, or the President of the American Financial Association, Luigi Zingales. Adair Turner admits that a lot of activities of financial industry is “socially useless”.¹⁵ Luigi Zingales is

¹⁴ Hansen, D. (2016, February 9) Unless It Changes, Capitalism Will Starve Humanity By 2050. In: Forbes. Retrieved from <http://www.forbes.com/sites/drewhansen/2016/02/09/unless-it-changes-capitalism-will-starve-humanity-by-2050/#2715e4857a0b71bd87e64a36>

¹⁵ ‘It is hard is to distinguish between valuable financial innovation and non-valuable. Clearly, not all innovation should be treated in the same category as the innovation of either a new pharmaceutical drug or a new

even more outspoken, by criticizing academic efforts to uphold neoliberal ideals and theories against all facts. The abstract of the AFA Presidential Address 2015 reads: ‘Academics’ view of the benefits of finance vastly exceeds societal perception. This dissonance is at least partly explained by an under-appreciation by academia of how, without proper rules, finance can easily degenerate into a rent-seeking activity.’¹⁶

Here, tax could help to push back excesses, for example:

- First, to treat financial products equal with those from real economy, i.e. that a turnover tax is paid for nappies, bread and TVs as well as for all financial products.
- By taxing silent reserves and other assets lying idle on corporate and private accounts via wealth taxation there might be an inducement for their owner to rather invest it into the real economy, perhaps even encouraged by tax exempting innovation which creates fairer jobs and reduces the waste of natural resources.
- Putting a price via taxation to push back undesirable developments if other ways of reform or regulation are not possible: A FTT on speculative dealings, especially derivatives and high frequency trading, or taxing Schachtelbeteiligungen.

Regarding the latter: Both derivatives, short sales (Leerverkäufe) and Schachtelbeteiligungen once had something reasonable and good to it. Taxing today's excesses is lower than prohibition and regulation: It puts it into the choice of those using it whether to keep it in spite of the small price on it, or to abandon the practice. Insofar, taxing it is more democratic and more in accordance with choice than the state simply prohibiting it.

3.8 State capture

Deregulated free market forces, especially in the area of finance, distort market mechanism nationally and internationally, bringing into a position of conflict international private and corporate player on one side, and national democracies and states on the other. Alexis de Toqueville: “What is most important for democracy is not that great fortunes should not exist, but that great fortunes should not remain the same hands.” Quoted in: (Gates & Collins, 2003, p. 136)

This form of “state capture”¹⁷ is certainly different in KEN and ZAM, which is more bluntly, perhaps even with corruption and bribery, than GER, where it is more subtle via the collusion of elites and aggressive lobbyism (see GER/VII#).

retail format. I think that some of it is socially useless activity.’ Turner, A. (2009, August 27) How to tame global Finance. In: Prospect Magazine. <http://www.prospectmagazine.co.uk/features/how-to-tame-global-finance>

¹⁶ Zingales, L. (2015, January) Does Finance Benefit Society? Retrieved from <http://faculty.chicagobooth.edu/luigi.zingales/papers/research/Finance.pdf>

¹⁷ The term gained prominence because of an IMF publication of 2001, where the authors stated: ‘We define state capture as the efforts of firms to shape the laws, policies, and regulations of the state to their own advantage by providing illicit private gains to public officials. We develop a method to measure this form of grand corruption based on the findings and analysis of a survey of nearly 4,000 firms in 22 transition countries’ Hellman, J., Kaufmann, D. (2001, September) Confronting the Challenge of State Capture in Transition Economies. In: Finance and Development Vol. 38/1. Retrieved from <http://www.imf.org/external/pubs/ft/fandd/2001/09/hellman.htm>

Even the Manager Magazin provides space for a professor of economics, warning of an oligarchy in Germany. Dies sieht Müller für die USA gegeben, aber noch nicht in Deutschland, da die Albrechts und Quandts bislang keine politischen Ambitionen erkennen lassen. Dennoch: „In gewisser Weise besteht auch für die Bundesrepublik, das Land der vielen Milliardäre, die latente Gefahr, in eine Oligarchie abzudriften“ (Manager Magazin Sonderheft, 2015, p. 82). Even if those presently living are the good ones one needs to learn from history and prevent foreseeable and feasible developments before they have a chance to develop.

In both cases, however, public reasoning in the attempt to find common goals for the common good and democratic decision procedures are distorted, which is why the link between wealth concentration and its impact on political decision processes is seen by some even more alarming than its impact on the growing wealth gap: If political decision processes would still be working, it could oppose those trends. If political decision processes are dysfunctional, indeed state capture exists.

3.9 Capital markets fostering Illicit Financial Flows

As demonstrated in I/IV/6, capital markets in its present form facilitate illicit financial flows since formal, informal and dark markets offer plenty of opportunities for private, corporate and criminal actors to channel and hide money across countries and around the world without states being able to track and uncover those financial flows. The basic problem is that financial markets have their own set of rules and laws and they have actors able and willing to use instruments at hand for the mere sake of their availability, while states and their investigators are bound and restrained by national laws and problems arising from international cooperation between states, building upon different legal systems. Here, too, the question of competition and cooperation enters (see below#), since here, too, some states want to combat something of which other states profit, which in turn decreases their willingness to assist the other state in investigating and prosecuting that which is illegal according to their laws. This issue is of importance for this research since Sub-Sahara Africa belongs to those loosing under IFF outflows (see I/IV/6.4.1.), while Germany is winning as a destination country (see GER/VII#). More important is, however, that both African countries and Germany are loosing indirectly under the influence of IFFs. In Africa, for example, economic growth is lagging due to capital flight and both in Africa and Germany market economic procedures are distorted due to corruption and bribery (see for Africa I/IV/6.4.2 or GER/VII# and IE#).

3.10 How to respond to institutional corruption?

As CD leaks, insider reports such as the one by Elmer and leaks starting with Offshore Leaks leading to PanamaPapers illustrate, the entire capitalistic market system has degenerated into something which is unhealthy for the common good: The original idea of partner competing at eye level with creativity and innovation for customers is less and less working because there is no longer a level playing field for all. Small and medium businesses are disadvantaged on the markets by large businesses, especially transnational banks and other TNCs who have options to outsource production, decrease tax burdens and increase profits via Tax Havens which small and medium businesses do not have. At the latest the PanamaPaper leaks illustrates that those practices are no longer exceptions in the rule, but more of a rule which destroys and distorts fair competition and profits large player far more than small and middle ones. That way, market economy is more and more playing in favour of large, dominant player, oligopolies and perhaps even financial feudalism. Against this, activists argue, only comprehensive measures of transparency regarding the corporate, private

or criminal beneficial owner behind Offshore companies can be a way out (see below#Semeta).

3.11 Imbalance between capital and labour

An important issue for Catholic Social Teaching is the “balance of power” between capital and labour which, incidentally, stood at the beginning of the “social question” for the church. As we pointed out already in our introductory part of our research, labour is no longer an equal to capital as it was approximately under Rhenish Capitalism and its system of social partnership: Nowadays, because of its mobility, capital is in the strong role to force “reforms” upon labour markets and states, lowering wages and working conditions, weakening the roles of trade unions and other cooperative forms which traditionally upheld the interests of labour against capital. As our research demonstrates, this also has taxation implications when it is the case that capital is taxed at much lower rates than labour or that costs for the community are increasingly borne by labour and indirect taxations because no state is able to ask for a fair share from capital holder.

3.12 Earned and unearned income

A particular sensitive issues here are so-called wealth taxes. While it is one thing that there are graded wages for different categories of work, and since there is even understanding and justification for “supersalaries” in case somebody leads a TNC responsibly and successfully (see GERIII/#Winterkorn), it is another cup of tea when it comes to income from assets where no labour at all is required, e.g. the ownership of real property, dividends, inheritance and gifts. In Germany, at the foundation of the First Empire, there was a common understanding that such an income needs to be taxed more heavily than income from wage, not only because no labour is required for this income, but because the mere possession of underlying assets puts its owner in a much more carefree position than those whose only asset is labour. This understanding disappeared over time and is mirrored by the abandonment of effective taxes on recurrent wealth or exemptions and loopholes in those still existing.

3.13 Absolute-relative tax burden, direct-indirect taxes

Another mismatch of our research is the discrepancy between the respective tax burden: Admittedly, wealthy people contribute a lot in taxes in absolute terms. But, as Jesus illustrated already in the Gospel: The burden of a wealth person giving a lot is different from the widow who offers 2 pennies only.

This leads to the next mismatch: While progressive taxes have been lowered especially for the wealthy over the decades, indirect taxes and levies burdening mostly lower and middle income households have been increased, by that compensating losses which emerged because direct taxes have been reduced.

Consequently our research illustrates for all three countries that the relative tax burden is considerably higher for low and middle income households, even on the poor who cannot evade indirect tax such as VAT.

3.14 Private gains and public losses

One should not forget that even free market ideologies are happy for states to exist. First, they prompted states via successful lobbyism to remove obstacles for tax planning, outsourcing or trade which increased their profits greatly. Second, as a standby-insurance for the moment when speculation went wrong, threatening to tear the entire system down the drain. If it were not for the stabilizing efforts of states, the crash resulting from the 2007

World Financial and Economic Crisis had been much more devastating as it turned out to be. In several places it has been detailed, how much the states (and, accordingly) taxpayers paid for those activities, which in the end benefitted private and corporate wealth holder more than anybody else (see I/IV# and GER/III#). States got the money needed at capital markets, behind capital market private and corporate wealth is hiding. Which is why private and corporate profits soar parallel to the increase of public debt. And: the costs for interest payment and repayment is borne by the ordinary taxpayer – which is why the present situation can be seen as a huge redistribution of wealth from the bottom to the top.

It is certainly defensible that states bridge the gap in time of unforeseen and sudden need because time is short, e.g. to finance German Unification or stabilize markets during the World Financial Crisis or Euro Area Crisis. Once the waves die down, however, it should be asked whether those who profited more than others are not obliged to contribute at least some contribution for the repayment of costs, e.g. via a Wealth Levy.

3.15 Social Mortgage

Nobody is achieving anything merely on his or her own: He is born into a family/nation, he is educated by others, he is investing in a society/context made and stabilized by others, he needs infrastructure, raw materials and the labour of others to multiply his investment. On that background one might argue that in particular those who earn a lot are most dependent from factors beyond their own “capital” in the widest sense: From human labour in their factories and their (publicly funded) education and training to institutions guaranteeing the honouring of contracts and imposing social stability and security.

This is of particular importance in today’s discussion overemphasizing the importance of financial capital with its rush to quick gains and profits. This is why Catholic Social Teaching developed the concept of a “social mortgage” of private property, that way countering and putting into context the over-exaggerations of individualism (see#). The key passage in John Paul II Encyclical is as follows:

It is necessary to state once more the characteristic principle of Christian social doctrine: the goods of this world are originally meant for all.⁷⁸ The right to private property is valid and necessary, but it does not nullify the value of this principle. Private property, in fact, is under a “social mortgage,”⁷⁹ which means that it has an intrinsically social function, based upon and justified precisely by the principle of the universal destination of goods. Likewise, in this concern for the poor, one must not overlook that special form of poverty which consists in being deprived of fundamental human rights, in particular the right to religious freedom and also the right to freedom of economic initiative.

It is here, where the question of taxation comes which could be understood as the repayment of those profiting on the advances they received by net investments done earlier by the community, which provides for all those public goods mentioned above via financing public institutions, public services and the compensation of disadvantages arising from unequal distribution of market incomes via redistribution. This is even conceded by some of the most neoliberal thinking federal judges, e.g. Paul Kirchhof:

Paul Kirchhof: BStGB (Kirchhof, 2011):

"Allein eine wertvolle Leistungführt noch nicht zu Einkommen. Einkommen entsteht, wenn die Rechtsgemeinschaft eine Leistung durch Entgelt anerkennt. Ebenso begründet allein die Kaufkraft ... noch keinen Umsatz; erst die Infrastruktur eines umfassenden und allgemeinen Leistungsangebotes des Marktes erlaubt es dem Nachfrager, seine Kaufkraft in Gegenleistungen einzutauschen. Deshalb rechtfertigt sich die 'voraussetzungslose' Steuer als

Teilhabe am jeweiligen individuellen Erfolg privatnützigen Wirtschaftens, der sich seinerseits auf die von der Rechtsgemeinschaft bereitgestellten Freiheitsstruktur von Marktordnung, Frieden, Rechtssystem, Schul- und Ausbildungswesen stützt." S. 3f.

(Borchert, 2014, p. 152) alle großen Einkommen beruhen zwangsläufig auf Vorleistungen der staatlichen Gemeinschaft. Wer Einnahmen aus einer Würstchenfabrik oder aus Molkereien erzielt, braucht dafür Arbeitnehmer, die große Teile ihrer Ausbildung in öffentlichen Schulen und im öffentlichen Bildungswesen erhalten haben, der Patron ja meist ebenfalls. Wer mit seinen zehn, zwanzig, 200 oder mehr Lkws Milch oder andere Waren transportiert, nutzt das öffentliche Straßennetz mehr als andere. Sicherheit garantieren ihm Polizei und Militär, den rechtlichen Schutz seiner Wirtschaftsinteressen die Justiz. Gerade die Einkommensteuern sind deshalb konsequent als Rückzahlung von Schulden für staatliche Vorleistungen zu verstehen. Wer sich ihnen entzieht, verhält sich wie ein Zechpreller oder Schmarotzer.

3.16 Ecological Mortgage

Equally one could work on the concept of an Ecological Mortgage since our production and consumption standards profits from the absence of prices on ecological goods which are priceless or, on economic language "to put a price on externalities" which is defined as 'the cost or benefit that affects a party who did not choose to incur that cost or benefit'.¹⁸ That way, natural resources are overexploited, the ecological footprint is growing and the Earth Overshoot Day is moving earlier and earlier into the year.¹⁹

Here we live on costs of future generations. It is this "interwovenness" of individuals with both the community and a living total which we call earth or creation or "Gaia", which also needs to be considered in ethical discussions. It relativizes the importance of individual contributions and claims built upon them, and emphasize the communal and ecological dimension "hidden" in every individual achievement and success, especially, when also taking into account intergenerational issues. Here, Solow defines sustainability: 'The next generation must be left with "whatever it takes to achieve a standard of living at least as good as our own and to look after their next generation similarly"'.²⁰

Here, too, taxes might be a way to put a price tag on natural resources and it certainly would be the task of Catholic Social Teaching to do it after Pope Francis' Encyclical *Laudato Si* put a finger on those issues.

