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Annual Report  
2014

**WE RESERVE THE RIGHT TO  
WANT THE FUTURE.**

The Capital Bank 2014

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**CHRISTIAN JAUK**  
CHAIRMAN OF THE BOARD

Are you familiar with the endowment effect, also known as the ownership effect? It means that we consider things, goods, etc., that we own to be more valuable than those we do not own. That also explains why we find it harder to let them go than to accumulate new goods or valuables. The effect therefore also explains why collectors have such difficulty separating themselves from individual items, and instead are constantly on the lookout for new exhibits for their collection. Of course, there is nothing wrong with possession and ownership. For example, businesses can use them to fulfil their corporate social responsibility.

**CONSTANTIN VEYDER-MALBERG**  
MEMBER OF THE BOARD

Social responsibility has become an ever-present catchword in recent years. Our non-profit private foundation "Philanthropie Österreich" (Philanthropy Austria) is a living example of how personal property can be put to powerful use in society. The possibility of doing good through the private foundation has expanded our scope for action and that of our customers. Property can do good if we allow it to work. To work for us, but also for others. However, sometimes ownership is only there to satisfy a very simple need: to enjoy it. We hope you enjoy reading our annual report, particularly the guest contribution by Klaus Woltron.

"That's mine!" - is a cry that you hear in the sandpit, when children are clearing up after the enthusiasm of playing, and it's not entirely clear what belongs to whom. What use is ownership, why is it the aim of almost all trade to increase property? And why do we defend access to our property so doggedly? These are questions that give us reason to ponder again and again, questions which have not always been answered in the same way throughout the course of history. Before industrialisation, ownership tended to be a family collective. Sometimes ownership even concerned the entire community in which people lived. Nowadays, personal property means many things, for example status symbol, reason for joy or reinforcement of a personal feeling of security. At the same time, authors like Jeremy Rifkin emphasize that with the changing concept of capitalism, the concept of property is also changing. Increasingly, rapid access to and sharing of ideas, goods and services is becoming more important and in the emerging access society they will matter more than ownership, according to Rifkin. Ownership and property, a topic with discussion potential. Our guest contribution in this annual report therefore deals with ownership, with how it is endangered by access by the State; it touches on the historical background and provides food for thought.

Perhaps it is as simple as this: property serves to fulfil wishes. It helps us to achieve what we want, provided that we are willing to give up what we have.

Klaus Woltron, the author of our guest contribution, is an entrepreneur, author and columnist. He is a founder member of the Club of Vienna, in which he was active until 2008.

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## PREFACE

Back when Peter Rosegger was but the young son of a forester, in the nineteenth century, the state paid precious little attention to its citizens. It asked for more than it gave. The compulsory payment of taxes and conscription of male citizens into two years of military service were matched by an uneven granting of rights by the state, including the rights to vote, to attend free schools, to access underdeveloped medical services, health insurance (as of 1887), and public construction and maintenance of roads and waterways. Many social services and charitable institutions were the result of private initiatives. Aside from this “contrat social”<sup>1</sup> in its most elementary form, the state of affairs remained a far cry from Rousseau’s demand:

<sup>1</sup>Rousseau, Jean-Jacques: Vom Gesellschaftsvertrag oder Grundsätze des Staatsrechts, Pub. and translator: Brockard, Hans. Staff: Pietzcker, Eva, Reclam, Stuttgart 1977

*“The problem is to find a form of association which will defend and protect with the whole common force the person and goods of each associate, and in which each, while uniting himself with all, may still obey himself alone, and remain as free as before.”*

That which today we call the social welfare system came into being bit by bit over a substantial period, partly accompanied by upheavals, revolution and class conflict. Regardless of which of the various forms it took (for example, with regard to the notion of conflict in the neoclassical economic theory developed by Hayek and Mises versus that proposed by Keynesians), the social welfare system has two primary concerns: the levying of taxes and disbursement of tax income on the one hand; and the type and extent of welfare services provided by the state for its citizens on the other. While adherents of Keynes' demand-based economic thought – often grouped under imprecise labels such as “socialists” or “leftists” – accord the state a dominant role in this process, disciples of the classic-liberal school developed by Mises, Hayek and others (today somewhat inaccurately called “neoliberals”) grant the state an organisational role, by virtue of its legislative and executive functions, but do not condone the state's direct intervention into citizens' private spheres.

Since all of the major parties today – regardless of what they may call themselves – are increasingly indebted to socialist and Keynesian thought, the state has morphed into a large octopus-like creature that sees fit to reach with its tentacles into any and all of a citizen's affairs and, by creating a feeling of growing security and protection, increasingly coddles and constrains him.

