

Sufficiency Economy through Ethical Investments and Fair Taxes

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The future ethical market economy will be a sufficiency economy. It will provide “enough for everybody’s need, but not for everybody’s greed” (Mahatma Gandhi). It will be sustainable, with incentives for long term decisions and charges for short term speculation. Freedom and equity will embrace each other. Free markets will be balanced by climate justice, income justice, tax justice, gender justice and procedural justice. A new vision of what human beings are will grow: human beings are not only grasping for maximum of material wealth and for maximum profit on the back of the others. They also look for community, solidarity and a meaningful life. Such anthropology will balance competition with community. It will modify economic and political theories. It will lead to a new understanding of responsibility as a response to God as the source of life and a response to future generations. Christian, Muslim, Jewish, Buddhist, Hindu spirituality and values, including non-religious world views, will together build the ethical foundation for such a sufficiency economy. It will limit individual and institutionalized greed and lead to a new economic paradigm of fair and sustainable markets.

1. Sufficiency Economy: Enough for Everybody’s Needs

1.1 Sufficiency Economy serves the basic needs

During the last decade, the concept of Sufficiency Economy has been developed and partly implemented especially by the King Bhumipol Mahadev of Thailand.¹ His concept is based on three principles: *Moderation* on the material-economic level, *Immunization* on the political level and *ethical compassion* on the spiritual level.² The following text develops the concept on the basis of the following own definition of sufficiency economy:

Sufficiency Economy sets its priority in meeting the basic human needs of all human beings in order to enable them to live in dignity. It promotes a human-centered, moderate, participatory, sustainable, just and balanced economy. Moderate growth and global markets have to be based on these criteria.

Let us explain the eight elements of my definition:

1. *Basic human needs* include material, social, participatory and religious needs. Human beings have material and non material needs. A sufficiency economy, based on a holistic anthropology, includes social needs such as community, security and communication, the possibility to participate in decisions and not only execute decisions of others or beg from others, and religious needs

¹ See e.g. Stückelberger, Christoph/ Yodprudtikarn Pipat (eds.), *Global Sufficiency Economy. Interreligious Response to Crisis Capitalism*, Globethics.net Series No. 5, Geneva: Globethics.net 2011 (forthcoming).

² Calkins, Peter, *Sufficiency Economy at the Edges of Capitalism*, Chiang Mai University, Thailand, [place, year, website], 5; see also Kantabutra, Sooksan, *Development of the Sufficiency Economy Philosophy in the Thai Business Sector: Evidence, Future Research & Policy Implications*, [place, year, website].

such as sense of life, forgiveness and reconciliation, religious hope and spiritual connectedness with eternal wisdom which transcends human ratio. These needs are recognized as equally important as material needs.

2. *A life in dignity*: Meeting needs is not a goal in itself. Material and non material goods and services are instruments for a meaningful life in dignity.
3. *Human centered*: Economy, and capital as the expression of it, should serve people. Sufficiency economy is human-centered, serving all life (human and non-human). Then it is a blessing. If economy, and the capital as the expression if it, becomes the central ruling power, dominating all other sectors of life and society, it becomes a curse, a false God – in Jews-Christian tradition called Mammon - and at the end it is deadly. Then human beings become servants of economy instead of economy serving the people.
4. *Moderate*: Sufficiency economy provides “enough for everybody’s need, but not for everybody’s greed” (Mahatma Gandhi). It supports frugality so that all can live in dignity in a world with limited resources. Moderation does not mean scarcity and does not exclude specific moments of luxury as expression of joy and abundant life, but it limits luxury and overconsumption to rare exceptional situations (like family festivities) and excludes it from becoming the average middle and upper class life-style.
5. *Participatory*: Dignity is violated if people become purely objects of the decisions of others. Sufficiency economy is a participatory and empowering economy which enables people to take their life in their hands, to participate in decisions and to contribute (e.g. to economic production) and not only to receive (e.g. as beggars of food aid).
6. *Sustainable*: Sufficiency economy is a sustainable economy. It balances short term needs of present and long term needs of future generations, with incentives for long term decisions and charges for short term speculation. In environmental terms, it strives for a sustainable ecological footprint which means that individuals and society live within the long term resources and means available and not beyond as it is the case today.
7. *Just*: sufficiency economy as inclusive economy strives for fairness and equity in the whole value chain from raw material to production, trade and consumption up to recycling of goods and services. Just wages and prices are central part of it. Equity/justice includes many aspects such as climate justice, income justice, tax justice, gender justice and procedural justice.
8. *Balanced*: In sufficiency economy, freedom and justice kiss each other. Free, open markets will be balanced with binding regulations (both by states and private standards) to allow fair and sustainable rules of the game. harmonious society (China)

