

English Edition

Beyond Repair.

Germany in the Midst of Systemic Change

Introduction and Polemics



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Important: Author's note to the attached English translation of "Introduction and Polemic"

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"Beyond Repair" was published in March 2010

The following text is an English translation of the introduction to the German-language book: "**Beyond Repair. Deutschland im Systemwandel**". The book also includes 100 op-ed pieces (only available in German) that the author, as an independent columnist, has written over the past 10 years for the daily newspaper "DIE WELT".

The introductory text to these 100 op-ed pieces presents a highly abstract BIG PICTURE and exclusively deals with Germany, not with any other EU member state or the Eurozone as such.

It condenses the author's 20 years of professional experience as an independent political economist (some say 'free press'). Working at the interface of politics and financial markets, the author has written thousands of reports and analyses for clients in the financial sector all over the world.

The text is divided into two major sections and is followed by an outlook:

"**The State as the Body of a Ship**" describes in an abstract way how Germany has dealt with the aftermath of the 2008ff financial crisis. Using the allegory of the Titanic, this section of the book claims that "*the damage below the water line*" is only understood by a very small number of experts; it is either completely ignored or misinterpreted (sometimes deliberately) by Germany's elite. Germany's collective wisdom failed to steer clear of the origins of the crisis and failed to deal with the aftermath, preferring to exploit events for all sorts of political reasons. The essence of this section can be summarized as follows: A modern German democracy, coupled with its super debt-financed welfare state, declining population and at the beginning of a new interest rate cycle cannot survive in the long run. Greece, sticking with the Titanic allegory, is one compartment of the hull of the ship that is now filled with water. Digressing somewhat, the Titanic would have

survived four flooded bulkheads; however five were damaged.

The second section, "**The State as Organism**", is even more abstract. In short it claims that Germany's public sector has morphed into an overarching organism that is autochthonously geared to growth and absorption at the expense of the German taxpayer. Contraction is an unfamiliar concept to the organism. The organism designs "laws" and nurtures "sub-ideologies" that provide the organism with multiple tasks to justify its existence. All the while the citizen persistently runs the risk of violating these laws or failing to conform with the sub-ideologies. The more the German welfare state and the public sector organism are over-stretched financially, the less tolerant the German state becomes in dealing with taxation and tax-related matters. In essence the ever growing organism will eventually undermine the ability and the willingness of the citizens to finance the organism and the state.

Finally, the "**Outlook**" to the introduction candidly states that a new inflationary cycle is required to remove the risk of structural collapse. Should more rapid price inflation follow (central banks always err towards inflation, all the more so after witnessing the Bank of Japan's battle in vain against deflation), the structure of the German state will not be in danger. The consequence, however, will be the "silent expropriation" of its citizens' purchasing power. The idea that any central bank is capable of "managing" a period of higher inflation is dubious and a period of hyperinflation is a risk that cannot easily be ignored. Conversely, should a lengthy deflationary period prevail (similar to Japan's fate over the last two decades), the structure of the state would crumble owing to the German state's inability to meet its financial obligations. Insofar, Germany would be "beyond repair".

The full German-language version of "Beyond Repair" is available as a 320-page ebook. Please apply at office@epm-group.eu

Introduction and Polemic

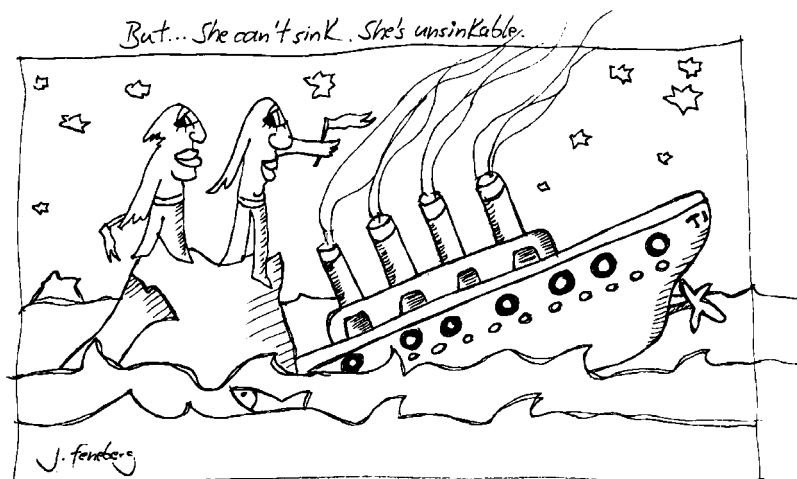
„The System is broken“.

(George Soros, Interview in the Financial Times, 24th October 2009)

* * *

Mr. Thomas Andrews, Jr., the brilliant architect of the Titanic at the shipbuilding company Harland & Wolff, stood shortly before midnight in front of the open fireplace on board the mighty luxury liner. All was quiet. An unnatural inclination and a slight vibration were perceptible. His left hand touched the mantel above the fireplace. It sought support. In his right hand he held his pocket watch, which hung on a golden chain. His icy gaze was directed to the fine mantel clock on the marble fireplace. He compared the time shown by both timepieces. He nodded slightly and repeatedly and did not say a word, for everything was already said. The time had passed. Although it was early, it was already too late. It was pure insider knowledge since only a few on board the Titanic were aware that the luxury steamship would unavoidably sink. The invisible damage below the water line was too great for the ship to have been able to steer under its own means to land. The hull filled too quickly with the ice-cold sea water of the North Atlantic for there to have been hope for rescue by a third party. The system was broken, the Titanic was no longer repairable. This select information only slowly filtered through to the passengers. Chagrin, incomprehension and disbelief slowly, but then ever more dramatically, gave way to existential panic. The way to the few rescue boats was a crude mixture of timing, fortuity and force. Others abandoned themselves to fate. The chamber orchestra played on to the bitter end. But it was too late. When Mr. Andrews understood this, he soon stopped understanding at all. The hull of the Titanic ruptured on 15th April 1912 and with it sank the ideology of blind trust in a system. The dogma of this ideology was the professed superiority of the system, namely its unsinkable nature. A world had ceased to exist. Germany has a great deal of experience of that.

Afterwards shipping engineers asked themselves a simple question: Titanic I sank, how should Titanic II look? Must a completely new ship be planned? Or is it sufficient in future to simply add more rescue boats and to construct a different bulkhead? It quickly became clear that there would be no Titanic II.



Graphics by Jürgen Feneberg, www.juergenfeneberg.com

The State as the Body of a Ship

In its essence the all-embracing (overarching) design of a passenger ship is to be viewed as an allegory. It corresponds to the integrated socio-cultural, economic, fiscal, monetary and constitutional framework of a state. The state defines the ideology for the interaction between the various elements. This results in the dogma of unsinkability. Whether “monarchic”, “democratic”, “national” or “socialist” or even the two together - each of these forms or systems is always supposedly superior, that is unsinkable. That is the dogma.

When a state goes down, a carbon copy is not simply constructed in its place. In principle, a new state comes into being on the same territory, in the normal case. (Germany, normally, is not acquainted with the normal case). It often comprises the same people. German states come and go, places and people remain. As a German citizen, able to live in the charm of a federal territorial state at the heart of the European continent, one has to strictly separate the two parts. It goes without saying that the “founding fathers” had to learn from the faults of the past. The Bismarcks, the Eberts, the Adenauers and the Honeckers are all examples. All acted with would-be good and honourable intentions. That is the “founding myth”, which is subsequently instilled into children through schoolbooks and reform schools. The intention is to bestow identity. And yet, goes the charge, are the lessons from failure actually only drawn after the collapse? Not one of these previous “systems” appears to have been capable of self-healing. It is manifest that a new version of the Weimar Republic could not be resurrected after 1945. The new hegemonies dictated the new state order: precisely “democratic” or “socialist”. To paraphrase Nassim Nicholas Taleb, this was a purely coincidental outcome (“Fooled by Randomness”). If, in 1945, the United States of America had been monarchic, one could even have made the Hohenzollern monarchy palatable to the West German citizen again. C’est la vie. Josef Stalin was communist, for that reason the East Germans gained a socialist state with the magnificent title - DDR. There was nothing democratic about it, everything was petty-bourgeois and socialist.

The crucial question is this: are state “systems” capable of learning? Or is a collapse always

necessary in order to create a new “system”? Put another way: is collapse a precondition for the creation of a new and better “system”? Or is one not even permitted to pose the “system question”? Thus is collapse already pre-programmed? Are we already “beyond repair”? The author suspects: yes. Such a thing cannot be proved. The DDR “system” was definitely not capable of learning. And the present-day successor model is not much better in its adaptability.