3.17 Conclusion

This chapter attempted to demonstrate that the disadvantages created by the present system of market economy by far outweigh its positive aspects. Looking at its negative side effects, of course, one needs to pay attention to not play one against the other and, by that, again distort the picture. For example, by trying to go against the ecological crisis by purchasing large parts of real estate for the cultivation of bio fuel, and, while doing that, depriving local population of its access to food (landgrabbing). As Pope Francis argues in *Laudato Si*: 'We are faced not with two separate crises, one environmental and the other social, but rather with one complex crisis which is both social and environmental.' (LS 139)

¹⁸ <https://en.wikipedia.org/wiki/Externality>

¹⁹ https://en.wikipedia.org/wiki/Ecological_footprint,
https://de.wikipedia.org/wiki/Earth_Overshoot_Day and (Hoffmann, 2016a)

²⁰ Solow, R. (1992) An Almost Practical Step Toward Sustainability. Lecture on the occasion of the 40th anniversary of Resources for the Future, 8 October 1992, p. 15

Given the current crises, e.g. the extent of poverty or the ecological crisis, a new form of market economy would have to choose different goals for its market economy, e.g. the eradication of poverty and hunger or the protection of the environment and preservation of limited natural resources or other goals arising from a social discussion of “the common good” or goals related to a new understanding of “the good life”, beyond the GNP as the prime measurement of welfare. Here, certainly, a different kind of “governance sharing” between markets, state and society/democracy is called for in order to impose a sounder balance.

4 Market-State-Democracy

This begs for a closer examination of how the trias Market, State(s) and Democracy in today’s world order is effectively balanced, whether this balance is adequate and how it could be improved. Since taxation is a strong instrument by democracy/parliament and state against markets, it needs to be discussed whether this instrument might in the end not cause more harm than benefit.

4.1 Markets and jobs

A first major point of contention and a very legitimate question is whether there is a realistic and working alternative to market economy when it comes to the allocation of resources under the conditions of increasing scarcity, the creation of jobs and the provision of consumer goods. This link is important since conversation partners always bring up the link between taxation and jobs: If tax takes away important resources, there is less left for investment, the payment of wages and, if international competition gets hard, no resources are left to counter those attacks and the business might go bankrupt and jobs are lost. Clearly, until a better “organizing” and “allocating” concept is found, nobody can reject those arguments in principle. It leaves open, however, the question, whether or not regulation to the market(s) might be a means to make markets fairer and more productive for the common good and the environment, and whether taxes might be part of those regulations.

4.2 Decreasing social mobility

Inequality can be justified if there are adequate possibilities for those on the bottom to rise up the income and social ladder. This requires comparable chances and opportunities for all. As we indicated already in the introductory part and confirmed in our country studies, the present situation does not offer those equal opportunities to all. Rather, the place where somebody is born into is more often than not also the place where he will live for the rest of his life. Equally, research into elites illustrates that the “re-generate” each other rather from among each other than offering those from lower social stratum the opportunity to join their circles. This also de-legitimizes present inequalities and calls for some effective redistribution so that equality of opportunities can be restored effectively.

4.3 (Market)Economy and social cohesion

In the eyes of CST, economy is a “mediating system for the self-actualization of human beings”²¹, meaning ALL human beings, which is provides strong links to Amartya Sen’s capability approach. Sadly, this is not reality. What has been said already in 2.1 is giving proof to a related CST warning, namely, that if economic production is not firmly embedded in political and social frameworks it is deteriorating into a merciless fight of all against all and

²¹ ‘Treffend wird Wirtschaft definiert als „Mittelsystem zur Selbstverwirklichung des Menschen“.’ (Nell-Breuning, 1980, p. 142)

the strong are likely to win. This is why CST emphasizes the interdependence of economic, political and social elements and describes the economy in its deepest essence as a social process (“Sozialprozess”). In order to avoid an increase of tension around the competing survival of the fittest and strongest it is not enough to appeal to the “well understood private and corporate self interest”, but rather a social order where the common good and every individual profits to some extent and none on cost of the other. This is also an essential features of any “just society” (see E/II#). Since the past centuries and, most importantly, decades, market economics was ordered in a way that the social cohesion of society has been undermined and destroyed which results in the above mentioned polarization and threat of conflict (Nell-Breuning, 1980, p. 163f.).

Even the world’s super-rich agree that there is a link and threat lying in the growing national and global wealth divide. Just two examples:

First, the classic of Warren Buffet, the world’s wealthiest person, who warned already in 2006: “There’s class warfare, all right,” Mr. Buffett said, “but it’s my class, the rich class, that’s making war, and we’re winning.”²² In a similar mood is the more recent statement of billionaire Nick Hanauer:

Here’s what I say to you: You’re living in a dream world. What everyone wants to believe is that when things reach a tipping point and go from being merely crappy for the masses to dangerous and socially destabilizing, that we’re somehow going to know about that shift ahead of time. Any student of history knows that’s not the way it happens. Revolutions, like bankruptcies, come gradually, and then suddenly. One day, somebody sets himself on fire, then thousands of people are in the streets, and before you know it, the country is burning. And then there’s no time for us to get to the airport and jump on our Gulfstream Vs and fly to New Zealand. That’s the way it always happens. If inequality keeps rising as it has been, eventually it will happen. We will not be able to predict when, and it will be terrible—for everybody. But especially for us.²³

This emotionally charged debate circles in Germany around the concepts Social Envy, Social Stinginess, Social Greed (Sozialneid-Sozialgeiz-Sozialgier).

4.4 Redistribution strengthens growth

Above (#) it has already been said that inequality destroys economic growth and indicated that state policies addressing that via taxation and redistribution might increase it. The already quote study also comes to a second conclusion, which is against the currently dominating “wisdom”: ‘There is surprising little evidence for the growth-destroying effects of fiscal redistribution at a macroeconomic level ... The average redistribution, and the associated reduction in inequality, is thus associated with higher and more durable growth.’ (Ostry, Berg, & Tsangarides, 2014, p. 26)

Here also tax funded ways and means of redistribution have their place, e.g. taxation and transfers or in-kind programs. On that background see, for example, the IMFs discussion of in-work benefits in the form of tax credits (International Monetary Fund, 2014a, p. 24f.) or

²² Stein, B. (2006, November 26) In Class Warfare, Guess Which Class Is Winning. In: New York Times. Retrieved from http://www.nytimes.com/2006/11/26/business/yourmoney/26every.html?_r=0

²³ The Pitchforks are coming – for us Plutocrats”. In: Politico Magazine July/August 2014. Internetressource http://www.politico.com/magazine/story/2014/06/the-pitchforks-are-coming-for-us-plutocrats-108014_full.html#.U7hSbXfNzz9

in the form of tax funded topping up of wages so that people can lead a decent life from their labour. As to the latter, however, this approach is disputed at least in Germany (*Aufstocker*) since it removes responsibility from the employer to pay decent wages. Given the situation of competition in today's world, this may still be a temporarily acceptable option. Those findings of the IMF would lend support to many tax funded approaches to boost employment put forward by the UNDP sponsored survey among policy makers (see I/IVa #) or similar inclusive approaches by the OECD in its latest comprehensive report on inequality (OECD, 2015a).

And still it is unfair to ask the taxpayer to make up for that which profitable businesses are not willing to pay. Therefore the idea of having those (larger) corporations, who do not pay wages enabling their recipients to lead a decent life, pay fines into a fund from which taxpayers topping up could be refunded is a nice idea.²⁴

All of this, however, would call for a strong state with strong institutions, able to pass AND enforce such regulations.

4.4.1 National: Sinking redistribution in Germany

This context serves to remind of OECD findings in 2013 and 2015, that the redistributive effect of taxes and transfers in Germany is decreasing, mostly because the group of beneficiaries are taken out of the system and/or that transfers to some were limited more than others (see GER/III/2.4#). If this link between redistribution and growth exist, it would be interesting to see whether this reduced redistributive effect also has its impact. This examination would have to be linked with the effect of legal Minimum Wage, where it seems for some that it also “inspires” national economy due to increasing domestic consumption, or the question of refugee influx, which seems to have a positive impact on the national economy due to public investment in housing and services.

4.5 The “good life” and the dominating world-view

More than ever the insight is gaining ground, that the present neoliberal free market paradigm is no guarantee for a good and happy quality of life. Since it is too much focused on quantitative growth it tends to ignore what really matters.

4.5.1 The markets inability to guarantee happiness

Institutions like the UNDP (see I/IV/2.5) or philosophers like Michael Sandel²⁵ are creating awareness that there are items in individual and social whose regulation we must not leave to free market forces. Society and social life does not merely consist in market conform areas. The worth of some items cannot be measured in monetary quantities, but resides in itself. Robert F. Kennedy said it best in his famous speech 1968

Too much and for too long, we seemed to have surrendered personal excellence and community values in the mere accumulation of material things. Our Gross National Product ... counts napalm and counts nuclear warheads and armored cars for the police to fight the riots in our cities. It counts Whitman's rifle and Speck's knife, and the television programs which glorify violence in order to sell toys to our children. Yet the gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It

²⁴ This bill would force large corporations to pay a fine if they do not pay their workers a decent wage. (2016, February 10). Retrieved from <http://www.truth-out.org/news/item/34770-this-bill-would-force-large-corporations-to-pay-a-fine-if-they-don-t-pay-workers-a-living-wage>

²⁵ (Sandel, 2010) and What money can't buy: the moral limit of markets

does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials.... It measures everything in short, except that which makes life worthwhile.²⁶

The common wealth and the common good consists in many aspects. the balance between labour and capital, elements arising from social justice, equality, participation, sustainability of resources, free time, intact social environment and healthy relationships.

This links up with central values of Catholic Social Teaching and the social market economy as well as the ongoing discussion regarding the good life, quality of life or “Happiness Economics” (Alt, 2014).

There are quite a number of Indices for measuring development. Well known is, for example, the UNDPs Human Development Index which measures the three categories income, life expectancy/health and years spent in education. Or: The OECDs Better Life Index. Here, however, another index shall be referred to, namely one to whom the “inventor” of Happiness Research, Layard, contributes:

4.5.2 International-World Happiness Report 2015

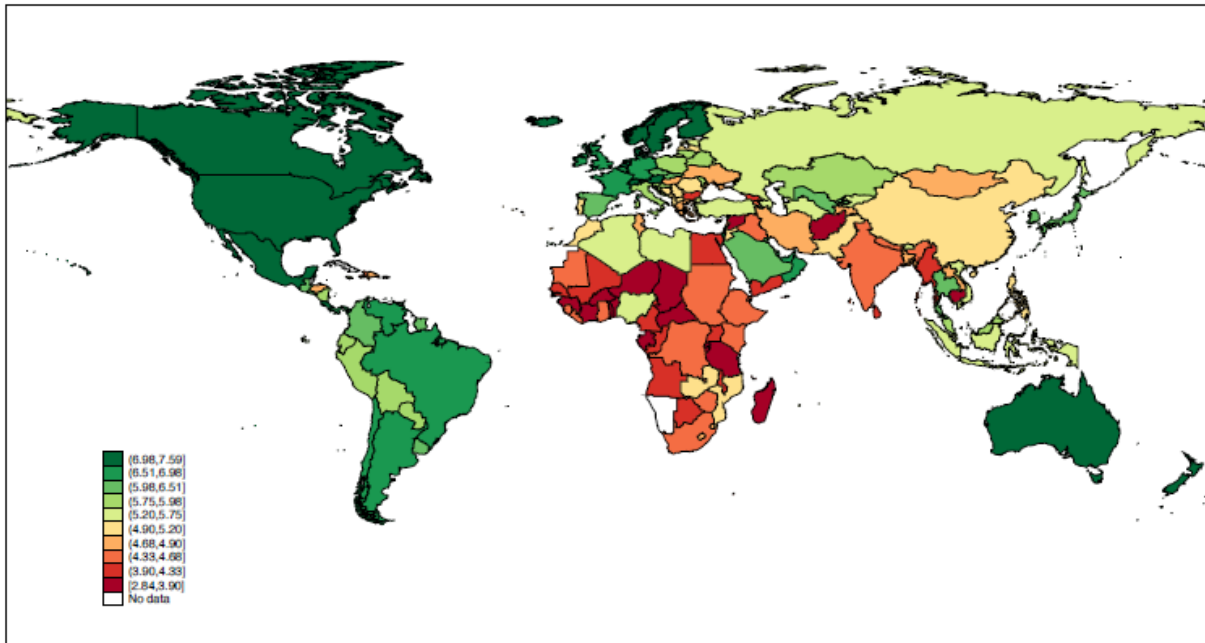
The World Financial and Economic Crisis impacted in some states upon happiness (e.g. Greece), in others not. Why?

Analysis of changes in life evaluations from 2005-2007 to 2012-2014 shows big international differences in how the global recession affected national happiness. These were found to be due to differing exposure to the crisis and differences in the quality of governance, trust and social support. Countries with sufficiently high-quality social capital appear to be able to sustain, or even improve subjective well-being in the face of natural disasters or economic shocks, as the shocks provide them an opportunity to discover, use and build upon their communal links. (Helliwell, Layard, & Sachs, 2015, p. 6)

How can happiness, a subjective feeling, be measured? The authors look at six main variables, namely ‘GDP per capita, healthy life expectancy, social support, freedom, generosity and the absence of corruption. We shall also show how measures of experienced well-being, especially positive and negative emotions, and judgments about life purpose can combine with life circumstances to support higher life evaluations’ (Helliwell, Layard, & Sachs, 2015, p. 13). The authors feel, that people understand very well the meaning of happiness and good life, therefore arguing that the title does not promise wrong or over-ambitious things.