One side-effect of this enforced contentedness is that the state considers itself entitled to indirectly meddle in, and even undercut, the citizen's discretionary power over his or her own property. There are a number of different ways by which it accomplishes this. It starts with taxing higher earners at an increasingly higher rate, something now considered common sense. But the insatiable appetite of these disciples of redistribution turns to other means, too, including using private saved assets to plug up holes in the public budget by means of the capital gains tax, and the growing tendency to double tax the owners of accumulated capital and their beneficiaries.

History shows again and again that the "security" promised to the state's citizens, and the notion of "fairness," that are repeatedly cited in defence of these measures are illusive when a longer-term perspective is taken into account. The over-extension of the so-called welfare state leads to the erosion of individual initiative, non-amortisable costs, a constriction of the space

in which the economy has to manoeuvre and, finally, to the disappearance of economic security for all.

Here are some simple figures. The average Austrian earned 2,718 euros per month gross in 2013. That average Austrian's purchasing power has grown by just 2% since 2008 (in comparison to our liberal neighbour Switzerland, where that figure grew by a full 45%). The tax burden has risen by 39% over ten years to 90 billion euros per year and propelled Austria to the fourth worst place in a ranking of 30 countries. Debt, regularly increasing costs of bureaucracy, a creeping process of de-industrialisation and the propping up of poorly supervised, ailing banks have all contributed to a continual rise in taxes. Moreover, inflexible progressive taxation is quietly wringing all it can from citizens. The rise in prosperity has reached its end stop. The state takes almost 50% of its citizens' earnings, gives a portion of this back, using the majority of the rest to finance its own bloated structures and its favourites, frittering it all away, incapable of reform.

How could a development, originally so rich in benefit, be perverted to this extent? The explanation is simple. Put in language anyone could understand: Even if something starts off well, it will eventually take a wrong turn if it isn't stopped or redirected in time. This is true of any process, but especially when it has something to do with growth. The following sections will take a closer look at the historical

and systemic backgrounds to the development described above.

<sup>2</sup> <http://goo.gl/PA6W1O>

<sup>3</sup> <http://goo.gl/QZJqr1>

## Property and Liability

Theories of property<sup>2</sup> are attempts to explain the rise of the societal institution of property and to justify its existence. The right to personal belongings tends not to come into question. When the object of debate is property in the form of land or in the form of necessary capital associated with production, on the other hand, controversial positions abound. This often prompts a further matter for debate, whether there is such a thing as “property’s social responsibility”.

The concept of “property” simply cannot be separated from the concept of “liability”. Whoever owns property, or hopes to inherit it, is faced with liability for a number of contractual matters related to it: maintenance; potential damages related to use; associated obligations; mortgages; repayment of loans; provisos related to sales and inheritances. These responsibilities have become increasingly hazy over the past several decades. The result has been a spread of the mentality of what could be called “one-sided insurance”.

A recent opinion piece in the Wiener Zeitung newspaper addressed just this point<sup>3</sup>:

*“The state is looking to use appropriate means of assistance to compensate victims of the indomitable Swiss franc, as if the situation were one in which borrowers had been the victims of a natural disaster and not a form of currency speculation gone terribly wrong. [...] What we see here is yet another example of the successive abrogation of*

*individuals' liability and responsibility for their own actions. And a brazen sense of entitlement that demands the privatisation of profit (thanks to cheap interest rates associated with the franc, for example) and the socialisation of loss (which must be absorbed by either the state or the banks). And this is precisely what a number of large actors in the financial markets have been doing for years: copious profits resulting from highly risky transactions were gleefully deposited, but as soon as the bottom fell out, it was the state that was left holding the ball. This is just another case of actors repudiating their own liability and responsibility. [...] In the meantime, states themselves have begun trying to bypass the legal requirements associated with liability, as demonstrated [...] by the example of Greece. [...]*

*As comfortable as it may be for those who profit from the sweeping abandonment of the principle of liability, it is harmful and unhealthy on the whole. This is precisely what is responsible for the barbaric irresponsibility with respect to one's actions, the devil-may-care attitude towards gambling, the wilful ignoring of risk and the reckless assumption of debt that were responsible*

*for the economic crisis with which we have been dealing for the past eight years. And that is precisely the last form economic decisions should take in a world that is still very much in recovery.”*

## **Civil Rights**

Civil rights are understood as those rights that moderate the relationship between citizen and state. Civil rights came to be granted in many European cities between the Middle Ages and the beginning of the 20th century. They tended to be dependent upon the citizen demonstrating that he or she met certain qualifications (income, good character, taking a civil oath, etc.).

