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Private Wealth in Germany- Introduction

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1 Why focussing on private, not corporate, wealth?

Right from the beginning, the research team was forced to bring its resources into line with that in merit of investigation. Already then it was decided to focus on private wealth questions regarding corporate wealth and taxation out of focus resp. deal with it only as far as overlapping issues call for it (Tax Justice & Poverty, 2013). Since the project proceeded, a number of reasons have emerged backing this initial decision up:

- Corporate wealth and tax related issues are already under close examination and a lot of policy discussion is going on carried forward by governmental, inter-governmental and non-governmental organizations. There is no comparable body of literature and discussion regarding the question of private wealth.
- Whenever the taxation of businesses and TNCs is concerned, the question of jobs arises with a number of justifiable arguments why jobs are more important than tax revenue, something also being part of the Bavarian governments approach towards the taxation of businesses or Inheritance Tax. Clearly, there is an overlap between corporate and private wealth, if e.g. somebody's wealth is invested in (and bound in) a business. At the same time there is discussion that private assets are transferred into businesses in order to obtain more favourable tax rates – even though those transferred assets are of no obvious use for jobs or productivity (*Produktivvermögen*). Hence, a closer look into private interests involved might be important.
- Taxation of private wealth is getting more and more challenging, (almost) equalling challenges in taxing corporate wealth: An IMF staff paper examines “current challenges in Revenue mobilization” and deals in particular with two “hard to tax areas”: High Wealth Individuals (HWI) and Business to consumer taxation. Similarly, the OECD calls not only for specialized units for taxing TNCs, but also for specialized units to tax HNWI (see below 13.5)
- TNCs, even though they are “legal persons” are less morally responsible agents than its owner and shareholder as “natural persons” are, namely those who also reap dividends and profits and who influence TNC policies on boards or via shareholder meetings. It is here where the course and policy of a business is finally determined and

it is here where the alternatives between taxation, employment policies, terms of trade, investment or “Thesaurierung” are being taken.

- Many problems regarding the taxation of the wealthy overlap with problems regarding the taxation of TNCs, or, for that matter, criminal individuals and TOC organizations.
- Private and corporate wealth, certainly at the top end, rests on income capital rather than income from personal labour, i.e. capital income and capital wealth. Both are undertaxed as opposed to the taxation of labour and the taxation of consumption and its relative burden on low-income households.
- Private and corporate wealth both try to minimize their tax burden with tax planning. They profit most from both the complexity of the German taxation law and tax enforcement deficits which exist between different countries and nation states due to tax competition. In order to find the best ways here, advice by tax lawyers is essential because a non-expert is at a loss given the issues which need to be understood in this context in the first place. Services of those lawyers are, however, depending on the complexity of constructions required, quite expensive. For that reason alone tax savings must be beyond the salary of these advisors so that their employment makes sense. Tax saving operations, especially if involving cross-border options, also cost money – e.g. for bank deposits or international transfers, which are more likely than not unavailable for people with lower income. Such avoided or evaded tax payments damage the community as such.
- Even tax justice activists argue that focussing on the issues outlined above is more important and “deserving” for this project than including in-depth treatment of the taxation of companies. One explains:

One has to think whether corporation taxes are the lion’s share, even at peak times after the war business taxation was not the main source of income of the state. What would be important given the volume of withholding tax on capital would be as you mentioned in Germany and the whole EU the reintroduction of the equal taxation of capital income and earned income. From my point of view, that would be something the church would be downright predestined. Moreover, strategically beneficial due to new transparency through automatic information exchange (Non-transparency was so far the main argument for Final withholding Tax). In my judgment, with capital tax the ethical is much easier (especially among the inequality of capital-labour).

2 Introduction

Regarding the interest of this study in the development of the international and national wealth gap, it is important to know about both income and wealth inequality of the top income and wealth holding households: We

need to know how many people earn the incomes at each level. The share of income (or wealth) going to the top decile or centile is a useful index for judging how unequal a society is, because it reflects not just the existence of extremely high incomes or extremely large fortunes but also the number of individuals who enjoy such rewards. (Piketty, 2014a, p. 253)

In particular, knowledge about the top percentile (and even smaller units such as the 0.1 or 0.01% of the top income and wealth hierarchy) is important:

the composition of wealth varies widely within this group. Nearly everyone in the top decile owns his or her own home, but the importance of real estate decreases sharply as one moves higher in the wealth hierarchy. In the “9 percent” group, at around 1 million euros, real estate accounts for half of total wealth and for some individuals more than three-quarters. In the top centile, by contrast, financial and business assets clearly predominate over real estate. In

particular, shares of stock or partnerships constitute nearly the totality of the largest fortunes. (Piketty, 2014a, p. 260)

While poverty is well researched, research into private wealth and the wealthy in Germany is only at its beginning. Due to the scarce insights, some research lines pointed out by Lauterbach and his team are still valid for any research into this tiny segment of German society:¹

1. What factors enable wealth rather than others?
2. What influence has a wealth-elite upon decisions of other elites, if there are differences at all?
3. How beneficial is the wealth-elite for the national and international community and what do they contribute to the Common Good?

Depending on the answers, wealth can be something inevitable and good, or something which urgently needs regulation and curtailment.

3 Sources

Wealth portfolios nowadays are so diversified that especially the super-rich no longer know what they own and possess. A good example is given by Daniel Hopp, son of SAP founder and philanthropist Dietmar Hopp. He engaged in the acquisition of farm land and was asked by a journalist how many cows he owns on his New Zealand farm. He guessed “Perhaps 300?” His portfolio and wealth manager corrected quickly “No, no, Daniel, it’s at least 3000.”

Or consider the legendary statement of Princess Gloria of Thurn und Taxis: “Who knows how much he owns is not really wealthy.”

Source 1²

3.1 Deficits in standard surveys and samples

There is little hard evidence regarding categories and extent of wealth in Germany in standards surveys and standards samples of the German population.

First, there is the Mikrozensus, a representative sample of 390,000 households. This is the most comprehensive survey of German households and participation for those selected is mandatory. However, there are no relevant question in this survey which would be helpful to determine the extent and development of wealth.

The next (and more interesting) sample of the Federal Statistical Office, is the Income and Consumption Sample (*Einkommens- und Verbraucherstichprobe*, EVS). It started in 1962/1963, covers around 60,000 households, is one of the largest of its kind in Europe and is an important basis for the federal and state governments reporting on poverty and wealth (see e.g. GER/IV/1.4). It does not include, however, households with a monthly net-income

¹ Lauterbach, W. Vermögensforschung und Sozialer Wandel. Anmerkungen zu einer Soziologie des „Reichtums und Vermögens“. In: (Druyen, Lauterbach, & Grundmann, 2009, pp. 119-134)

² Alvarez de Souza Soares, Ph./ Müller, E./ Schwarz/U. Private Banking. In: (Manager Magazin Spezial, 2014, p. 96). This example is comparable to that which Piketty brings about Liliane Bettencourt, one of the richest heiresses of France, who declared an annual income of 5 million Euro probably because this was all she was able to spend of her billions and therefore was mistaken to qualify as her “income”. (Piketty, 2014a, p. 525). Gloria of Thurn und Taxis: Quoted in or <http://www.handelsblatt.com/finanzen/anlagestrategie/trends/gloria-von-thurn-und-taxis-meine-lieblingsaktie-ist-apple/6674142.html>

beyond EUR 18,000, since their number is too small for representative examination within the EVS sample. Equally, it does not inquire into the possession of business assets, which is of particular importance to assess wealth of the top 10% and smaller fractiles of the income and wealth distribution.³

The deficit especially regarding the EVS is notable since it played so far an important role in governmental poverty and wealth reporting (see GER/IV for Germany and Bavaria).

Even though a number of surveys (SOEP, PHF, HFCS) try to correct this problem by “oversampling” among the top wealth holder or taking into account findings of Wealth Rankings, there are still potential deficits as well: Participation in all that is voluntary only, nobody really knows whether information provided is comprehensive and adequate due to errors in self-assessment, unintentionally forgetfulness about own wealth categories, or intentional non-response or selectivity in response.

3.2 Insights based on tax data

While there is, on part of researchers and policy makers, at times some “jealousy” about statisticians in the US, who, for their Survey on Consumer Finance (SCF) can make use of tax data, one has to know that even in the US the Forbes top 400 wealthiest are explicitly excluded from the SCF, ‘presumably to preserve confidentiality’ (Vermeulen, 2014, p. 12).

Regarding “naked” figures, it makes sense to look into the annual Income Tax Statistics of the German Federal Statistical Office, which are regularly published.⁴ It is composed from income tax data which is automatically transferred to the German Federal Statistical Office. Since the assessment period by tax authorities comprises always the last three years the most current data available is always three years “old”, i.e. in 2013, data for the assessment year 2009 will be made public. Every year, the annual statistics consists in two parts: First, the general overview regarding the most recent income tax data, second, a chapter treating an income tax relevant area in greater detail, e.g. income from rent and lease (Federal Statistical Office, 2014a) or income from capital (Federal Statistical Office, 2013a). There are two problems: First, income from capital is not (always/completely) included, even though this is of major importance for the top income and wealth segment (see Piketty above, 2).⁵ And: Since information is provided either synthetically regarding the sum of all income (Gesamtbetrag der Einkünfte) or categorically, e.g. listing how many tax subjects receive income arising in one of the seven categories it is difficult to draw from those figures more specific information regarding the top 1% of German households and the composition of its wealth portfolio.

³ ,Der Fragebogen Geld- und Sachvermögen umfasst Angaben zum Geld- und Immobilienvermögen sowie zu Konsumentenkredit- und Hypothekenschulden der Haushalte....Ferner liefert die EVS keine Angaben für Haushalte mit einem monatlichen Haushaltsnettoeinkommen von 18 000 Euro und mehr, da diese in der Regel nicht in so ausreichender Zahl an der Erhebung teilnehmen, dass gesicherte Aussagen über ihre Lebensverhältnisse getroffen werden können.’ Retrieved from https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/EinkommenKonsumLebensbedingungen/Methoden/Einkommens_Verbrauchsstichprobe.html See also (Berger, 2014), Kapitel “Reichtum, die große Unbekannte)

⁴ <https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/OeffentlicheFinanzenSteuern/Steuern/LohnEinkommensteuer/LohnEinkommensteuer.html>

⁵ Einkünfte aus Kapitalvermögen sind dabei nur noch teilweise berücksichtigt, da sie auf Grund der Abgeltungssteuer überwiegend nicht mehr zur Einkommensteuer veranlagt werden müssen’ Retrieved from <https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/OeffentlicheFinanzenSteuern/Steuern/LohnEinkommensteuer/Aktuell.html>

At the same time it is hardly possible for researchers outside tax administration to get access directly to tax data and have a look across other data and combine findings. A special case was the work Bach, Corneo and Steiner, examining the development of income, wealth and the effective average tax rate for the top 1 percent of German taxpayers in the unified Germany from 1992-2005. For this exceptional study the researchers were granted an “improved” access to the Income Tax Return⁶ comprising about 3 million returns and additionally more comprehensive retained capital gains data, e.g. from capital based corporations. This is not contained in the ordinarily available data and as significant importance for estimating the wealthy especially of the top 1 percent. The data available to this team was complemented with data from SOEP household survey data and enabled determination of ‘the effective taxation of top fractiles small as the top 0.0001 percentile, i.e. the forty-six income richest households in Germany.’⁷

The only other academic group known to the researcher which has been granted a limited and supervised access to anonymized tax data is the group surrounding Matthias Wrede at the WISO at Nuremberg. But here, too, people with income above a certain level were excluded from access due to fear of identifiability.

Since the abolition of the Wealth Tax in 1997 even tax authorities have no longer a reliable insight into wealth portfolios of the super-rich since they have to rely on the truthfulness and comprehensiveness of the submitted tax declaration.

3.3 Macroeconomical & statistical data bases

A first indication about gross and net financial wealth inside the country are annual statistics of the German Federal Bank.⁸ This statistics, of course, cannot capture financial assets which are hidden in tax havens, it also does not capture wealth in form of, e.g. business assets or real estate.

An important macroeconomic source for calculating the development of national, private and corporate wealth is the National Income and Expenditure Statistics (*Volkswirtschaftliche Gesamtrechnung, VGR*). It lists not only the development of income from labour as well as private, corporate and national wealth. It also sub-distinguishes the following categories of wealth:

- Real Property.
- *Gebrauchsvermögen* (household wealth such as houses, furniture, jewellery, cars...).
- *Geldvermögen* (income from capital such as interest, capital gains or bonds).
- *Betriebsvermögen* (income from shares, stocks and other papers traded at the Stock Exchange).

If assets such as publicly funded pensions or social security contribution funded retirement payments would be included in the calculation, the wealth gap between rich and poor would not be as big as it is, since a lot of money rests in private and public pension funds. However: this category does not account for the relevant statistics here. The problem of the VGR is that

⁶ Tax return: The form on which you have to give information so that your tax can be calculated.’ Retrieved from <http://lexicon.ft.com/Term?term=tax-return>

⁷ (Bach, Corneo, & Steiner, Effective Taxation of Top Incomes in Germany, 2011a, p. 1f.+6f.) and mail of Stefan Bach from 17 November 2014.

⁸ Deutsche Bundesbank, Makroökonomische Zeitreihen, see here the series called „Geldvermögen“ http://www.bundesbank.de/Navigation/DE/Statistiken/Zeitreihen_Datenbanken/Makrooekonomische_Zeitreihen/makrooekonomische_zeitreihen_node.html?openNodeId=403714

the goal is not the establishment of private wealth in household, but the aggregate figures of how much wealth is held by private households. In other words: A big deficit of this statistics is that it does not say anything specific about the concentration and distribution of income and wealth within and among the population. Here, other statistics are more telling:

There are other and more focused data bases emerging, e.g. the OECD's Wealth Database or Piketty's World Income Database.

But here, again, the value of data rests in its ability to interpret it and to complement it with qualitative interview and survey data.

3.4 SOEP

Another source for assessing wealth, whose findings are reaching back in time as far as 1984 and whose database is also being used by organizations like the OECD, is the Socio-Economic Panel (SOEP),⁹ which considers the following categories

- Own accommodation (house, penthouse, flat...).
- Other real estate.
- Money/capital.
- Income from private insurance.
- Income from saving contract with a building society (*Bausparvertrag*).
- Shares in businesses and companies (*Beteiligungsvermögen*).
- Valuable possessions (*Sachvermögen*).¹⁰
- Debts and liabilities.

It is important to note that different from the macroeconomic approach, SOEP includes private insurance against health, age and disability risks in the calculation. Here, too, an imbalance occurs since public and social security contribution funded assets do not count. In 2002, and in the context of the wealth and poverty reporting of the federal government, the SOEP started to draw a specific sample of wealthy households in the attempt to draw more information from this group and improved this sample continuously in itself and in relation to information drawn from other households.

(Bach, Beznoska, & et.al., 2013) give more information to the 2007 survey which underlies a number of important analyses for this study: The basic SOEP 2007 wave contained a questionnaire inquiring in wealth.¹¹ The basic wave was amended by an additional 800 household sample who had a monthly net income of at least EUR 3,850 in order to make up for the underrepresentation of wealthy people in representative household surveys. However: "A substantial share of respondents only report that they own certain wealth components but do not report the respective amounts". (p.8) This needs to be imputed. Another amendment for this paper: The very rich are underrepresented even in this additional sample. Here data from the Manager Magazine's Top 500 Wealth ranking was added and imputed. From here they arrive at the conclusion that there are 90,000 households in Germany with net wealth of at least EUR 5 million. Their imputation figures then is close to that which macroeconomic

⁹ This demonstrates at the same time the limited use of these surveys for historic comparisons and developments, which are different with studies based on fiscal tax records, as were accessible, e.g., for Piketty and his team. More information see http://en.wikipedia.org/wiki/Socio-Economic_Panel

¹⁰ Different from the National Income and Expenditure Statistics the statistics based on the Socio Economic Panel does not include the value of cars, furniture or cash.

¹¹ The questionnaire can be retrieved from

http://www.diw.de/documents/dokumentenarchiv/17/diw_01.c.56579.de/personen_en_2007.pdf

statistics tell us about top income and wealth holder. It reveals also that 2% of Germanys wealth is held by the bottom 50%, 60% of Germanys wealth is held by the top decile of the distribution, 23% by the top 1% and 9% by the top 0.1% (p.9).

SOEP authors are now confident that their findings are, in accuracy, close to that of the US SCF survey.¹² Except, of course, information regarding the crucial top 1% and except the fact that nobody really knows whether that, which interviewees reveal, is covered by the truth. (Bach, Beznoska, & et.al., 2013) admit this when lamenting about the inaccuracy of the new valuation procedures regarding real estate as well as business assets. Financial assets are often hidden and protected by banking secrecy. Even worse is if domestic taxpayers hide wealth assets abroad (p.5). Equally and comparably, “it seems unclear if fiscal authorities can actually succeed in fully ascertaining and valuing taxable properties.” (p. 19)

3.5 HFCS & PHF

Here, however, not Wealth Reports shall be mentioned, but a qualitative survey conducted by interviews, the Private Household and Consumption Survey of the European Central Bank and Central Banks of the Eurozone (European Central Bank, 2013) and (German Federal Central Bank, 2016a). It was undertaken in the effort to establish a comparable data basis and criteria with which to compare developments and income among Eurozone households.

They make it easy by just distinguishing three main categories: Real assets, financial assets and liabilities¹³, the category lumping together very different items such as art, cars, businesses and building estate, financial assets being the most complex and differentiated one.¹⁴ The three main categories are sub-divided into 25 sub-categories in order to cover especially income from capital and make it less likely that sources of income and wealth are forgotten (German Federal Central Bank, 2013, p. 27).

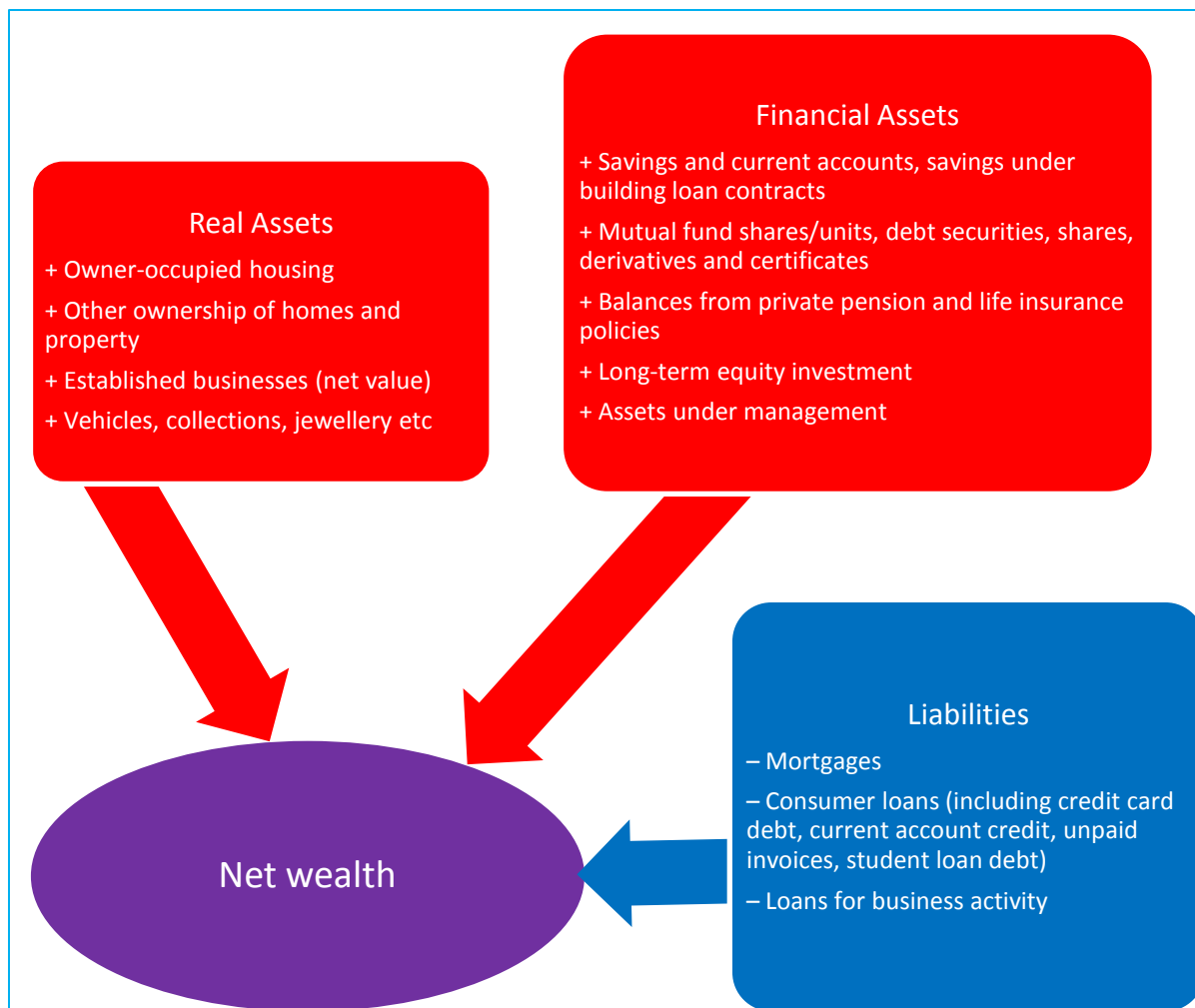
¹² „Das SOEP kann als grundsätzlich repräsentativ für die Bevölkerung in Deutschland bis in etwa zum obersten 1 Prozent der Einkommens- und Vermögensverteilung betrachtet werden.“ (Bach, Houben, & et.al, 2011, p. 33f.) See also Schupp/Frick et.al. in (Druyen, Lauterbach, & Grundmann, 2009)

¹³ See (German Federal Central Bank, 2012, p. 4) (English) and (German Federal Central Bank, 2013, p. 27) (deutsch)

¹⁴ Unter Geldvermögen versteht man in den Wirtschaftswissenschaften nicht nur die Menge an Bargeld und Bankguthaben sondern auch von Wertpapieren und Forderungen abzüglich der Verbindlichkeiten. Bargeld, Bankguthaben und Wertpapiere werden zusammengefasst auch als Zahlungsmittelbestand bezeichnet. Damit ergibt sich für das Geldvermögen folgende Formel:

$$\text{Zahlungsmittelbestand} + \text{Forderungen} - \text{Verbindlichkeiten} = \text{Geldvermögen}.$$

Beispiel: Folgende Werte aus der Bilanz einer Unternehmung genommen: Kasse 5.000€ Bankkonto 30.000€ Forderungen gegenüber Kunden 20.000€ Offene Verbindlichkeiten 40.000€ Wie hoch ist das Geldvermögen?
Antwort: 15.000€ Rechnung 5.000€+ 30.000€+ 20.000€– 40.000€= 15.000€



In 2010/2011, the German Federal Central Bank conducted, parallel to a common project of member states of the Euro Area, the so-called “Private Households and their Finances” survey. In this survey, wealthy households were on purpose represented over-proportionately to the rest of the population, but even here the top 1% (or even smaller percentage) was not adequately covered (German Federal Central Bank, 2013), which lead to the follow up by Vermeulen. A follow-up both with parts of the former participants and some new ones was conducted in 2014 (German Federal Central Bank, 2016a)

Some detailed assessments regarding the categorization and percentages of wealth portfolios in Germany exist from the German Federal Central Bank and other European Central Banks in conjunction with the ECB’s study on Household Finance and Consumption Survey (HFCS) (European Central Bank, 2013) and its follow-up by Vermeulen. Interesting enough, the PHF survey also tried to oversample the wealthy. However, they were not doing this by using income tax data, but by using address data provided by the registration office and street maps and the supposed wealth of people living in that area.¹⁵

¹⁵ Bei der Stichprobenziehung werden dazu kleinere Gemeinden mit weniger als 100 000 Einwohnern auf Basis der Einkommensteuerstatistik in „reiche Gemeinden“ und „sonstige Gemeinden“ aufgeteilt. In Städten mit 100 000 und mehr Einwohnern werden vermögende Straßenabschnitte mithilfe mikro-geografischer Informationen zu Wohnlage und Kaufkraft identifiziert. Der Anteil der Haushalte in der Stichprobe wird schließlich so gewählt, dass Haushalte aus reichen Gemeinden und vermögenden Straßenabschnitten stärker in der Stichprobe vertreten sind, als sie in der Population vorkommen. (German Federal Central Bank, 2016a, p. 63)

They claim to be more detailed than macroeconomic surveys and more tailored to the purpose of surveying in particular the wealthy than the SOEP household surveys. The 25 sub-categories of assets and liabilities, into which the survey inquires and tries to establish the extent of net-wealth (German Federal Central Bank, 2013, p. 27), should ascertain that at least no category is forgotten here – even though it does not guarantee that the interviewee knows about the facts, gives a realistic assessment or is otherwise totally transparent and honest about the facts. The latter points, once more, to a weakness of even this study by the Central Bank: It is based on interviews, self-assessment and the willingness of the interviewee to disclose what he knows and owns.

3.6 Scholarly sociological studies

There are only few standardized sociological surveys of wealthy households,

First of all, the survey “Vermögen in Deutschland“ which is, according to the team conducting it, the first standardized sociological survey conducted among the wealthy, affluent and HNWI (Lauterbach, Druyen, & Grundmann, 2011). The sample comprises 472 households; the selection criterion was a minimum annual income of EUR 200,000 or more, the top category within this sample being an income of EUR 5 million and more. It provides insights into the sociological composition of Germany’s top income and wealth-holder, including observations and hypotheses of its psychological and cultural makeup. However: top wealth holder were rather rare since the top group of this sample started already at the (comparatively low) threshold of EUR 1 million disposable capital, the average of the 122 households within the surveyed group being EUR 5.3 million “only” (Lauterbach, Druyen, & Grundmann, 2011, p. 47).

Second to mention are the studies by Michael Hartmann (see below 11.1) into elites where, as might be guessed, there is an overlap between top wealth holders and other persons in top positions.

Other interesting studies exist by Thomas Druyen and members of his teams, who is specializing on researching the culture of wealth, most particularly guiding values and norms of the super wealthy (see below, 11.4).

3.7 Journalistic sources, Wealth Rankings

Regarding Journalism, first of all publications by investigative journalists are valuable sources of information (Berger, Engelmann, Gastmann, the team of the Süddeutsche Zeitung), which are quoted in various places of this study.

Next, publications in quality magazines are of interest. One category are publications dealing with business and financial elites, such as Harvard Business Journal, Forbes, or the Manager Magazin. Here, some caution is needed for Germany. While it may be true that in some countries the wealthy are eager to reveal public information even about their private life and preferences to Forbes etc., the likelihood is considerable that this is not so much the case with the seriously wealthy in Germany since here it is not really customary to display wealth publicly (see, e.g. (Manager Magazin Sonderheft, 2015, p. 13).

Even the Manager Magazin admits that they use merely publicly known or accessible data for their ranking and the authors doubt that this captures all there is, given the intransparency and secrecy known from German wealth holder (Manager Magazin Reichstenheft, 2016, p. 11). This finds confirmation with other researcher: ‘Typically, many top-wealth households should

have real estate properties and financial portfolios, thus leading to an underestimation of the top wealth concentration' (Bach, Thiemann, & Zucco, 2015, p. 7).

Another case are those whose wealth consist in their own name and fame and who fill the pages of the "Yellow Press", e.g. famous sportsmen or TV-stars. Even though this class of people does not belong to the seriously wealthy in Germany, media reports covering their lifestyle and behaviour are shaping public opinion and perception of the super-rich as a class (Manager Magazin Spezial, 2014, p. 77ff+102ff.). Another category here are members of a "Leisure Class" of wealthy people "just" living off their wealth did not exist to a similar extent as in other western states. Those among the seriously wealthy who had a „playboy life“ and lived off rents and dividends were few and for this reason alone under close public and media scrutiny (e.g. Gunter Sachs). For this study, those publications are of very limited interest.

3.8 Public statements by wealthy persons

In particular the top-wealthy in Germany like the Albrecht, Schwarz, Quandt or Klatten are characterized and known as "shy", "discreet" and "restraint", even though it also might be for other reasons. For example fear and the simple intention to hide the power which those families wield by now in Germany.

Whatever the reasons: The "quietness" of German top wealth holder is internationally known and noticed, as the famous quote from Forbes illustrates that the Albrecht brothers live 'more reclusive than the Yeti.'¹⁶ This does not only impede the establishment of categories and quantities of wealth, but even philanthropy and giving (Kischel, 2009, p. 189). For that reason it is more likely than not, that intentional non-response, selectivity or understatement applies in surveys. For that reasons the hypothesis is given, that, as far as the Forbes or the Manager Magazin ranking are concerned, their authors might not enjoy the comprehensive cooperation of those concerned as it is in other countries, in particular the USA.

There are, of course, some recurring names of top wealth holder participating in public dialogue, e.g. Wolfgang Grupp (Trigema), Peter Krämer (shipowner) or Götz Werner (drugstores), some of them are, however, not/no longer part of the seriously wealthy in Germany.

Informative are investigative books researched by journalists in the "milieu" of top wealth holder, containing quotes from their research and that way offering insight into their thinking. For example: very illustrative and easy (because well-written) reading is Dennis Gastmann's book "Closed Society" (Gastmann, 2014). Gastmann, a journalist, attempted to write a "Wealth Report" by trying to interview a range of super-wealthy individuals and he describes his efforts and "conquests". The book presents a number of representatives of the super-wealthy (possessing EUR 50 million and more). In a similar direction (Friedrichs, 2015) aims for revealing the world of wealthy heirs.

3.9 Private Banking institutions, Bank advisors, Wealth Manager

Not all those being wealthy are personally able to manage their wealth themselves via Family Offices but, at the same time, are too pre-occupied to administrate their assets themselves. For them, Private Banking/Wealth Management is an option: To hire those services requires liquid assets normally beyond EUR 1 million because, clearly, those services also are costly. Those agents know a lot about the composition of assets and recommend best possible

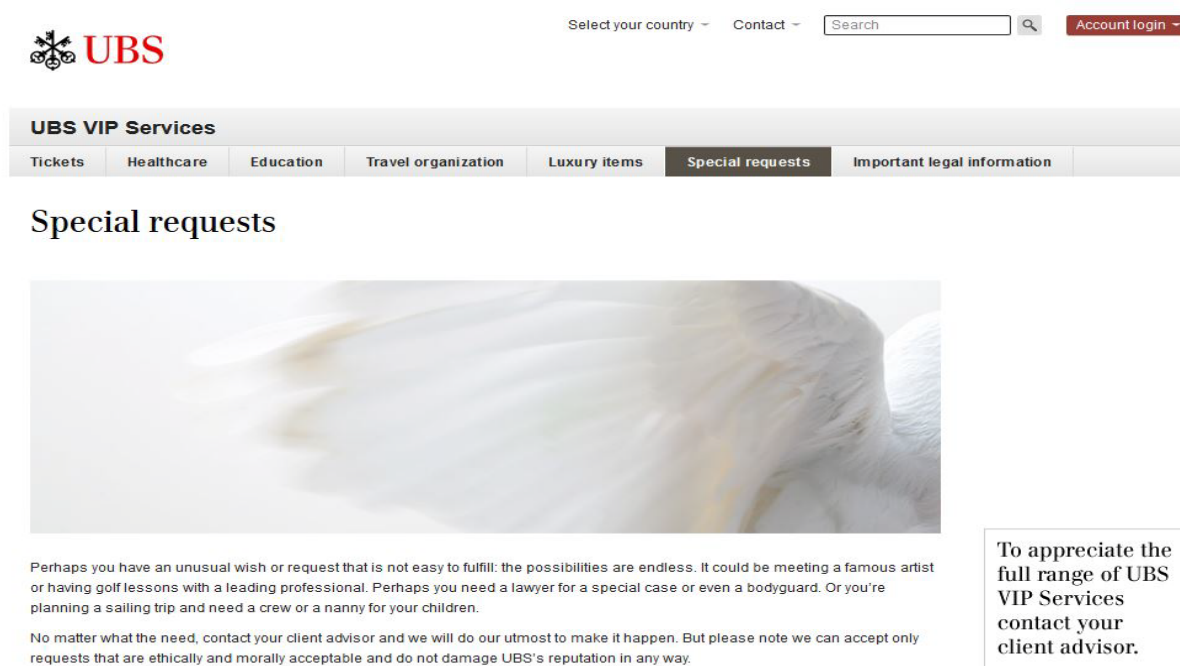
¹⁶ See http://en.wikipedia.org/wiki/Theo_Albrecht

investment strategies both regarding the present, but also the future including the case of inheritance or establishing trusts and foundations. This is no longer restricted to Private Banking, even local banking institutions like local Public Saving Banks (Sparkasse) or Cooperative Banks are involved. And even those banking institutions emphasize the importance to include tax-related issues into planning and investment strategies. (Sparkasse Saarbrücken)

Wealth reports by those banks are not merely about economic-financial analysis and portfolio composition. In order to enable Private Banking and Wealth Manager to do best possible business with this tiny segment of the very well, they also have to include some background research comprising sociological analysis. For that reason, banking institutions such as UBS, Credit Suisse or Wealth-X have own research institutions and data bases.

At the same time there is every reason to believe that indeed banks and wealth asset manager know their clientele best regarding not only the financial situation of the wealthy, but also their private situation. Since top wealth holder also want their bank/wealth manager to be successful, there seems to be a lot of openness on part of wealthy people to cooperate with those research institutions not only by opening accounts for quantitative analyses, but also by cooperating in qualitative research.

And this pays off, as, for example the UBS website offering VIP services to HNWI's shows: somehow the website suggests a great familiarity of the bank with its clientele, if they even offer to organize nannies and bodyguards or entertainment events – only, of course ‘if the requests ethically and morally acceptable and do not damage UBS’s reputation in any way.’



UBS

Select your country ~ Contact ~ Search Account login

UBS VIP Services

Tickets Healthcare Education Travel organization Luxury items **Special requests** Important legal information

Special requests

Perhaps you have an unusual wish or request that is not easy to fulfill: the possibilities are endless. It could be meeting a famous artist or having golf lessons with a leading professional. Perhaps you need a lawyer for a special case or even a bodyguard. Or you're planning a sailing trip and need a crew or a nanny for your children.

No matter what the need, contact your client advisor and we will do our utmost to make it happen. But please note we can accept only requests that are ethically and morally acceptable and do not damage UBS's reputation in any way.

To appreciate the full range of UBS VIP Services contact your client advisor.

Because of this mutual, shared interest between institutions and clients, banks sponsor research either by employing own teams or hiring some.

The UBS sponsored research in family and inheritance issues had an impressive participation of UHNWIs (Hirzel & et.al., 2011), or UBS Investors watch surveys attract the cooperation of over 2,000 people with a net worth of US\$ 1 million and more, see e.g. (UBS, 2014a), (UBS, 2015a) – certainly more impressive than the scholarly research was able to win.

If no own research institution is at hand, banks and wealth manager commission other research institutes to do that work, as has been done by the German Hypo Vereinsbank Wealth Management, which commissioned members of the SINUS-Sociovision Institute to question 58 men and women in 2007, openly aiming for better knowledge of desires and questions of their clientele.¹⁷ This study “Typologie des Erfolgs” is, according to the commissioning institution the first qualitative study into private wealth in Germany (see below 10.1).¹⁸

3.9.1 Databases underlying wealth reports

A major problem of databases underlying wealth reports and related documents published by banks and wealth administrators is that this information is “proprietary” and not publicly accessible and verifiable. Wealth-X/UBS write at the end of their report, on a 1-pager on Methodology:

Wealth-X uses a proprietary valuation model to assess all asset holdings including privately and publicly held businesses and investible assets to develop our Net Worth Valuation. Our team of researchers and analysts has access to an unrivalled, proprietary database of global ultra high net worth (UHNW) individuals that is the largest in existence. Our database highlights their financial profiles, passions and interests, known associates, affiliations, family members, biographies, news and much more. (Wealth-X & UBS, 2014, p. 100)

Ad hoc researches at least offer some basic quantitative insights in underlying interviews, without making that material accessible to other researcher e.g. (Hirzel & et.al., 2011) . (UBS, 2014a), (UBS, 2015a).

This kind of “proprietaryness” and “confidentiality”, in combination with the apparent mutual and shared interest of both UNHWIs and their bank and wealth manager, puts a big question-mark behind published findings and their “objectivity”.

One exception is the Credit Suisse databook, retrievable from the website of the Credit Suisse research institute,¹⁹ which is published separately and parallel to the annual wealth reports and which is accessible also to other researchers. It is of importance since, for example, Oxfam uses it for its annual report on inequality ahead of the Davos Meeting, justifying with it, combined with insights derived from the Forbes Ranking, spectacular conclusions about the global concentration of wealth. So, for example, Oxfam asserted on 18 January 2016, that 62 people are as wealthy as the bottom 50% of humanity. (Oxfam, 2016a)

Against this kind of publication, however, critique is leveled. First of all, Oxfam was already obliged to correct its assertions because Credit Suisse corrected and adjusted its database in 2014 (see I/IV/2.6). And: By just comparing and combining the data contained in the Credit Suisse Database with Forbes Ranking mixes categories which should not be mixed at all: Forbes is a guesstimate of top-wealth by using publicly accessible information, while Credit Suisse tries to calculate global net savings, i.e. savings minus liabilities. Hence, whoever uses credits to finance, e.g., an own house would be poor, even though by any standards nobody would call him that as long as he can serve the credit. The same applies to students living with

¹⁷ Volz, G./Reitinger, W. (2008) Die Wünsche der Wohlhabenden. In: Die bank 2008/2, pp. 30-34. Retrieved <http://www.sinus-institut.de/veroeffentlichungen/downloads/download/die-wuensche-der-wohlhabenden/download-file/75/download-a/download/download-c/Category/>

¹⁸ (Perry, 2007) (Rickens, 2008) (Rickens, 2009) and Press Release Hypo Vereinsbank from 31 October 2007, Retrieved 11 May 2015 from http://www.pressrelations.de/new/standard/result_main.cfm?r=301911&aktion=jour_pm

¹⁹ <https://www.credit-suisse.com/de/en/about-us/research/research-institute.html>

interest of a loan or corporations financing its business operations with credits from capital markets etc.²⁰

3.10 Own contacts to top wealth holder

In the course of this research, three efforts were undertaken to contact top wealth holding individuals and families, all of them were part of the Top 500 Ranking of the Manager Magazine. There were two rounds of contact.

The first one was at the beginning of 2015, asking for a private, confidential interview. Approached were

1. 3 persons from among the top 100 wealth holder to whom personal contacts existed already previously and not related to this research.
2. 9 persons living in and around Nuremberg who appeared among the Manager Magazine top 500 in 2014.
3. A final round of 23 wealth holder within Franconia and beyond were approached ahead of the publication of a book surrounding the taxation of private wealth in March 2016, this time based on the Manager Magazin's 2015 Top 500-ranking.

Of the 35 top wealth approached, 28 did not bother to reply. Three wrote, but refused personal contact while two of them explained at some length in writing how socially and charitably involved they were already. Two respondents were positive: One participated in a public event,²¹ the second was ready to be interviewed anonymously.

There were other contacts to HNWI's, i.e. persons with less income and wealth but still within the category of being "millionaires".

3.11 Other sources of information

Last not least, there are movies, e.g. film "Born Rich" by Jamie Johnson²², portraits such as the one on Howard Hughes ("Aviator"; starring Leonardo di Caprio) or fictitious portraits such as the one of Gordon Gecko ("Wall Street", starring Michael Douglas)...

3.12 Conclusion

Naturally, all of the above mentioned literature was helpful and informative.

Most interesting were, however, publications from category 3.9 and, linked to that, 3.5 and finally also to Wealth Rankings, in spite of Piketty's pessimism towards those sources: The reason was simply the assumption that wealthy people are more likely to open up towards microphones coming towards them from that direction, especially, if they expect personal benefits from that such as financial advice tailored to their situation.

Helpful in interpreting and applying information were contacts to people working as wealth manager, tax advisors and private banker, therefore knowledgeable about this clientele.

Those publications are, however, not unproblematic and not to be taken at faces' value:

²⁰ Brinkmann, B. (2016, January 19) Besitzen 62 Menschen wirklich so viel Vermögen wie die halbe Welt? In: Süddeutsche Zeitung. Retrieved from <http://www.sueddeutsche.de/wirtschaft/ungleichheit-besitzen-menschen-wirklich-so-viel-vermoe-gen-wie-die-halbe-welt-1.2822839>

²¹ <http://www.onetz.de/bayern-r/politik-by/jesuiten-treiben-projekt-zum-thema-steuergerechtigkeit-und-armut-voran-gegen-ungleichheit-anstinken-d1665513.html>

²² http://en.wikipedia.org/wiki/Born_Rich_%28film%29,

First, data bases underlying Wealth Reports have the deficit that those data bases are not publicly accessible/transparent outside the database owner and that methods lack the methodological transparency and rigorous verifiability which is normally attached to scholarly debate.

Second, Wealth Reports are at times overlapping, at times diverging from the previously mentioned approaches.

- Credit Suisse findings, for example, ‘are broadly in line with the SCF evidence, although our estimate of the share of the top percentile is significantly higher than the SCF figure, reflecting the fact that we take account of the billionaires’ (Credit Suisse, 2014, p. 30).
- Both the Wealth-X UBS Report and the HFCS emphasize the importance of financial and business assets held both in private and public companies, either self managed or managed by Family Offices, for the portfolio of the top wealthy. But there are also differences. The HFCS report perceives a higher value and importance of real estate and real property for the wealth portfolio than the Wealth Report does.

The very best is, of course, the combination of insights originating from several sources, as is also done by SOEP and Manager Magazin Ranking.

The previous and current developments (see below 12.7) indicate, however, that the very wealthy are yet again not covered and caught by all that since they are, because of the amount of assets, capable to manage their affairs via their own Family Offices and are, therefore, able to erect one more “barrier of discretion” between themselves and the rest of society.

4 Classic categorization of the wealthy

Clearly, each individual is different and this also applies to the top wealth holder. But there are established and/or popular categorizations, one example for a more “classic” one, and one example for a more modern one:

4.1 *Old money – new money*

The most well-known distinction is between old and new, self-made money²³, referring in the former case to wealth which had been generated, accumulated and passed on over centuries within certain families, most importantly nobility. Of the so-called “Industrial Barons”, the median year of origin of large family businesses lies in the 1930s. On that background, the (Universität St. Gallen, 2014a) study divides old money into the first three generations following the “founder”, while new money are the present and previous generation of family enterprises (p. 13f.).

To make things more complex: some would even add the first generation of post-World War II entrepreneurs among “old money”: Here, they argue, is a specific mindset at work which is shaped by both the World War and perhaps a personal experience as refugee. A typical example is Mr. Würth, who is also portrayed by Gastmann: He and his generation are very much tempted to have some assets hidden in safe places just to have a fallback position in

²³ See, e.g., Grundmann (2009) for example distinguishes between “old money” and “new money” and here again between “moral wealth”, “modest wealth”, “performing wealth” and “extrovert wealth”, the former being more inclined towards charity and social engagement than the latter. (p.206f.).

case history would repeat itself. Here their heirs would not share those attitudes, but rather attempt to bring things into the open and regularize them. Gastmann and other conversation partner see here a distinct difference to young entrepreneurs who are well into business and extremely successful, they do not like to bother about tax issues and tax inspectors. For that, they employ tax consultants whose task is to make sure that they pay as little as possible (using therefore also aggressive tax planning) but then they would pay and get it out of the way.

4.2 Self-made – inherited; earned – unearned wealth (married)

A very important distinction regarding the attitude towards wealth and the responsibilities arising from it is whether a person worked for its wealth him-/herself or whether inheritance plays a large role. The share of the latter is particularly large in Germany, and this topic will also play an important role when discussing consequences for the Inheritance and Gift Tax and/or the willingness to consider contributions besides taxation towards the wider society.

A similar distinction is the one between earned wealth and unearned wealth. Obviously there are among wealthy people some who, even though they inherited their wealth, work incredibly hard, many hours, sacrificing their (family and private) life to businesses and employees. Their wealth is not entirely self-made, but they, too, take a lot of risks and exercise responsibility for the common good. Clearly, those people's efforts are commendable and here income and wealth certainly and deservedly needs to be balanced with their performance.

Different from those is the “spoilt heir” or wife, who receives a lot of money without doing anything personally for it: They inherit money or enter into it via marriage, they earn interest from capital or real estate and rent, they employ Family Offices or banking specialists, they do not exercise day-to-day responsibility for a business as CEO, but at most attend Board Meetings every now and again. Here, clearly, other forms of taxation are justifiable because this has nothing in common with the principle and ability to perform.

4.3 Chance and self-branded wealth

In this category are those who gain wealth e.g. by winning a lottery or being successful in a Casino. Experience shows, however, that a large majority of those are unable to wisely manage their gains (Druyen, 2007, p. 15f.).

More known and certainly most popular are the wealthy among the prominent and famous: Sportsmen, artists, musicians etc., people whose wealth is part of their name-brand. They need to be constantly in the headline for the simple reason to keep and increase their wealth. Even if the sportsman is getting older, he needs to be talked about, e.g. as author or actor so that perhaps businesses still consider him for their own commercials.

4.4 Illicit or criminal wealth

Finally one has to be aware that there are a number of large fortunes which arose from and are multiplied in dubious and criminal contexts, some of them perhaps are only “sanitized” by the behavior of present wealth holder. Other fortunes are still owned by criminals, e.g. oligarchs or criminal wealth holder, Columbian drug dealer Pablo Escobar, who made it once on place 7 of the Forbes List of the Worlds Wealth-Holder, just being one prominent example (Druyen, 2007, p. 42).