Sufficiency economy supports *moderate economic growth* which is necessary to meet the needs of the millions of people who live in poverty. But growth is no more measured with the current GNP alone, but rather with more holistic indicators such as the human development indicators³, sustainability indices⁴ and happiness indices⁵.

Sufficiency economy has to be distinguished from a self-sufficient economy. It is not an economy of self-sufficient, self-reliant and autonomous economies and markets which live in autarky. Self-reliance was

³ See annual Human Development Report of UNDP.

⁴ Developed by the former chief economist of the World Bank Herman Daly and the theologian John Cobb in the 1980th for the US and adapted to Europe by the German economist Hans Diefenbacher. This index shows that with increase of GNP the real welfare decreasing since the Mid 1980th.

⁵ Developed in the Kingdom of Bhutan.

the concept in the 1970th e.g. in Tanzania with Julius Nyerere's important attempt to liberate the Tanzanian economy from unfair global economic structures and terms of trade. But sufficiency economy is absolutely compatible with globally open markets – as long as they implement the sufficiency goals. This includes international trade based not only on free, but also fair trade. "Prices have to tell the truth"⁶: sufficiency prices include all external environmental and long term costs which is not the case in today's cost models where neither household and voluntary work nor costs of polluted air and climate change are fully integrated. Carbon emission calculations and related trading is a beginning of more cost transparency.

1.2 God's basic need's strategy and the UN Millenium Development Goals

Sufficiency economy is a concept which has its roots in all world religions. It is not by chance that the King of Thailand developed it with Buddhist values. In the perspective of a Christian economic ethics, we see fascinating similarities to the Thai Buddhist as well as global secular concepts. Let us look at it with the example of one biblical story. In 2000, the UN declared eight Millennium Development Goals (MDGs) to guarantee basic needs for everybody. These are also found as biblical goals. But God's basic needs strategy is more radical. The story of 'last judgement' in the New Testament gives orientation and clear perspectives for a sufficiency economy. The story is tough: it is an eschatological vision of the last days of time where the good and evil will be separated, the white sheep on the right, the good side, from the black goats on the left and evil side. But this story is not primarily on separation but on ethical behaviour and doing the good. It's not about the afterlife but about the here and now. It should therefore not be called a text on the last judgement, but on the basic ethical orientation. It is the vision of a future-oriented, sustainable behaviour and economy.

³⁴Then the King will say to the people on his right: You who are blessed by my Father: come! Come and receive the kingdom which has been prepared for you ever since the creation of the world. ³⁵I was hungry and you fed me, thirsty and you gave me drink; I was a stranger and you received me in your homes, ³⁶naked and you clothed me; I was sick and you took care of me, in prison and you visited me." (Mt 25:34-36).

God's basic needs strategy includes six concrete actions of love (they are also called merits of mercy, merits of diaconia):

1. Hunger → food
2. Thirst - → water
3. Stranger (exclusion)→ community (inclusion)
4. Nakedness → clothes (protection, housing, dignity)
5. Sickness → health, care
6. Prison → forgiveness, liberation, inclusion.

