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# FREQUENTLY ASKED QUESTIONS

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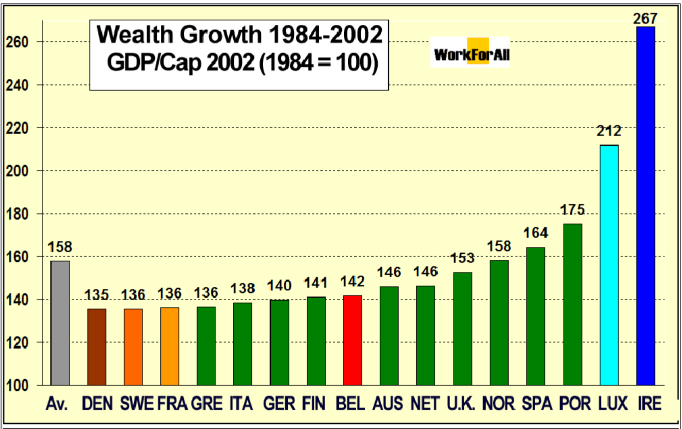
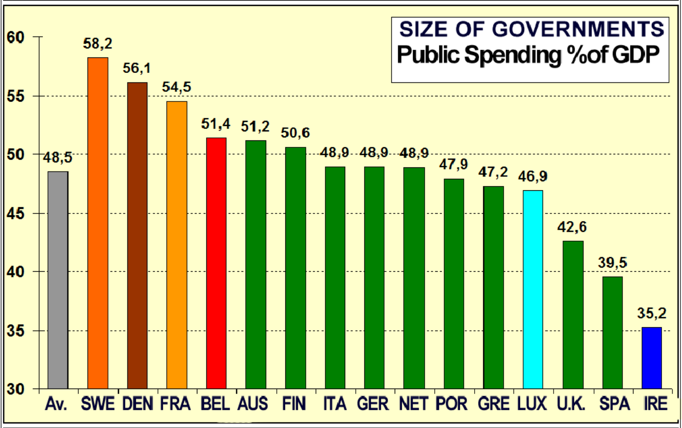
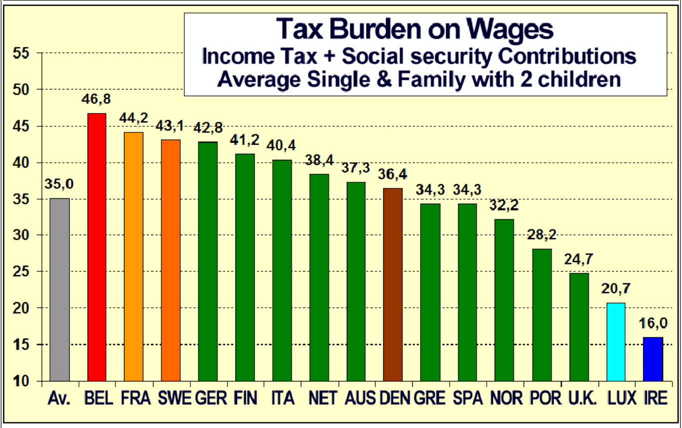
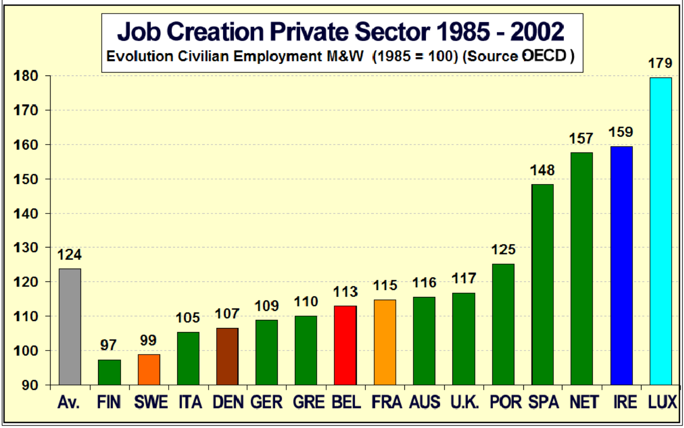



## Who is WorkForAll in fact ?

WorkForAll is a pluralistic and politically independent think-tank. We investigate social models and structures on their efficiency in achieving the social objectives. WorkForAll is neither a leftist nor a rightist group. With no ideological attachments, we examine the success of different policies in their achievement of employment, prosperity, solidarity and individual freedom.

## Why this initiative?

Citizens and even our politicians are seldom aware of the efficiency of different government policies. Figures of prosperity growth or job creation in countries with an alternative policy are generally unknown. Citizens form their opinion based on sentiments, vague intuitions or even rigid ideology. Our leaders often select their policies based on the very same motives, and rather than based on scientific or empirical evidence.

Since the collapse of the long praised Dutch Polder Model a new hype has now arisen around the Scandinavian model. Scandinavians are supposed to have the stone of wisdom. Nonetheless, it appears from the figures that Denmark, Sweden and Finland have performed very poorly in the last decades in wealth growth, job creation, and have developed very few new solidarity initiatives.

Such irrational hypes are harmful. One should not take example at the last pupil of the class. Policies based on ideology, intuition or fashionable hypes lead all too often to political initiatives that are counterproductive to our prosperity, freedom, solidarity or employment.

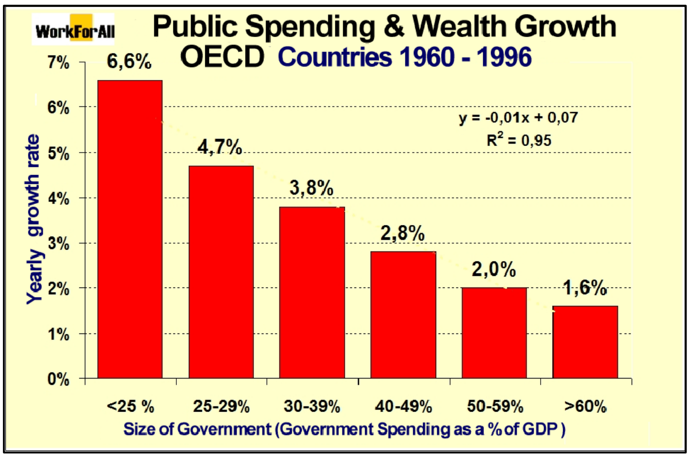
## How did it come to that initiative?