In the German world of political discussion and analysis, the very word “system” is inexcusably overburdened by leftist and old ‘68 agitprop. The traditional media in today’s Germany openly avoids contemplation about the “system”. In many editorial offices this word is strictly out of bounds. It is an enduring taboo word, as it were. Yet to allow the word “system” to roll off the tongue does not indicate a wish to eliminate the state and its inherent political, economic and constitutional frameworks. Freedom of thought also means that one does not allow any political camp to dictate the semantics (such as “migrant” instead of “foreigner” or “locust” instead of “private-equity company”). The “system” today is truly more than the “free-democratic basic order”, which in turn is naturally part of the “system”. Yet those who foremost do the groundwork for the “system” are the first to exercise self-censorship since they no longer like to use the word. This is human, all too human, but dangerous. If the ship’s hull, let’s say the “system”, has invisible damage below the water line, one must be ready to openly reflect on it. That is the distinguished Königsberg civic duty (according to Jürgen Manthey, see book’s bibliography). Thus one can free the word *system* from its inverted commas.

German political scientists are trained to see and recognise the separators in the system in a bureaucratic and diligent manner. All systems are, however, man-made. They are therefore subject to behaviour patterns, as are financial markets. “Pattern recognition” is the most important element in political analysis, as it is in chart analysis. Both analyses are based on the same human behaviour. In fact the commonality that unifies all systems, from extremely totalitarian to extremely libertarian, is simple to recognise and to describe. One only has to take a look at the people and understand the mechanism of mass psychology. The abstract power, for example, which finally

pushed away the border barrier on 9th November 1989 at the Bornholmer Strasse crossing in Berlin is the same as the one which caused the price-earnings ratio of an internet stock (at the beginning of 2000) or a bank (the beginning of 2008) to spiral upward far beyond reality. There is always acceleration at the end of a process, which is preceded by a long base-building period. After a period of time the acceleration stalls since it cannot be sustained any longer (freely adapted from David Fuller). If the state's circumstances become too extreme, actively or passively, then the state will go under. The end is always unreal, abrupt and irreversible. One thinks of the DDR, or, if one prefers, the Soviet Union.

In light of the systemic crisis in the finance industry, fundamental questions arise. All kinds of crises emerge cyclically. Crises are a law of nature. For that reason they are foreseeable and controllable, so long as one understands the cycles underlying the crises. This understanding is fundamentally lacking among the political, entrepreneurial, university and media elite in Germany. The very last thing that would cross the mind of a German politician, political scientist, economist, journalist, social scientist or lawyer would be the impending threat of collapse of his own state. For that he lacks the trained eye. His educated linear logic (Socrates-style) prohibits him from thinking in that manner. The mere thought is already unseemly and indecent. Germany's technical and political elite (those who "naturally" grew into this are a rare species due to Second World War atrocities) appears never to have been interested in the fiscal or monetary foundations of the state. From 1981 to 2008 the rate of interest on the 10-year US Treasury bond fell from more than 15% to 2.07%. What that means politically is least of all clear to a huge portion of decision-makers. In the same time period US M3 money supply grew approx. 100 fold. It was a wave of liquidity without equal. Along with that the political pendulum swung towards deregulation and liberalisation ("Reagan and Thatcher Revolution"). Correspondingly, the years from 1981 to 2000 were characterised by the comet-like ascent of OECD stock markets and, parallel to that, falling commodity prices.

In these years Germany's standard of living was thrust to unimagined heights. And most citizens, voters as well as politicians, did not know why since they were wholly unfamiliar with interest

rate cycles and money supply aggregates and their response functions. Neither politics nor society understood the transmission mechanism. Man's thinking is usually linear (see also book page 88). Thus, as it was yesterday, so it will be again tomorrow. He is incapable of thinking in cycles (the simple "what goes up, must come down..."). The mental and political capacity to steadfastly hold to the status quo is almost infinite in Germany. The welfare society's readiness to accept change tends towards zero. That's why: wealth corrupts. It corrupts the preparedness to address the accelerating change that we experience and incur. Germany is fighting a fiscal defence campaign. This battle is already lost before it has even begun. The massive excessive debt of the state, the massive budget deficits on the part of the federal and state governments and the local communities, the massive extension of the state into non-fundamental spending areas, the massive overstretching of the welfare state, a massive fall in the population related to a massive deficit in mental preparedness and a massive rise in the educationally deprived – all of this endangers the state structure. On top of this is a massive state and quasi-state density of regulations, in terms of depth and breadth, and on all imaginable levels (book op-ed piece 24). It is a self-destructive drive, which is breaking fresh ground. It appears to amount to the same as a death wish.

Deregulation and liberalisation are highly political cycles. They are the preconditions for an extraordinary performance in the stock market. Hence the credo: "political markets have long legs", and not the reverse. It is not a matter of single events (such as one party constellation winning or losing a Bundestag election); rather it is the issue of whether the long-term cycle is still intact. And that has not been the case for a long time because, ever since the year 2000 at the latest, the fiscal and political foundations have been in danger (some say since German unification). The year 2000 marked the beginning of a decade-long bear market. If a bear market lasts roughly two-thirds of the previous bull market (according to one rule of thumb, which covers 300 years of stock market history), then the present bear market will last almost two decades. The end of this bear market could also be the end of this state. Or earlier.

After the 15th September 2008 – that is the negligently caused and subsequently consciously manipulated collapse of Lehman Brothers Holdings

Inc. by the US central bank – politicians of OECD states, above all, quickly gave the answer that they instinctively had to give. Succinctly put, it was class war rhetoric under the banner of “bonus structures in the banking industry”. *The professionally driven business of politics and the solution to factual problems are two fundamentally different issues in a democracy, which in the usual case cannot be reconciled.* Often, a rational, function and fact-oriented solution is incompatible with the mechanisms of a democratically leveraged system within the present-day media-world. *Sustained austerity and democracy are mutually exclusive since electoral populism is stronger than the truth.* Put another way: the one who promises to distribute the most money is the one who gets elected. That is the core being of a democracy and a welfare state combined with modern-day media. Sadly this is already the basis for collapse.

To see this in practice: no single politician in Germany would manage to close a state hedge fund, commonly referred to as “Landesbank” (i.e. a bank fully owned by the various German state governments). For the individual politician, this would amount to instant political suicide. Nevertheless it would be political and fiscal austerity. Thus every state finance minister plays the role that has been assigned to him by the system, regardless of what he might personally think. And even if he were to push publicly for the closure of a Landesbank, he would not get very far. Owing to the damage to government and party-ties, he would be promptly dismissed from government office and excluded from the party. A conviction politician – that is a committed activist, endowed with grit and backbone – for various legal, political and, above all, kinship reasons cannot be expected in Germany. Owing to obligations of loyalty as well as his actual and legal position, the individual Member of Parliament in a state legislative assembly or in the Bundestag is too weak. What is more, the philosophical capacity to want to be a “hero” is not particularly pronounced (Claus Schenk Graf von Stauffenberg and Oskar Schindler were heroes). Germany is not usually familiar with heroes. Germany’s reason of state arose out of the holocaust. One is loath to speak of heroes.

Nowadays it is elementary for all politicians to demonstrate to the public service and the voting public that there is no radical capacity for change

(one only has to recall that the inverted age pyramid is the constituency). Just do not convey any uncertainty to the country! That corresponds to the mass psychology mindset of a saturated welfare society. The admission that the German Landesbanks are, for the most part, the key players and profiteers of a homemade financial scandal would draw attention to the politician (for instance, the appointed political representative on the supervisory board) and the public service (the appointed representative of the ministerial bureaucracy on the supervisory board and in the supervisory authority). This is purely a question of power, and in that area politicians are considerably more practised than German bankers. The bankers will lose this game, even if they do not suspect it. The very notion of doing away with a Landesbank (“capacity for change”) is thus absurd. In a similar fashion, this applies to dozens of other policy areas in Germany.

What many have not understood is that the 15th September 2008 revealed the biggest political scandal in Germany since 1949. It is not just the banking caste that has to be exposed to ridicule, but also the political elite, the ministerial bureaucracy and the central bank ideologues. All have worked hand in hand with the financial industry for decades (always to the disadvantage of the citizen – better known as the taxpayer). That was the reason why the political backlash against erstwhile-pampered allies in the world of finance was so brutal. The scapegoat may only be assigned to one camp. The legal, tax-related, monetary, fiscal and personal links existing between the finance ministries, the Bundesbank, the Federal Financial Supervisory Authority (BaFin), other supervisory authorities, Landesbanks, private banks and leading political parties have a complex, deep, broad and dense nature. For those who wanted to see what was going on, the obvious was inescapable (book op-ed piece 88). Greece’s creative accounting before Euro entry is another legendary example (book op-ed pieces 1 and 27).