This simple but profound list of basic human needs shows what we need for life in dignity. Not luxury and sophisticated life styles but first of all to cover the basic needs such as food, clothes, housing, protection, security and community. God wants that we care first of all for the basics! The evangelist Matthew is very clear reporting Jesus' vision. But he is at the same time modest and 'politically correct'. The evangelist Luke is more radical when he quotes Jesus that he came "to proclaim freedom for the prisoners and to release the oppressed" (Luke 4:18) and not just to visit the prisoners as Matthew says. And also the prophet Isajah was more radical when he said that the true fasting is to "loose the chains of injustice and set the oppressed free" (Isajah 58:6-8). But Matthew as Luke and Marc is clearly centered on basic needs.

⁶ Von Weizsäcker, Ernst Ulrich, *Factor Four*, [place, year, page of English edition].

We now compare God's basic needs strategy with an UN-basic needs strategy decided in 2000 under the title of the UN-Millennium Development Goals. They will be monitored in September 2005 (MDG+5) by the UN General Assembly. They include eight goals:

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development.

Four of the six biblical goals appear in the UN-strategy: food, water, clothes (housing, protection), health. Two important goals do not appear: to include the stranger in the community in order to become an inclusive worldwide community and to care for the prisoners or to liberate them. UN avoids mentioning the hot issues such as migration, strangers, xenophobia and the political prisoners or violation of human rights. The basic needs according to God include material goods, but also community, liberation and spiritual goods. The UN excludes for understandable political reasons the hot and politically controversial issues in order to unite humanity behind the eight other goals. But God in Jesus openly calls for liberation and inclusion of all human (and even nonhuman) beings in his community. But the UN goals challenge also biblical interpretation: to promote gender equality is a third goal which is not explicitly mentioned in Jesus' strategy. Implicitly it's there and must be made explicit today: God's call for love for all human beings as well as the call for justice includes gender justice and gender equality.

A goal of this 'last judgment'-orientation is not to be a threat or a heavy burden but it's the great offer of God: those who worry for God's basic need strategy will be blessed by God and will see his Kingdom. God's basic needs strategy should be the foundation and point of reference and orientation also for ECLOF's vision and strategy. And God promises not only that you see his Kingdom but that he accompanies us on this way with his spirit. A great promise and encouragement!

1.3 Sufficiency Economy is the result of God's abundant offer in creation and liberation

Man-made economy starts with scarcity, God's economy starts with abundance. Let us explain it: "All economic questions arise because we want more than we can get." This is the first sentence of Parkin and Bade's book *Economics*⁷, a very popular undergraduate textbook in North America. It continues: "Everyone ends up with some unsatisfied wants ... our inability to satisfy all our wants is called scarcity." Based on these premises, classical economics start production with this assumption of consumer needs based on scarcity and economic growth as answer to these needs. These endless needs can easily overturn to greed as it can be observed in all periods of history. This is the reason why all world religions warn that greed is the root of evil, obsession, addiction, oppression, exploitation and dependency.

Starting point of God's economy and a Christian Sufficiency Economy is not the description of scarcity and human needs, but the recognition and praise of the overwhelming *abundance of God's creation* and God's Grace with its generosity, durability, diversity and beauty. *Abundant diversity* is a recognition that diversity is a positive asset of humankind and creation: "All human beings come from the ground, and humankind was created out of the dust. In the fullness of his knowledge the Lord distinguished them and appointed their different ways." (Sirach 33:10-11) *Abundant life is linked with justice*. Elihu proclaims

⁷ Parkin, XX/ Bade, XX, *Economics*, [publ, year, page]

God's Majesty: "God gives food in abundance, he is jealous with anger against inequity." (Job 36:31.33) *Abundance is a promise*: Not the violent exploiter, but the non-violent meek will have abundance: "But the meek shall inherit the land, and delight themselves in abundant prosperity." And the Sermon on the Mount says: "Blessed are the meek, for they will inherit the earth. Blessed are those who hunger and thirst for righteousness, for they will be filled." (Mt 5:5-6. Luke has the physical food in mind: "Blessed are you who are hungry now, for you will be filled." Luke 6:20) Also in the Old Testament, this vision is visible that nobody will die for scarcity: "Ho, everyone who thirsts, come to the waters; and you that have no money, come, buy and eat! Come, buy wine and milk without money and without price. Why do you spend your money for that which is not bread and your labor for that which does not satisfy? Listen carefully to me, and eat what is good, and delight yourselves in rich food. Incline your ear, and come to me; listen, so that you may live. I will make with you an everlasting covenant." (Isaja 55:1-3)

