# Generational theft – Greta 2.0

European countries that have pay-as-you-go pension and care systems are beginning to show signs of generational theft that would be dramatically accelerated by belief in a post-growth ideology.

If the youth of today have to fund the pensions of the massive baby boomer generation (1955 to 1969) in 15 years, their after-tax earnings will have to decrease more and more. This is even more serious because in addition to the housing shortage and crumbling housing stock caused by a failed housing construction policy, the youth of today are also suffering from high taxes and an ongoing zero interest-rate policy that makes it difficult to accumulate wealth.

The planned "financial transaction tax" rewards gamblers and penalises long-term equity investors.

To make providing for old age even more difficult, a number of European finance ministers are planning to follow the bad example set by France and levy a tax on equities. The tax was intended to be a "financial transaction tax" and still bears this name today. It was originally aimed at reducing derivatives trading and speculation in order to make the financial markets more stable. Due to pressure by French banks, however, derivatives, bonds and high-frequency trading were exempted. The tax now being planned will only affect upright equity investors and all of the investments used to provide for old age (insurance, investment funds, pensions). This will reward gamblers, while penalising long-term investments used to provide for old age. It is impossible to imagine a more absurd (re-)design of a tax. The youth of today will once again be affected the most. Resistance should, however, not be expected. On the contrary, the few young people who know about it likely believe the tax affects the unpopular banks, not them, and is therefore "good" – an impression that the German Federal Ministry of Finance (Bundesministerium der Finanzen [BMF]) is also doing its best to promote. We therefore sent a strong letter of protest against this investor and generational theft directly to the BMF.

The BMF unfortunately responded as expected to our first letter of 12 August. It was essentially not a response, but instead a statement that failed to address the subject, emphasising the original noble intentions of the tax and stressing that France had already introduced it without any major negative effects. We followed this with a second letter that is reproduced on pages 8 and 9. We are still waiting for an answer.

It is the duty of the older generation to prevent redistribution that has a negative effect on the youth.

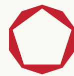
It is the duty of the older generation to prevent redistribution that has a negative effect on the youth. Both the baby boomer generation and the youth of today have the right to a proper pension. Although generous pension packages for the older generation may appear socially appropriate, demographic change makes them a huge burden for today's youth. Affordable housing is desirable, but instead of creating new housing, old housing that was previously sold cheaply is being bought back at high prices – at least this has been happening in the German capital.

The youth have little power over elections and they are fully occupied with the dangers of climate change. That makes them easy prey for politicians who don't need their votes, but can spend their money. Those in favour of redistribution therefore cannot be faulted if this generational theft is obscured by the omnipresent climate issue. A better understanding of economic interrelationships could help to change this.

A Greta 2.0 is needed to show the youth the consequences of generational theft.

A Greta 2.0 is needed, who is able to not only show the young generation how election tactics and client politics are threatening their future, but also be able to reach voting adults. This was shown by the yellow-vest protests in France, which made more of an impression on Emmanuel Macron than Greta Thunberg's accusations. Due to the protests, the government deferred its plans for a balanced budget, knowing full well that the younger generation would pay the bill.

Greta Thunberg can be happy she will benefit from the Swedish old-age pension model in the future, which has set up funded pensions for Swedes. Young Norwegians also don't have to worry about poverty in their old age. Norway's sovereign wealth fund has almost EUR 1,000 billion in assets, with around 70 per cent invested in equities. That is mathematically equivalent to a capital buffer of EUR 185,000 for each Norwegian, something that the citizens of most other European countries can only dream of. This shows that the economic and social effects of climate change differ from country to country. This makes it very difficult to imagine a global movement led by a heroine or hero at the top.


Flossbach von Storch

State Secretary in the
German Federal Ministry of Finance
Dr. Rolf Bösinger
11016 Berlin

**GZ FTT – [redacted]**
**DOK 2019/[redacted]**

Cologne, 29 August 2019

Dear State Secretary,

Thank you for your letter of response dated 23 August 2019.

You justify the financial transaction tax – which is actually just a tax on equities – not by its purpose, but solely by the fact that it has only a small effect on the parties concerned and that it is also being collected in some other countries. A tax, however, does not make sense just because it is also being collected in another country and will hardly be noticed by taxpayers.

This tax on equities will definitely not achieve the goal of making the financial sector share in the costs of the financial crisis. Quite the contrary. You assume the tax will primarily be paid by banks, financial service providers and institutional investors. That is incorrect. These institutions will pay the tax for their individual investors, so in the end the burden will fall on policy holders, pensioners, fund investors and equity investors. Trading in derivatives and same-day transactions by high-frequency traders, on the other hand, remain tax-exempt. That means the potentially destabilising "gamblers" will be exempt from the tax, while upright investors will have to pay. This aspect was clearly not considered when designing the tax.

In view of the gigantic annual interest savings of around EUR 40 to 60 billion for the federal, state and municipal governments (assuming a decrease of two to three percentage points p.a. compared to 2008) the estimated income of EUR 1.2 billion is marginal at best. Contrary to the financial plan of the Federal Ministry of Finance, the decrease in federal government interest expenses will continue in future years. Interest expenses will continue to decrease, if only because maturing bonds with high coupons are being replaced by bonds with zero or low interest rate coupons.