It started from the observation that there were remarkable growth rate differences between the European countries, although these countries have a very similar state of development, and similar labor ethics. We noticed for example that Denmark grew only with 35% in the 18 years period from 1984 to 2002. Ireland's wealth on the other hand rose by no less then 167% over the same period. In barely half a generation Ireland evolved from the second poorest to the second richest country of Europe. We found similar differences in job creation.

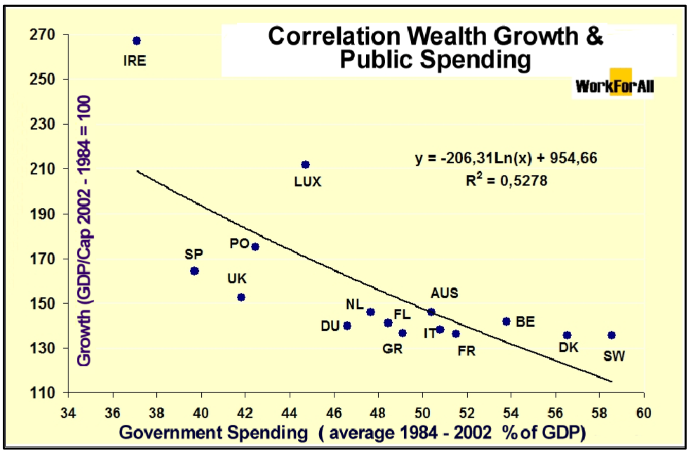
This raised the question as to what causes these remarkable growth differences. We were wondering if other countries could achieve the same economic and social performance like Ireland or Luxembourg.

## On what evidence was your reseach based?

A number of factors that boost prosperity are known from the economic literature. It is known for long that there is a robust negative relation between tax burden and prosperity growth. Gwartney and also Laffer and Armey have performed pioneering investigation on this subject. Gwartney examined the causes of growth differentials between the OECD countries over a long period of 1960 until 1996. He found that in countries and periods in which government spending was smaller than 25% of GDP rose on average with 6.6%. Countries with government spending over 60% realized growth rates of 1,6% only. In his research, he found strong evidence of the robust negative relationship between government spending -and therefore indirectly tax burden - and prosperity growth.



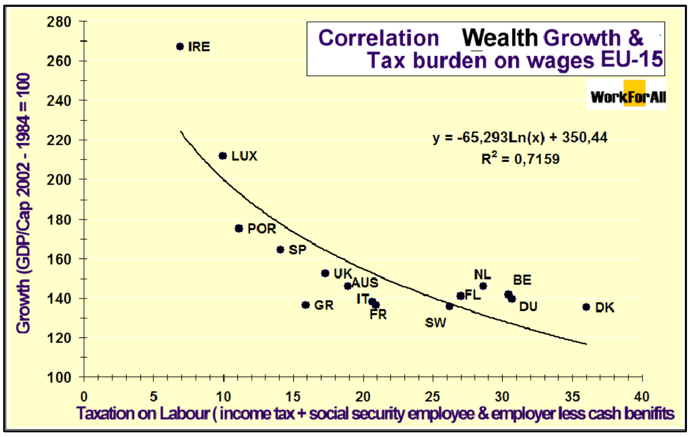

This relationship appears also evidently from the spreadsheet between growth and public spending in the EU-countries. A yet stronger negative relationship appears on the spread diagram between prosperity growth and taxation on wages: the higher the tax burden, the lower the growth.




## However, there are other factors influencing growth than only tax burden?

Yes of course! Our group has examined no less then 25 possible causes of growth differentials in the same manner. Among others the influence of age structure, the level of education, inflation, annual working hours, saving rates, the interest rates, the proportion between direct and indirect tax, size of public spending, the influence of the accession to the EU, etc. All these data are known from the OECD, and were processed in an encompassing multiple regression model, in which time lags of zero to four year were incorporated.

Multiple regression analysis allows calculating with mathematical precision the exact individual effect and the relative weight of many simultaneously playing factors. It is with the same technique, that medical science establishes relationships between living or feedings habits on our health, life expectation or illness phenomena. On our website, one can examine the results of our investigation.




The most important conclusion from this regression, which explained for 93% of the growth differentials, is that two main causes lead to poor growth performances. Excessive government spending on the one hand and a de-motivating tax structure, with heavy burdens on work, income and profit on the other hand. These two factors appeared by far the most important of the 25 causes examined to determine prosperity growth. Far more so than factors like level of education or age of the population for instance.

As a decrease in government spending by 1% for instance leads to an additional annual growth rate of 0.6%. The results of our investigation are confirmed at large in an IMF study of July 2004. The IMF used the identical research technique, but examined a different country group over a different period.

Furthermore, it appeared from the figures that "deficit spending" and lowering interest rates had no positive effect on economic growth whatsoever. This in contrast to what the believers in Keynesian policies continue to pretend.

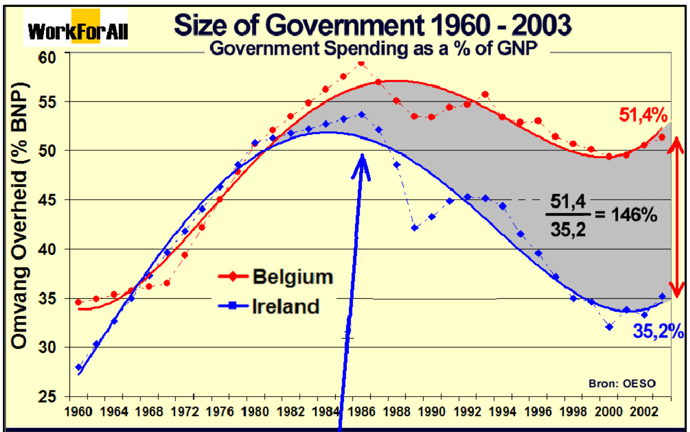
## These abstract calculations do not mean very much to our readers.