The most precious form of abundance in Jews-Christian faith as in other religions is the *abundance of love*: "For just as the sufferings of Christ are abundant for us, so also our consolation is abundant." (2Cor 1:5). Paul describes this overwhelming love in almost mystical way: "I pray that you may have the power to comprehend, with all the saints, what is the breadth and length and height and depth - and to know the love of Christ that surpasses knowledge, so that you may be filled with all the fullness of God." (Eph 3:18-19). This offer of love and promise of the covenant leads to an *abundant inner happiness* and life full of sense: „My heart is glad, my body rests secure. You show me the path of life in your presence there is fullness of joy." (Psalm 16:9-11)

1.4 Sufficiency Economy is based on Common Good and sets institutional limits to Greed

Sufficiency economy now has to clearly distinguish: abundance as described is a quality of God and belongs to him, but human beings are always tempted to abuse it for own purposes. But God's offer has to lead to community-orientation and the Common Good. Therefore, the criteria for what is the right and sufficient use of material goods and services is the *community*. Paul reminds the early Christian community in Corinth in Greece that they are free to use the abundant offer and freedom of God, but they resist to abuse it against the community: "All things are lawful, but not all things are beneficial. All things are lawful, but not all things build up. Do not seek your own advantage, but that of the other. Eat whatever is sold in the meat market without raising any question on the ground of conscience, for the earth and its fullness are the Lord's." (1Cor 10:23-26)

Human beings are not only grasping for maximum of material wealth and for maximum profit on the back of the others. They also look for community, solidarity and a meaningful life. Such anthropology will balance competition with community. It will modify economic and political theories. Implicit in the *Common Good* is a full respect for both the individual and collective interests of society while at the same time asking the individual to demand less while the community at large concedes some of its power. Responsibility of individuals and institutions means to balance individual and community interests from the perspective of furthering the Common Good.

Greed, as seen above, is the main enemy of a sufficiency economy. Resisting greed is therefore key, as it is expressed in all world religions. In Christianity, the parable of the rich fool says: "Take care! Be on your guard against all kind of greed; One's life does not consist in the abundance of possessions." (Luke 12:15). Gandhi, from a Hindu background, says: "Non-stealing does not mean merely not to steal. To keep or take anything which one does not need is also stealing. And, of course, stealing is fraught with violence."⁸ The sufficiency *alternative to greed is sharing*. Share what you can. "He [Jesus] looked up and saw rich people putting their gifts into the treasury; he also saw a poor widow put in two small copper coins. He said, 'Truly I tell you, this poor widow has put in more than all of them; For all of them have contributed out of their abundance, but she out of her poverty has put in all she had to live on.'" (Luke 21:1-4) And for Islam, the same is expressed by saying that what goes beyond one's needs should

⁸ Pearls from Gandhian Ocean, 24 Nov. 1944.

be spent to those in need (Quran 2:219). The main way to avoid suffering is to avoid greed for things and situations we don't need. This wisdom is present in the Koran⁹, the Bible¹⁰, indeed, in all world religions.

But greed is not only an individual behavior. Capitalism is a form of institutionalized greed. The mainstream economy is based on mechanisms to constantly create new needs. Especially in saturated markets, new needs make the economy to run as before. Sufficiency economy develops mechanisms to overcome institutionalized greed.

2. Responsible Investments

Two main financial instruments towards a sufficiency economy are ethical investments for the private sector and fair taxes for the public sector. Let's now look at them as two concretizations of a sufficiency economy.