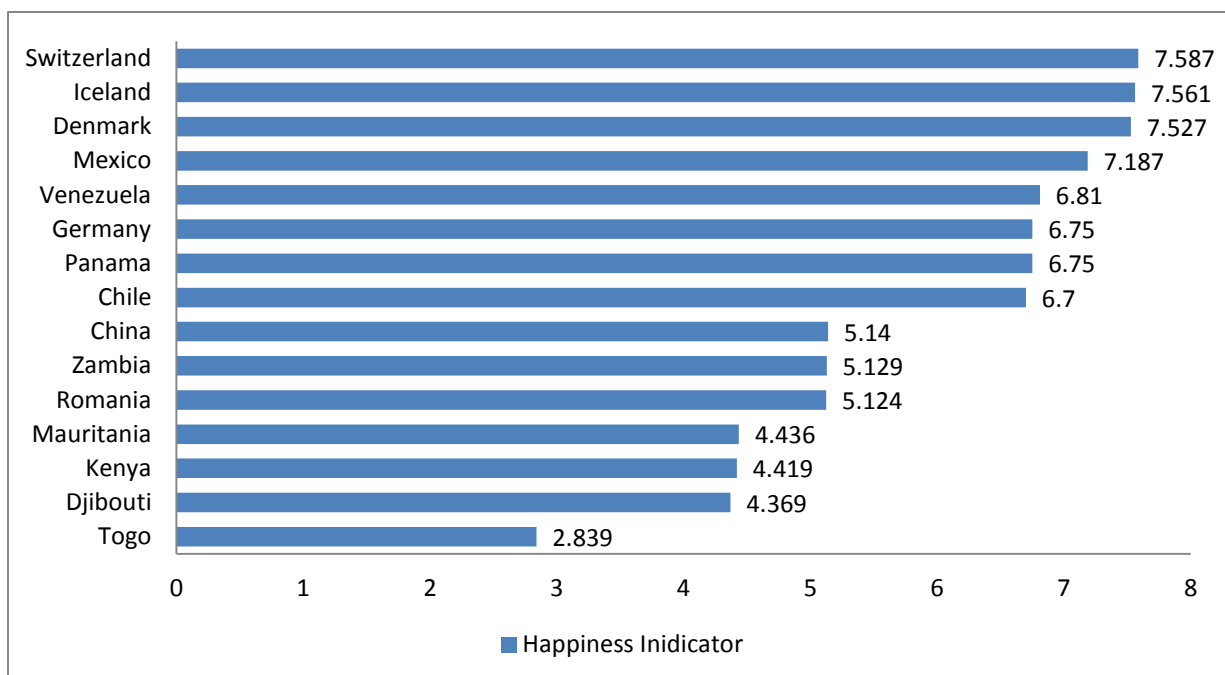
Using these variables it shows that a large number of unhappy states are south of the Sahara:

²⁶ Bobby Kennedy on GDP: 'measures everything except that which is worthwhile'. In: The Guardian. Retrieved from <http://www.theguardian.com/news/datablog/2012/may/24/robert-kennedy-gdp>



Source 1 (Helliwell, Layard, & Sachs, 2015, p. 20)

Some statistics, embedding the participating countries of this study, starting with the most happy (Switzerland, ending with the most unhappy (Togo) and some of those in-between with Germany number ranking 26, Zambia 85 and Kenya 125 out of 158 countries:



What, then, to do in order to improve the situation? Jeffrey Sachs, who accompanies this project for many years, states some interesting results arising from various game theories and related research:

The essential finding of more than 30 years of experimental research is that cooperation occurs far more often than egoistic game theory implies, yet that cooperation is fragile and variable across contexts. Groups can be primed to move towards cooperation or towards defection, for example by subliminal images of happy faces that promote cooperation. Social groups display varying tendencies towards defection or cooperation, and honesty versus

cheating, depending on socioeconomic status, culture, field of academic study, and sector of employment. Piff finds a systematically lower display of honesty among high socioeconomic status individuals in the US, a finding in line with Adam Smith's (1759) surmise that individuals of average rank in society are more likely to display moral behavior than the privileged classes, mainly in Smith's view because the poor and middling ranks must depend on their good reputations, while the rich can surround themselves with flatterers. (Helliwell, Layard, & Sachs, 2015, p. 156)

This life within a glasshouse, detached from "ordinary life", explains deficits in empathy, which is so important for any attitude of genuine compassion and solidarity. At the same time: If one thing is evident from the World Happiness Research, then it is that pro-social behavior and social capital is essential, with the consequence that cooperation is more important than competition.

Modern political and economic science in the Anglo-Saxon tradition beginning with John Locke gave primacy to individual rights and consumer preferences, and downplayed the forging of virtuous citizens. In a tradition stretching from Locke to Mill to modern neoclassical economics, the state exists mainly to foster the maximum freedom of the individual, not to forge individuals to be responsible citizens. We might summarize the distinction of Aristotelian and Anglo-Saxon political economy by saying that Aristotle views the purpose of the good state as to forge the virtues of the citizenry, while Anglo-Saxon liberalism views the purpose of the good state as to protect the liberty of the citizens, including their rights to property. The growing body of evidence on the importance of social capital to well-being and economic success is leading again to the question of how best to forge the virtues of the citizenry to achieve desirable society-wide outcomes. We are returning full circle to the question asked by Aristotle (as well as by Buddha, Confucius, Jesus, and other ancient sages): how best to achieve pro-sociality, through interpersonal trust, moral codes, education and compassion training,³³ and effective public institutions. (Helliwell, Layard, & Sachs, 2015, p. 161f.)

4.5.3 National: German IPSOS surveys

An annually recurring and representative sample of 24,000 citizens who are questioned regarding their conception of a "good life" is that conducted by IPSOS and Prof. Opaschowski and generated into the Nationaler Wohlstandsindex. For 2015,²⁷ the Index contains for categories of well-being (*Wohlstand*): economic (income, financial security...), social (social stability...), individual (health, fear of future...), ecological (intact nature...). When asked, the following ranking appears, in which financial values are still dominant:

²⁷ IPSOS (2015, June 9) Gut leben in Deutschland? Neue Erkenntnisse aus dem Nationalen Wohlstandsindex für Deutschland. Press release. Retrieved from <http://www.ipsos.de/publikationen-und-presse/pressemitteilungen/2015/gut-leben-in-deutschland-pk>

Top 10



Ipsos Observer

On the other hand, the researchers state that values besides material-financial values gain in importance, e.g. health, social peace/stability, family, lack of fear of the future, a healthy environment. It is clear, so the researchers, that the Germans no longer want material growth at any price, but that Wohlstand and Wohlergehen are different aspects for the Germans, the latter containing “quality-of-life” aspects which cannot be bought with money.

While most Germans admit that Germany is wealthy and that they are well-off, the researchers also state that the number of those who feel that they are potentially threatened by poverty is increasing and is right now at around 16.9%. Here the researchers confirm that which has been found in GER/III, namely that there are large differences between German states: At the top of the national wealth ranking are Hamburg and Bavaria, while the tendency in eastern states is that people feel financially insecure, that their job is threatened or that they are afraid of the future, e.g. in times of ageing. Linked to this are worries about health costs: Here are huge deficits where people agree that Germany has in theory one of the best health systems in the world, but that, at the same time, all too many people (45%, proportionally more in rural areas) cannot afford its blessings.

The researchers point out that politics should realize that material wealth and material growth no longer represent that which citizens desire most, and that politics should move also towards other issues such as stability, peace and care for families. In case that individual wellbeing is threatened, the researchers warn, this might also impact on social stability and cohesion and advance a radicalization of society. Findings are, according to the researchers, constant and stable on a high level.

All this has also been stated by the Enquete commission of parliament into Wachstum-Wohlstand-Lebensqualität. It should now, however, be implemented and as this research also demonstrates: Forces adherent to a material-financial paradigm are very powerful and situated in a way that progress towards the implementation of non-material values might be impeded.

4.5.4 Earning, happiness and contentment

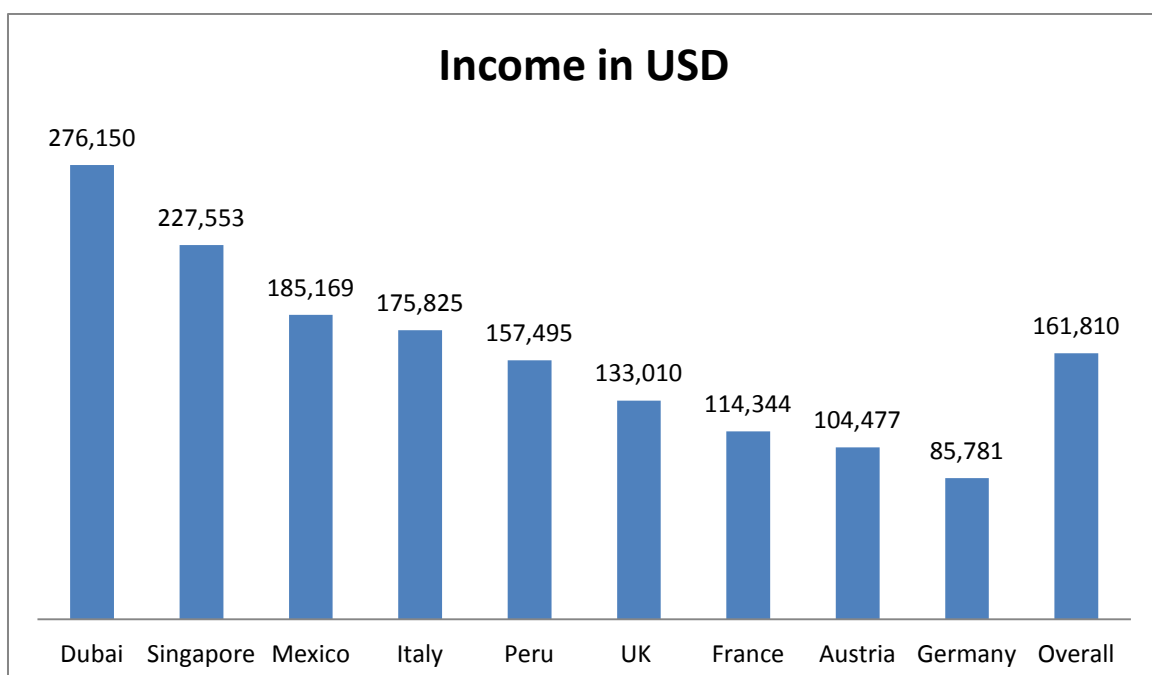
Over the years a famous figures circulated the world delineating the amount of income after which happiness is no longer linked to an increase in income because it covers all

essential material needs: Emerging from the research of Kahnemann and Deaton, the sum of USD 75,000 was picked to signal this amount. Here, however, a number of issues have been simplified and overlooked:

1. This amount is an average value, not even applicable within the US because living standards in Mississippi require much less to be happy than living standards in Hawaii.
2. This amount only signals material income, not related values such as the possession of houses, free time or family values.
3. It emerges rather from a short term comparison measured in annual wage increase than the overall estimation of a happy and satisfactorily life span. Here, those quoting the figures, even ignored the main point of Kahnemann/Deatons research which did exactly not refer to subjective well being, but the evaluation of a life-span.

On the whole, therefore, of course there IS a limit to happiness which higher income can earn, i.e. there is a stronger increase in happiness if the increase occurs in a lower segment of income, while subjective feeling of happiness decreases if the increase is from USD 1 million to USD 2 million. On the other hand, there is no upper limit where happiness aspects no longer count – this applying both for individuals within a country, individuals between countries, and countries as such. For example, a billionaire looking back on his lifetime work may well evaluate his work balance to be successful, also because of the lack of worry which his high income provides him with.

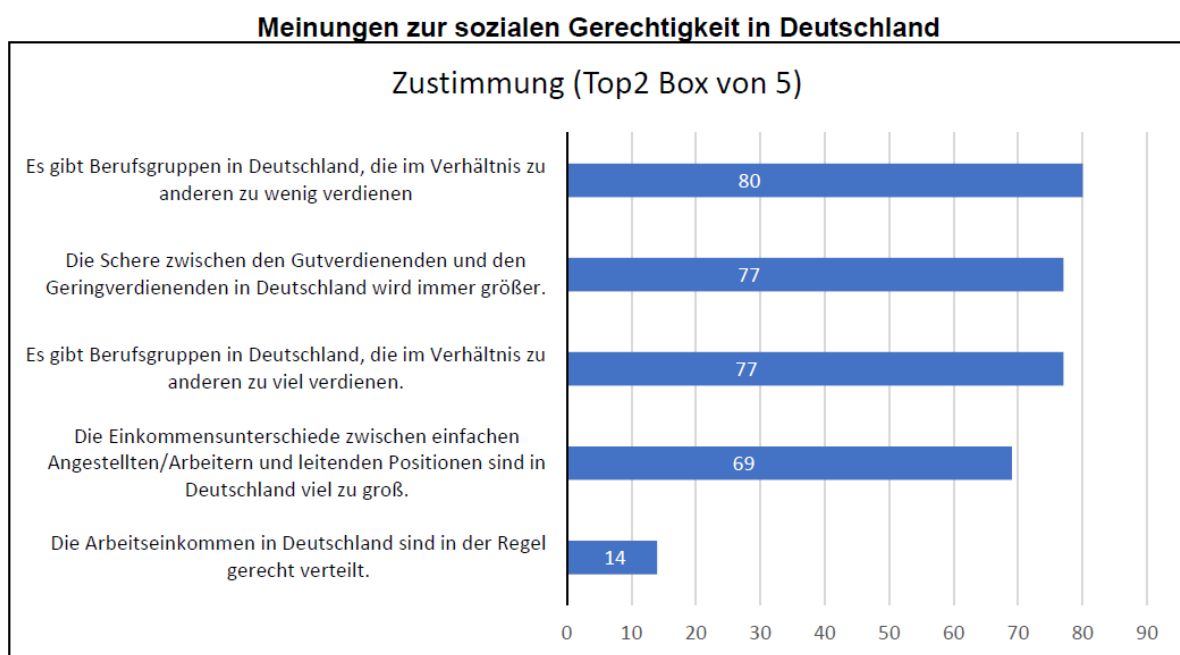
Hence: There is agreement that both subjective and objective aspects of happiness evaluation rise faster in relation to income and wealth in all countries and contexts up to a certain limit, after which increase of happiness in relation to income and wealth slows down. Here, interestingly, Germany seems to be a very content country. The 2012 Skandia Wealth Sentiment Monitor had a research organization survey 5007 people with a declared net income of BP 1000 or more. They provide on p. 6 the following replies to the question “How much personal annual net income would you need to earn for you to be really happy?”



The global average income is, based on IMF data, USD 10,700 only...