Clearly, every great fortune may have a composite nature, for example, if part of it arises from shares in businesses which operate in the grey area of the licit and illicit and clever tax lawyer

try to minimize the payment of taxes and customs duties in order to increase profits of shareholder and owner of businesses by practicing, e.g., trade mispricing. The “composite nature” became apparent whenever somebody leaked secret data to the public, e.g. Offshore Leaks, Swiss-Leaks or the Panama Papers. All of them illustrate how close private, corporate and criminal wealth is together, e.g. by the fact that both Interpol’s Most Wanted Criminals and the president of an important Interpol foundation had accounts at the HSBC bank, apart from the fact that tax evasion, in whatever form, IS defined to be a criminal act, never mind who committed it for whatever reason (see GER/VII)!

4.5 Conclusion

Classic distinctions are of limited value. For example, regarding the relationship between old money and new money in a multigenerational business dynasty (4.1, 9.5). But there is, confirmed in many conversations, consolidating evidence that there are differences between self-made money and inherited or “married” money - it reflects, for example, in the willingness to pay taxes or donate or set up charitable foundations. Equally it is noteworthy that apparently “old money”, if well administered, indeed persists through generations and rather increases its influence than not, as will be shown in the next chapter (Manager Magazin Reichstenheft, 2016, p. 62ff.)

One might also ask why illicit and criminal wealth is included in this listing. First, because it exists. Second, one may rightly ask whether it is possible at all, and if yes, to what degree, to accumulate and preserve great wealth merely with honest, hard work and entirely without morally and ethically questionable practices and features, as also has been illustrated in the chapter on the origin and background of large fortunes in Germany.

5 Context for large fortunes in Germany & Bavaria

But why is Germany, as the Wealth-X/UBS Report puts it, ‘home to some of the region’s oldest’ fortunes (2014, p. 49), some of them being among the world’s largest? After all: Germany suffered utter defeat in two world wars, a devastating inflation in 1929 and a currency reform after World War II. The latter was, by the way, a very egalitarian event: on 20 June 1948, each “natural person” received 40 DM cash only to start with (one month later 20 DM cash were added) and every business received 60 DM for each of its employees. Very different from the US, UK, France, Italy or Spain, where the elite had more continuity to accumulate their fortunes...

5.1 Historically

On that background, Bernt Engelmann’s book “Das Reich zerfiel, die Reichen blieben” (1972) is a very instructive reading to start with. In this book he examines (West) Germany’s top 500 wealth holding families. He demonstrates how large parts of Germany’s top income and wealth elite has roots reaching centuries back (as far as the nobility is concerned) or, when including industrialists and entrepreneurs, at least to the First Empire under Bismarck and Wilhelm I and that at least 300 of those “long-distant” top wealth-holders are still determining what is going on in the (then) Federal Republic of the 1970s.

When looking at Germany’s top wealthy among the nobility, there are, of course, a variety of “carriers”, but most of them are wealthy until the present day due to their possession of real estate and, accordingly, real property. They gained this either by faithful service to kings and emperors, or by semi-legal, illegal or even criminal proceeding, e.g. those who grabbed their possession in a more bloody way by disownment, exploitation, war, extra-legal killing and conquest – everything being, of course, in the context of that which was widespread and

accepted custom in those days. It is, for example, rarely known outside Germany that German Princes were engaged in trafficking of human beings and earned their fortune with that. For example the Prince-Elector of Hessen or the ruler of Wuerttemberg sold their young men at good profit to the British and others as soldiers, to fight, among others against the revolutionaries in the United States (pp. 185ff. + 264ff).

Another group of individuals and families reaching back hundreds of years was earning its wealth by excelling as tradesmen, merchants and entrepreneurs. The most well-known are probably the Fuggers (on whose finance the politics of Emperor Charles V depended) or the Thurn and Taxis, which gained their wealth by obtaining the postal monopoly for the German Empire. Here, too, stories betray also darker sides of those unparalleled success stories: Jakob Fugger, for example, was known for his excellent network of informants (today we would call it economic espionage), participated in the pope's trade with indulgences (and thus attracted the fury of Martin Luther) and was even on his deathbed mindful of recalling a debt of 800 Gulden from one of his longest serving employee (Manger Magazin Spezial, 2014, p. 88ff.). Or: the Thurn and Taxis did not only exploit the postal monopoly, they also broke the postal secret in the attempt to obtain privileged information useful for business (p. 64).

Eventually, of course, nobility and entrepreneurship mingled since successful entrepreneurs could be knighted – either on grounds of their merit or on grounds of substantial “donations” to the respective ruler of the many German principalities before the First Empire. Here, too, some not-to-nice stories need to be told. For example, the size and profitability of many businesses were built upon slaves, like exploitation of human labour and the absent need to take care of environmental protection which resulted in widespread sickness of labourers and their families living in the neighbourhood of factories. But here, too, everything was done in the context of that which was widespread and accepted custom in those days. There were exceptions to the rule, of course, a famous one being Robert Bosch who admitted the memorable sentence: I am not paying good wages because I have much money. I have much money because I pay good wages.²⁴

Engelmann points to the fact, that, not surprisingly, those who were influential in the time of the Prussian or Bavarian kingdom already, were also among those who wielded influence and power in the united Germany of the First Empire. By referring to name lists of chambers of the Prussian and Bavarian parliaments and “Yearbooks of Millionaires”, which were published in the kingdom of Bavaria, he demonstrates that there was a surprising coincidence among noble names and millionaires. Engelmanns findings were updated as recently as 2016 in the Manager Magazin's article “Geld, Adel, Vaterland”, illustrating a stunning overlapping between the first Millionaires Ranking 1913 and present top-wealth holder - both individuals and families (Manager Magazin Reichstenheft, 2016, p. 62ff.).

Since for this study Bavaria is of particular importance, some more details here (pp. 39ff.). Engelmann puts an particular focus upon the composition of the second chamber of the Kingdom of Bavaria, the Imperial Council of the Crown (Reichsrat der Krone), whose 88 members were not elected as was the case in the (first) chamber of deputies, but either members by birth (such as the members of the ruling family, the Wittelsbacher) by office (some clerics), appointed or elected in a way that their seat was pretty much secured. The last list of members from this chamber originates in the year 1913, the year preceding World War I. Engelmann now examines this list name by name and demonstrates and explains how

²⁴ "Ich zahle nicht gute Löhne, weil ich viel Geld habe, sondern ich habe viel Geld, weil ich gute Löhne bezahle." Aus: „Robert Bosch. Unter Mitwirkung von Theodor Bäuerle, Peter Bruckmann, Johannes Fischer, Hans Kneher, Otto Mezger“; 1931, S. 14

almost all of those 88 members were able to pass on and increase their accumulated wealth until the present day. One of the secrets (and the foundation) of this miraculous preservation of wealth Engelmann sees in the extensive possession of real estate and real property – invaluable for the continuity of wealth, as are business assets with whose possession it is easy to bounce back to business even after utter destruction.

Who talks about Bavaria has also to talk about the rise of a certain Adolf Hitler, who started his agitation in Munich long before his name became world famous. Even in his early days Hitler had supporters among those elites who resented the defeat of the German empire and the increasing “destruction” of Germany by socialists and other suspicious groups. Hitler’s message of giving Germany back his earlier power and standing was attractive for nobles, (former) militaries and entrepreneurs who suffered under high taxation, war reparation and export problems due to hyper inflation. In the beginning, those old elites thought that they can contain and use Hitler and his party for their purposes, in the end it was totally the other way round – to mutual benefit: including the exploitation of forced labour or prisoners in concentration camps (pp. 152ff.).

Some eminent allies both in wealth and continuing influence to be mentioned here are Baron von Finck or Harald Quandt and their families. Descendents of both are top wealth holder in Bavaria until the present day, the descendents of Quandt being even today’s leader of the German wealth hierarchy, as proven by the title story of the 2014 ranking of the Manager Magazin “Die Quandts”. In Bavaria, Engelmann argues, the real wielder of power are nowadays (nearly) the same as in 1913, also because there is a very large overlapping between nobility, economic and other elites with the conservative CSU, one of the longest ruling party in one state in the whole of Germany (p. 70ff.).

What Engelmann demonstrates for Bavaria, applies by and large also to Germany at large, even though Bavaria has the (rare) privilege of a territorial entity which underwent no major change for centuries. All other states in Germany, except the city states of Bremen and Hamburg (where a comparable collusion among its elites exists), are artificial compositions after the German defeat in World War II. A particular shakeup was suffered by people living in East Germany, enduring 40 years of communism. But even there, most top wealth holder tried to escape from the Red Army in time to the western parts, where they continued their management and accumulation of fortunes under the protection in particular of the American occupation force: When after the war the old Christian Democratic Party discussed their so-called Ahlener Program, they also pointed to the collusion of the economical-financial-capitalist elite and the Nazis, stating that the capitalist economic system did not live up to the public and social interests of the German nation. By “supporting” Konrad Adenauer to become first German Chancellor, those “subversive” tendencies disappeared fast. One reason being, perhaps, that Konrad Adenauer was closely connected with the Werhahn Family, also one of Germany’s top influential wealth holding families.²⁵

Hence, with the help of some friends it is not surprising that wealth could be preserved. And coming back to one of the most egalitarian reforms in Germany, the currency reform 1948: besides the 60 DM cash for each “natural person”, accounts held in Reichsmark were eventually converted into the new currency later and the entire reform did not touch the possession of real estate and property, shares and other business assets or storage facilities.²⁶

²⁵ For this see also (Berger, 2014)

²⁶ pp. 305ff. See also [http://de.wikipedia.org/wiki/Währungsreform_1948_\(Westdeutschland\)](http://de.wikipedia.org/wiki/Währungsreform_1948_(Westdeutschland))

One final point regarding wealth which had been acquired during the Nazi-Time: Some had to face investigative commissions and paid reparation, e.g. the Quandt family. But: Even then, after the Third Reich, they stack up against the time before and overall, the Third Reich was profitable for them – which justifies very much demands to pay taxes once more regarding that which they own now.

5.2 More recently

Looking at top wealth holder in the younger German history, here, too, stories can be told which explain the accumulation of wealth but also explain why, under which condition and on whose expense it was possible. The book of Jens Berger (2014) contains a number of analyses and stories from more recent times.

A traditional classic of German business is the production of arms and weaponry. In spite of Germany's history of blood and defeat, deals with death are still lucrative and a constant topic of discussion within the German public: Can the export of weaponry (or dual use goods) in areas of conflict and tension be legitimized or not? Independently from answering this question, both employers and trade unions point to the fact that there are not only profits, but also jobs at stake and so there are still the big names in business like Krauss-Maffei, Wegmann or Diehl in Bavaria.²⁷

Next there are companies getting wealthy by (among other things) paying low wages to their employees, some even obstructing the activities of trade unions. Here business names such as Aldi, Lidl, Netto, Wiesenhof or personal names like Albrecht, Schwarz, Haub, Walter Droege/Hedda im Brahm Droege, Bernhard große Broermann are mentioned and discussed (Berger, 2014).

Others even find ways of not just paying dumping wages to Germans, but employing non-Germans instead, paying them wages in accordance of their home countries, but at the same time charging them German prices for their living expenses such as accommodation and food. Here scandals can be listed in the agrobusiness, meat packing and transportation industry. One ill-famous example being the south German Willi Betz company whose owner was even sentenced to prison and fines because of his doings (Berger, 2014) – which resulted in his move away to Switzerland.

Wherever human labour is employed, plenty of opportunities arise to lower wages and increase profits – also in corporate businesses. The German Mail, for example, a former state enterprise, is under criticism because 18% of its employees are temporary labourer and accordingly employed under payment and working conditions which are worse than those of regular employed staff. The trick is that the temporary employment is extended again and again and not transferred into regular employment.²⁸

Or: No large construction company works without subcontractors, but subcontracting chains are a probate means to employ temporary, precarious or even illegal labour. The trick: The

²⁷ See (Engelmann, 1972), (Berger, 2014), (Schlötterer, 2010) (Schlötterer, 2013)

²⁸ „Die Deutsche Post AG nutzt das Teilzeit- und Befristungsgesetz in skandalöser Weise aus. Es werden Arbeitsverträge für zwei Jahre vergeben, danach folgen weitere kurzfristige Verträge“, sagte die stellvertretende ver.di-Vorsitzende Andrea Kocsis auf einer Kundgebung vor rund 600 Betriebsräten der Deutschen Post AG in Ulm. Inzwischen hätten rund 24.000 Beschäftigte des Unternehmens befristete Arbeitsverträge. Dies entspreche einem Anteil von 18 Prozent der insgesamt rund 131.000 Beschäftigten im Produktivbereich des Unternehmens.‘ Trade union ver.di, Press Release 2014, November 13. Retrieved from <https://psl.verdi.de/presse/pressemitteilungen/++co++253e1184-6b33-11e4-a28e-525400248a66>

sub-contractor receives the proper wage and social security contribution hands it down the chain until the last in place receives some Euro only (if at all) while at each stage of the chain some of the money “sticks”.

Labour intensive industries, incorporate or unincorporated, profit from the labour market reforms undertaken under the pressure of neoliberal deregulation depicted in more detail in I/IV/2.1.5 and GER/IE. Facilitated by domestic reforms and in some areas, especially construction, organized agro-business or home-care chains, the need of migrants from poor countries, offshore-conditions regarding wage and labour laws were created in-country and high profits can be reaped by regular and not so regular employer. It is also here, where most problems related with the Informal Economy are located and the evasion of taxes and SSCs going along with it.²⁹

Other companies increase their profit margin by outsourcing production to low wage countries, exploiting labour under inhumane conditions. Here Berger examines KiK and his owner, family Haub. Likewise one might also wonder why other important names are missing in the Textilsiegel-Initiative of the German Minister for Development, e.g. C&A (owned by the Brenninkmeier family) and others. Clearly, the argument that the standards of the Textilsiegel are lower than the ones which are applied within the own company is a bad excuse. It should rather make it easy to give an encouraging joint signal to the public. Producing without regard to environmental concerns or animal rights is widespread in the chicken and meat industry. Here Berger reports cases from Tönnies and PHW Wiesenhof. Entirely in tune with neoliberal developments, but still using some suspicious business and employment practices, people grow rich by offering private insurance against health risks or retirement provisions (DVAG and AWD), others profit from the privatization of formerly public health services by paying dumping wages (Asklepios)

Not mentioned by Berger, but arising in the context of this research are more areas of morally dubious dealings:

- Firstly, the practice of advancing business by bribing civil servants of foreign states all over the world in order to obtain orders (see examples in GER/VII/5.4 and GER/IX)
- Secondly, the advancing of landgrabbing and speculation with “Agricultural Commodities” by investing in real estate and agricultural assets not so much directly, but by using investment funds.³⁰
- Fraud committed with CO₂ certificates or the Cum-Ex scandal and other illicit practices presented in GER/VII/1.8.2)

5.3 The churches

It would be dishonest to not also mention wealth and privileges of German churches at this stage. That there is need to discuss issues was known even before the scandals surrounding the Limburg bishop Tebartz van-Elst made the separation known between the church-tax funded public budget of churches and those rather intransparent possessions which were accumulated under the term “bishops-chair” and therefore management of (changing) bishop and their discreet advisors.

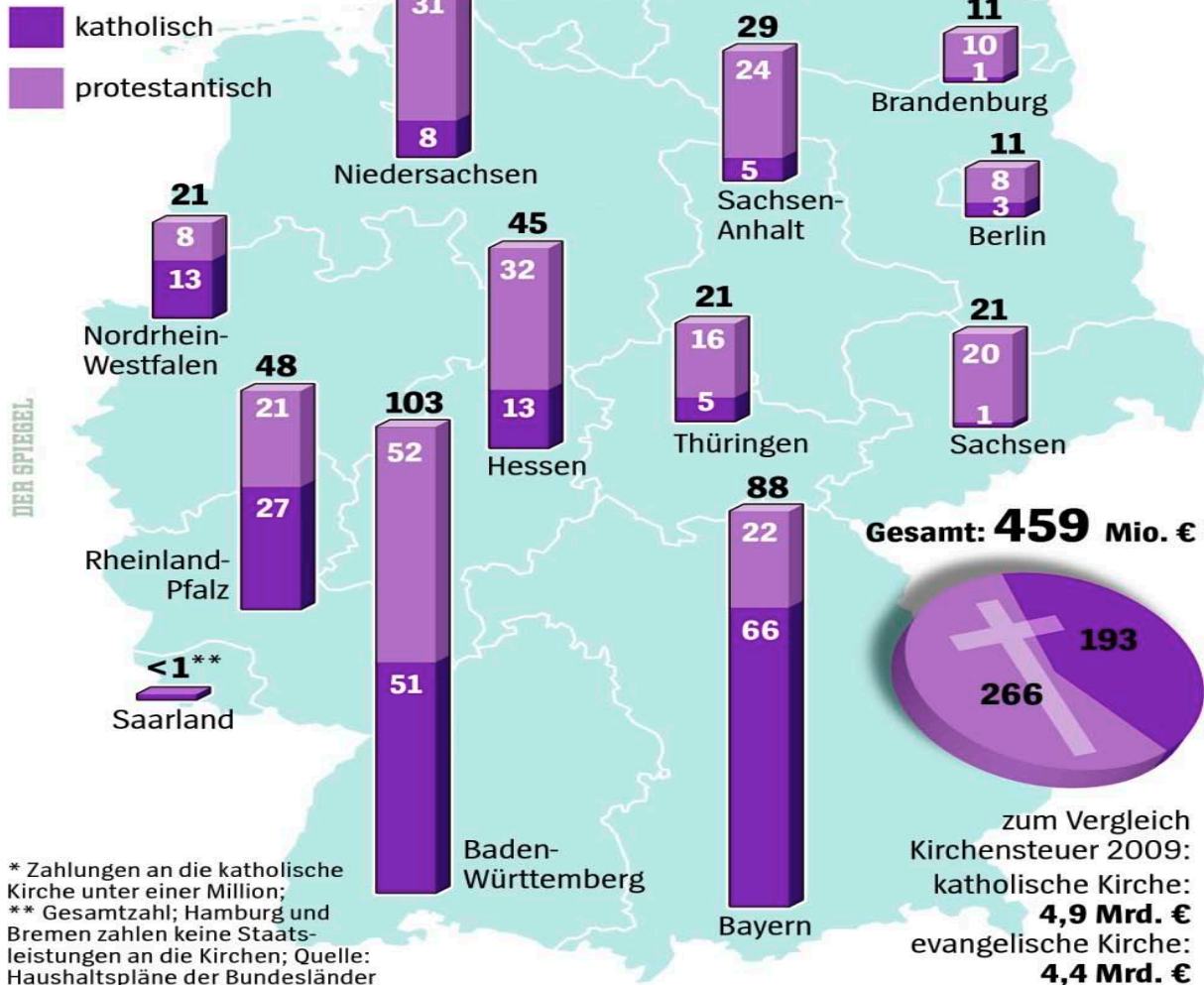
²⁹ As has been researched in earlier publications, e.g. Alt, J. (1999) *Illegal in Deutschland*. Karlsruhe: von Loeper. And: Alt, J. (2003) *Leben in der Schattenwelt*. Karlsruhe: von Loeper.

³⁰ The engagement of German banks in “Agrarrohstoffe” is not yet entirely resolved, at least the Deutsche Bank still offers investment opportunities. Regarding the importance of investment into real estate in the effort to “diversify” wealth portfolios, an interesting article is “Meins!” in (Manager Magazin Spezial, 2014, p. 96ff.).

In addition, payments became widely known under the name *Staatsleistungen*, i.e. regular annual payments from the states to churches compensating for the confiscation of church property during the “secularization” period hundreds of years ago –most of all in Bavaria:

Direkt ins Säckel

Sogenannte Staatsleistungen an die Kirchen 2010, in Millionen Euro



Equally contested are currently specific privileges of churches regarding the employment of people in own institutions, e.g. administration or charitable institutions such as hospitals or nurseries. Here strive is increasing between trade unions and churches because the church can employ people at cheaper conditions than those organized by trade unions and tariffs bargained by organized labour in the same sectors of employments. Since many church-run operations involve the employment of a lot of personnel, they can undercut competitors paying tariff-wages when it comes to who gets the job. Beyond payment issues there are reports of exploitative and sub-humane working conditions and the violation of labour laws. Here, therefore, are similarities between the churches and those more “market-economically” orientated businesses who unite in fighting organized labour and regular, tariff based payment. An additional problem is the historical privilege of the churches to run their operations according to their code of norms and values, i.e. that they have the privilege to dismiss people not only if they are unhappy with their performance, but if their lifestyle or belief system contradicts the system of values of its church employer.

One should, finally, be mindful of tax privileges which the church enjoys being a Körperschaft des Öffentlichen Rechts or many church organizations because they are recognized to be charitable businesses. A major tax privilege in that is touching real estate and real property, of which the Church and its sub-organizations is one of the largest owner in Germany.

In the areas of Staatsleistungen and the employment conditions both the discussion outside and inside the church is increasing to put those privileges at the test. Regarding the former, an increasing number is working towards a termination of these payments. Regarding the latter, the two following developments are worth mentioning:

- Pope Francis with his famous statement “Who am I to judge” opened the way to a more humane treatment of homosexual or divorced people in the church and certainly wants to extend this attitude to the treatment of people working for church institutions.
- Those operating church institutions increasingly sideline with trade unions, asking to abandon the employment privileges of churches and rather join those giving a good example regarding payment and employment conditions.³¹

The church is much quieter regarding its asset ownership, whose disclosure, so far, is voluntary and where transparency is not enforced by insider or outside pressure. The church is even quieter regarding tax privileges.

5.4 Conclusion

The preceding discussion elaborates that not all of today’s existing wealth has been accumulated by virtue and hard work. Balzac coined a phrase which might apply here ‘The secret of a great fortune made without apparent cause is soon forgotten, if the crime is committed in a respectable way.’³²

A good share of German fortunes has some very dark roots reaching back into the distant and more recent history. Some examples taken from (Engelmann, 1972):

- The plundering of Brandenburg by baron Kolbe of Wartenberg and others by utilizing and manipulating a weak ruler (23ff.).
- The wealth of Thurn and Taxis, amongst others through breaking of the secrecy of the post (64).
- That of Waldburg-Zeils through brutal combat and illegal torture and killing of opponents against the state (70f.).
- Exploitation of the Württemberger through excessive tax demand, break of promises to the classes, sale of subjects as soldiers to others (185ff.).
- Soldier slave trading of Hessian electors made them amongst the richest aristocrats in Europe (264ff.).
- Exhaustion of Silesian weavers through the family Dierig (112ff.).

³¹ For example Sr. Maria Basina Kloos, executive manageress of the hospitals and care institutions operated by the Waldbreitbacher Franziskanerinnen and employer of 20,000 employees, in a contribution towards the German Bishops deliberations to reform church labour law. Unter Handlungsdruck (2014, November 26). In: Katholisch.de. Retrieved from

http://www.katholisch.de/de/katholisch/themen/kirche_2/141126_ordensfrau_managerin_arbeitsrecht.php

³² Original: Le secret des grandes fortunes sans cause apparente est un crime oublié, parce qu’il a été proprement fait. Gewöhnlich wird zweite Hälfte weggelassen oder anders übersetzt: The secret of great fortunes without apparent cause is a crime forgotten, for it was properly done’. See

<http://quoteinvestigator.com/2013/09/09/fortune-crime/> (retrieved 2 May 2016) Balzacs aus Kapitel 5 von „Vater Goriot“ wird hier für mehr Offenheit und Transparenz geworben: ‚Das Geheimnis der großen Vermögen, deren Entstehung unbekannt ist, ist irgendein Verbrechen, das man vergessen hat, weil es geschickt begangen wurde.‘ Retrieved from <http://gutenberg.spiegel.de/buch/vater-goriot-6295/5>

- That of Fincks through capitalizing on emergencies which were in part created through the Nazis (81ff.).
- Cheating through the sleaze of mighty and the CSU after World War II (70 and GER/Via).

All something of the past? Not at all, the mentality underlying it is very much alive: If one reads, for example some leading economic journals such as the “Manager Magazin”, allegedly providing information about Germany’s economy “at first hand”, depicting and treating those top wealth holder nowadays. Very popular is the use of metaphoric images linking up present elites with past ones: Owner of businesses and corporations are depicted as “Captains” steering their ships in “total command” through troubled waters, “Leaders without restriction” ruling their possession, who “fight with” “combat” each other and “defend their property” against “hostile advances” etc. If one would change the background a bit one could feel oneself to be transferred back into times of the discovery of uncharted continents, empire building and war for life and death – even though it is readily admitted that probably quite a number of those being presented would resent such a language.

Clearly, even those who accumulated large wealth in the distant or more recent past very often acted in a manner which, judged from today, is clearly immoral and unethical and yet it can be excused with the phrase that those people did not act differently from others, but just were more ruthless, lucky or skillful than others. And here, again, is a parallel to today:

The tension between that which is widespread and accepted custom today (or even “Sachzwang”) as motivation or excuse for action and moral and ethics is even valid today.

- ➔ What was selling of farmers in early days is slave labour and minimum wages today, while colonial exploitation exists even now in new disguises but, perhaps, to an even larger extent.
- ➔ Needless to say that the payment of taxes was a problem in earlier times as it is today, given all the illicit and illegal tax avoidance and evasion options,
- ➔ if not outright favours or exemptions acquired by bribery, lobbyism and elitist entanglement.

This certainly might justify the question whether some repayment would be in order for compensation. For example: Since it is true that some paid compensation for crimes committed under the Nazis, there is not too much to be said regarding compensation of exploitation of or causing environmental damage in. Or, when coming to tax related crime, to increase punishment to reflect more adequately the damage inflicted upon the community.

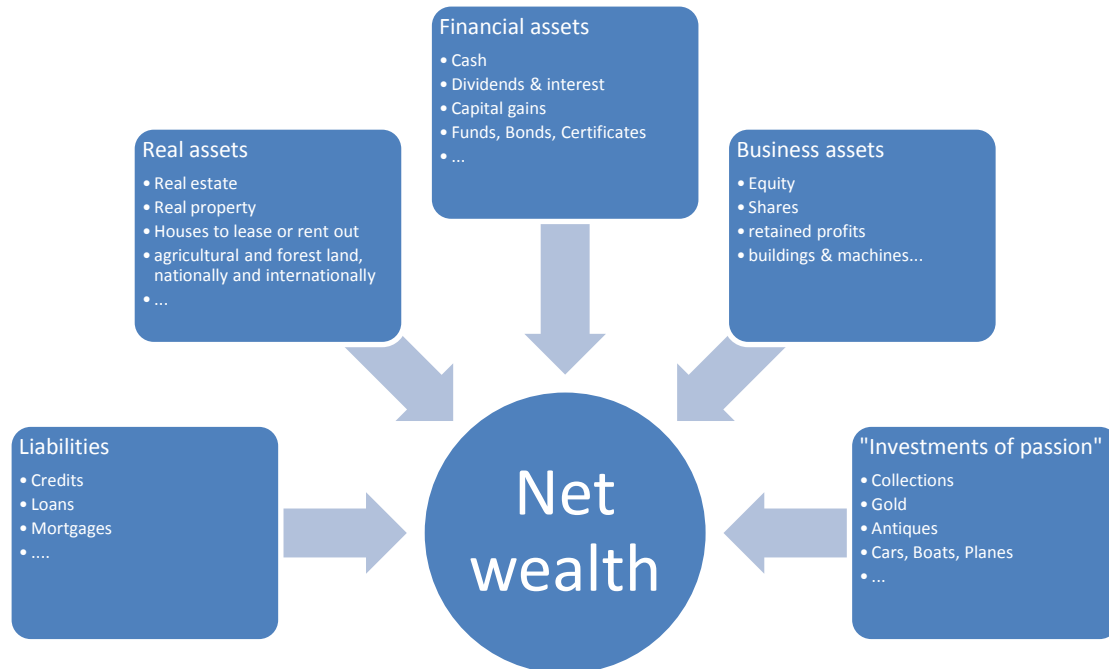
Saying this it is important to emphasize that not all wealth in ancient and recent history has been accumulated on grounds of power games and trickery. And: what has been said does also not judge the moral and ethical commitment of those being in charge of those large fortunes today. Each case deserves examination and treatment at its own merits.

6 Categorizing wealth, wealthiness & wealthability

One of the most discussed books on wealth right now is probably Thomas Piketty’s “Capital in the 20th Century” (Piketty, 2014a). One problem with Piketty is, however, that he has a very wide understanding of “capital”: He defines “capital”, to (first) exclude that which is commonly meant by “human capital”, and to include ‘all forms of real property (including residential real estate) as well as financial and professional capital (plants, infrastructure, machinery, patents, and so on) used by firms and government agencies’ (p. 46). Thus defined,

he uses the terms “capital” and “wealth” interchangeably (p. 47). Piketty included private wealth kept in businesses and foundations into his overall calculation of “private wealth”.³³

For those and other reasons and for the sake of clarity, for this research the following categorization of wealth will be applied for this study:



There is no disagreement with the inclusion of “liabilities” into the analysis of net wealth. Besides that, the following categories are dealt with separately:

- Real assets, because it seems as if those possessions are the safest guarantees of wealth during the centuries, surviving all sorts of crises, securing and preserving the owners dominant status within society. To this correspond questions of how to tax real property. Here is also an ethical problem, namely to what extent real assets can be legitimately owned beyond own, personal use by some in principle, since soil is, as air and water, one of those goods belonging to all.
- Business assets are often contained within financial assets and indeed: In a “financialized” global economy this distinction is blurred. This research wants to emphasize, however, the important distinction between assets which create and sustain jobs and assets serving primarily rent-seeking. Taxing business assets correctly is the most complex issue of taxation since it concerns crosscutting issues of taxation regarding turnover tax, financial assets, real property and the differences between assets owned privately or by the business, the latter enjoying lower taxation due to the priority of jobs.
- Financial assets are distinguished from business assets and refers primarily to those products of the financial industry serving rent-seeking activities, derivatives building on the two former categories (Real Property Funds, Shares, Options...) included. While money is certainly important, the excesses of the financial industry, their products and the instability caused by that industry within the global financial system justifies a specific treatment separated from business assets. Here questions of the taxation of income from capital and capital gains apply.

³³ For businesses see (Piketty, 2014a, p. 176), for foundations see p. 182.

- Some wealth reports label certain segments of consumption “Investment of passion”. And indeed: This area is often outside the view of the public or tax authorities, even though large amounts of money are spent here, also for the sheer increase in value and profit. Doing this, even Offshore Constructions are used to conceal ownership (see GER/VII/5.7). This area might be of importance when discussing sense or nonsense of a specific consumption tax for those goods.

A helpful distinction is the one pointed out by Lauterbach, Druyen and their teams: Normally, wealth is only considered and discussed in financial and “lifestyle” terms as far as it is reported in the media, ranking reports or the yellow press. Diverging from that, Lauterbach and Druyen argue that “wealth” needs to be discussed in two sub-categories: “wealthiness” (Reichtum) and “wealthability”, while this research prefers “wealthability”, namely the combined term from “wealth” and “ability”, coming close to that which the German word “*Vermögen*” signifies: “Wealthiness” in this case is the economical/financial aspect of possession, while “wealthability” also includes cultural, social and educational capital and resulting “networks”, which enable somebody to have both a privileged life and an impact upon society, which, depending on the values and “culture” of the owner, may be beneficial, questionable or damaging. In the context of the latter, the “merely” economical/financial aspect is, however, of importance since he gives “clout” to the other forms of “capital.” Many of those who at the surface rich, beautiful and famous, so Druyen, are often ‘small souls, whose fears are much larger than to be expected when beholding their privileges’.³⁴

It is here, Druyen argues, where the need for a “culture of wealth” arises and it is this criterion which separates the responsible from the irresponsible. ‘To promote justice equals not squandering money. It is not about the amount, but the social benefit’ (2007, p. 47). It is in the original interest of the wealthy to contribute to a socially stable, secure, sustainable and fair society because these are surpluses also benefitting themselves. This should prevent them from short-sighted egocentric behavior. Wealthability is only acquired by hard work, a conscious reflection about one’s own values and capacities and the intention to put those assets to good use:³⁵

7 Portfolio Composition

7.1 Changes over time

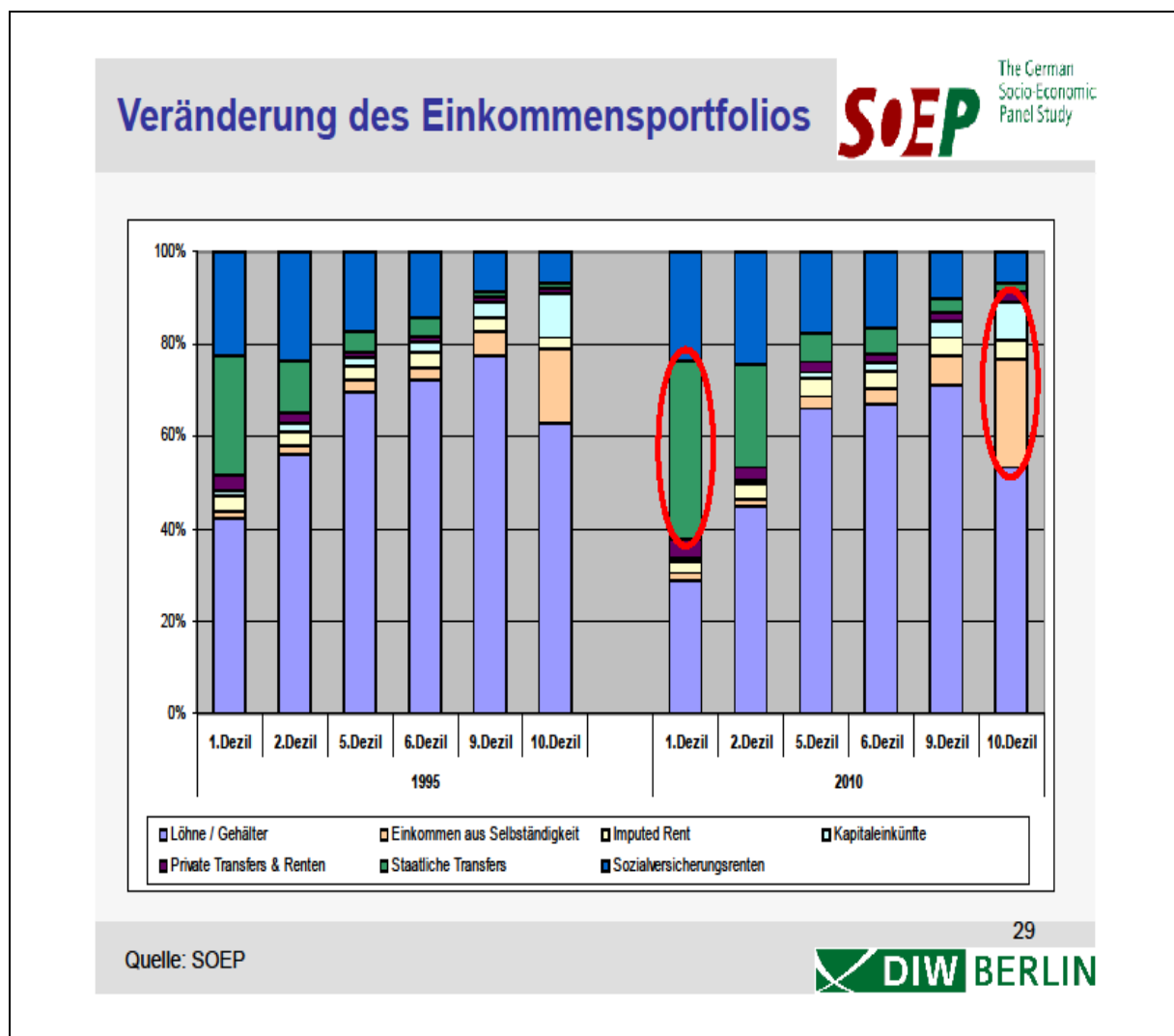
Interesting are changes of “Income Portfolio” of the different deciles of the population. When comparing developments in the low-income and high-income segment, one states a clear rise in state-transfer income at the low-income segment and a clear rise in income from being self-employed/ income from imputed rent³⁶ and capital for the high-income segment – one more confirmation of that which has been demonstrated by Piketty and Zucman’s research:

³⁴ (Druyen, 2007, p. 10f.). Druyen also supports other observations of my conversation partners, e.g. the reluctance to make good deeds known for fear of being flooded with more requests (pp. 39ff.). Other statements about the fear and anxiety of the wealthy: (Lebert, 2006)

³⁵ (Grundmann, 2009, p. 202f.). The term “wealthability” was coined by Thomas Druyen (2007, p. 37ff.). For me, the term “wealthability” as combination of “wealth & ability” seems to make a stronger point since it could be circumscribed with “that which I am able to achieve with wealth”. Something equivalent in English language might be the broad use of “capital” in its many facets, referring not only to financial assets, but also social and human-individual assets when talking about “social capital” or “human capital”.

³⁶ Calculated income from real estate. See http://en.wikipedia.org/wiki/Imputed_rent

Graphic 1 Changes in the income portfolio of deciles from 1995-2010



Source 2 (Grabka, 2011, p. 29)

As further examination illustrates, the tendency towards income from capital is continuing.

7.2 Portfolio compositions

7.2.1 Bach/Corneo/Steiner 2011

Bach/Corneo/Steiner contains some insights in assets distribution in their study drawing from tax data between 1995-2005. Since their insights are more relevant for the concentration of ownership it is contained in the presentation below (8).

7.2.2 Schratzenstaller 2011

A first useful overview upon categories of wealth and their spread among households is contained in Schratzenstaller, drawing from data in 2007, i.e. around the beginning of the World Financial and Economic Crisis. She distinguishes financial wealth from wealth arising from insurances (containing private insurances against sickness or old age). Equally it makes sense to distinguish self-owned real property from “other real property” as well.

Striking is the concentration of business assets among a small group of households. Even more interesting is that the categories “other real property” and “business assets” are those

with the highest average value which is, at the same time, concentrated among the smallest groups of the population.

Portfoliostruktur des individuellen Nettovermögens in Deutschland, 2007

	Struktur des Nettovermögens in %	Anteil der Bevölkerung mit Vermögensbesitz nach Vermögensarten in %	Durchschnittlicher Vermögensbesitz* nach Vermögensarten in €
selbstgenutzter Immobilienbesitz	59,3	36,3	143.754
sonstiger Immobilienbesitz	22,1	10,4	187.786
Geldvermögen	14,2	48,9	25.654
Vermögen aus Versicherungen	13,4	52,9	22.328
Betriebsvermögen	10,9	4,4	218.823
Sachvermögen	1,3	6,1	18.356
Schulden**	-21,2	33,1	-56.415

* Pro Eigentümer der jeweiligen Vermögensart

** Schulden aus Hypotheken und Konsumentenkrediten

Quelle: Frick/Grabka 2009.

Source 3 (Schatzenstaller, 2011, p. 16)

7.2.3 PHF 2010/2011 & 2014

The Household Financial and Consumer Survey and its national PHF survey have been introduced above (3.4), which is, as pointed out in the previous chapter, wanting from this research's point of view since there is no distinction between business assets and financial assets controlling or building on business assets. An interesting insight provides the comparison between the PHF and the macroeconomic *Vermögensbilanz* and their own findings, which diverges most clearly in one area:

Abbildung 2 Assets and liabilities of households³⁷

Position	Vermögensbilanz 2010	PHF 2010/2011	Abdeckung in %
Brutto-Geldvermögen	1) 4 370,1	3 130,8	72
Bargeld und Einlagen	1 860,8	2) 828,3	45
Wertpapiere	3) 933,1	455,7	49
Ansprüche gegenüber Versicherungen	4) 1 358,1	682,4	51
Sonstige Anteilsrechte	218,1	5) 1 164,3	534
Brutto-Immobilienvermögen	6) 5 700,2	5 419,5	95
Sonstiges Vermögen 7)	146,7	265,2	181
Bruttovermögen	1) 10 216,9	8 815,5	86
Kredite	1 534,8	1 072,5	70
Nettovermögen	1) 8) 8 682,1	7 743,0	89

1 Jeweils ohne Ansprüche aus Pensionsrückstellungen. 2 Ohne Bargeld. 3 Ohne Sonstige Anteilsrechte. 4 Ohne Ansprüche aus Pensionsrückstellungen. 5 „Marktwert“ der Unternehmen (netto). 6 Bauten und Bauland. 7 Bruttovermögen abzgl. Brutto-Immobilienvermögen und Brutto-Geldvermögen. Zum sonstigen Vermögen gehören im PHF z.B. Fahrzeuge, Wertgegenstände, wertvolle Sammlungen, Genossenschaftsanteile, Edelmetalle, Optionen oder Geld auf verwalteten Konten. Diese Wertgegenstände können in der Vermögensrechnung teilweise anderen Kategorien zugeordnet werden. 8 Reinvermögen ohne Gebrauchsvermögen privater Haushalte.

Deutsche Bundesbank

Source 4 (German Federal Central Bank, 2013, p. 29)

Two insights shall be highlighted here:

- First, the importance which real estate and real property have in the wealth portfolio. Here, the PHF found out that, regarding Germany real property (buildings and land for buildings (*Bauland*), not financial assets, make up the lion's share of the national gross wealth portfolio
- Second, the largest deviation which occurs when comparing the data of “other shares”: This is due to different treatment of business assets in the both surveys: In macroeconomic calculations, shares in privately owned businesses are set at a uniform standard with EUR 25,000 equity, while the PHF gives, following the assessment of owners, the market values of business shares in the assessment (p.28).

The HFCS study confirms the concentration of real assets (Sachvermögen, real property, collections, cars, companies...) and financial assets (cash, shares, bonds, funds...) and business assets among the top ten per cent of private German households:

³⁷ “Abdeckung” in the right columns refers to the relationship and correspondence between the findings of macroeconomic calculations and aggregates and findings of the PHF survey. Regarding the ownership of real property, the report states a high correspondence. This is important, the report states, because of the high relevance of real property ownership within the overall wealth portfolio. ‘Die hochgerechneten Werte des Immobilienvermögens sowie der damit verbundenen Verschuldung entsprechen den Randverteilungen sehr genau. Auch aus erhebungstechnischen Gründen ist dies ein Bereich, an dem die PHF-Daten ausgesprochen zuverlässig sind. Dies ist wichtig wegen der großen Bedeutung des Immobilienvermögens für das Gesamtvermögen.’ (p.29)

Position	Alle Haushalte	Haushalte mit einem Nettovermögen		
		bis zu 3 490 € (unterstes Quintil)	zwischen 27 780 € und 97 240 € (mittleres Quintil)	von mehr als 442 320 € (oberstes Dezil)
Selbstgenutztes Wohneigentum	44	4	39	91
Andere Immobilien	18	3	10	69
Betriebsvermögen	10	2	10	34
Fahrzeuge	71	39	82	88
Sonstige Wertgegenstände	13	4	13	32
Sicht-/Sparguthaben	99	96	100	100
darunter: Sparkonten	78	41	85	90
Bausparverträge	36	13	41	46
Fondsvermögen	17	3	22	39
Schuldverschreibungen	5	0	4	19
Aktien	11	1	11	30
Forderungen an andere Haushalte	14	12	12	16
Sonstiges Finanzvermögen (z. B. Gold, Derivate, Genossenschaftsanteile)	11	4	10	31
darunter: Zertifikate	2	0	1	8
Private Rentenversicherungen oder kapitalbildende Lebensversicherungen	47	25	57	62
darunter: Riester-/Rürupprodukte	23	20	26	30
kapitalbildende Lebensversicherungen (ohne Riester/Rürup)	35	9	45	56

Source 5 (German Federal Central Bank, 2013, p. 35)

Given the wide area of real assets (Sachvermögen) one has to note that it lumps together very different items: While 71% of all households own cars or 44% own houses, business shares are concentrated among 10% of all households only, “other real estate” with 18%, leading to the conclusion ‘real assets are strongly concentrated with wealthier households’. (German Federal Central Bank, 2013, p. 34). An ill-defined category among real assets are “other items of value” (*sonstige Wertgegenstände*),³⁸ comprising luxury items, collections or precious metals such as gold.

However, even though on average 44% of all households have self-used houses, the statistic reveals a high concentration at the top end. Equally concentrated are business assets: even though only 10% of all households surveyed by the German Central Bank admitted that they own shares in companies, the concentration of ownership is most concentrated among the top 10% of households (34%), ownership probably concentrating again among the top percentile or even smaller fractile, which is, however, not spelled out. The same applies for shares (11%), with a high concentration among the top decile (30%) and funds (17%:39%), bonds (5%:19%) or certificates (2%:8%), the latter being of particular interest: They are rather recent, complex and “artificial” products of the finance industry, promising great gains, entailing also great losses, which means that only people with a solid financial foundation (or a broad risk disseminating portfolio) can afford dealing in those in the first place (i.e. having enough assets to cushion for eventual risks), one aspect which lead Bönke and colleagues to the assumption of a high importance of inheritances and gifts at the top end of the wealth scale (see below 8.3.3.3).

³⁸ „Zum sonstigen Vermögen gehören im PHF z. B. Fahrzeuge, Wertgegenstände, wertvolle Sammlungen, Genossenschaftsanteile, Edelmetalle, Optionen oder Geld auf verwalteten Konten. Diese Wertgegenstände können in der Vermögensrechnung teilweise anderen Kategorien zugeordnet werden.“ (German Federal Central Bank, 2013, p. 29).