2.1 Responsible Investments: Developments in Europe and worldwide

Huge, unimaginable amount of capital is daily floating around the globe. How to invest them in the frame and for the goals of a sufficiency economy as described? One answer are the Socially Responsible Investments (SRI). They became a global concept with manifold instruments, indicators and also controversies. Today, the term SRI is more and more replaced by Responsible Investments (RI) because it is not only about social responsibility, but responsibility for all effects of investments on micro-, meso- and macroeconomic level. The performance of specific SRI funds during the last years in average was close to mainstream benchmarks such as MSCI world, sometimes slightly higher, sometimes slightly lower (+-1% difference). That shows how much SRI depends on other commercial mechanisms as long as they are strongly linked to the stock market development. After scandals such as Enron in the US, the control mechanisms and the call for transparency are worldwide increasing in investments and pension funds and therefore in the SRI development. An important step is done by the voluntary Transparency Guidelines for SRI Retail Funds issued by the European Social Investment Forum (Eurosif) at the end of 2004.¹¹ The investors have to publish a regular report.¹² More binding are the OECD "Guidelines for Insurers' Governance"¹³ and the OECD "Guidelines for Pension Fund Governance"¹⁴, both adopted by the OECD Council in April 2005. They want to strengthen the investors' and consumers' confidence in the insurance industry and to protect people's pensions from mismanagement and fraud.

2.2 Responsible Investments: needs-oriented, sustainable, transparent

In the light of the sufficiency economy, responsible investments have to meet the same criteria as mentioned for the whole concept of sufficiency: *meeting the basic human needs of all human beings in order to enable them to live in dignity, promoting a human-centered, moderate, participatory, sustainable, just and balanced economy*. Let us highlight only three aspects: human needs-oriented, sustainable and transparent.

⁹ "O you who believe! Spend (benevolently) of the good things that you earn and or what We have brought forth for you out of the earth, and do not aim at what is bad that you may spend (in alms) of it, while you would not take." it yourselves unless you have its price lowered, and know that Allah is Self-sufficient, Praiseworthy." (Quran, 2.267)

¹⁰ "Then Jesus said to His disciples, 'Assuredly, I say to you that it is hard for a rich man to enter the kingdom of heaven. And again I say to you, it is easier for a camel to go through the eye of a needle than for a rich man to enter the kingdom of God.'" (Mt 19:23-24)

¹¹ See <http://www.eurosif.org/pub2/2activ/initivs/transp/index.shtml>.

¹² See e.g. the UBS report: <http://www.ubs.com/1/e/globalam/emea/switzerland/funds/fundrange/sri/latest>.

¹³ See <http://www.oecd.org/dataoecd/19/10/34799740.pdf>.

¹⁴ See <http://www.oecd.org/dataoecd/18/52/34799965.pdf>.

Human needs-orientation in Responsible Investments means that investments have to be related to the real, productive economy and not driven by speculative transactions. Real human beings, especially hundreds of millions of so called non bankable poor, need real capital. Microcredit, micro-insurance, affordable credit for small and medium enterprises are crucial.

Sustainability in Responsible Investments is broadly accepted and became mainstream in SRI criteria. Therefore, I cannot go into details here. But it is still a small percentage of investments which can be called sustainable. It must become more main stream. E.g. investments in renewable energies substantially increased, but is still far from being enough if we see the limited investments in solar energy as an example. Sustainability can be supported if long term investments get a higher return than short term speculation and latter are taxed with a financial transactions tax as the EU is trying to implement.

Transparency in Responsible Investments. Capital flows became so complex that even specialists such as bankers could no more fully understand their financial products which became very visible during the financial crisis 2007-2009. There are manifold reasons for more transparency in financial transactions and investments:

1. *Participation:* Transparency is a pre-condition for participation and democratic control of financial markets.
2. *Accountability:* No responsibility without accountability and no accountability without transparency.
3. *Procedural justice:* Procedural justice means calculable, constitutional (publicly and privately) regulated, transparent procedures in financial transactions.¹⁵
4. *Right to information:* Transparent information is a human right and a precondition especially for the weaker partners in economic activities to come into one own rights.
5. *Overcoming corruption:* Corruption as the abuse of public or personal power for personal interests is per definition in-transparent. It operates in darkness, payments are given "under the table". Corruption undermines the rights of the weaker (Ex. 23:8).¹⁶
6. *Stimulating Responsible Investments:* Transparency by legal disclosure acts and by the publication of reports about RI-activities stimulates the positive competition between investors in favour of RI. The explosive growth of RI in the UK after 2000 was a direct result of the UK "Pensions Act 1995, introduced in July 2000 which require pension funds to disclose within their statements of investments principles "whether and to what extent they use social, ethical and/or environmental criteria in their investment selection"¹⁷.

3. Tax Justice: Fair and Sufficient Taxes

3.1 Principles of Tax Justice

In order to meet the needs of the needy as the core of sufficiency economy, economic development and fair investments have to be combined with sufficient state income. Tax income as the main source of income for states is crucial for every state in order to fulfill its own tasks, as well as international obligations such as the contribution to reach the Millennium Development Goals and the tasks for climate pre-

¹⁵ See Stückelberger, Christoph: Global Trade Ethics. An Illustrated Overview, WCC Geneva 2002, 49.

¹⁶ See Stückelberger, Christoph: Corruption-free Churches are Possible, Globethics.net Focus 3, Geneva: Globethics.net 2010.

¹⁷ The Pensions Act 1995: Occupational Pension Schemes (Investment) Regulations, as amended as the SI 1999, No 1849.

vention, mitigation and adaptation. Increase in tax income is one of the core goals of the international community¹⁸ for finding new sources to finance development, in addition to development related trade and development aid. Increased tax income became even more urgent with the huge public debts as a result of the financial crisis of 2007-2010. The World Alliance of Reformed Churches at its 24th General Council in Accra 2004 in its Report of the Public Issues Committee adopted the following recommendation to its member churches: “As our commitment on confessing our faith in the face of economic injustice and ecological destruction, ... WARC recommends ...: 2.2 Support governments to achieve fair and sufficient taxes in order to guarantee basic needs and a life of dignity for the population, to reach the UN Millennium Development Goals and to fulfill the obligation of providing social welfare. ... 2.6 Enforce present and create new laws against all forms of criminal economic activity such as ... tax evasion, money laundering and illegal employment, which deny the rights of the poor.”¹⁹

Tax justice is the key value of tax ethics. The following principles can be seen as global principles of tax justice while respecting that their implementation still allows contextual and diversified tax systems and even to some extent a tax competition between states or regions. Tax ethics is and has to be implemented in various tax principles as they are known, or should be further developed in tax laws:

1. The *Principle of Generalness*: every taxable citizen is obliged to pay taxes as an expression of equal treatment and *justice as equality*.
2. The *Principle of Capability*: Tax payers should be charged on the basis of their economic capability and performance. This is an expression of *capability-related justice* and performance-related justice. Wealthy persons should contribute more to common public tasks than poor persons, not only in absolute, but also in relative terms.
3. The *Principle of Regularity*: the state cannot take taxes in an arbitrary way, but has to tax based on predictability which is part of *procedural justice*.
4. The *Principle of Redistribution*: Progression in taxing income or revenue leads to a relative higher taxation of wealthy than of poor people. This is ethically justified because the needy, such as people without food or education, need support. Needs-related justice means distributive justice, also called social justice, which respects differences in performance while balancing the needs of those who cannot perform in the same way such as elderly, poor, handicapped and sick.
5. The *Principle of Coherence*: The different forms of taxes and policies have to be coherent and non-contradictory. It would be incoherent to reduce, e.g. income taxes for poor people, and at the same time charge them with additional consumer taxes. Coherence is an ethical requirement for credibility and trust as well as for a holistic implementation of a set of values. Nevertheless, full coherence is never possible because politics is always a battle field of balancing conflicts of interests, compromises and contradictions.
6. The *Principle of Transparency*: The tax rules including tax exemption must be transparent and implemented in a transparent way to everybody. Secret agreements, e.g. with wealthy individuals or companies, violate this principle. Transparency is part of fair procedures and therefore of procedural justice.
7. The *Principle of Practicability*: A tax must be structured in a way that the tax payers and the state administration can handle its implementation in an efficient and transparent way without too

¹⁸ As defined at the UN Conference on Financing Development in Monterrey/Mexico in March 2002. See also Bowdway, Robin: National Taxation, Fiscal Federalism and Global Taxation, in Atkinson, A.B. (ed.): *New Sources of Development Finance*, New York: Oxford University Press, 2005, 210-237.