*“The freedom that people [...] enjoy today is freedom people have fought for and seized over the course of preceding centuries. It has become normal and unquestioned. But freedom is always under threat, particularly from the state, with its political actors’ attempts to secure and expand its position of power, and from these individuals themselves. Representatives of government threaten freedom by use of soft power to secure the ever-expanding provision of welfare by a paternalistic social welfare state, among other means, and too many people are willing to submit to this paternalism because they are afraid of assuming their own individual responsibility, succumbing more and more to the sweet poison of the purported security that the state provides. When people allow this to happen and see no need to fight for freedom in these circumstances, then they will find that freedom’s existence*

*cannot be secure in the long term. Freedom must be fought for, again and again.”<sup>4</sup>*

Since nearly all of the state’s “welfare measures” are associated with sometimes very high costs, it looks to secure the funds to pay for this amongst those who either earn significantly more as income or who have saved or invested money. This is legitimate to an extent, but after a certain – unspecified – threshold unfair, counterproductive and detrimental to society as a whole. Where this threshold lies has long been a matter of vociferous debate.

### *The Balance between Rights and Responsibilities*

A balance sheet tracking the interactions between a state and its citizens also requires a type of double entry bookkeeping. On the one hand, a citizen’s rights ought to be balanced with his or her responsibilities with respect to society at large (the “rights/responsibilities balance”), and on the other, the results of this balancing act must

<sup>4</sup> Klaus Peter Krause <http://googl/6adQMm>

<sup>5</sup>The form of state taken by real existing socialism was that of a “people’s republic” or a “democratic people’s republic”. This political system was marked by the autocratic dictatorship of one single party and the economy was characterised by centralised planning or at least had significant elements of centralised planning in it.

<sup>6</sup> Sandra Eichinger: *Alptraum Schweden?: Hinter den Kulissen des Traumlandes*. 2010, ISBN 978-3-8391-4521-0.

outweigh any negative effects for society as a whole (the “profit/loss statement”). If the latter is not the case, which is evidently true in numerous examples of exaggeration when it comes to misunderstandings of the state’s responsibility to provide for its citizens, the entire system begins to turn in on itself ab absurdam, leading ultimately to financial and social ruin. This has been drastically demonstrated in the case of real existing socialism<sup>5</sup> in the 20th century, in the fiascos associated with Sweden’s “Folkhemmet”<sup>6</sup> (“the people’s home”) concept, and the collapse of state industry in Austria, not to mention more recent examples of failed experiments, such as in Venezuela.

There are a number of different paths to take down an ever more steep decline into ruin. From high wages and non-wage labour costs that simply cannot compete internationally, to inflated bureaucracies and modern environmental standards that lead to the same results, to interference in each and every aspect affecting the life of a citizen. All of these serve to rob him or her of any individual initiative and are part of a broad array of instruments available to state bureaucracies and legislative bodies to expand their means of levying charges.

<sup>7</sup> Ludwig Wilhelm Erhard (\* 4 February 1897 in Fürth; † 5 May 1977 in Bonn) was a German politician (CDU), federal minister for economic affairs between 1949 and 1963, and the second chancellor of the Federal Republic of Germany from 1963 to 1966

<sup>8</sup> Monetarism: Theory developed in the 1960s and 1970s especially by Milton Friedman as a response to demand-oriented Keynesian thought. In this he drew upon supply-side economics concepts first developed in the 1930s.

<sup>9</sup> Keynesianism: A theory in which the sum demand in an economy is the deciding factor in determining the level of production and employment. The theory was first laid out in John Maynard Keynes' General Theory of Employment, Interest and Money first published in 1936.

<sup>10</sup> Quantitative easing is a monetary policy activated by central banks in extraordinary conditions whereby the supply of money is expanded with the aim of lowering real interest rates. The ultimate goal is to counteract recession and, in some cases, deflation.

<sup>11</sup> Paul Robin Krugman (\* 28 February 1953 in Albany, New York) is an American professor of economics at Princeton University, Centenary Professor at the London School of Economics, author

## The Vicious Cycle of Good Deeds

A national economy collects funds for its benefits system by means of taxes and social security contributions, which then aims to provide a level of security for the entire populace. Many of the components of our modern European benefits systems were first established towards the end of the 19th. Whilst German Chancellor Ludwig Erhard<sup>7</sup> postulated that a benefits system would become increasingly irrelevant with increased prosperity, the past several decades have shown that even with the decline of poverty, the need – or the appetite, it might be better to say – for a comprehensive benefits system has increased. This is the result, among other things, of the strong desire amongst the ruling parties – all ruling parties – to curry favour with the country's citizens by providing more and more benefits. We can justifiably call this the “vicious cycle of good deeds”, since it is the country's citizenry, who begin to take that early level of security for granted, that ends up paying for all of this themselves, admittedly at a later point in time.