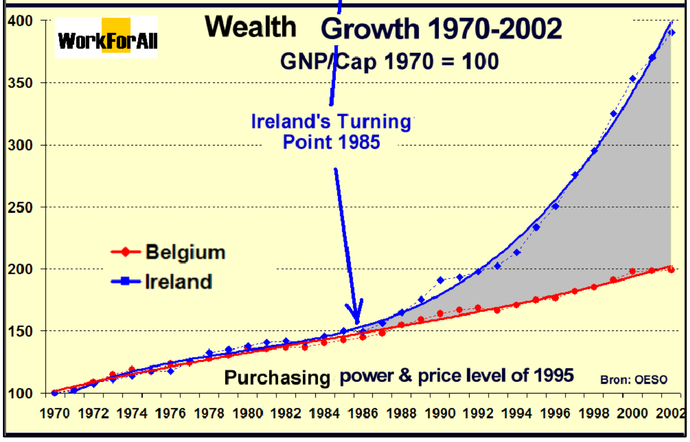
It is however the standard scientific procedure to resolve such a problem. Unfortunately, one cannot illustrate a line in 25-dimensional space by means of 2-dimentional graphics. One simply has to rely on mathematics for that.

In order to illustrate our findings we have therefore compared two countries with totally opposite economic and fiscal policies: Belgium and Ireland.

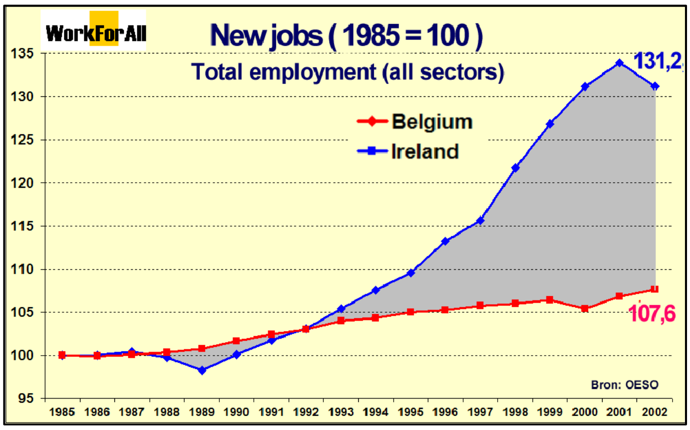
In 1985, Ireland's economical situation was dramatic, and much worse than Belgium's: excessive budgets deficits, weak growth performances, and a wealth that amounted to only 65% of the Belgian level. In addition, Irish unemployment outfigured the Belgian one by 17% to 10%. Until 1985 both countries followed similar Keynesian policies and let government spending derail. In 1983 Belgian public spending exceeded the psychological cape of 50% of the GDP for the first time.

This excessive spending was accompanied by a continuous increase of the tax burden, state debt, and much unproductive public spending. The negative spiral was initiated. On the graphics one notices that until 1980 Irish public spending evolved approximately similarly with the Belgian, and growth performances of both countries also paralleled.




In 1985 Ireland however changed policies dramatically. They drastically lowered the tax burden. All superfluous government spending was dropped, and in 3 years time the public spending was lowered with no less then 20%. In this way Ireland gave the start to a period of explosive wealth growth averaging 5.6% in the period 1985 until 2002. This is roughly the triple of the Belgian growth rate.

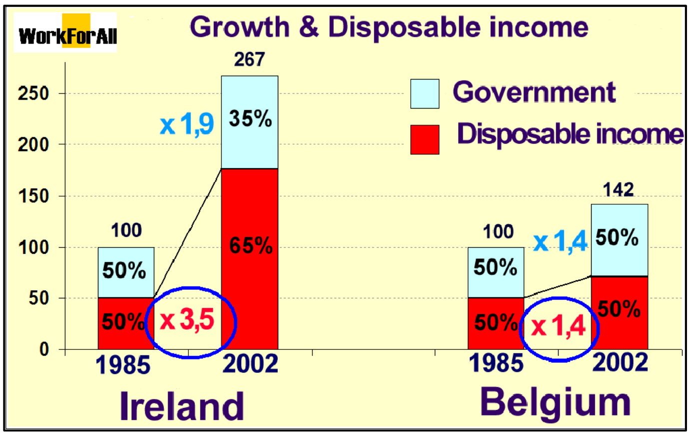



Belgium chose for a very different policy. Belgium barely lowered the tax burden at all, but tried to boost the economy with all sorts of micro-measures. Even under favorable cyclical conditions, public spending remained above the 50% GDP level. Under these policies, growth stagnated around the 1,9%. In 2003 the authorities still took 51.4% of the Bealgian wealth creation. In the meantime Irish Authorities had had pushed back public spending to 35.2% of GDP.

Today Belgian public spending is 46% larger than the Irish is, and the growth rate differential is accordingly. Although the Irish prosperity in 1970 was barely half Belgium's, today it is significantly larger.

As consequence of unequaled wealth growth Irish authorities today have large margins for all sorts of social, cultural and environment-initiatives as in absolute terms Irish government disposes of more resources than the Belgians do.
However, the Irish wealth is still felt best in purses of its citizens. The increase of the BNP/head by 167% in a 17-year period with an additional drop in the tax burden of one-third amounts to a multiplication of disposable income with no less than a factor 3.5 in 17 years. Can you imagine what this means?

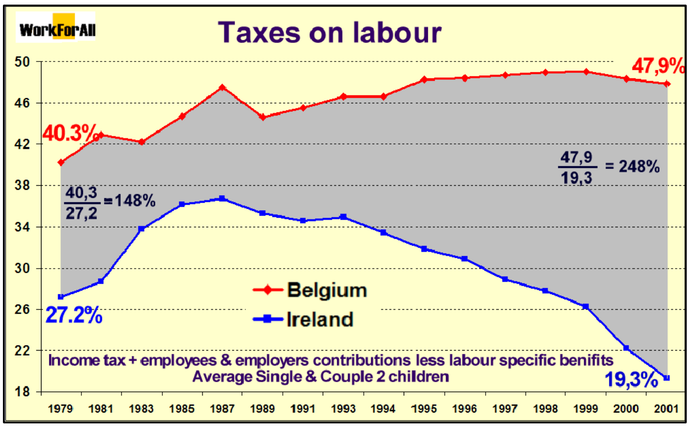
One notices this wealth explosion when one visits Ireland in all aspects of daily life; one notices the unequaled optimism. Around Dublin, a forest of tower cranes limits the skyline. In the countryside new houses everywhere, the newest car models, modern factories and offices. One also notices it in the reorganization of people's neighborhoods, and in the care they spend at the environment. The wealth is visible in the absence of criminality and in the view of unclosed cars. One reads also luck in the eyes of people, in the birth rate, and in the welfare-ranking. In this ranking Ireland hased to number one as the most pleasant country in the world to live in.