¹⁹ Accra 2004. Proceedings of the 24th General Council of the World Alliance of Reformed Churches, Geneva 2005, 199-201.

many costly administrative burdens. Practicability is a requirement for functional justice as the way to use limited financial and organizational resources in the most efficient way.

8. The *Principle of Democracy*: Participation means that tax payers indirectly (as electorate electing the parliament as in most countries), or directly (directly voting on the tax system as in Switzerland) participate in fixing the level and kind of taxes to be paid. Without it, the tax payers identify themselves much less with the tax and tend more to tax evasion. This is an expression of participatory justice.
9. The *Principle of Intergenerational Justice*: The level of taxes should in principle be sufficient in order to cover the expenses of the state. Huge debt burdens, as they are accumulated in many countries, violate the intergenerational justice because future generations have to pay the bill for overconsumption and expenses of present generations. Intergenerational justice leads to greater sustainability.
10. The *Principle of Fair Tax Competition and Harmonization*: Tax competition within and between countries is part of market competition. Free markets need some tax competition for an efficient allocation of resources. However, tax competition often becomes very destructive because it lowers tax income to an extent that public entities cannot finance their duties. Tax competition is unfair if it is not based on performance in terms of better conditions and delivery of services, but on protectionism or in-transparent laws such as tax havens, variations of offshore banking or banking securities. Unfair tax competition encourages tax evasion and tax fraud. Tax harmonization and transparency on tax income is therefore needed to a certain extent. The balance of tax competition and tax harmonization is a requirement for tax justice.
11. The *Principle of Fair Punishment*: As in every sector of life, violations of ethical principles, laws and rules happen. Therefore, criminal law is an integral part of the instruments needed to increase justice, as in the case of *punitive justice*. In many societies, tax evasion is almost seen as a legal game and as a gentlemen's behaviour. But tax evasion deprives public institutions of their means. Protest against unfair tax systems needs - at least in democratic societies - active resistance within democratic means. Tax evasion as a form of passive resistance is, in this context, unethical. Punitive tax justice needs equal treatment of tax payers, which in turn needs court systems which are not corrupt. Corruption is cancer which undermines punitive tax justice.
12. The *Principle of Restoration*: Tax amnesty is a means for states to recover part of the tax evasion. It contradicts the principle of fair punishment but is often legitimized by the governments' need for additional income and can be seen as an attempt for (at least partial) *restorative justice*. The goal then justifies the means. In the conflict of interests between punitive tax justice and distributive tax justice, tax amnesty is not in any case to be ethically condemned, but to a greater extent depends on the conditions, forms and frequency of tax amnesty.
13. The *Principle of Transformation*: The perception of tax justice evolves as all value systems do. It can then happen that an activity such as tax evasion or black money transfer is more or less accepted and then, by international developments such as in the OECD countries, is seen as a heavily illegal crime. Thus, a grey zone of insecurity about what is just or unjust is opened. In such situations, for reasons of procedural justice, it is often necessary to define and allow a transition period for *transitional justice* which can lead to *transformative justice* with a new level of international tax justice.

3.2 Tax Justice also with Developing and Emerging Countries

The above principles first of all have to be applied *within* sovereign states which have the power and authority for tax collection. But they also have to be applied *between* sovereign states. In a globalized world, the states are not isolated but interdependent in manifold ways. Therefore, tax justice is an intergovernmental, regional and global topic. It is a hot issue because tax evasion is still growing within the liberal-

ized financial markets. The efforts to decrease tax evasion are, since the 2007/2008 global financial crisis, strongly increased because states urgently need more tax income to cover their financial engagement to overcome the crisis.