A system that is not capable of reforming itself from within, consciously leaving fossilised structures unaltered, will no longer exist in the course of time. That is the clear message delivered by Ray Kurzweil in “The Singularity is Near”. Hyman Minsky’s variation says the longer things are (supposedly) stable, the more instable they become (“Stabilizing an Unstable Economy”). He, who

blocks, sabotages or challenges the self-healing strengths that are inherent to each state or system, will go under. Between 2002 and 2008, the taxpayer subsidised every single job at WestLB Landesbank in North Rhine-Westphalia for EUR3.4 million. Does that make sense? WestLB was not and never will be system-relevant. It is purely a political instrument wielded by the political elite of North Rhine-Westphalia. The same applies to all German state Landesbanks. That a tiny SaarLB was established is a scandal in itself. The rest is solely a smokescreen.

Originally the aim of a Landesbank was to provide credit to the German “Mittelstand” (small and medium-sized companies) in the post-war “economic miracle” years (alongside the credit provided by the private banks). Of course, the Landesbanks quickly became the extended arm of the then ideology of state policy. The Landesbank was always ready to “serve” politicians and readily guaranteed exalted civil servants lucrative positions and, more importantly, pension payments. While proprietary trading was originally neglected and such trading was exploited only to manage own capital, the pressure on the Landesbanks to generate profits exerted by the respective state governments since the 1990s was turned up to the maximum. Later, in an ultimate perversion of purpose proprietary trading pushed all other Landesbank business activities aside. Only a German civil servant could term this “alternative credit business” (“Kreditersatzgeschäfte”). The perfect political hedge fund was born.

An up-and-coming SPD state politician called Peer Steinbrück, then finance minister of North Rhine-Westphalia, had made sure that all German Landesbanks which enjoyed state guarantees until 2005 (when the states’ liability was abolished) were permitted to borrow vast quantities of money on international financial markets. After that the Landesbanks did not know what to do with the money. The Mittelstand, already well beyond the economic miracle years, was sufficiently saturated with credit. There was no credit crunch, as there was after the collapse of Lehman Brothers Holdings Inc., rather it was the stark opposite. The way to the state hedge fund – which turned a gigantic wheel of speculation under state control and with the active support of the respective state politicians – was cleared. Not one of these Landesbanks was, is or ever will be system-relevant. One could

have closed all German Landesbanks in 2008, latest 2009 (book op-ed pieces 89 and 91). Instead the losses of these banks were socialized, that is passed on to the citizen, while the profits, if there ever were any, in the previous decades were always privatized (bonuses for employees). This socialization is a further nail in the coffin for the solidity of German state finances. In Germany the damage to the taxpayer amounts to over EUR800bn so far. Not one single politician is prepared to answer for that or to assume the responsibility. As a political proxy one battles with bank management over bonus payments. Poor Germany.

Politicians and the media, metaphorically speaking, do not discuss system recovery (or, in the best case, systemic change), rather they talk extensively about the remuneration and punishment of the captain and the ship’s complement dressing the debate with class struggle slogans. As always in such cases, citizens, politicians and the media, as the mouthpiece of populist gratification, demand a sort of mass psychological and hysterical gaining of satisfaction, à la old school, if you will. For politicians, what matters is to release the pressure. Thus eye-catching demands are quickly fulfilled: financial speculators are to be kept on a “tight leash”, bonuses are to be restricted, “banksters” are to be outlawed and fired, some useless set of rules is quickly modified and, if need be, a “pogrom atmosphere” is whipped up. After the Lower Saxony CDU Prime Minister Christian Wulff used this “word” in a talk show, he promptly had to back-pedal because he had, for a short time, inadvertently swum against the populist tide.

Not one of the state-owned Landesbanks is allowed to die. A Landesbank is a political instrument in the party toolkit. It is a political means to dispense discretion, money and to satisfy greed. For that reason, a Landesbank only sinks when the system (the state) goes down. The political signal to the public sector is clear and was repeated many times over: we will not leave you in the lurch. The public sector is the most reliable voter and pillar of the state supporting parties – which, by definition, all parties represented in the Bundestag are, whether one likes it or not.

When things are looking up, the politicians always pretend to be responsible for the success and make vociferous claims for it. The seat on the supervisory board or the consultancy position

following the expiry of the political mandate is the politicians' bonus. If it goes downhill, politics naturally seeks a scapegoat. One is soon found. The selection criterion for this group does not matter: 'race', religion, nobility, skin colour, industry sector or something else (German history has already witnessed all variations). The awareness-criterion of the masses is always the same: the scapegoats appear to have profited in monetary form or in terms of the value of money – and for that they must now suffer. Revenge is a law of nature that is not easily bypassed, particularly in a media democracy. In the 21st century the mechanism proceeds with greater subtlety but not with greater mercy.

What does subtlety mean? For instance, it means that the system appropriates information using questionable methods and can use this in order to carry out the selection (see government purchases of stolen bank data CDs which are intended to be used for tax purposes). Not everything that is legally possible is also legitimate. Strictly speaking, the CD is, according to §259 of the German Criminal Code and applicable Federal Court of Justice verdicts, not stolen goods (the "state" can comfortably retreat to "formal legal baselines"). Subtlety, for instance, means that on the day of arrest, sometime around 5am, a public sector ZDF TV camera team arrives at the house to film the arrest. Since, however, it is not legally permissible to inform the public of tax affairs, the responsible public prosecutor's office has to be asked why a certain television team of a public sector broadcasting corporation was informed in advance of an upcoming arrest, with the mandate to even film this? Because the system so desires, every enquiry is passed over and every sanction against the leading public prosecutor, who compliantly informed ZDF TV (possibly the chairman directly), remains undone. The constitutional state responds with perceived or factual injustice. That definitively destroys identity. When it is a question of power, the public prosecutor naturally works for the system (see Ian Kershaw's basic thesis "to work towards the system"), as does the public sector broadcaster (likewise "public television" transporting the ideology) or the media as such. And they are protected by the system, whatever the legal position. That does not change the fact that the funds that Klaus Zumwinkel diverted to Liechtenstein to avoid taxation are peanuts in comparison to the financial damage that he wreaked as chairman of the board of Deutsche Post AG and,

as such, ultimately responsible for the purchase of DHL. That was supposedly EUR9 billion. It also does not alter the fact that the Landesbanks have probably cost the taxpayer more than EUR800bn in financial damage (and for Hypo Real Estate, a Bavarian showcase bank, one can add an additional sum in excess of EUR100 billion).

As times change, so do the methods of sanction. In today's Germany nobody has to fear for his life or fear ending up in a KZ concentration camp. As is evident, a media-led or tax-based execution is quite sufficient. That is the subtle art of execution. The need to be seen to be acting and the creativity of the state when it comes to tax revenue issues lead to attempts to channel mass perception and to make the scandal personal. The strategy of the system is always to employ a secondary theatre of war as a replacement for the central action in order to avoid the firing line. For Zumwinkel that meant his errors at Deutsche Post (DHL) were, politically speaking, too hot a potato. The distraction (proxy) from DHL to the second theatre of war "Liechtenstein" was better suited and more clear-cut to impart to the public (tax evasion).

Our basic problem is not however the remuneration or punishment of the captain and the ship's complement, rather it is that Germany's fiscal and monetary bases have irreversibly changed, at least since 15th September 2008. The financial crisis hastens the way into the abyss, particularly when one also takes into account the development of Germany's age pyramid. From the Greek example one can understand how rapidly a financial crisis can turn into a state crisis. In Germany in the years 2008, 2009 and even in 2010, the privately existing debt obligations of the banks will ultimately be transferred to the public sector (even quantitative easing is ultimately a reallocation of private debt to the public sphere). To pay for the sins of others (bankers, politicians, ministerial bureaucrats), the burden has been placed on present and future taxpayers. Now we move towards a sovereign risk / government bond bubble. This is usually the last bubble before the downfall. Contemplating this ultimate bubble, in conjunction with the Germany's debt-financed welfare state, leads this book's author unavoidably to the appointed unsavoury hypothesis that the days of this system are numbered. In 2009 alone the level of German federal public debt climbed a nominal 7.1%.

