

THE STAKE-HOLDER STATE

1. Introduction

Imagine that two major worries would be taken away from us, namely to have a job and a secure pension. We would essentially return to the tribal or family security of our forefathers or to that of some recent, but now dissolved communist societies, but this time without losing other freedoms. Is this „Alice in Wonderland“ or could it become reality now?

For more than one hundred years basic concepts of political and economic systems have remained rather unchanged and unquestioned as to their substantive elements. The principle forms, namely capitalism and communism, were not only logged in ideological war with each other but also were and still are pre-occupied with themselves from curing internal ills and deficiencies. A steadily increasing patchwork of laws and regulations has evolved, sometimes borrowed from the opposite system and often accompanied by efforts to camouflage such transfers. This process is increasingly being amended by drastic and sometimes costly changes, which are not born out of careful system-conform considerations but are rather associated with emergency management during the post cold-war, worldwide and/or regional recessions of the 1990s.

The new socio-economic attempt in the Stake-Holder State has a better chance of succeeding for two principle reasons. First, proven mercantilistic and capitalistic principles are retained while some compatible additions to present systems are introduced. Second, present societies dispose over abundant material and human resources, while those of the late nineteenth century were rather deficitary in foods and goods. Less than 10 per cent of the

workforce can now feed an entire nation; often too many products are being produced rather than too few. Consequently, redistribution of work in the remaining, not so essential 90 per cent bracket is less risky, supporting the possibility of adjustment of the workweek, if necessary, downward. Work to be done and labor available would be subjected to a normal supply-and-demand mechanism, requiring a flexible workweek and eliminating unemployment. Thus, the new society will be prepared to absorb the effects of steep increases of productivity in industry and agriculture, to adapt to the growing services sector in the „post-capitalistic“ society and will mitigate the sometimes spiraling negative effects of economic globalization.

Sufficient capital assets, which will be left in competent and competitive (normally private) hands, are also shown to be available to provide the basis for social welfare and retirement benefits. The public dividend on a virtual stake of each citizen in the commonwealth is fueled only by a relatively small taxation on the productive capital. In order to provide incentives and personalize the dividends, assessment of individual productivity within the new society is essential as a vehicle to reestablish justice in rewards. The societies' vulnerability to speculation will be drastically reduced, its solidarity and ethics enhanced and developed. The evolutionary changes to implement the Stake-Holder State and its many positive side-effects are explained in this book, which is addressed at the same time to the *interested general public, politicians and scholars*.

2. The present situation

The citizens within present socioeconomic systems are by and large not content at the turn of the century. They are concerned about unpredictable, growing and/or persistent unemployment, organized

and individual crime, as well as global environmental and health problems, only to name the more important ones. An additional general decay of morals, integrity and accountability among elected and/or self-appointed leaders has left many of the subjects with a feeling of insecurity and in fear for their own future and that of their children.

If one switches on the noon news in many places on this planet and compares them with memories from earlier years, up to the 1970s, one theme stands out immediately: movement of stocks, bonds and currencies now appear more important than what the legislative bodies did that day. The new selection may reflect reality quite well. In the wealthy peace-time economies of the late twentieth century, legislation often has become such marginal patch-work or a Ping-Pong game of party bickering that one might seriously ask if the legislator's day was worth a headline and the taxpayer's money. On the other hand, more talents are devoted to tasks of courageous investments, but unfortunately also to mere financial speculation. However, the clever maneuvers of the successful will often simply sponge off from the many less gifted and slower, small investors who sold (via an institutional investor) their stock too cheaply and might be on the losing end of the speculation. The losers are rarely mentioned in the news, unless losses are spectacular and numerous.

Historically, phases of inequality, discontent and insecurity were often the heralds of revolutionary changes or collapse. Therefore, a fundamental rethinking is overdue, of the way contributions of capital and labor are apportioned and our socioeconomic systems should work. Also work has shifted from factories to offices; robotization, services and globalization require restructuring. When Microsoft replaced General Electric on January 25, 1999, as the company with the highest capitalization (worth 83 billion US\$) in

the world, it became abundantly clear that we live in a post-capitalistic society. Microsoft has a very small manufacturing and/or machinery basis; its value is know-how, services and people. Services and corresponding institutional reforms will easily be accommodated in the Stake-Holder State, which would at the same time enhance positive inclinations of human beings and their democratic engagement in society.