### *The Monetarist Viewpoint*<sup>8</sup>

Those who consider themselves followers of the Austrian school of economics are critical of the current expansion of the benefits system. Since the existence of the latter requires taxes, which according to neoclassical economic theory lead to losses in gross wealth, a benefits system finds itself in direct competition with general prosperity. This type of highly developed benefits system precludes the possibility of full employment. At the same time, a benefits system allows the ill, the elderly and those unable to work to get by financially. In the meantime, others seek to trim the benefits system in order to return it to its originating concept and to counteract the so-called “welfare mentality”. This attempt has been evident, for example, in the reorganisation of the benefits system in the UK beginning in the 1980s; similar reforms were carried out later in Sweden and some attempts in this direction were also made in Germany (Hartz IV).

### *The Keynesian Viewpoint*

By contrast, Keynesians<sup>9</sup> – a group given new life today by enthusiastic supporters of quantitative easing<sup>10</sup> and of a demand-oriented view of the market, such as by the Nobel Prize winner and opinion column writer Paul Krugman<sup>11</sup> – regard the benefits system as providing a form of stimulus to the economy. This is firstly because it props

up private consumer demand continuously, secondly because it works to stabilise the economy during times of crisis, and thirdly because it manages to limit uncertainty. There exists no significant empirical evidence, according to the Keynesian perspective, that could substantiate any negative influence of the expansion of the welfare state on growth, or even employment.

and winner of the  
2008 Nobel Prize in  
economics.

<sup>12</sup> Klaus Peter  
Krause;  
[http://www.misesde.org/  
?p=3772](http://www.misesde.org/?p=3772)

## **The Sweet Poison of Social Assistance Programmes<sup>12</sup>**

### *The Nanny State<sup>13</sup>*

<sup>13</sup> State paternalism refers to the situation in which a state uses proscriptions and/or delegates duties, issues sanctions or places other obstacles in the way of its citizens in order to influence their decisions, thereby disproportionately restricting their freedom to decide.

The phrase nanny state was first used by the British Conservative politician Iain Macleod. He referred in his “Quoodle” column in *The Spectator* on 31 December 1965 to “what I like to call the nanny state”. This term is understood to refer to a political approach in which the state is excessive in its attempts to protect, monitor or control certain segments of the population and to privilege others.

The phenomenon this phrase describes can be traced to a number of causes. Many have already been identified and described. The nanny state thrives on productive and stabilising forces. It is favourably inclined towards the increasing number of people who have become dependent on creditors and want to be free of their debts. This is attempted by means of an array of sometimes highly questionable and frivolous mechanisms. Firstly, there is the increasingly onerous taxation of income, savings and assets of higher earning individuals. Secondly, there has been a continuous weakening of the conditions attached to personal bankruptcy proceedings. This is accompanied – on a large scale – by the dilution of currency value as a result of quantitative easing and, as a result, the loss in value of saved assets. The bailouts undertaken throughout the continent of Europe have enthroned redistribution and expropriation above all else. Thanks to these bailouts, net contributors are now deceived creditors left in arrears, having granted immense amounts of credit to states that have no hope of paying it back.

Savers, pension funds and insurance groups are the biggest losers. This is allowed to happen especially thanks to long-standing influence over public opinion, in which all financial institutions are disparaged a priori amongst hard working people as suspect and corrupt, wealthy individuals as heartless exploiters, high earners as potential tax dodgers and heirs as vermin. Whilst there are indeed a number of bad examples one can point to, we cannot use this to

excuse the fact that there is a majority of law-abiding, hard-working and socially conscious fellow citizens, tax payers and essential financial institutions that are being tarred with the same broad brush.

### *Always More New Taxes*

“The path away from freedom is paved with taxes.”

But it seems the Keynesians have not got it quite right. The welfare state’s hypertrophy, with all of its financial and psychological effects, leads in practice to the state spending increasingly large amounts, which must be paid for first by assuming a higher level of debt and then by raising taxes. This spiral of debt leads to ever greater tax burdens and, finally, eats up funding earmarked for future purposes. Research, development, higher education, expansion into new markets: all of these come under threat when there are insufficient funds.

<sup>14</sup> <https://twitter.com/arturobris>

<sup>15</sup> <http://goo.gl/O2r69l>

<sup>16</sup> <http://goo.gl/EwUMIX>

The portion of taxes and social security contributions in Austria hit a record 43.4% in 2013. This means that every Austrian works for the social welfare system on average 21 weeks out of 52, or until mid-May. For midlevel staff, for example, this figure is over six months.