**Very impressive performance indeed. How does such a turnaround to a production policy happen in practice?**

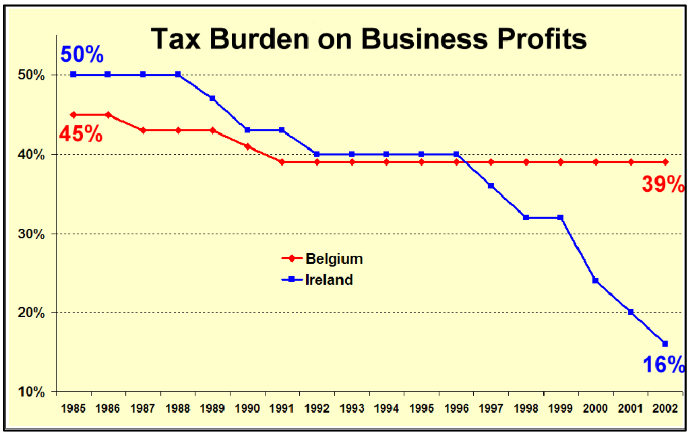
Fundamentally, such production-stimulating policy consists of a substantial reduction of the tax burden on labor and on profit; in other words a decrease of direct taxes. This motivates people to go back to work: it stimulates to entrepreneurship, to dare to take risks, to perform some overtime or to delay retirement. Of course, this does not work with a vague promise for a minor tax cut sometime in the far future as is customary in many countries. Cuts must be felt immediately and they must be substantial.

Between 1985 and 2001 Ireland lowered the tax burden on wages from 37% in 1985 to 19.3% in 2001. They roughly halved the burden. In Belgium the burden on labor even slightly continued to rise from 46% in 1985 until 47.9% in 2001. Today the Belgian burden on wages is 2.5 times as high as the Irish. Does it surprises anyone that in Belgium nobody wants to do an hour overtime, and that businesses run away from the country in an ever faster rate?




However, it was the cut of the rates on company profits that led to the greatest improvement of the entrepreneurial climate. When Ireland was at the bottom its crisis in 1985 tax burden on company profits amounted to no less than 50%. In 2002, Ireland had reduced that tariff to 16%.

Belgian rate cuts on the contrary were marginal, and clearly insufficient to raise any effect at all. The recent decrease of their rates had to be "budgetary neutral" and were compensated by the limitations of many deductions. In fact, the cut was meant at dressing up internationally published rate tariffs, and had in fact no effect at all.




### However, tax cuts mainly profit the rich is it not?

This is exactly the misunderstanding of the ideologies of envy one still finds in many countries! Under a production stimulating policy, everyone is better off, and certainly not in the least the worker, unemployed or disadvantaged. Look at job creation and social expenditures. Since 1985 Ireland crated 31,2% new jobs. In Belgium with its so called social policies and its innumerable expensive employment measures they barely created 7,6%, and for a large part in government employments.

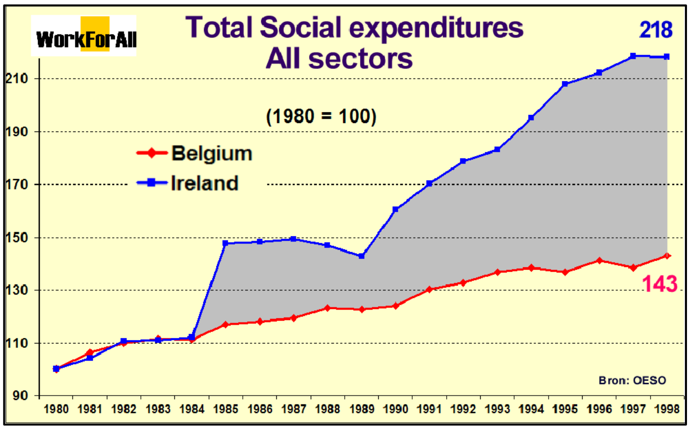
### Does a rate cut not lead to a cutback of the social spending?

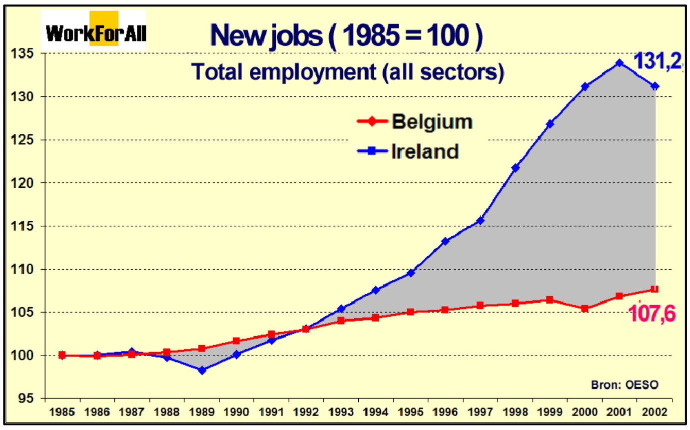
A first misunderstanding is to suppose that rate cuts lead to lower tax receipts. Nothing is less true. Here the Laffer-effect comes into play. Every rate cut broadens the tax base because tax evasion and fraud becomes less profitable. The Flamisch government had already a small taste of the benefits of this Laffer-effect. Since they lowered inheritance rates, their tax receipts from inheritances have dramatically risen.

Morover one should remark that lowering inheritance rates does not motivate to die early. If governments cut rates on incomes however, they may expect the supplementary benefits of the so-called Armey-effects. Low rates on income motivate people to go back to work, to perform some overtime, to start their own business, or to delay retirement. This broadens the tax base still further. Moreover, the financial resources that flow back to the private sector are invested much more productively there than in the public sector.

Ireland has demonstrated the effectivity of the combined Laffer-Armey effects on direct taxes all to well. Its tax receipts have continued to rise as the tax burden went down.

A second miscalculation is to underestimate the dynamics of growth. As the percentage of the GDP Irish social spending roughly remained constant, just as as the case in Belgium, but the dynamics growth lead to an increase social spending in real terms with 118% between 1980 and 1998. In Belgium, this was barely 43%. Such a difference is felt all to well in the purse of the disadvantaged! Ireland has demonstrated that production-stimulating policy is in reality much more social than the Keynesian alternative, meant at boosting consumption.