The Titanic sank because those in charge believed in its unsinkable nature and for that reason they acted negligently. Thus there was no panic among the passengers until the bitter end was clear. It was this true-to-the-system conviction that finally went down. The DDR preached the superiority of socialism and called itself democratic. It was constructed as a thoroughly centrally planned administration and undemocratic (although it tried every now and then to untighten the regime when illusion met with reality). The reunited Germany calls itself a “social market economy” (“Soziale Marktwirtschaft”). It sells this as a moderate type of capitalism and the direct opposite of socialism. *But capitalism means market entry AND market exit.* Both must be inherent to the system. Why banks are denied market exit remains a mystery. It would be a warning to all to maintain a “good” economic house. The bank goes down, not the customer deposit base (for the most part at any rate). One has then to incur and accept a bank run. It is better than dispatching the entire state into the abyss.

Every enlightened economic agent today knows that the “social market economy” is an eye-catching form of the directed planned economy (notwithstanding the fact that it is not centrally planned or organised). State, administration, supervisory authorities, organisations, companies, unions, political parties, organised interest groups, ecclesiastical or other religious establishments, social organisations, to name just a few, all lie together in the same bed. Each knows the other. Each gets involved with the other. Each knows all there is to know about the other. There are constant rumours, as well as periods of snuggling up to each other (book op-ed piece 92). In no way does that correspond to the Manchester capitalism (or anything similar), which the political left so vociferously opposes. It is a directly planned economy, which bears before it the monstrosity of the “social market economy”. The latter is essentially defined as an abstract, never attainable “social justness”, which no political party can ignore. The social philosopher and economist Wilhelm Röpke (see book bibliography), as well as Alfred Müller-Armack (head of the Policy Department at the Federal Economics Ministry from 1952) and Walter Eucken, who decisively prepared and implemented the concept of a “social market economy”, would turn in their respective graves today if they could see what has become of their “social market economy”. At the beginning

of the 1950s, the word “social” outlined a loose and basic social insurance network, which naturally had the support of all who went in for a free and morally decent economy. In the German post-war economy of the 1960s, the “social” element of the “social market economy” nevertheless degenerated to the individual case-based, fully comprehensive protection insurance covering all sorts of vagaries of the human condition. It provides complete security for millions of citizens (on the one side, the *state-distant* needy) and guarantees jobs, income, pensions and turnover for millions of citizens with *close proximity to the state* (public sector service and all the affiliated social sectors).

The philosopher Peter Sloterdijk expresses it thus: “*On no account do we live presently “in capitalism” – as recently suggested by an unthinking and hysterical rhetoric – rather we live in a regime of entities which one has to define, with a pinch of salt, as a mass-media animated, tax-grabbing semi-socialism atop of a property-rights economic basis. Officially and shamefacedly this is called “social market economy”.* (“Kleptocracy of the State”, Cicero Magazine, June 2009 edition). In any case he has the agreement of this author, but not the majority of the technical and political elite. Why has a “growth acceleration law” (“Wachstumsbeschleunigungsgesetz” in 2009) been passed by a “conservative” government (thus meaning “planning capability” is taken for granted)? The tax-logic ideology that quietly lies behind this remains a mystery? Thus: state kleptocracy meets directed planned economy. Not everything that one may not say is untrue.

The class struggle PR-activism (bonus structures, hedge fund regulation, Tobin-tax and tax havens to name just a few ideological battle fronts) celebrated by the G-20 politicians and media does not change the situation: the system is broken. Indeed George Soros did not state: “*The system is broken*” without reason and without reflection in an FT interview in October 2009. One only has to pause for a second to understand the power of the sentence of one man, who truly understands systems (and is partly responsible for downing one himself). This author is therefore not alone with his venturesome thoughts. The bearer of unpleasant news is always unpopular. The system is subject to, one must at least admit, enormous and accelerating change (see Ray Kurzweil’s “The Singularity is Near” and book op-ed piece 61).

The question is this: how would the passengers on the Titanic have reacted in the view of the looming sinking? Would it have been the appropriate time for an orderly discussion and a subsequent vote? Certainly there would have been no debate over the remuneration of the captain (“bonus”). Perhaps one would have briefly discussed the risk profile of the route in view of the proximity to pack ice (“subprime markets”), the use of financial derivatives and “quantitative easing”. The passengers (“citizens”) would have certainly demanded the immediate stabilisation of the ship’s body (recovery of the “financial system”) and would have agreed to radical measures (“readiness to change”). The class war that is today invoked has nothing to do with stabilisation of the system, rather it serves only as a diversion from the actual malady. This class war is neither productive nor is it effective in terms of its impact on the viability of the system (book op-ed piece 97).

Young systems often fail due to violent overthrow. This is often caused by an overhang of recalcitrant young men who readily resort to violence. Gunnar Heinsohn describes them as “angry young men” and refers to them as the “youth bulge” in his book “Söhne und Weltmacht” (“Sons and Global Power”). Some systems fail for the opposite reason: that is a DDR-style demographic structure of an aging leadership elite. Such a situation prevents violent revolution since a combination of natural aging leading lights and rotten finances causes the state to virtually disintegrate all by itself. Still, for reasons of ideological identity-creation for the subsequent generation, one prefers to speak of a “peaceful revolution” since it is human to romanticise the past. But the actual and observable overthrow of the regime is only the logical end point, the basis of which is the soundless and invisible erosion of state finances. This can be protracted over decades (and, in the case of ancient Rome it took centuries). The damage below the water line is subject to the uncertainty of timing criterion (“timing unknown”, see book page 108). Many systems, often long-established, whether totalitarian, democratic or communist, thus fail rather mundanely – in line with the laws of nature – owing to compound interest, pension obligations, fiscal, demographic or monetary collapse (in other words, owing to all sort of cycles) and not directly as a consequence of total destruction in the wake of a war. Niall Ferguson’s “The Ascent of Money” is a tour de force through the failings of states

that foundered and of their respective currencies, which went up in smoke. Carmen Reinhart and Ken Rogoff’s “This Time is Different: Eight Centuries of Financial Folly” follows in a similar vein. This book comes up with a frightening conclusion: practically no financial or currency system has managed to survive without breaking apart.

Germany is no exception. The number of currency reforms and failed states, which the last few generations have gone through, should be sufficient warning: they speak for themselves. The last collapse (state collapse and currency reform) occurred only 20 years ago – and is almost already forgotten! No, even better: the “old” system is idealized (see by way of example the DDR-kitsch at Potsdamer Platz in Berlin). Wealth corrupts and obscures a clear perspective. Those in receipt of a pension do not commit a cold-blooded, violent coup d’état. That have too much to lose for that and protecting their vested rights is their aim. The following generation, which is often jobless and “educationally-disadvantaged” – to adopt the euphemistic post-’68 sociological German (in other words, typically lower class) – is altogether still too tame. Thanks to the electronic accomplishments of modern life, as well as the targeted-catering of the social state, this class is kept in a peaceful and sufficiently comfortable state for it not to wreak actual damage; that is overthrow. In a society with an inverted age pyramid, there is no imminent revolutionary danger from this underclass. The actual danger is subversive and, by its nature, it takes a slower course. The state financial architecture is faltering: this is the icy cold water of the North Atlantic that is filling the bulkhead of the ship’s body and it is invisible to the public.

A modern democracy, coupled with a debt-financed welfare state (with a German character) and an inverted demography at the beginning of a new interest rate cycle, cannot survive in the long run. The existence of a democratic welfare state burdens future generations with today’s debt. There is no logical reason why a state or welfare state should survive permanently or exorbitantly through credit finance or debt. As a basic axiom: only what there is to distribute can be distributed, particularly in the case of a receding population base. The remainder is empty promises, for which the children of future generations will have to pay. As for the rest, the decadence of the occident has nothing to counter the demography of the orient.

When, in the Weimar Republic, Reich Chancellor Heinrich Brüning tried to begin to restore the German state to health though saving at a time of deflation, he did not recognise the connection between deflation and demography (book op-ed pieces 32 and 35). We can concede to him on that one. At that time this mechanism drove many of the six million jobless Germans into the clutches of the up-and-coming, popular National Socialism. The latter united the two then ultra-popular ideological trends: first, the desire for national revival after the deeply felt disgrace of the Treaty of Versailles and second, the collectivisation of the masses and the economy following economic crisis, and the conflicts that the “socialists” had already served up to Reich Chancellor Otto von Bismarck. In the 1930s neither the nobility nor the conservatives had sufficiently understood these two facets. On that account they were to suffer massively. The DDR, on closer inspection, appears to be nothing other than a pale imitation of this second facet, since socialism remains socialism: thus the rule of the petty bourgeoisie and the inclusion of redistribution. The redistribution of goods, the expropriation of the nobility and landowners brought the DDR 10 years of ascent and then 30 years of decline. Scarcity of goods on the one side and rotten state finance alongside a falling population on the other had to bring about state collapse sooner or later. However, even the BND (German Federal Intelligence Service) had not understood that, not to mention the overwhelming majority of West German economists and historians (as always, exceptions prove the rule). It is easy to be wise after the event. People will be able to say that after the fall of the present system too.