Remarkable is further the big gap between medium and median value, yet another confirmation of a high concentration among the top-wealth owning households (see GER/IV/1.2):

Tabelle 3 Concentration of assets among the top 10% net-wealth households

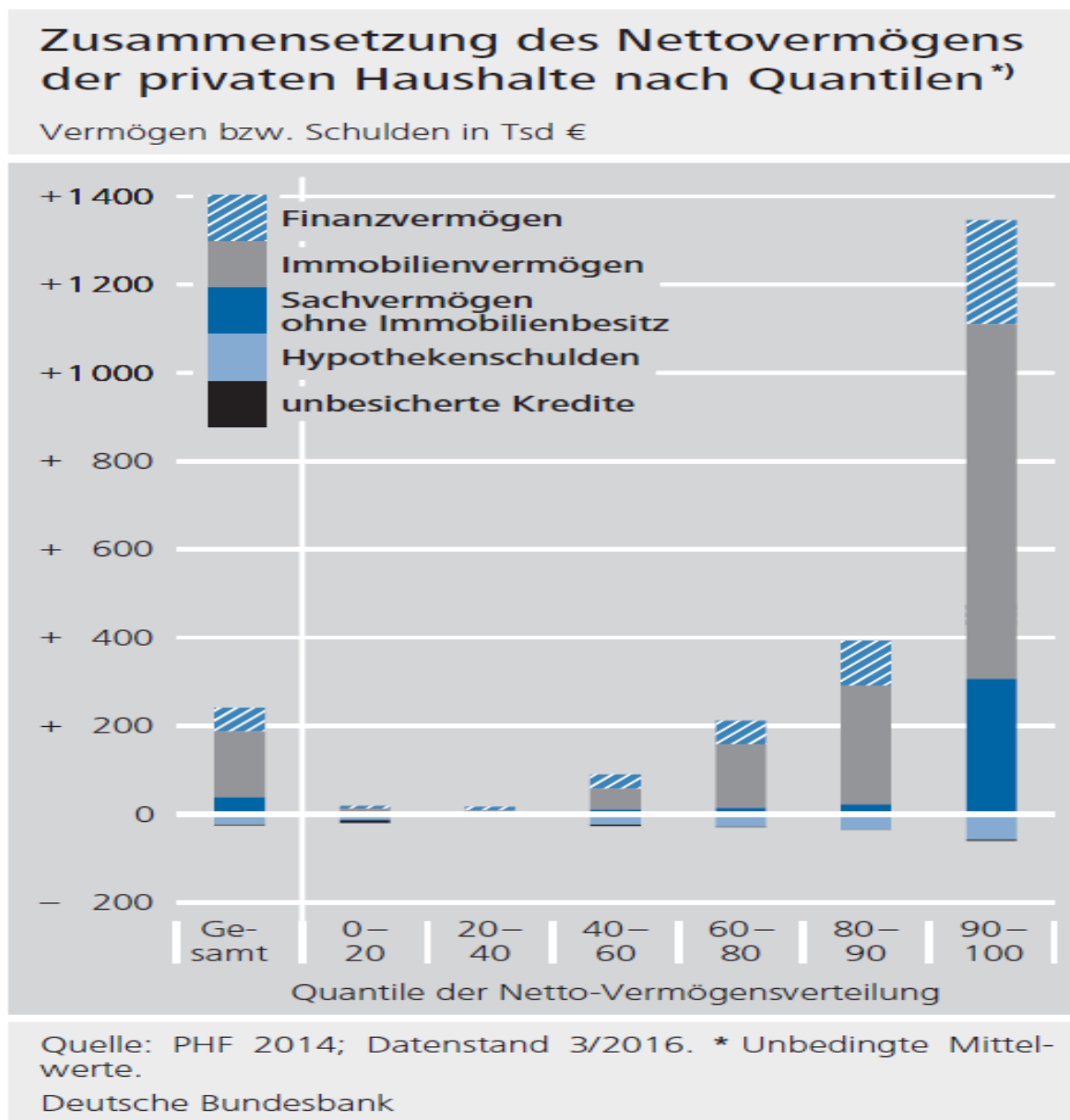
	Business assets		shares		funds		Certificates	
	medium	median	medium	median	medium	median	medium	median
All households	333,750	20.000	29,120	8,600	23,860	7,400	24,930	9,000
Top 10 net wealth households	902,220	191,100	69,720	20,600	65,870	25,930	42,970	15,400

Source 6 (German Federal Central Bank, 2013, p. 43)

The follow-up survey provided rather confirmation than significant deviations. A first noteworthy development stated was that households owning real property and stocks/securities (Wertpapiere) had higher increases in net-wealth than households without, namely EUR 33,500 instead of EUR 1000 for real property owner, and EUR 33,800 instead of EUR 2,500 for owner of securities/stocks (German Federal Central Bank, 2016a, p. 66).

Given once more the diversion between the medium and median figures regarding the ownership of real-property and securities/stocks indicates a high concentration of both assets among the top-10% households. For real property, the median is EUR 90,600, the medium EUR 230,800; regarding securities/stocks the median is EUR 16,600, the medium EUR 54,200 (German Federal Central Bank, 2016a, p. 71).

Regarding the portfolio composition, no significant changes have been noted over time: Regarding real assets, the importance of real property and business assets has been confirmed as well as the concentration of both assets among the top-10% of all households: Of gross wealth assets, 80% of it are real assets, among which real property (houses, real estate) and business assets dominate in value. Since the crucial element is the ownership of “other real property” in addition to self-used houses, it is even more striking that those assets are concentrated among top-households which then, consequently, profit from income from rent.



Source 7 (German Federal Central Bank, 2016a, p. 72)

No dramatic changes in ownership is indicated in the last table: In some areas household ownership increased between 2010 and 2014, e.g. more households now own “other real property”, in other areas ownership is unchanged (business assets). Value increased generally, which is not surprising, the larger increase in medium as opposed to median indicates, however, that inequality and concentration continues.

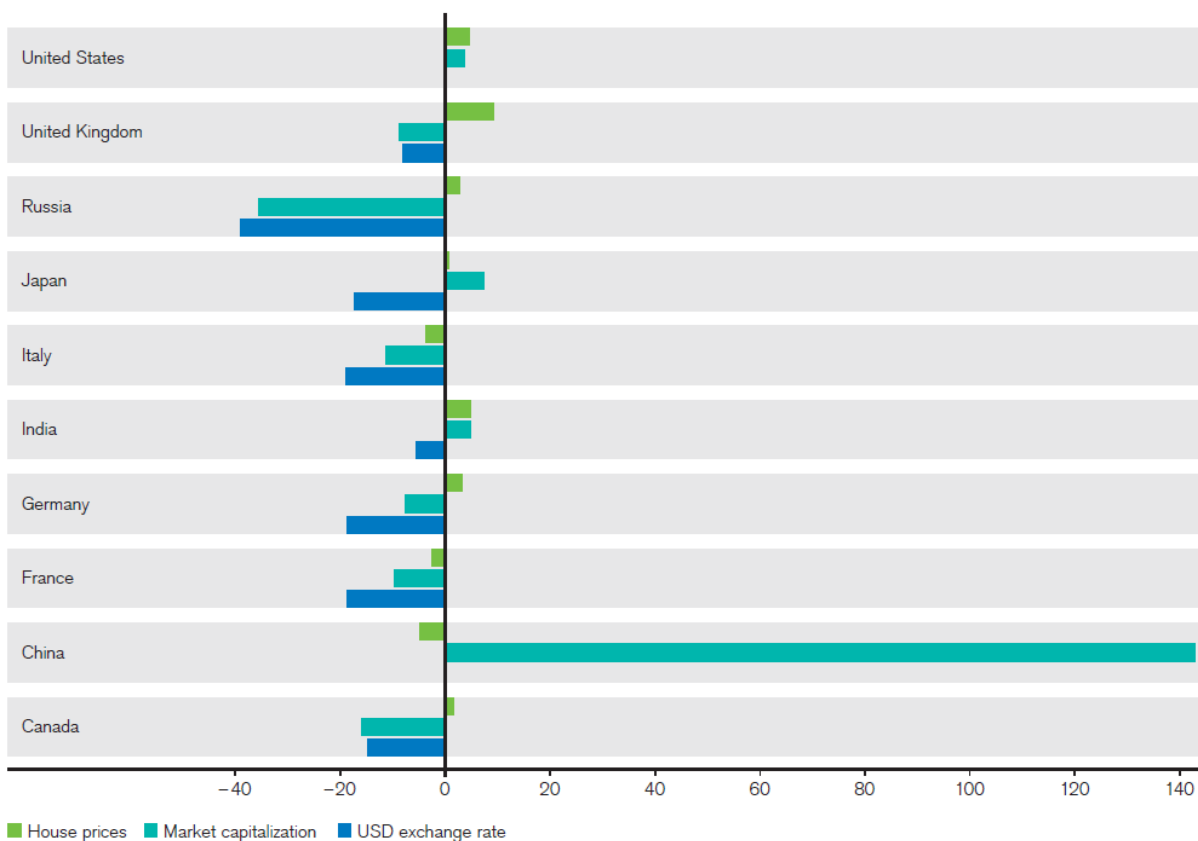
Position	Anteile der Haushalte in %		Bedingter Mittelwert in €		Bedingter Median in €	
	2010	2014	2010	2014	2010	2014
Sachvermögen	80	81	218 300	230 800	89 200	90 600
Eigentum am Hauptwohnsitz	44	44	205 800	231 400	168 000	159 800
Sonstiger Immobilienbesitz	18	20	256 500	228 900	115 000	89 300
Fahrzeuge und Wertgegenstände	73	75	13 000	13 200	7 800	6 900
Betriebsvermögen	10	10	333 800	348 100	20 000	19 700
Finanzvermögen	99	99	47 400	54 200	17 100	16 600
Girokonten (ohne private Altersversorgung)	99	99	3 500	4 300	1 200	1 100
Sparkonten (inkl. Bausparkonten, ohne private Altersversorgung)	78	72	22 500	29 400	9 600	8 800
Fondsanteile (ohne private Altersversorgung)	17	13	29 000	39 700	9 700	14 700
Schuldverschreibungen	5	4	50 700	43 100	15 200	9 900
Aktien	11	10	29 100	39 000	8 600	9 300
Private Rentenversicherungen und kapitalbildende Lebensversicherungen	47	46	27 200	28 300	11 300	13 500
Sonstiges Finanzvermögen	11	14	11 600	11 800	1 900	1 900
Verschuldung	47	45	57 000	57 000	12 800	15 000
Hypothekenschulden	21	20	110 400	111 000	80 000	76 300
unbesicherte Kredite	35	33	9 600	9 500	3 200	3 500
Quellen: PHF 2010/2011 und PHF 2014. Deutsche Bundesbank						

Source 8 (German Federal Central Bank, 2016a, p. 73)

7.2.4 Credit Suisse 2015

According to Credit Suisse, when regarding German top wealth holder in 2015, there are two developments noteworthy regarding the most important elements in top wealth portfolio: First, the influence which financial assets have for the ups and downs of overall assessment in Germany as well, second the observation that real property is still holding its place as safe asset:

Change in market capitalization, house prices and USD exchange rate (%), 2014–2015



Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2015

Source 9 p.7

Regarding financial assets, Credit Suisse states that its share in top wealth portfolios is gaining importance since the World Financial and Economic Crisis and that it is those assets which (still and ongoing) prompt the global up and down of wealth:

Wealth inequality changes slowly over time, so it is difficult to identify the drivers of these trends. However, the value of financial assets – especially company securities – is likely to be an important factor because wealthier individuals hold a disproportionate share of their assets in financial form. Figure 6 plots the share of financial assets this century and the pattern shows a strong resemblance to that of the top wealth shares. (Credit Suisse, 2015, p. 19)

Also later it says:

The wealth portfolios of these individuals are also likely to be more similar, with a focus on financial assets and, in particular, equities, bonds and other securities traded in international markets. (Credit Suisse, 2015, p. 26)

7.2.5 Conclusion

Concluding the review of studies it makes very clear real property and business assets (shares) are traditionally very important for top wealth fortunes and therefore are most concentrated among top wealth holder. The importance especially of real property is also seen by wealth reports (Knight Frank) and other experts (Turner, 2014), see also GW/Realprop#.

The comparable recent wealth report of Credit Suisse 2015 adding the component of financial assets, but argues, here, too, that key among those are company securities, but also equities,

bonds and other securities traded in international markets. This chimes in with findings from the HFCS, which puts the highest concentration of certificates at top wealth households and supports Piketty's findings regarding the importance of income from capital. It should also alert us because of the importance of those assets in contributing to the volatility of markets preceding the 2007 World Financial and Economic Crisis: if Credit Suisse' findings are correct, not too many lessons have been learned from that and Piketty might be correct when saying that the 2007/2008 crisis was the first of patrimonial capitalism, but not the last (Piketty, 2014a, p. 473).

8 Quantifying wealth concentration among Germany's top 1%

8.1 Germany's top 1%

As various wealth reports and scholars write, the sheer volume of assets and its control by a very small number of people distinguishes the top wealth holder from those "below" in the ranking. Saying this, it is even more complicated because hardly anything is known about this tiny and secluded living segment of population. Depending, therefore, on methods and instruments, everything obtainable is at best more or less intelligent guesstimate.

Since there are roughly 39 million taxpayers (Steuerpflichtige) in Germany, the top 1% amounts to ca. 400,000 persons which can be equaled with households, of which there are 40.8 million in Germany.³⁹

8.1.1 Income

One exception there is: The number of Top Income holder, which can be deducted from the payment of income tax, without being too accurate since income from capital no longer needs to be declared towards tax authorities, which, in the end, is the source for the Federal Statistical Office. This, for example, was stated in the 2010 Press Release of the Federal Statistical Office in 2010, setting the number of Income Millionaires (in Euro) at 14,600 averaging an annual income of EUR 2.8 million.⁴⁰

Keeping that in the back of the mind, one also has to read the Federal Statistical Offices publication of the annual income of Germany's Top 1%:

Tabelle 1 Jahres-Summe der Einkommen (SdE) in Relation zum Anteil an festgesetzter Einkommensteuer (ESt)

	Einkommens-Millionäre	Top 1% Mindest-SdE/	Top 0,1% Mindest-SdE	Untere 20% Maximal-SdE	Anteil an festgesetzter ESt Top 1%	Anteil an festgesetzter ESt untere 20%
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³⁹

<https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/OeffentlicheFinanzenSteuern/Steuern/LohnEinkommensteuer/LohnEinkommensteuer.html> and <https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/Bevoelkerung/HaushalteFamilien/HaushalteFamilien.html>

⁴⁰ „Unter den Spitzenverdienern waren im Jahr 2010 14 666 "Einkommensmillionäre" mit Durchschnittseinkünften von 2,8 Millionen Euro. Von ihnen musste jeder im Durchschnitt 0,9 Millionen Euro Einkommensteuer zahlen. Einkünfte aus Kapitalvermögen sind dabei nur noch teilweise berücksichtigt, da sie auf Grund der Abgeltungssteuer überwiegend nicht mehr zur Einkommensteuer veranlagt werden müssen“ Retrieved from

<https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/OeffentlicheFinanzenSteuern/Steuern/LohnEinkommensteuer/Aktuell.html>

2009	12.400	202.750	637.080	14.179	20,3	0,4
2010	14.600	210.745	698.013	14.032	22,3	0,4
2011	16.300	221.229	742.952	14.617	22,3	0,5

Quelle 10 Einkommensstatistiken des Statistischen Bundesamts

An overview gives the following table, including the illustration of how the gap between top and bottom is growing: Since top incomes are increasing, the bottom is stagnant.

8.1.2 Wealth

More difficult is it to distinguish and assess the size of Germany's top 1% wealth holder, e.g. by applying the classical groups of HNWI's and UHNWI's. The classical international distinction is that High Net Worth Individuals have assets of USD 1 million at their disposition, Ultra-HNWI's being those with USD 30 million at hand. This has to do with the composition of asset portfolio (e.g. real property vs. financial vs. business assets) as well as the question WHERE those assets are held and in what currency they are valued (see below 8.2). Accordingly, figures here are widely diverging:

When looking at the publication of wealth rankings, the following HNWI's (Vermögensmillionäre) are listed for Germany:

- Boston Consulting 2014: 2013 in Germany 386,000 Dollarmillionaires⁴¹
- Cap Gemini 2014: 2013 in Germany 1.13 Million Dollarmillionaires⁴²
- Credit Suisse 2014: 2013 in Germany 1.721 Million Dollarmillionaires⁴³

Similar vary the figures of Bach, Beznoska et. al., attempted in the course of their paper asking the question how and how many top wealth holder could be targeted best with a re-introduce wealth tax:

'Charged with taxes would be 435,000 to 150,000 taxpayers depending on the setting that are counted here as singles or married couples, i.e. could be interpreted as households. Property tax is concentrated on the most wealthy percentile in the here examined settings.'⁴⁴

Bönke/Corneo/Westermeier, building on the PHF survey (Private Haushalte und ihre Finanzen), define the top 1% of households as those possessing net wealth of EUR 2.5 million on average. However: The PHF survey does not contain any information about persons owning wealth assets worth a three digit million Euro figure. Here, the researcher refer to Wealth-X's expertise and their proprietary database, but since the latter is treated confidential they cannot assess its worth and truth (Bönke, Corneo, & Westermeier, 2015).

Grabka/Westermeier also set the number of Germany's top wealth-holder at around 400,000 households, owning about one third of private wealth (Grabka & Westermeier, 2015a).

⁴¹

https://www.bcgperspectives.com/content/articles/financial_institutions_business_unit_strategy_global_wealth_2014_riding_wave_growth/?chapter=2#chapter2_section3

⁴² <https://www.de.capgemini.com/news/world-wealth-report-2014-fast-zwei-millionen-millionaere-mehr>

⁴³ http://economics.uwo.ca/people/davies_docs/credit-suisse-global-wealth-report-2014.pdf

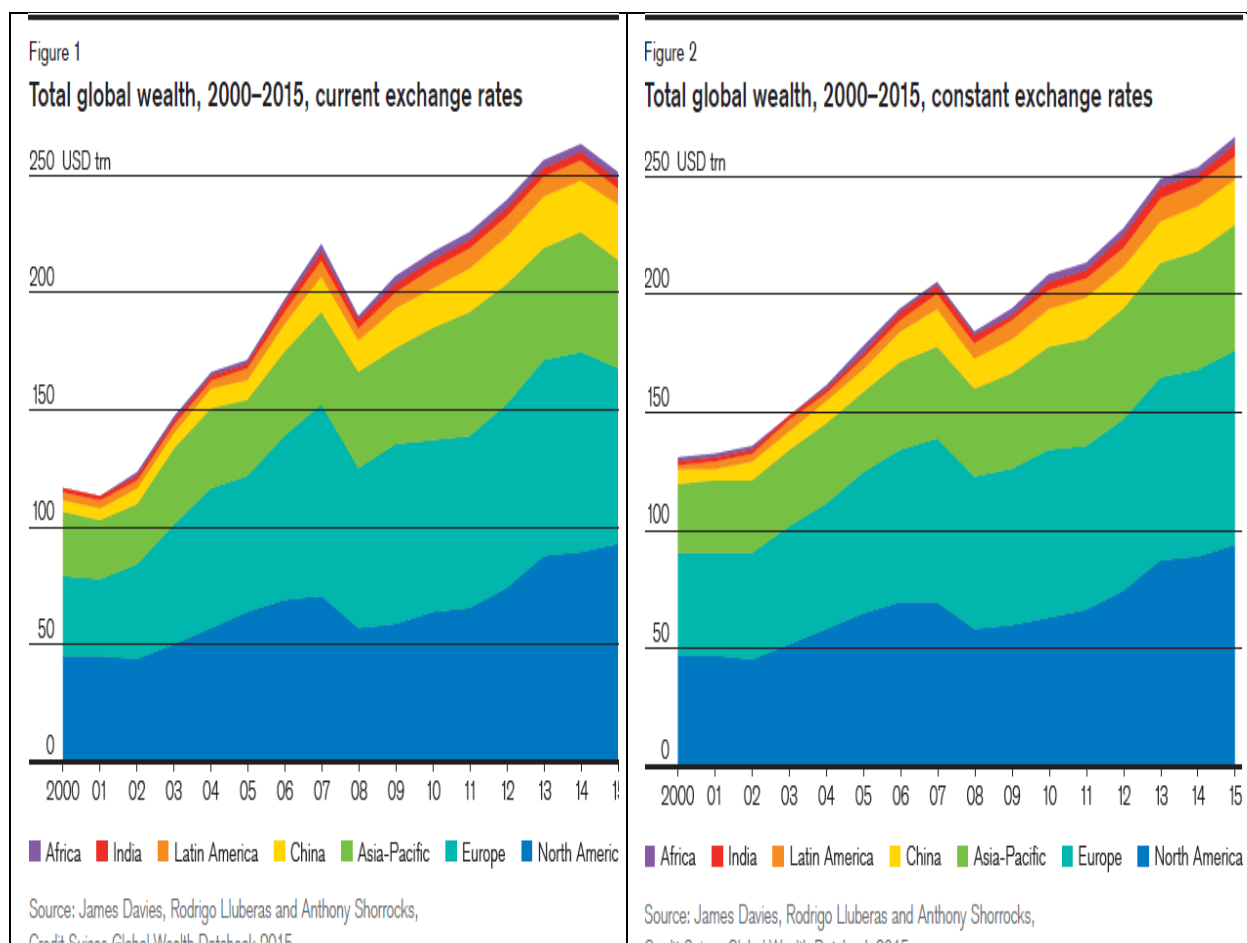
⁴⁴ 'Steuerbelastet würden je nach Szenario 435 000 bis 150 000 Steuerpflichtige, die hier als Einzelveranlagte oder als Ehepaare gezählt werden, also als Haushalte interpretiert werden können. Die Vermögensteuer wird bei den hier untersuchten Szenarien auf das vermögensreichste Perzentil der Bevölkerung konzentriert.' (Bach, Beznoska, & et.al., 2013, p. 47)

8.2 Valuation problems & wealth development

Regarding the valuation of wealth it is always important what kind of yardstick is taken for comparison. The years 2010-2015, for example, illustrated how important currency appreciations and depreciations are for the measurement of global wealth, even though not a single shift in possession or portfolio occurs. While European wealth holder win when the Euro is strong and the US Dollar is weak, in 2014/15 the situation, due to the turmoil surrounding the Euro Area during the Greek Crisis was the other way round:

The Credit Suisse 2015 Wealth Report states an increase of global wealth when developments are measured in constant exchange rates: While wealth measured in current exchange rates signals a “dip” in 2014/2015, the trend is solidly upwards if constant exchange rates are applied.

Abbildung 4 Development of wealth, if measured in current or constant exchange rates



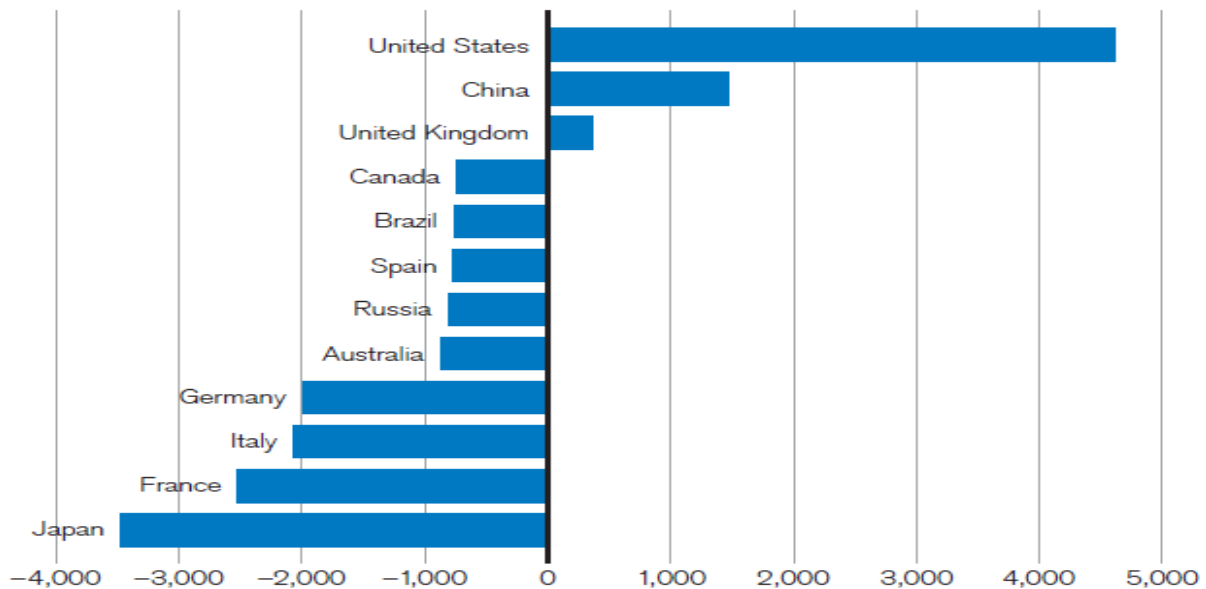
Source 11 (Credit Suisse, 2015, p. 14f.)

When compared in detail, global wealth declines in 2014/15 are most dramatic in Europe with a decline in total assets of USD 10,664 billion, a percentage of -12.4%, which is second worst after Latin America (Credit Suisse, 2015, p. 5). This reflects depreciations of currencies as opposed to the USD, e.g. the loss in value of 19% of the Euro, affecting wealth in all states of the Euro Area, 20% of Latin American Currencies, or 39% of the Russian Rouble.

At the same time, Credit Suisse warns, those decreases should not be taken too seriously since opposite developments may reverse the trend, as there were quite a number of years where the measurement of wealth in Europe profited from a strong Euro as opposed to the USD – as has been the case in 2014 (p.8).

The trend of 2015 lead to the fact that German wealth holder lost over USD 500 billion in assets:

Figure 4
Change in total wealth, 2014 (USD bn):
Biggest gains and losses



Source: James Davies, Rodrigo Lluberias and Anthony Shorrocks,
Credit Suisse Global Wealth Databook 2015

Source 12 (Credit Suisse, 2015, p. 8)

This development illustrates how important international markets are when it comes to the assessment of wealth: In domestic evaluation, wealth may be rising, but since wealth assets normally look internationally for markets and buyer, this does not really matter in principle.

Elsewhere, the underlying wealth trends have been generally positive, but the gains valued in domestic currencies have been more than offset by adverse exchange rate movements against the US dollar. As a consequence, total global wealth, which would have risen by USD 13 trillion between mid-2014 and mid-2015 if valued at constant exchange rates, fell instead by USD 12.4 trillion. (Credit Suisse, 2015, p. 4).

But: This observation also warns about the wrong yardstick for national comparisons: National wealth inequality is still measured in Euro, therefore whatever is applicable in the international may not hold if national valuation and comparison, measured in Euro is done, i.e. wealth of the top 1% may be decreasing in international comparison, but its national share may at the time be growing and inequality be increasing.

Under the headline "Noch nie war es einfacher für die 500 reichsten Deutschen, ihre Vermögen zu mehren", the Manager Magazin Ranking summarized the developments 2013/2014 as follows: 'Rich corporate profits, increasing real property values, and robust share values have lifted the wealth of the rich steeply upwards.' (Manager Magazin Sonderheft, 2015, p. 8). It continues:

Especially due to high corporate profits and the continuing boom of real estates, the wealth of the richest 100 Germans grew despite the latest stock exchange turbulences in the past 12 months by 7% to a total of 427.7 bn Euro. The wealth of the richest 500 Germans increased by

6.9% to 653.85 bn Euro. This is more than Switzerland's BIP in 2014. For the first time it needed in 2015 a fortune of 1.5 bn Euro to be amongst the 100 richest Germans. In 2005, just 800 mio. Euro were enough.⁴⁵

This trend continued in 2015: 'Satte Firmengewinne, gestiegene Unternehmenswerte und der anhaltende Immobilienboom haben Deutschlands Reichste auch in diesem Jahr wieder reicher gemacht. Das Vermögen der Top 500 hat sich um 5.9% vermehrt: auf 629.25 Milliarden Euro. Ein geringerer Zuwachs als in den Vorjahren (2015 plus 7.2%, 2014 plus 16%), aber immer noch deutlich über dem herrschenden Zinssatz.' (Manager Magazin Reichstenheft, 2016, p. 5).

This finds support with (Bach, Thiemann, & Zucco, 2015): 'Historically low interest rates discriminate fixed-income securities such as bank deposits or pension plans, and favor investments in real assets such as real estate, businesses or corporation shares. As the latter dominate top wealth strata, the wealth distribution might have concentrated further, at least in Germany and France.' (p. 30).

For that reason it is both correct to say for Credit Suisse that German wealth holder lost hundreds of billions, at the same time the Manager Magazin Wealth Ranking 2015 and other contemporary research argues that Germanys top wealth holder are as rich as never before, see below (9).

8.3 Studies regarding wealth concentration

8.3.1 Tax data based analysis by Bach, Corneo Steiner 2011a

A rare and thorough examination of the development of wealth, income and taxation of the German top 1% was conducted by Bach, Corneo and Steiner (2011a) who was given access to tax return data covering the time between 1992 and 2005, which enabled them to determine the effective tax burden for the top 1% of incomes in Germany exceptionally exactly, both within this top percentile and in relation to the rest of the population.

Their main interest was to find out the development and extent of average effective taxation of top wealth holder. To begin with, they explained and defined central categories of their research interest and focus (p.9ff.):

- 'German tax returns data record "adjusted gross income" (*Summe der Einkünfte*) by adding positive incomes from all mentioned sources and deducting losses. In other words: It is reached by adding positive income from different income-categories (such as wage, business activity, capital income and gains as well as transfer income) and deducting losses such as losses in businesses (e.g. carry-forwards)' (10)
- 'Gross income is found by adding all tax-exempted incomes and tax reliefs as well as by accounting for various tax avoidance strategies that can be identified in our data.'

⁴⁵ „Satte Unternehmensgewinne, steigende Immobilienwerte und robuste Aktienwerte haben die Vermögen der Reichen steil nach oben gehoben' ... Vor allem dank hoher Unternehmensgewinne und dem anhaltenden Boom am Immobilienmarkt ist das Vermögen der reichsten 100 Deutschen trotz der jüngsten Börsenturbulenzen in den vergangenen zwölf Monaten um 7 Prozent auf insgesamt 427,7 Milliarden Euro gewachsen. Das Vermögen der 500 reichsten Deutschen legte um 6,9 Prozent auf 653,85 Milliarden Euro zu. Das ist mehr als das Bruttoinlandsprodukt der Schweiz 2014. Um es unter die 100 reichsten Deutschen zu schaffen, war 2015 erstmals ein Vermögen von 1,5 Milliarden Euro nötig. 2005 hatten bereits 800 Millionen genügt. (Manager Magazin Sonderheft, 2015, p. 5+12) Die Summe des Vermögens der 100 reichsten Deutschen im Verhältnis zum deutschen BIP betrug 2015 14,47% (ebd. 23)

(9). In other words: Gross income is pre-tax and post-transfer income of a household (p.10)

- ‘Taxable income is derived by subtracting income-specific expenses, income-specific allowances, special personal expenses, and extraordinary financial burdens from adjusted gross income.’ (11)
- The effective average tax rate is calculated as the ratio of the income tax to gross income (p.14)
- Tax base erosion is identified as taxable income falling short of gross income. (11)

Their findings, based on tax return data from 1992-2005, reveal that Income Tax liabilities are indeed highly progressive: While tax revenue generated from the bottom 50% of households made less than three percent of the total tax revenue, the top decile contributed 60%, the top 0.0001% of households paying almost EUR 50 million Income Tax per year.

Table 2 Assessed income liability, 1992-2005 - structure and average tax burden

Gross income ¹⁾ fractiles	Assessed income tax liability (including solidarity surcharge)											
	structure in percent						average tax burden in Euro 1 000 at 2000 prices ²⁾					
	1992	1995	1998	2001	2004	2005	1992	1995	1998	2001	2004	2005
1 st - 5 th decile	6.0	5.7	3.7	3.2	2.5	2.9	0.5	0.5	0.3	0.3	0.2	0.2
6 th - 9 th decile	39.8	42.5	39.1	38.1	39.7	36.9	4.3	4.4	4.3	4.1	4.1	3.7
10 th decile	54.2	51.9	57.2	58.7	57.8	60.3	23.1	21.3	25.3	25.5	23.7	24.0
Top 1%	25.4	21.6	25.7	25.4	23.4	26.8	108.5	88.8	113.6	110.1	96.1	106.8
Top 0.1%	11.8	9.5	12.6	11.2	9.8	12.5	502.1	390.9	558.0	486.3	400.6	497.4
Top 0.01%	4.8	4.1	5.9	4.7	4.2	6.0	2 062.1	1 672.2	2 622.9	2 059.0	1 731.5	2 386.0
Top 0.001%	1.6	1.5	2.4	1.8	1.7	2.8	6 779.0	6 075.2	10 645.3	7 690.5	7 151.7	11 124.5
Top 0.0001%	0.4	0.4	0.7	0.5	0.6	1.2	17 333.3	15 897.4	33 538.8	21 079.5	25 362.1	49 625.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	4.3	4.1	4.4	4.3	4.1	4.0
Gini coefficient	0.7461	0.7397	0.7801	0.7902	0.7881	0.8080						

1) For the definition of gross income, see Section 4.- 2) Deflated by consumer price index.
Source: ITR-SOEP data base.

Source 13 (p.15)

Regarding the average effective tax rate, it was 11.3% for the entire population, but 30.5% for the top percentile. In a second calculation, the researchers then added tax liabilities arising from local business, since the share of business income making up total income is strongly increasing with gross income, i.e. making up a larger share of the sum of income for the top percentile of the population. Having done that, the effective tax rate increases from 30.5% to 34% (p. 15f.).

Both findings lead the researchers to conclude that ‘the German Income Tax is effectively progressive, i.e. the effective average tax rate increases with gross income.’ An effective rate of 30.5% is two thirds of the legislated rate and (in 2005) the national tax burden is highly concentrated at the top since ‘the top percentile contributed more than a quarter of the total Income Tax revenue. As a result, Income Tax significantly contributed to reduce income inequality.’ (p. 16+19)

Looking across the available data one can state a generally declining share of taxable income as percentage of gross income. However, the decrease in share is particularly pronounced among the top 0.001% and 0.0001% (p.12):

Table 1: Share of adjusted gross income and of taxable income as percentage of gross income, 1992-2005

Gross income ¹⁾ fractiles	Adjusted gross income as percentage of gross income ¹⁾						Taxable income ²⁾ as percentage of gross income ¹⁾					
	1992	1995	1998	2001	2004	2005	1992	1995	1998	2001	2004	2005
1 st - 5 th decile	47.7	43.8	42.6	40.5	40.9	40.2	33.8	28.9	25.9	25.5	23.6	22.5
6 th - 9 th decile	72.2	70.6	69.5	68.8	69.4	66.4	57.2	54.5	53.1	52.1	52.4	50.2
10 th decile	81.0	76.8	77.0	79.2	79.6	79.6	70.4	65.3	66.0	68.4	68.3	68.3
Top 1%	87.7	79.5	82.8	86.6	86.4	88.0	79.9	70.5	75.4	79.9	78.6	80.9
Top 0.1%	90.6	82.3	87.9	90.1	88.1	89.7	84.4	74.0	81.9	85.2	82.0	84.9
Top 0.01%	93.7	85.6	91.4	90.7	86.1	87.9	88.3	77.7	85.9	86.4	81.2	84.3
Top 0.001%	93.8	84.9	92.3	87.7	79.5	82.8	89.4	77.3	85.4	84.7	75.6	80.1
Top 0.0001%	92.9	71.3	95.3	80.2	65.8	76.0	85.6	62.5	87.5	79.7	63.4	74.4
Total	70.0	67.1	66.8	66.7	67.4	65.7	56.6	52.7	52.0	52.2	52.2	50.9

1) For the definition of gross income, see Section 4.- 2) Less child allowance.
Source: ITR-SOEP data base.

Next, the researchers examine the share of adjusted gross income as percentage of gross income by income components in 2005.

Table 2: Share of adjusted gross income as percentage of gross income by income component, 2005

Gross income ¹⁾ fractiles	Gross income ¹⁾	Wage income ²⁾	Income from business activity ³⁾	Capital gains ⁴⁾	Capital income			Transfer income
					Total	Interest, dividends ⁵⁾	Renting and leasing ⁶⁾	
1 st - 5 th decile	40.2	69.6	99.2	.	40.2	29.3	57.9	24.3
6 th - 9 th decile	66.4	76.5	99.5	56.9	46.4	43.9	51.1	30.8
10 th decile	79.6	81.5	97.1	80.9	64.1	80.0	21.6	33.6
Top 1%	88.0	89.1	95.8	83.0	74.1	89.5	25.0	41.7
Top 0.1%	89.7	93.7	93.1	82.2	85.3	93.5	36.3	52.2
Top 0.01%	87.9	92.9	91.2	78.3	89.1	93.6	28.3	62.5
Top 0.001%	82.8	95.1	87.5	72.2	89.7	93.1	- 48.1	57.2
Top 0.0001%	76.0	99.4	80.2	68.1	97.6	98.3	- 62.4	57.5
Total	65.7	77.6	97.8	79.4	55.0	62.5	38.4	28.0

1) For the definition of gross income, see Section 4.- 2) Including employers' social security contributions and imputed social security contributions for civil servants, minus taxable pensions from former employments, plus tax-exempted foreign income and income from tax-exempted "minijobs".- 3) Taxable income from agriculture and forestry, from business enterprise, from self-employed activities (professional services), plus tax reliefs, less capital gains from business activity, plus tax-exempted foreign income.- 4) From business activity and from private investments (solely speculation gains).- 5) Taxable income from investments (exclusive income from business activities), inclusive receipts below the savers allowance, less capital gains from private investments.- 6) Taxable income from renting and leasing, plus higher losses from renting and leasing.
Source: ITR-SOEP data base.

Some comments:

The share of taxed wage income amounted to 77.6 percent, compared to 97.8 percent for income from business activity and less than 30 percent for transfer income. This is because of the difference between the lower part of the gross income distribution than at the top, resulting in a lower average. That is partly driven by the inclusion of employers' social security contributions - which remain untaxed - into the measure of gross income. Due to the existence of an upper social security threshold, this has a small effect at the top of the income distribution, where wages tend to be high.

The small share of taxed transfer income in the lower part of the distribution is mainly due to the fact that most of those transfers are public pensions. Remarkable is that the fraction of taxed income from interest and dividends is strongly increasing in the level of gross income. Whereas in the lower half of the income distribution less than 30 percent of income from interest and dividends is taxed, this share is almost 90 percent for the top percentile. This is mainly explained by the savers allowance for interest and dividend income that is relatively more important for households with low incomes.

The major source of tax erosion for the top percentile lies in the realm of incomes from renting and leasing. While in 2005 about 58 percent of income from renting and leasing was taxed in the lower part of the income distribution, only one quarter of incomes from renting and leasing received by the top percentile was subject to taxation. This form of tax erosion is very prominent for the economic elite (top 0.001 %) and even more so for the superrich (top 0.0001 %). For those groups, the ratio of adjusted gross income from renting and leasing to gross income from the same source was actually negative. Thanks to generous tax regulations concerning real estate and loopholes in the tax code, the economic elite could transform positive income from renting and leasing into income losses for tax purposes or outright tax avoidance schemes. (p.13f.)

Clearly, such schemes potentially available and in place, it also impacts upon the average effective income tax rates. Here, too, one can see that the burden is increasing up to the top 0.1% (33.7% of gross income) and then decline for the very top down to 28.7% for the top 0.0001%, while the decline is less pronounced for the taxable income:

Table 4: Average income tax rates, 1992-2005

Gross income ¹⁾ fractiles	Assessed income tax liability (including solidarity surcharge)											
	in percent of gross income ¹⁾ less deducted losses carried forward/back						in percent of taxable income ²⁾					
	1992	1995	1998	2001	2004	2005	1992	1995	1998	2001	2004	2005
1 st - 5 th decile	3.6	3.3	2.3	2.0	1.6	1.7	10.7	11.5	9.0	7.7	6.7	7.5
6 th - 9 th decile	10.0	10.2	10.1	9.6	9.6	8.8	17.4	18.8	19.0	18.3	18.2	17.4
10 th decile	21.2	19.8	21.6	22.1	20.8	20.4	30.0	30.1	32.5	32.0	30.2	29.7
Top 1%	34.8	30.8	32.1	34.1	31.1	30.5	42.8	42.7	41.7	41.8	38.8	37.1
Top 0.1%	42.1	37.3	36.8	39.4	34.5	33.7	48.6	48.2	43.5	44.8	40.9	38.7
Top 0.01%	43.4	38.5	37.7	39.8	33.4	32.9	47.9	47.1	42.4	44.6	40.1	38.3
Top 0.001%	42.3	37.1	43.1	38.7	30.7	31.0	46.6	45.7	48.1	44.7	39.8	38.2
Top 0.0001%	43.6	32.8	48.2	35.4	25.2	28.7	49.4	49.6	51.5	44.2	39.3	38.3
Total	12.2	11.8	12.4	12.1	11.7	11.3	21.5	22.4	23.7	23.1	22.4	22.1

1) For the definition of gross income, see Section 4.- 2) Less child allowance.
Source: ITR-SOEP data base.

This development holds true even if one adds liability from local business taxation. This makes sense since income from unincorporated businesses is also subject to progressive taxation and this regulation applies in particular for the top 1%, 'since the share of business income is strongly increasing in gross income, adding the local business tax burden has a considerable effect at the top of the income distribution' (p.17).

Table 5: Average income tax rates including the local business tax burden, 1992-2005

Gross income ¹⁾ plus local business tax liability fractiles	Assessed income tax liability (including solidarity surcharge) plus local business tax liability											
	in percent of gross income ¹⁾ plus local business tax liability less deducted losses carried forward/back						in percent of taxable income ²⁾ plus local business tax liability					
	1992	1995	1998	2001	2004	2005	1992	1995	1998	2001	2004	2005
1 st - 5 th decile	3.7	3.4	2.4	2.1	1.6	1.7	10.8	11.7	9.2	8.0	6.9	7.7
6 th - 9 th decile	10.1	10.3	10.2	9.7	9.7	8.9	17.7	18.9	19.2	18.5	18.4	17.7
10 th decile	22.8	21.1	22.8	23.4	22.1	21.9	31.9	31.8	34.0	33.7	31.8	31.6
Top 1%	38.2	34.3	34.8	37.3	34.3	34.0	46.4	46.6	44.6	45.2	42.3	40.9
Top 0.1%	46.6	42.8	40.4	44.3	39.7	38.9	53.0	53.9	47.2	49.8	46.4	44.2
Top 0.01%	48.4	45.0	41.4	45.8	39.9	38.9	52.9	53.7	46.1	50.7	47.1	44.7
Top 0.001%	47.4	43.5	47.1	45.4	37.1	36.7	51.7	52.2	52.0	51.7	47.4	44.6
Top 0.0001%	49.7	40.6	51.7	41.8	31.5	32.3	55.6	57.2	54.9	51.9	47.2	43.1
Total	12.8	12.3	12.8	12.7	12.3	11.9	22.4	23.1	24.4	24.0	23.2	23.1

1) For the definition of gross income, see Section 4. - 2) Less child allowance.
Source: ITR-SOEP data base.

If Bach, Corneo and Steiner conclude, therefore, that the top 10% carry indeed the most heavy burden as far as income tax is concerned (p.15), that income taxation in Germany is indeed progressive and an effective contribution to the reduction of inequality (p.19), this does, as the data demonstrate, at the same time exclude the top 0.001 % and 0.0001% of Germany's income earner and wealth holder.

Looking at the development of gross and net income over time, the following applies:

- When comparing income one can state that in 2005 net income (8%) after taxation does indeed decrease gross income concentration (10%) for the top 1%.
- At the same time and over time, however, income concentration among the top 1% increased from 9% to 10% gross, to 6.8% to 8% net. In particular, income concentration increased for the top 0.01% and above.

Table 6: Distribution of gross and net income, 1992-2005

Gross income ¹⁾ fractiles	Gross income ¹⁾						Net income ²⁾					
	structure by income fractiles in percent						structure by income fractiles in percent					
	1992	1995	1998	2001	2004	2005	1992	1995	1998	2001	2004	2005
1 st - 5 th decile	20.04	19.99	19.49	19.46	18.67	19.20	21.99	21.90	21.71	21.69	20.81	21.27
6 th - 9 th decile	48.70	48.94	47.66	48.18	48.58	47.41	49.93	49.80	48.86	49.56	49.76	48.75
10 th decile	31.26	31.07	32.85	32.36	32.75	33.39	28.07	28.30	29.43	28.75	29.43	29.99
Top 1%	9.05	8.46	10.06	9.17	8.99	10.04	6.78	6.70	7.86	6.95	7.08	7.91
Top 0.1%	3.49	3.14	4.36	3.54	3.41	4.27	2.34	2.29	3.21	2.49	2.57	3.23
Top 0.01%	1.39	1.31	2.01	1.49	1.52	2.09	0.91	0.94	1.46	1.04	1.16	1.59
Top 0.001%	0.46	0.49	0.72	0.56	0.68	1.02	0.31	0.36	0.49	0.40	0.53	0.80
Top 0.0001%	0.11	0.14	0.21	0.17	0.29	0.49	0.07	0.11	0.13	0.12	0.25	0.39
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Gini coefficient	0.4437	0.4442	0.4581	0.4549	0.4639	0.4616	0.4148	0.4162	0.4245	0.4158	0.4248	0.4252

1) For the definition of gross income, see Section 4. - 2) Gross income less assessed income tax liability, disregarding other direct taxes on household income or wealth, social security contributions, and other charges levied by public authorities.
Source: ITR-SOEP data base.