A recent survey conducted by the Bertelsmann Foundation and the Nuremberg GfK found out that work is of great importance for people in Germany, in fact the second most important factor behind family, friends and relationships (Bertelsmann Stiftung; GfK, 2015, p. 5). Also a very “catholic” attitude was emphasized: For the appreciation of work, money is not the only, not even the most important factor (p. 7f.). Regarding payment, satisfaction is low in the categories of less than EUR 1000 and up to EUR 2000, considerable (74%) for all those earning between EUR 2000 and up to EUR 3000 and high for all earning more than EUR 3000 (p. 12). The survey also found out, however, that there is a strong feeling that payment is getting out of control and that some deserve more than appropriate and others too little.

Graphic 2 Opinion regarding social justice in payment



Angaben in gerundeten Prozent

Source 2 (Bertelsmann Stiftung; GfK, 2015, p. 13)

➔ More in the Appendix on happiness research

4.5.5 What could be a fair and acceptable limit to income and wealth inequality?

The previous still leaves us with the question whether there is a limit to that which justifiably can be earned and enjoyed on the one hand, and that which goes beyond good taste and need and beyond which certain tougher taxation limits or other measures to cap income and wealth could be justified. This links with the question of “Super-Salaries”, i.e. the fact that some CEOs earn a manifold of that which the average worker earns in the same factory.

This question cannot really be answered in absolute figures for all three countries participating in this study, because medium and median incomes vary widely. While worldwide an average annual income of USD 3,210 places its recipient among the wealthiest half of the global population (Credit Suisse, 2015, p. 11) this would be still close to poverty levels in Germany. There are two proposals which would not require a lot of calculation and establishment but which could be deducted from data which is available annually anyhow:

A first proposal could be a special observation and taxation of the top 1% and 0.1% of top incomes of the population. For Germany, this would be ca. 400000 Personen mit einem Jahreseinkommen von 221000 Euro²⁸ oder mehr und ca. 400000 Haushalte mit einem Durchschnittsvermögen von 2.5 Millionen Euro und mehr.²⁹

As a compromise this research has the position that a good and justifiable limit could be the hundredfold of median income and a thousandfold of national median wealth. The difference between medium and median, as explained in I/IV# and GER III/# is still of importance since medium income can be distorted easily by few wealthy people, while the median reflects better the distribution between low and high incomes.

For Germany in the year 2015, this would mean in income a limit of EUR 1,973,300 and for wealth EUR 51,400,000. To those finding this income ratio too high I want to remind them that so far there, regarding income, ratios of 1:147 and incomes measuring double digit millions. To those finding this income ratio to low I remind them of the Swiss Initiative wanting to fix the ratio at 1:12 (see I/IV/5.4.3 and GER III/2.1.5+6). To those finding this wealth ratio to high I remind them that valuation of wealth, e.g. of own houses, is pretty difficult because market prices can be influenced by temporary trends or currency ups and downs. And: that market value does not mean that anybody can actually sell items for that market price, i.e. there has to be an allowance. Still, given the spread of wealth in Germany, even the threshold of EUR 51 million would not even faintly touch those fortunes covered by the Manager Magazines Top 500, who all start at an amount five times higher than that proposed (EUR 250 million).

While the taxation of income would certainly be impacted if income from capital and capital gains would be added to that which people declare, the most important impact of this suggestion would arise with the Inheritance and Gift Tax, if one proposes, for example, that all whose personal wealth is beyond EUR 51 million will have to pay a 50% tax on all Inheritances and Gifts without exemption.

4.5.6 Implications for the Anglo-Saxon and Continental Model?

Interesting enough, some see implications of the “good life debate” also regarding the way society is organized and ruled. Robert and Edward Skidelskys book “How much is enough?” comes to the conclusion that a happy and content society can be reached rather in a Keynesian society than a neoliberal one, and, consequently, more a society following Catholic Social Teaching. In the words of a book review by The Guardian:

That said, the main thrust of the book holds true. There is more to life than gross domestic product and it is only recently that growth at all costs has become enshrined as the goal of economic policy....They favour a society influenced rather less by Anglo-Saxon capitalism and rather more by the catholic teachings that inspired Europe's postwar social market economy. Sprinkle in a bit of Keynesian liberalism and a pinch of social democracy and the good society is within reach.³⁰

²⁸ Tabelle 4 zeigt, dass die 1 % (0,1 %) der Steuerpflichtigen mit den höchsten Summen der Einkünfte (SdE) mindestens eine SdE von 221 229 Euro (742 952 Euro) aufweisen. Sie besitzen dabei einen Anteil von 11,8 % (4,7 %) am GdE und zahlen 22,3 % (8,9 %) der festgesetzten Einkommensteuer. (Federal Statistical Office, 2015a, p. 8)

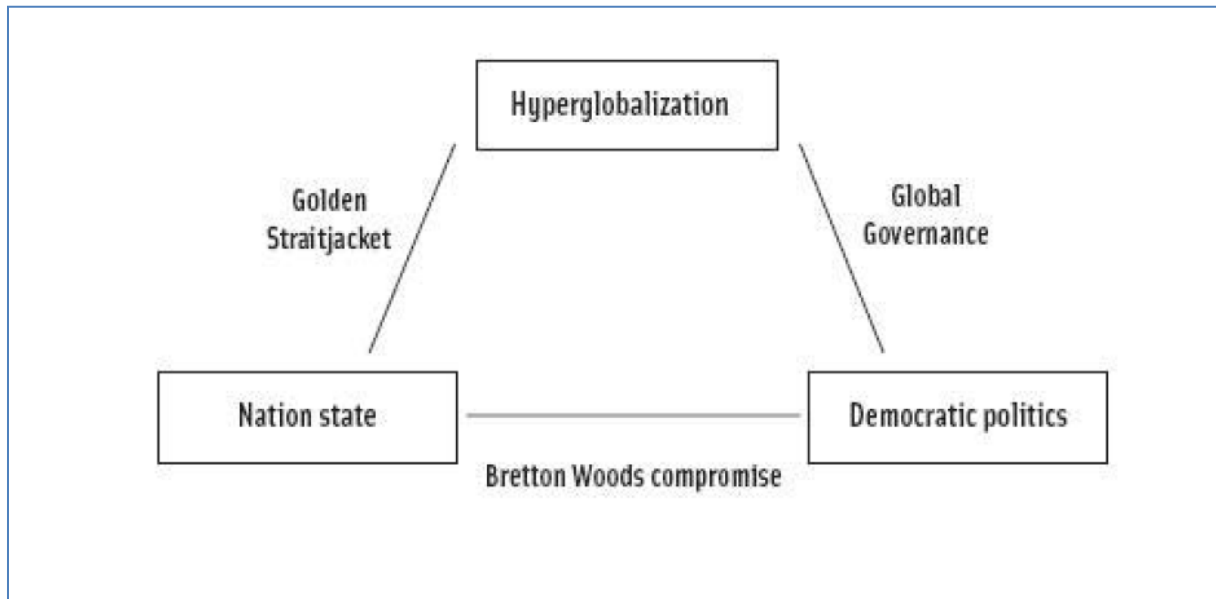
²⁹ Grabka/Westermeier 2015

³⁰ Elliot, L. (2012, June 29) How much is enough? In: The Guardian. Retrieved from <http://www.theguardian.com/books/2012/jun/29/how-much-is-enough-skidelsky-review>

4.6 The Rodrik Trilemma and the China Dilemma

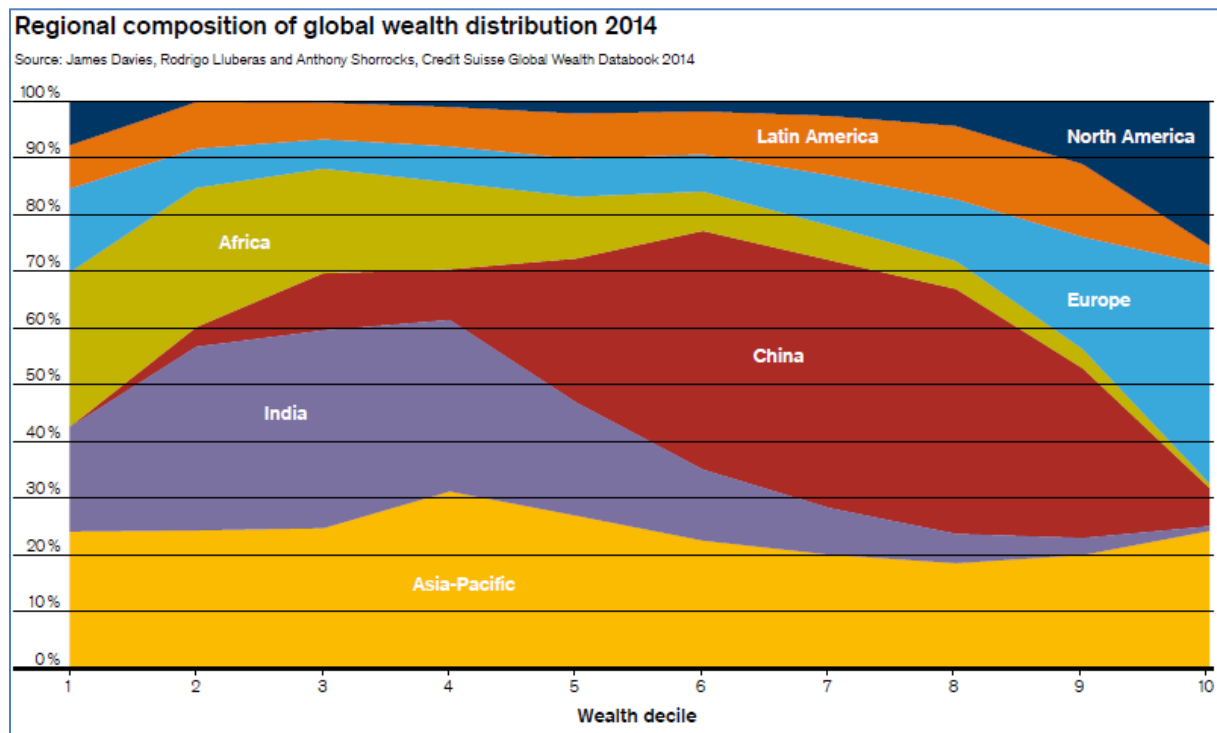
A thorough reflection on the problems involved in the context of globalization forces, state agency and democratic control was and is spelled out by Dani Rodrik in his book “The Globalization Paradox” (2011). He demonstrated that the world has to choose between three options: a free market based hyperglobalization, democracy and the ordering role of a functioning public administration in the form of nation states. Rodrik argued, that only two of those three elements can co-exist fully together, while the third, excluded, element will and has to be subject to the other two.

Graphic 3 The political trilemma of world economy



A confirmation for Rodriks thesis is the development in Asian “Tiger” states, especially China: Here, they were much more successful with reducing poverty than states in other regions in the world, because they opted for the combination of “Globalization” and “State” on the expense of “Democracy”.

Graphic 4 Regional composition of global wealth distribution 2014



Source 3 (Credit Suisse, 2014)

In other words: the price they pay for economic development and poverty reduction is that their government is more authoritarian than others, not dragged down in their decisions and planning by time-consuming and complex democratic processes and therefore more efficient.³¹ This would be an argument to drop democracy in favour of economic Globalization and/or authoritarian states instead.

Whoever argues like that, normally focuses on economic growth and ignores the side-effects of Chinese and even Indian growth: Growing social injustice and serious ecological degradation.³² Given our Catholic and Human Rights based starting point, however, such an approach would steamroll the dignity of human beings and their responsibility and ability to participate in everything relevant to their personal situation.³³ It is also argued that development and wealth generated via participation of all is more social and ecologically balanced and sustainable than that which is created via authoritarian decree.

For this research the option democracy and state regulation seems to be preferable, while economic globalizations' place is seen to be under control of those two.

³¹ For a discussion of this point see (Sen, 2010, p. 345ff.) or Nial Fergusons book "The West and the Rest".

³² This is obvious and acknowledged in China, but more diffuse for India. However, when Narendra Modi was elected Prime Minister on the promise to promoted growth in the Indian Union as he succeeded to do so in his state of Gujarat it was pointed out that the economical miracle in Gujarat was achieved only on grounds of serious social inequality and tension and environmental degradation.

³³ 'We have to go beyond economic growth to understand the fuller demands of development and the pursuit of social welfare. Attention must be paid to the extensive evidence that democracy and political and civil rights tend to enhance freedoms of other kinds (such as human security) through giving a voice, at least in many circumstances, to the deprived and the vulnerable.' (Sen, 2010, p. 348)

4.7 Private vs. public investment and goods: Free Rider

One of the most fatal developments of the past decades is the progress of market logic and market categories into areas where they do not belong to. This happened because market ideology developed into a comprehensive system of thinking and ethics which then seduced policy maker into the fallacy that that which is good for markets is also good for states, by that confusing major, incompatible categories of human society.

But, as has been shown in 4.5, as pure economics is incapable to really “produce” the good life, pure economics is also unable to truly appreciate public services and goods from within its own canon of values and norms. This has been known already by Adam Smith. He stated in the 5th chapter of his “Wealth of Nations” already that we need the state for those public tasks and institutions which are not realized by individuals or small groups simply because it is not profitable enough for them to invest in them.³⁴ Only short-sighted private and corporate wealth holder would deny the importance of publicly financed infrastructures, health care, street cleaner, teacher, police etc. as a precondition for their ability to create income and wealth, let alone ignore the value of clean and unpolluted water, air, soil and food. If this were not the case, why do they not all move to the Cayman Islands and spend there the rest of their life? Low tax regimes are a very small contribution to the creation, preservation and accumulation of real income and wealth in this world.

Another lack of appreciation of the private sector can be seen against public goods, i.e. goods which are so essential and important that everybody is entitled to its use.³⁵ Private enterprise has the tendency to either overexploit those resources because nobody puts a price tag on them or turn them into profitable goods which then provides a better service to some rather than others, which has been amply illustrated in the attempts to privatize water. Here state and governments are needed to protect humanity from those distortions.

In 1998 already, the OECD labelled such behaviour as “free riding”:

Investors in tax havens, imposing zero or nominal taxation, who are residents of non-haven countries may be able to utilise in various ways those tax haven jurisdictions to reduce their domestic tax liability. Such taxpayers are in effect “free riders” who benefit from public spending in their home country and yet avoid contributing to its financing. In a still broader sense, governments and residents of tax havens can be “free riders” of general public goods created by the non-haven country. Thus on the spending side, as well, there are potential negative spillover effects from increased globalisation and the interaction between tax systems. (OECD, 1998, p. 14f.)