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Instead of returning even just a little of these interest savings to exploited investors, you want to further increase their burden. Even the ban on negative interest rates brought into play by Minister of Finance Scholz changes nothing. At best it will lead to higher bank fees for small savers. It is also somewhat ironic that the Minister of Finance will likely collect EUR 4 billion from negative interest rates this year alone by issuing zero coupon bonds at a premium, while planning to forbid banks from using negative interest rates.

Under these conditions, it would be appropriate for a socially-minded, far-sighted politician to encourage investors to make more sensible long-term investments, rather than using poorly founded arguments to justify new taxes. The tax on equities makes it more difficult for large parts of society to participate in the ownership of productive capital and is therefore fundamentally antisocial. It does not fulfil its purpose, nor does it make a significant contribution to tax revenues. It is an ideological creation that is running riot like a weed in our neighbour's garden and now, out of mistaken neighbourly solidarity, the plan is to also introduce it here.

We will continue to work in the interests of millions of investors to prevent this financial transaction tax.

Yours sincerely,

Dr. Bert Flossbach

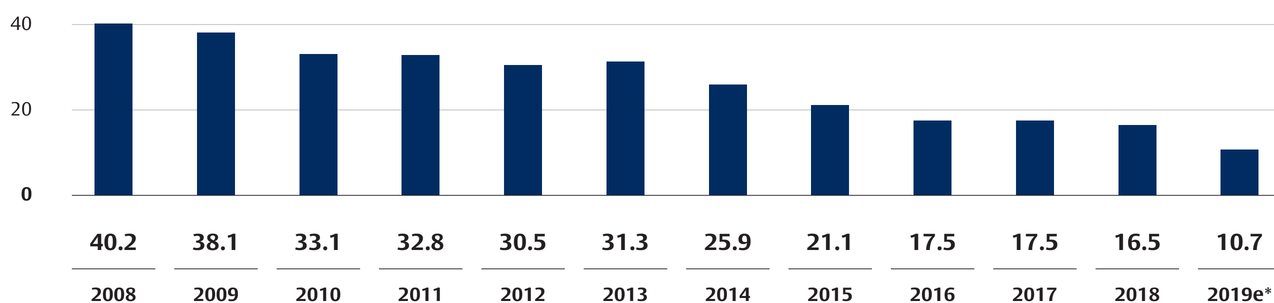
**cc**
German Federal Minister Olaf Scholz

The interest-rate environment has also changed. The European Central Bank's (ECB) decision to reduce the deposit rate from minus 0.4 to minus 0.5 per cent has destroyed all hopes for an interest-rate turnaround (towards higher rates). Although some of the burden on the banks has been relieved, since they no longer have to pay penalty interest on part of their deposits, they likely feel under increasing pressure to pass on the negative interest that has now been introduced with no time limit to their clients.

That, in turn, is difficult to reconcile with the situation faced by savers, who already see themselves as suffering greatly. Since there is hardly any other industrialised country in the world where so few people have real estate or equity holdings as Germany, most Germans also take no pleasure from the low level of interest rates. The German tabloid newspaper Bild Zeitung, adept at identifying society sentiment, recently showed an illustration of ECB President Mario Draghi as a vampire who sucks savings accounts dry. This gave a face to the change in the interest-rate environment, although the face of a scapegoat, not that of a hero. A number of politicians saw this as an opportunity to take the vacant position of the hero and demand a ban on negative interest rates for bank deposits. This is ironic to a certain extent, since the government is the biggest beneficiary of negative interest rates and, as we will soon see, has absolutely no compunctions about filling its own pockets. The low level of interest rates creates sufficient manoeuvring room to relieve the burden on citizens and invest in education, infrastructure and more efficient climate protection, thereby improving generational fairness. Funding, however, is actually mainly going towards generous pension commitments that place an unbearable burden on the under-40 generation due to demographic change.

In 2008, the Federal Republic of Germany (not including the German states and municipalities) paid a good EUR 40 billion in interest, representing around 14 per cent of the federal budget at the time. This year, interest expenses are expected to be around EUR 11 billion, or just around three per cent of the budget (see Figure 2). Although the German national debt has increased from EUR 941 billion to EUR 1,085 billion since 2008, federal interest expenses have decreased by 73 per cent or EUR 29 billion. Considering the abundance of tax revenues in previous years, one has to ask where all the money went. It is hard to imagine the condition of government finances in the eurozone if interest rates were not so low – and, in particular, what would happen if interest rates rose to their previous level again.

Figure 2 **One man's sorrow, another man's joy** – Change in German federal interest expenses since 2008 (in EUR billions)




German federal debt service in EUR billions

* Flossbach von Storch estimate

*Source: German Federal Ministry of Finance, German Finance Agency, Flossbach von Storch, data as at 11 October 2019*

**Actual future developments may differ from the assumptions made here.**

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