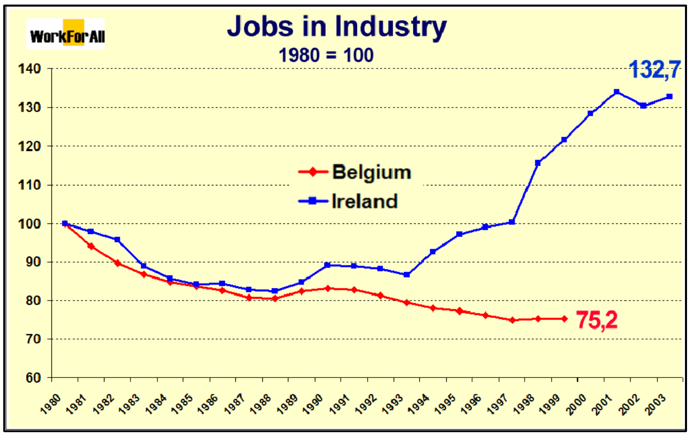



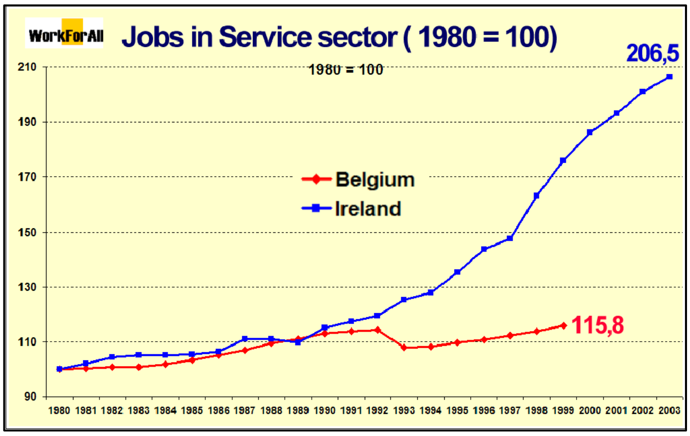

### Did Ireland create jobs in all sectors?

Over all sectors, Ireland created 31% new jobs between 1985 and 2002. In Belgium this was that barely 7,6%. The highest increase was in services: +106% opposite to +15.8% in Belgium. However, most remarkably even in industry, Ireland achieved to create 32% new jobs between 1980 and 2003.
In Belgium the industrial employment in 1999 caved in to 75% of the 1980 level. Ever since Belgium has apparently discontinued to communicate its figures to the OECD. However In agriculture the same evolution took place in

both countries: a gradual decrease of the employment. However, agricultural employment today has a lower impact.

It is widely believed that European de-industrialization is an unavoidable phenomenon. Ireland has proven that this is not a fatality, and that even an European country can still increase its industrial employment. Even notorious Professor De Grauwe now accepts de-industrialization, and soothes that this is barely a problem as job losses in industry will be absorbed by new jobs in the service sector.




The big question is of course to whom service sector will sell its services. Architects will not have to design many factories. Factory floor will not need cleaning, consultants will not have to advise many enterprises, banks won't finance many exports, and even the treasury will not have to control in many places. Sell services to the unemployed or abroad? Services are much more labor-intensive still than industry, and please do not believe that Europeans have more brain cells than an average Indian or Chinese.

**However, many countries still face a huge public debt, their policy margin is very limited.**

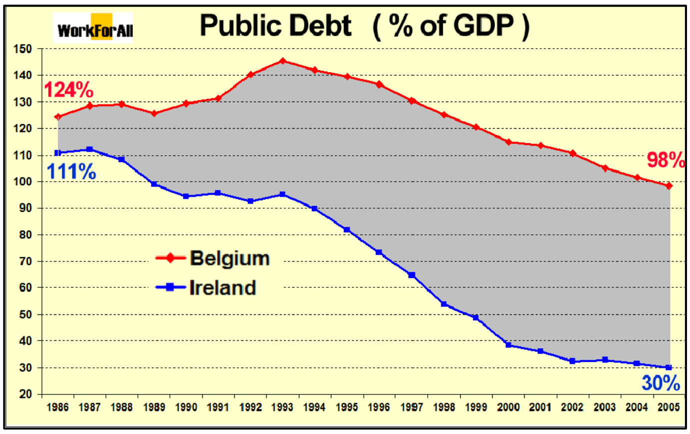
The gigantic state debt in many countries is the logical consequence of years of fruitless "deficit spending" and sterile Keynesian policies. In Belgium this has culminated under the disastrous administration of socialist minister of budget MATHOT, who went so far as to state publicly that deficits had come by themselves, and would go the same way. Of course, building up such a debt was economic insanity, and a moral injustice to the coming generations. One must get rid of these state debts. The only question is how.

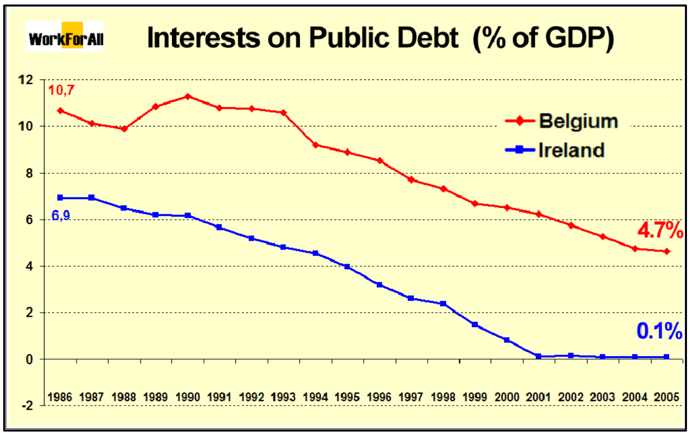
One can of course try to reimburse it as fast as possible. In Belgium, even with their huge savings rate of 14% this would take 8.85 years when they spend all savings on debt reduction. But then nothing remains to invest. Not a single machine, not a single house. They could also spread it over 17.7 years, but also then they would need to halve investment with disastrous consequences for the competiveness and the prosperity. Paying back public debt in this manner is much too slow, and always goes at the expense of investment.