4.8 Competition vs. cooperation: Tax Poaching

But: to correct those wrongs adequately nation states are not capable of doing this on their own. Rather, a more international form of governance is needed to secure sustainability and justice (Bund Katholischer Unternehmer, 2012, p. 19f.). On that background, one of the

³⁴ The sovereigns or commonwealth’s task ‘is that of erecting and maintaining those public institutions and those public works, which though they may be in the highest degree advantageous to a great society, are, however, of such a nature, that the profit could never repay the expense to any individual, or small number of individuals; and which it, therefore, cannot be expected that any individual, or small number of individuals, should erect or maintain.’ (Smith, p. 276)

³⁵ Zu öffentlichen Gütern ,gehören ganz lebenswichtige und unentbehrliche. Das sind Güter, in deren Genuss, soweit sie vorhanden sind, jedermann tritt, von denen niemand ausgeschlossen werden, die vielmehr jeder sich aneignen und nutzen kann. Für solche Güter lässt sich kein Preis und demzufolge keine Kostendeckung erzielen; entweder nimmt die Allgemeinheit es auf sich, sie bereitzustellen, oder sie fehlen.’ (Nell-Breuning, 1980, p. 170)

biggest confusion here concerns competition: While rule based competition is certainly driving agent of markets, production and distribution, it got out of control by entering and regulating core activities of state sovereignty. And what is more essential and important to the exercise (and financing!) of state sovereignty than raising taxes and collecting revenue with the goal to finance public services and goods?

There are several indications that this clear separation of competence has been softened. For example, the Lisbon Treaty amending the Treaty of the European Union writes in Article 2, Nr. 3

The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a *highly competitive* social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. [emphasis by author]

Similarly, the German Chancellor Merkel or the lobby group “New Social Market Economy” like to talk of the “market conform democracy”,³⁶ interesting enough this phrase has been chosen to be the “non-expression” of the year 2011 by the renowned jury organizing the “Unwort des Jahres” selection, arguing that it makes relative the proper absolute of modern society, namely democracy.³⁷

By now, however, a number of arguments exist why “tax competition” is overall destructive:

As early as 1998, the OECD identified “Harmful Tax Competition” already as an “Emerging Global Issue”. It first lists some damaging practices, then calling that behaviour as “poaching”:

Tax havens or harmful preferential tax regimes that drive the effective tax rate levied on income from the mobile activities significantly below rates in other countries have the potential to cause harm by:

- distorting financial and, indirectly, real investment flows;
- undermining the integrity and fairness of tax structures;
- discouraging compliance by all taxpayers;
- re-shaping the desired level and mix of taxes and public spending;
- causing undesired shifts of part of the tax burden to less mobile tax bases, such as labour, property and consumption; and
- increasing the administrative costs and compliance burdens on tax authorities and taxpayers.

Clearly, where such practices have all of these negative effects they are harmful. However, in other cases, for example where only some of these effects are present, the degree of harm will

³⁶ „Wir werden einen Weg finden, sagte Merkel, „wie die parlamentarische Mitbestimmung so gestaltet ist, dass sie trotzdem auch marktkonform ist“.‘ See Gutschker, Th. (2011, September 4) Marktkonform. In: FAZ. Retrieved 12 May 2015 from <http://www.faz.net/aktuell/politik/politik-der-eurorettung-marktkonform-11131159.html>

³⁷ „Begründung: Die Wortverbindung marktkonforme Demokratie steht für eine höchst unzulässige Relativierung des Prinzips, demzufolge Demokratie eine absolute Norm ist, die mit dem Anspruch von Konformität mit welcher Instanz auch immer unvereinbar ist. ... Auch wenn die Wortverbindung gegenwärtig meist kritisch verwendet wird, steht sie doch für eine bedenkliche Entwicklung der politischen Kultur.“ Retrieved 12 May 2015 from http://www.unwortdesjahres.net/fileadmin/unwort/download/pressemitteilung_unwort2011_01.pdf

range along a spectrum and thus the process of identifying harmful tax practices involves a balancing of factors. If the spillover effects of particular tax practices are so substantial that they are concluded to be poaching other countries' tax bases, such practices would be doubtlessly labelled "harmful tax competition" (OECD, 1998, p. 16)

The IMF warns in 2013:

"(T)ax competition is damaging the common good and admonishes states that the 'sum of losses' due to preferential rates 'likely exceeds the gains. ... Tax competition can simply result in tax rates' ending up too low.' If states continue to compete with each other instead of coordinate their approach, 'there would ... be a social loss suffered, since effective rates would be below the levels to which a collective decision would have lead. ... (T)he gains from closer cooperation might be considerable ... the fundamental issues should not be ducked.' (International Monetary Fund, 2013a, p. 33)

Also in Germany, this insight is growing. It was expressed most clearly by the former Federal Constitutional Judge Paul Kirchhof. Starting from the assumption that today's state needs to be understood as a "Tax based state" (Steuerstaat), he argues that regional or international state competition for taxes is suicide, because only that state will win which, eventually, offers 0% tax rates – which will be the day of his death.³⁸

Similar tax expert Wolfgang Schön, head of the Max Planck Institute and Professor at numerous prestigious universities argues, that agreement on taxbase and cooperation would be crucial to win the damaging tax game.³⁹

Next the Tax Justice Network (Christensen, 2015). Its director elaborated it in detail by demonstrating that the "competitive advantage" in tax matters is no "comparative advantage" and that any politician pointing to the Prisoner Dilemma in the attempt to justify his tax cutting policies has not understood the Prisoner Dilemma at all which, after all, is an appeal for cooperation (see E/III#). Especially regarding Africa, Christensen points out the stupid developments which are at hand when, for example, states offer Export Processing Zones with close-to-zero tax rates and then offering additional subsidies – amounting in costs for that state, but not revenue. Or: The attempt to privilege FDI, leading to "round-tripping", i.e. that money from Kenya goes first to Mauritius before it is "attracted" from there as FDI in Kenya again.

This truth is by now even recognized and admitted by the IMF who, for that reason, argue for higher/better/more efficient taxation. In 2012, a group of authors observed: 'There is evidence of a partial race to the bottom: countries have been under pressure to lower tax rates in order to lure and boost investment.... However, a race to the bottom is evident among special regimes, most notably in the case of Africa, creating effectively a parallel tax system where rates have fallen to almost zero.' (Abbas, Klemm, & al., 2012)

³⁸ „Konkurrenz der Staaten um unternehmerische Ansiedlung und Investitionen ist kein Wettbewerb... Diese Rechtfertigung gilt für den Sport, für politische Wahlen und für den wirtschaftlichen Markt, jedoch nicht für Staaten.... Brot ist käuflich, Recht nicht. ... (D)as Bild vom Steuerwettbewerb (verfehlt) die Wirklichkeit autonomer staatlicher Steuergesetzgebung... 'Wettbewerb' führte in die Selbstaufgabe. Sein Ziel wäre erreicht mit einem Nullaufkommen, dem Tod des Finanzstaates.“ (Kirchhof, 2011, p. III)

³⁹ „Das Spiel lässt sich daher nur gewinnen, wenn die Staaten dieser Welt es untereinander ernst meinen mit der inhaltlichen Koordination ihrer Besteuerungsansprüche, mit einer gemeinsamen Haltung zur Grenze zwischen gesundem und schädlichem Steuerwettbewerb und mit einem vertrauensvollen Austausch von Meinungen und Informationen auf den verschiedenen Ebenen der Politik und der Verwaltung. Hier verlaufen die wirklichen Frontlinien.“ (Schön, 2013)

And, in 2013, the Fiscal Monitor stated that the

‘sum of losses’ due to preferential rates ‘likely exceeds the gains. ... Tax competition can simply result in tax rates’ ending up too low.’ If states continue to compete with each other instead of coordinate their approach, ‘there would ... be a social loss suffered, since effective rates would be below the levels to which a collective decision would have lead. ... (T)he gains from closer cooperation might be considerable ... the fundamental issues should not be ducked.’ (International Monetary Fund, 2013a, S. 33)

We also support strong, inclusive social security systems which are funded by tax and tax-like contributions rather than private initiatives such as donations or foundations which, as we have shown in GW/#, are rather the expression of plutocratic preferences and dominance, being accountable to them rather than the public.

As the paradigm of Social Market Economy always emphasizes, it is important that both markets and state are able to act efficiently within their areas of competence, i.e. that markets are able to compete, but states are able to set the rules within which this competition may take place.

This cooperative rather than competitive emphasis is strongly supported by a biomathematical analysis of the evolution by Martin Nowak: He was trying to establish the laws which most importantly advanced evolution and found that the most privileged were not those where the fittest demonstrated his superior power, but where cooperation was most developed (which is why Nowak titled his bestselling insight “Super-Cooperator”). From that insight Nowak deducts the importance which a good reputation had and might have even nowadays for influencing behaviour (Nowak, 2011, p. 215ff.), arguments which could, for example, be used to reflect on the meaningfulness of “Name & Shame” campaigns. On the other hand, as findings presented above (#worldhappinessreport) illustrate, especially wealthy people are more immune against this mechanism because they can “buy” compliments from flatterer.

4.9 The role of democracy and civil society

But perhaps democracy is not the proper absolute of our days, as asserted in the previous chapter, because people are not adequately educated or unaware about their responsibility to check both state and markets via economic institutions?

Admittedly, market actors and their decisions may be taken very fast and efficient. But in the end their decisions may be one-sided and oblivious of values which cannot be assessed and traded in monetary terms. Admittedly: processes within state and democratic institutions are very cumbersome and slowly. This involvement is important, however, because the acceptance of many, if not all, is a recipe for success when implementing decisions benefitting the many rather than the few. The “Good Life” debate alerted us to such non-negotiable goods which might even be under threat by market logic and market thinking.

Another advantage of state-/democratic decision processes is that – ideally – here decisions are taken for a longer period of time: While businesses and corporations necessarily need to act under the pressure of markets, competition, stock exchange and profit margins expected to be high at every quarterly financial statements, public decision processes are concerned with longer-term and more complex developments. Design of a tax authority and

its implementation certainly needs much longer periods of time, beyond quarterly reports rather requiring a decade or more (ITC; OECD, 2015, p. x)

Nevertheless, democratic structures and participation is certainly a problem in Africa, but also in Germany, facing the growing amount of those who are withdrawing from public life, social debate and voting because they are disillusioned about their situation.

Here Amartya Sen reminds us that NGOs and Civil Society Organizations have an important role to play in the process of public reasoning, because they have knowledge and skills to expose malpractice or introduce workable alternatives. Sen argues, that public reasoning might be a much better model of democracy than the original ideal western model of 1 (wo)man 1 vote because change could be achieved faster and more efficiently (Sen, 2010, p. 321ff.). This kind of public reasoning can be done with present NGO structures and actors supported by Social Media communication facilities right away in all of our three countries, even though large parts of the public might be uneducated or disillusioned and therefore outside democratic decision making processes.

Civil society so far has been underestimated in their importance for social cohesion, which is not the case since, in our view, civil society have an equal position besides markets and states. In a simplified manner one can say that the economy is in charge of generating material welfare and the state with its institutions is moderating both business interests and those of civil society in its institutions, most importantly parliament. Also Pope Benedict reminds us of a most basic element of social cohesion which can neither be purchased nor decreed: Voluntary sensitive engagement of citizens:

When both the logic of the market and the logic of the State come to an agreement that each will continue to exercise a monopoly over its respective area of influence, in the long term much is lost: solidarity in relations between citizens, participation and adherence, actions of gratuitousness, all of which stand in contrast with *giving in order to acquire* (the logic of exchange) and *giving through duty* (the logic of public obligation, imposed by State law). In order to defeat underdevelopment, action is required not only on improving exchange-based transactions and implanting public welfare structures, but above all on gradually *increasing openness, in a world context, to forms of economic activity marked by quotas of gratuitousness and communion*. The exclusively binary model of market-plus-State is corrosive of society, while economic forms based on solidarity, which find their natural home in civil society without being restricted to it, build up society. The market of gratuitousness does not exist, and attitudes of gratuitousness cannot be established by law. Yet both the market and politics need individuals who are open to reciprocal gift. (CV Nr. 39)

Clearly, Civil Society needs to have a stronger share in the decision making, a position which is in tune with those held by Catholic inspired business leaders and their federations.⁴⁰ Parallel, of course, capacity and capability building needs to be conducted by those who have resources and skills to do it. Democratic awareness, responsibilities and opportunities need to be communicated and taught to the public so that democratic processes and accountability can be strengthened.

4.10 Threats to democracy

Democracy is at threat from three sides:

⁴⁰ (Bund Katholischer Unternehmer, 2012) (UNIAPAC, 2015)

As has been mentioned above (#statecapture) already, the first threat comes from those who have the power to avoid public debate in the first place by using their hidden power in the background or to manipulate public debate by their command of mass media or. This power corresponds at the lower level the lack of education so that people uncritically are prone to the seductive indoctrination via elite-controlled mass media.

The second threat is the withdrawal of the “lower segments” of the population since they increasingly win the feeling that they do not have any say anyhow against those who are in power, which is why it does not make sense to participate in dialogue and voting.

Another danger seems to arise exactly from an area which so far has been hailed as a remedy against widespread exclusion from information: Social Media. Here indeed everybody is able to disseminate information to everybody else. But there are manipulations as well, e.g. that during election campaigns fake profiles are opened, that way manipulating public perceptions (campaign Donald Trump). Or, as it seems, however, there are again distorting mechanisms, impacting on the ability to form oneself an objective opinion: Algorithms seem to influence search behavior of people in Google or in Facebook so that, after a while, people are offered as a matter of priority rank information of which Google or Facebook knows that they are interested, based on their earlier search or “Like” pattern.⁴¹

Clearly, a one-(wo)man one vote democracy is certainly desirable at the lowest level of government, e.g. the local/municipal level, since decisions here concern everybody. But the higher up it gets, the more skepticism exists, especially given the upsurge of rightwing populism in the EU, resulting in the “Brexit” or other debates, e.g. against immigration, which is rather shaped by emotions than the knowledge of facts. Here, indeed Amartya Sens model of a public discourse is preferable since it would seem to be some insurance against “simplification”.

4.11 Transparency, governance assistance

Whatever form of democracy one chooses, however, it is also essential to make accessible important information to those in charge so that “informed decisions” can be taken. Here, however, secrecy and the lack of transparency in important legal and business affairs is one of the big common problems identified in all three countries of this research, and it does not really matter if those transparency issues come under the name “tax secrecy”, “banking secrecy”, “trade secrecy” since all are protecting the interest of private, corporate and criminal wealth holder against state officials and the public.