*“Now Austria can see the reality in black and white. The effective burden of income taxation is nowhere as high as here. This is true, at least, when this is weighted against economic output per head, which is how the Institute for Management Development (IMD) in Lausanne measures it. ‘Austria comes in at number 60. That’s dead last,’ explains IMD director Arturo Bris<sup>14</sup> in an interview with the KURIER. ‘Of course this has a negative impact on competitiveness. The effective rate of income tax is markedly lower in all neighbouring countries, including Switzerland.’ The leading Swiss business school conducts annual research on national economies’ proficiencies by examining 338 criteria. Two-thirds of the data in the World Competitiveness Yearbook<sup>15</sup> are based on national and international statistics. The rest are drawn from surveys of managers.”<sup>16</sup>*

The unavoidable fact is that any form of hyperextension – of any system of any type – will always cause a system to collapse in on itself. This is as true of a population explosion of one species of animal as it is for the uncontrolled printing of money, for traffic chaos resulting from too many cars on the road, to the paralysis of the electric grid because of overload. For that very same reason, there is a

boundary beyond which the further development of the social welfare state, the transfer of income and the state's interference in the distribution of already existing assets, will destabilise the entire system.

*Monetary Reform as a Last Option*<sup>17</sup>

*“When the national debt is greater than the gross national product, the interest burden on national borrowing puts constraints on remaining government spending, and there is a negative trade balance, then relief can only come from economic growth, a cut in government spending, increased taxes, the sale of national assets, taking a haircut on government bonds, or inflation.”*

<sup>17</sup> <http://goo.gl/kVrYMR>

<sup>18</sup> <http://goo.gl/8zDLYI>

If these tactics no longer work, then monetary reform is the only remaining option. If this option is chosen, a new exchange rate for currency, bank balances and liabilities is set in law and the respective positions of debtors and creditors is substantially shifted — always to the disadvantage of creditors.

*“The success of a programme of monetary reform depends substantially on its timing and individual components not becoming public knowledge ahead of time; they should come as a surprise. Otherwise those in the know or speculators in other countries (“capital flight”) will take shift assets to more stable currencies and/or tangible assets.”*

This kind of development no longer seems remote in the case of certain southern European countries. It is only European solidarity that has so far helped them to avoid the full legal repercussions of facing up to their bankruptcy (an “oath of disclosure”) — a form of joint guarantee that paradoxically is explicitly precluded as a possibility in the so-called bailout clauses in the Maastricht<sup>18</sup> treaty. As bizarre as it may sound, the only thing helping them at this time is this widely acknowledged violation of the treaty.

## The Growth of the Regulatory Apparatus

“Are they allowed to do that?” an obviously anxious man asks the salesman in the Müns-Spezial-Elektrik in Frankfurt: “That’s surely not allowed, isn’t it?”<sup>19</sup>

The salesman behind the counter, backed by shelves full of packages of light bulbs, is just doing his job: he’s selling light bulbs. He especially likes selling those light bulbs that EU regulations have systematically pulled from the shelves and which should disappear completely by 2016. But they are not yet forbidden. Capped energy-saving bulbs have existed for about 25 years. They have always contained mercury, which the EU has forbidden in the manufacture of thermometers for years now. Their manufacture results in the production of a significant amount of CO<sub>2</sub>. And they have always cost around eight times as much as conventional bulbs whilst having similar lifespans and production costs. But with 200 million units sold per year in Germany alone,

<sup>19</sup> Der letzte Glühbirnenverkäufer (“The Last Light Bulb Salesman”) <http://www.taz.de/!56343/>

they make quite a bit of profit. This may be a reason why no manufacturer has raised any objections to the EU regulation. The scandal in all of this is that EU citizens have had their freedom of choice taken from them. One thing is certain: the regulation has nothing to do with environmental protection. This decision was all about business interests. “For some time now we have no longer lived in a democracy, but instead in a society in which we are the puppets of industry and bureaucracy.”

This is just one example of many. It demonstrates perfectly, however, how strong lobbies can undemocratically manipulate large, remote centres of power to their own ends in ways that serve neither citizens or the environment, or even the economy as a whole. Instead, it is the interests of those who can wield this manipulation the most skilfully that are served. This type of lobbying is being used to an unheard of degree to shift the risks associated with failing credit, guarantees and national debts first onto society at large and then indirectly on to individual citizens, tax payers and savers — which is many times more painful in end effect than the light bulb scandal.