Every state has the right to tax its taxable population in order to provide services to this population and the global community. This is the first principle of tax justice. It includes the ethical obligation of states to support each other in tax collection by not protecting tax evasion.²⁰ The principle is based on the universally accepted ethical Golden Rule of reciprocity, whereby we should do and give to others what we ourselves expect from them. This applies to individuals as well as to states and inter-state relations or to companies.

This principle of tax justice applies not only with respect to countries such as the USA or Germany that can exert pressure on Switzerland, but globally, including also developing, transition and emerging countries. In its favor are not only ethical considerations but also political and economic benefits for countries like Switzerland which rather fear economic losses with a white money strategy.

Ethical necessity: poverty reduction. Economically weak states rely on tax revenues even more than economically powerful countries. International efforts to find new ways to finance development have stressed this repeatedly. In addition to increased trade and aid, developing countries need just and fair taxation if they are to reduce poverty and reach the Millennium Development Goals. The annual revenue loss to developing countries because of tax flight and tax evasion is estimated to amount to 150-250 billion Swiss francs a year, which significantly exceeds the total official development assistance ODA of all the industrialized countries (100 billion per year)! Special cases such as dictatorships aside, we may recognize many developing countries governed by the rule of law where the principle of tax justice is applicable. These also need their tax systems strengthened. Switzerland should conclude more double-taxation agreements with developing countries.

Political advantage: Cooperation with the EU. In the actual situation, Switzerland in Europe seems to have its back to the wall. But precisely a pro-active initiative directed beyond Europe could offer Switzerland the possibility of new coalitions. The European Commission intends to start a dialogue with developing countries to strengthen their tax systems and combat tax evasion. The “International Tax Compact” (ITC) – a new initiative of the German Federal Ministry for Economic Cooperation and Development (BMZ) – is beginning to coordinate partners in development from industrialized and developing countries. They also take up the concerns of the International “Tax Justice Network” (TJN) of the private development agencies. The Swiss Foreign Ministry, through the Swiss Agency for Development and Cooperation (DEZA), should play a part in such initiatives. In this way, Switzerland will be not an opponent but a team player with the EU!

Economic advantage: Any shortfall in Switzerland caused by less untaxed wealth from developing countries would be offset in the medium term by credible and sustainable trade relations with important Asian countries, for example, and by removing the threat to the reputation of Swiss companies and corporations. The firm position of Switzerland in the fight against money-laundering has earned her respect and economic benefits. The same can happen with a new white money strategy in the relationship with all countries.

Global white money strategy: This will still allow for tax competition based on locational advantages between and within states, while at the same time respecting the legitimate claims for tax revenues of other states. It creates a level playing field, based on “competition on the merits”, not based on protecting tax evasion. It includes improving the rules of transfer pricing (in which country internationally active com-

²⁰ The following is based on the article Stückelberger, Christoph: Weissgeld-Strategie kann unseren Finanzplatz stärken. Die Schweiz sollte über Europa hinausblicken, Neue Zürcher Zeitung am Sonntag, 21 February 2010, Hintergrund.

panies pay taxes for which part of their profit) towards tax equity. Switzerland's financial centre may emerge stronger from a global white money policy, thanks to its locational advantages of political stability, its virtues of high professionalism and efficiency, and an innovative service that combines asset management with the philanthropic concerns of investors, oriented to the common good.

Promotion of voluntary charitable giving: Some tax evaders are generous philanthropists. They lack confidence in the spending policies of the country in which they are liable for tax. But many are quite willing to contribute to the common good, for example through foundations abroad. It is certainly not a question of justifying tax evasion ethically, but of giving a positive signal by admitting generously tax deductions for charitable donations and the creation of foundations. Such tax deductibility for philanthropic activities should be more recognized across borders. This will promote significant voluntary contributions for the common good.