Clearly, here, too, is a difficult area to evaluate and to balance: Certainly there are areas within state activity which should be subject to some secrecy, e.g. when fighting organized crime. On the other hand a lot of secrecy issues are not really threatening state security and the safety of the people, but rather profits of some private and corporate wealth elites and here we perceive a difference as well as the former EU Commissioner on taxation:

⁴¹ This suspicion is not yet discussed very openly, but it seems to be one reason behind the sudden increase in quality and quantity of racism and xenophobia in Germany. http://www.deutschlandfunk.de/facebook-im-visier-die-eskalierende-fremdenfeindlichkeit-im.724.de.html?dram:article_id=330953 Or <http://junkee.com/how-facebook-subtly-works-to-reinforce-your-prejudices-without-you-even-realising/57226> Or Racist algorithms: how Big Data makes bias seem objective <http://boingboing.net/2015/12/02/racist-algorithms-how-big-dat.html>

As Algirdas Semeta puts it in the wake of Offshore Leaks: ‘Tax transparency is more important than data privacy.’⁴²

Here and in the wake of the PanamaPaper Leak, increasingly resistance emerges against the “classic” plans by OECD and EU regarding transparency, e.g. some internal transparency for a selected group of officials, as recent European discussion proposes: For example, transparency into beneficial ownership for civil servants working in tax administration or access to registers for those having a “justified interest”. This is certainly better than no insight and access at all, but no satisfying solution: If, for examples, those registers are only accessible to tax administrations and “entitled third parties”, not much will be achieved: Classically, authorities can only be active if they have an initial suspicion (Anfangsverdacht), but it is questionable that an employee of the Bavarian tax administration gets this initial suspicion by just receiving data within the AEOI agreement from Panama. How could he, for example, discover bogus directors of Shell Companies without doing some research on names, which is not his business and which is, probably, prohibited by still existing tax secrecy regulations. Here, therefore, NGOs and journalists need to have open access because it is those who revealed most of the relevant scandals in the nearer past. An conversation partner puts it like this:

‘Distortions in market society damages seriously the common good and all society, which is why society as a whole has a justifiable interest of open access to this data. The extent of institutional corruption is such that you cannot fight it with authorities strangled by national laws. Against that, only swarm intelligence can counter it.’⁴³

There may be another argument to justify publication of beneficiary ownership behind Tax Haven Companies and even companies as a whole: Those are not real persons, which should still enjoy tax secrecy and a lot of privacy, but legal persons and what they do or fail to do damages the public and the common good as a whole. For that reason, the public has a justified interest in knowing that data. If eventually the beneficial owner is identified by name, birth date, residence and nationality those data, if they are known to the relevant authority and pay their dues, on THAT level they can then be anonymized and justifiable private interests can be protected. Public registers in developed countries can be of use even for developing countries if they contribute to the unmasking of corrupt politicians and civil servants trying to transfer money out of their countries for investment elsewhere in the world: Information then could reach via that register in countries of destination people, NGOs and media in the country of origin, supporting their action against these misdeeds.

Until this is not achieved, a promising way may also be the attempt by civil society to gain access to information by using juridical institutions: In Germany, that way more transparency was obtained towards lobbyists getting access to parliament, in Kenya, that way Tax Justice Network is trying to get access to information related to a Double Tax Agreement with Mauritius.⁴⁴

Even if a government is corrupt, not wanting to address aggressive tax avoidance, tax evasion, IFFs of all sorts, international initiatives to increase transparency regulation can

⁴² Semeta, A. (2013, June 5) Offshore Leaks transformed tax policy. Press Release. Retrieved 2015, February 10 from <http://euobserver.com/economic/120382>

⁴³ ‘Das Ausmaß der institutionellen Korruption ist so gigantisch, dass nur Schwarmintelligenz eine Chance hat, ihr Einhalt zu gebieten.’ (Meinzer, 2016b)

⁴⁴ See GER/VII#, and Guguyu, O. (2016, February 4) Treasury keen to evade Parliament in Mauritius Tax row. In: Daily Nation. Retrieved from <http://www.nation.co.ke/business/Defends-controversial-Mauritius-tax-agreement/-/996/3061760/-/97qif4/-/index.html>

assist national media, trade unions, church activists and other groups of civil society to bring hidden facts to the open, thus making it possible to address them. Here, therefore, it makes sense to force also governments outside Africa to impose transparency rules and standards which then might be accessible to people in corrupt countries, who then are able to act on those data. Interesting enough, natural theology offers a stringent argument, namely that there is some obligation on wealthy countries to support developing countries in those areas if by that social justice may be advanced (Nass, 2016).

4.12 Statehood, taxation, representation

Statehood and democracy are intimately linked via taxation, social ethics even discusses the expression “tax state” (Steuerstaat)⁴⁵ when looking at profile and extent of statehood: The extent of state depends on the extent of taxation which is, after all, paid by natural and legal persons. If there are many services desired by the state, a lot of taxes need to be collected. Where there is little tax revenue, only few institutions and services can be maintained. For that reason, a common understanding about the state and expectations towards him should precede any discussion of taxation (see#)

Equally large is the link between democracy and taxation. After all, the tax-paying citizen of today is no longer somebody which can be easily oppressed by either economic or political elites, but a person who (ideally) wants to participate in the life of his state and society, like the citizen fighting in the American revolution 1776 by saying: “No taxation without representation”.

We think that taxation is justified and needed to finance public goods not covered by market forces alone. On that background, we support the Financial Transparency Coalition, a network which aims to combat Illicit Financial Flows. Within their comprehensive approach, taxation has the following functions, the famous “5 Rs”:⁴⁶

- Raise revenue;
- Reprice goods and services considered to be incorrectly priced by the market such as tobacco, alcohol, carbon emissions etc. and by providing tax reliefs e.g. for childcare;
- Redistribute income and wealth;
- Raise representation within the democratic process because it has been found that only when an electorate and a government are bound by the common interest of tax does democratic accountability really work; and finally to facilitate:
- Reorganisation of the economy through fiscal policy.

The latter is to be emphasized because it does not come immediately to mind which is why it is possibly also omitted among the otherwise classical “4 Rs” of the Tax Justice Network.⁴⁷ We want to emphasize it because indeed taxation is one among the options to regulate markets and push back “bads” damaging the common good, e.g. Carbondoxes or market transactions of limited or no use for the common good, e.g. algo trade.

⁴⁵ (Nell-Breuning, 1980, p. 66f.) (Möhring-Hesse, 2016)

⁴⁶ Financial Transparency Coalition (2010, May 24) The Foundations of Tax Justice. Retrieved from <https://financialtransparency.org/the-foundations-of-tax-justice/>

⁴⁷ E.g. p. 5 of Tax Justice Network Africa (2011) Tax us if you can – why Africa should stand up for Tax Justice.

An interesting examination of the link between statehood and taxation has been done by Bräutigam/Fjeldstad/Moore in their 2010 book “Taxation and State Building in Developing Countries – Capacity and Consent.”

There is a widespread concern that, in some parts of the world, governments are unable to exercise effective authority. When governments fail, more sinister forces thrive: warlords, arms smugglers, narcotics enterprises, kidnap gangs, terrorist networks, armed militias. Why do governments fail? This book explores an old idea that has returned to prominence: that authority, effectiveness, accountability and responsiveness is closely related to the ways in which governments are financed. It matters that governments tax their citizens rather than live from oil revenues and foreign aid, and it matters how they tax them. Taxation stimulates demands for representation, and an effective revenue authority is the central pillar of state capacity.⁴⁸

Democratic involvement is likely to boost taxpayers morale insofar that people have a say how their money is being spent: This illustrates the outcome of an expensive development project in the Swiss town of Zurich: The town parliament supported with 100 of 125 votes a twofold development: First a soccer stadium for the local clubs, costing 220 Million SFr, second and linked to it, a municipal housing project for families with children for 103 Million SFr. In a popular vote, however, the local citizens rejected the stadium, saying that there is no need to spend such a lot of money just a football stadium, while they approved with two thirds majority the housing project.⁴⁹ That popular sentiment often is more critical towards the spending (wasting?) of taxpayers money showed also the German debate surrounding the new Airport of Berlin-Brandenburg or the new Central Station of Stuttgart.

4.13 Conclusion

The researchers would agree that there is no better alternative to the market principle in our view when it comes to the question of allocation goods and reducing poverty. The question here is rather, what kind of market (free or regulated) and what importance or even domination of a free market is justified when it comes to the ordering and structuring of our social and political life, including our laws and their enforcement.

On that background we sideline rather with the analysis and conclusions of Piketty, Stiglitz, Nell-Breuning than those of Hayek, Friedmann and the “Chicago Boys”. We sideline with those arguing that there are important values outside monetary quantification and, accordingly, better ways to manage our affairs than a free market based order. This is not to suffocate market mechanisms, but the attempt to have market regulate themselves did, in our sight, not work. Most importantly, the emerging “right of the strongest” or the cheating of some is distorting markets and disturbs its proper functioning by, e.g. putting an extra burden upon SMEs while TNCs can lower their tax burden via international tax planning.

From a common good position, such an order is in deficit: Socrates pointed out in his dialogue with Thrasymachos that even robber need some sort of just and fair rules for their own cohesion when committing acts of injustice so that the common and individual advantage is protected against the right of the strongest.⁵⁰ Augustin added that states need those just and

⁴⁸ Retrieved from Amazon on 18 February 2016

<http://www.cambridge.org/us/catalogue/catalogue.asp?isbn=9780521716192>

⁴⁹ Blick (2013, September 22) Rote Karte für ein reines Fußballstadion der Stadt Zürich. Retrieved from <http://www.blick.ch/id2450718.html>

⁵⁰ Glaubst du, eine Stadt, ein Heer, eine Räuberbande oder Diebe oder sonst eine Horde, die gemeinsam auf ein Unrecht ausgeht, könne etwas ausrichten, wenn sie sich selbst gegenseitig Unrecht tun?“ (Politeia, I, 352)

fair rules, otherwise they are nothing better than robber.⁵¹ And Nell-Breuning adds an aggiornamento by applying this to behaviour at stock exchanges.⁵²

Accordingly, a society based upon fair and just rules is better suited to multiply the wellbeing of the common good of all and at the same time each individual than a society based upon the survival of the fittest or strongest only. From this follows that we need to restore a democratically elaborated, state imposed set of fair and just rules based upon which markets and market participants have to cooperate. Accordingly, we sideline with democracy and statehood, the market being not/no longer unregulated free, but subject to democracy and state regulation. In other words: we are not for the market-conform democracy, but the democracy-conform market. We prefer to live in a social-market economy, not in the market-economically structured and dominated social and political order. We put cooperation above competition.

This leads most clearly to the conclusion that “competition” is a characteristic feature of markets, but not of states. Accordingly, “tax competition” is a non-starter, but regulation is the characteristics of good government and, accordingly, “tax cooperation” is required and called for and within the regulatory framework thus created adequate and useful competition then can take place for the benefit not only for the shareholder, but all.⁵³

Accordingly we believe that a CST based social market society might be an alternative to the present economic order.⁵⁴ Irony is that some “fathers” of this model (Rüstow & Eucken) are those who originally called themselves “Neo Liberals”, meaning, criticising the deregulated markets of the first World Financial Crisis, trying to counterbalance the markets by a strong state.

⁵¹ Justice being taken away, then, what are kingdoms but great robberies? For what are robberies themselves, but little kingdoms? The band itself is made up of men; it is ruled by the authority of a prince, it is knit together by the pact of the confederacy; the booty is divided by the law agreed on. If, by the admittance of abandoned men, this evil increases to such a degree that it holds places, fixes abodes, takes possession of cities, and subdues peoples, it assumes the more plainly the name of a kingdom, because the reality is now manifestly conferred on it, not by the removal of covetousness, but by the addition of impunity. Indeed, that was an apt and true reply which was given to Alexander the Great by a pirate who had been seized. For when that king had asked the man what he meant by keeping hostile possession of the sea, he answered with bold pride, “What thou meanest by seizing the whole earth; but because I do it with a petty ship, I am called a robber, whilst thou who dost it with a great fleet art styled emperor.” Retrieved from <http://oll.libertyfund.org/quote/200>

⁵² Die Börse ist von jeher der Tummelplatz skrupellosester Machenschaften gewesen, und nirgends wohl kann rücksichtsloser Eigennutz so ungeniert über Leichen gehen wie an der Börse. Aber wenn nach einem bekannten Worte Augustins selbst die Räuberbanden ihren Ehrenkodex und ihre Moral haben, ohne die sie überhaupt nicht bestehen konnten, dann setzt das Funktionieren eines so feinen und komplizierten Apparates wie die Börse erst recht eine vielleicht sehr einseitig entwickelte, aber gewiss nicht unbeträchtliche Kaufmannsmoral voraus. Um nur eines zu nennen: ohne absoluteste Vertragstreue ist die Technik des modernen Börsenbetriebes überhaupt nicht denkbar. Retrieved from <http://www.kas.de/wf/de/37.8267/>

⁵³ ‘Das Spiel lässt sich daher nur gewinnen, wenn die Staaten dieser Welt es untereinander ernst meinen mit der inhaltlichen Koordination ihrer Besteuerungsansprüche, mit einer gemeinsamen Haltung zur Grenze zwischen gesundem und schädlichem Steuerwettbewerb und mit einem vertrauensvollen Austausch von Meinungen und Informationen auf den verschiedenen Ebenen der Politik und der Verwaltung. Hier verlaufen die wirklichen Frontlinien.’ Schön, W. (2013, April 14) Das große internationale Steuerspiel. In: FAZ. Abgerufen von <http://www.faz.net/aktuell/wirtschaft/globale-steuergerechtigkeit-das-grosse-internationale-steuer-spiel-12145394.html>

⁵⁴ (Alt, 2014) and Katholische Soziallehre als Alternative zum neoliberalen Paradigma. Vortragsskizze, retrievable at http://www.taxjustice-and-poverty.org/fileadmin/Dateien/Taxjustice_and_Poverty/Ethics_and_Religion/Soziallehre/Soziallehre_als_Alternative_zu_Neoliberalismus.pdf

„Der neue Liberalismus jedenfalls, der heute vertretbar ist, und den ich mit meinen Freunden vertrete, fordert einen starken Staat, einen Staat oberhalb der Wirtschaft, oberhalb der Interessenten, da, wo er hingehört. Und mit diesem Bekenntnis zum starken Staat im Interesse liberaler Wirtschaftspolitik und zu liberaler Wirtschaftspolitik im Interesse eines starken Staates – denn das bedingt sich gegenseitig, mit diesem Bekenntnis lassen Sie mich schließen.“⁵⁵

Similar quotes are known from Ludwig Erhard, the Father of Social Market Economy or Angela Merkel, who recommended at the 2009 Davos Forum Social Market Economy to be the answer to problems revealed by 2007 World Financial and Economical Crisis.⁵⁶

Apart from paradigmatic changes required by the dead ends of the present market economic system, a big challenge will be to find the right balance between freedom and regulation, which was never easy and is not easy nowadays:

The perennial question of politics, never getting an ideal answer, is: What is the now-needed, purposeful, proportionate, effective, assertive, later revocable, most general regulation, fitting in the existing body of laws and – as far as it is humanly possible to tell – least prone to undesirable side effects?⁵⁷

This question would merit an addition ‘and serving the many rather than the few’.