3. Proposed reforms

The reformed society of the „Stake-Holder State“ will offer a new alternative to mankind at the turn to the twenty-first century. The new, coherent and holistic socioeconomic system rests on three essential, interrelated pillars for its functioning and stability, namely:

- the replacement of most present property and business taxes as well as of employers' contributions to social welfare by a single, obligatory, small **value-taxation** of all tangible productive capital values in the society (the common-wealth). This taxation is solely pledged and shown to be sufficient to fuel an entire, adequate pension and social welfare system. At the same time it will induce a distinct and intended shift towards the human being and meaningful work and has many ramifications, not the least to reduce speculation with capital;
- the differentiated individual participation in the benefits of (returns from) the common-wealth, which are fueled by the value-taxes received. The individual entitlement includes a fixed socket amount which comes with citizenship but depends in larger part on productivity-oriented credits which each citizen earns each year and generally accumulates during his/her active

life-time. Interest from accumulated credits is added only during the last decade of active work in order to limit the institutional investment of the common-wealth fund as not to claim more than one third of total marketable assets in a typical industrialized economy. The overall entitlement is called the citizens' public share or **stake** and determines his/her pension. The productivity assessments to establish individual credits will honor social assets, such as child raising, and also enhance accountability, reliability and solidarity in the reformed society; it will reverse the growth of administrative overheads and many other deteriorating trends;

- the right and duty for each able citizen to contribute productively to the society with his/her skills available or to be acquired. The historic, first-time application of a suitable demand-and-supply mechanism to the factor work will absorb expected productivity increases in the new society as well as residual so-called structural unemployment. The reform requires to **adjust workweek** (downward or upward) and possibly retirement age periodically (i.e. every year, or so) to the available work in a „moving peg“ fashion and generally without compensation in hourly wages.

4. Feasibility

The stake or public share of each citizen is the most important socioeconomic element in the Stake-Holder State. It is the variable and evolving (over a lifetime) portion of the common-wealth of a nation, for which the citizen holds beneficiary entitlements. The public share, accumulated benefits on it or withdrawals from it will replace virtually all social welfare items, such as child-raising aid, educational grants, social security and pensions (but not the

health insurance). Econometric calculations (presented in the book) show that substantial, sufficient but not exuberant public pensions can be obtained with a 5 % value-taxation rate.

To avoid misunderstandings about the capital-ownership in the Stake-Holder State, it should be stated here that actual ownership and exploitation of capital will remain largely unchanged from what we have become accustomed to in the free-market economies of the last two centuries. Also management can be in the hands of public or private owners, as well as in those of hired professionals. Therefore, the citizen's public share in the new system is rather a voucher to collect dividends according to the share's value than a piece of personal property which could be reclaimed (like a stock). True private shares will remain an important mechanism for investments, with some additional responsibilities of the share-holders.

A general tax-reduction effect is expected to develop from the introduction of the new system, as it reduces administrative overheads and the burdens of unemployment and social welfare. At present, companies in many industrialized countries are obliged to contribute to pension funds at the rate of approximately 20 per cent of salaries. If salaries make up 50 per cent of turnover (sales volume) and turnover corresponds to only one half of the capital assets (annual turnover is often even higher than assets), about five per cent (on assets) would be saved and compensate for the new value tax. Additional relief to companies and/or product pricing could be obtained by lowering taxation of corporate profits or sales-taxes, now often running between 10 and 20 per cent of turn-over or sales respectively.

The value-taxation together with the adjustable workweek will also be a bulwark against impoverishment of highly robotized societies. A frequently proposed „machine-tax“ would have gone in the same direction. The opposite, a labor-tax, would be counter-

productive; it was prevalent in France, for example, until July 1998 and then abandoned. In the future, the higher the capitalization and automation is per citizen in the new society, the lower the value-tax rate and the workweek have to be. However, since salaries and personal incomes may also decline in such a scenario, the human competitiveness with machines would improve and thus moderate the robots' dominance.