Beyond that, the authors emphasized that reforms of personal income tax greatly reduced that tax burden for top wealth holder anyhow: due to decreases in tax rates 1992-2005, the effective tax rate decreased by about 23% for the top percentile and 35% for the super-rich (p.17f.), see also GER/V/5.4.1.

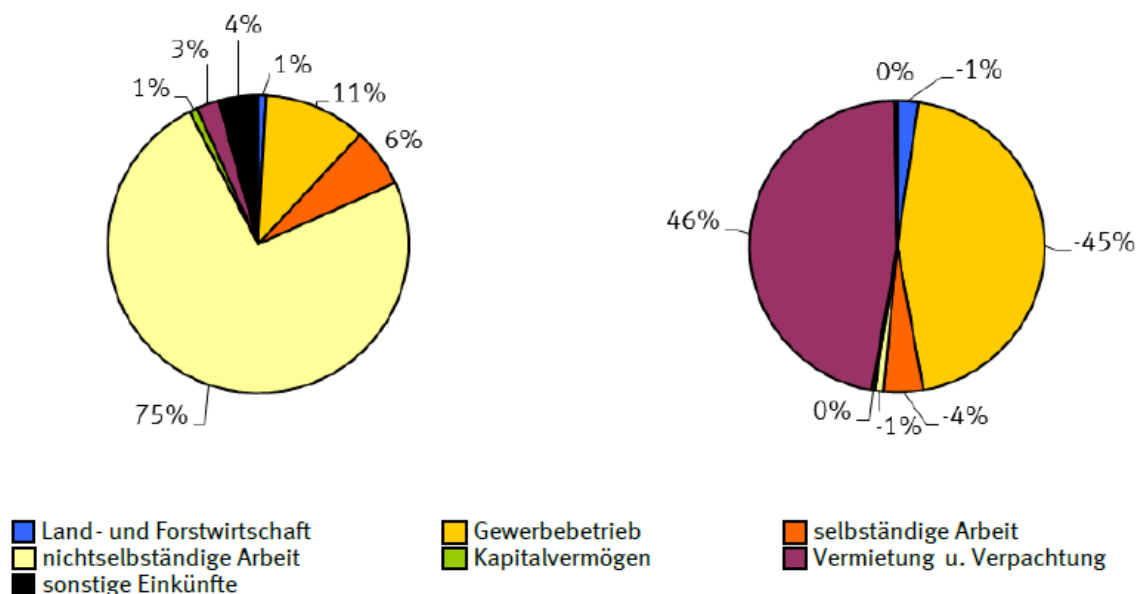
Even though, for this research two things need to be considered because of data and developments not included:

- First that even the data given to this research team was not giving a comprehensive overview about income and earnings of top income and wealth-holder, because: the material did not contain retained profits of capital businesses so that total income of wealthy business owning and controlling families is not totally transparent. The tax return data only contained information regarding distributed profits which at the top end of income distribution only a small fraction.
- Second, data of this study reaches only up to 2005 and does not take into account taxation reforms after 2005 and developments around the World Financial and Economic Crisis and after. Since then, for example, taxation on income from capital changed as well as tax planning options, which were available after unification, expired.

If one looks at the annual reporting of the Federal Statistical Office on Income Taxes in Germany, also in the years 2008 and 2011 losses in the areas of businesses, rent and leasing were the most prominent areas of “negative income” a.k.a. losses:

Positive Einkünfte (1 124 241 Mill. Euro)

Negative Einkünfte (-22 319 Mill. Euro)



Source 14 (Federal Statistical Office, 2015a, p. 11)

Since negative income can be netted against positive income it is noteworthy that in the area of income from rent the taxable income can be lowered by almost half. This might indicate that Bach, Corneo and Steiners analysis is still holding to some extent.

Findings of this study were also included in a follow up paper (Bach, Beznoska, & Steiner, Wer trägt die Steuerlast in Deutschland? Verteilungswirkungen des deutschen Steuer- und Transfersystems, 2016), amended with findings by the SOEP and EVS. Here, too, the concentration of income is stated, especially the inability of research to really capture income at the top level due to the lack of transparency.

Income taxes including solidarity tax and business tax have strong progressive effects. Until the middle incomes, the average imposition is under 5%. In the upper deciles, the average tax rate increases to 25% in the 10th decile and to 35% for the top 1%, and to 38% for the top 0.1% (2015). But with the business tax only the rate impositions of the distributed profits are taken into account. There are no information in the income tax statistics about the withheld profits of the corporations. As far as these are considered within the frame of sensitivity calculations and while fewer effective tax impositions are assumed, the tax progression is clearly reduced especially in the topmost income area.⁴⁶

8.3.2 SOEP & Wealth Lists

Into this category also belong findings by Vermeulen, who adjusted HFCS findings upwards by adding information from wealth ranking (see GER/IV/2.1.9.3).

8.3.2.1 *Grabka/Westermeier 2015*

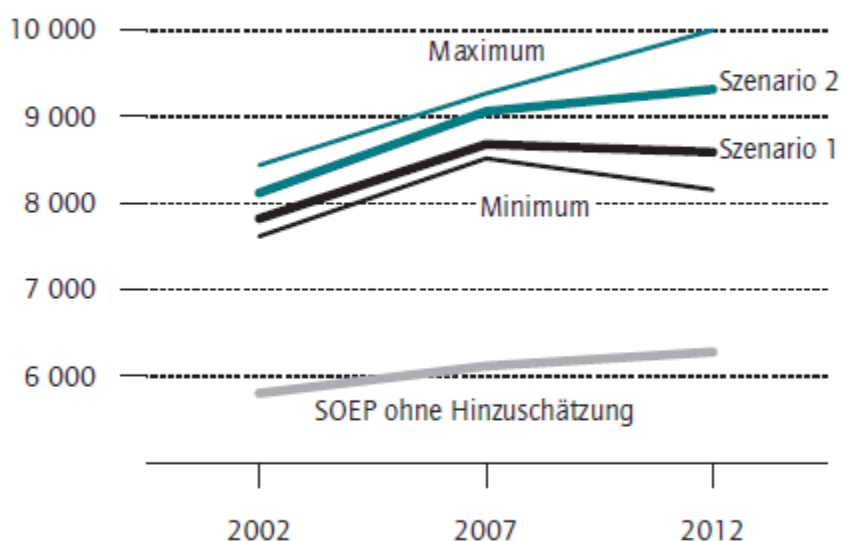
Grabka/Westermeier combine the German entries 'of the Forbes list with survey data and create an augmented data basis and the new estimates show an increase of the total net worth starting from Forbes wealth ranking by between one third and 50 percent, depending on the scenario. (Grabka & Westermeier, 2015a). According to their findings, also in Germany the share of wealth held by the top-1 percent needs to be adjusted upwards.

As Grabka/Westermeier point out, the total amount of private wealth and the share of the top 1% and top 0.1% depends on calculation scenarios:

⁴⁶ Die Einkommensteuern einschließlich Solidaritätszuschlag und Unternehmensteuern wirken stark progressiv. Bis zu den mittleren Einkommen liegt die Durchschnittsbelastung unter 5 Prozent des Bruttoeinkommens. In den oberen Dezilen steigt der Durchschnittsteuersatz auf 25 Prozent im 10. Dezil und auf 35 Prozent für die Top 1% sowie auf 38 Prozent für die Top 0,1% an (2015). Bei den Unternehmensteuern werden allerdings nur die Tarifbelastungen der ausgeschütteten Gewinne einbezogen. Zu den einbehaltenen Gewinnen der Kapitalgesellschaften gibt es keine Informationen in der Einkommensteuerstatistik. Soweit diese im Rahmen von Sensitivitätsrechnungen berücksichtigt und dabei geringere Effektivsteuerbelastungen angenommen werden, reduziert sich die Steuerprogression vor allem im obersten Einkommensbereich deutlich. (Bach, Beznoska, & Steiner, 2016, p. 92f.)

Netto-Gesamtvermögen der Privathaushalte¹ unter Hinzuschätzung des Top-Vermögensbereichs

In Milliarden Euro



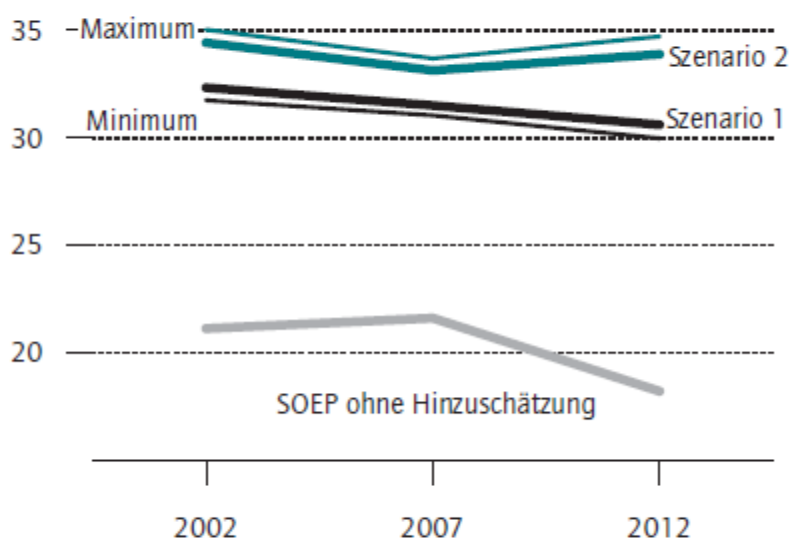
¹ Privathaushalte ohne Anstaltsbevölkerung.

Quellen: SOEPv29; Forbes-Magazin; eigene Berechnungen.

Source 15 (Grabka & Westermeier, 2015a, p. 130)

Anteil der Top-1-Prozent am Nettogesamtvermögen¹

In Prozent



¹ Privathaushalte ohne Anstaltsbevölkerung.

Quellen: SOEPv29; Forbes-Magazin; eigene Berechnungen.

Source 16 (Grabka & Westermeier, 2015a, p. 131)

8.3.2.2 Bach, Thiemann, Zucco 2015

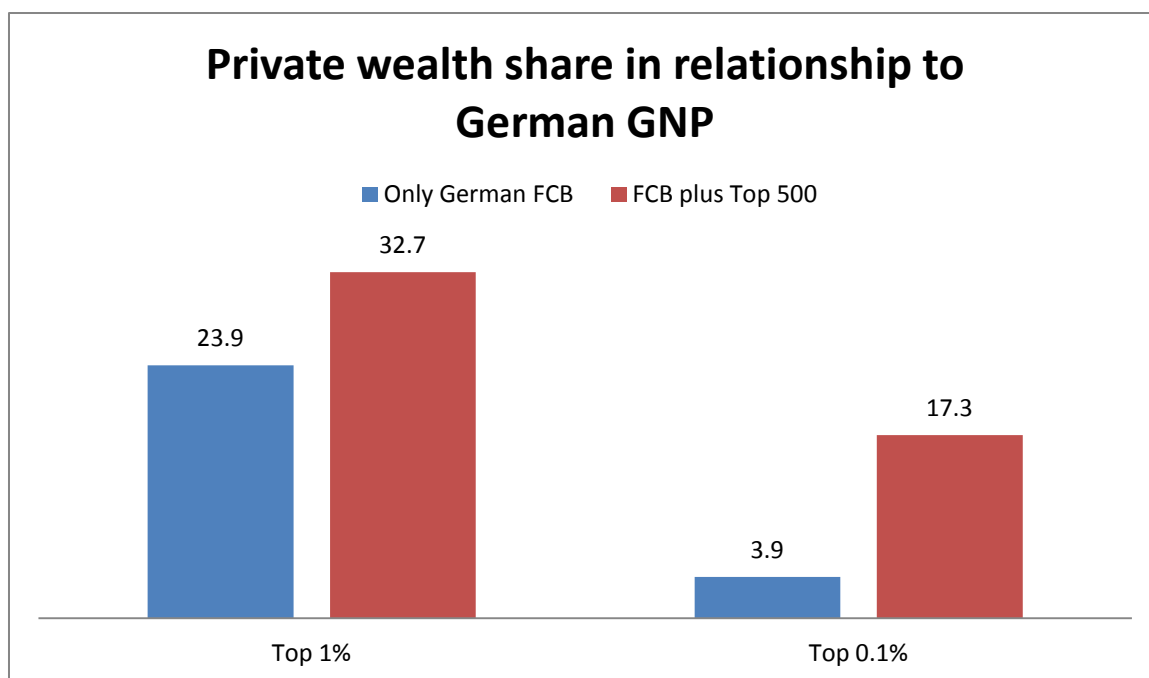
A similar publication combining quantitative data with imputed data from Wealth Rankings is the one from (Bach, Thiemann, & Zucco, 2015), which, at the same time, compares top wealth holder in Germany, France, Spain and Greece. They, too, start with the observation that there is a gap (“missing households”) between the top wealth households emerging from the Federal German Banks survey-based ranking and the bottom household published in wealth rankings. Compared to France, Spain and Greece, this gap is particularly large for Germany. Different from Vermeulen, they combine and compare insights from Forbes with National Wealth Rankings, for Germany that of the Manager Magazines annual Top 500, of which they only select the top 200 and ‘impute synthetic household net wealth for the missing wealth based on the Pareto coefficients for each country’ (p.10). That way, they arrive at similar findings as those of Vermeulen, the share of wealth held by the top 1 percent of German households jumps up considerably from 24% (Federal Central Bank only) to 33% and the Gini for German wealth distribution increases from 0.75 to 0.78. The result for Germany is as follows:

Fractiles household net wealth	Database HFCS			Database HFCS including imputed top wealth distribution		
	Percentile	Total		Percentile	Total	
	1 000 Euro	bill. Euro	%	1 000 Euro	bill. Euro	%
1 st - 5 th decile	\	222	2.9	\	222	2.5
6 th decile	52	294	3.8	52	294	3.4
7 ^h decile	99	501	6.5	99	501	5.7
8 th decile	165	847	10.9	165	847	9.7
9 th decile	262	1 313	17.0	262	1 313	15.0
10 th decile	438	4 567	59.0	438	5 578	63.7
Total	\	7 743	100.0	\	8 755	100.0
Top 7,5%	525	4 061	52.5	525	5 073	57.9
Top 5%	668	3 517	45.4	668	4 529	51.7
Top 2,5%	1 063	2 694	34.8	1 063	3 705	42.3
Top 1%	1 887	1 847	23.9	1 887	2 859	32.7
Top 0,5%	3 317	1 363	17.6	3 400	2 369	27.1
Top 0,1%	13 581	306	3.9	10 900	1 516	17.3
Summary inequality measures of household net wealth						
Gini coefficient	0.7461			0.7751		
Entropy meas. ¹⁾						
GE(1)	1.2894			1.8493		
GE(2)	5.5693			326.84		
1) GE(1) is the Theil index, and GE(2) is half the square of the coefficient of variation.						

Source: HFCS, 2011, own calculations.

Source 17 (Bach, Thiemann, & Zucco, 2015, p. 23)

In a graphic, this looks as follows:



Source 18 (Bach, Thiemann, & Zucco, 2015, p. 23)

When (Bach, Thiemann, & Zucco, 2015) compare Germany with France, Spain and Greece, based on combined data from Central Banks, Forbes and national wealth rankings, wealth concentration is by far larger in Germany than in other countries:

	Data	Excluding rich lists			National rich list			Forbes		
		> 0.5m	> 1m	> 2m	> 0.5m	> 1m	> 2m	> 0.5m	> 1m	> 2m
Share of net wealth hold by the top 5%										
Germany	45.4	48.7	47.7	46.2	51.7	51.9	52.1	50.8	50.9	52.4
France	36.3	31.0	31.1	31.5	38.8	39.3	39.8	36.7	37.4	38.7
Spain	30.6	26.0	26.2	26.5	32.1	32.9	33.7	29.9	30.4	32.8
Greece	25.1	22.1	22.1	23.8	28.2	29.5	40.5	36.2	40.1	38.6
Share of net wealth hold by the top 1%										
Germany	23.9	28.4	27.0	24.9	32.7	32.9	33.2	31.3	31.5	33.6
France	17.8	12.5	12.7	13.2	21.0	21.6	22.3	18.3	19.1	20.9
Spain	14.8	9.6	9.8	10.1	16.7	17.7	18.7	13.9	14.6	17.5
Greece	7.9	6.4	6.3	8.4	11.7	13.3	26.8	21.5	26.3	24.4
Share of net wealth hold by the top 0.1%										
Germany	3.9	12.8	11.4	9.4	17.3	17.6	17.9	15.8	16.1	18.1
France	6.9	3.8	4.0	4.4	10.2	10.8	11.4	7.3	8.2	9.9
Spain	5.9	2.7	3.0	3.2	8.0	9.0	9.9	5.2	5.8	8.6
Greece	1.4	1.0	1.0	2.3	4.7	6.0	13.9	14.3	18.7	17.0
Notes: The national rich lists are: Manager Magazine 200 (Germany), Challenges 200 (France), El mundo rich list (Spain) and the Greek Rich List (Greece).										

Source: HFCS, 2011, National rich lists, own calculations.

Source 19 (Bach, Thiemann, & Zucco, 2015, p. 27)

The Bach/Thiemann/Zucco database covers all years from 2008 to 2011. For the following years, given the overall economic development, net wealth for Spain and Greece should have dropped due to plummeting real estate markets. ‘In Germany, the opposite is true. Historically low interest rates discriminate fixed-income securities such as bank deposits or pension plans, and favor investments in real assets such as real estate, businesses or corporation shares. As the latter dominate top wealth strata, the wealth distribution might have concentrated further, at least in Germany and France.’ (p. 30)

8.3.2.3 Credit Suisse 2015

When looking at the Middle Class, the anchor of stability in each country and thematic focus of the 2015 Credit Suisse Wealth Report, the following observations are interesting. Middle class is defined as individuals having wealth between USD 50,000 and USD 500,000. Here, the German share is said to be 42.5% of all adults, the share is increasing when adding those whose net-wealth is higher than USD 500,000, then reaching 50%, which implies that Credit Suisse sees 50% of the German adult population to live by now below middle class (Credit Suisse, 2015, p. 32). Overall, wealth for the middle class and higher increased in Germany since the year 2000, but less so than the increases of the group beyond middle class:

Abbildung 5 Change in total wealth 2000-2015

Change in total wealth of middle class, 2000–2015, for regions and selected countries

Period	Middle class and beyond							Middle class	Beyond middle class
	2000	2015	2000–15	2000–15	2000–7	2007–8	2008–15	2000–15	2000–15
	Wealth	Wealth	Change in wealth	Change in wealth	Change in wealth	Change in wealth	Change in wealth	Change in wealth	Change in wealth
	USD bn	USD bn	USD bn	%	USD bn	USD bn	USD bn	USD bn	USD bn
United States	42,298	84,824	42,526	100.5	21,433	–12,494	33,587	7,098	35,428
China	2,145	15,412	13,267	618.4	8,284	–2,775	7,757	5,634	7,633
United Kingdom	6,947	15,255	8,308	119.6	7,651	–5,268	5,925	2,692	5,616
France	4,370	12,437	8,067	184.6	9,381	–1,234	–81	2,622	5,444
Germany	5,612	11,630	6,018	107.2	6,706	–530	–158	2,108	3,910

Source 20 (Credit Suisse, 2015, p. 36)

This links with the observation in GER/IV illustrating increases at the top and stagnation at the bottom.

8.3.2.4 Bach, Beznoska, Thiemann 2016

(Bach, Beznoska, & Thiemann, 2016, p. 22) seems to support the findings of Bach, Thiemann and Zucco regarding the increasing concentration of wealth of German top wealth holder by taking the year 2011 as point of comparison, even though admitting that there is a valuation problem, making the establishment of the true value of assets difficult.⁴⁷ Having said that, the composition and distribution of wealth assets in 2011 is as follows:

⁴⁷ Der Kapitalisierungsfaktor nach § 203 Bewertungsgesetz (BewG), der bei der steuerlichen Unternehmensbewertung nach dem vereinfachten Ertragswertverfahren zur Kapitalisierung der nachhaltig zu erzielenden Erträge verwendet wird, ist für die Bewertung der nicht börsennotierten Unternehmen maßgeblich. Dieser Kapitalisierungsfaktor ist gegenüber 2011 um 26 Prozent gestiegen. Angesichts der gestiegenen Vermögenspreise dürfen sich die Vermögenswerte der privaten Haushalte in Deutschland seit 2011 deutlich erhöht haben. Dies gilt vor allem für die Vermögenswerte im oberen und obersten Bereich der Verteilung, die im Wesentlichen aus Unternehmen und Unternehmensbeteiligungen bestehen. Insoweit dürfte sich auch die Vermögensverteilung weiter konzentriert haben. Allerdings könnten die Vermögenspreise durch die derzeit sehr lockere Geldpolitik deutlich überzeichnet sein und damit nicht nachhaltig sein. Daher wird in dieser Studie auf eine Fortschreibung der Vermögenswerte verzichtet. (Bach, Beznoska, & Thiemann, 2016, p. 21)

Tabelle 1
Vermögen der privaten Haushalte in Deutschland 2011
nach Dezilen des Nettovermögens und Vermögensarten

Dezile Netto- vermögen je Haushalt	Immobilienvermögen		Geld- und Wert- papier- vermögen	Unter- nehmens- vermögen	Wert- sachen, Fahrzeuge	Brutto- Vermögen	Verbind- lichkeiten	Netto- Vermögen
	eigen- genutzt	vermietet und sonstige ¹⁾						
Vermögenswerte in Mrd. Euro								
1.-5. Dezil	150	46	201	5	68	470	248	222
6. Dezil	194	40	148	4	38	424	130	294
7. Dezil	332	74	187	11	36	640	140	501
8. Dezil	602	109	198	12	48	970	122	847
9. Dezil	867	167	339	30	61	1 463	151	1 313
10. Dezil	1 464	1 368	797	1 081	125	4 835	268	4 567
Insgesamt	3 609	1 804	1 870	1 143	376	8 802	1 059	7 743
Vermögenswerte in %								
1.-5. Dezil	4,2	2,5	10,7	0,5	18,1	5,3	23,5	2,9
6. Dezil	5,4	2,2	7,9	0,4	10,0	4,8	12,3	3,8
7. Dezil	9,2	4,1	10,0	1,0	9,6	7,3	13,2	6,5
8. Dezil	16,7	6,0	10,6	1,1	12,9	11,0	11,6	10,9
9. Dezil	24,0	9,3	18,1	2,6	16,1	16,6	14,2	17,0
10. Dezil	40,6	75,9	42,6	94,5	33,2	54,9	25,3	59,0
Insgesamt	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Haushalte mit Vermögenswerten in 1 000								
1.-5. Dezil	2 010	776	18 700	559	10 849	19 008	9 399	19 259
6. Dezil	1 937	405	3 927	197	3 483	3 971	1 938	3 971
7. Dezil	2 761	812	3 947	309	3 447	3 962	1 886	3 962
8. Dezil	3 509	987	3 972	222	3 481	3 991	1 775	3 991
9. Dezil	3 707	1 308	3 927	407	3 579	3 941	1 784	3 941
10. Dezil	3 614	2 734	3 962	1 271	3 485	3 963	1 914	3 963
Insgesamt	17 539	7 022	38 434	2 965	28 325	38 837	18 697	39 089
Vermögenswerte je Haushalte in Tsd. Euro								
1.-5. Dezil	74,5	58,8	10,7	9,7	6,3	24,7	26,4	11,5
6. Dezil	100,2	98,7	37,6	21,4	10,9	106,8	67,0	74,1
7. Dezil	120,3	91,5	47,3	36,1	10,5	161,6	74,2	126,3
8. Dezil	171,5	110,2	50,0	54,5	13,9	242,9	69,0	212,3
9. Dezil	233,8	127,6	86,3	73,7	16,9	371,3	84,4	333,1
10. Dezil	405,1	500,5	201,1	850,3	35,9	1 219,8	140,1	1 152,2
Insgesamt	205,8	256,9	48,6	385,7	13,3	226,6	56,7	198,1
1) Einschließlich Häuser, Garagen, Büros, Hotels, sonstige gewerbliche Gebäude, landwirtschaftlichen Gebäude und Grundstücke. Quelle: Berechnungen mit der Erhebung „Household Finance and Consumption Survey“ (HFCS) 2011.								

Source 21 (Bach, Beznoska, & Thiemann, 2016, p. 15)

Looking at trends and tendencies, it is their conviction that concentration as well as value will continue to rise in all areas:

Tabelle 3

Entwicklung von Geldvermögensbeständen privater Haushalte, Immobilienpreisen, Vermögen der Superreichen, Kapitalisierungsfaktoren für die Unternehmensbewertung und Wertpapierindizes 2005-2014
Index 2011 = 100

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Geldvermögen ¹⁾	90,7	91,2	96,0	91,7	95,2	99,1	100,0	104,9	109,1	113,7
Verbindlichkeiten ¹⁾	101,1	101,0	99,6	98,7	98,6	98,9	100,0	101,0	101,7	103,1
Nettogeldvermögen	85,5	86,2	94,2	88,1	93,5	99,2	100,0	106,9	112,9	119,1
vdp Immobilienpreisindizes ²⁾										
Wohnen	94,1	94,2	95,7	97,5	96,7	97,3	100,0	103,9	108,1	113,5
Gewerbe	90,5	102,5	104,1	102,8	97,2	97,6	100,0	103,3	108,1	112,2
Gesamtindex	93,2	96,2	97,7	98,7	96,8	97,4	100,0	103,8	108,1	113,1
Vermögen d. reichst. 300 Deutschen manager magazin-Liste 2005-2014	77,3	92,6	111,5	110,9	92,6	106,9	100,0	134,9	142,3	164,8
Kapitalisierungsfaktor nach § 203 Bewertungsgesetz (BewG) ³⁾	.	81,5	76,4	85,6	81,8	87,5	100,0	106,1	97,9	126,4
Performanceindizes Wertpapiere ⁴⁾										
Deutscher Aktienindex (DAX)	91,7	111,8	136,8	81,6	101,0	117,2	100,0	129,1	161,9	166,2
Composite DAX (CDAX) ⁵⁾	92,1	114,3	137,6	79,0	99,1	117,4	100,0	129,3	163,8	168,9
Deutscher Rentenindex (REX)	74,7	74,9	76,8	84,6	88,8	92,3	100,0	104,6	104,1	111,5

1) Geldvermögensrechnung der Deutschen Bundesbank, einschließlich privater Organisationen ohne Erwerbszweck, Stand Jahresende.- 2) vdpResearch GmbH, Jahresdurchschnittswerte.- 3) Stand zum Jahresanfang des Folgejahrs.- 4) Stand zum Jahresende.- 5) Enthält alle an der Frankfurter Wertpapierbörse notierten deutschen Aktien.
Quelle: Deutsche Bundesbank, manager magazin, vdpResearch GmbH.

8.3.3 The question of inheritance regarding wealth concentration

Common sense, but also research indicates that inheritance has something to do with the consolidation and concentration of wealth. Even the Scientific Advisory Council at the Federal Ministry of Finance quotes (affirmatively) a study according to which in Germany 65% of wealth assembles via transfers of gifts and inheritances.⁴⁸ But there is a lot more of insight available, consolidating into a worrying picture.

8.3.3.1 Credit Suisse, Wealth-X, UBS...

(Not) surprising, a number of statements can be found in wealth reports. One of the more famous one is of Wealth X and UBS.

Wealth-X & UBS, (2014) research says that 28% of UNHWIs in Germany exclusively inherited, 31% both inherited and self-made, 41% self made, what is internationally seen very high.– accordig to Wealth-X the highest share in the world (see below 9.2). Another, more recent study regarding Germany only, states that 76% are inherited, the rest is mixed or earned.⁴⁹

But also Credit Suisse stated in its Wealth Report 2014

‘Property rights and inheritance customs are core subjects in understanding the level of wealth inequality and its transmission over time.... In advanced industrial societies ... inheritance remains an important route to wealth ownership for some people. Furthermore, inherited

⁴⁸ Davies et al. (2012, S. 32) gehen davon aus, dass in Deutschland rund 65 Prozent des Vermögens durch Erbschaften erworben werden. (Bundesministerium der Finanzen, 2013a, p. 27)

⁴⁹ <http://www.wealthx.com/germany-has-123-billionaires/>

wealth tends to be quite unequal since middle and lower income families cannot afford to bequeath much, so children of the wealthy benefit disproportionately. ... Overall ... it is likely that inheritance tends to raise the level of wealth inequality and to ensure that wealth inequality persists over time, especially in slower growth economies.' (Credit Suisse, 2014, p. 35f.).

8.3.3.2 *Braun and colleagues*

Next, the work Braun and colleagues did in the context of the Deutsche Institut für Altersvorsorge. Braun quotes the Wealth-X/UBS study according to which Germany has most UNHWIs, right behind the US, and that a larger share than elsewhere (the US included) acquire their wealth via inheritance. He agrees, because Germany has a large population and is home to many old fortunes. Braun reminds, however, that concentration only proceeds if the inheritance is passed on to one heir. When the legacy is divided among 2 or 3 heirs, concentration might be even diminishing (Braun, 2015, p. 57)

Admittedly, inheritances and gifts do not generate wealth and income per se and therefore do not increase inequality.⁵⁰ They just redistribute wealth already present. However, they consolidate inequality at present and, probably, even more in future (Braun, Pfeiffer, & Thomschke, 2011, p. 29ff.+44f.):

- The value of real property will decrease parallel to the decreasing population and demand for flats and houses
- At the same time, this development will not be even all over the country, but regions and towns which are attractive for economic or other reasons will attract people with resulting increases in rent while the profitability of real property elsewhere will plummet.
- Low income households who live in rented property will continually loose out since they cannot accumulate wealth and property while those who have better income will consolidate and improve their position
- Longevity will increase the need for care and health spending in high age, which will diminish small resources and savings faster than those who are plentiful.

8.3.3.3 *Bönke, Corneo, Westermeier 2015*

A study attempting to determine the relationship between earned and inherited wealth for Germany is (Bönke, Corneo, & Westermeier, 2015). Their problem is that the PHF survey data does not contain any households with a net worth within the three digit million Euro range. And they also admit that participation in those surveys is up to errors due to errors and intentional omissions (p.33). On their basis, the share of inheritances making up the wealth of households belonging to the top decile is around one third, the rest is, accordingly self-earned. Within the top decile are about 20% of households which inherited their total wealth, and about one third which inherited nothing at all (p. 18). Given the lack of data regarding the top 1% they ask whether it might be different from the rest of the population. Here they draw from Finance Literature, arguing that the higher up a household is, the higher the share of capital is within their portfolio, the higher is their willingness to take risks in investing, the higher is their profit, the faster rises their wealth. If it is like that: 'Accordingly, the share of inherited wealth of the net wealth of the upper class is around four fifth and therefore

⁵⁰ „Über den Lebenslauf ergibt sich vielmehr eine Kumulation sozialer Ungleichheit durch familiäre Generationensolidarität“. (Szydlík in Druyen/Lauterbach/Grundmann S. 143); see also (Beckert, 2013)

substantially higher than for the rest of the population. This suggests that inheritance is the dominating power behind the asset formation of the superrich.’⁵¹

8.3.3.4 Ströing, Lauterbach, Grabka

On 19 October 2016, the latest study on the importance of inheritances for the formation of great fortunes was published by the DIW (Ströing, Grabka, & Lauterbach, 2016). There is not much new coming out in this study which has not been dealt with already elsewhere:

- 75% of ultra wealthy (here defined as those having EUR 1 million and more at their disposition) have, when 40 years old, already inherited or received gifts, some even multiple.
- Large wealth goes along with high incomes
- They claim to work harder and longer.
- They claim to be more willing to take risks.
- High wealth equals high financial assets, with rising wealth business assets gain in importance (one reason for the many loopholes in the reformed Inheritance and wealth tax).
- Etc.

Only the first issue shall be demonstrated here since it illustrates the decisive importance of inheritance when it comes to large fortunes:

Vermögend durch...	Relevante Gründe ¹			Hauptgrund		
	Frauen	Männer	Insgesamt	Frauen	Männer	Insgesamt
Erbschaft/Schenkung	61	69	67	27	38	35
Selbständigkeit/ Unternehmertum	39	67	60	31	44	40
Immobilienbesitz	39	43	42	3	2	2
Finanzgeschäfte	45	32	35	6	4	5
Abhängige Erwerbstätigkeit	36	27	29	12	9	10
Heirat	36	19	23	21	3	8

¹ Mehrfachangaben möglich.

Quelle: HViD (2014), Berechnungen Universität Potsdam und DIW Berlin.

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Erbschaften und Schenkungen sind entscheidend für den Vermögensaufbau.

Source 22 (Ströing, Grabka, & Lauterbach, 2016, p. 1001)

Another interesting table is the following, illustrating the professions of the ultra wealthy: It shows that even among the wealthy there are no more idle “rentiers” than in the rest of the population, but over average self-employed people with businesses to lead, i.e. they indeed are willing to work and, most likely, to work hard.

⁵¹ Wenn dem so ist: ‘Dementsprechend beträgt der Anteil des geerbten Vermögens am Nettovermögen der Oberschicht gut vier Fünftel und ist damit substantiell höher als für die restliche Bevölkerung. Dies suggeriert, dass Erbschaften die dominierende Kraft hinter der Vermögensbildung der Superreichen sind.’ (p. 30).

Berufliche Stellung von Haushaltsvorständen

In Prozent

	Gesamtbevölkerung	darunter		Hochvermögende (HVid)
		Mittlere Einkommen (SOEP)	Sehr Wohlhabende (SOEP)	
Rentner/Privatiers	36	39	18	37
abhängige Beschäftigte und Arbeitslose insgesamt	58	56	57	22
Arbeitslos/nicht erwerbstätig/in Ausbildung/Wehr-/Zivildienst ¹	11	6	5	1
Arbeiter/Facharbeiter/Meister/Angestellte/mithelfende Familienangehörige	43	47	35	5
Angestellte mit umfassenden Führungsaufgaben	1	0	11	12
Beamte	4	2	7	4
Selbständige insgesamt	7	5	26	42
Darunter:				
Freie Berufe/selbständige Akademiker/sonstige Selbständige	3	2	17	12
Selbständige/Unternehmer mit < 10 Mitarbeitern	4	3	7	12
Selbständige/Unternehmer mit ≥ 10 Mitarbeitern	0	0	2	17
Gesamt	100	100	100	100

¹ Inklusive „keine Angabe“; der Anteil der Ausprägung „keine Angabe“ beträgt von links nach rechts in Prozent: 0,0 / 0,7 / 0,8 / 0,2.

Quelle: HVid (2014), SOEPv30, Privathaushalte, Berechnungen Universität Potsdam und DIW Berlin.

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Bei den Hochvermögenden sind überdurchschnittlich viele Selbständige.

Source 23 (Ströing, Grabka, & Lauterbach, 2016, p. 1003)

As much as one respects their input in running businesses, however, the question remains with what legitimacy all that which they created and earned shall untouched be passed on to the next generation which, after all, profited enough from the circumstances within which they grew up.

8.3.3.5 Piketty, Stiglitz, Hecker...

One could go on more on that, but: The critique of Piketty and Stiglitz regarding today's form of capitalism is well known, i.e. that owner of large amount of capital is favoured over "smallholder" and that inheritance is a major mechanism for the growth and concentration of fortunes. Especially Piketty linking the concentration of capital and private wealth to inheritance and gifts contributed to the awareness of the emergence of a "patrimonial capitalism" especially in Europe:

At the beginning of the 1970s, the total value of private wealth (net of debt) stood between two and three and a half years of national income in all the rich countries, on all continents. Forty years later, in 2010, private wealth represented between four and seven years of national income in all the countries under study. The general evolution is clear: bubbles aside, what we are witnessing is a strong comeback of private capital in the rich countries since 1970, or, to put it another way, the emergence of a new patrimonial capitalism. (Piketty, 2014a, p. 172)

This view is also shared by a senior member of the Federal Central Bank, Hecker. He also joins Piketty and Stiglitz in the assessment that large fortunes create even larger fortunes via inheritances, which creates Erbholigarchien (Stiglitz) or patrimonial capitalism (Piketty).

Even if you do not share Stiglitz' radical critique, you cannot deny against the background of a growing income and wealth concentration the dangers in many developed economies of realizing equity of chances. At least in parts, a return to patrimonial society structures is imminent which is characterized that not by individual performance but by primarily inherited wealth (like in former times the inherited status affiliation) the respective status and the chances of advancement are depending.⁵²

See more in GW/II#.

8.3.3.6 Discussion

The conclusions of Bönke, Corneo and Westermeier are disputed because the question of risk-taking plays a central role following the motto "Whoever has much capital, risks much, receives much".

A study of the University of St. Gallen into family empires does not state irresponsible risk taking: Careful calculation precedes acquisitions which are, not necessarily, held on a matter of principle. The study finds further that there is a mix of "buy, build and selectively quit" again (Universität St. Gallen, 2014a, p. 42ff.). This supports findings that family businesses, even on the largest scale, are very different from Private Equity which comes in and sells fast (see below, 9.5.3).

Vice versa, the UBS/PwC study on Billionaires states "smart risk taking" with self-made/FOMO billionaires who did not inherit anything (UBS & PwC, 2015)

Equally a tax consultant questions that heirs to fortunes are more risk-taking than others:

The average really is just the average, and not the typical case, I would assume. In reality, extremes appear more often, meaning many very rich persons who inherited almost everything and even more who comparatively to today's total wealth inherited almost nothing. To this end, also count entrepreneurs who took over an enterprise and multiplied its value over the years and decades. The at least equal in numbers failed enterprise inheritors of this generation with a similar starting point do not appear in this group at all.⁵³

Looking at the persisting core of large fortunes in Germany, however, the importance of inheritance and gifts indeed needs consideration, especially when taking into account the direct and indirect power and influence going along with those fortunes.

⁵² Auch wenn man die Radikalkritik von Stiglitz nicht teilt, lassen sich vor dem Hintergrund einer zunehmenden Einkommens- und Vermögenskonzentration in vielen entwickelten Volkswirtschaften Gefahren für die Verwirklichung von Chancengerechtigkeit nicht verleugnen. So droht eine zumindest partielle Rückkehr zu patrimonialen Gesellschaftsstrukturen, die dadurch gekennzeichnet sind, dass nicht die individuelle Leistung, sondern primär ererbtes Vermögen (wie in früheren Zeiten die ererbte Standeszugehörigkeit) über den jeweiligen Status und die Aufstiegschancen des Einzelnen entscheidet. (Hecker, 2016, p. 4),

⁵³ Der Durchschnitt ist auch wirklich nur Durchschnitt, also nicht der typische Fall, würde ich schätzen. In der Praxis dürften Extreme häufiger auftreten, also viele sehr wohlhabende Personen, die fast alles geerbt haben und noch mehr, die im Verhältnis zum heutigen Gesamtvermögen fast nichts geerbt haben. Dazu zählen auch Unternehmer, die ein Unternehmen übernommen und es im Wert über die Jahre und Jahrzehnte vervielfacht haben. Die mit ähnlicher Ausgangsposition mindestens ebenso zahlreichen gescheiterten Unternehmenserben dieser Generation tauchen in dieser Gruppe ja gar nicht auf.

8.4 Rise and falls

As the chapter on valuation (above 8.2) illustrated, rise and falls are first of all relative in international comparison, depending on the currency chosen. For example:

- Quandt/Klatten lost in just two days EUR 4.5 billion when BMW shares dropped because of the VW Abgasskandals.⁵⁴
- Due to currency turbulences in 2015, Germany lost 392,000 USD millionaires and the overall number sank from 1,917,000 to 1,791,000 (Credit Suisse, 2015, p. 26).

Change in the number of millionaires by country, 2014–2015

Main gains				Main losses			
Adults (thousand) with wealth above USD 1 million				Adults (thousand) with wealth above USD 1 million			
Country	2014	2015	Change	Country	2014	2015	Change
United States	14,753	15,656	903	Japan	2,807	2,126	−681
China	1,181	1,333	152	France	2,422	1,791	−631
United Kingdom	2,296	2,364	68	Germany	1,917	1,525	−392
Hong Kong SAR	101	107	6	Italy	1,504	1,126	−378
				Australia	1,198	961	−237
				Canada	1,160	984	−176
				Sweden	633	520	−113
				New Zealand	386	282	−104
				Spain	454	360	−94
				Belgium	370	278	−92
World	36,122	33,717	−2,405	World	36,122	33,717	−2,405

Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2015

At the same time and in the UHNWIs category, Germany ranked 4th in 2015, behind the US, China and the UK. Due to currency turbulences in 2015, Germany lost 1000 UNHWIs and its overall number now is 4900 (Credit Suisse, 2015, p. 27).

In both cases, of course both HNWI and UHNWIs still kept their wealth and assets as far as they are measured in Euros.

But there are also real (“existential”) ups and downs, accordingly the composition of the national top 1% group is not a static one. The risk of dropping out is particularly high for those who have their wealth assets bound up in a business. Possible consequences are:

- Schlecker was among the German top 400 for years, but after the bankruptcy only EUR 40 mio. were left.
- Madeleine Schickedanz was once one of the wealthiest families before their original empire (Quelle) crumbled, remaining assets in Arcandor were risked and lost and she now has to fight at court for the rest of their fortune, partly supported, partly opposed by Thomas Middelhoff who eventually got arrested and sentenced because of tax evasion.⁵⁵

⁵⁴ <http://www.manager-magazin.de/koepfe/die-reichsten-deutschen-quandt-vor-schaeffler-vor-albrecht-a-1056256.html#ref=plista>

⁵⁵ Schadensersatzforderung gegen Bank Sal. Oppenheimer, Höhe EUR 1.9 billion. See Schickedanz-Prozess: Middelhoff stützt Quelle Erbin (2014 November 3). See: Spiegel online. Retrieved from <http://www.spiegel.de/wirtschaft/unternehmen/schickedanz-prozess-middelhoff-stuetzt-klaegerin-in-teilen-a-1000820.html>

- Adolf Merkle committed suicide when he considered his wealth threatened by the world financial crisis.⁵⁶

Even among the multi-generational business dynasties is fluctuation: The St. Gallen study reveals that only 65 of those entrepreneurial families being among the top 100 in 2001 were there in 2012, while new families replaced them. Success was not necessarily that goods of some “family empires” were no longer sought of and others came in from booming sectors such as IT. Since also traditional businesses remained among the top 100, success was rather secured by skillful innovation, geographical expansion and well-planned acquisition (Universität St. Gallen, 2014a, p. 18ff.).

However: Even though there is also social mobility on part of the Top wealthy, but there is agreement that once somebody is part of the UNHWIs, there is no real danger of “poverty” anymore: ‘Who owns at least 30 Million Dollars does not have to work anymore even while living on big foot... Even big economic crisis cannot do any harm anymore’, said Wealth Asset Manager John Spudy.

8.5 Conclusion

All indications of research reviewed so far is that the wealth concentration for Germany is high and rising, and that it is one of the highest in Europe, even though valuation issues impact on the measurement and comparative statistics.

There is also consolidating evidence that inheritance and gifts contribute to this composition of some of the largest and oldest fortunes in Europe.

Given the power which especially some families wield one might rightly ask whether we live already in times of Erboligarchie (Stiglitz, 2012), economic feudalism (Freeman, 2012), or a patrimonial capitalism (Piketty).

Regarding the composition of the wealth portfolio, various analyses and reports reviewed above have different accents, and yet:

- Increasing importance of business assets: All.
- Increasing importance of real property: All.
- Increasing importance from capital/financial assets/business securities: Bach/Corneo/Steiner, Credit Suisse 2015,

The researchers see nevertheless inaccuracies in National Wealth rankings which might lead to an underestimation of wealth: First of all, assessments by Federal Central Banks surveys rely heavily on ‘self-assessed property valuation of the survey respondents’ which might not reflect realistic market value (Bach, Thiemann, & Zucco, 2015, p. 6). As the Manager Magazin admits, they use merely publicly known or accessible data for their ranking and the authors doubt that this captures all there is, given the lack of transparency and secrecy known from German wealth holder. ‘Typically, many top-wealth households should have real estate properties and financial portfolios, thus leading to an underestimation of the top wealth concentration’ (ibid. p.7).

⁵⁶ ‘Wer über mindestens 30 Millionen Dollar verfügt, muss selbst bei einem großzügigen Lebensstil nicht mehr arbeiten... Auch große Wirtschaftskrisen können ihm dann nichts mehr anhaben’, so Wealth Asset Manager John Spudy (Manager Magazin Sonderheft, 2015, p. 107)

Bach/Corneo/Steiner emphasize two important issues: That wealth has also to do with the ability to make use of tax saving options, e.g. in the area of rent and lease, in order to net gains and losses. And: That the true extent of power is hidden because no income statistics reveals retained profits of capital businesses, which also contributes to the power of wealthy business owning and controlling families.

One central observation, therefore, is that, in the end, all findings are nothing more than intelligently calculated “guesstimate”, because the lack of transparency into the kind and amount of assets held is a central obstacle for correct insight into wealth concentration. This also points to the need for more transparency enabling further research: ‘Tax files from wealth taxation or disclosed financial statements of large family-owned corporations might be better utilized for top wealth research. Sampling design, survey strategy and field work of voluntary household surveys might be improved to better collect data from the wealthy strata of the population.’ (Bach, Thiemann, & Zucco, 2015, p. 30).

