



## Ministry of State, Home Office Royal Kingdom of Gotzborg

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OFFICE OF THE MINISTER OF STATE

Re: Minister Responds to Green Paper 001: Cash Flow & Economic Health

Date: 28 July 2005

I have reviewed the green paper submitted by Sir Benjamin Gray, Deputy Vice-Minister for Economic Affairs, and must state that I am highly impressed by his work in the formulation of that paper. In large part, I find the proposals in the green paper satisfactory, though I do have some comments to add.

### **Money Sinks**

It is my belief that the proposed money sinks (i.e. luxury items designed to return Thalers to the government coffers as a method to stabilize the economy) is an excellent idea. The only portion of this proposal which I wish to comment on is that Thalers will not, except in times of extreme economic peril, be destroyed as a means to slow down inflation. It is extremely difficult for any micronational economy to date to effectively simulate inflation, and it is doubtful that that concept will affect Gotzborg's future economic simulation either.

### **Private Enterprise, Investment, Loans and Interest Rates**

With respect to this portion of the proposal, I am in fully agreement with the policy put forth by Sir Gray. It is important that any government ownership of private enterprise, through stock options, be that of a minority owner to ensure that the enterprise does not effectively become a crown corporation (state-owned enterprise). On the issue of a stock market for Gotzborg, this is a realization the Home Office intends to work towards in the future, though a more detailed and concrete policy document regarding the operation of such a market must first be created by the Home Office and approved by the Royal Cabinet.

### **Taxation**

On the issue of income tax, it is important that a bracketed system is used. This method of taxation allows the Royal Government to "take-back" more Thalers from the higher income earners within the Royal Kingdom while allowing the low-income citizens to retain a higher percentage of their earnings.

Regarding sales tax, this is a very hard concept to enforce in a PHP banking system as individual transactions are difficult to track with bank administrators having an easier time tracking overall account balances. It is therefore a consideration for an annual sales tax rate to be applied against the income of a business, instead of against each sale transaction.

### **State-owned Industries (Crown Corporations)**

Macronationally, crown corporations exist to provide services to the public which cannot be offered through currently established private enterprise due to poor access as a result of geography or to unreasonable costs to the private enterprise. Where a private enterprise in the Royal Kingdom can provide a service, the Royal Government should make it a point to not start a crown corporation to offer the same service. That is unless the private enterprise is charging an unreasonable price for the good or service, then a crown corporation should be formed to offer direct competition and force the private enterprise to lower its price for the good of the people and the national economy.

### **Confidence**

I am in fully agreement with Sir Gray on his policy regarding the need for confidence in the national currency (the Thaler).



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**Additional Considerations**

I would like to put forth an idea which came to mind in light of the green paper as well as the recent tendering process underway in the War Office for the construction of new naval vessels. This idea for consideration is the utilization of sub-contracts to spread around the wealth of government contracts to more businesses operating in the Royal Kingdom. Here are some brief points:

- A company which wins a Royal Government contract (naturally through the tendering process as this is the only proper way for the awarding of such contracts) should be encouraged to divide the tender into sub-contracts. These sub-contracts would be sold to additional companies by the tender holder (contractor). For example, in the construction of a new naval vessel, company A is the contractor, having won the government tender. The contractor sells outright (or holds a tender to attract the lowest price) a sub-contract for the supply of engines for the naval vessel to company B while selling another sub-contract, for a weapons platform, to company C. With just one tender, three companies in the economy have benefited.
- The obvious downside to this system is that the contractor would lose some of the money from winning the initial tender as it would have to pay the sub-contractors for the materials being bought. The system does, however, add a very real sense to the economy as no one business is able to build every component needed to fulfill a major contract, such as one for naval construction.
- Sub-contracts would only be able to exist where there are businesses operating in Gotzburg, or in the intermicronational economy connected to Gotzburg, which are able to meet the requirements to fulfill the sub-contract. After all, there is no sense offering a sub-contract for a missile platform when Gotzburg's navy is turn of the 20<sup>th</sup>-century based technology.
- Local businesses, i.e. those based in Gotzburg, would not be required to issue sub-contracts. Foreign businesses winning Royal Government tenders would be required to issue sub-contracts as this is a way to ensure that Thalers stay in the local economy and benefit the population to the best ability possible. It is recommended that contracts between foreign business and the Royal Government have clauses to ensure that a certain amount of sub-contracts (and thus money flowing from the foreign contractor to the local Gotzburg economy) be required to be in the Royal Kingdom. This effectively ensures that a buy-at-home policy is followed (as is the prime consideration for all nations, micro and macro) while foreign business is supported and encouraged to operate within the Royal Kingdom (thus, the number of required sub-contracts to be distributed to Gotzburg-based businesses for any one contract should not be overbearing in nature).

Regards,

*Sir Liam Sinclair*

Lord Montin, Sir Liam Sinclair, K.B., K.S.G.

Minister of State, Home Office

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