If that way a better balance of market, state/governance and society/democracy could be implemented, also values beyond economic/material growth would have a real chance for implementation. Here, some preliminary work has been done after the past crisis, e.g. the Sarkozy-Commission with Stiglitz and Sen, the Cameron Commission, the German Enquete Commission. They all got stuck half way, both in their definitions, recommendations and most certainly almost all of its implementation.

5 Human Beings: Equality, difference, inequality

5.1 Conceptual clarification

A fourth foundational decision and ethical choice ahead of all analysis of injustice is a position regarding the question whether human beings are primarily equal or different. From this answer depends the justification of the extent to which wealthy “high performing” people should be taxed and/or to what extent low income or poor people merit support via a system of redistribution and social security institutions.

Not surprisingly, adherents of free and unregulated markets support diversity and differences as starting point, deriving from there the freedom of every person to unfold its gifts and the entitlement of remuneration in accordance of merit and “performance”.

⁵⁵ Rede »Freie Wirtschaft, starker Staat« auf der Tagung des Vereins für Socialpolitik, Dresden 1932. In: Schriften des Vereins für. Socialpolitik, Bd. 187, hrsg. von Franz Böse: Deutschland und die Weltkrise, München: Duncker & Humblot

⁵⁶ ‘She lauded the German system, which mixes capitalism with a strong social safety net and potent regulators’ Doherty, C. (2009, January 30) Merkel, at Davos, calls for a “global economical charter”. *New York Times*. Retrieved from http://www.nytimes.com/2009/01/30/business/worldbusiness/30iht-davos.4.19817885.html?_r=0

⁵⁷P. 36, de Weck, R. (2009) Nach der Krise – Gibt es einen anderen Kapitalismus. München: Nagel & Kimche

Others agree that no person is the same, but choose as starting point the principle that each person is first of all equal in dignity and rights. They would argue that a free market resembles the evolutionary concept of the survival of the fittest and, for the protection of the disadvantaged, needs some rules and regulations.

Obviously, both equality and differences are two sides of a coin, and neither equality nor differences are of unlimited or absolute value. The real problem at stake, however, concerns the role of economical or social inequality regarding the living conditions of human beings within a given context, and here the position is taken that the label of “inequality” is given to conditions whereby people, beyond their natural (man-woman) or justifiable (one musician, one engineer) difference are de-facto unequal in their quality of life, in their unfolding of potential, in exploiting individually opportunity accessible to all. (Frühbauer, 2017).

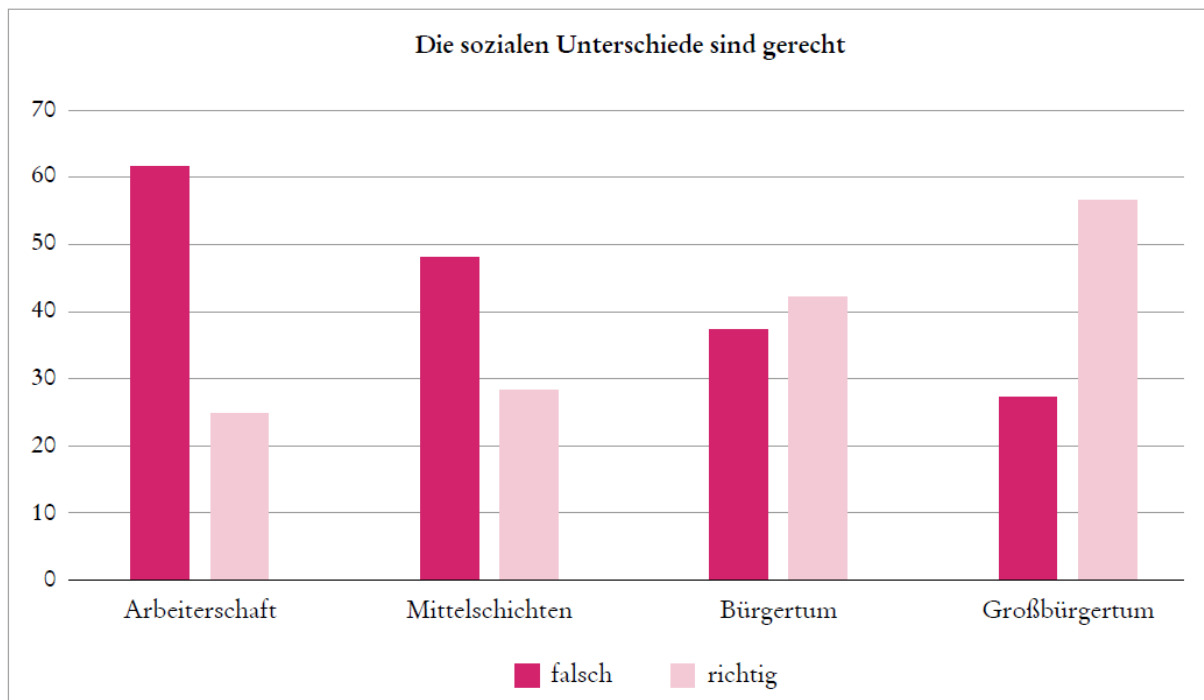
5.2 *Inequality and its limits*

There is some agreement that difference between human beings is unequal treatment and remuneration may be important and justified. People agree, for example, that inequality within society is justifiable as long as the work of those increases the wellbeing of all. People would also agree that inequality is not as such the problem, but becomes a problem if a human being, equal in rights, is not able to unfold its abilities and capacities which characterize him/herself as unique.

Linked to this is the issue of social mobility, i.e. whether society is such that those in lower and middle income situations have a realistic chance to strive upwards (i.e. to make the story “from dishwasher to millionaire” come true. Once social mobility decreases and privilege is linked to the chance of birth rather than to hard work, social acceptance is decreasing as well.

Those questions can be illustrated by surveys (Hartmann, 2014), undertaken by empirical research into the acceptance of “elites”. Not surprisingly, existing social difference is mostly justified by those who are wealthy (defending the status quo), while labourer reject this notion.

Graphic 5 Inequality is justified - Yes or No

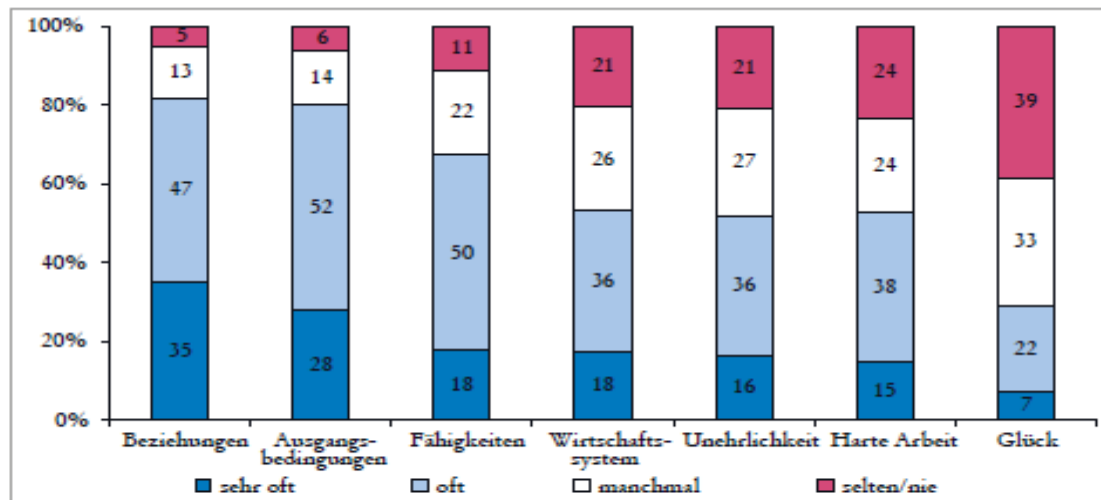


Similar in the area of wealth: If wealth is recognizably the result of hard work and a lifetime achievement it is accepted by large parts of the population. This is particularly true since the “protestant ethic of labour”, which is deeply ingrained in German mentality, links hard work and wealth together up to the present day. This concept is exemplified by the successful entrepreneur who creates jobs.

Serious damage to this link between merit on the one hand and high income/wealth in the other occurred during the World Financial and Economic Crisis when it became obvious that a number of wealthy people were influential and wealth only due to irresponsible risk taking and speculation. (Becker, 2014). Since then, the perception and appreciation of wealth and the wealthy is changing: Relationship, social networks and other privileged (not-earned) starting conditions are seen to be more important than individual capabilities; and even the characteristics of the economic system and dishonesty precede the meritocratic feature “hard work” as decisive factor for professional and financial success.

Graphic 6 Why is there wealth in Germany

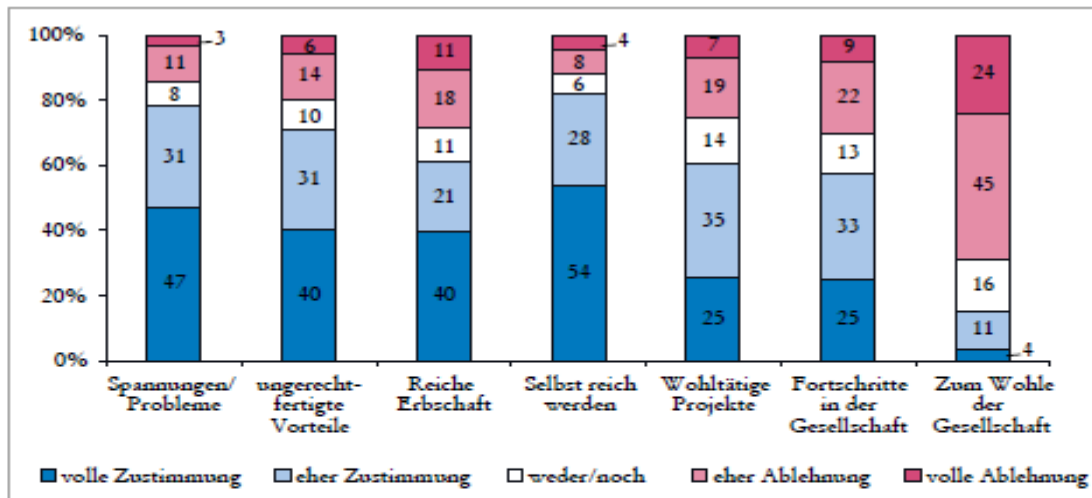
Abbildung 2: Wahrgenommene Gründe für Reichtum in Deutschland (in Prozent)*



* Ich nenne Ihnen nun einige Gründe, warum es in Deutschland heute reiche Menschen gibt. Damit meine ich Menschen, die sich fast alles leisten können. Bitte sagen Sie mir zu jedem dieser Gründe, wie häufig diese Gründe Ihrer Meinung nach Ursache dafür sind, dass jemand in Deutschland reich ist: sehr oft, oft, manchmal, selten oder nie. Fähigkeiten oder Begabungen; Glück; Unehrlichkeit; Harte Arbeit; die richtigen Leute kennen, Beziehungen haben; bessere Ausgangsbedingungen; Ungerechtigkeiten des Wirtschaftssystems.
Quelle: Sozialstaatsurvey 2007.

As a consequence, the situation is seen to be alarming: Even though most people (54%) agree that it is OK if everybody has in principle the chance to acquire wealth, they fear in the present situation the increase in tensions (47%). In their opinion, unjustified privileges and large estates (both 40%) are more likely to occur as a consequence of increasing wealth than donations and charities (25%), progress of society as a whole (25%) or the wellbeing of all (4%).

Abbildung 3: Beurteilung der sozialen Konsequenzen von Reichtum (in Prozent)*



* Ich werde Ihnen jetzt verschiedene Meinungen vorlesen, die man ab und zu hört. Bitte sagen Sie mir auch zu jeder dieser Meinungen, ob Sie ihr voll zustimmen, eher zustimmen, ihr weder zustimmen noch sie ablehnen, sie eher ablehnen oder voll ablehnen. Beginnen wir mit der ersten Meinung: „Zu großer Reichtum führt zu Spannungen und Problemen in der Gesellschaft.“; „Reiche Menschen genießen im Leben Vorteile, die ungerechtfertigt sind.“; „Niemand sollte bessere Möglichkeiten im Leben haben, nur weil er reich geerbt hat.“; „Es ist gut, dass jeder die Freiheit hat, selbst reich werden zu können.“; „Reiche Menschen leisten mit der Finanzierung wohltätiger Projekte einen wichtigen Beitrag für eine gerechtere Welt.“; „Die Möglichkeit, reich zu werden, sorgt für Fortschritte in der Gesellschaft.“; „Die Reichen in Deutschland setzen ihren Reichtum zum Wohle der Gesellschaft ein.“
Quelle: Sozialstaatsurvey 2007.

The most eminent representative of German Catholic Social Teaching, Nell-Breuning, agrees that wealth as such is not the problem, but the use of wealth. Here he is quite radical: If wealth is used to control and dominate people rather than providing them space for freedom and capacity for wellbeing, confiscatory measures are justified since in this case the ownership of property is turning into the ownership of human beings. Confiscation of legally owned property is here justified due to its social component and in the interest of the common good.