In order to obtain fair and differentiated entitlements for each working or performing citizen, productivity is used as a rediscovered gauge to measure many kinds of activities. This is likely to reduce the total amount of work to be performed efficiently and meaningfully in a society. The logical response of the Stake-Holder State to a reduction in the demand for useful and necessary work is a reduction of the supply of available working hours and not of workers. This would perfect the market-economy, by finally establishing the demand-and-supply concept in the labor market as well. The flexible workweek performs corresponding adjustments – if needed – in regular intervals, i.e. annually, and normally without salary compensation. Studies of current unemployment patterns have shown that, on the average, the changes from one year to the next in anyone country hardly ever exceeded three percent of employment or of GNP, for that matter; the inertia of globally intertwined economies and more effective central-bank steering policies are likely to avoid bigger jumps in the future. Company-based Stake-Holder models demonstrate the feasibility of absorbing such variations already now, as annual remuneration were made slightly dependent on annual profits and could very well vary by as much as five per cent from year to year (downward during a recession). Examples of voluntary pay cuts of that size or more to save enterprises or entire economies (i.e. Singapore, minus 15 per cent in 1998) are abundantly known. Small changes are

expected on the long run, rather than drastic variations. Unproductive societies may also choose longer working hours to obtain competitive advantages, after the work has been fairly distributed in the first place.

5. Fringe benefits

Besides achieving a soundly financed, stable pension system and a drastic reduction in unemployment, accompanied by flexible working hours, the new system also ***limits rewards for speculation*** and ***streamlines administrations***. Since the system encourages solidarity and risk-sharing among citizens and reduces administrative overheads, ***fair and affordable insurance systems*** will emerge with reduced waste, non-insurance and double insurance.

The productivity gauge would also be applied to top administrators and politicians and thus improve ***accountability of politicians*** and control by citizens. Politicians, at present often endowed with high future pension claims against the common-wealth of a nation after only a few years of service, would now fall under productivity and fairness rules of the Stake-Holder State. Filibustering a law, supporting a useless law, voting against the environment, for administrative red-tape or increased public debt may be assessed just as negatively as inactivity (such as low attendance, or membership in few committees). The reduced personal entitlements of the parliamentarian would ultimately (by accumulation) reduce his/her pension. The necessary productivity assessments would be performed by honorary citizen's groups, possibly joined by parliamentarians in a kind of self-control (like today's ethics-committees).

The visible reward for tangible and positive contributions to the society and the stricter (at least financial) punishment of negative

ones, will uncover clandestine and corrupt activities and enhance a gradual change towards socially oriented attitudes. It will reemphasize *ethical behavior* and solidarity among good citizens, and thus ultimately reduce white color crime as well as violence and terrorism.

By pledging part of his personal stake and its entitlements to a group, a citizen has the possibility to join an alternate set of coherent socio-economic rules and obtain common representation and equalized returns in the new society via a *group-share*. This feature of base-line democracy may apply to regional and/or ethnic groups and could include different productivity standards and weekly working hours, for such groups as the *Amish* of Pennsylvania.

On the international scene the system will tend to support a beneficial *international spread of productivity* orientation as well as the reincarnation of solidarity and societal values. Such spread may start with the application of a Stake-Holder country's criteria to export financing and foreign aid and may be followed by the *World Bank and the IMF* with adapted aid criteria. Population explosions without corresponding economic growth will be felt directly in the pocket of each citizen of a Stake-Holder State (by division of the same common-wealth by more souls). The new system also could assess parents' efforts to educate their children as positive productivity and selling them as child-laborers as negative. This will help citizens to understand that many children do not necessarily mean increased social security in a system based on individual performance as well as on the solidarity of all. In developing countries even a modest participation of each citizen in a modest common-wealth will *reduce the dependence of parents' social security on children*.

In summary, a *lasting, largely self-regulating, sustainable system* is obtained.