An alternative manner to reduce the proportion Debts/GDP is to focus on the denominator of this fracture, and not on the counter. In other words, one must aim at a serious growth. This is exactly what the Irish have done.

In 1986, Irish public debt amounted to 111% of GDP, almost just as bad as in Belgium with 124%. The Irish tax cuts however boosted growth to an average 5.6% between 1985 and 2002. Belgium focused on the counter of the fracture: handing in on almost everything to pay off public debt. This policy had a deflationary effect and their growth stagnated at 1,9%.

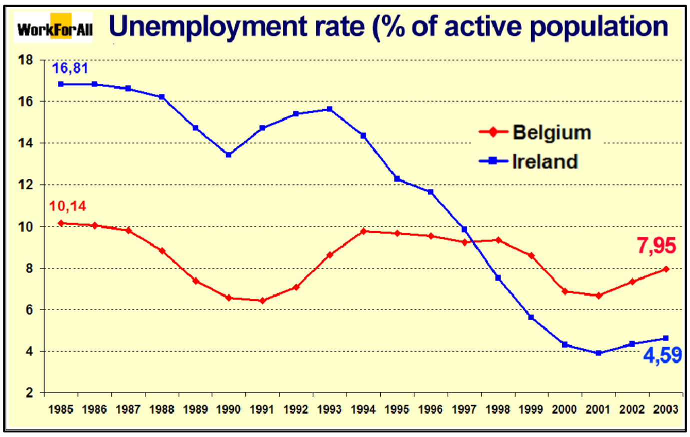
After 17 year an exponential growth rate differential of over 3% works out to a gigantic difference: Ireland raised its GDP by a factor 2.67; Belgium with a factor 1.42. In other words Ireland increased the denominator of the fracture public debt / GDP with that factor 2.67, Belgium with that factor 1.42. This way Irish debt will be reduced to 30% GDP in 2005. With much effort and many new taxes, the Belgian government debt will still be at 98% of the GDP.



### What about unemployment under a offer-boosting policy ?

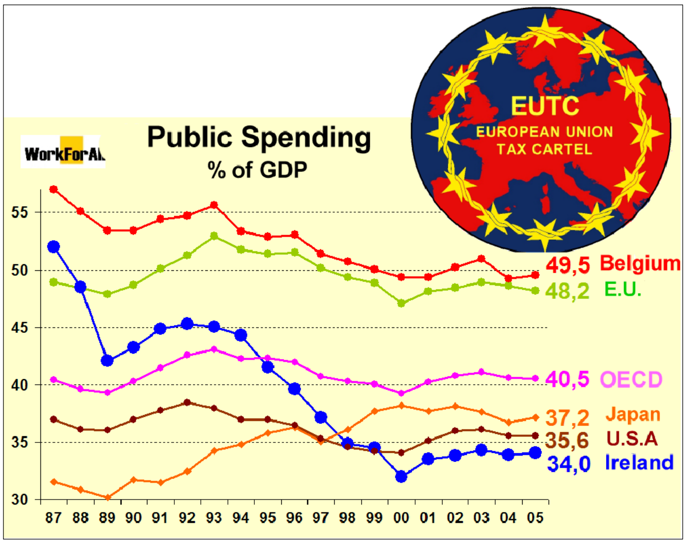
In many countries a very tough misunderstanding persists that available work is a limited static quantity that one should have to share. Nothing is less true. Tax cuts are the motor to creativity, to new initiatives and to job creation in the productive sector. One can notice so in the Irish unemployment statistics. In 1985, Irish unemployment was much worse than in Belgium: 17% unemployed as compared to 10%. In 2003 Ireland had reduced the figure to 4,6%. In reality, this means this that Irish employers are permanently in search of workers, staff and employees, and not the other way around as is the case in Belgium.




The fear that low rates on profits and low social contributions take away enterprises from other countries is based on the very same misunderstanding. This reasoning assumes that the number of enterprises and their size are invariable quantities that should be shared among nations. This reasoning assumes that the enthusiasm to work or start one's own business is insensitive to the tax burden.

One should know better. When a larger share of the fruit of their labor is allocated to people, their readiness to productive contribution immediately increases. Low tax burden motivates to work, to perform an hour overtime, to dare the risk of an own business, or to postpone retirement. Politicians who cannot understand this should visit China. On their way home they can have a look at the economic and ecological disasters left behind by the Soviet regime.

Just as competition between businesses leads to creativity and optimal use of scarce resources, tax competition between nations leads to optimizing the administration. Each form of tax cartel between nations is as harmful to employment and wealth as monopolies and cartel agreements between businesses are harmful to the size of their sales market. It may be feared that the proposed European constitution will allow imposing by majority rule minimal tax rates on the member states. Countries wanting to adopt similar growth policies as Ireland might find themselves very limitited in their national autonomy to execute economic policies such as decided democratically by their peoples. Under such a European constitution and such a system of minimal tax rates Europe risks perpetuating its stagnant growth which has already lasted for decades now.

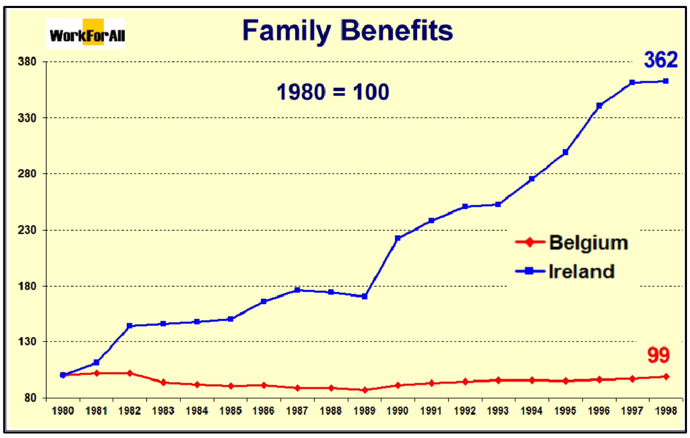


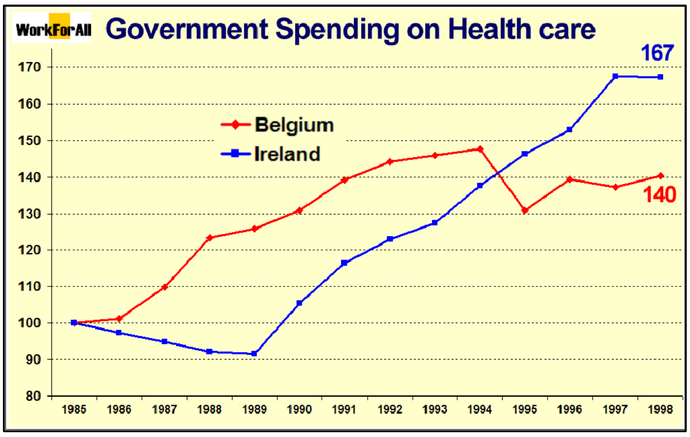

### Yet it appears contradictory that social spending can rise when tax burden decreases.

The figures of the social expenditure are publicly known on the OECD website ! First misunderstanding is that tax receipts fall when tax-burden falls. For direct taxes the combined Laffer and Armey effects are extremely strong, and Ireland has proven this. The tax receipts continued to rise under falling tax burden.