To return to Brüning: the Brüning argument (book op-ed piece 32) is invoked by all present day Keynesians in Germany and the world over – that is to tackle debt with still more debt. That is exactly the perspective of Nobel Prize winner Paul Krugman, Nomura’s Richard Koo and many others (in this country, the Brüning-inspired Keynesians include the chief economists of the larger German banks, Landesbanks and insurance companies. “Cui bono?” – one might ask). Those who wish to generously tackle today’s debt with even more debt are exactly those who as experts (at private banks, the Federal Financial Supervisory Authority BaFin, the Bundesbank, the Finance Ministry) completely missed seeing the coming of the financial crisis, even though the writing on the wall has

been there for all to see for years (book op-ed piece 55 and the following). These experts, along with the historians, political scientists and politicians – who also did not see the fall of the Berlin wall coming – should return to school and study the theory of cycles. The basis for the historical argument to tackle debt with even more debt no longer applies. Germany’s demography, post-Lehman Brothers 2008, is not the same as it was in 1932. And the social-cultural profile is even less similar. Germany no longer has a young society, ready-to-revolt à la 1933, rather – to exaggerate somewhat – it has the aura of a luxury retirement home. The baby-boom generation, who moved out in 1968 to practise revolution, is today contemplating ways of life in retirement and nursing homes. And this generation presides over a level of debt that, by far, towers over anything that the German fiscal eye has ever seen. That is why today massive state-subscribed fiscal austerity would not generate a revolution. Despite that, it remains undone. Why? As is shown below, the anonymous state organism cannot give way. It is constructed to be in a state of permanent expansion. This expansion has to be financed.

As a matter of principle, in a welfare democracy budget pressure is present to generate tax revenue; in the downward phase the breach in a dyke caused by a spending surge no longer exists. Thus which of the political parties represented in the Bundestag lower house determines the Finance Minister is completely irrelevant. In all aspects the latter is constantly subject to the mechanism of the system. When the icy cold water first bursts in large quantities and with greater speed into the compartments of the ship’s body, the party’s colour pales into insignificance. In this respect, the name of the Finance Minister is arbitrary in the downward phase since he works, like all others, exclusively towards the system that cannot be altered. He defends the ineffective ship’s compartments, even though sinking was actually already inevitable from the ship’s construction (a debt-financed welfare state that ignored demographic factors and interest rate cycles). That can also serve as the answer as to why, in modern times, every Finance Minister – from the Left Party to the CSU – would agree to buy stolen private CDs for tax information purposes or probably agree to a bailout of Greece (or any other state in the European Economic and Monetary Union). The legal position and the treaties are irrelevant. Nevertheless the

role model of the state is already destroyed. From this point onwards the above-mentioned chamber orchestra on the Titanic starts to play.

Over generations an archetypical pattern is established: first there is the dynamic build-up (an economic miracle that is practically unavoidable in a free market system with highly favourable population trends – and thus can scarcely be termed “miracle”: book op-ed piece 53). Then comes passive administration. In the final stage comes the inheritance generation – lacking in motivation and wholly narcissistic. *In the struggle against relegation, the state – faced with the direct consequences of being a welfare society at a time of falling population numbers, rotten state finances and at the beginning of a rising interest rate cycle – has no option left other than to consistently raise tax revenues and ruthlessly and without exception collect them.* Now the state can only crack the whip, in order to keep alive the central body of the system, the public service and the apparatus that is in close proximity to the state.

More than 75% of federal government expenditure in the 2010 budget consists of 1) debt service interest payments on German government bonds, 2) public sector wage expenditure and 3) welfare state costs. The tendency is rising. From financial history we know that state collapse is extremely difficult to avoid when debt service interest payments reach more than 20% of the federal budget (see Niall Ferguson). Germany has already reached more than 12% (book op-ed piece 100); Greece is at 15%. How does the state actually intend to continue to function as a state with the remaining 25% of its budget? The federal government budget is basically designed so that the system directly administrates itself. This has nothing more to do with the proud citizen of Königsberg, as described by Manthey. Already in the closing years of the 19th century Friedrich Wilhelm Nietzsche considered that the Christian culture of the occident had already surpassed its apex. In retrospect, Richard Wagner’s “Ring cycle” appears to have provided the musical finale.

Total state control over the citizen was never a problem, either in the west or the east. In the DDR, as in the Soviet Union or Romania, the Ministry for State Security, the KGB or the Securitate did not fail. Failure was always down to the finance officials of the central planning economy, metaphorically speaking. Randomness, that

elementary law of nature, is not inherent to the system of centrally planned socialism and no one wishes to tolerate its presence. Even though the world was changing at an ever increasing pace, the adaptability of the then DDR leadership tended towards zero. The collapse came slowly and subtly through the decades-long undermining of state finances (“damage below the water line”). The predictable collapse could only be delayed some years through cross subsidies from the class enemy in the West but it was ultimately unstoppable. Who does not wish to see here the parallel with the successor state – which will not, in any case, be cross subsidised by anyone? Incidentally those cross subsidies have been replaced by the massive increase in money supply in recent years and decades.

No system without control. All systems love control. Control is a law of nature: it corresponds to human nature and to human behaviour. It transcends the system. It is inherent to some systems that no justification for control is required. A totalitarian system is totalitarian precisely because it is totalitarian and this totality is based on control. The compulsion to control is free of argument. Today’s democratic system, however, is subject to an obligation to argue – the aim of which is to exercise the very control that all systems inherently require. Thus cyclical propagation of sub-ideologies is necessary to justify control. Terrorism (1970: Red Army Faction, 2001: Al-Qaeda) or the environment (1970: Climate cooling, 1980: Forest decline, 1990: Hole in the ozone layer, 2000: Global warming) are manifest examples of this. The first category effectively serves the control feature; the second leads to a widening of the tax net. The actual power of the state in exercising control develops with the combination of various sub-ideologies (book op-ed piece 99). The target is always to provide constant tax revenue to the public sector and those organs that are in close proximity to the state. “Global warming” facilitates the introduction of nonsensical Pigovian-style taxes (in this case wholly undirected to a specific purpose) or levies. “Terrorism” allows the control of the citizens’ hard-earned funds within the system and external to it and, if need be, sanctions (fiscal offences). The media carries out the rest: that is to extend the sub-ideology without posing fundamental questions precisely because it, in principle, works towards the system (as per Ian Kershaw’s hypothesis).

The propagation of system-relevant and system-maintaining sub-ideologies is relatively simple. One uses willing academics, who always appear to be neutral and objective. One establishes all sorts of government-related institutions. In that way everything can be justified from tautological climate change to abstract terrorist threats. Each individual event (individual student terrorist action or natural catastrophe as evidence of global warming) is “generalised” and used as an opportunity to extend greater control (terrorism) or to introduce tax models – which raise tax and levy revenues – to protect against emissions. All these sub-ideologies are neither decisively refutable nor verifiable. Each sub-ideology relates to an industry (one only has to think of the security industry’s body-scanners or the solar sector) and, some might say, organised crime.

By the same token, private or state voraciousness is a law of nature. Without greed or stress there is no motivation to be economically active. Only the “fear of the sable-toothed tiger” sets us in motion. The greed, which causes bankers to strive for profits and “bonuses”, is exactly the same as the one that causes politicians to ratchet up Landesbank profit expectations to the maximum or to strive for the Federal Chancellery. The system is subject to voraciousness when it buys stolen CDs for tax purposes. That is a manifestation of the insatiable appetite for escaped tax receipts and the insatiable appetite to reprimand the citizen. Greed, voracity, insatiable appetite – call it what you will – it is the driving force of life. In terms of laws of nature, one can say: without greed there is no life. Or, to formulate it another way: without stress, there is no life. State finger pointing at “greed” is certainly popular but it is also unnecessary. The very bases of economic growth and tax income derive from the “natural greed” of those who are privately economically active. Why do some citizens establish enterprises and others become employees? The “greed” for freedom and prosperity (and with that “making money”) drives one out into the harsh and uncertain economic climate; at the same time it creates employment and tax income.