9 German wealth holder in international comparison

Most reviewed Wealth Reports for this study⁵⁷ had some references to Germany or even Bavaria. There is agreement among the reports in major issues. For example, that recorded increases in wealth in Germany are 2014 at the top of global ranking, that in 2014, both the number of German UHNWIs and their assets grew over proportionately when compared with the European average. All reviewed wealth reports predict that the number of German UNHNWIs, Centa-Millionaires and billionaires will continue to grow over the next decade (!). All this has been contradicted by findings of the Credit Suisse 2015 Wealth Report by using figures depending on the application of current or constant exchange rates, resulting in hefty declines of HNWI and UHNWIs for Germany.

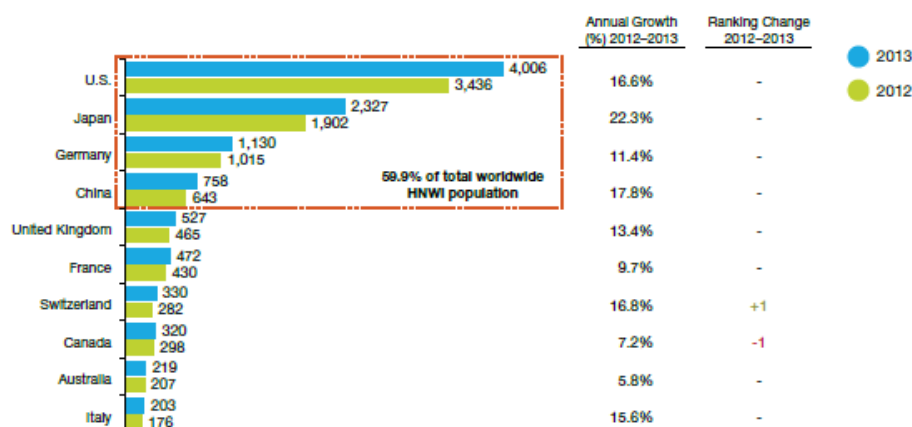
9.1 Diverging numbers for HNWI

As there are large uncertainties regarding the absolute number of Germanys HNWI (see 9.1.2), there is also uncertainty regarding international comparison and ranking:

According to the 2014 Cap Gemini/RBC wealth report, the total numbers of HNWI in Germany is in **2013** third in the international ranking, only behind the US and Japan:

FIGURE 4. Top 25 HNWI Population Ranking, 2013 (by Market)

(Thousand)



Source 24 (Capgemini & RBC, 2014, p. 7)

⁵⁷ (Credit Suisse, 2014) (Capgemini & RBC, 2014) (Wealth-X & UBS, 2014) (Knight Frank, 2014)

Other rankings, e.g. the Credit Suisse 2014 Wealth Report, puts France in **2013** ahead regarding HNWI, but puts German UHNWIs on rank 3, after the US and China (p. 27).

Wealth-X/UBS in turn puts in **2013** German UNHWIs on rank 2, after the US (p. 98). This is contradicted by the Credit Suisse 2015 Wealth Report for **2014**, where Germany is on rank 4, behind US, UK and China, due to the turmoils in the Euro Area (p.27).

9.2 Wealth-X/UBS 2014 on UHNWIs

The Wealth-X/UBS 2014 Report is of importance for two reasons: First, an employee of a competing institution with their own wealth report admitted, that the UBS has a better, if not best, access and insight into this topic. Additionally, it focuses not just on the financial side, but also contains some more general sociological analyses and observations included.

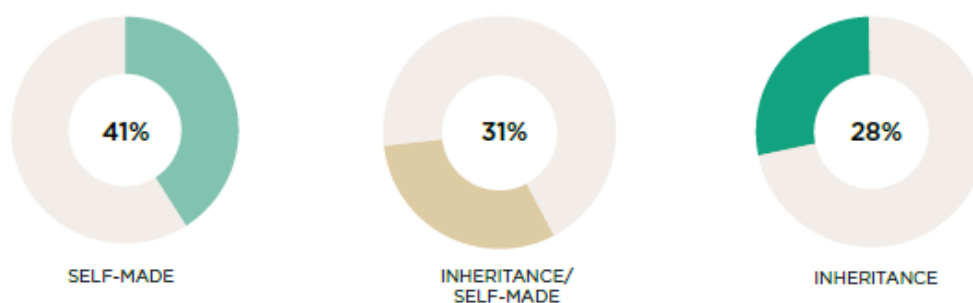
Therefore, most content in this sub-chapter is drawn from that report.

According to this report, German UNHWIs lead the global ranking, second only to the US:

		2014		2013		2013-2014	
		UHNW POPULATION	UHNW WEALTH US\$ billion	UHNW POPULATION	UHNW WEALTH US\$ billion	POPULATION CHANGE %	WEALTH CHANGE %
	WORLD	211,275	29,725	199,235	27,770	6.0%	7.0%
1	UNITED STATES	69,560	9,630	65,505	9,085	6.2%	6.0%
2	GERMANY	19,095	2,580	17,820	2,345	7.2%	10.0%
3	JAPAN	14,720	2,430	14,270	2,335	3.2%	4.1%
4	UNITED KINGDOM	11,510	1,445	10,910	1,375	5.5%	5.1%
5	CHINA	11,070	1,565	10,675	1,515	3.7%	3.3%
6	INDIA	8,595	1,013	7,850	935	9.5%	8.3%
7	SWITZERLAND	6,635	790	6,330	750	4.8%	5.3%
8	CANADA	5,305	635	4,980	595	6.5%	6.7%
9	FRANCE	4,750	565	4,490	525	5.8%	7.6%
10	BRAZIL	4,225	820	4,015	770	5.2%	6.5%
11	AUSTRALIA	3,580	440	3,405	415	5.1%	6.0%
12	MEXICO	3,470	460	3,365	445	3.1%	3.4%
13	HONG KONG	3,335	595	3,180	530	4.9%	12.3%
14	ITALY	2,295	270	2,075	235	10.6%	14.9%
15	SPAIN	1,800	225	1,625	195	10.8%	15.4%

Source 25 (Wealth-X and UBS, 2014, p. 98)

An interesting feature which makes Germany specific and distinct from other countries and even regions of the world is the amount of inherited wealth. While the global average is 65% for self-made, 16% for inheritance/self-made and 19% for inheritance, the German situation is very different:



Source 26 (Wealth-X and UBS, 2014, p. 49)

The share of combined Inheritance plus Inheritance/Self-Made in Germany is highest in the world, while, in comparison, the share of self-made in the UK and US is 75% and 76%, which confirms Piketty's overall analysis of a European "patrimonial capitalism" and a growing class of "rentiers" (see I/IV/2.4).

To the authors of the Wealth report, 'Germany is home to the region's oldest fortunes' and because of that, 'Germany's long legacy of family businesses and fortunes' is a major reason why wealth in Germany is as concentrated as it is today (Wealth-X and UBS, 2014, p. 49). Clearly, that for Germany, under these conditions, even more applies what the Wealth Report states for the UHNWIs worldwide.

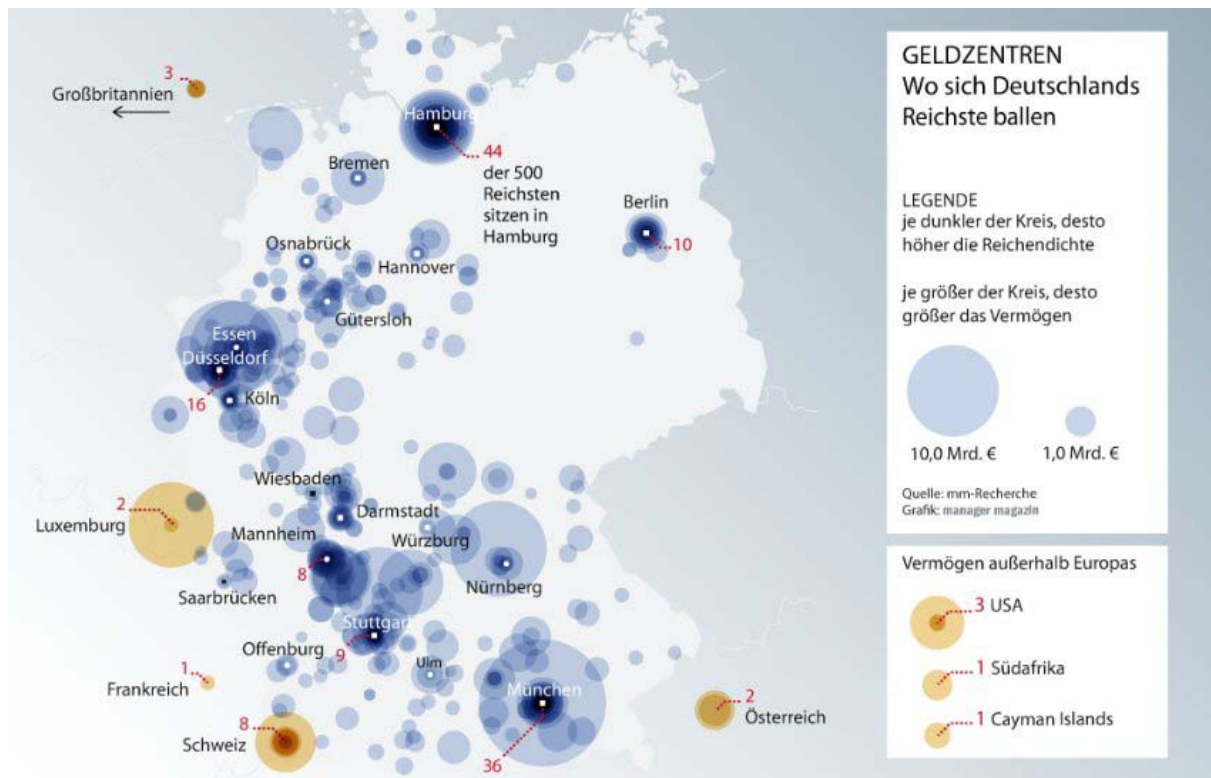
When looking at the residences of ultra wealthy, the federal nature and structure of Germany shows; While in France, Italy or the UK national capitals attract the majority of UNHWIs, it is different in Germany: no German town reaches the UHNWI density of London, even though there are twice as many UHNWIs in Germany than in the United Kingdom. One of the reasons might be that many of Germans super wealthy live at or close by their businesses which are well spread over the entire country. Interesting for our research is that Munich is seen to be the town with the largest number of UHNWIs in Germany.



Source 27 (Wealth-X and UBS, 2014, p. 45)

9.3 *Manager Magazin*

This international picture is more detailed and complemented by the Manager-Magazin which annually publishes the ranking of Germany's Top 500 wealth holder. Here, too, it shows the decentral distribution of top income and wealth holder all over Germany.



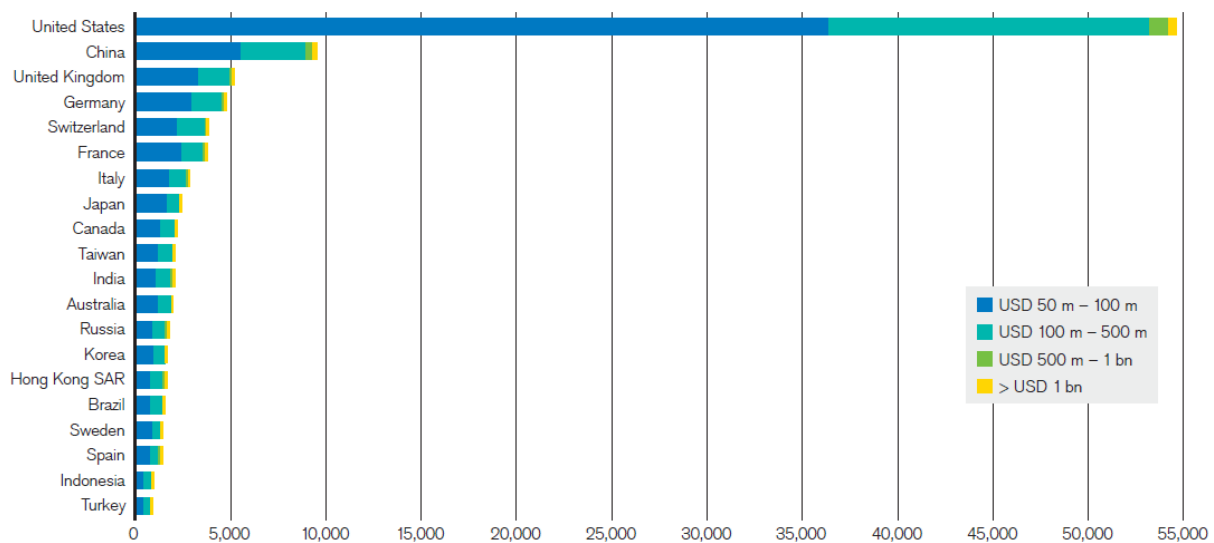
Among the top 500 of Germany's top wealth-holder in 2014, the following are living in Nuremberg and its immediate surrounding (Manager Magazin Spezial, 2014):

1. Georg & Elisabeth-Maria Schäffler, Herzogenaurach (Nr. 3)
2. Family Diehl (Nr. 65)
3. Horst Brandstätter, Fürth (Nr. 96)
4. Family Michael Sieber, Fürth (Nr. 214)
5. Family Wöhl (Nr. 309)
6. Family Martin (Nr. 309)
7. Family Anton Wolfgang Graf von Faber-Castell, Stein, (Nr. 309)
8. Family Schöller (Nr. 389)
9. Family Mederer, Fürth (Nr. 462)

9.4 Other international rankings

Other international rankings question Germany's leading role and point to the UK's priority regarding UHNWI-residence. The Credit Suisse 2015 Wealth report gives the number of UHNWIs as follows:

Figure 5
Ultra high net worth individuals, 2015: Top 20 countries



Source: James Davies, Rodrigo Lluberias and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2015

Source 28 (Credit Suisse, 2015, p. 27)

Due to the valuation problems in assessing fortunes (see above 8.2), Germany lost 1000 UNHWIs in 2014 and its number stands now, according to Credit Suisse, at 4900 as opposed to 5400 in the UK. Regarding the latter it would be interesting to know, however, how many of those are of British citizenship or non-British citizenship, as is in the case of prominent UHNWIS such as Abramowitsch etc.

9.5 Family businesses and entrepreneurial families

9.5.1 Context

As Wealth X/UBS states that Germany is home of the region's oldest and largest fortunes and the "spread" of wealth illustrates a decentralist-federal structure for Germany it indeed refers to a difference between the US, Europe and Asia not merely regarding the area, where wealth is created, but also the transmission of wealth between generations. In Europe and Asia, the model of family business is much more pronounced than in the US, where only 36% of businesses are continuing after the founding "patriarch" withdraws. In Europe, the share is 57%, in Asia 56%. As the UBS/PwC Wealth report on Billionaires argues: 'family businesses owned by multi-generational billionaire families are a key pillar of economic development' (UBS & PwC, 2015, p. 24+30).

This is certainly true for Germany, but there is more to it: There are not merely large and oversized fortunes, but there is an even larger share of medium sized businesses owned by families through generations, the famous "Mittelstand." Here, however, the name is misleading, since the definition of Mittelstand can comprise businesses of many thousands employees and hundreds of billions in turnover.

9.5.2 Family businesses (Familienunternehmen)

Indeed: If one compares wealth assets across countries it is striking that for Austria and Germany net equity in own unincorporated enterprises is comparatively high – in fact highest among OECD states, followed in third place by Portugal with a share of 11.9%, all other OECD states following with single-digit figures.

Tabelle 3 Household portfolio composition, percentage share of total assets (partial overview from OECD countries)

	Australia	Austria	Belgium	Canada	Finland	France	Germany	Greece	Italy
Non financial assets	80.7	59.1	66.6	62.9	81.7	72.2	65.8	88.3	81.7
Principal residence	51.0	43.7	51.6	43.1	54.6	47.6	40.9	55.9	60.8
Other real estate property	17.8	10.9	11.9	12.3	22.4	20.0	20.5	27.8	16.4
Vehicles	2.9	3.5	2.3	3.3	4.7	..	3.3	4.3	3.0
Other non financial assets	9.1	1.1	0.8	4.1	0.0	4.7	1.0	0.3	1.5
Financial assets	19.3	40.9	33.4	37.1	18.3	27.8	34.2	11.7	18.3
Deposits	5.7	10.4	11.4	4.6	7.8	6.5	9.4	5.6	4.7
Bonds and other debt securities	0.0	1.3	4.3	0.3	0.1	0.3	1.2	0.2	2.0
Mutual funds	3.7	2.0	3.8	3.2	1.7	1.1	2.2	0.2	1.0
Net equity in own unincorporated enterprises	2.8	24.3	4.3	2.7	3.3	8.4	13.0	4.8	8.3
Stocks	2.5	0.5	3.0	2.7	3.9	2.2	1.4	0.2	0.5
Unlisted shares and other equity	4.4	0.2	0.5	8.7	..	0.9	0.2	0.0	0.4
Other non pension financial assets	0.1	0.7	1.3	2.2	..	0.7	1.2	0.2	0.6
Voluntary individual life insurance and private pension funds	..	1.5	4.9	12.7	1.4	7.5	5.7	0.5	0.9
Liabilities	17.9	5.9	8.2	14.0	18.4	9.6	12.2	7.5	4.1
Principal residence loans	10.3	4.3	6.6	10.9	13.2	5.0	7.1	4.5	2.7
Other real estate loans	5.8	0.7	0.8	2.8	..	2.3	3.5	1.3	0.3
Other loans	1.8	1.0	0.9	0.3	5.1	2.4	1.5	1.6	1.1

Source 29 (OECD, 2015a, p. 264)

Indeed: This bond between owner and business is one of the most praised success stories of German Economy. Since money is bound with the business, owner have a different interest on the business' well-being as those who merely own anonymously stocks from which they expect quick dividends. Such owner, either individuals or families, do not respond to quarterly deviations of stock exchange indices but keep investment where it is as long as they are convinced that this investment makes middle-or long term sense. Likewise, they invest middle- or long term if it makes sense and they are not merely orientated at profit margins. Here is an important difference to Private Equity which comes in and sells fast. Family Equity is more patient and, at times, invests to implement visions or items which the holders think are worth doing.⁵⁸

9.5.3 The entrepreneurial family (Unternehmerfamilien)

There is, of course, a large overlap between Familienunternehmern und Unternehmerfamilien. As a special series in the Manager Magazins (2014) substantiated, authors and interviewed experts also agree that the German entrepreneurial families and their possessions (Siemens, Krupp, Haniel, Heraeus) are some sort of success story for the German economic position because they identify with the business and are not subject to quick gains expectations as is the case in Kapitalgesellschaften, where share owner live from dividend to dividend (ebd. Pp. 79ff "Wir brauchen mehr Quandts"). This is something which should be preserved as good as possible, thus also influencing the discussion of what to tax and what to exempt from tax, e.g. in the context of Wealth Tax or Inheritance & Gift Tax.

But within this comparatively large group of families owning wealth their share in own businesses, there are some few families controlling not just one business, but many, thus wielding control over billions of assets, millions of jobs and thousands of employees serving

⁵⁸ Siehe (Universität St. Gallen, 2014a, p. 42ff.) und (Manager Magazin Spezial, 2014) mit Berichten über Klatten, Quandts oder andere Milliardäre (und erst recht Mittelständler wie Trump Eigentümerin Leibinger-Kammüller) reagieren nicht bei jeder Kurs-oder Konjunkturdelle panisch sondern können auch etwas aussitzen oder, wenn sie etwas gut und überzeugend finden, ein Investment vornehmen was in einer renditeorientierten Runde nicht zustande käme.

their private and corporate interests. Those names are of families acquiring, multiplying and consolidating their wealth over centuries and generations – the names are sometimes publicly known, because products are linked to them (e.g. Oetker or Albrecht) or they are totally unknown to the public, perhaps because name-holder explicitly prohibit mentioning those names at all (e.g. Klatten, Mohn, Haniel, Brenninkmeijer, Reimann...).

Here an interesting study was conducted by the University of St. Gallen, looking into some of the most powerful entrepreneurial German families, the extent of their portfolio and – accordingly – economic power and control.⁵⁹ On average, those families hold shares in 75 enterprises, the range being from very few up to more than 300. According to the study, those top 100 families control EUR 490 billion in assets and command an annual turnover of EUR 413 billion. In comparison: The German federal budget is around EUR 300 billion per year (p. 16f.). Clearly, administrating such wealth is not an affair of few people, and not even always an affair of family members. Rather they divert possessions into sub-entities and employ highly paid specialists for their holdings while preserving the final say for themselves in a family holding, as the report exemplifies with the Reimann and Quandt/Klatten empire.

Within the sample selected it seems that families succeeded in keeping the number of those having a say within a manageable size: The Reimann Family (Nr. 4 of Germanys top wealth holder), for example, paid family members off in the course of their 190 year history, which kept the circle of those being decisive in family governance with 8 members quite small (Universität St. Gallen, 2014a, p. 30f.). Similar the Quandt/Klatten family: Here, 22 family members control the business, which is an overall agglomeration of 316 entities (p. 40). Similar the Albrechts, have a contract system with which they try to prevent new family members by marriage to acquire control or damage the family possession: They have to sign “Ehe-, Erb- und Pflichtteilsverzichtverträge” so that in case of divorce there is no danger of losses (Manager Magazin 2015, p.16).

The authors of the study conclude that findings from their sample of family businesses regarding the transition from Familienunternehmen to Unternehmerfamilien can be generalized and can also be applied to other successful family businesses, e.g. those families, where wealth assets and control is spread among more family members, e.g. the Freudenberges, Henkels (680 members), Haniels or Brenninkmeijers (1800 members).⁶⁰ In those families, seem to be more conflicts among family members, making it at times more difficult to keep the empire together. At times, strict regulations exist about who is permitted to hold what shares and what they are permitted to do with it. There are, for example, major obstacles in the case somebody wants to sell shares. In some cases those restrictions were called sittenwidrige Verträge. In some cases the family determines the private life of its members and restricts freedom of choice down to the question of religious allegiance or personal lifestyle.

9.5.4 A German strength vs. France and the US

From the point of view of those owning such businesses the German model is one reason why Germany sailed comparably undamaged through the 2007 World Financial and Economic crisis. It is those businesses who are dedicated to the locality and region and are since generations a stabilizing factor. The owners have some relationship with their workers and a strong degree of identification with the business and it is indeed more often than not the case that private wealth does not exist outside the business. When talking to representatives of

⁵⁹ Regarding the selection and its limitation see (Universität St. Gallen, 2014a, p. 11f.)

⁶⁰ (Universität St. Gallen, 2014a, p. 52), (Manager Magazin Sonderheft, 2015, p. 40ff.)

those businesses, they could name so many authentic “human interest stories” that it was more than credible that they are very much devoted to their business, their region and their workers. It follows a summary from a talk with a member of that group:

He considers his wealth as borrowed, as property which he just administers and increases to other people’s benefit. Certainly: The more I earn, the more I can invest, the more people I can employ. Of course I have a nice house, but I drive a VW in which my big family can fit in. Such an attitude is different from one towards property with which you can do whatever you want. His responsibility for the region is based upon generations and brings with it long term perspectives. One does not think in three months balance sheets, but in long term plans where trees are planted today but harvested only by the grand-children. With property big responsibility comes along and he is praying a lot even when he has to dismiss people. Sure, this is his ethical attitude and he works hard so that his children take over his attitude. But of course there is no guarantee that the family ethos does not go away one day and that his children prefer to become Donald Trump one day.

Here is a big advantage over the US: There, everything is short term and hardly anybody thinks beyond quarter balance sheets, while in Germany the wellbeing of generations is connected with the wellbeing of a business and a region, the same applying for planning, innovation and investment. In the words of one conversation partner: ‘I was once asking myself what I can learn from the US for my business and came to the conclusion: nothing.’

For those owner whose private wealth equals the wealth of their business, inheritance tax endanger this successful model for two reasons: The Pflichtteil requires a splitting and division of the assets, or, in case those entitled opt for financial compensation, parts of the business need to be sold which endangers the survival of the rest, e.g. if the business is diversified and some branches are stronger than others, permitting cross-subsidization. To even increase the Inheritance tax would be disastrous. If one looks at France: Here is no exception to the division of an estate after the death of its owner which is why things are either sold and split or entered into an anonymous business model in order to divide shares. But those entities are then run by Boards and CEO which are not as attached to the wellbeing of business and region as the original founding family is. Which is why labour conflicts in France are much more violent and the economic crisis is felt much harder.

9.5.5 Tax injustice regarding SMEs vs. MNEs

The question is whether this situation indeed justifies some exemptions to the taxation of family businesses, where private and corporate wealth almost falls into one. On the other hand, the commandment of the Bavarian Constitution only requests a stiff Inheritance Tax for large fortunes, i.e. Riesenvermögen. But even here conversation partners argue that a large fortune as such is not a stigma. It would be more correct to ask what one does with a large fortune. Again from the summarizing talk with one of those top wealth holder:

Large fortunes and Inheritance Tax? Why should one reduce large fortunes at all? Simply the question bothers him. It would be more important to ask what the owner of the large fortune is doing with it. Of course, there are black sheep and there will be ones in the future. But does one always have to start thinking from the exemptions of everything? Where would BMW be today without the Quandt family?

Separation of business and private wealth? There, every single case counts and he considers it to be difficult and even impossible. Originally, he thought that a proper entrepreneur should

not be allowed to have any private wealth and everything should be in the enterprise. Now he sees it differently in order to be more independent with the withdrawing policy.⁶¹

All in all there seems, however, an important distinction between SMEs and MNEs: The owner of a family business is attached to the business, region and his workers. Here conversation partners agree that there is a difference between those living and working in a region, thus forming bonds, and those members of a global elite which live in a more anonymous environment and judge their business value rather from balance sheets than from the stability and flourishing of a region.

Of course, this depends on the roots with the region, as well as on the more rural context and the closeness to employees in the four businesses. The attitude might be different, more anonymous in a city context and a bigger distance between firms and employees. Klar, das hat mit der Verwurzelung in der Region zu tun, ebenso mit dem eher ländlichen Kontext und der Nähe zu Mitarbeitern in den vier Geschäftsfeldern. Die Einstellung mag in einem städtischen Kontext und mehr Abstand zu Betrieben und Arbeitnehmern anders, anonym, sein.

If ownership into businesses is more like that, i.e. no personal and regional attachment, anonymous administration via CEOs, profit & bonus oriented – then a higher taxation of profits and assets was seen to be justified.

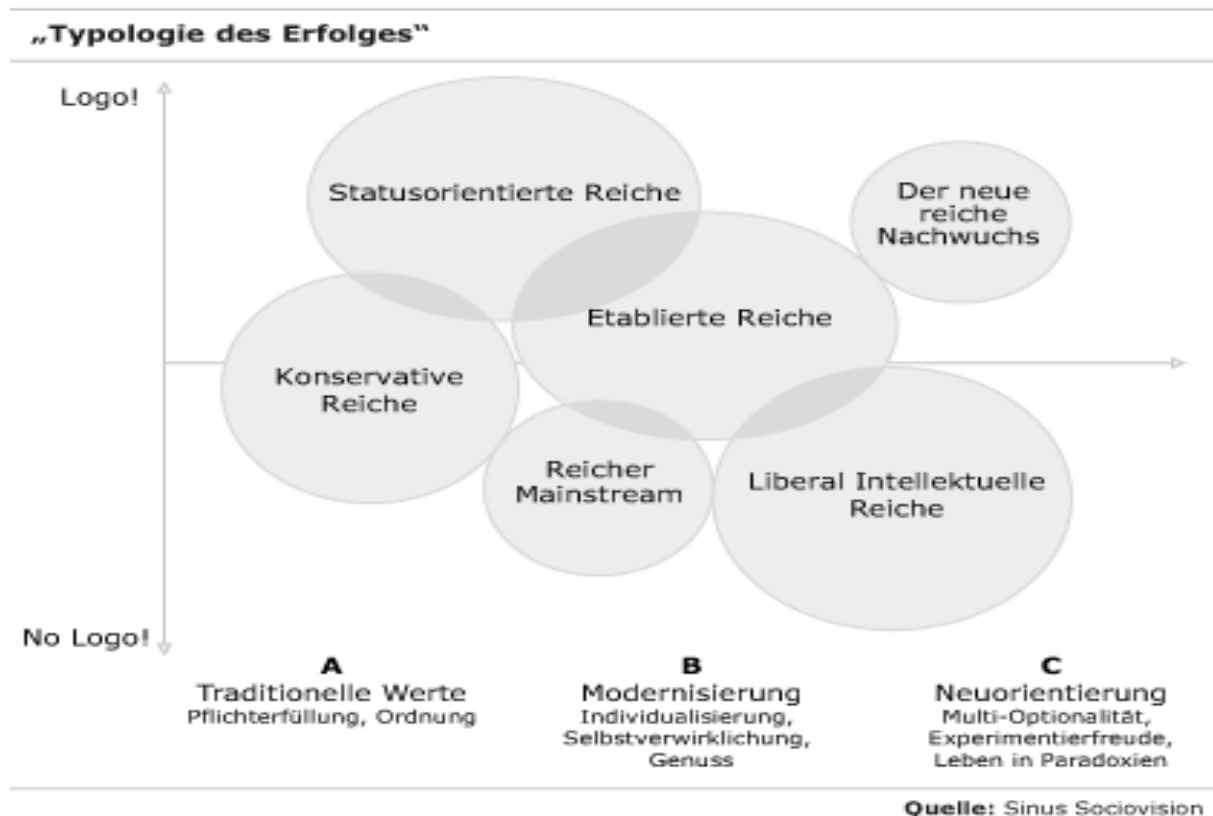
This links, after all, to the current discussion of business taxation: Conversation partners both among politicians and from tax departments of TNCs agree that small and middle-sized businesses are comparatively higher taxed than TNCs and that they have neither the expertise nor opportunity for aggressive tax avoidance and tax evasion as TNCs do. Here, therefore, also justice needs to be restored among different categories of businesses.

10 The wealthy person

10.1 2007 Sinus Study

A more modern attempt to categorize Germany's wealthy people is the first qualitative sociological study, namely the 2007 Sinus study, researching 58 private wealth holder which has been commissioned by the HypoVereinsbank (see above 3.9) (Perry, 2007) (Rickens, 2008) (Rickens, 2009)

⁶¹ In German „Entnahmepolitik“, meaning: Entnahme von Wirtschaftsgütern (Geld, Waren, Erzeugnisse, Nutzungen und Leistungen) durch Unternehmer oder Mitunternehmer aus dem Betrieb für sich, seinen Haushalt oder andere betriebsfremde Zwecke. Zu den Entnahmen gehören auch die aus Betriebsmitteln gezahlten Einkommen-, Kirchen-, Erbschaftsteuern.



The result: The members of the six upper classes do not differ that much in their wealth – they all own a net wealth of at least one million Euro. But, there are differences in their behavior and their value orientation.⁶²

- **The conservative rich Die konservativen Vermögenden**

Here is the world of the Albrecht-brothers. Money is not primarily there for spending. It mainly serves for making their own enterprise strong and independent and preserve it for the next generation. Modern clothes, especially with expensive brand logos, are a horror for the conservative rich, as well as modern computer technology. To these extravagances reacts the conservative rich by retreating behind his mansion's walls and in particular, by dealing with his family's network and old mates. At the same time, these people feel responsible for the society. They donate much, but take also much care that this engagement stays hidden.

- **The established rich Die etablierten Vermögenden**

Welcome to the spiritual home of top managers, investment bankers and business consultants! The established rich perceive themselves naturally as performance elite – like the boss of the Dax corporation Linde, Wolfgang Reitzle. They feel destined to lead other people. Other than the conservative the established rich welcome advancement, globalization and modern technology. They like symbols of status, but at the same time have a deep disgust for everything what they consider as 'superficial high society'.

- **The liberal-intellectual rich Die liberal-intellektuellen Vermögenden**

To find the time for a yoga class while being a successful freelancer architect – this is the true symbol of status of the liberal-intellectual rich. For example, Götz Werner, the billionaire founder of dm drugstores, belongs to this category. The convinced

⁶² See e.g. Rickens, Chr. (2010, August 8) Deutschland, Deine Reichen. In: Spiegel Online. Retrieved from <http://www.spiegel.de/wirtschaft/soziales/oberschicht-milieus-deutschland-deine-reichen-a-709842.html>

anthroposophy let his apprentices perform Goethe's 'Faust' and fights publicly for unconditional basic income.

- **The status-oriented rich Die statusorientierten Vermögenden**
Non-sociologists simply call this group 'Newly rich'. They are socially upgraders who like to show off with their newly earned money and strive for the acknowledgement of other members of the upper class – shortly: the typical audience of the 'Kampender Whiskymile'. Here everything is a little bit too shrill, too showy, too loud. But behind the status seeking façade, mostly a deep inferiority feeling is hidden because they do not master the habitus of the real noble society. The prototype of a status-oriented rich is the founder of the financial service AWD, Carsten Maschmeyerr.
- **The conventional rich Die konventionellen Vermögenden**
They are the opposite of the loud newly rich. One does not notice their wealth at all. Often they are successful handicraft entrepreneurs on the countryside who store their assets at the bank and continue a down-to-earth lifestyle. Or they are inheritors of rich families who completely live incognito. To this group also belongs Hans-Peter Stihl, former chief of the German Industrie- und Handelskammertag.
- **The new rich juniors Der neue vermögende Nachwuchs**
'Work hard, play hard' – according to this motto lives the sixth and last of sinus upper classes. They are children of rich parents who party hard at their boarding-schools and private high schools – but they are also very aware of their career and dream of an intact family. In which they astonishingly resemble their rich parents. An example is Sebastian Kamps, son of the bakery millionaire Heiner Kamps and husband of TV starlet Gülcan.

10.2 Wealth-X, UBS, PwC...

(UBS & PwC, 2015) presents some common features of this segment of the population. On pp. 15ff. the study says that self-made billionaires have indeed common features, such as "smart risk taking", "obsessive business focus" or "dogged determination". It is interesting to note that this still sounds more positive than that which those commissioning and writing the study put it at the presentation press conference: There, they talked of "special inclinations", almost amounting to addictions: Regarding risks, they coin the expression FOMOs (Fear of missing an opportunity) and their determination to follow up projects would seem to be "abnormal" and "obsessive" when seen with ordinary citizens.⁶³ This attitude to not missing anything and daring risks where more prudent persons would shy away certainly also explains the behavior of some of those working at Stock Exchanges and other trading places. A tendency towards risky investment is also seen by other wealth report, e.g. the 2015 one by Knight Frank (p.13). On the plus side, the UBS/PwC study also says that self-made billionaires are more generous when it comes to philanthropy: 'Our research strongly indicates that if philanthropy does not happen in the first generation, it's unlikely to happen in the second generation and onward.' (p.28). This is also confirmed by conversation partners from the banking and wealth managing sector

10.3 The Big Five Personality Traits of Lauterbach

Lauterbach observed some links between the personality of a wealthy person and members of other societal classes. He started with the "Big 5" categorization⁶⁴, which distinguishes five categories of personalities:

⁶³ Papp, F. (2015, May 26) UBS: Superreichen sind „Fomos“. Retrieved 8 June 2015 from <http://www.finews.ch/news/banken/18276-josef-stadler-matthias-memminger-ubs-uhnw-superreiche>

⁶⁴ See http://en.wikipedia.org/wiki/Big_Five_personality_traits

- openness,
- conscientiousness,
- extraversion,
- agreeableness, and
- neuroticism.

Applied to the sample, Lauterbach argues, there is a clear difference between members of the affluent/wealthy class and middle class: Among the wealthy openness, extraversion and conscientiousness exists to a much larger extent than it is the case among the middle class. In addition, a higher share of the wealthy believe that they are in charge of their destiny and that outside influences are of minor importance. This would explain why more people of these traits, especially if they are well educated, are successful entrepreneurs, not shying risk and responsibility, who are prepared to hard work and therefore are “rewarded” with income and wealth. Beyond that, Lauterbach continues: While there is a marked difference between middle class and the wealthy, there is again a marked concentration of these features among between the affluent/wealthy on the one side and the HNWIs on the other. One conclusion is that the rapid increase of wealth and income at the top income and wealth scale is due to a combination of disposable financial capital of more than EUR 1 million and personal characteristics, which is why entrepreneurs are eminent among top income and wealth holder (Lauterbach & Tarvenkorn, 2011, pp. 73-83)

Clearly these findings indicate that mentality of a certain kind will also impact on their attitude towards those from other social groups who are, perhaps, not as lucky in life as they themselves and accordingly their willingness to donate or be charitable. However, Lauterbach’s argument might make sense when applying to those people who worked for their wealth. It might be different when applied to those who inherited wealth and have no need to work for it.

10.4 The eight personality types of Druyen and El-Sehity

An interesting study is the analysis by Thomas Druyen and his team from the Sigmund Freud Private University in Vienna (El-Sehity & Schor-Tschudnowskaja, 2011). This study in parts confirms, in parts differentiates the Sinus study.

They examined not only the attitude of the wealthy person towards his or her own wealth, but also into the ways how it was generated and/or accumulated and what responsibility follows from there for the larger society. They evaluated research data emerging from the research “Vermögen in Deutschland” (see 3.6), i.e. interviews of 472 households with an annual income of EUR 500,000 or more. They tried to find out more about the view of top wealth holder regarding their view to what extent accumulated wealth (or poverty) is due to external conditions and influences, subjective talents, efforts and work. And: What potential influence top wealth holder have in influencing society by shaping it outside the economic sphere.⁶⁵

An important correlation is stated by two extreme attitudes: On the one side the conviction that everybody is its own master of fortune, on the other side the conviction, that external circumstances, which cannot be influenced or controlled, obstruct or hamper individual advancement and progress. Reflecting those parameters, they detect eight mental attitudes of people towards both their wealth and their responsibility towards society (El-Sehity & Schor-Tschudnowskaja, 2011, p. 173ff.):

⁶⁵ Gesellschaftliche Partizipation im Sinne von Mitverantwortung für ein gemeinschaftliches Ganzes: Auch hier positive Grundeinstellung, aber auch in dem Sinne, die gesellschaftlichen Verhältnisse beeinflussen zu wollen. (El-Sehity & Schor-Tschudnowskaja, 2011, p. 163f.)

- Benefactor (Gönner): He is conservative, religious and traditional, his parents are important. He donates a lot and is engaged personally but supports a larger share of sports and cultural clubs rather than socio-political causes. A motivation behind his engagement is the access to useful social networks (see e.g. also Statusorientierte Vermögende at Sinus)
- Meritocrat: He is an extrovert, hard worker and has an open-minded personality. He is tough on himself and others. He is the classical entrepreneur, subject to long working hours. Not religious, little engagement with money or personal time for the wider society. When asked what he does with all the money he cannot possibly spend a characteristic answer is: “To indulge in something special” (Sich etwas Spezielles gönnen).
- Expressing solidarity: Those are convinced that they can make a difference in society and they support others in their participation in society, e.g. by advancing development projects or social and political participation. They are very much engaged both with financial donation and donating time, it is the largest group within the sample. They share values and often act in communion with like-minded people.
- Individualist: Similar as the meritocrat he believes in everybody’s individual capabilities and the value of hard work – which is why they do not see to justify or excuse their wealth. Somehow they feel an obligation to engage themselves within society but they don’t do it due to the lack of adequate projects suiting their idiosyncratic values.
- Passive-Defensive: Rather insecure personalities, experience strongly the impact of outside influences. Emerging from that, they experience an obligation to assist others, but do not believe in the lasting value of their engagement. In this group a strong subsection of people acting for the benefit of tax reductions (Steuervergünstigungen) or out of the need to justify/excuse their possession.
- Resigned: Even more convinced that no real impact can be achieved for the improvement of things. They are conservative, passive and only sparsely engaged for the benefit of those who are in need without their own fault.
- Idealist: Mostly females who came to wealth via marriage. They are religious, donate and get personally engaged, they have empathy for those in need. They, too, are not convinced in structural impact of their engagement.
- Eccentric: Mostly females and very religious, they do not believe in one’s own control of life and/or justice in life. They see an obligation in their wealth, establish NGOs and foundations and are very engaged also in categories which the “Vermögen in Deutschland” study has not yet researched in detail.

The following table summarizes findings regarding the different types and their attitude to three foundational beliefs underlying the research, namely:

1. Kontrollüberzeugung: How much am I in charge of my life and work? How much do I get what I deserve in accordance to my own efforts and merits? (i.e. everybody gets what s/he deserves, those who are poor don’t deserve better)

2. Glaube an eine gerechte Welt: How just and fair is the world as such, in which I am working? How much does the world and its power-structure obstruct own efforts? May the world even obstruct and pervert good efforts? (some are less lucky and need support in order to make it)
3. Einstellung zur Partizipation: Do I have a responsibility for this world and does it make sense/is there an obligation to support others to achieve their own good ends with their own efforts (opposed to just donating money to others for supporting those who lost out)?

Taking together those parameters, the distribution of replies are as follows

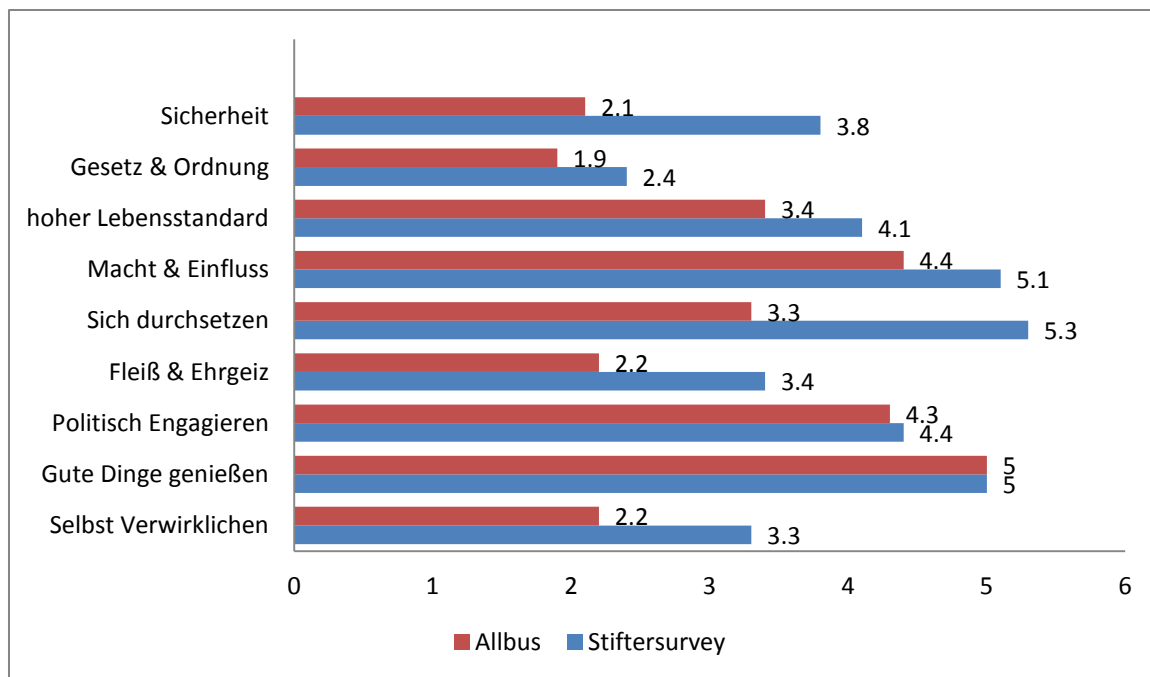
Skalen	Psychologische Typologie							
Kontroll- überzeugung K	Hoch +				Niedrig -			
Glaube an gerechte Welt G	Ja +		Nein -		Ja +		Nein -	
Einstellung zur Partizipation P	Positiv +	Negativ -	Positiv +	Negativ -	Positiv +	Negativ -	Positiv +	Negativ -
Typus	Gönner K+G+P+	Merito- krat K+G+P-	Solida- risch K+G+P+	Indivi- dualist K+G+P-	Passiv Defensiv K-G+P+	Resigni- ert K-G+P-	Idealist K-G-P+	Exzen- trisch K-G-P-
Besetzungszahl en	94 (20%)	52 (11%)	128 (27.2%)	18 (3.8%)	65 (13.8%)	25 (5.3%)	59 (12.5%)	29 (6.1%)

Source 30 (El-Sehity & Schor-Tschudnowskaja, 2011, p. 165)

The last line gives the absolute and relative share of “types” arising from the 472 cases comprising sample. As can be seen: Those feeling solidarity and Benefactors are the two largest groups.