A second miscalculation is to look at the relative share of the social expenditures as a percentage of GDP; Look at the absolute figures. How many benefits do people really receive? This is what interests the citizens. In all large sectors of social security the real benefits have raised more in Ireland than in Belgium, except of in the unemployment, but this is due to the drop of the Irish unemployment to one third. Per unemployed, benefits are now also larger in Ireland than in Belgium.

Irish are absolute champions in family benefits, in which the child allowances are the main single item. In 18 years family benefits rose in Ireland by no less than 262%; In Belgium family allowances even slightly went down. Belgians continued to focus on a shrinkage scenario; savings on welfare reimbursements: they are on the highway to gradual destruction of their social security system.






If European nations want to preserve their generous social security system in an age of graying population it can only be don by growth, growth, growth once more. Even the Belgian socialist minister of the budget has now realized this. Unfortunately, he does not understand that growth can only be achieved through a lightening of the tax burden. He now wants to force growth by raising the participation rate; shifting the retirement age and measures like that. Again a further cutback on social achievements, and basically a cure of the symptom only. If one wants to cure Belgian's desease of low participation one should tackle the cause which is nothing less than total demotivation due to the laming tax burden.

The Belgian minister does not ask questions who will create the jobs to absorb the higher participation and the raised labor offer. He does not seem to understand that there are no starters any more and that this due to the extreme bad entrepreneurial climate. He does not seem to realize that this due to the high taxation and the relative generosity of the easy and risk free alternatives.

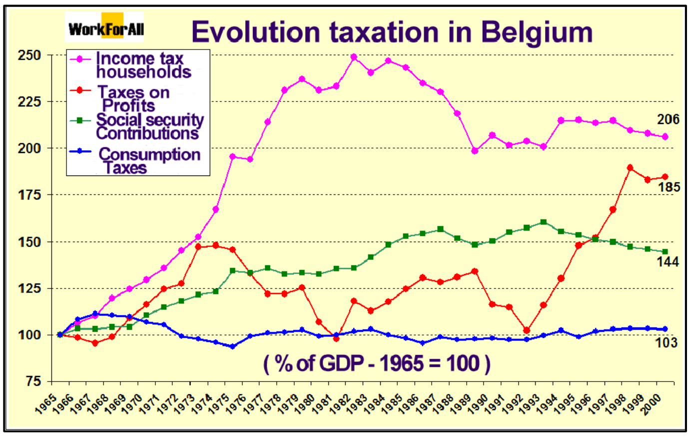
He does not seem to realize that existing businesses are de-localizing at a rate as never seen before. Belgium -and Europe are running empty-. Under Schroeder, German unemployment increased to over 5 million, just as much as in the 1929 depression. Under these deflationary shrinkage scenarios, Europe is heading for total collapse.

**An other idea of yours is to shift the tax burden from direct taxes to consumption.**

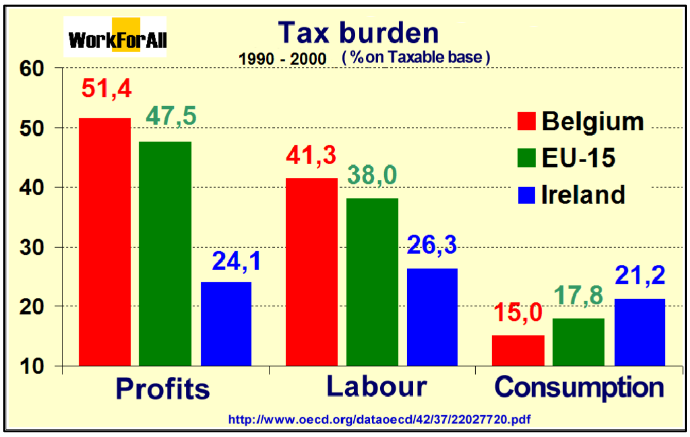
This is not is just another idea! This also is one of the main conclusions from our regression-analysis. We found that countries with higher consumption taxes grow much faster than countries with a higher share of direct taxes. We therefore fully applaud the basic ideas of the Belgian political party VIVANT who made it one of its prime objectives, and also the recent European initiative of Belgian Prime Minister Verhofstadt.

The problem is that government expenditures grew explosively since the sixties. Direct taxes and taxes on business profits have taken the entire burden of this growth. Family income taxes in Belgium doubled since 1965; taxes on consumption barely changed at all.

When our social security model was designed, the proportion between direct and indirect tax was balanced. However, in the course of the time, the structure of tax receipts is complete distorted. Much too high direct taxes de-motivate the active people, and relatively low consumption taxes boost consumption to the disadvantage of investment. An additional advantage of a consumption tax is that the domestic production no longer bears the whole burden of the social security system, but also products produced abroad are bearing an equal share in the burden.