Is collapse predictable (see book page 108)? We live in a modern era of ever accelerating change (“acceleration” of behavioural finance) and not in the static Middle Ages (“base-building” in behavioural finance). Acceleration for Germany means that the state is journeying in the direction of more

“state”. From behavioural finance we know that an acceleration of this move already implies the end of the move. That said: “timing unknown”. The outcome is subject to a certain own-dynamic (book page 108). Notwithstanding that, the profound realities of behavioural finance are the very same ones that allow a system to hold together or enable it to break apart if the system, as so many, is not oriented to self-healing. Each complex system has its powers of self-healing. Even the system in which we live. Whether these powers are effective is debatable. Whether they can avert collapse is equally debatable. Thus, “timing unknown”, since it is up to the highly abstract powers of self-healing to avert collapse.

The pendulum of deregulation will swing towards over-regulation for many years, until the state has ultimately strangled the private economic activity of the citizen “outside of” the state economy. The broad masses and the populist arm of the media demand this. In terms of the “Laffer curve”, state income will gradually collapse and deprive the state of its financial base (too many transfer-payment recipients and too few taxpayers in comparison to the constantly growing surge of expenditure and to falling population numbers). The state, that is the system, follows its own logic. In today’s economic system, the taxi driver and the doctor are two extremes, yet essentially both are state employees in a directed planned economy. They are led to believe in the concept of economic independence (the smokescreen of “social market economy”), yet essentially the salaries of both are tightly determined by state parameters and regulation. Both are cleverly co-opted in a planned-economy manner since either their competitive position or their income position is exactly regulated by the state. One has the impression of being “economically independent”, nevertheless the invisible hand of the state’s planned economy is only an arm’s length away. Both operate within close proximity to the state. Hundreds if not thousands of such state directed and defined employment forms exist in Germany. The profits of these “self-employed” usually have a set ceiling, yet any losses must be borne alone.

Post-war Germany is not tested at all. The state does not trust the citizen to take any pain and never has (with the exception of the East Germans after unification, who had to accustom themselves to mass business closures in 1990ff). Fiscal

austerity and welfare democracy together with modern mass media do not get along. That is the factual conclusion 60 years after the establishment of the state and for two to three generations of weary taxpayers. *Strictly speaking, the democracy of the present-day German welfare state rests on a debt-financed Ponzi scheme. When the demography tips and compound interest kicks in, the final bell tolls for the system.* The state does not wish to test its citizens' limits. The fear of potential collapse compels the state to remain in a fossilised state. The longer this fossilisation continues, the greater the probability of actual collapse. For that reason the state actively avoids pain being inflicted on today's citizens. In so doing it increases the potential pain to be endured by future citizens when the "day of reckoning" finally arrives. It attempts to solve problems, fractures and social issues exclusively with (usually borrowed) money. That drives the state ever deeper into debt. What follows are home-made bubbles in wave formations. The Grand Master and high priest of this monetary alchemy was US Federal Reserve Chairman Alan Greenspan. And his successor Ben Bernanke ("Helicopter Ben") is not one jot better for he is equally a part of the system and the system has selected him for that very reason. For every small scratch, the monetary sluice gates were opened ("moral hazard"). The Mexican Peso crisis 1994, the Asian crisis 1997-98, the Russian debt crisis 1998, LTCM 1998, Y2K 2000, Argentine national bankruptcy 2002, the dot com bust 2000-03, the terror attack of 11th September 2001, the credit crunch of 2007 and the financial crisis of 2008 (and the following years) just to name some of the crises. In the wake, the Bundesbank or the European Central Bank followed, whether they wanted to or not. All this leads, as is now visible, to the ultimate crisis of the modern welfare state with an inverted age pyramid: that is a bubble in the government bond market (risk of "sovereign default"). For the Eurozone, Greece is the prelude. The first bulkhead is filling with icy water. The Titanic could bear four full compartments, but five were damaged. It was pre-programmed to sink. One can start counting whether other member states of the European Economic and Monetary Union will follow the unavoidable fate of Greece.

* * *

The State as Organism

The modern democratic welfare state behaves like an organism. An organism is autochthonously geared to growth and absorption. Contraction ("austerity") is an unfamiliar concept. If it has to be pursued, then it is only for tactical political reasons (for instance, to comply with the "formal" criteria for entry into an abstract economic and monetary union or, if necessary, to pursue "budget consolidation", which will never actually be attained). The organism only knows growth, not just with respect to the economy but also in terms of personnel, organisation and supervision. The organism wants to control everything and everyone. That is its core. It seeks to co-opt everything. When a law is passed by a parliament, it always has two directions of action. First, it subjects the citizen to a new set of rules (if, in the usual case, the citizen has to pay levies, fees and taxes). Second – although indiscernible to the ordinary citizen but much more important for the organism – it needs those responsible for execution for each new law to be implemented and supervised. That means, each new law safeguards jobs in the public service and all attached sectors that are in close proximity to the state. *Thus every (old as well as new) law cements the justification for the existence of the state apparatus or the state organism. This logic needs to be acknowledged in order to understand why the state (the "organism") is not in a position to contract its regulatory structure.* That is why there are no simple laws. Simplicity would undermine the organism's *raison d'être* and its pursuit of growth. One only has to think of the hundreds of thousands of jobs in the fiscal authorities and sectors that are in close proximity to the state, for instance tax consultants or auditors – who essentially live off the deliberate complexity of taxation laws. For that reason all laws, by definition, must be highly complex and come supplied with a vast array of exemptions (in the usual case without a "sunset clause": see the "sparkling wine tax", which was used to finance the German Kaiser's fleet in 1902, and which is still part of the German tax code today). Such complexity keeps the system in a state of contentment and the citizen under the thumb.

There are dozens of examples of federal and state institutions and agencies that overlap in terms of implementation and competence. No one in the organism has the intention to either change or to completely abolish the administration (the

small exceptions prove the rule). The television licensing organisation (GEZ) and the public broadcasters (“public television”) are notable black boxes. They are simply not accountable. And if they are in any small way “accountable”, then it is only to the politicians and interest groups that struggle to be represented through the very same medium. The organism takes (levies, taxes, fees) in order to sustain itself. The political parties take EUR7 billion annually; public television takes around EUR6 billion. How is that justified? Have the citizens approved this? To put the question another way: are the citizens legally or factually in a position to change this? Over time, a certain powerlessness develops – which, in turn, does absolutely nothing to promote identity.

What the organism gives is absorbed generically by the three largest items on the federal budget (public sector wage costs, interest payments and welfare state cost). All of these appear on the “liabilities side”. As for “assets”, less than 25% of the federal budget is available.

Following system collapse, this elemental state organism (as proxy for the “system”) usually starts up in a lowly minimal form (Germany 1949: a basic apparatus with only a few employees in the public service and in sectors which are in close proximity to the state) and, over a long time period (thus two to three generations of taxpayers later), it reaches the tiniest corners of daily life through its unconditional expansion. At that point the organism is omnipresent; it becomes arrogant and autocratic since it has long reached a critical mass. The organism sanctions and eliminates even the smallest deviation. The organism is then no longer a factor within the state, IT IS THE STATE AND SYSTEM IN ONE (thus the critical mass). Still the organism grows and flourishes in the manner of a bubble in a financial market. And all bubbles eventually burst, without exception.

In the empire of the German Kaiser the tax burden amounted to a few percent. On average women had four to five children, near-to-full employment prevailed and capital stayed at home. Germany had to be constructed and the demography was positively disposed to economic growth (similar to the way it was after the Second World War). And yes, the levels of prosperity and health were considerably lower and capital was “inequitably” distributed. Approximately 100 years later

the tax burden is at least 10-20 times higher, the contraceptive pill and hedonism have washed away the abundance of children and produced a disturbing age pyramid structure, unemployment swings with every economic crisis to an even higher level that is read in millions, state transfer incomes will soon be higher than the average taxed income of the ordinary employee and it will never be possible to pay back the total state debt of Germany. Moreover, the capital of the extremely wealthy flees abroad. Is that the progress for which we strived for society as a whole following two World Wars?