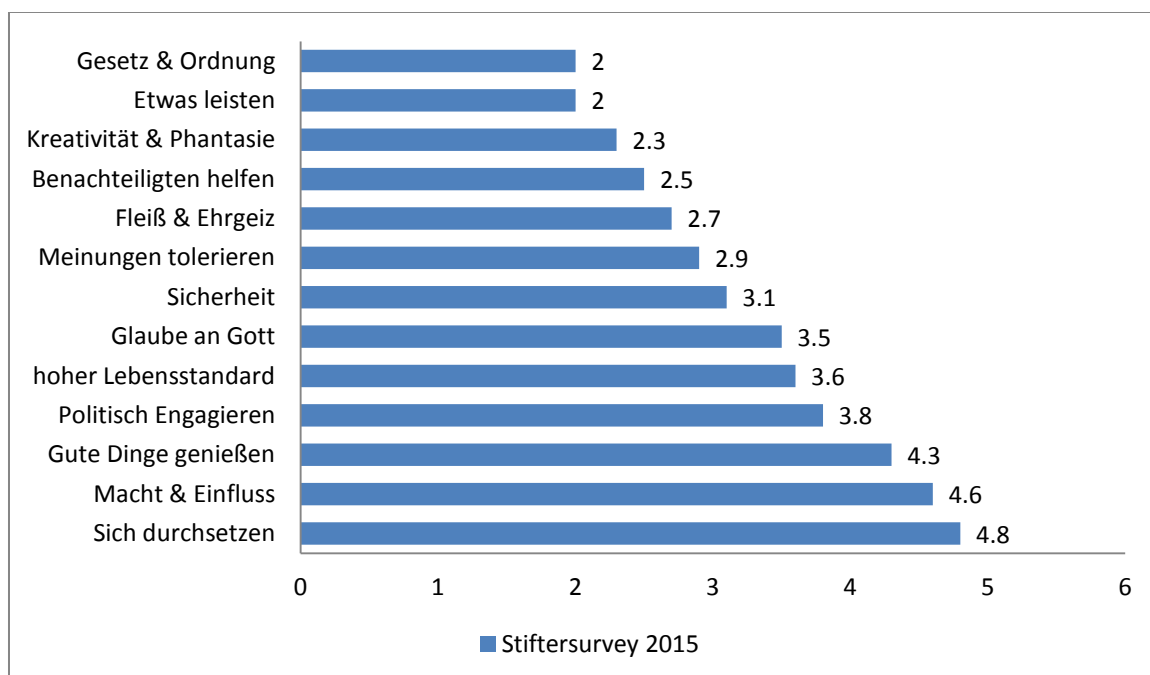
10.5 Stifterstudie 2005 & 2015

What are the general values driving a person? Here an interesting comparison taken from the Stifterstudie, looking only at founder and donors, and the ALLBUS survey addressing the average person with the question “Each person has certain values. How important are the items listed for you?”



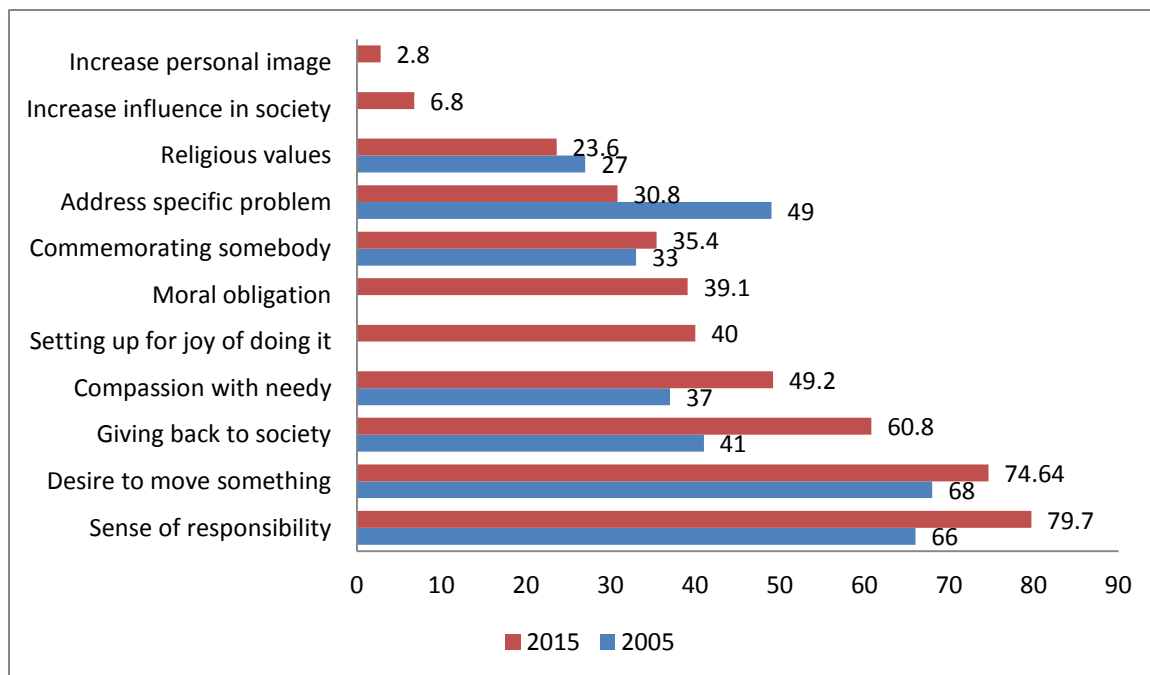
Source 31 (Timmer, 2005, p. 58)

Sadly, in the 2015 Stifterstudie no direct comparison with the Allbus study was done. However, related findings can be deduced from the direct ranking of sample among donors:



Source 32 (Leseberg & Timmer, 2015, p. 33)

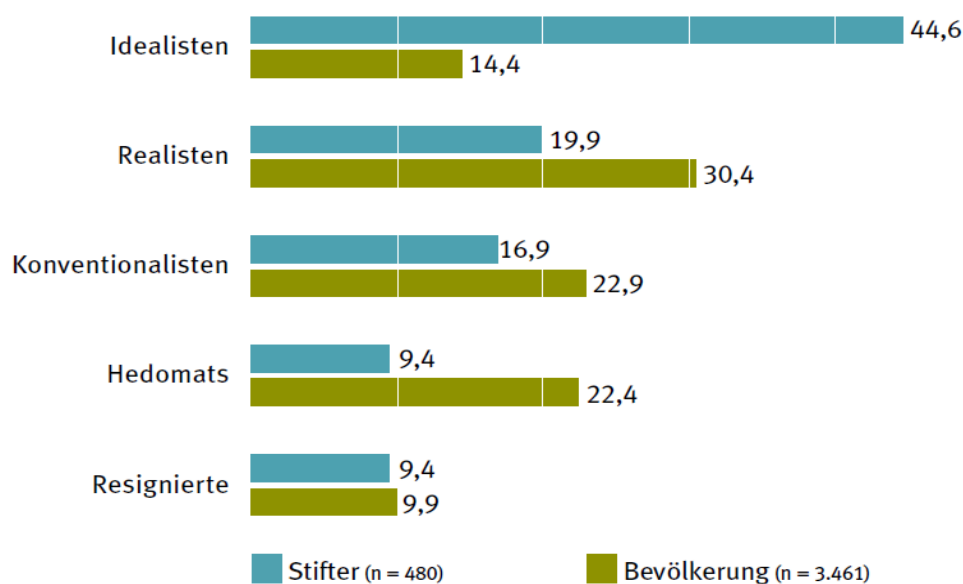
A compilation from the Stifter-Studien 2005 & 2015 illustrates the following:



Compared with 2005, important things stayed, new ones were added, others were dropped. It is apparent that religious motives decrease and a new category of 'moral obligation' emerges. The answer categories 'want to increase my societal influence' (6.8%) or 'wanted to achieve a higher societal reputation' (2.8%) combined are under 10. But: The two advantage-related categories are of greater importance for younger than for older Stifter. (see p. 55)

Derived from that, a general typology was done by the authors, comparing donors with the general population:

Typologie der Wertorientierung von Stiftenden im Vergleich zur allgemeinen Bevölkerung (in Prozent)



Quelle: Stifterstudie 2015, Allgemeine Bevölkerungsumfrage (ALLBUS) 2012, eigene Berechnungen

Source 33 (Leseberg & Timmer, 2015, p. 35)

10.6 Conclusion

Not only in principle and theory: Wealth holder are unique persons who need to be considered, valued and judged on everybody's unique merits and failures. That which is presented overlaps with characteristics arising with distinctions of Old Money, New Money or Celebrities etc., at the same time it excludes illicit and criminal wealth – both of which can hold and control substantial assets. For that reason, the outcome is far too positive, if one compares with others, such as Gastmann or Lebert. On that background, the following observations and typologies are being made:

First, the Sinus Study states as unifying features thought all categories: (Rickens, 2008):

- They all consider that, which they own, earned and deserved because they work hard for it – including the second and third generation wealth holder (also Rickens 2009!).
- They are fed up with Sozialneid (jealousy) and try to keep among themselves.
- In international comparison, they do not show their wealth demonstratively.
- Most important is the family, ideally harmoniously, if not, at least pretended.
- A number of them (not all) long for more quality time to live with their families, to have leisure time and time to enjoy life besides their obligation to earn money.
- They think that they do enough for the common good by working harder, taking more risk and paying more taxes.
- They suffer from the way the state squanders their taxpayers money and are unhappy that they cannot change that. Which is also why they consider leaving the country.

Both Lauterbach's and Druyens/El-Sehity's work indicate a high share of those who believe in the success of own work people are convinced that other could do well also, if they just try hard enough. This impacts on their limits to understand that others are not in a comparatively strong position to command their own destiny. This also limits their comprehension and compassion.

Also Druyen, El-Sehity and others offer a number of interesting insights: First of all, how the belief, whether this world is just and fair in treating those who are talented and hard working or whether this is not the case. In the former case, people tend not to be engaged socially, in the latter case, they do. Equally, the study illustrates how many ways and means wealthy perceive in their effort to get engaged with and within society.

Druyen makes an interesting observation when he asserts that the opposite of the true wealth are not the poor, but those who are merely rich.⁶⁶ This is mainly because those who are merely rich still command a considerable power and influence with which they can destruct that which others, who are more responsible, try to preserve or create for the larger commonwealth.

11 The wealthy “class”

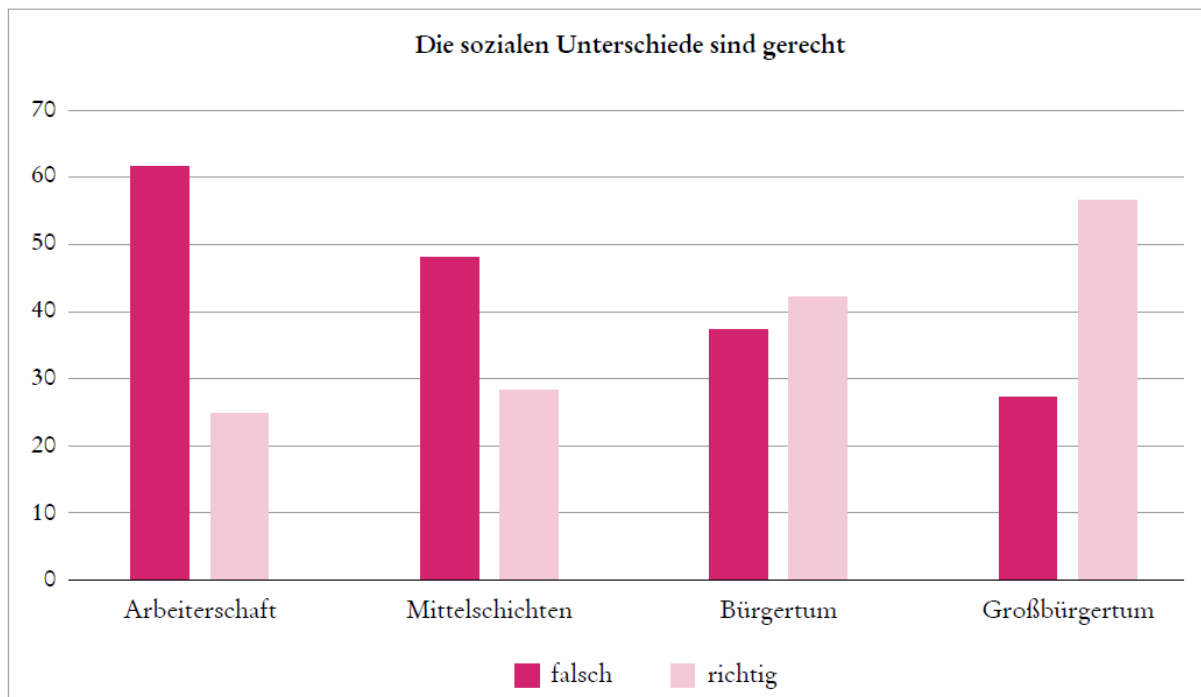
Besides individual diversity there is the question whether there are also common features when looking at the top 1 % wealth holder as a “class” in the sociological sense. How do they live, what do they value, what do they do, how do they compare themselves or look upon others? Linked to this, and looking at society as such: Does ability and merit still enable permeability and social movement between sociological “classes” and “groups” or is society

⁶⁶ ‘Der Gegenpart des Vermögenden ist nicht der Arme, sondern der Reiche. Wer, ob mafiös oder egozentrisch, die Welt als Selbstbedienungsladen begreift und alle Verantwortung den anderen überlässt, steht einer Kultur des Vermögens massiv entgegen.’ (Druyen, 2007, p. 44)

consolidating and hardening? ⁶⁷ Here, insights are better researched in the US, which is why frequent reference is being done to that where parallels are assumed for the German context.

11.1 The “wealthy” and “elites”

A first question is the link between the wealthy and other elites in Germany. Both groups are not identical, but the observation is that there is an increasing overlap. In other words: The wealthy are entrepreneurial, financial and economic elite in Germany, but there is not necessarily an overlapping in person with other elites in society, politics, public administration, jurisdiction, culture or academia. Well known in this field is Michael Hartmann and his survey among the 1000 most influential persons in Germany. Hartmann defines elite as ‘those persons who are capable, via profession or possessions, to influence significantly social processes.’ ⁶⁸ In his surveys, Hartmann made an interesting observation. As one might assume, the view, whether social inequalities are justified or not, varies depending someone’s background: While those from a labor background disagree, those coming from a wealthy setting agree.



Surveys reveal a widespread conviction that wealth has to do with hard work and individual capacities and capabilities. This view is also reflected when members of the elite are asked whether taxation of income, wealth or inheritances should be increased in order to level social inequalities and/or increase/secure/facilitate social mobility:

⁶⁷ Klasse: ‚Politisch-soziologischer Begriff für eine (große) Gruppe der Bevölkerung, die aufgrund ihrer wirtschaftlichen Stellung, ihrer sozialen Lage und ihrer (z. B. von einer Generation auf die nächste übertragenen) Lebenschancen über gleiche und gemeinsame Interessen verfügt. Da sich die berufliche und soziale Situation der Individuen (z. B. in unterschiedlichen Lebensphasen) in den modernen pluralistischen Gesellschaften (immer schneller) ändern und da außerdem individuell (und zwischen den Generationen) sozialer Auf- und Abstieg möglich ist, kann die Annahme von stabilen sozialen Klassen nicht mehr aufrechterhalten werden. Der Begriff K. ist daher weitgehend durch den Begriff Schicht ersetzt.‘ Retrieved from <http://www.bpb.de/nachschlagen/lexika/politiklexikon/17707/klasse>

⁶⁸ ‚Als Mitglieder der Eliten gelten ... jene Personen, die qua Amt oder Eigentum in der Lage sind, gesellschaftliche Entwicklungen maßgeblich zu beeinflussen.‘ Quoted in footnote 1 in (Hartmann, 2014, p. 4).

**Tabelle: Anhebung der Steuern auf hohe Einkommen, Vermögen und Erbschaften
(nach sozialer Herkunft und Sektor getrennt in Prozent)**

		Arbeiterschaft	Mittelschichten	Bürgertum	Großbürgertum
Politik	unwichtig	0,0	20,0	85,7	100
	wichtig	88,9	30,0	0,0	0,0
Wirtschaft	unwichtig	25,0	52,5	54,5	73,3
	wichtig	37,5	27,9	13,6	13,3
Gesamt	unwichtig	22,9	43,0	54,4	62,0
	wichtig	56,3	29,6	15,5	14,0

Die fehlenden Prozentpunkte entfallen auf die Antworten derjenigen Eliteangehörigen, die sich weder für wichtig noch für unwichtig entscheiden konnten, sondern in ihrer Meinung unentschieden blieben.

Quelle: M. Hartmann (Anm. 1).

Source 34 (Hartmann, 2014, p. 6)

Here it is obvious, that social background also determines views about the role of a taxation system and public infrastructure: Elite members originating in a family living from dependent labour do much more agree that taxations and public infrastructure are of importance while elite members from the bourgeoisie disagree. The latter also agree that tax planning and tax avoidance is legitimate and should be exploited (Hartmann, 2014, p. 8). Hartmann concludes that this is the case because those originating in a poorer milieu know about the importance of public infrastructure from their own biographical history. He further concludes, that in questions of inequality, social justice and taxation not so much the status of being member of the elite is important, but the familial origin and social networks within which a person grew up. Consequently, one can assume, the more members of the elite come from a bourgeois background, the less they are in favor of institutions supporting social mobility. Whoever is part of the privileged, Hartmann argues, does not know the reality of ordinary people or the hardship of poorer segments of society and emphasizes individual capabilities and commitment. Those, however, who fought its way to the top is more mindful of those disadvantaging start conditions and are more supportive of structural elements (Hartmann, 2014, p. 6)

Elites, so Hartmann, are not homogeneous as such. Most exclusive is the economic elite, where less than a quarter was not born part of this group. While public and parastatal enterprises have a higher share of those with a poorer background, the share of bourgeois members in private enterprises is 83%, the situation is similar with public and private media. Regarding elites of politics, public administration, jurisdiction and academia, the share of bourgeois is over two thirds. The only larger organizations and institutions with a higher share of people from humble beginnings are trade unions and churches.

As has been shown in GER/VIa, links between wealth holder and elites are particularly developed and maintained over the centuries in Bavaria.

11.2 Wealth and social mobility

11.2.1 OECDs view

As the OECD points out with its 2013 and 2015 reports on inequality, they are in particular alarmed about the decreasing economic and social mobility (see I/IV/4.5). This has to do with education, and here the situation is alarming for Germany:

In Germany, wealth inequality is more pronounced than in many other OECD countries. The top 10% of wealth owners have almost 60% of the net household wealth, a percentage much

higher than the OECD average (50%). Moreover, low-educated persons in Germany own 60% less than those with upper/postsecondary education, while persons with a tertiary degree own 120% more. This is the widest gap after that recorded in the United States. In Germany, the lower 60% of the population own a mere 6% of all household wealth. Furthermore, over-indebted households are numerous. Compared to other countries, this situation is especially more frequent among the 45-65 population with upper/post-secondary education. (OECD, 2015b)

Accordingly, 3 out of 7 recommendations of OECD for Germany, with which to reduce inequality, have to do with reforms in education, aiming for higher skills of disadvantaged people:

- Improve the quality of early childhood education and care, by improving the staff-child ratio and staff qualifications, and by ensuring equal access of the most vulnerable. Extend the supply of all-day schools.
- Provide more support for disadvantaged youth to complete upper secondary education, in particular mainstream vocational education training.
- Reduce stratification of the school system and provide more resources to schools with a comparatively high share of pupils with weak socio-economic background.

The money for financing those reforms could come, among others, from reforms in the tax base and the taxation system ‘Broaden the tax base and make different forms of taxation on wealth and inheritance more equitable, e.g. by updating property tax valuations or removing capital tax exemptions.’ In the original report (OECD 2015a), particular measures are recommended against tax fraud, loopholes and for taxing capital income due to its concentration among top wealth holder and also distorts the allocation of capital (OECD, 2015a, p. 82)

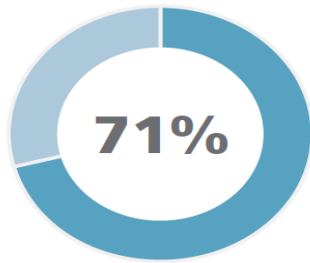
11.2.2 Views of Surveys, UNHWIs, tax advisors

This finding is also shared by researchers working with the SOEP, e.g. at the DIW (Bach, 2016a), and Hartmann: Hartmann observes that both wealthy and elites are more exclusive where no interaction with the larger public takes place. Elites in private business recruit themselves by co-optation, while other organizations are shaped by donations or elections, which cause those in charge to be more open to the wider public and not just peers. (Hartmann, 2014, p. 8) (Hartmann, 2016a, p. 28).

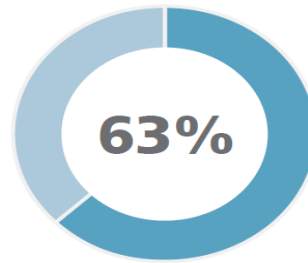
More surprisingly should be that all this is shared by the observant among the wealthy: An UBS study into the ultra-wealthy illustrates that a number of wealthy people appreciate the options society has given them for arriving there where they are right now. Three quarters of those surveyed started at middle class and rose to the top. In particular they mention the importance of education (UBS, 2015a, p. 8). At the same time, they notice increasing inequality and they fear that their own children and grandchildren will no longer profit from the kind of social mobility which assisted them.

Question: "Please indicate if you agree or disagree with each of the following statements:"
(Percentages show those who strongly agree or somewhat agree.)

The American dream of upward mobility through hard work is in danger



I'm concerned by the growing wealth inequality in the U.S.



“There is wealth inequality driven by poor education and reduced job opportunities. It is much more difficult to be upwardly mobile in today’s economic environment.”

– Female, age 68, \$5 million – \$10 million

Source 35 (UBS, 2015a, p. 9)

There is awareness that this situation has a lot of deficits and holds potential danger. A tax consultant, familiar with ultra wealthy and himself being a millionaire, puts it as follows:

Of course, there are things you do not think much about. For instance, facing the fact that the reunification and world economic crisis were financed by loans. But it were just the super rich who benefitted from state interventions and tax money. Here they would say that this situation actually contained naturally opportunities for all, one just have had to use them. Of course, this is not correct as due to different education possibilities some people have more opportunities to understand complex correlations than others. Or: One starts to ponder, when you hear how much an engine-driver earns and one asks astonished how he can live with so less money.

In earlier times it was still possible that millionaire married barmaid or CEO a secretary. This is decreasing in frequency, the marriage within the own networks and circles is increasing. That way, the separation of milieus is continuing and consolidating. Once more, a tax consultant talks from his own family experience

- In former times, there was primary school and repetition lessons for all, today exist private schools and professional coaching. In earlier times, the mother stayed at home, now there are double incomes and only rich mothers stay at home. But the so educated children are not better, instead inferior to those who fight their way upwards. Soccer is today proletarian sports, while at tennis, hockey, ballet and the like one meets ‘his equals’.
- There is no more compulsory military service which in former times served as contact over social boundaries, like with Stefan Quandt..⁶⁹

⁶⁹ „Ich habe meine Wahl getroffen“ Interview mit Stefan Quandt (2015, September 10). In: Die Zeit. <http://www.genios.de/presse-archiv/artikel/ZEIT/20150910/-ich-habe-meine-wahl-ge troffen/2A387CE448809D1B6617F97B249C3C7A.html>

- Fits to the segregation of top society groups from “ordinary” groups: St. Blasien dance course: Boarders of St. Blasien did not want to dance with local girls but girls of the Wald Boarding school. Accordingly, one remains among oneself.

The fear of segregation and drifting apart leads to conscious segregation and keeping apart:

11.3 Parallel worlds, “Space ship”

Because This in turn causes and fosters the emergence of parallel worlds and parallel priorities: While the wealthy see in public debt the biggest problem, the population in education, environmental issues and inequality (Hartmann, 2014, p. 8).

An equally pronounced difference reveals the question as to what were the prime cause for the 2007 Crisis: Deregulation or Public Debt (Hartmann, 2016a, p. 28).

		Arbeiter	Mittelsch.	Bürger	Großbürg.	Gesamt
NGOs	Deregulierung	53,3	35,3	0,0	-	41,1
	Staatsverschuldung	6,7	33,3	50,0	-	20,6
Politik	Deregulierung	44,4	44,4	28,6	0,0	38,5
	Staatsverschuldung	11,1	22,2	28,6	100	23,1
Wirtschaft	Deregulierung	37,5	9,5	18,2	12,9	14,6
	Staatsverschuldung	37,5	16,7	22,7	35,5	25,2
Gesamt	Deregulierung	35,6	20,3	14,6	9,8	19,0
	Staatsverschuldung	26,7	23,9	35,0	39,2	30,0

A worrying observation both in the US and Germany is that social mobility decreases and “bottom” and “top” no longer have adequate opportunities to mix and to understand each others “worlds” and values. Take, for example, the frame of mind behind the following finding of Wealth-X:

Another area of anxiety of the wealthy is the proliferation of wealth itself. As wealth becomes truly globalized, the exclusive clubs and resorts that were once the preserve of a like-minded few will become over-run by people with whom they may not wish to share space. So where should they go to achieve the privacy and exclusivity that wealth should bring? (Wealth-X, 2015b, p. 6)

An interesting, depressing and alarming illustration of this parallel world is given in the portrait “The Starnberg Republic”: Here a reporter tries to capture not only some of the attitudes of the wealthy living there, but also their attitude towards the state, civil servants and all those “drones” needed to operate a community: Gardener, shopkeeper, innkeeper or coffin-maker. It is a mixture of disdain, entitlement and arrogance. (Lebert, 2006)

Conversation partners among the wealthy see the problem, but they do not see any responsibility for it. They are concerned with their business, family and region and try to make the best of it, most importantly to engage locally in neighborhoods and schools, doing charity and try to sustain and create jobs. For the larger picture they do not have capacities and entrust this to the care of others. Here then the picture gets blurred: On the one side they blame the state for wasting money and no longer teach kids the value of labor and saving, on the other hand they confess that they live in the best of all states and believe that the global

migratory movements are one proof for the wealth and attractiveness of Germany as a country. They also think that it is not them, but the others who have to change:

Space ship super rich? Didn't the rich always lived outstandingly? This is even written in the Bible. From the world's suffering he knows little. He supports the Benediktiner mission???. And children homes in Uganda and India. He also does not travel that much, he has no time for that. What is needed in Germany is an ethic of working and saving, not an improved shifting of money allocation. My girl-friend wanted a credit for buying the son a car. This was denied: the son should work. Children neither learn the value of working nor saving. They neither learn it from the family, nor at school. Why is there a budget for school excursions? Children should learn to work for school excursions, then there would be enough entrepreneurs who would donate to each of that way earned Euro an additional one. This would advance the country..

11.3.1 Manager Magazin asks: Solution taxes?

Even the (Manager Magazin Sonderheft, 2015, p. 72ff.+82) is worried and discusses in „Geschlossene Gesellschaft“ & “Die Last mit den Reichen” whether we are approaching a new Feudalism (Freeman 2012) because the top wealth holder get increasingly out of touch.

This trend to parallel worlds is likely to continue. Elisabeth Brooke-Harrington spent a lot of time to interview the wealthy's asset manager. Her finding: The experts on taxes, preserving and increasing of huge bulks of capital considerably contribute to cementing the inequality because they evade taxation of their clients' wealth in more and more successful ways. That way, governments miss remarkable assets which they could otherwise invest in education, health care and other services to counteract the ongoing inequality⁷⁰

In a commentary in the same Magazin, Prof. Henrik Müller said in a commentary: “Certainly, it must be ensured that the rich pay over proportionately high taxes. Income, with which the state can distinctly promote the poor. That way, wealth is no problem for growth. With one limitation: As far as private wealth can turn into political power a deformation of state structures is imminent. Then, political decisions are not anymore oriented towards the utilization of broad majorities, but towards the interests of small, exclusive groups.”⁷¹

And Max Planck Institute Professor Jens Beckert warns: “The inequality of the allocation of wealth divides the society. Nevertheless, it is expected that this development will continue”. Social closure and society's separation are imminent, as well as insecurity of the middle class with a subsequent receptivity for populist rabble-rouser⁷²

⁷⁰ . Ihr Ergebnis: Die Experten im Steuern, Erhalten und Mehren großer Batzen von Kapital tragen erheblich zur Zementierung von Ungleichheit bei, weil sie das Vermögen ihrer Klienten immer erfolgreicher der Besteuerung entziehen. So würden den Regierungen erhebliche Mittel vorenthalten, die diese in Bildung, Gesundheitsvorsorge und andere Leistungen stecken könnten, um der anhaltenden Ungleichheit entgegenwirken zu können.“ (Manager Magazin Sonderheft, 2015, p. 75)

⁷¹ Professor für wirtschaftspolitischen Journalismus in Dortmund. „Natürlich muss gewährleistet sein, dass die Wohlhabenden überproportional hohe Steuern zahlen. Einnahmen, aus denen der Staat Arme gezielt fördern kann. Reichtum ist, so gesehen, kein Problem fürs Wachstum. Mit einer Einschränkung: Sofern sich private Vermögen in politische Macht verwandeln lassen, droht einer Deformation der staatlichen Strukturen. Politische Entscheidungen orientieren sich dann nicht mehr am Nutzen für breite Mehrheiten, sondern an den Interessen kleiner, exklusiver Gruppen.“

⁷² .“Die Ungleichheit bei der Verteilung des Vermögens spaltet die Gesellschaft. Dennoch ist damit zu rechnen, dass diese Entwicklung weitergeht“ Soziale Schließung und Spaltung der Gesellschaft, droht ebenso wie eine Verunsicherung der Mittelschicht mit nachfolgender Empfänglichkeit für populistische Rattenfänger (ebd. pp.75)

11.4 “Class values”

The less people mix with others and the more they only converse with likeminded peers, the more there is danger that society drifts apart regarding common values and “ethics”, the very cement of community. One of the researchers into those underlying attitudes, Paul Piff, concluded in his groundbreaking research:

As our findings suggest, the pursuit of self-interest is a more fundamental motive among society’s elite, and the increased want associated with greater wealth and status can promote wrongdoing. Unethical behavior in the service of self-interest that enhances the individual’s wealth and rank may be a self-perpetuating dynamic that further exacerbates economic disparities in society, a fruitful topic for the future study of social class.⁷³

This is no generalizing statement about the wealthy, but this is the rule of empirical findings, exceptions always being the case.

It is easy to see Piff’s research as ideologically motivated. The point is to “shed light on some of the consequences of social class,” he says. But whatever his goal, the “results are apolitical,” he says, and the data point in a clear direction. “Would I be less excited if we found that higher-status people were more generous?” he asks. “I’d probably be less excited, but that’s not what we found.”⁷⁴

But there is more research confirming these findings, even though perhaps not as widely publicized. For example, psychologists in 2003 stated already, when reviewing a number of studies:

We have seen in this article that powerful individuals gravitate to positions of power; that power prompts disinhibited, self-serving behavior and stereotypic social perceptions; and that powerful individuals exert more influence on others. The very individuals who might keep in check this pattern of behaviors, those with less power, are constrained in thought, word, and action. (Keltner, Gruenfeld, & Anderson, 2003, p. 279)

In a later study, based upon field- and group experiments, another team of psychologists and neuro-scientists argue that wealthy people’s faculties for empathy and sympathy degenerate which, of course, affects their willingness to cooperate with and understand people living outside their “class context”, i.e. the poor:

(F)indings relating social class to empathic accuracy have potentially profound implications for how social inequality affects close relationships. In fact, the greater social engagement exhibited by lower-class individuals in past research may spring from a similar need to perceive the external environment accurately in order to be responsive to it. (Kraus, Cote, & Keltner, 2010, p. 1722)

Finally, a study by a Dutch behavioural psychologist team should be mentioned, the abstract reads:

In five studies, we explored whether power increases moral hypocrisy (i.e., imposing strict moral standards on other people but practicing less strict moral behavior oneself). In

⁷³ P. 4089 of Piff, P./ Stancato, D. et.al. (2012, March 13) Higher social class predicts increased unethical behavior. In: *Proceedings of the National Academy of Science*. Vol. 109 (11), pp. 4086-4091. Supplementary information about underlying field studies and their evaluation:

<http://www.pnas.org/content/suppl/2012/02/22/1118373109.DCSupplemental>

⁷⁴ Miller, L. (2012, July 1) The Money – Empathy Gap. In: New York Magazine. Retrieved from <http://nymag.com/news/features/money-brain-2012-7/>

Experiment 1, compared with the powerless, the powerful condemned other people's cheating more, but also cheated more themselves. In Experiments 2 through 4, the powerful were more strict in judging other people's moral transgressions than in judging their own transgressions. A final study found that the effect of power on moral hypocrisy depends on the legitimacy of the power: When power was illegitimate, the moral-hypocrisy effect was reversed, with the illegitimately powerful becoming stricter in judging their own behavior than in judging other people's behavior. This pattern, which might be dubbed hypercrisy, was also found among low-power participants in Experiments 3 and 4. We discuss how patterns of hypocrisy and hypercrisy among the powerful and powerless can help perpetuate social inequality. (Lammers, Stapel, & Galinski, 2010)

This suggests that if the powerful and wealthy have the opinion that they obtained their social position justifiably and fairly and in accordance to established norms and standards, they are less willing to be generous to those who "did not make" it.

Value problems are even worse with kids who live up wealthy and expect a large fortune: The Rich Kids Syndrome, suffering from "Affluenza" problems to assume responsibility and is of the opinion that everything can be bought or regulated with money⁷⁵ (see GW/Inheritance#).

All this is probably not wrong, but it needs to be asked how much this is due to the situation in the US, i.e. how far it can be used for understanding the situation in Germany. In the beautiful und perceptive words of one top wealth holder:

Regarding the reasons for income and wealth inequality I can and do not want to say anything. I do not know anything about this and I am busy with other things, particularly my family and my company, I live on the countryside and so I know a lot about my neighbors – you know each other, you celebrate with each other and you burry people with each other. There are refugees, seasonal workers, low-income Germans, as well as commuter into the city. Refugees and seasonal workers think they are in paradise even if we pay them compared to Germans little. The low-income ones I know are too proud to ask for help. They are proud, modest and satisfied. The commuters are more demanding in what they expect for themselves and for their job. And then, I have to deal a lot with millionaires who cannot sleep at night anymore due to the low-interest period and think there won't be a tomorrow for them. Money does not make you happy.⁷⁶

11.5 Meritocracy and Entitlement

In Germany, as elsewhere, is a strong sense of entitlement among the wealthy. They argue that they achieved what they have by hard work, saving and austerity, willingness to take risks and make hard decisions and have no free time to spend themselves and with their families (Perry, 2007) und (Rickens, 2008). A tax consultant explained:

⁷⁵ Pollack, K. (2015, March 2) "Rich Kids" Syndrom: Arme reiche Kinder. In: Der Standard. Retrieved from <http://derstandard.at/2000012270408/Affluenza-Jung-reich-und-ohne-Gewissen>

⁷⁶ Zu den Ursachen der Einkommens- und Vermögensungleichheit kann und will ich nichts sagen. Dazu weiß ich nichts und ich bin mit anderen Dingen beschäftigt, vor allem meiner Familie und meinem Unternehmen. Ich wohne auf dem Land, und da weiß ich viel von meinen Nachbarn – man kennt sich halt, man feiert zusammen und beerdigt die Leute gemeinsam. Da hat es Flüchtlinge, Saisonarbeiter, einkommensschwache Deutsche sowie Pendler in die Stadt. Flüchtlinge und Saisonpendler glauben, sie seien im Paradies, auch wenn wir ihnen, im Vergleich mit Deutschen, wenig zahlen. Die mir bekannten Einkommensschwachen sind zu stolz als dass sie um Hilfe bitten würden. Sie sind stolz, bescheiden und zufrieden. Die Berufspendler sind da schon anspruchsvoller in dem, was sie für sich und ihren Beruf erwarten. Und dann habe ich viel mit Millionären zu tun die angesichts der Niedrigzinsphase nachts nicht mehr schlafen können und glauben, es gäbe für sie kein Morgen. Geld macht nicht glücklich

Entrepreneurs are working hard, long, much and therefore are entitled to many things. “When I jump into my pool at night I feel good“. They have high standards for their children whether they are capable to take over or not. Partially, they were even disinherited by becoming a foundation or incapable children are compensated or redeemed. At the same time, they are paying a price: They might have private jets but in exchange they do not have any free time. That inequality exists is a fact, but this has nothing to do with injustice because according to their view everyone in Germany has the chance to forge his own destiny – also due to the still good public education system which they finance with their taxes. In addition, some of them have because of the pressure health problems which a taxi driver with fixed working hours does not have.

Indeed, however, the picture is not unambiguous: Yes, there is a large and growing amount of wealth transferred intergenerationally by means of inheritances and gifts. At the same time it seems that also a considerable number of heirs contribute responsibly to set wealth at work and increase it (see above 9.5). At the same time: Do those heirs need as much as they have, which, after all, equips them with many more means to create wealth and earn high income than anybody else?

Meritocracy is a very central point in Thomas Piketty’s argument regarding the legitimacy of our democratic societies:

Our democratic societies rest on a meritocratic worldview, or at any rate a meritocratic hope, by which I mean a belief in a society in which inequality is based more on merit and effort than on kinship and rents. This belief and this hope play a very crucial role in modern society, for a simple reason: in a democracy, the professed equality of rights of all citizens contrasts sharply with the very real inequality of living conditions, and in order to overcome this contradiction it is vital to make sure that social inequalities derive from rational and universal principles rather than arbitrary contingencies. Inequalities must therefore be just and useful to all, at least in the realm of discourse and as far as possible in reality as well. (Piketty, 2014a, p. 422)

Similar Beckert in his book “Inheriting in a Meritocratic Society” (Beckert, 2013). If, however, the impression grows that the “contingency” of birth is more important than Chancengleichheit (equality of opportunities) for all, social cohesion will crumble and social conflict increase.

11.6 Acceptability of wealth and “Sozialneid”

Sozialneid or “policies of envie” are, according to defenders of the status quo, behind all moves to diminish inequality, states Oxfam in its 2016 report (Oxfam, 2016a, p. 2).

While wealth is much more acceptable in the USA, also from ordinary persons view, the topic in Germany is often burdened by the accusation of “Sozialneid”, i.e. that the wealthy have the feeling that the majority does not acknowledge their hard work and their willingness to assume responsibility (Perry, 2007) and (Rickens, 2008), Kap. “Der Neid und die Leistungselite.” This, however, was not always the case: When the term “Elite” or “Leistungselite” re-emerged in the 1980s, it was clearly linked to economic relevant results and successes, which is why the term was often equaled with “Wirtschaftselite”. This also legitimized huge increases in salaries in the financial and economic sector. High income and wealth is acceptable if it is linked to performance, hard work and achievement, especially for the larger society. One example for that is the acceptability of the high salary for Martin Winterkorn even for the trade unions (see GER/IV/2.1.6).

Acceptance of elite in Germany dropped dramatically during the World Financial and Economic Crisis 2007, when it emerged that financial elites had a lot of income without producing anything of real value – and in the end destroying even that which had real value.⁷⁷

This kind of social jealousy directed towards them (unjustifiably, as they think) further prompts them to remain among themselves, reinforce their thinking and cut themselves off from others – which in turn increases ignorance, guessing, speculations and social tension.

11.7 Conclusion

Given the definition of class used above it is, when looking at the decreasing social mobility, indeed justifiable to talk of an increasing class-society.

To the extent, however, convergence and coherence emerges between and within the top income and wealth holder of a society and other elites, the more social mobility decreases, the more tension will emerge in society because the impression will consolidate that no longer hard work, individual intelligence and gifts and merits will determine somebody's place in society, but the chance of birth and family. The conclusions drawn from this, however, are different:

Hartmann states resignation at the bottom of society, revealing itself in decreasing participation in elections and other democratic processes (Hartmann, 2014, p. 8),

Lauterbach/Tarvenkorn, Piketty and others tend to see more tension and even violence: If social mobility decreases, the social milieus tend to encapsulate themselves and lead a parallel life rather than treating society as a “common good”. This again generates tension within society which might result in violence. (Lauterbach & Tarvenkorn, 2011, p. 57f.). Piketty is skeptical in his analysis, pointing out that notable reforms succeeded only after the violent collapse of unequal structures, a view which is also shared by some billionaires such as Nick Hanauer (see I/IV/2.4.2.)

Because of the fact that the public discussion surrounding Sozialneid and Sozialgeiz is polarizing society, Hartmann is supporting evidence both by Piketty and (Druyen, 2007, p. 211ff.) that dialogue between the two worlds of the top 1 percent of wealth holder and the remaining 99 % needs to be initiated and a dialogue about the diverging views of “good life”, its values and deduced policies is called for if cohesion and belief in the values of a meritocratic society were to be preserved and from saving our society from being torn apart by social tension and violence. It is, after all, the ignorance about facts which prompts belief that a certain idea of how the wealthy live and what they do. This would require opening up of the “upper class” and providing more transparency about what they do, why and how. Acting according to the principle “If you do good, talk about” would defuse a lot of tension.

Another problem is that of partial knowledge and involvement among the wealthy: During this study a number of wealthy persons were contacted who were extremely knowledgeable about their business, its laborer and the region within which they were operating, including poverty issues of individuals and neighborhoods. To the degree of involvement with the business and in all sorts of charitable engagement besides a family life, there were some weaknesses regarding the larger picture, e.g. poverty in other regions outside Bavaria, structural injustice inside and outside of Germany. Here is a deficit which they delegated to

⁷⁷ Reitmayer, M. (2014, April 7) “Elite” im 20. Jahrhundert. In: Aus Politik und Zeitgeschichte, 64. Jahrgang, 15/2014, pp. 9-15

others who are supposedly more competent to deal with it. But exactly here are also areas where taxation, transparency and democracy comes in, i.e. where regional bonds and knowledge of a limited amount of people and institutions comes to a limit and more abstract rules need to come in in order to regulate the larger picture – what conversation partners admitted once one had time to talk about it.

Therefore the question is, whether “wealthability” also requires member of the top 1% to inform themselves about the wider picture and develop a sense of responsibility also for the wider picture by getting involved. Or: If they do delegate those problems of the larger picture, then they should refrain from interfering if that which is democratically decided does not please their own views.

12 Exercising influence

Given the increasingly and consolidating powerful position of top wealth holder, the question is not whether, but how, they exercise influence towards politics and society.

12.1 Informal social networks

The importance of informal networks for having influence on politics, legislation and administration is not only confirmed by this study (see for Bavaria GER/VIa), but also wealth reports. The Wealth-X/UBS Global Wealth Report states: ‘On top of the direct influence that UHNW individuals have on the world’s economy, they also have an indirect impact through their social networks of family or friends’ and a lot of important decisions are discussed and decided within those networks (Wealth-X and UBS, 2014, p. 10+34).

(Friedrichs, 2015, p. 277ff.) Those networks function even if the family is no longer wealthy. But once you are heir to a well-known name, you are still well connected and have privileged access to wealthy people and well paid job opportunities which those, who do not have a large name but, perhaps, a good university degree, do not have. Example Philipp Neckermann

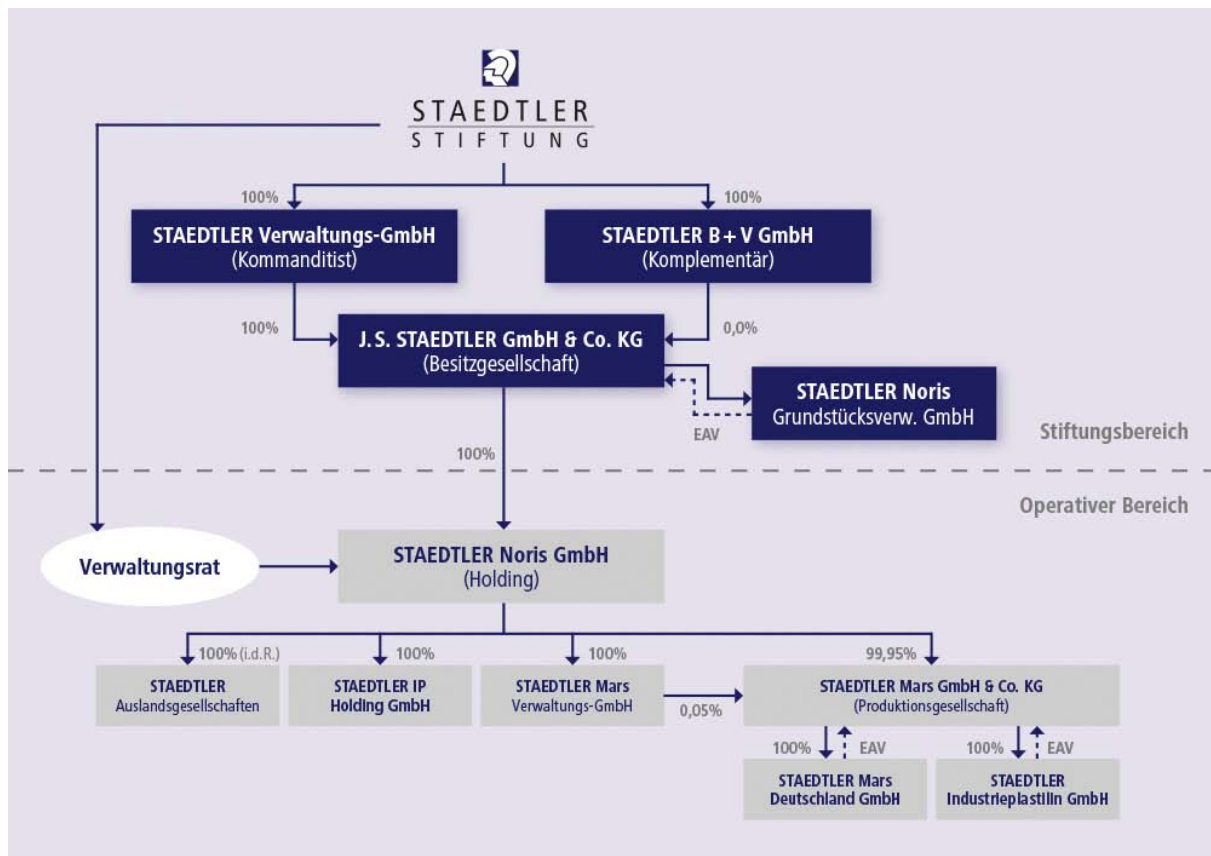
In Bavaria networks operate via schools/Boarding schools, student organizations, soccer matches and many, many informal parties, resulting in favors such as rebates, delays in checks, or good jobs in state institutions. A tax consultant illustrated his experience as follows:

And one surely meets many people who want to join in the conversation heavily how their taxes are spent even if they would not consider discreet talks with their Members of Parliament or tax collectors as purposeful exertion of influence. About that they do not really think about – it is simply like that.