Beschränkungen oder andere Eingriffe in rechtmäßig erworbenes Eigentum bis zu dessen Entzug („Enteignung“) aus Gründen des Gemeinwohls ... sind nicht als „Eingriffe“ zu werden, das heißt, sie verletzen das Eigentumsrecht nicht, fließen vielmehr unmittelbar aus...der seiner Individualfunktion vollkommen gleichwertigen Sozialfunktion des Eigentums. ... (Es ist)...Tatsache, daß eine äußerst ungleiche Verteilung des gegenständlichen Eigentums, namentlich an Produktionsmitteln, näherhin dessen Zusammenballung in der Hand einiger weniger...bei gleichzeitiger Entblößung der vielen...in weiten Bereichen zu dem Ergebnis geführt hat, das Eigentum, das Herrschaft über Sachen sein soll, zu einem Herrschaftsinstrument über Menschen zu verfälschen. Soweit das zutrifft, ist der rechte Sinn des Eigentums, nämlich den...Menschen Freiheitsräume zu erschließen, ins genaue Gegenteil verkehrt (Nell-Breuning, 1980, p. 201f.).

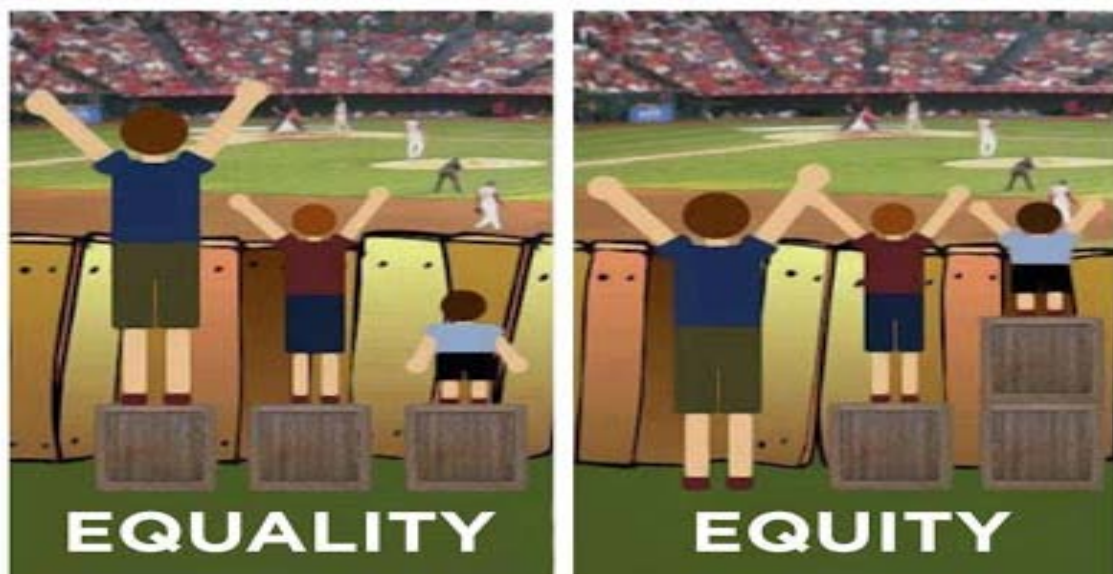
Nell Breunings analysis is in agreement with Michael Walzers view, namely, that equality in a socially, culturally and economically complex society can only be understood as “complex equality”. The overall goal of complex equality is, however, is that a society develops an institutional setup which prevents that some people, dominating some segment of society, because of their dominant position, also dominate other segments of society. In other words: That the wealthy at the same time determine government, freedom of opinion, research and arts (Frühbauer, 2017).

5.3 Equity, Equality, Egalitarianism

If (economical and social) inequality is bad, what is the positive opposite to aim for? Here it is important to distinguish the concepts of equity, equality and egalitarianism.

The difference between equity and egalitarianism is most important because both concepts have positive connotations, overlap in meaning and are yet different. The question is ‘Should per student funding at every school be exactly the same? *That’s a question of equality.* But should students who come from less get more in order to ensure that they can catch up? *That’s a question of equity.*’⁵⁸ Equality concerns the “level playing field”, where everybody has the same starting position and the same capacities, which is almost nowhere the case in real life. Because human beings are different, some need more, some less assistance to come to a situation where they approach a “level playing field” with other competitors. As the following graphic illustrates: Equality is about quantity, equity about quality.

Graphic 8 Difference between equity and equality⁵⁹



As the graphic illustrates nicely: Equality is about securing the ability of different people to interact “at eye level”, i.e. to enjoy life equally, to participate in life fully, to develop their potential for individual self-realization and participation with assistance, where assistance is needed. Accordingly: Justice means that people are entitled to receive this support from society in order to live equal in diversity.

At the same time, equity and equality cannot automatically be equated with egalitarian concepts, meaning, that in an egalitarian society everybody has the same entitlement, independently of their own merits and differences. This attitude is behind many of those calling for a Basic Income Grant (Bedingungsloses Grundeinkommen) or basic old age pension, which is rejected by some experts, e.g. Nell Breuning in (Borchert, 2014, p. 205f.).

⁵⁸ Equity and Equality are not equal. Retrieved on 16 February 2015 from “The Equity Line”, <http://theequityline.org/wp/2014/03/12/equity-and-equality-are-not-equal/>

⁵⁹ Equity and Equality are not equal. Retrieved on 16 February 2015 from “The Equity Line”, <http://theequityline.org/wp/2014/03/12/equity-and-equality-are-not-equal/>

For obvious reasons, it is equity about which a justice related research project needs to be concerned. It is equity which takes care that each person has the same opportunities to develop his abilities and capabilities and to participate in society's activities. This needs minimum material and procedural requirements. The contested issues therefore is not so much "why equality", but "equality of what" (Sen, 2010, p. 295). As soon as those questions are discussed positively, i.e. what should be done/provided to whom, opinions will diverge largely and agreement seems to be unlikely. Much more easy it seems to agree on things to be avoided, and that is where the next proposal comes in:

5.4 *Wealthiness, Wealthability, Wealth as social obligation*

Linking to the previous can follow the debate about the difference between mere "wealthiness" and "wealthability", which addresses the responsibility of particular the wealthy to care for the poor and the environment because they have more assets and capabilities at their disposition than "ordinary people". This can also link to the social obligation inherent to wealth as enshrined in Catholic Social Teaching and even the German Constitution (Art. 14).

→ (GW/Intro#),

5.5 *Human Rights ethics instead Utilitarian calculus?*

Free market economy and ideology is intimately linked with an utilitarian philosophical and ethical approach. The maximization of happiness for the largest number of people within a free market context is foundationally based upon player of different gifts and charisma. It operates via the formal principle of competition and thus, in the end, advances the dominance of the strongest player. Utilitarian reasoning in today's world is a very undemocratic affair. The poor have problems to take part and, if they do, they are ignorant about that which is desirable and achievable.⁶⁰ As a consequence, inequality is growing and the number of influential player decreases. When rejecting the free market as the formal principle of organizing wealth creation, also its philosophical foundation is rejected.

A second emerging and widely established philosophical and ethical frame of reference for the belief in the equality of all human beings is the Code of Universal Human Rights and the belief in equal human dignity. The Code of Human rights is seen to be globally a minimal material basis accepted by most on which to build a global ethics (Michael Walzer, Jürgen Habermas, (Sen, 2010, p. 355ff.)). Obviously, recognized human rights are not realized human rights. But the notion of equal human rights ethics is inseparably linked to equal liberties and capabilities of all human beings. In other words: All human beings have to contribute that everybody is properly educated and equipped to participate in the deliberation of that which concerns all, to enter his or her point of view of that which is best.

According to an interdisciplinary reflection of church and environmental institutions (Institut für Klimafolgenforschung et.al., 2010, p. 58ff.), the shared core principles arising from both individual, social and economical Human Rights are freedom, equality, solidarity and participation. If this reading is acceptable, the conceptualization of "Justice", based on Human Rights and the belief in the equality of all human beings as starting point, would go as follows: 'Each human being has equally the indestructible freedom to lead a life in dignity. At the same time, all other human beings have the obligation, as far as it is possible to them, to

⁶⁰ Sen points out that even slaves have happy moments and thus enjoys something utilitarians want to generate. To let him remain slave would obviously be unfair since he lacks the capability to improve his situation and discover more happiness in his life. (Sen, 2010, p. 282ff.)

assist their fellow human beings to reach that freedom.’⁶¹ This reading of Human Rights includes a proposition for fair and just procedures within which specific and justice relevant policy issues can be negotiated: First, the satisfaction of basic needs of all. Second, freedom and opportunities to act for all. Third, existent and accessible fair procedures within which to negotiate that which needs to be done as a matter of priority (p. 63ff.). This concept comprises both present and future generations.

The important points here are (1) that the Code of Human Rights is composed both of entitlements/capacities and obligations and (2) that the starting point and goal of the common good is the wellbeing of the individual person. Accordingly, this definition of justice is the consequent outflow of our putting equality first (equal freedom) and diversity second and supporting the first (obligation to assist).

The appropriate comparison is, surely, between a utility base ethics... which sees fundamental ethical importance in utilities but none – at least directly - in freedoms and liberties, and a human rights ethics that makes room for the basic importance of rights seen in terms of freedoms and corresponding obligations. (Sen, 2010, p. 362)

In that dual balance, the Code of Human Rights is also an acceptable starting point for the Catholic Church and Catholic Social Teaching, whose principle focus and angle point is the dignity of the human person.⁶² So of this idea is expressed in the Option for the Poor, meaning, that some people have a justified right to “catch up” in development where others are more advanced and do not need comparable attention and support.

Even more: beyond Christianity, such an approach is supported by core beliefs of all the world’s major religions, most importantly the Golden Rule, and can easily be linked to the good life discussion.

Finally, equality/equity and the requirements of justice/difference do not exclude each other. Accordingly, for governing today’s society, a basic Human Rights ethics and utilitarian calculus could complement each other. The problem is how to secure a basic standard which enables all, really all, to develop and live according their capabilities. Here, some basic social security should be guaranteed, including also those doing hard work which is not “productive”, but important, such as subsistence farmer, lacking money for their kids to go to school or mothers raising children which eventually contribute to society’s social security system without mothers benefitting adequately from it. On the whole, however, ethics regulating a society will probably need a multilayered approach requiring both human rights based non-negotiables and balancing utilitarian calculations, e.g. regarding the question whether higher PIT or CIT is worth it given the real danger of relocation of private residences or business headquarters.

5.6 Conclusion

Clearly, human being are both equal and different. At the same time, they live in unequal social conditions which, beyond natural diversity, disadvantage some de-facto more

⁶¹ „Jeder Mensch soll gleichermaßen die unantastbare Freiheit haben, ein menschenwürdiges Leben zu führen. Gleichzeitig stehen dabei alle Menschen in der Pflicht, soweit es ihnen möglich ist, ihren Mitmenschen aktiv zu dieser Freiheit zu verhelfen“ (Institut für Klimafolgenforschung et.al., 2010, p. 62)

⁶² Das Ziel jeder Gesellschaft ist die menschliche Person. 1905 "Der gesellschaftlichen Natur des Menschen entsprechend steht das Wohl eines jeden in Verbindung mit dem Gemeinwohl. Dieses lässt sich nur von der menschlichen Person her bestimmen" 1906-1911 Definition und Element des Gemeinwohls, inkl. Weltweiter Interdependenz. Siehe auch Sozialkatechismus 167

than others. And: Some are privileged to the extent that they impede the unfolding of potential of others. This is a particular promise in societies, where social mobility between bottom and top decreases and the chance of birth defines the extent to which individuals may unfold their potential.

But, as it is always with complex issues: There is no single and simple solution, but only complex and multi-layered ones. Here, philosophers are at best providing ethical guidelines, for example:

- Michael Walzer with his argument for “complex equality”, i.e. his warning that equality follows cultural, social and individual parameters and might accordingly be understood differently, depending on context or perspective (Frühbauer, 2017)
- Similar and referring to Walzer, Markus Vogt starts from the premise that equality and difference is “logical complementary”. However: required is less an equality in living conditions, but enabling interaction of respectful persons of equal dignity. Here, three areas with different “activating logics” (Handlungslogiken) are called for: Equal treatment before the law (legal justice), different treatment regarding individual needs (distributive justice), and securing equality in the interaction of giving and taking when it comes to exchanges between equals, either by means of competition (market place) or cooperation (commutative justice).⁶³ At the same time he distinguishes his concept from a meritocratic approach since it is obvious, that some are unable to contribute in a satisfying manner.⁶⁴ Rather, and from a Christian point of view, mutual assistance is to be understood from the obligation of the strong to assist the weak (Vogt, 2017).

In other words: the true skill will be to identify those areas where people are equal, merit equal treatment, and where people are different and then look for reasons to justify a different treatment. This will be done in the chapter on justice#

Concluding, the researchers want to state two important points:

- First, this research project puts equality first, postulating that differences among people have to be subordinated and serving this more fundamental belief of equal dignity and equal rights in spite of all differences.
- Second, inequality is justifiable only if in the end (and on balance) the least/everybody is better off than otherwise, if high income/wealth is the result of hard work and if a concentration of wealth is not misused to control people.

Given the decrease of income and social mobility presently, instruments and institutions are needed which counterbalance the chance-situation of birth, i.e. the advantages or disadvantages a person has solely due to the chance fact of in which family s/he has been born. As it seems to us, a society dominated by market mechanisms and private initiatives is inferior to one where democracy supervises the handling and spending of tax revenue, where publicly financed institutions accessible for all are so good that even the wealthy have no

⁶³ Given distortions in market competitions he states that the strong are having unfair advantages over the weaker, which there calls for more regulation. This, in turn and for example, would also include equality in taxation and/or the proportionality of the tax burden.

⁶⁴ Depending, of course, on the yardstick of measurement: Somebody enhancing the GDP of a state is contributing differently to the welfare of the state as the person taking good care of this CEOs sick mother or unattended child.

longer need to create their own, privately financed institutions (Sandel, 2010) and where social mobility is realized and guaranteed.

Once equality in opportunities are guaranteed in education and at the outset of professional life, the freedom for the individual pursuit of happiness arising from diversity and differences in capabilities needs to be respected and protected wherever the development of personal capabilities does not impact and damage the wellbeing of others and the common good: “the freedom of your fist ends where the tip of my nose starts.” Or, as Art. 4 of the French Declaration of the Rights of Man and the Citizen “Liberty consists in the freedom to do everything which injures no one else.” A more interesting question left is what happens with accumulated wealth after its holder dies, i.e. the question concerning legacies, estates and inheritances.

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