



Royal Kingdom of Gotzborg
Ministry of Economics Affairs, Home Office

Green Paper 001: Cash Flow & Economic Health

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Contents

- Introduction..... 1
- Method #1: Money Sinks..... 1
- Method #2: Private Enterprise, Investment, Loans and Interest Rates..... 2
- Method #3: Taxation 3
- Method #4: State-owned industries 3
- Method #5: Fiscal Discipline 3
- Method #6: Confidence..... 3

Introduction

One of the problems in creating and sustaining a working economy within the Royal Kingdom is ensuring a constant flow of money from the government to the private sector and vice-versa. Since nearly all citizens of the Royal Kingdom are government employees, thus receiving their salary from those that also create the money. If there is nothing for government employees to spend their money on, then money will keep moving away from the Royal Bank until there is no money left to pay people with. At this point it will be necessary either to stop paying government employees, and encourage them to spend money, which would be difficult since the government will possess little to no money to encourage the start-up of businesses for government employees to spend their money on, or to introduce a high level of taxation or repossession of money from the wealthy, a possibility that is likely to be unpopular and act as a disincentive to work, causing further economic stagnation, or finally to print more money, which will devalue the Thaler, causing inflation and massive economic damage. The only solution to these possible problems therefore is to maintain a constant flow of cash between private citizens and the government in order to ensure that none of the three possibilities outlined above have to be put into practice. In this Green Paper it is the aim to provide a brief outline to several possible methods of keeping the Gotzborg economy healthy.

Method #1: Money Sinks

In many forms of online games, such as the successful *Anarchy Online*, economies have spiralled with massive inflation because of a constant generation of cash and items, creating a wealthy class of long-time players with massive amounts of money, and an underclass of poor players who are unable to gain the cash necessary to purchase good-quality items from other players. An example of this in-game would be the "Omni-Med suit", an item which is only available to players from one faction, yet has significant advantages for any owner and is generally viewed as an essential item for any self-respecting player (it boosts the player's medical skills, giving them an edge in combat). These suits can be purchased from players aligned to the correct faction for 10,000 credits and sold for as much as 500,000 on the open market. This problem has started to be addressed by the makers of the game, Funcom, through several methods, the main one being so-called "Money Sinks". These are luxury

items, such as stylish cars or luxury apartments, which are often seen as status-symbols, that cost a massive amount of money (for example the "Yalmaha Stiletto", which cost over 100 million credits to purchase and assemble), thus taking money away from the rich, which can be used to stabilise the economy. Within Gotzburg this could be achieved by using state-owned or heavily-taxed companies to produce "status symbols", such as housing or something similar, which can be used to ensure that thalers flow back into government coffers to be either re-issued or destroyed (to slow down inflation). Casinos and other forms of gambling can also be used to ensure that money is "lost" by citizens and ends up back in the hands of the government.

Method #2: Private Enterprise, Investment, Loans and Interest Rates

One of the best methods of ensuring cash flow within Gotzburg is to help establish private enterprise within the Kingdom, who provides goods and services for people to spend their money on. This should be able to stop people from hoarding money, and the profits generated by the companies can be spent on other goods and services, making a constant flow of money. In order for this to be achieved though, it will be necessary to ensure that numerous companies are established, providing goods and services to a significant portion of [Gotzers]. In a micronation, where access to natural resources that can be paid for with thalers is difficult, it is necessary to concentrate on creating a service-based economy. Services such as web design, consultancy (such as the excellent Universal Arbitrations Inc., which is headed by a former Chancellor of the Kingdom) are vital to maintaining the economy, given their international nature and ease of production. The government therefore should be concentrating on encouraging companies such as *Zulu 5 Oscar* and *UAI* to establish branches within Gotzburg, providing goods and services to citizens, with initiatives such as a publicity campaign in other nations and international bodies and the press encouraging people to invest in Gotzburg. In order to found companies within the kingdom, it may be necessary for companies to receive investment from those in possession of thalers. Ultimately this should be the responsibility of private citizens, possibly through stock exchanges or venture capitalist firms, but initially it may be necessary for the government to provide the initial investments in companies either through investments that will be written off (not recommended), by buying shares in companies (allowing the government to make back their investment and possibly more, but caution must be exercised: purchasing too many shares may cause the industry to be effectively state-owned, and the government must take care not to be too greedy; it should sell its shares as soon as it has recouped its initial investment or set a time limit for ownership of the shares), or by providing loans to companies. The interest set on the loan can then be used to ensure that money remains in the bank to pay government employees, and can be set to ensure that the government makes as much money as is necessary. Caution must be exercised here though: setting the interest rate too high could cause many companies to go bankrupt or not even bother applying for a government loan, meaning that the government will actually make less money than if it had kept the interest rates low.

Method #3: Taxation

The most common approach of governments in order to raise the money they require is taxation. This is a very simple method of raising the money necessary in order to pay their employees, finance projects and pay contractors. The most obvious form of taxation is through income tax, and the best method in ensuring a dynamic economy is a low, flat rate of taxation. The method of having a flat tax is to declare a single rate of taxation for all income over a certain amount. By having only two values to alter (the starting income level for taxation and the rate), the tax can remain dynamic and fair on those who are in financial difficulty. However raising money solely through income tax is not recommended, and it may be worth raising money through other, more indirect forms of taxation, such as sales tax. These must remain low and simple, since complicated tax codes restrict business and make tax-avoidance easy by creating loopholes. A simple, dynamic system of taxation is the best method of ensuring a strong economy.

Method #4: State-owned industries

One method of ensuring that the government makes money is for the government to own businesses that provide goods and services to the people of Gotzborg, with profits re-invested in the government. This has some obvious advantages in that they can keep taxes down, but presents numerous problems. State-owned industries are rarely as competitive as their private counterparts, and are often inefficient, since they can simply ask for more money from the government. If the business is not run well, it may create spiralling costs that cause the government to lose money and create far more problems than they solve. This is not recommended unless there is no alternative.

Method #5: Fiscal Discipline

If the government is to have to recoup money but keep the economy strong, fiscal discipline **is absolutely vital**. Government must be efficient and ensure that money is not spent unnecessarily. All departments and ministers must be absolutely merciless in their analyses of spending each fiscal year and any money that can be saved, must be. The less money the government needs, the better the economy will fare. All of these methods proposed are absolutely pointless if there is no fiscal discipline within government.

Method #6: Confidence

Ultimately, an economy relies upon confidence in the currency. If the Royal Bank and the government are not responsible in administering the economy, people will lose confidence in the thaler, and businesses will be reluctant to establish themselves in Gotzborg. If people do not believe that a currency has value, and do not believe that that value will be stable, they will not use it. In the absence of pegging our currency, either to macronational currencies or to precious metals, it is necessary to ensure that confidence is maintained and that the value of the currency, and the goods and services provided, remains relatively constant. This should be one of the main goals of the Government and the Royal Bank.