One may also safely assume that the time and engagement of private wealth holder in “Private Clubs” – partly at least in principle even tax deductible as being gemeinnützig – serves the common good only to a certain extent. It is also useful for advancing private issues or exercising social and economic influence (see GW/II/5.2)

12.2 Mutual support networks at, e.g. foundations

An institution of increasing importance here are foundations, where those setting it up invite and appoint a surprising large number from family, friends and “peer” into supervisory boards for running the operation. The Staedtler Stiftung in Nuremberg is one example:



The following make up the Stiftungsvorstand as of 9th September 2016:⁷⁸

1. Dieter Bellé, Stiftungsmittglied – Mitglied des Vorstandes und CFO der Leoni AG
2. Dirk Heidenreich, Stiftungsmittglied – Geschäftsführer der SEMIKRON International Dr. Fritz Martin GmbH & Co. KG
3. Ulrich Hegge, Stiftungsmittglied, Internetunternehmer
4. Andrea Schauer, Stiftungsmittglied – Geschäftsführerin der Geobra Brandstätter GmbH & Co. KG
5. Wilhelm R. Wessels, stellv. Stiftungsvorsitzender – ehemaliges Vorstandsmitglied der GfK

All of them are either employed by and/or themselves Nuremberg resident German Top Wealth-holder.

That this is no exception, but rather reflects the rule is confirmed by research into German foundations. The obvious attempt “to keep it among ourselves” reflects also the major finding of research, that foundations are often set up with the motivation to keep control over ones wealth and to preserve it (i.e. keeping it out of reach of the taxman), as will be shown in chapter GW/II).

Foundations are also established with the explicit wish to better external influence, see GW/II.

12.3 (Paid) professional lobbyism, transparency

In Germany, there is no proper register of lobbyist groups. The “Verbänderegister” only requires a voluntary registration of federations, associations and co-operations doing lobbyism

⁷⁸ <https://www.staedtler.de/de/stiftung/stiftung/>

in Berlin, but not of corporations, lawyer associations, foundations, professional lobbyism service provider for hire or private individuals. The register contains names of those working at these groups, contact numbers and a very general description of their interest. But it does not offer transparency of financial resources and how that money is “invested” and for what purposes (i.e. the goal of its lobbyism).⁷⁹ In June 2016, the list contained 2,247 names and organizations and filled 841 pages. It is constantly updated.⁸⁰

Transparency International in its report “Lobbying in Germany” publishes the following groups doing active lobbying, which by far surpasses the registered 2,200 organizations with parliament (Transparency International, 2014a, p. 12):

- » ca. 4.000 bundesweit tätige Verbände mit 3 bis 120 Mitarbeitern
- » ca. 120 Unternehmensrepräsentanzen in Berlin mit durchschnittlich 4 Mitarbeitern
- » ca. 90 Public Affairs-Agenturen mit insgesamt rund 1.000 Mitarbeitern
- » ca. 50 Think Tanks mit einem Sitz in Berlin
- » ca. 20 Anwaltsfirmen, die auch Lobbying betreiben
- » ca. 200 Wissenschaftler in Beiräten oder als Gutachter
- » ca. 30 Unternehmensberatungen
- » ca. 30 wissenschaftliche Institute und Hochschulen
- » ca. 25 Stiftungen, die politikberatend tätig sind
- » ca. 300 Einzellobbyisten bzw. Politikberater

It is often not apparent who is doing PR/lobbyism for what commissioning organisation. Cases for this lack of transparency are not only documented by NGOs such as LobbyControl, but also the Deutsche Rat für Politikberatung and the Deutsche Rat für Public Relations. If one looks at lists documenting their rulings in cases of complaints, they involve in most cases “covert” and intransparent lobbyism, i.e. that it is not apparent whose interest (and payment) is behind certain PR campaign or public statements.⁸¹

LobbyControl offers continually update information on his website <https://lobbypedia.de/wiki/Hauptseite> in the attempt to contribute to transparency. In the course of this research, the following lobby-groups popped up in regular intervals:

- Unternehmerverband
- Stiftung Familienunternehmen (→ Inheritance)
- Mittelstandsverband
- Grundstücksbesitzer

12.4 Revolving Door, legal footprint

Here the phenomenon of the Revolving Door needs to be mentioned which is at home in Germany since 2004: It then came to an agreement between former Home Secretary Otto Schily and Deutsche Bank Chief for Personnel Tessen von Heydebreck about an exchange program called “Seitenwechsel” between private sector and public ministries, whose original design and intention was to increase understanding for each other’s problems. De Facto it seems that there were more (temporary) placements of experts from private sector in government ministries than the other way round, and this had a direct impact upon legislation: Experts of the Bertelsmann Foundation cooperated in the Hartz IV reform of the social welfare system, experts of the financial sector cooperated in the development of private

⁷⁹ (Transparency International, 2014a, p. 16)

⁸⁰ The continually updated list is retrievable from <http://www.bundestag.de/dokumente/lobbyliste>

⁸¹ (LobbyControl, 2013, p. 11), (Transparency International, 2014a, p. 14ff.)

additional insurance for pension plans (“Riester Rente”), the Federation of German Industry took part in discussions surrounding the “compatibility” of family and professional life (Borchert, 2014, p. 42). There is proof, for example, of the car manufactories lobbygroups influencing legislation regulating the exhaust of carbon dioxide, in another example. Even the pretty lax self-regulatory bodies of German lobbyism criticized the direct cooperation and influence of a representative from the Bundesverband Investment and Asset Management in the Gesetz zur Modernisierung des Investmentwesens und zur Besteuerung von Investmentvermögen.⁸²

More recently journalists uncovered in the context of the Cum-Ex Scandal, which profited private wealth holder a lot (see GER/VII): Textblocks from the statement provided to the Ministry by the Federation of Banks found entry into the legislation prepared by the Ministry one by one, which indicates that here is a particularly clever proceeding of lobbying.⁸³

12.5 Paid research, placed articles

Finally it is known how “expertise” influences legislation and social debate. Ministries and legislators spend money on academic research in order to get advise for legal projects. Here it seems that up to EUR 4 million have been paid by government ministers for expertise related to the drafting of legislation. Here, too, transparency is not total, since some of those information were declared to be “confidential” and therefore not for publication. And here, too, it seems that Berlin copied and pasted passages from those external submissions without making clear from where the draft originates.⁸⁴

Here wealthy persons are able to influence the debate via setting up foundations whose task is to spread actively certain ways of thinking, e.g. the neoconservative Project for the New American Century (funded by Thomas Bradley etc.) or the neoliberal Bertelsmann foundation by Reinhard Mohn.

Even academic and “independent” research institutions operate in application of the Revolving Door principle, i.e. by circulating experts from politics to business to research institutions and back to politics (or rather not because payment there is much worse). An article which revealed these hidden influences in Germany was published in August 2013 with the result that the head of one institute examined there, Professor Zimmermann of the Institute for the Future of Labour, financed by the German Mail Foundation, resorted to legal proceedings in order to suppress the analysis as far as his institution is concerned. By court

⁸² Summary in (Transparency International, 2014a, p. 30ff.)

⁸³ Die Story im Ersten: Milliarden für Millionäre (2015, February 15). In: ARD. Copy & Paste from Banking Federation into the law: Video at Minute 13 <http://www.daserste.de/information/reportage-dokumentation/dokus/videos/die-story-im-ersten-milliarden-fuer-millionaere-106.html>

⁸⁴ Insgesamt wendeten die Ministerien über 4 Millionen Euro für die Mithilfe Externer an Gesetzen auf. Nicht öffentlich zugänglich ist dabei indes die Antwort auf die spannendste Frage, welche Honorare nämlich das Bundeswirtschaftsministerium und das Finanzministerium den beteiligten Anwaltskanzleien für das Mitwirken an ihren Gesetzen zahlten. In der Antwort der Bundesregierung vom 26. Oktober 2009 auf die Anfrage der Linken sind nämlich genau diese Angaben, welche die für die Öffentlichkeit interessantesten und der Sache nach wesentlichsten sein dürften, geschwärzt: »Die gezahlten Honorare ergeben sich aus der beigelegten Anlage 2. Die Angaben erfolgen durchgehend in Euro. Die Angaben des Bundesministeriums der Finanzen (BMF) und des Bundesministeriums für Wirtschaft und Technologie sind als VS – Vertraulich eingestuft.« Nachdem wohl wegen der Hartnäckigkeit der LinkenFraktion, die wiederholt in die Abgründe hineinleuchten wollte, auch diese Form des Outsourcings politisch zu ungemütlich wurde, hat man sich offenbar wieder etwas Neues einfallen lassen. Im März 2013 wurde nämlich enttarnt, dass Gesetzentwürfe in Brüssel und Berlin zentrale Formulierungen unmittelbar aus nicht öffentlichen Lobbyistenpapieren übernahmen.‘ (Borchert, 2014, p. 180)

order, some media followed the court order, the author, employed at a state university, fought back and going to court himself.⁸⁵

Meinzer (2015a: 258ff.) referred to Hochschulwatch, an initiative of Transparency International, which uncovered the influence of the Big Four on universities and research: The Big Four sponsor 22 professorial chairs and have a voice in 3 University Councils, the forum which decides upon whom to entrust with professorial chairs. It is similar with Financial Institutions, most importantly in Frankfurt.

Meinzer also reports of the influence which those having money exert on the media, especially misusing the need of media to acquire advertisements and commercials for being profitable (2015a: 261ff.).

12.6 Donations to political parties

Another large area of concern are donations to political parties which are, by the way, tax deductible. Here some prefer individual parties and are faithful to them even though they might be out of office, others change allegiances, favouring the respective incumbent in office. The direct buying of favours is, of course, prohibited. But nobody is naive, assuming that donations without any intention exist. For example, in October 2013, shortly before the general elections, two parties making up the ruling coalition, CDU and FDP, received EUR 900,000 from the owner of the carmaker BMW.⁸⁶ Shortly afterwards, the German government successfully prevented a vote on EU level which tried to impose tougher environmental standards on car manufacturers (which would have hit German carmakers in particular).

In further analysis it is revealed, that the majority of donation money does not come from legal persons, but natural persons, i.e. real people with interests and money, the relationship being on average in between 55% to 66% of the donations by people, the rest by businesses. The list lead by the three owner of the Quandt-Klatten family with EUR 300,000 each for the CDU and FDP, followed by H. J. Langmann (EUR 200,000 – CDU), R. Pohl (EUR 180,000 CDU, FDP), M. Herrenknecht (EUR 130,000 – CDU, FDP, SPD), HG Näder (EUR ,499 – CDU), A.K. Linsenhoff (EUR 111,000 – CDU) etc.⁸⁷

On the whole, the CDU receives twice as much money as the Social Democrats, the latter slightly more than the CSU. In the election year 2013, the figures were as follows:⁸⁸

⁸⁵ Rügemer, W. (2013, August). Die unterwanderte Demokratie. In: Blätter für Deutsche und Internationale Politik. Retrieved from <https://www.blaetter.de/archiv/jahrgaenge/2013/august/die-unterwanderte-demokratie>. And: Rügemer, W. (2014, April 23) Unabhängige Wissenschaft. Online Flyer. Retrieved from <http://www.nrhz.de/flyer/beitrag.php?id=20254>

⁸⁶ A website by the German Parliament publishes all donations to German political parties which surpass the amount of EUR 50,000, see <http://www.bundestag.de/bundestag/parteienfinanzierung/fundstellen50000/2013/>

⁸⁷ Beutelsbacher, St. et. al. (2015, April 1) Diese Personen spenden der Politik die größten Summen. In: Die Welt. Retrieved from <http://www.welt.de/wirtschaft/article138982549/Diese-Personen-spenden-der-Politik-die-groessten-Summen.html>

⁸⁸ Welche Parteien die meisten Spenden bekommen - und von wem (2015, April, 13). In: Die Morgenpost. Retrieved from <http://www.morgenpost.de/politik/article139348335/Welche-Parteien-die-meisten-Spenden-bekommen-und-von-wem.html>

Graphic 6 Donations towards political parties, 2013, in million Euros

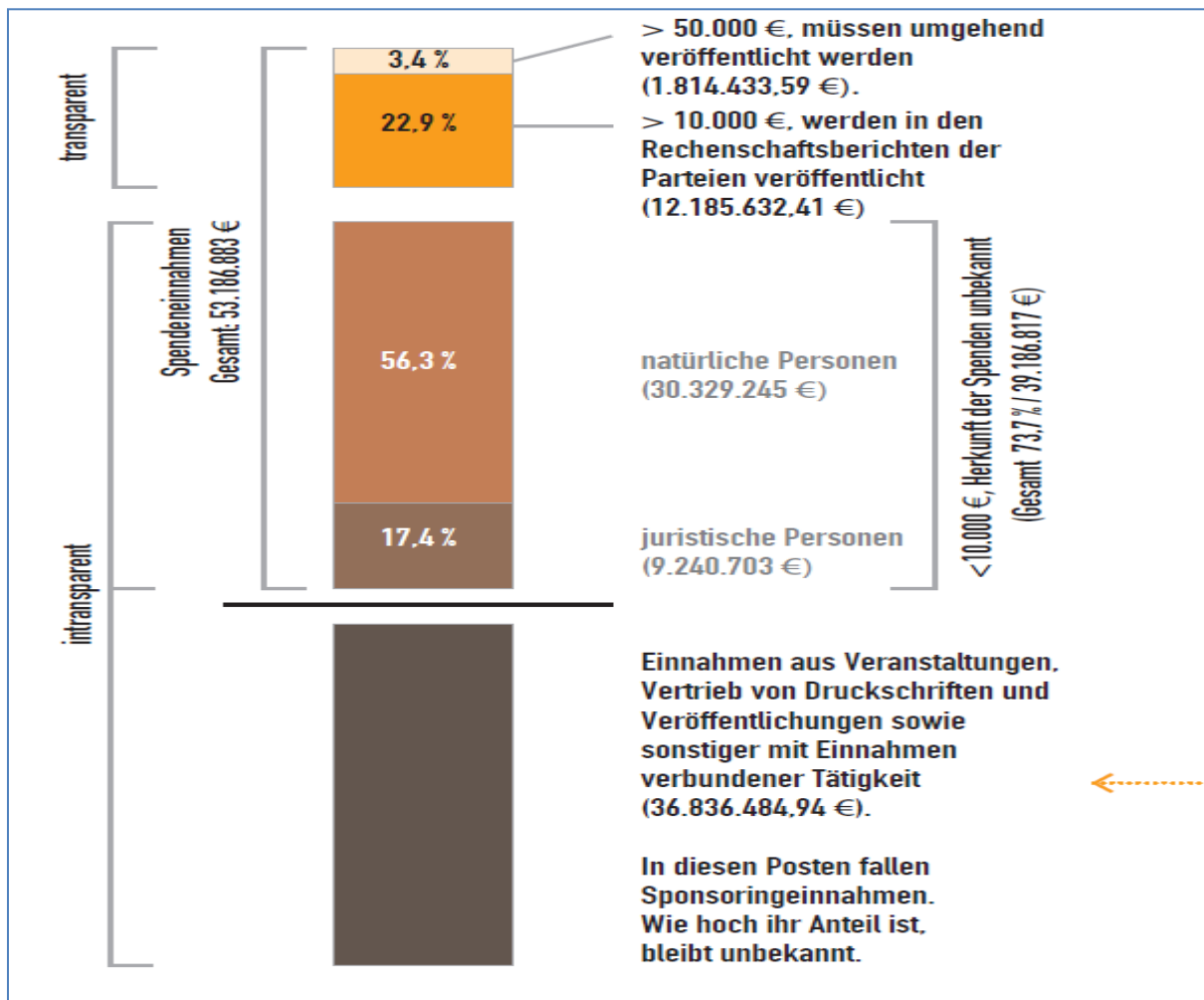


According to the law, only donations above EUR 50,000 have to be declared and published immediately, for which the Federal Parliament has an own website:

<http://www.bundestag.de/bundestag/parteienfinanzierung/fundstellen50000/2016>

Donations above EUR 10,000 have to be declared and published in the parties' annual balance sheets. There are cases, however, where donors cut their donation into smaller bits lower than EUR 50,000 or EUR 10,000 so that they escape publication and their names remain unknown (e.g. Gauselmann or practice of the Federation of Chemical Industry). That way, LobbyControl estimates that up to three quarter of financial contributions to political parties are not declared and not known in public.

Graphic 7 Transparency and lack of transparency regarding donations to political parties



Source 36 (LobbyControl, 2013, p. 20)

12.7 Economical-financial power and weight

Also Credit Suisse states that indeed the private is not merely private, but also influences economical decisions and the wellbeing of many: ‘While the mid and lower levels of the pyramid are important, the top segment will likely continue to be the main driver of private asset flows and investment trends.’ (Credit Suisse, 2015, p. 27). It is widely known that “private investors” (or “institutional investors”) acting on their part, advise governments about “reasonable” or tax policies are not “competitive” and/or periodically threaten to relocate businesses or reroute investment if governments are behaving stubborn – as has been the case, for example, when the British Financial Industry lobbied the UK government against the Financial Transaction Tax or which is the goal and strategy of the Silicon Valley Tax Directors Group in their lobby activities, also among EU member states.⁸⁹

The exercise of private wealth will be even more secretive since large wealth holder no longer work through funds or banks, but through their own network of Family Offices. For example the „iClub“, i.e. Family Offices which form a coalition and invest directly rather than going via Private Equity Funds. Adequate funds for large direct investment, assuring more control and, via their own networks, quality can be assured without having the need any longer to resort to external expertise (Manager Magazin Sonderheft, 2015, p. 88ff.) .

⁸⁹ <http://www.zeit.de/2016/37/technologieunternehmen-usa-steuern-apple-politik-ideologie>

Also Wealth-X sees this trend in the wake of the 2007 World Financial and Economic Crisis, when there was too much cash around, not finding lucrative investment. Now those top private and corporate wealth holder join forces and directly co-finance via Family Offices lucrative projects. There is a generational issue to it since especially younger heirs to fortunes are more open to this model, wanting to control their investment more directly. Another important aspect is that this model works best if the Head of Family is directly involved, an issue which is also confirmed by conversation partners to this study.

Rupert Shaw, founder of Pioneer Point Partners, comments: “This is not really a market driven thing; it is more about wealthy families taking matters into their own hands and investing in their own interests. This is a diverse and uncrowded market as families like different things, such as (investing in) Africa as a region, water, retail, etc.” ... According to the 2015 Campden Global Family Office Report, the average family office has invested approximately US\$177 million in private equity activity, which includes venture capital and co-investing. The report also indicated that private equity co-investment with other family offices – either through office-to-office deals or syndicated through private banks – is on the rise, and typically constitutes around 10% of private equity allocations or 2.2% of a total portfolio. “Family offices continue to see significant value in co-investments where they can bring together the right partners to enhance the likelihood of success,” the report states.⁹⁰

12.8 Media ownership and dependence from adverts

Another influence the super-wealthy exercise through media which the (partially or entirely) own and where they have an influence on what they deal with and how they deal with. A second way of influence is the dependence of media from advertising where, as is told, large amounts go along with certain favors. The Manager Magazin 3/2015 contained an interesting article about the increasing dependence of media from external financing due to the decreasing number of regular readers and – accordingly – the decreasing revenue from advertisement.⁹¹ The situation is such, the author argues, that media offer space in their publications to whoever is able and willing to pay for it and leaving it largely to them what kind of articles they place. One might imagine that it is easy to promote products, research or strategies which benefit business and influence both public and politics, including many arguments regarding the ills arising from too much taxation and tax-like levies and contributions. The situation is apparently so alarming that the working group “Corporate Compliance” was forced to pass guidelines for this kind of “covert influence” so that businesses, who do not use this method, are not disadvantaged by those who do. However, the 4 page-paper⁹² does not specify who is monitoring the compliance of these guidelines. Since the working group itself meets only twice a year and has a number of other issues to take care of this kind of compliance is probably left to everybody, meaning nobody at all.

12.9 Conclusion

Druyen has some sentences in his book which make one wonder, for example: In the course of his research he ‘met a small group who owns the world’ and ‘naiveté is not appropriate considering the alliance of wealth and power.’ (Druyen, 2007, p. 42) confirming the alarming notes struck by Thomas Piketty in his book “Capital in the 21st century” (see I/IV/2.4). Similar Wolfgang Lauterbach regarding private and corporate wealth holder: „Diese bilden

⁹⁰ Ebbage, A. (2016, February 18) The Keys to Successful Co-Investments for Family Offices. In: Wealth-X newsletter. Retrieved from <http://www.wealthx.com/articles/minisite-post/family-offices-co-investment/>

⁹¹ Clausen, S. (2015 March) Licht in der Grauzone. In: Manager Magazin. Retrievable from <http://www.manager-magazin.de/unternehmen/artikel/dax-konzerne-starten-initiative-fuer-sauberen-umgang-mit-medien-a-1019429.html>

⁹² Institute for European Affairs: Kodex für die Medienarbeit von Unternehmen. See http://www.manager-magazin.de/static/pdf/Kodex_Medienarbeit.PDF

eine globale Elite heraus, die sich vom Rest der Welt nichts mehr sagen lässt.“ (Manager Magazin Sonderheft, 2015, p. 75).

The Manager Magazin 2016 (pp. 74ff.) had a deeper look into the link between „money“ and „power“ worldwide in general and Germany in particular. Result: Since the Fugger and Medici, never before the influence of top wealth holder was as extensive as nowadays, which has to do with the steep increase and further concentration of fortunes in the wake of financial-economic recovery after the World Financial and Economic Crisis. And their interests are widening: Was the emphasis so far in efforts to lower tax and social contributions and increase free trade and flow of capital, meanwhile too many top wealth holder seem to generally think they know best how to run countries and continents. For Germany the typology and proceeding of “Plutocrats” is seen to be the most common (as in the US), by using think-tanks, lobbyists, paid research, foundations and direct contacts in the effort to advance ones interests and ambitions. Chrystia Freeland, now Canadian trade minister and former researcher into wealth, argues that the growing link between money and politics both cause and consequence of the steep ascend of a small global elite (p. 77). And researcher Jeffrey Winters is quoted that private and corporate wealth holder are extremely skilful in using instruments of democracy in the interest of their “Income Defending Industry” (p.78). The 2016 Manager Magazin admits that this influence does not diminish if they do some “outsourcing” of wealth into foundations: ‘Da die Stifter oder ihre Nachfahren aber in aller Regel weiterhin großen Einfluss darauf haben, wie das Kapital und seine Erträge verwendet werden, behalten sie ihre gesellschaftspolitische Machtposition.’ (Manager Magazin Reichstenheft, 2016, p. 11).

Prof. Henrik Müller⁹³, commentator of these trends in the Manager Magazin, sees in 2015 a polarization of financial-economic and political power for the USA but not yet in Germany as the Albrechts and Quandts so far do not show any political ambitions. However: “In some way, there is a latent danger also for Germany, the country of the numerous millionaires to drift to an oligarchy“. (ebd. p.82). This is confirmed by Hartmann who warns, the more social mobility decreases, the more coherence among the wealthy and elites exists, the more influential processes take place within this small group at informal meetings without leaving a recognizable trace to outsider. The question is, of course, why German wealth holder should go into politics, working hard and earning little, when they have so many means and ways to influence politics, legislation and administration anyway in their sense, discrediting and fighting off all others who see things differently?

In 2016, Müller is even more skeptical and alerts to the fact that democracies cannot exist against the interests of majorities, and if it is a fact that people feel increasing injustice in the distribution of income and wealth because the growth of top and average income is no longer connected as it should be according to the Trickle Down Theory, this will have consequences such as the increase of populism or violence. Given the decreasing effect of public redistribution, Müller calls for more efforts to increase investment, especially in education, financed among others by a steeper progression in taxes, which will burden higher income and relief middle and low income.

It is also telling that the Manager Magazin 2016 includes a lengthy interview with the Cologne Cardinal Woelki, calling for higher taxation and higher voluntary contributions of top private and corporate wealth holder to the common good (pp. 82ff.)

⁹³ Professor für wirtschaftspolitischen Journalismus in Dortmund

13 The wealthy and taxation

Fear of higher taxation and higher transparency regarding wealth and possession ranks, besides inheritance issues (which, in the end, are also taxation related worries) very high among the top wealth-holder worries:

13.1 „Please tax us!“

It is encouraging to read that even super-wealthy Germans emphasize that the taxation of the upper 1% in Germany is only a fraction of what it is e.g. in France, Japan, USA and UK. According to the owner of a shipping company, Krämer, the combined tax burden from wealth, inheritance and real property tax is four to five times as high as in Germany. If Germany had a wealth tax as France of 2.4%, it would make an additional EUR 43.5 billion revenue (Krämer, 2015).

Another surprising public statement occurred on a discussion organized by this research regarding questions surrounding private wealth: The CEO of a private bank admitted that he could live with an increase in income tax from 45% to 50%. At the same time, he heavily opposed changes regarding the Wealth, Inheritance and Gift Tax.⁹⁴

Interesting was furthermore a statement by Dennis Gastmann. When asked what observation sticks to him after finishing his booked “Reichtumsbericht”, he communicated via Facebook that many among his conversation partner indeed would wish for higher taxation and that all admitted that the situation, as it is right now, is unfair.⁹⁵

Also literature every now and again brings quotes of wealthy people calling for taxation rather than leaving it up to them to engage personally, e.g. via setting up of charitable foundations: For example (Friedrichs, 2015, p. 67ff.), Chapter “Lasst mich bitte Steuern zahlen” or the Stiftungsreport 2015:

Donor I... but sees her engagement as contribution to more justice in the sense of redistribution of goods: “It is a small, a tiny contribution to [longer thinking] well, the generic term is more justice.” She delineates afterwards why she considers a capital levy as important.⁹⁶

And another interviewee argues:

⁹⁴ „Schmitt überraschte mit der Aussage, dass für ihn die Einkommensteuern nicht zu hoch sind. ‚Wir können auch von 45 auf 50 Prozent gehen.‘ Vermögensteuer und Erbschaftsteuer sieht der Bankenvorstand dagegen kritisch. Er warnt, dass diese Unternehmen schwächen würden und letztere die Übergabe von einer Generation zur nächsten gefährde.“ Gegen Ungleichheit anstinken. (2016, May 2). In: Der Neue Tag. Retrieved from <http://www.onetz.de/bayern-r/politik-by/jesuiten-treiben-projekt-zum-thema-steuergerechtigkeit-und-armut-voran-gegen-ungleichheit-anstinken-d1665513.html>

⁹⁵ Gastmann auf Facebook 2.2.2015: „Vielleicht gibt es eine Beobachtung, die mir in den Sinn kommt: Viele der “Reichen” wünschten sich tatsächlich, höher besteuert zu werden. Und keinen von Ihnen hat jemals abgestritten, dass die Welt ungerecht ist - nicht die “guten” Reichen und nicht die Bösen. Allerdings haben sie unterschiedliche Schlüsse aus dieser Erkenntnis gezogen...“

⁹⁶ Stifterin I ... sieht ihr Engagement aber als Beitrag zu mehr Gerechtigkeit im Sinne einer Umverteilung von Gütern: „Es ist ein kleiner, ein winziger Beitrag zu [längeres Überlegen] na ja, also der Oberbegriff ist halt mehr Gerechtigkeit.“ Sie führt danach aus, weshalb sie eine Vermögensabgabe wohlhabender Menschen wichtig findet. (Leseberg & Timmer, 2015, p. 119)

“Now the question is what is better: that all wealthy donate or that there are more taxes – or both. But the direction that the gap is more and more widening and that the wealthy get more and more rich and then do some foundations, I object. I think taxes are better.”⁹⁷

Given the widespread silence of top wealth holder it is difficult to assess, how representative those statements reflect the general sentiment. It can be guessed, however, that they are only reflecting a marginal view:

13.2 “Don’t tax us!” and waste our money

Given the high importance this research attributes to findings of wealth reports (see 3.12), the following Attitude Survey conducted by Knight Frank published in 2015 that the top three worries wealth holder have include fears of higher taxation and higher range increased scrutiny of the wealthy by states:

What percentage of your clients are concerned about the following issues regarding their wealth, business or lifestyle?	Africa	Asia	Australasia	Europe	Latin America	Middle East	North America	Russia/CIS	Global
Family/business succession issues	96%	72%	83%	86%	89%	92%	92%	100%	85%
Potential increase in wealth taxes	100%	78%	61%	90%	77%	58%	82%	75%	81%
Increased scrutiny of wealthy by government	82%	76%	44%	88%	85%	73%	75%	100%	80%
Cyber-crime and online privacy	78%	75%	69%	72%	65%	65%	92%	75%	76%
Political interference	86%	76%	35%	69%	76%	81%	55%	89%	68%
Health/environmental issues	54%	71%	60%	57%	75%	38%	82%	38%	66%
Crisis in Middle East	31%	35%	38%	48%	38%	96%	64%	29%	51%
Political situation in Russia/Ukraine	19%	34%	47%	52%	38%	38%	73%	100%	51%
China's potential economic slowdown	30%	71%	67%	31%	37%	35%	64%	0%	49%

Source 37 (Knight Frank, 2015, p. 68)

It is interesting that the worry about transparency is highest among Russians (100%) and second highest worldwide among (West-)European (88%), ahead of Latin America or Africa! Not surprising, it is this worry which underlies also the inclination of European top private wealth holder to relocate their residence elsewhere (see below.) This is in line with global sentiments: Here, too, tax reasons were highlighted to be the main reason for relocation, except Russia and parts of Latin America, where living conditions and security were of concern (Knight Frank, 2015, p. 12).

In Germany, taxation is indeed much higher than in the US and the state has more responsibilities, which lowers the “urge” to make up deficits with private charity and donations. Due to the higher taxation many wealth holder argue that they have contributed their share. They feel that they pay enough taxes and are appalled by the waste of money by the state, which is why they do not want to pay more taxes (Rickens, 2008).

In the words of a top wealth holder:

No more public investment is needed: There are enough teachers and there is an excellent health system. When the state needs more money it should learn to save and not waste so much money for stupid stuff. In Germany, there are way too many regulations and controls. After the Financial Crisis, a true regulation rage for the financial sector started, where e.g. reports now have to be written in English what is very time-consuming. Additionally, the supervising authorities are competitive but employ too many civil servants. This is nonsense for a bank that is only regionally active. It would be better to write less reports and have unannounced controls which of course would also cost money – but this would be easier to organize for a company and otherwise they could do their job. The public administration is

⁹⁷ „Die Frage ist ja, was ist jetzt besser: dass alle Vermögenden stiften oder dass es mehr Steuern gibt – oder es kann auch beides geben. Aber die Richtung, dass die Schere immer weiter auseinandergeht und die Reichen immer reicher werden und dann quasi ein paar Stiftungen machen, da bin ich nicht dafür. Ich finde Steuern besser.“ (Leseberg & Timmer, 2015, p. 172f.)

absolutely inefficient. If he only thinks of the refugees he wanted to hire and all the approval documents. Or the efforts of providing them apartments. Because the state is too less of an entrepreneur it does not know where to save money. Is there a state doing it any better from his point of view? No, we are doing well – things are transparent and we have a good government. This is why everybody wants to come here.

There are, however, also those who only preoccupy themselves with alternatives to taxation because they feel that they are not taxed enough. Admitting that they still have a certain responsibility for the community, they prefer donations and foundations. A tax consultant puts it like this:

They are assuming in any case that they are paying enough taxes. Certainly, they also assume that the state is not able to handle the money as good as they do. Many see a responsibility for the community that exceeds paying taxes but then think of foundations and not higher taxes or even donations to other organizations.

A number of conversation partners defend their right to pass on their wealth to children and descendents (“I have earned it, it is my right to do with it as I please”), even though, when asked, they admit that they would not have been able to accumulate comparable wealth in another country such as Tschad or Uruguay and that, therefore, there is indeed a community dimension when looking at private wealth. But then again, conversation partner quickly point to their donations or foundations as indication that they are “giving back” generously and adequately.

13.3 Aggressive tax planning or tax evasion

The big question is to what extent the top private wealth holder were/are not only lobbying for “reasonably low” i.e. “competitive” tax rates, but are in addition part of the global tax avoidance or evasion game. Due to the lack of transparency, this question is difficult to answer. On the other hand, there are indications, which are, interesting enough, mostly linked to data leaks such as Offshore Leaks or Swiss Leaks, i.e. they would not have been found out otherwise.

A first example is Swiss leaks: Most interesting are services offered to clients who confessed that their assets are not known to home authorities, for example around the time when the European Saving Directive (2005) came into force (see, e.g, GER/VII/3.6): Here, ‘the ESD pertained only to individuals, not to corporations. The files show HSBC Private Bank seized on this loophole to market products that transformed individuals into corporations for tax-reporting purposes.’⁹⁸ Bank employees counseled their customers actively to establish a shell company somewhere in the world which would hide the beneficiary owner of the proceeds.

Another example is the cheating by the family of Curt Engelhorn, one of Germanys most wealthy persons, which also was found out via a leaked tax CD: When he sold the Böhringer business, reaping EUR 19 billion in profits, he used a way which enabled him to evade all taxes:

In 1997, father Curt sold the traditional pharmaceutical company Boehringer in Mannheim for D-Mark 19 bn to the Swiss corporation Hoffmann-LaRoche. At that time, it was the biggest acquisition in Europe which also captured the attention for another reason. The sales profit

⁹⁸ See <http://www.icij.org/project/swiss-leaks>

was tax free due to a legal loophole which was immediately closed by the German Bundestag. The residence and head-office of Corange Ltd. was relocated in time to Bermuda.⁹⁹

Are these exceptions? Probably not. Most likely only the willingness, to boast about such scams, decreased with time.

13.4 *Wealth and Transparency*

13.4.1 Politics and Law

While in Germany income (except income from capital) is pretty much transparent, this situation is no longer given with wealth. At least transparency decreased, when the Wealth Tax was suspended in 1997 because, together with the tax, the requirement in § 19 to declare assets disappeared.

A long time the question was bothering, how this deficit could be made up.

Conversation partners among senior employees of tax administration or among politicians did not see any need to act since also the wealthy are bound by the general requirement of tax honesty. But at the latest after Swiss Leaks, this argument disappeared in conversations since it was obvious and accepted that also private wealth holder participate in aggressive tax planning and tax evasion.

Next was the idea, whether some legal requirement could be passed, increasing pressure upon the wealthy to declare assets without re-instating the wealth tax. Here conversation partner from tax administration and politics were puzzled by the question since it had never been asked or thought through.¹⁰⁰ In the end, however, it was felt among tax experts in tax

⁹⁹ Richter, P. (2016, January 23) Haben zwei Millionärs-Töchter 80 Millionen Euro hinterzogen? In: Augsburger Allgemeine. Retrieved from <http://www.augsburger-allgemeine.de/bayern/Haben-zwei-Millionaers-Toechter-80-Millionen-Euro-hinterzogen-id36690557.html>

¹⁰⁰ Person 1: Die andere offene Frage war, ob es eine Pflicht zur Abgabe einer „Vermögenserklärung“ geben kann, ohne dass eine Vermögensteuer daran anknüpft. Zu diesem Problem habe ich jetzt keine Fundstellen gefunden, weil diese politische Idee bisher offenbar noch nicht gedacht wurde. Unabhängig davon halte ich es für problematisch, von den Bürgern Vermögensteuererklärungen zu verlangen, zu deren Erstellung sie ggf. Steuerberater und sonstige Experten brauchen, ohne dass eine steuerliche Pflicht daran knüpft. Eine solche Erklärung zu verlangen, nur um Angaben in einer anderen Erklärung (Einkommensteuer) besser überprüfen zu können, halte ich nicht für sinnvoll. Allein die Frage, wer zur Abgabe einer solchen zusätzlichen Erklärung verpflichtet werden soll, ist schwierig. Vermögensteuererklärungen mussten von Menschen abgegeben werden, die die Freibeträge überschritten hatten – das waren bei Ledigen 120.000 EUR zzgl. Individuelle niedrigere Freibeträge bei einzelnen Vermögensarten. Dazu ein Altersfreibetrag (über 60 Jahre) von 50.000 DM. Bei Verheirateten haben sich diese Freibeträge verdoppelt. Dazu kamen 120.000 DM Freibetrag für jedes Kind. Da beim damaligen Vermögensteuerrecht Grund und Boden bzw. Immobilien mit einem lächerlich niedrigen Wert angesetzt wurden, kamen letztlich nur von jenen Personen VSt-Erklärungen, die mit ihrem sonstigen Vermögen (Bankguthaben, Schmuck, Kunstwerke usw.) über diese Freibeträge kamen. Dies bedeutet, dass in der Pflicht zur Abgabe einer Vermögensteuererklärung nur einen kleinen Teil der Steuerpflichtigen trifft. Konkret waren dies am Ende bei der Vermögensteuer ca. 143.000 natürliche Personen und 164.000 juristische Personen. Dies wären weniger als 10 % der Steuerpflichtigen in Deutschland. Und diesem kleinen Kreis der Bevölkerung eine Sonderpflicht aufzuerlegen (Abgabe von Vermögenserklärungen), ohne dass an diese Erklärung eine konkrete staatliche Einnahme knüpft, dürfte rechtlich kaum halten, zumindest ist dies rechtlich nicht durchsetzbar. Soweit meine – zugegebenermaßen persönliche – Meinung.

Person 2: Solange es die Vermögensteuer gab, konnte man die laufenden Einkünfte besser kontrollieren als ohne eine Vermögensteuerpflicht. Ich nehme an, Sie meinen § 19 des alten Vermögenssteuergesetzes. Darin wird eigentlich nur gesagt, dass eine Vermögenssteuererklärung zum 1. 1. jeden dritten Jahres abzugeben ist, wenn die Freibeträge überschritten und wenn große Vermögenszuwächse eintraten. Eine Erklärung dazwischen war nur abzugeben, wenn bestimmte Grenzen überschritten wurden. Man konnte sich, um die Richtigkeit der

administration and politics, that this would put “undue pressure” upon a small group of people, thus offend against the non-discrimination requirement of the German Constitution, thus in risk of being abolished by a judicial review.

13.4.2 Role of legal advice

It was also pretty obvious from very soon onwards, that even legal loopholes enable private wealth holder to avoid and evade easily huge amounts of taxes. And here comes in legal advice provided by the tax avoidance industry, starting with Private Banking department of Public Saving Banks, whose Private Banking departments recommended that private and business assets should not be treated separately, but together.¹⁰¹ Or: If customers are interested in establishing foundations, advice regarding tax privileges is explicitly offered.¹⁰² Both areas are huge problems for tax law enforcement.

Since private and corporate wealth holder overlap, advice of the Big 4 is also of interest for private wealth holder: Here one does not need illegal options - bending the legal provisions is more than enough: Instructive are documents arising from a questioning of the Heads of Tax Departments of the “Big Four” at the British Parliament in 2012: Even though they emphasized that they no longer sell aggressive tax avoidance models as in past years the admitted that their tax saving models presently are considered to be legit even if there is only a 50:50 chance that the proposed construction is legal when challenged at court. Doing that, they know are well aware that resources of tax administration are such that they are forced to avoid protracted legal proceedings wherever possible. This is easy to calculate: While the British tax administration has 65 experts on transfer pricing, those Big Four employ 250 of them. Even better: If their proposed scheme does not live up to judicial review, ‘there are no consequences for the firms.’ (Committee on Public Accounts, 2013, p. 9).

It is exactly this grey area which is problematic. As one conversation partner from the tax auditing departments admits: “The argument of universal suspicion of tax evasion always comes knee-jerk to deny the necessity of stronger control intensity. But it is not only about tax

Angaben von Guthaben zu überprüfen, auch die Bankauszüge etc. vorlegen lassen. Hier ein einfaches, etwas überspitztes Beispiel von einem Steuerpflichtigen, der nur Einkünfte aus Gewerbe und Zinseinnahmen hat: Nehmen wir an, jemand erklärte am 1. 1. ein Barvermögen von 1 Million DM. 3 Jahre später eines von 1.300.000 DM. An laufenden Einkünften aus seinem Gewerbe erklärte er in diesen 3 Jahren jedes Jahr 50.000 DM. Gewinn aus Gewerbe in 3 Jahren also 150.000 DM. Zinseinnahmen, sagen wir mal, pro Jahr 30.000 DM = 90.000 DM in 3 Jahren. Von den 50.000 DM musste er noch seinen Lebensunterhalt bestreiten, Versicherungen und Einkommensteuer bezahlen u. s. w. Wie konnte sich dann das Vermögen plötzlich um 300.000 DM vermehrt haben? Wenn er nicht gerade was geerbt oder im Lotto gewonnen hatte, war das nicht möglich. Also konnte es nur daran liegen, dass er beim Gewerbe nicht alle Einnahmen erklärt hatte. Dies war ein Fall für die Betriebsprüfung. Wenn jemand heute pro Jahr einen Gewinn von 50.000 Euro angibt, ist das in der Regel kein Grund dies anzuzweifeln. Anhand der Vermögensverhältnisse dieses zu überprüfen und sich Bankunterlagen vorlegen zu lassen, ist nicht üblich. Also gehen dem Finanzamt schon ein paar Steuerhinterzieher mehr durch die Lappen als früher mit Vermögensteuerpflicht. Die Regierung könnte natürlich - auch ohne Vermögensteuerpflicht - ein Gesetz erlassen, wonach mit der jährlichen Einkommenssteuererklärung eine Aufstellung über das Vermögen am Ende des Jahres mit einzureichen ist.[]

Person 3: Ob eine Erfassung der Vermögen insgesamt ohne Besteuerung rechtlich möglich ist, können wir an dieser Stelle auch nicht abschließend beantworten. Politisch ließe sich dies eventuell durch einen grundlegenden Bedarf an Daten begründen, um informierte Entscheidungen treffen zu können. Wenn es Dir wichtig ist, könnten wir den Wissenschaftlichen Dienst des Bundestag um eine juristische Bewertung dieser Frage bitten.[]

¹⁰¹ ,Viele Unternehmer betrachten ihr Betriebs- und Privatvermögen völlig getrennt voneinander. Dabei gehen jedoch die Wechselwirkungen bei finanziellen Entscheidungen verloren. Erst bei einer Gesamtbetrachtung kann Ihr Berater Ihre privaten und betriebliche Finanzbedürfnisse und -ziele inklusive aller steuerlichen und rechtlichen Aspekte analysieren‘ (Sparkasse Saarbrücken, p. 13)

¹⁰² Sparkasse Saarbrücken, Stiftergemeinschaft der Stadtparkasse Saarbrücken, S. 14

evasion alone. More often it is about controversial interpretation of circumstances and laws. Tax laws are not so explicit.”¹⁰³

The following statement is therefore not only honest, but reflects probably a widespread attitude and practice. It is by tax lawyer Hanns W. Feigen, counsel to celebrities in sports, politics and business (Hoeneß, Zumwinkel, Wiedeking, Fitschen...): “Wealthy people do not evade taxes, “because according to Feigen they always tricked legally.” I am convinced that really wealthy do not evade taxes - I mean people with a fortune of half a billion Euro.” “Another question is whether legal loopholes which are overseen or accepted by politicians are used with the help of excellent advisers.”¹⁰⁴

13.4.3 Administration

This leaves administration with merely one option: Checks and controls and the attempt to “win” the discussion about legal interpretations. Here, however, the country study illustrates in GER/VI/4 several deficits:

- The fact that tax auditors depend on what is made accessible to them
- The problem that they never have enough time to go into details thoroughly, especially if international aspects emerge from accessed documentation.
- . Sometimes, therefore, they are not even aware that a person checked is a millionaire, requiring “extra care”.
- The fact that there is no adequate personnel, not even for checking continuously largest businesses and top private wealth holder, let alone “average” wealth holder or middle size enterprises downwards.

The deficit in personnel also reflects on the ability of tax administrations to take contested cases to court. Accordingly: Tax lawyers and consultants risk little when overbending legal regulations a bit beyond that which can be called licit when going to court because whenever it comes to checks and controls by tax auditors, a manifold of lawyers is facing the lone public servant. Equally, tax administration hesitate long before risking to bring anything to court: It binds capacities, outcome is open. For that reason and in “fishy” situations, rather a “Gentlemen’s agreement” outside courts is thought with a settlement much below any possible verdict than risking a lengthy legal proceeding – as has been the case in the famous case of the Engelhorn sisters as opposed to the Hoeneß case.