## Unshared benefit association

Almost everything that the state or the European Union declares today to be proper and modern are things that no private individual would accept if it were up to him or her. No one would tolerate a situation in which a person, to whom you had lent money, decided simply not to pay it back, not have to face any consequences for not paying it back and insulted you to your face to boot. Any member of a savings club would protest vehemently if another member were to secure an interest-free loan with no collateral and a life of 50 years. (This is, by the way, illegal, as the Hypo Alpe Adria case clearly demonstrated.) Nor would any normal person take kindly to his neighbour deciding which light bulbs or piping he could use in his bathroom. And what if one evening at the cinema he happened to run into the handyman who called off work sick earlier that day after having been pre-paid for his services? Or the ankle-tagged fraudster out for an enjoyable evening at the opera? And he'd be flaming mad should he learn that

<sup>20</sup> In the Middle Ages, bakers found guilty of adulterating their wares in the German lands were placed in cages and dunked in water, which was referred to as "Bäckerschupfen" or "Bäckertaufe".

his bank quietly went about diluting the value of his money by simply printing more of it, behaving like food adulterers of days past, who in their time were tied up and dunked in water.<sup>20</sup>

There is no question that the laws of macroeconomics cannot be expressed in the same terms we use to describe properly managed households. If they could be, then we would not be witness to these new flare-ups of this decades-long quarrel between monetarists and Keynesians. But what is clear is that this unprecedented printing of money, which is virtually equivalent to flooding the markets with cheques for which there are insufficient funds, cannot continue much longer without serious consequences. This has been amply demonstrated by the current example of Japan, and by the artificial bull markets in which speculative capital pushed markets ever upwards whilst solid businesses in the EU, suffering under the yoke of regulation, found their options severely curtailed. In contrast to the situation in the US, in which a banking sector plagued by distortions and irregularities was wiped clean by a flood of bankruptcies and which has removed excessive regulations on economic activity, European entrepreneurs are reluctant to make use of cheap capital given their concerns about insufficient profit and exorbitant taxation.

<sup>21</sup> Ludwig Edler  
v. Mises [http://  
de.wikipedia.org/  
wiki/Ludwig\\_von\\_  
Mises](http://de.wikipedia.org/wiki/Ludwig_von_Mises)

<sup>22</sup> “Big Brother und  
seine Masken”;  
Franz Kreuzer,  
Peter Wilhelmer,  
K&S 2004, ISBN  
3-218-00739-9,  
published by austria  
perspektiv, director:

<sup>23</sup> Josef Christl, 2004  
chief economist  
in the Ministry of  
Finance

<sup>24</sup> Joseph Alois  
Schumpeter (\*8  
February 1883 in  
Triesch/Třešť,  
Moravia, Austrian  
section of Aus-  
tria-Hungary; †8  
Januar 1950 in ,  
Taconic , Connect-  
icut USA) was an  
Austrian economist  
and politician.

<sup>25</sup> Friedrich August  
von Hayek (\*8 May  
1899 in Vienna; † 23  
March 1992 in Frei-  
burg im Breisgau)  
was an Austrian  
economist and  
social philosopher.  
He was, along with  
Ludwig von Mises,  
one of the most  
important repre-  
sentatives of the  
Austrian School of  
economics. Hayek  
is considered one of  
the most important  
liberal thinkers of  
the 20th century  
and is considered  
by many to be the  
most important  
representative of  
neoliberal thought.

<sup>26</sup> Friedrich Freiherr  
von Wieser (as of  
1919 simply Wieser;  
\*10 July 1851 in Vi-  
enna; †22 July 1926

## Subsidiarity

Fascination with the Austrian School of economics has not diminished over time. Böhm-Bawerk, Schumpeter, Mises and Hayek are the spiritual ancestors of the Chicago Boys and monetarists everywhere. But their attempts to account for the economy by mathematically determining marginal utility, among other things, in a society populated by the idealised homo oeconomicus or equally idealised homo socialis including the “wise statesman” (Mises)<sup>21</sup>, comes across as rather bloodless today. Current concerns such as market saturation in industrialised countries, desperate attempts to create constant new demand and the growing worry about how much the environment can tolerate, are a world away from the problems of shortages and struggles over the distribution of assets that the “old boys’ network” focused on back then. The old and now renewed debate between dirigistes and adherents of the invisible hand was given a new dimension about ten years ago by the Austrians Peter

Wilhelmer and Franz Kreuzer<sup>22</sup>. This debate centres around questions of the conflict between regulation and unconstrained markets, state intervention and private initiative, man-made rules and what appears to be market-driven chaos. The opposed positions are perhaps best demonstrated by the argument between Wilfried Stadler, the head at the time (2004) of Investkredit AG and Ewald Novotny, who is currently the governor of the Austrian Oesterreichische Nationalbank (the central bank of Austria). Stadler advocated a moderate market economy that operated within national and international parameters and that was complemented by universal social and environmental norms and, secondly, striking a balance between market regulatory measures that were applicable on a global scale, and measures aimed at social and environmental well-being. By contrast, a representative of the neoliberal school of thought, Josef Christl<sup>23</sup>, called for the removal of all barriers to individual initiative. He drew on the work of Adam Smith, but forgot that this thinker wrote in a time in which moral standards were still strong and in which states held significant power. Schumpeter's<sup>24</sup> and Hayek's<sup>25</sup> eras could be characterised in a similar way. According to Friedrich Wieser<sup>26</sup>, "the state is a moral institution." It had to trust itself sufficiently "to find the right path in contrast to following the wildly growing powers" of the free market. What links all of the discussions sketched above is an attitude developed in hindsight and which can be said to take a purely diagnostic stance towards the warning against incorporating

completely new components into socioeconomic considerations:

1. The paradigm shift from an economy marked by shortage to one characterised by excess;
2. growing losses and wilful ignoring of inflated values that link economies in an ever more substantial manner;
3. the way in which value creation has progressively become more virtual and the result of highly technical, purely financial operations;
4. increasing damage done to the natural environment;
5. tensions between the industrialised world and industrialising countries.

in St. Gilgen, Land Salzburg) was an Austrian economist (main representative of the neo-classical theory of marginal utility) and a sociologist.

<sup>27</sup> Ford's Model T (popularly called "Tin Lizzie") was until 1972 the car with the highest sales figures in the world.

Looking now to the work of Böhm-Bawerk, Wiesner, Schumpeter, and even to Hayek, is like turning to the writings of James Watt or Henry Ford's operations manual for the Tin Lizzie<sup>27</sup> when your computer crashes. It ignores the significant changes that have taken place over time.

A useful concept in our thinking about this problem of overwhelming variety is that of subsidiarity (see below). Subsidiarity is a principle of organisation concerned with the relationship between the state and society and counsels that the former should do no more and no less than help members of society to help themselves. The principle of subsidiarity insists that greater society should only be involved in undertaking a task when those actors and groups much closer to or more intimately qualified in handling the problem are unable to do so successfully. If we apply this principle of tightly hierarchically organised levels of action to our topic – the struggle between collectivism and individualism, and its effects – this apparent contradiction begins to disappear and take the form of a more gradual problem:

**It is not a matter of black and white, of liberalism or collectivism, of Hayek or Keynes, but rather of a balanced centre, the optimal degree of tension between order and freedom from constraints.**

Insurmountable differences between liberalism and traditional socialism are related to the concept of property as it relates to production. All other parameters, such as the state's influence and holdings, and including the freedom of individuals to decide for themselves and engage in economic activity, are open to gradual changes in one direction or another in western democracies. The degree of regulation and its universal applicability, when it comes to the

question of its validity in geographical terms, is key in resolving our riddle.

This is meant as a preliminary, basic response to fundamentalists of both of the camps that were invoked above. I conclude then with the brand-new realisation reached by an early protagonist of neoliberalism who could under no circumstance be considered an advocate of collectivism:

<sup>28</sup> Jeffrey D. Sachs:  
The End of Poverty:  
Economic Possibilities for Our Time,  
Penguin Press.  
Original publisher:  
Penguin Press,  
2005. Translated  
into German by  
Thorsten Schmidt,  
Udo Rennert.

<sup>29</sup> <http://goo.gl/QmUFjH>

*“Even if introductory economics textbooks sing the praises of individualism and decentralised markets, our security and our economic well-being are equally dependent on the collective decisions we take with the aim of fighting disease, supporting sound scientific research and creating a strong and comprehensive education system, providing vital infrastructure and helping the poorest of the poor.”<sup>28</sup>*

The invisible hand is not, it seems after all, like Baron von Münchhausen, able to pull itself up out of the mud by yanking on nothing more than its own pigtail. But it

does seem that many still believe it can. So much for monetarism's relativity.

## **Bureaucracy and a Jungle of Mandates**

Bureaucracy, in moderation when organised and implemented in an appropriate manner, is an invaluable tool for the rational exercise of power and tackling problems by the state, administrative divisions and companies. Bureaucratic structures are subject to generally applicable laws and tend to treat all parties equally without considering the particular individual in question; they are particularly effective thanks to the division of labour, the deployment of specialised resources and the application of proven strategies and concepts.<sup>29</sup>

Disadvantages associated with a bureaucracy that has grown to extremes are evident not only at the level of the state, but also in industry and in other organisations in our society. The danger at both the national and international (especially that of the legal frameworks in the EU) levels is that an excess of laws and regulations is the associated “bureaucratisation” of everyday life. In order to account for the complexity of people's lives, the constitutional state creates exceptional and supplementary rules to regulate its interactions with citizens, giving rise to an ever-more complicated system of legislation. But even this excess of legal tools is insufficient to address fully the diversity of individual cases that

exist. Furthermore, administering these laws frequently results in an incommensurately high cost in terms of money, time and effort that comes at the expense of efficient and simple resolution of issues and problems.

One possible resolution is to decentralise decision-making power to the greatest possible extent whilst adhering to the principle of subsidiarity. This would mean working towards an administrative culture that provides enough flexibility with respect to administrative bodies' room to manoeuvre such that concrete situations are resolved most effectively.