No one dares to say it, yet everyone knows it to be true: the organism now has only ridicule and mockery left for its citizens. From school pupil to pensioner: all experience it in the flesh. The citizen who works in a state-distant sphere has to carry the full risk on his own private shoulders. He is neither indulged with a secure job nor can he properly evaluate his financial present or future. He is ruthlessly exposed to the organism since he is subject to the state’s system of rules (laws and regulations of all kinds) that, over decades, has become so complex that virtually every citizen has one foot in prison the moment he leaves home. *That means the citizen is always open to state blackmail if he appears on the radar of the organism.* The hysteria-driven media democracy strengthens this mechanism. An awkward opinion (which is antipathetic to the “organism”) often leads through the media, which often works consciously or unconsciously towards the organism, to the opinion-holder being exposed to legal proceedings in another area (the well-known “skeleton in the closet” syndrome). The majority, therefore, adheres to the unspoken rule, namely to keep quiet to protect itself. And according to the English political philosopher Thomas Hobbes: to say nothing is assent (“Leviathan or the Matter, Forme and Power of a Commonwealth Ecclesiastical and Civil”, 1651). Heroes look different. We are far from the freedom of opinion that we always pay tribute to on principal feast days. If the criticism is an issue of substance, the critic must take good care not to appear on the radar. The messenger always gets shot!

The citizen is exposed to ongoing financial expropriation, even if he does not recognise it. Under the Bundesbank’s watch, the long-term inflation rate amounted to 2.2%. Over a 25-year period that represents a depreciation in the value of money of

approx. 50%. One can term that “silent expropriation”. Such a rate of inflation, a little higher if possible, is absolutely desired from the political perspective and very welcome since it durably writes off the welfare state’s debts. *That is lesson 1.01 for every leading central banker.* First, debt is generated through the democratic and debt-financed welfare state. This will subsequently be reduced through managed inflation by the central bank (the Bundesbank or the European Central Bank). Keep on telling the citizen the fairy tale of secure money. It’s only inane if the debt/inflation equation gets out of hand (2009 and the following). Moreover, the officially presented inflation rate numbers are open to challenge. For that reason central bankers are fundamentally happy to err on the side of inflation, but battle aggressively when deflation threatens (2009 and the following: A glut of liquidity through “quantitative easing”). Quantitative easing merely represents the transfer of private debt (banks, citizens) to the national budget. The debt remains; all that has changed is the debtor (or principal). From this point onward, the tax system is in the driving seat and it wants the taxpayer to foot the bill. Game over.

That is the reason why deflation is the deadly enemy of every debt-laden state or system. After 25 years, one’s endowment insurance only amounts to half of its purchasing power and even this half is subject to taxes. What is the point of saving? The state-distant citizen has to struggle with this, as well as many other forms of silent expropriation (state determined fees, levies and taxes are always inflationary, even during times of deflation). His so-called “private” Riester pension or the Rürup version (named after those who designed the two pension models), his endowment insurance and other capital investments will only be a fraction of their purchasing power in comparison to what they nominally promise today. The organism knows that and therefore it creates all sorts of tax conditions (short-term incentives) so that the citizen avoids the route of self-responsibility in respect of his financial future (to his long-term disadvantage). Only those who are consistently and silently expropriated must continue to work. By contrast, those who accumulate assets represent a danger to the organism. The wealthy have the financial freedom, as well as the freedom of thought, to defy suppression by the organism. That is a danger to the organism and one that is quickly recognised. For that reason, the symbolic

battle against Switzerland takes place. But for all that the intended targets are wealthy Germans. An opponent that is too weak to be an opponent is no opponent at all for Berlin. By contrast, the German state appears to buckle in the face of strong opponents. Tax havens like Delaware (in the USA) or even Singapore and Hong Kong appear too powerful for the German state to want to take them on. Instead it is easier to tackle little Switzerland; all the better since it does not have too many powerful friends.

The organism can notoriously co-opt the lower class through across-the-board job offers (that is why it gets elected). Yet the organism has its difficulties steering the wealthy middle and upper classes. For that reason the modern digital organism places great emphasis on control. Thus the lower class controls the wealthy middle and upper classes, which, in turn, pay the lower class for this task. There is not much sense or identity evident in this for those concerned. Under such a constellation the state and society structure start to disintegrate (book op-ed piece 97: German class war), since it becomes a war of all against all (man is a wolf to [his fellow] man, or to be more exact: “homo homini lupus” according to Thomas Hobbes). German society no longer carries forward the project for community solidarity that it surely did in the 1950s and 1960s. So long as the organisational regulation framework exists (the police, the public order office, the administration, the financial authorities, the local authorities, etc.) and all can be paid (public sector wage and non-wage-related costs, pensions) the organism is not in danger. If the ultimate bubble bursts, namely the state debt bubble, then it can go very quickly downhill (“timing unknown”). Once more: the DDR collapse was not triggered by faulty control (Stasi state security) or failures on the part of the organs responsible for enforcement (the DDR “Volkspolizei”, the border guards, etc). Its collapse was caused by rotten finances and an ongoing economic state of scarcity due to fossilisation of the state. There is no scarcity of goods under the successor model. Rather the excessive welfare state ideology (banal redistribution masquerading as “social justice”) substitutes this facet (book op-ed piece 81, 77, 67, 38 and 36; “DDR light”). After a certain point it becomes no longer worthwhile for the majority of citizens to work. You cannot have your cake and eat it too. Somehow the DDR muddled through for 39 years, but within 11 months the state had

disappeared (book page 88). Just like the financial market: “panic is a stronger emotion than greed”. The way down is always faster than the way up.

While the state-distant citizen is exposed to the ongoing expropriation on all levels of capital and time, the circumstances are very different for those citizens who are in close proximity to the state. The latter does not have to make private provisions nor does he have to shoulder the financial aspects of life’s risks. He may not earn much but he earns without interruption and that continues through his entire working and pensionable life. So long as he is not legally found guilty of misconduct, the organism will back him with its complete legal and financial power. His livelihood is taken care of at all times: answering for that is the state-distant citizen with his private manpower and his private life risk. While the German “official” state debt amounts to just short of EUR2 trillion, its future payment obligations arising out of the system (health insurance, care, pensions, etc) amount to at least a further EUR4 trillion. To service these payments under deflationary conditions is extremely unrealistic. Alone the position of education policy in Germany (one thinks of the “educationally-deprived classes”) impedes this. There are only a few decision-makers who appear to be concerned about this...

Through the use of quotas, the organism is always willing to bind to the system a large number of citizens from the lower class and to endow them with organisational power. It is an inverted variation of: “if you can’t beat them, join them”. In other words: if you do not want them to rebel against you, co-opt them. From the organism’s perspective, they are not in need of further education – an elementary level of education is sufficient (they are the opposite of that which the state preaches when it spins fables about education). As manpower they are willing and they are cheap. They are supported by the state and they know that instinctively. This has the effect of extraordinarily raising self-esteem. The organism lends them “power” in a very narrow sphere. Nevertheless it is state power and that is what counts. And every individual within this system is gratefully willing to exploit this power at any time (German history teaches that in a tragic form). The organism absorbs the lower class in order to safeguard its own survival. For the organism, the lower class is the perfect instrument of control. Thus the organism foments

the modern version of class war (which, of course, can no longer be called that today) under the banner of “social justice” (book op-ed piece 97).

What is fascinating about the modern welfare state democracy is that this organism gets along entirely without a central brain or a central head. The organism resembles a hydra: even if 1000 heads were to roll, it would still continue to live. For that reason, any revolution (for now: pensioners do not organise revolutions) or terrorist action, whoever the protagonists might be, is entirely absurd and irrelevant. The state does not allow itself to be eliminated through violence (the idea that the terrorist RAF could have truly broken the German state in the 1970s is, for the author, a joke). The organism, that is the bureaucracy, in today’s specific German form survived two World Wars and the Bismarck years. And it will also survive financial collapse and once more reconstitute itself at a low level when the time comes: albeit smaller again. The organism reacts similarly to the rules or patterns pertaining to a colony of ants. The author is no expert in matters of biology, however it appears that a “relationship of beings” exists, that cannot easily be ignored. Within the organism, each has a specifically assigned role but there is no central brain (“Chancellor’s office”, “Federal Intelligence Service – BND”, “Elites”, “Freemasons”, “party headquarters” or similar). Every single cell of the organism simply executes the tasks that he has been assigned in order to “work towards” the organism (or “Führer”, as Kershaw describes it). He is therefore concerned with the preservation, growth and general good of the organism, even if this at the same time harms the state-distant citizen. The “removal” of one person or a group of people (“voting out”, “death”) from the organism is thus a non-event for the system as a whole. For that reason, from the outset any kind of terrorist movement (RAF, Al-Qaeda, other troublemakers) is – to put it clearly and unambiguously – an aberration. On the contrary, “abstract terrorist risk” is convenient for the organism since it allows the latter to wield the control instrument that it needs to exercise power. “Abstract terrorist risk” can neither be refuted nor can it be verified, thus it is an ideal condition for the state.