13.4.4 Courts

Only three decisions by German Supreme Courts shall be mentioned:

¹⁰³ „Das Argument mit dem Generalverdacht auf Steuerhinterziehung kommt aus interessierten Kreisen reflexartig, um die Notwendigkeit einer stärkeren Prüfungsintensität zu bestreiten. Aber um bewusste Steuerhinterziehung geht es ja nicht allein. Es geht viel häufiger um strittige Interpretationen des Sachverhalts, es geht um Rechtsauffassungen, die angewandt werden, ohne sich mit denen der Finanzverwaltung zu decken. Man muss kein Verbrecher sein, um nach einer Betriebsprüfung ordentlich nachzuzahlen. So eindeutig ist unser Steuerrecht nicht, sonst müsste ja bei jeder Betriebsprüfung mit Ergebnis ein Strafverfahren eingeleitet werden. Das ist nicht der Fall, weil es eben Interpretationsspielräume gibt.“

¹⁰⁴ „Großvermögende hinterziehen keine Steuern, „denn die haben laut Feigen ohnehin immer legal getrickst.“ Ich bin davon überzeugt, dass wirklich Reiche keine Steuern hinterziehen - ich meine Personen mit einem Vermögen in der Größenordnung ab einer halben Milliarde Euro“, sagte der Anwalt. “Eine andere Frage ist, ob hier Lücken in Gesetzen, die von der Politik übersehen oder hingenommen werden, mithilfe exzellenter Berater genutzt werden.“ Hoeneß-Anwalt Feigen: Die wirklich Reichen hinterziehen keine Steuern. (2015, February 10) In: Spiegel Online. Retrieved from <http://www.spiegel.de/wirtschaft/soziales/hoeness-anwalt-feigen-wirklich-reiche-hinterziehen-keine-steuern-a-1017795.html>

In 1991 already, the BVerfG criticized obstacles arising due to banking secrecy and was adamant that tax honesty on part of those who are not transparent to tax administration has to be assisted by adequate controls (GER/VIa/7.3)

In 2005, the BGH criticized that too many criminal cases in the area of economy and finance cannot be dealt with properly because of the lack of personnel (GER/VIa/7.3)

Finally, regarding transparency provisions, the Federal Constitutional Courts ruling on the population census in 1983 and subsequent interpretation. Here, the court ruled against the conventional view, that tax secrecy is an outflow of the basic law of “informationeller Selbstbestimmung” that the right to privacy is not an absolute provision. Rather, it has three dimensions: the intimate, private and social sphere. In related rulings, for example transparency regarding annual income of CEOs of Insurance Companies, the court developed this further by coming to the concluding that the legislator has room to maneuver (GER/VII/5.9.5.3).

Summarizing, the expertise of Hüsken argues: The collection and publication of data of economic obligees in a business register do not violate the rights of informational self-determination and professional freedom because they neither affect intimacy nor privacy,

but the social, i.e. societal and economic interaction. Only data about single aspects of business interactions and not exact figures about their total income or fortune should be published. Additionally, it is not apparent that the right to make deals “secretly” or to be able to benefit from business activities should deserve special protection.¹⁰⁵ (Hüsken)

13.4.5 Conclusion

This research resolves to argue both for the re-introduction of the Wealth Tax, which would also reinstate the transparency obligations enshrined in § 19. Further, this research argues for more transparency in relevant areas of wealth taxation, e.g. public registers of beneficial owners of all sorts of companies, foundations, trusts etc.; or public registers of property ownership, public registers concerning ownership of financial assets etc. (GER/VII/5.9.5)

13.5 Tax departments specialized on large private wealth holder

An IMF staff paper (International Monetary Fund, 2015a) examines “current challenges in Revenue mobilization” and deals in particular with two “hard to tax areas”: High Wealth Individuals (HWI) and Business to consumer taxation. While the latter is of interest for the chapter discussing problems arising from the informal economy, HWIs as a priority area are justified as follows (pp. 26ff.): The highest incomes account in developed countries for an ever increasing share of the overall PIT revenue and this inspite the fact that income decreased over the past years while tax rates were decreased. Ever more important is that those HWIs pay their fair share, which is not only relevant for revenue but also for the perception whether the overall tax system is fair or not.

HWIs pose considerable revenue risks for all RAs (revenue agencies). They often have complex business affairs; are highly mobile internationally; and can afford specialist advice. ... (T)hey may well take tax risks on a larger proportion of their income than will those less

¹⁰⁵ „...sondern die Sphäre der sozialen, d.h. gesellschaftlichen und wirtschaftlichen Interaktion. Veröffentlicht werden sollen auch nur Daten betreffend einzelne Facetten der wirtschaftlichen Interaktion der Betroffenen und nicht etwa genaue Angaben über Gesamteinkommen und Vermögen der Betroffenen. Zudem ist nicht ersichtlich, dass das Recht „im Geheimen“ Geschäfte abwickeln bzw. von wirtschaftlicher Interaktion profitieren zu können, nach dem Rechts- und Verfassungsverständnis des Bundesrepublik Deutschland besonders schützenswert wäre.

well off—meaning substantial sums at stake—through both aggressive planning and evasion. (International Monetary Fund, 2015a, p. 27)

Looking at best practices in countries, specific HWI units are recommended to deal with those complex and justice-relevant issues.

In January 2008 already, OECD published the “Study into the Role of Tax Intermediaries”.¹⁰⁶ In it, OECD focused on large corporate taxpayer and noted, that some of its findings also apply to High Net Worth Individuals, especially as far as aggressive tax planning is concerned. This led to a follow-up study on HNWI in some OECD states (Germany included), started in March 2008 published in October 2008, by a Focus Group, resulting in a “Discussion Paper” and inviting public comments.¹⁰⁷ This again led in 2009 to the paper “Engaging with High Net Worth Individuals on Tax Compliance.”¹⁰⁸ Right in the beginning, the Executive Summary sums up the problems: HNWI ‘present tax administrations with particular challenges: the complexity of their affairs; the amounts of tax revenue potentially at stake; the opportunity to undertake aggressive tax planning (ATP) and the effect of their compliance behaviour on the overall integrity of the tax system.’ Since awareness was just starting to grow, it was more about “stating the problem” than giving a list of fully fledged recommendations. And yet, some points were published, e.g.

- Encouraging states to do more research in order to understand the problematic better
- Establishing an ‘appropriate structure within tax administration to deal with HNWI’s’
- Improve international legal and administrative cooperation between those specialized departments.

Six years later, in 2015, those issues re-appear and are partly re-quoted in OECDs comparative paper on Tax Administrations. Again the importance of those specialized units is emphasized in the Executive Summary: ‘The practice of establishing dedicated divisions to manage large corporate taxpayers can be seen in over 85% of revenue bodies. However, the use of similar arrangements for high net worth individual (HNWI) taxpayers, as recommended in previous FTA work, is considerably less widespread, despite evidence of significant growth globally in their numbers and wealth.’

It follows a more detailed treatment further down (OECD, 2015c, pp. 92-98). The report stresses the urgency of such an approach by quoting the Capgemini/RBC 2014 Wealth Report and Prognosis. At the same time it laments the little progress there has been in this area. The report also distinguishes that there are specifically dedicated units to communicate and cooperate with the wealthy and their advisors on the one side, and units which are equipped with adequate resources to check and verify on compliance (listing 5 states with names, among which are the UK, the US and – Greece). The report concludes that facing the increasing wealth and importance of HNWI, ‘there would seem a case for most revenue bodies to consider whether they have the appropriate organizational and management arrangements in place to ensure that this segment of taxpayers receives the appropriate level of scrutiny to detect and deter non-compliance.’ (p. 96)

¹⁰⁶ Retrieved from <http://www.oecd.org/tax/administration/39882938.pdf>

¹⁰⁷ See Introduction to “The OECDs Project on High Net Worth Individuals – Discussion Paper for Public Comments” (2008, October 31). Retrieved from <http://www.oecd.org/ctp/administration/41578984.pdf>

¹⁰⁸ Retrieved from <http://www.oecd.org/ctp/ta/hnwi>

13.6 Engagement of wealthy for taxes in US and Germany

As discussed elsewhere (GW/Inheritance#), US philanthropists advocate high estate taxes in order to prompt wealth holder into donating freely or establishing (charitable) foundations generously. Author Chuck Collins, according to his admission himself a born member of the Top 1% (Collins, 2012, p. XII) explains in his book that according to polls up to 65% of the wealthy agree with demands arising during the protests after the World Financial and Economic Crisis (p.81). They do so not out of naiveté, but for good reasons: Because it is fairer (and therefore a contribution to social cohesion and stability). Because it is better for business (only a well established middle class with decent earning can consume and buy products) because it is a demand of justice towards future generations (p. 84f.). Wealthy in the US unite their efforts for a different tax policy, they argue in media for it and publish their ideas for tax reforms on the website “responsiblewealth.org.”¹⁰⁹

Bill Gates Senior and Collins (Gates & Collins, 2002) discuss in their joint book on pp123ff. the question what effect it would have on foundations and donations if the US were to abolish the estate tax

125f. „At the same time, the civic sector is not a replacement for government“

126 Jim Grote, an experienced fundraiser, observes: “My experience suggest that while donors give for a variety of reasons (and their generosity is often incredible), few of them ignore the after tax cost of their gifts. I know I don’t.” George Soros confirms: “I would be dishonest if I claimed that t his consideration [the estate tax deduction] had nothing to do with my decision [to donate to charity] ... Abolishing the estate tax would remove one of the main incentives for charitable giving.”

130 Unter den gegebenen Umständen HNWI geben 16% an Charities, 47% an Erben, 37% an den Staat. Könnten sie machen wie sie wollen, ging 26% an Charities, 64% an Erben, 9% an Staat.

In Germany a small group of citizens unite behind the demand for a wealth levy (*Vermögensabgabe*)¹¹⁰ and argue that this is needed in order to bring back a balance between rising private wealth and public debt. However: Looking at the names on display there, the really big holder of wealth are absent – very different from the US, e.g. for an Estate Tax.

The problem of taxation vs. alternatives of taxation will be explicitly discussed in the next chapter (GW/II).

13.7 Conclusion

Having gone through some aspects regarding the wealthy peoples’ preferences towards a higher taxation or not a higher taxation we are left with no clear clue: Once more, public ignorance about that which wealth holder contribute or do not contribute is rooted in their detachment and public silence, which has, according to a wealth manager, the following reasons:

- The experience that public statements immediately start the discussion of social envy
- Security, e.g. the experience of the Oetker family arising from kidnapping, the prohibition from ALDI to publish pictures in the media. This is also why most foundations do not bear their owners name.

¹⁰⁹ See http://faireconomy.org/responsible_wealth

¹¹⁰ <http://www.appell-vermoegensabgabe.de/index.php5>

- Why should one talk about it? In the USA, money is the standard for success, it is normal to talk about it. In Europe, money has a negative connotation and one does not talk about it.

At the same time, it is the opinion of this research that the public is entitled to know more about those questions: What are they doing instead of paying taxes? What impact does it have on social and ecological justice? How do they spend money via donations and foundations? How does that amount relate to a fair taxation? Who is participating in selecting projects and spending? Preferences and decisions of the wealthy do have an impact on the community one way or the other, why not including these aspects in order to remove the doubt that wealthy adequately give back to the community and indeed live up to the command “Eigentum verpflichtet”. This will have to be deepened in the next chapter.

As to the question, what is the adequate tax rate for Income, Wealth or Inheritance and Gift Tax: Those questions cannot and must not be decided without open-public-transparent participation of the wealthy in those deliberations. Even Thomas Piketty, who startled many by putting ahead high tax rates admitted: ‘Do not be misled by the apparent precision of this estimate: no mathematical formula or econometric estimate can tell us exactly what tax rate ought to be applied to what level of income. Only collective deliberation and democratic experimentation can do that.’ (Piketty, 2014a, p. 512).

Linked to this is the question, whether indeed (or not) private and corporate wealth holder relocate their residence for fear of more transparency and/or higher taxation. The point made by the Laffer-Curve research needs to be taken into account.

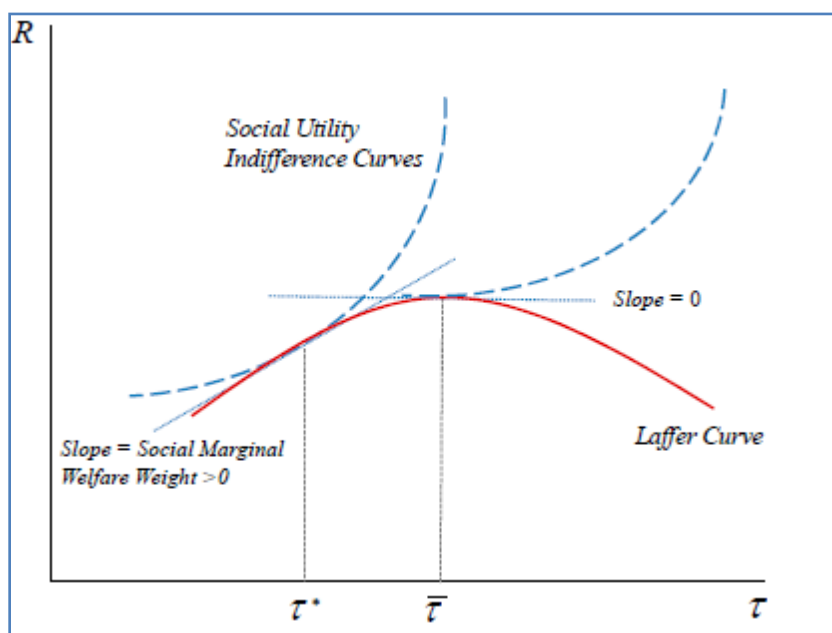
14 Residential aspects

14.1 Theory: Taxation and the Laffer Curve

Even though there might be agreement about the need of a higher taxation of the wealthy, the question is: where to draw the limit? In Germany, the discussion focused a long time around the “50% rule” (Halbteilungsgrundsatz), in which the view was discussed that the overall taxation should not take away more than 50% of that which is owned by the individual (see GW/#Income).

Setting the ideal rate for income tax is contested and dependent from many variables. The discussion involves generally the so-called “Laffer Curve”, which looks for the trade-off between gains from higher taxation and losses from resulting behavioral responses, such as less work, tax evasion or even relocation of residence.

Graphic 8 Laffer Curve for Top Income Groups



Source 38 (International Monetary Fund, 2014a, p. 23)

Building upon the discussion, studies estimating revenue-maximizing rates recommend something between 50-60 %, some even up to 80%.¹¹¹

14.2 Evidence against relocation

The *Süddeutsche Zeitung* in their research on Tax Justice presents two Studies from the United States, which looked into the tendency of wealthy people to leave their residence because of an increase in taxation. The result: Even though spectacular individual cases are now and again reported in the media, there is no clear statistical proof of a link between increase of taxes and departure. Because people also see the good in taxation, e.g. that it is needed to maintain infrastructure and public services.¹¹²

Similar a research by Wealth-X does not confirm a certain correlation between taxation and the choice of residence:

The short answer is there is no obvious correlation. Below is a map of the top 10 states (11 with the District of Columbia) by ultra high net worth (UHNW) population as percentage of total population. UNHW is defined as having a net worth of over \$30 million. The red states are those with higher than average corporate and personal income taxes, the green states are

¹¹¹ 50-60%: (International Monetary Fund, 2013a), which would bring back Income Tax Rates back to where they were in many OECD states before the competition for lower PIT and CIT tax rates started (i.e. at 60-70%, before they fell to around 40%). (see I/IV/2.3.1). 80% proposed by Piketty, Saez and colleagues. Piketty suggests the implementation of a progressive tax on income and capital as a starting point to reduce the power of the national, regional and global “1%”. Here he suggests a tax of up to 80% on salary-incomes over US\$ 500,000/ 1 million and an average tax of 30% on all forms of capital income. This tax would generate considerable income. It would both generate funds for public tasks (e.g. paying for education, repaying funds, addressing climate change), and it would also cap the influence of the top 1% or 0.1% because ‘one can show that an effective tax rate of 30 percent, if applied to all forms of capital, can by itself account for a very significant deconcentration of wealth’. It would not, however, ‘reduce the total accumulation of wealth but ... modify the structure of the wealth distribution over the long run’ (Piketty, 2014a, p. 373).

¹¹² Brinkmann, B./ Brühl, J. (2013, July 22) Absetzen und abhauen. *Süddeutsche Zeitung*. Retrieved from (Süddeutsche Zeitung, 2013b). The URL to the studies referred to are <http://minnesota.publicradio.org/features/2011/02/documents/millionaire-migration.pdf> and http://www.peri.umass.edu/fileadmin/pdf/published_study/Migration_PERI_April13.pdf.

those with lower than average corporate and personal income taxes. The reds outnumber the greens by 7 to 3 (8 to 3 including the District of Columbia). Some notable states are California which has the 5th largest percentage of UHNWs among its total population but has the highest marginal personal tax rate in the U.S. at 13.3% and the 10th highest corporate tax rate of 8.84%. Minnesota also has a punishing tax regime and ranks 10th among states in ultra wealthy population but 3rd and 4th in corporate and personal income taxes, respectively. Washington D.C. – technically not a state – soaks its rich as well. The federal district is number 1 in ultra high net worth population and 3rd and 7th in corporate and personal tax rates.¹¹³

Also billionaire Krämer, on the background of his personal knowledge of his peers, rejects the view that Germany's top wealth holder will all emigrate once a fair and proportionate tax in accordance with their ability to pay is introduced. This had not been the case in other states either or those, who want to leave had done so already

Some argue that in case of reintroduction of the wealth tax and the clear increase of inheritance tax, the rich would leave the country en masse. We know the phrase: "Capital is a shy deer and escapes exactly there where taxes are lowest." This is sheer non-sense: Those wealthy who do not want to pay any taxes or the least possible – like e.g. the Müllermilchs or Schumachers – did already leave. Those who feel rooted in and with Germany will also stay in Germany even if we make the impossible possible, die raise the wealth tax to European average levels.¹¹⁴ (Krämer, 2015)

14.3 Evidence for relocation

On the other hand, there is evidence for relocation among the (ultra) wealthy: As the Knight Frank Wealth Report 2015 indicates, tax reasons are among the major worry and motivation worldwide among UNHWIs for relocating their residence, mainly to the UK. (Knight Frank, 2015, p. 12f+38)

Equally, the Wealth-X newsletter of 27 October 2015 finds:¹¹⁵ "Global citizenship" is becoming an increasingly popular tool for the world's ultra wealthy. There are many different reasons why a UHNW individual might seek a second citizenship including, but not limited to: greater stability and security, tax efficiency, ease of travel, higher standard of living, increased options for children's education, and investment opportunities that may not otherwise be available. Location still remains an important factor for UHNW individuals, but on a country level rather than a street level. For many ultra wealthy people purchasing homes abroad, the passport is becoming as important as the neighborhood, according to Wealth-X and Sotheby's [UNHW Luxury Real Estate Report: Homes As Opportunity Gateways](#).

¹¹³ Do high taxes have an effect on where the ultra wealthy live? (2015, October 15). In: Wealth-X newsletter. Retrieved from <http://www.wealthx.com/do-high-taxes-have-an-effect-on-where-the-ultra-wealthy-live-3/>

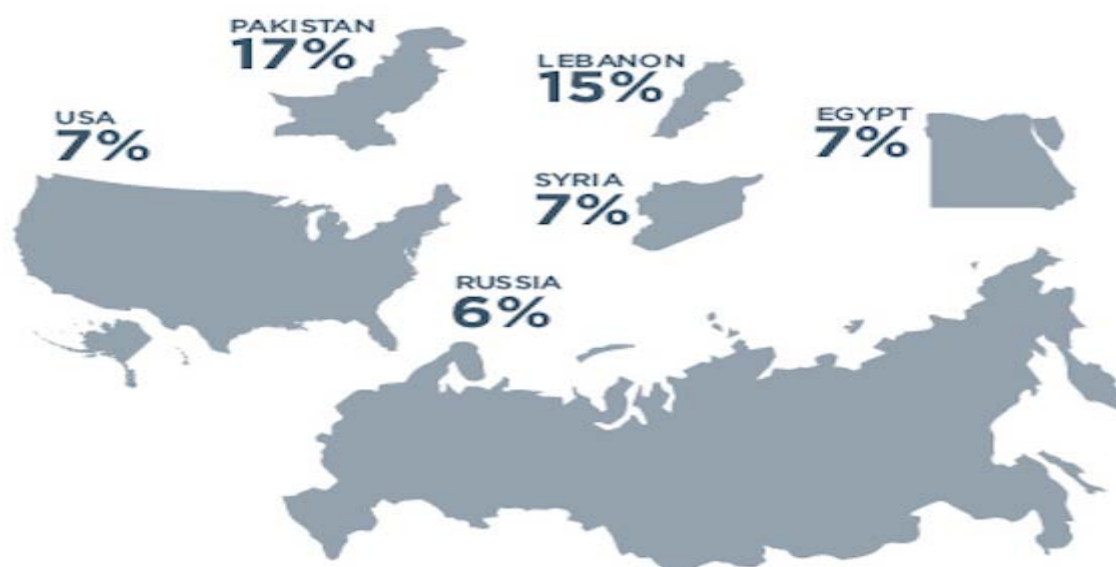
¹¹⁴ Manche argumentieren, dass im Falle der Wiedereinführung der Vermögenssteuer sowie einer deutlichen Erhöhung der Erbschaftssteuer die Wohlhabenden scharenweise ins Ausland gehen würden. Wir kennen doch die Phrase: "Das Kapital ist ein scheues Reh und flieht genau dorthin, wo die Steuern am geringsten sind." Dies istbarer Unsinn: Zum einen sind diejenigen der Vermögenden, die gar keine oder möglichst wenig Steuern zahlen wollen - wie zum Beispiel die Müllermilchs oder die Schumachers - längst ins Ausland gegangen. Diejenigen, die sich in und mit Deutschland verwurzelt fühlen, werden auch in Deutschland bleiben, selbst, wenn wir das Unmögliche möglich machen, nämlich die Steuern auf Vermögen auf europäisches Durchschnittsniveau anzuheben.

Deutsche sind nicht weniger heimatverbunden und staatsstreu als beispielsweise die Franzosen, die bis zu zwei Prozent Vermögenssteuer zahlen müssen. (Dies fände ich zu hoch, da dann die Steuern auf Vermögen die zurzeit extrem niedrige Verzinsung sowie die Inflation deutlich übersteigen würden.)

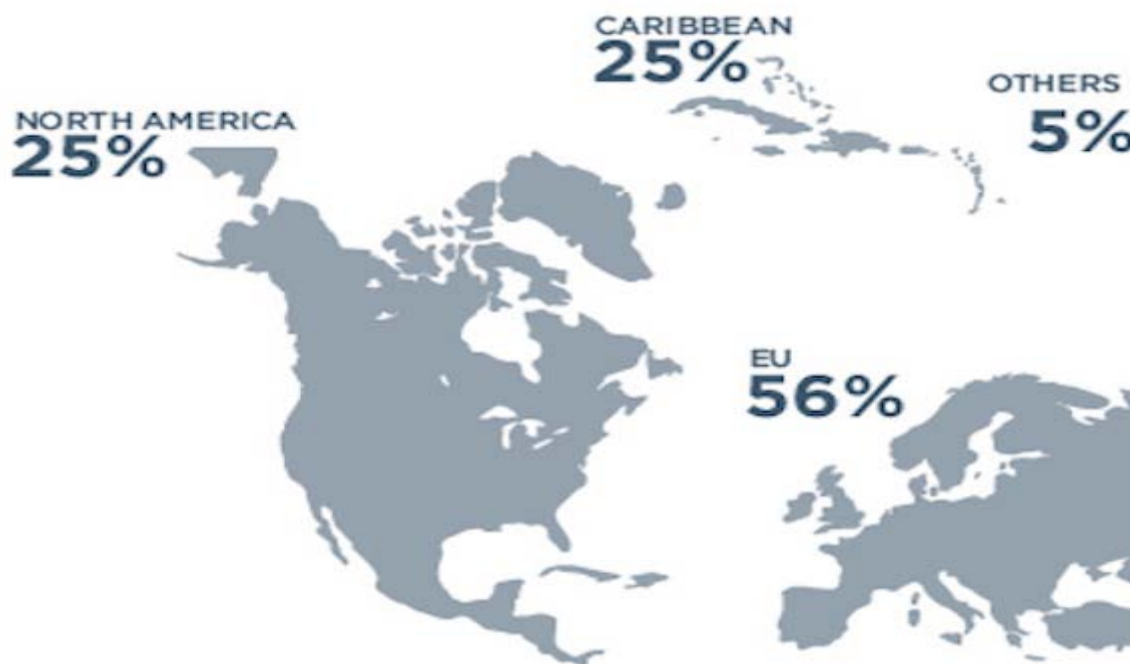
Die Briten verlassen auch nicht ihr so geliebtes Königreich, nur weil 40 Prozent Erbschaftssteuer nach Abzug des Freibetrages erhoben wird. Das Argument mit dem "Reh" ist alsobarer Unsinn.

¹¹⁵ <http://www.wealthx.com/articles/minisite-post/global-citizenship-and-the-ultra-wealthy/>

For UHNW individuals seeking citizenship or visa status in a foreign country, buying a home is often the best route. An increasing number of nations offer citizenship by investment programs, by which individuals can gain residency to a country following a significant investment. The centerpiece of many of these programs is property investment. Financial requirements range widely – from a US\$200,000 minimum real estate investment in Dominica to a US\$700,000 minimum real estate investment in Spain and Cyprus. In return, investors gain residency or citizenship status after a multi-year waiting period. Such programs are divided into Immigrant Investor Programs (IIPs), and Citizenship by Investment Programs (CIPs); IIPs require a residence permit as a condition for receiving citizenship, while CIPs do not. Interest in such programs comes from individuals in a wide range of nations, but much of it arises from the Middle East, as shown below:



As of 2015, over 20 nations offered citizenship by investment programs and as the graphic below shows, most nations offering citizenship by investment programs are located in Europe and the Caribbean. In addition, a number of nations offer programs where residency or citizenship can be gained via investment in local business interests. Especially in nations where these programs are paired with attractive tax regimes, buying a home can be part of an attractive wealth preservation plan.



The link between illicit and illegal relocation of residence and assets provide news of the acquisition of fake IDs (Manager Magazin Sonderheft, 2015, p. 92ff): Ahead of automatic information exchange people try to convince banks that they are not really citizen of the country where they live (and where their hidden assets are in danger to be reported). For that reason, they buy new identities and try to relocate their residences. For example: Websites such as FakeID, Onion Identity Services offer new identities and original passports. Here, prices are 650 for a Swiss, 700 Euro for a US passport and there are entries on the website praising that travelling and the opening of bank accounts with those forged documents is no problem.¹¹⁶ However: In order to be tax effective, the alleged residence should be the place where persons spend more than half of the year which is, regarding small Caribbean islands, rather seldom. And: cheating does not work unlimited, argues the tax fraud investigator: “einer redet immer, garantiert.”

14.4 Offering incentives for relocation

The desire to relocate is matched by the attempts of some states to earn money with that: After Swiss has become less attractive for residence other destinations are emerging which, at the same time, try to attract UNHWIs to choose their country as residence. Such programs exist for the UK, Singapore, Malta, Spain or Portugal (Knight Frank, 2015, p. 42)

Henley and Partners' citizenship expert Christian Kalin, who helps to advise clients on the best place to spend their money, estimates that every year, several thousand people spend a collective \$2bn (£1.2bn; 1.5bn euros) to add a second, or even third, passport to their collection.¹¹⁷

While residence is granted to investors and wealthy individuals in most countries, there are currently only six countries which offer citizenship-by-investment programs that provide a direct route to citizenship based on investment and which have passed Henley & Partners' country due diligence: Austria, Antigua and Barbuda, Cyprus, Dominica, Malta, and St. Kitts

¹¹⁶ <http://www.fake-id.de/en/index.php> and <http://fakepassport.info/2013/08/25/buying-fake-passports-on-the-darknet/>

¹¹⁷ <http://www.bbc.com/news/business-27674135>

and Nevis. The programs of [Antigua and Barbuda](#), [St. Kitts and Nevis](#) and [Malta](#) have been designed by Henley & Partners under relevant Government mandates.... Other countries offer a route to citizenship following a reasonable period of residence, such as Australia, Belgium, Bulgaria, Canada, Portugal, Singapore, the UK and the USA.¹¹⁸

Further confirmation is given by

- (Manager Magazin Sonderheft, 2015, p. 94): Panama kostet 80,000 USD investment into forest preservation, Singapur 1.6 Millionen Euro investment into a business, Grenada 350,000 USD investment into real estate (St. Lucia, Antigua & Barbuda are following).
- (Manager Magazin Reichstenheft, 2016, p. 89ff.), including examples of private wealth holder returning to their home-country in spite of higher taxation.
- Examples of competition for and active acquisition of, citizens see <http://www.iiribcfinance.com/event/Citizenship-by-Investment-and-International-Residence-Summit>

14.5 Measures against relocation

As some states are trying to attract private and corporate wealth-holder, others try to prevent them from leaving: Russia and China are taking counter measures against relocating UNHWIs. In some countries are taxation rises for the acquisition of property by non-citizens, Russia requires notifications for second passports, China considers a tax on outbound capital (Knight Frank, 2015, p. 38f.).

In Germany, criteria for “tax exitus” are fairly strict, e.g. that one indeed needs to spend most time of the year abroad (and not just the tax subject, but also the dependent family), and that there must not be a permanently available accommodation waiting for a return at any time. . And finally one has to observe regulations of the Inheritance and Gift Tax, namely, that gifts to family members within five years after relocation are liable to German taxation even if neither the primary nor habitual residence is in Germany (Manager Magazin Reichstenheft, 2016, p. 89ff.). Last not least one needs to mention the Wegzugsbesteuerung, which, however, is not applying or moving within EU member states to which, so far, also the UK belonged.¹¹⁹

14.5.1 From the Global Citizen Tax Initiative: Levy for Refugees

An interesting variation of the theme is the Global Citizen Tax Initiative proposed by Arton Capital, which links the global nomads at the top and the bottom: The mobile UNHWIs of the global top 1% should pay for their residence wishes a levy which in turn could be utilized to fund refugee settlement and integration.

“This is a broad issue that affects the whole of Europe, but one that has its roots in the home countries of these displaced people. Both the cause and effect require a collective response,” says Armand Arton. “A simple, levy on a sliding scale between 1% and 5% at the time of an investor application for residence or citizenship in EU countries could raise in excess of €250 million over an 18-month period. With the number of applications growing year-on-year, and

¹¹⁸ <https://www.henleyglobal.com/citizenship-by-investment/>

¹¹⁹ In Deutschland gibt es ebenfalls einige sehr gut verdienende Künstler und Sportler oder reiche Privatanleger, die aus steuerlichen Gründen ins Ausland gezogen sind. Der Gesetzgeber versuchte, das mit diversen Abwegesetzen zu erschweren. Durch die Wegzugsbesteuerung müssen stille Reserven aufgedeckt und versteuert werden. Auswanderer in Niedrigsteuerländer unterliegen mit ihren Inlandseinkünften zehn Jahre der erweiterten beschränkten Steuerpflicht. Beim Wegzug in andere EU-Länder gelten diese Regeln jedoch nicht, da sie die Niederlassungsfreiheit verletzen. (Bach, Unsere Steuern: Wer zahlt? Wie viel? Wofür, 2016b) Position 1522ff.

with the increasing number of countries who wish to attract global citizens, the initiative would be sustainable in long-term and can fund over a billion euros in the next five years. Our collective efforts could be hugely significant and helpful to agencies that are working with the multitude of displaced persons.” (Wealth-X; Arton Capital, 2015, p. 37)

14.6 Conclusion

Too little is known whether relocation is a goal of HNWIs or UNHWIs, of Germans or Non-Germans.

It is more likely to assume that rather UNHWIs upwards are part of the world’s top 1% “Global Citizens” for whom it does not matter what citizenship they have and where they reside for parts of the year. In this “game”, even dictators such as Robert Mugabe participate who spends considerable time of the year in Asia for medical treatment.

From conversations and readings it is the conviction of this research, however, that there is a considerable happiness of German wealth holder with their German citizenship and passport, with living and investment conditions even though they like to spend time abroad (see also GER/VIa/5): They seem to be happy with the German system of taxation and redistribution/public investment in principle. From that follows that the threat to relocate is rather rhetorical, while their attempt to get most out of the present taxation system because of loopholes and with the help of lawyers is the reality.

Also Thomas Piketty indicates that the problem nowadays is not so much the location of residence or citizenship, but rather the location of assets than residence, a problem which could be ameliorated with more transparency, combined with an automatic exchange of data.¹²⁰

At the same time and given the mobility of the world’s top private and corporate wealth holder one may rightly consider the US model, where tax duty is linked to citizenship, independently from the place of residence (Jarass, 2016a).

15 Conclusion

Having presented some insights into the world of ultra wealth in Germany and their growing influence on the way things are being operated (see 12.9), the question remains: Is taxation a possible or even probate means to decrease wealth concentration and do something against poverty and inequality? That it is a possible means is even conceded by the 2014 Wealth Report of the Credit Suisse, saying:

¹²⁰ ‘A related problem arises in connection with the tax on individual capital. The general principle on which most tax systems are based is the principle of residence: each country taxes the income and wealth of individuals who reside within its borders for more than six months a year. This principle is increasingly difficult to apply in Europe, especially in border areas (for example, along the Franco-Belgian border). What is more, wealth has always been taxed partly as a function of the location of the asset rather than of its owner. For example, the owner of a Paris apartment must pay property tax to the city of Paris, even if he lives halfway around the world and regardless of his nationality. The same principle applies to the wealth tax, but only in regard to real estate. There is no reason why it could not also be applied to financial assets, based on the location of the corresponding business activity or company. The same is true for government bonds. Extending the principle of “residence of the capital asset” (rather than of its owner) to financial assets would obviously require automatic sharing of bank data to allow the tax authorities to assess complex ownership structures. Such a tax would also raise the issue of multinationality.³⁴ Adequate answers to all these questions can clearly be found only at the European (or global) level. The right approach is therefore to create a Euro Area budgetary parliament to deal with them.’ (Piketty, 2014a, p. 562)

Governments can also reduce wealth inequality, of course. ... Progressive income or estate taxes, and taxes on wealth or capital income, reduce rates of return and hamper asset growth. High levels of taxation on large estates appear to be one of the reasons why wealth inequality declined during the 20th century, as wealthier individuals transferred ownership of core assets during their lifetime. Nowadays, family trusts and similar arrangements are frequently used to mitigate estate tax liability, so the impact is now much weaker. Similarly, while progressive income and capital taxes are likely to lower wealth inequality, flatter tax structures will lead to rising inequality, as some commentators have suggested has happened in recent decades. ... Higher levels of taxation – on income, capital, property or inheritance – are all expected to reduce inequality in the longer run, although the repercussions on personal incentives are widely debated. (Credit Suisse, 2014, p. 36ff.).

Whether it is a good or even best means needs to be discussed in more depth and in comparison with other alternatives, which will be done in the next chapter.

16 Bavaria

Not surprisingly when taking into consideration GER/V, VI, VIa, GER/VII/5.2.7, Bavaria is a highly attractive place for global private, corporate and even criminal wealth:

16.1 International attractiveness of Bavaria for UHNWIs

The Knight Frank Wealth Report focuses on Prime Property and Wealth. Its (2014) report contains quite a number of mentioning of Bavaria and Munich.

‘The big declines in terms of rankings (if not absolute numbers) are set to be seen in Europe, with Paris, Geneva and Zurich all slipping steadily. Germany’s economic strength ensures that Munich remains an exception – the city is forecast to rise from 16th to 11th position for its UHNWI population over the next decade.’(p.28) According to Knight Frank, there were 1113 UHNWIs in Munich in 2013 and an increase of 538 was forecasted until 2023, raising the number to 1651 UHNWIs (p.30).

Munich’s global attraction on the Prime and Luxury Property seems to be unstoppable. On the Prime International Residential Index, the worldwide leading guide to the worlds luxury home market for 2014, Munich finds itself on rank 18, sandwiched between San Francisco and Sydney, with a 10% uplift, is emblematic of the surge in pricing in prime German city markets. This is partly being led by safe haven flows from investors in less secure Eurozone countries looking to insure against the still real possibility of a collapse in the Euro’(p.34).

In 2013, Germany is also among the places noted down for the biggest Commercial Property Deals, with Munich and Frankfurt leading the ranking (p.45), Berlin not far behind:

2013'S BIGGEST EUROPEAN COMMERCIAL PROPERTY DEALS (EXCLUDING UK)

Quarter	Type	Property	Location	Seller	Buyer	Estimated price (US\$m)
Q2	Mixed	Porta Nuova (40% stake)	Milan, Italy	Hines	Qatar Holding	1,039
Q4	Office	White Gardens	Moscow, Russia	VTB Capital-led consortium	Millhouse Capital	800
Q3	Office	Tour Adria	Paris, France	Tesfran	Primonial REIM	586
Q3	Retail	Hofstätt	Munich, Germany	LBBW Immobilien	Quantum Immobilien/ Universal-Investment	541
Q3	Retail	Silesia City Center	Katowice, Poland	ImmoFinanz	Allianz/ECE/Bank of China ¹	537
Q1	Retail	Rosengårdcentret	Odense, Denmark	Private Investors	ECE	501
Q3	Office	Tower 185 (66.6% stake)	Frankfurt, Germany	CA Immobilien	PPG/WPV	436
Q4	Office	Tour Sequana	Paris, France	Les Docks Lyonnais	Hines on behalf of National Pension Service of Korea	406
Q1	Office	Skyper	Frankfurt, Germany	UBS	Allianz Real Estate	392
Q2	Office	BelAir	Brussels, Belgium	Breevast/Immobel	Hannover Leasing/ Ginkgo Tree Investment ¹	390

UNCOVERED INVESTMENT REPORT IN BUSINESS
SOURCE: KNIGHT FRANK RESEARCH/AREA CAPITAL ANALYTICS

‘Germany is of ongoing interest to global investors, particularly those in the Middle East. “More buyers are thinking about regional cities, so Germany looks well positioned to benefit. Whereas in the UK and France economic expansion has historically concentrated in their capitals, growth in Germany has spread across a series of major cities. This means that Hamburg, Frankfurt, Munich and Berlin are all acceptable locations to global investors. Also, Berlin is now developing something of a reputation as a technology industry hub”.’ (p.45).

16.2 Wealth composition in Bavaria

As detailed already in GER/IV/2.2 there is little known regarding the asset composition in Bavaria’s wealth portfolio.

For example, statistics used by the Bavarian government for its reporting on poverty and wealth does not include business assets, which, as has been demonstrated above, is the most concentrated post of assets among German households and would highly increase inequality.¹²¹

Admitting that, the following is known: On that background, 93.4% of all Bavarian households have some sort of wealth, either real and/or financial assets. Balanced with liabilities, 86% of households possess net-wealth:

	Brutto- immo- bilien- und/oder -geld- vermögen	Brutto- immo- bilien- vermögen	Selbst genutztes Wohn- eigentum	Brutto- geld- vermögen	Positives Nettoge- samt- vermögen*
Gebiet					
BY	93,4	52,8	47,3	91,9	86,0
WD	93,0	52,4	48,6	91,5	84,9
D	92,7	49,2	44,8	91,2	84,4
BW	94,5	60,7	56,5	93,4	86,9
NRW	93,1	49,3	45,7	92,0	84,7

Source 39 Collection of material attached to the Third Report on Social Conditions, Table M 2.13

If one compares the situation in selected German states, put into relation with the west of Germany and the whole of Germany it shows clearly that Bavaria and Baden-Wuerttemberg are on top of the wealth hierarchy:

¹²¹ (Bayerisches Staatsministerium für Arbeit und Sozialordnung, 2012, p. 212) Bavaria is aware that this would influence greatly the distribution of wealth: ‘Berücksichtigt man Betriebsvermögen, die in der EVS nicht erfasst sind, so zeigt sich eine größere Ungleichheit in der Vermögensverteilung.’ (p.214)

Tabelle 4 Average financial assets and real property in selected states and (parts of) Germany

Darstellung M 2.14 Durchschnittliche Sach- und Geldvermögen in Bayern, Westdeutschland, Deutschland, Baden-Württemberg und Nordrhein-Westfalen und nach Haushaltsmerkmalen in Bayern 2008 (Prozent)						
	Durchschnittlicher Betrag über alle Haushalte*			Durchschnittlicher Betrag über Haushalte* mit dem jew. Vermögen		
	Netto-immobilien- und geld-vermögen insges.	Netto-immobilien-vermögen	Nettogeld-vermögen	Netto-immobilien- und geld-vermögen insges.	Netto-immobilien-vermögen	Nettogeld-vermögen
Gebiet						
BY	179.900	117.600	61.200	194.400	237.200	67.100
WD	148.800	94.700	54.400	162.000	196.500	59.900
D	129.400	80.700	49.100	141.300	180.000	54.300
BW	188.100	122.900	65.500	201.800	222.300	70.600
NRW	132.600	81.400	52.500	144.200	183.100	57.500

Source 40 Collection of materials attached to the Third report on Social Conditions 2012, Table M.14

Regarding income: First the relationship between income from labor and income from wealth:

	Bruttoeinkommen aus nichtselbstständiger Arbeit	Bruttoeinkommen aus selbstständiger Arbeit	Einkommen aus Vermietung und Verpachtung (netto)	Einkommen aus Vermögen
Insgesamt	68,4	13,5	13,9	61,8
Einkommensposition des HH (Nettoäquivalenzeinkommen***)				
1. Dezil	34,5	12,9	4,8	35,9
2. Dezil	51,7	10,3	3,0	39,3
3. Dezil	60,7	12,7	6,5	51,0
4. Dezil	66,1	10,8	4,9	56,2
5. Dezil	73,5	10,3	9,2	59,3
6. Dezil	78,2	7,8	12,0	64,8
7. Dezil	80,1	11,7	14,7	68,5
8. Dezil	80,0	14,6	21,6	75,7
9. Dezil	84,0	15,4	22,9	80,6
10. Dezil	75,2	28,2	39,1	86,3

61.8% of all Bavarian households have income from some form of wealth (financial and/or real property). But: While income from wealth is on average only EUR 151 nationwide, it is on average below EUR 100 in deciles 1-6, but on average EUR 670 in decile 10. Income from rent is below EUR 100 in deciles 1-7, but EUR 470 in decile 10. (Bayerisches Staatsministerium für Arbeit und Sozialordnung, 2012, p. 221):

Tabelle 5 Average household income from wealth according to income deciles in Bavaria 2008

Darstellung M 2.20 Durchschnittliche Haushaltseinkommen aus Vermögen nach Einkommensdezilen in Bayern 2008				
	Gesamteinnahmen aus Vermögen*			nachrichtl.: Kalkulat. Eigentümer- miete
	davon:	Einnahmen aus Geldvermögen	Einnahmen aus Vermietung und Verpachtung	
Insgesamt	151	63	88	286
Einkommensposition des HH (Nettoäquivalenzeinkommen**)				
1. Dezil	35	14	21	148
2. Dezil	23	15	8	137
3. Dezil	41	20	21	239
4. Dezil	36	22	14	265
5. Dezil	65	34	31	280
6. Dezil	85	31	54	305
7. Dezil	118	57	61	329
8. Dezil	189	79	110	327
9. Dezil	249	100	149	405
10. Dezil	670	259	411	426

* Ohne Mietwert von Eigentümerwohnungen, -häusern etc.
 ** Nettoäquivalenzeinkommen ohne kalkulatorische Eigentümermiete; gewichtet nach neuer OECD-Skala (Gewichtungsfaktoren: Haushaltsvorstand: 1; Personen ab 14 Jahren: 0,5; Personen unter 14 Jahren: 0,3).

Quelle: Eigene Berechnung nach EVS 2008

Source 41 Collection of material attached to the Third Report on Social Conditions, Table M 2.20

For more details: While the Third Report on Social Conditions of 2012 had a specific look on income from real property among different households, the Social Situations snapshot of 2013 offers two more insights into the income and wealth composition.

16.3 Overall numbers

Given secrecy provisions, e.g. regarding income from capital, and shortcomings regarding capacities of the tax administration, there is also ignorance about the quantitative composition of Bavarian wealth holder:

For Bavaria in 2013, the Ministry of Finance tells parliament the number of 2,517 persons having an annual income beyond EUR 500,000 (Bavarian Parliament Drs. 17/2380, 2014). However: Are those numbers realistic at all?

- For 2007, the State Office of Statistics revealed, based on tax data, that Bavaria is home to 3,472 persons having an annual income (!) of EUR 1 million (!) or more.¹²²
- For 2010, the number declined moderately to 3,132, the reason being the World Financial Crisis and the introduction of the Withholding Tax on capital income.¹²³

¹²² „2007 lebten 3 472 „Einkommens-Millionäre“ in Bayern, deren Gesamtbetrag der Einkünfte jeweils mindestens eine Million Euro betrug.“ From: 3472 Einkommens-Millionäre in Bayern.

https://www.statistik.bayern.de/presse/archiv/2011/175_2011.php

¹²³ Oberbayern hat die meisten Reiche. (2014, July 20) In: Süddeutsche Zeitung. Retrieved from <http://www.sueddeutsche.de/bayern/reichen-statistik-oberbayern-hat-die-meisten-millionaere-1.2053129>

- For 2013, the Frank Knight Wealth report counts 1,113 UHNWIs, i.e. people with a disposable income of EUR 30 million and more, in Munich alone (p. 30).
- For 2013, the Wealth-X/UBS report reveals 1,805 UHNWIs for Munich alone (p.45).

Given the small “dip” of millionaires after the World Financial and Economic Crisis and the large number of UNHWIs in Munich alone it is most unlikely that the number of UNHWIs plus “simple” millionaires in Bavaria is indeed correctly rendered by the 2013 figure given above by the Bavarian government!

It is more easy to know about the geographical distribution and concentration of wealth holder: The region of Middle Franconia is the second most attractive location for wealth holder, but by a large distance to Upper Bavariy: In Oberbayern live 55.5% of Bavarians income millionaires, the rest is spread through the other 6 districts with Mittelfranken ranking second with 11.3%. This dominance of Oberbayern (in 2010 51.5%) remains steady throughout the years.¹²⁴

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¹²⁴ Statistik des Bayerischen Landesamt für Statistik: Mittelfranken ist nach Oberbayern zweit attraktivste Region: https://www.statistik.bayern.de/presse/archiv/2011/175_2011.php

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