## **The Parkinson Principle**

“Work expands so as to fill the time available for its completion.”

That is the quintessence of Parkinson's Law<sup>30</sup> regarding the growth of bureaucracy, which was first published in 1955. Parkinson cited two tenets that seem to guide this trend that has been witnessed in offices everywhere in the world:

<sup>30</sup> <http://goo.gl/IscPNW>

<sup>31</sup> <http://goo.gl/wSj1Ja>

- An official wants to multiply subordinates, not rivals.
- Officials make work for each other.

According to Parkinson, staff increases between 5.2% and 6.6% per year without any regard to the actual level of work. He goes so far as to assert that even if an organisation's core responsibilities were to disappear entirely, staffing levels would not shrink. In modern administrative culture, other concepts and functions would be introduced instead, such as controlling, new supervisory models, business-specific operating figures, etc. The number of staff involved in these activities would grow, whereas the staffing levels associated with the organisation's core activities would stagnate or even decline. This is particularly evident in the Austrian case in the areas of education, the excessive scope of project groups of dubious value, or the vast number of fact-finding committees. All of these are characterised by the use of (ineffective) supplementary research to make up for the total lack of any practical activity.

All of these developments cost money, which the state looks to find amongst its citizens, particular those who "have more to give", by using a number of obvious and more carefully hidden regulatory policies. This attitude can now be witnessed even amongst leaders of conservative parties, such as the interior minister, a member of the ÖVP, who caused quite a commotion in 2011 with her public call to "open your wallets, It's time to pay up!"<sup>31</sup>

One astonishing example of this excess and the irrational expansion of the state's mandate to "provide" is the difference in the ways central banks over the past few years have engaged in so-called quantitative easing (QE) by cheaply printing more money, as mentioned above. Whereas European firms, subject to numerous bureaucratic hurdles, have missed the chance created by favourable financing conditions to put more money towards investments, research and development, and expanding their business activities, companies in the US have grabbed the opportunity by its horns. The reason is that American regulations are much more flexible than those created by the European Union, with its multileveled, overly busy bureaucracy that has taken on a life of its own, issuing new edicts and regulations on a daily basis. National bureaucracies can barely keep up with further subdividing these new laws, extending their reach ever further and making them more and more complicated.

## **Power Left in Incompetent Hands**

Before you would allow a plumber or electrician to work on a complex and oftentimes risky project in your home, you would make sure they are qualified. The relevant trade regulations, laws and legal norms, some of which date back quite a long way, all require these professionals to have appropriate qualifications — and with good reason. A poorly installed fuse or an ungrounded refrigerator could threaten inhabitants' safety and even lives.

The situation is entirely different when it comes to those individuals who exercise political power over the management of public finances that affect millions of people, for example. Aside from fulfilling a whole range of political criteria, the people in these roles do not have to demonstrate any sort of relevant competence. Whereas any petrol station owner or company head with even just a bit of good sense would spare no effort in making sure the person in charge of bookkeeping or controlling is up to the job before handing over the enormous amount of responsibility that goes with monitoring a company's accounts, the reins of public finances, and the assets of the entire population, are handed over to untrained, inexperienced politicians who are subject to the influence of an array of lobbyists. Who would be surprised at the ruinous effects of their frightening efforts, as exemplified in their "handling" of the latest banking crisis? In financial matters this dangerous situation is particularly obvious, especially

given the prominent complaints that inevitably follow. But similar processes and effects can be found throughout government.

In view of these kinds of disasters, it is little wonder that young people and those quasi-revolutionaries who yearn to be young again in both our country and throughout Europe are starting to raise doubts about the current state of (dis)organisation in our societies. They attack the way the entire economic system is currently organised and call into question the rules regarding property and assets — and they are frequently ready to throw the baby out with the bath water. The politicians responsible, who are themselves not free of blame, rush to make populist noises and secure the crowds' applause, thereby giving further support to those trends that could work to worsen the current state of malaise even further instead of focusing on repairing the damage already done. Expertise, resolve and courage are nowhere to be found.

## **What Remains?**

The lesson we ought to draw from everything discussed above is that it is up to the individual – wherever he or she may be in the hierarchies that define state, the economy, society and politics – to take full and active part in political debate. We must all carefully consider the information available to us and form and defend our own opinions; we must take action against this creeping chaos in which all values are increasingly seen as worthless, in all senses of the word, and wield our critiques and productive proposals to reverse the trend. We live in a world in which the powers that be seek to declare certain ideas off-limits in order to set their own opinions in stone as being the only ones that are reasonable and correct. The task ahead of us demands courage and conviction.

And it is to this end that this essay has been prepared. I am not a disinterested interlocutor, but I seek to make my argument with the greatest care possible and fully cognisant of my responsibilities.