In an age of digital surveillance, the citizen has become a number for the organism. In this way he is robbed of his legitimate and civil dignity (see, for example, the introduction of a tax

identification number for each citizen which will be deleted only 20 years after his death). This number ("citizen") can be multiply cross-linked, which will ultimately lead to the total control of everyone. *That is also a collapse of civilisation.* Deviating somewhat from the subject: the chip card or the mobile telephone will replace paper money in the foreseeable future and with that every, absolutely every monetary transaction can be registered: illicit work or tax evasion, by definition, will no longer be possible (book op-ed piece 98). The total computer-networked control is the ultimate triumph of the anonymous organism over the consecutively numbered state subject – it is the antithesis of the citizens who, over hundreds of years, developed the Königsberg model of the enlightened city-state and citizen of the world. But, as previously noted, everything moves in cycles: even the dignity that the state grants its citizens. How this movement can be reconciled with the first article of the German Basic Law remains a mystery?

For that reason it is extraordinary that no one today questions the constitutional internal relationship between the "citizen and the state". Wealth corrupts such a discussion. What is the state allowed to do ("the organism"), what is the position of the "citizen"? Peter Sloterdijk speaks of the "Kleptocracy of the State" – and is lambasted for it and remains silent. The organism determines the rules, not the citizen. The organism mainly makes use of the lower class to enforce its rights and to exercise its power. If one reads Manthey's book "Königsberg", one recognises dramatically just how the pre-state citizen has been co-opted by the modern state and is messed up by it. In today's media-influenced welfare state democracy the citizen is a singular nothing. He degenerates to a 'state amoeba' and is, insofar, the antithesis of a political creature (zoon politikon) in its original natural state in the polis society.

What is to be done? The organism interprets the laws with all methods in its power. When in doubt, the executive and judiciary always retreat to formal legal baselines, against which the citizen is rarely able to fight. In sum this serves to destroy identity. In the course of his life, every citizen will inevitably violate individual elements of the comprehensive body of legislation. The complexity of laws and regulations leaves him no other option. The organism always uses this "violation" as a sledgehammer to crush opposition. As already

mentioned, the organism shuns the central battlefield, setting up a proxy battle (breach of rules) in a secondary theatre of combat. In the usual case the citizen has already lost before he even treads the path to the court.

In recent German history 1990 reunification was the "logical hour" in which the setup of state (the system) could have been fundamentally altered in terms of the way the state thinks through to the way it operates. The mass political momentum existed, along with the political dynamic. Instead of that, all artificial West German states – which for the most part had been by-products of the Second World War – were cast in concrete and, to cap it all, East Germany was split into five states since, quite mundane and short-sightedly thought out, in that way the CDU/CSU were guaranteed sufficient votes in the extended Bundesrat upper house. Thus the antiquated and outdated West German administrative system was imposed on all federal states and local authorities in the East. Only after that did thoughts about the welfare state gain momentum, with the absurd outcome that today more than 75% of the federal budget consists of interest payments, personnel and welfare state costs. In 1990 the last opportunity to realign the institutional character of the state was thrown away. Germany's collective wisdom has woefully failed. The task of realignment has now been passed to the mathematics of debt-finance.

* * *

Outlook

German politics, for the most part, ignores the above-mentioned fundamental issues and problems. Dramatically spoken, the mathematics of debt-finance will answer these, quietly and consistently. Today, the economics world is divided into two camps. One camp anticipates many years or decades of deflation for the USA and Western Europe (à la Japan). The other sees the scenario of inflation. Chris Wood, Equity Strategist at CSLA Research Limited, Hong Kong, is one of the most prominent proponents of the first camp. By contrast, the US-dominated International Monetary Fund (IMF) has already begun to consider whether the central banks (of most OECD states, including the USA) should announce higher inflation targets. The IMF's chief economist Olivier Blanchard

states (“Rethinking Macroeconomic Policy, IMF Papers, Feb. 10, 2010) that approximately 4% inflation (instead of the “close to but under 2%” of the European Central Bank for instance) could be indicated. Once more: the long-term average of money depreciation under the Bundesbank was 2.2%, which, seen from one perspective, has the effect of reducing purchasing power by some 50% over a 25-year period. Seen from another perspective, the state writes off some 50% of its debts. If one were to implement the proposal in the IMF paper, value of money would depreciate by 25% over a shorter time period of 7 years (corresponding to a 25% reduction in debt of the organism). Kenneth Rogoff, co-author of “This Time is Different” (see bibliography), advocates “6% for at least a couple of years”. This is a typical (US) approach, using targeted money depreciation to bring the debt-financed welfare state under control. However, the ultimate financial bubble in the USA and Western Europe will cause the debt/inflation equation to lose its balance.

If Chris Wood’s deflation scenario should prove true, then – in the eyes of the author – the survival chances of Germany’s present-day system would stand at zero. The contraction (“debt deflation”) of the general price level would, against a backdrop of falling population numbers, make the nominal servicing of the existing real interest obligations as good as impossible *without* the structure of the state in its current form sustaining damage. And one has to consider the parallel financing of the welfare state and the organism at a time of capital flight. The IMF way forward is at the other end of the extreme. In its short history, the USA has already been rescued from national insolvency through inflation (“inflation tax”) many times over. One only has to recall that in 1981 the rate of interest on 10-year US Treasuries lay above 15% and inflation was similarly high. High inflation helped to inflate the country out of the debt trap of the Vietnam War. It is no wonder that the price of gold reached its last secular high in 1981. It is no wonder too that “smart money” has been flowing into physical gold for many years (book op-ed piece 50 and the following). And it is also no wonder that those who are in the position to pay for it are willing to buy a bank outside of the USA / European Union in order to steal a march on any sudden political decision (currency reform, currency devaluation and the like always occur over a weekend).

So long as an “inflation tax”, which would affect all at the same time (state, companies, citizens), does not metamorphose into hyperinflation, the state remains capable of action (administration and security organs). All would be uniformly dispossessed (money deposits). Only the monetary value of tangible assets would be excluded from this (gold, commodities, property, etc.). The state writes off its debts but remains capable of action (Richard Russell’s “Inflate or Die”: book page 190). The system or the organism is preserved. According to everything that the author understands, deflation would however destroy the present system.

According to this logic, the state and its actors (central banks) must do everything to foster an inflation tax. Nevertheless one should assume from the outset that the central bank’s competence in being able to prevent “transitionally higher” money depreciation from metamorphosing into “hyperinflation” is not particularly well pronounced. The Weimar Republic, incidentally, never formally succumbed to state insolvency. It diligently serviced all bonds, even until today. Nevertheless it also bankrupted its citizens. State collapse followed since Weimar was politically and sociologically “beyond repair”.

* * *

The following text is an abstract from the 1958 film script of Eric Ambler's "A Night to Remember". The chief designer of the Titanic, Mr. Thomas Andrews, Jr., attempts to explain to Edward John Smith, captain of the passenger ship, the urgency of the situation after the collision with an iceberg:

- Andrews:* The pumps are keeping the water down in this boiler room, but the first five compartments are flooding.
- Captain Smith:* Well, what's the answer?
- Andrews:* She's going to sink, Captain.
- Captain Smith:* But... She can't sink. She's unsinkable.
- Andrews:* She can't float. Look... She could float with any three of her first five compartments flooded. She could even float with four of them gone. But she can't float with all five full up.
- Captain Smith:* Yes, but...
- Andrews:* [*cuts him off*] These watertight bulkheads only go as high as E Deck. The weight of the water in the bow is going to pull her down by the head. So, you're going to get the fifth compartment overflowing into the sixth; the sixth into the seventh; and so on, as she goes lower. It's a mathematical certainty. With that amount of underwater damage, she can't stay afloat... How many people are there on board?
- Captain Smith:* 2,200 or more. And room in the boats for...? How many?
- Andrews:* 1,200.
- Captain Smith:* I don't think the Board of Trade regulations visualized this situation. Do you?

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ROBERT McNALLY, former Policy Analyst, Vice President and Managing Director of Tudor Investment Corporation (1994-2000, 2003-2009) and former Special Assistant to President for Economic Policy, White House National Economic Council (2001-2003) and Senior Director for International Energy, White House National Security Council, (2003), USA