A shift of the tax burden can indeed help to boost growth, but the main objective must remain a substantial lightening of the total tax burden. The IMF comes to the same conclusions in their study of July 2004

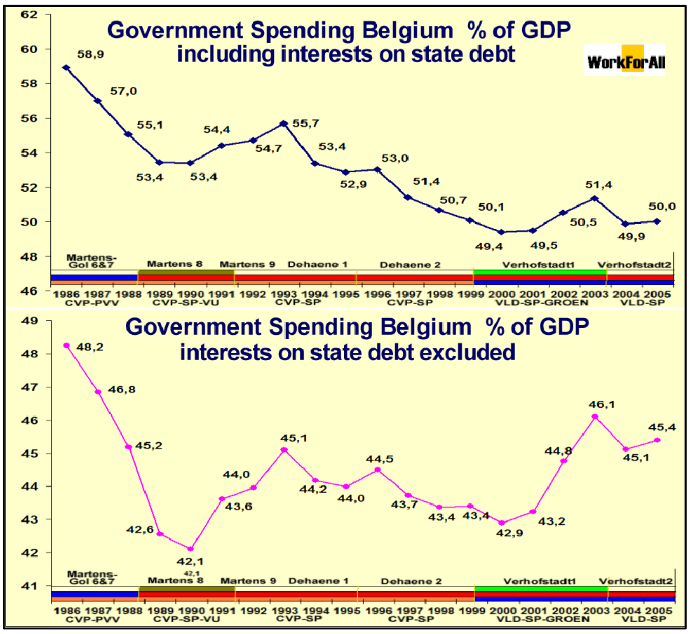



**But Is Belgium is now on good track under the liberal-socialist government isn't it?**

Some say so indeed. However, let us look at real figures. Growth is stagnating around 2%, and the authorities still take over 50% of the Belgian wealth creation. This figure belongs to the very highest in the world. Alarming is that the government spending exclusive interests on state debt has continued to rise from 42.9% in 2000 to 46.1% GDP in 2005. In other words, the advantage of low interest rates was completely consumed again in all sorts of new expenditures.

Without any cut in the budget Belgians could have taken advantage from the evolution on the interest market to decrease Government by more than 3%. However, one has chosen again for new expenditures. .

One can spend a Euro only once of course. If the authorities chose to do that on all sorts of amusing but unproductive projects, they withhold resources from the private sector, where these resources could be used for more productive uses such as investments in new machinery, new factories, energy efficient houses, or research in new products for instance. When authorities continue to find ever-new public initiatives, they will of course never be able to lower the tax burden.




### A quite controversial result from your research project is that low interests do not help to stimulate growth.

We were quite surprised by this regression result ourselves indeed, and at first thought that we made a mistake somewhere. Yet after extensive controls we found that low interest policies had not a single positive effect on the growth whatsoever in the examined EU countries.

Apparently, we do not stand alone with this observation. One notices that fifteen years of near zero interest rates in Japan were not able to boost Japan's extremely poor growth rate. One notices the same in Switzerland, which had the poorest growth rate in Europe in spite of the permanently lowest interest rates.

The explanation must be found in the fact that lowering interest rates has in countries such as Belgium -besides a positive effect on consumer spending and potential investment - , also very negative effects.

Low interests causes savers' income to go down, and also the external balance of payments suffers, as countries like Belgium's receive much more interest from abroad than they pay. Easy-money-policies moreover always increase of the wealth consuming inflation. Either consumer prices or asset rise will rise; in many cases both.

### Inflation is under controll int'it ?

The price level of the consumer goods has indeed remained under control so far. Europe thanks this to the blessings of globalization and the massive supply of cheap consumer goods from low-wage countries. However, prices of goods and especially services locally produced have been rising rapidly: repair services, health care and care for the elderly for instance.

Nevertheless, one underestimates particularly the negative impact on wealth of the "asset inflation". Assets now take too big a share in family budgets, and that consumes our wealth. Think of the prices of building lots, houses and industrial lots for instance.

In addition, bonds and shares have now reached price levels where returns are on historical lows. None of these things are of course found in the consumer index of the ECB. We are still making additional research on this matter. This fascinating result from out our regression analysis is quite fundamental. If confirmed it would mean that the low-interest policy of the European Central Bank is contra productive to the wealth development of Europeans.

### WorkForAll also pleads in favor of decentralized administration structures.

We indeed also checked whether size of countries was affecting growth rate and the job creation. We found that nations with smaller populations significantly perform better than large countries. We certainly found no advantages of scale in our research as one could anticipate. This conclusion is confirmed in much other relevant research. "The Size of Nations" (PDF),

It is widely believed that over-centralized administration in large countries leads to "on size fits all" measures that have negative effects for particular sub regions. We therefore conclude to decentralized administration and have serious doubts about of the benefits of delegating ever more powers to centralized European Union Authotities.

When so much evidence demonstrates that a production stimulating policy is beneficial to both wealth growth and job creation, why are governments not applying these policies everywhere?

The historical and scientific evidence is indeed overwhelming. Such production-stimulating policies have simply worked everywhere where they were applied. That was the case in the U.S. under Reagan, that the case in Iceland under Oddson, this is the case in Ireland now, and even German's "Wirtschaftswunder" under Erhard was a model of production stimulating policy characterized by robust tax cuts.

Ultimately, the principle is based on the simplest economical principle: A family that spends more then it earns becomes poor. That is a fact households and that is a fact for nations. A country that produces more than it consumes becomes wealthy. If one wants wealth one should boost production and not consumption. The principle is in fact as simple is that.

Why is this not applied everywhere? For a fundamental policy change, a political majority is needed, and our politicians think short-term and often still in terms of ideology and conflict of classes. They seldom think of the common interest, and yet less of the interest of the next generation. They simply do not know the figures and are not conscious of the impact of wrong policy choices.

If Belgium had chosen in 1985 the same policies that Ireland chose, their population would be twice as wealthy today. Their government debt would now have been reduced to 35% of the GDP, and their employers would be struggling for employees. Every day delay costs them employment and prosperity. To convince a majority of such facts needs a political leader with view and especially acting power. They have simply lost 20 years of progress.

**You also reproach conservatism to the press and the education.**

The responsibility of education and press is overwhelming. Even today in our universities the Keynes-doctrine is still taught as a brilliant manner to boost the economy. One forgets that the theory is seventy years old, and that the ideology stems from an era of plan-economical thinking. Can you imagine our doctors to go through today with the medical knowledge and equipment of the thirties?

The present generation of politicians and journalists were raised with the Keynes-doctrine, and do not realize that a new generation of economists has arisen since. In modern research the Keynes-doctrine has been countered with overwhelming empirical evidence. Politicians and journalists do not realize that since they graduated the economy has come to a new understanding. Many have possibly never heard of Hayek, Laffer, Armey, Friedman or the Austrian school. It may last another generation before this becomes evident to the decision levels. Hopefully Europe won't live on an industrial graveyard under a dictatorship by then. Barusso's latest declarations leave room for that little hope.