Sovereign Preference Shares or the Magic Potion of Economists in the 21st Century

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Abstract:

Sovereign preference shares are innovative financial instruments that we are inventing to establish capitalism that is truly inclusive for all citizens and to provide the state with additional non-fiscal, non-reimbursable and potentially unlimited financial resources. These are capital ownership rights equivalent to the shares of companies in the private sector, but with specific features for their adaptation to the particular status of the state. Destined to be listed on the stock market, sovereign preference shares play a role in the operational implementation of an economic policy called inclusive infinitics, which allows to achieve the pure and perfect elimination of poverty and inequality (cf Open Science Repository Economics, May 27, 2015, e45011831). As incredible as this may sound, these new financial instruments mathematically give the government the ability to build a transformed and improved type of capitalism of shared prosperity, without fundamental economic poverty, inequality, or high taxation, nor sovereign debt crises such as in the case of Greece. In this sense, they may constitute a sort of magic potion of economists in the 21st century.

Keywords:

inclusive capitalism; sovereign preference shares, economic inclusion; inclusive infinitics; economic policy; state; poverty; inequality; social justice; democracy.

Introduction

The particular goal of science is to provide solutions that may seem “incredible” or like “miracles” in the eyes of common people, in its addressing of the problems that humans and society face. In the same way, economic sciences and finance would win the title of scientific nobility if they could, for example, invent “miracle” cures against poverty, inequality, high taxation and sovereign debt crises. Regarding this, we believe to have developed and proposed a solution of this type called the economic theory of inclusive infinitics, or more simply, *inclusive infinitics*,[1] which appears to give the government the ability to eliminate poverty, inequality, high taxation and the sovereign debt crisis all at once. In the case of Greece, the international community is facing a sovereign debt crisis with a plan

1 Ngassiki, D. (2015). *Theory of inclusive infinitics for the pure and perfect eradication of poverty and inequality within capitalism*. Open Science Repository Economics, *Online(open-access), e45011834. doi:10.7392/openaccess.45011834.* French version : Ngassiki, D. (2015). *Théorie de l’infinitique inclusive pour l’élimination pure et parfaite de la pauvreté et des inégalités dans le cadre du capitalisme*. Open Science Repository Economics, Online (open-access), e45011831, doi:10.7392/openaccess.45011831.

validated by the highest level of its expertise, but which has been challenged, either rightly or wrongly, and which was even renounced by the Greek democratic reform referendum of July 5, 2015. The required planning calls on the economy as a science to perfect its responses. Through inclusive infinitics, we show that in a capitalist and democratic society that has an operational stock exchange at its disposal, poverty, wealth inequality and sovereign debt crises can be fundamentally eliminated, without resorting to any new taxation regime or any type of anti-capitalist revolution, and without questioning any principles, including those of capitalism, private property and liberal democracy. On the contrary, capitalism and the stock market, private property and liberal democracy can be used as systematic opportunities with great economic and social possibilities, and should be used in union to resolve the political problem of humanity. The political problem of humanity was stated by John M. Keynes in the 1930s in these terms: "*The political problem of humanity consists in combining three things: economic efficiency, social justice and individual freedom.*"[2]

We are going to briefly introduce inclusive infinitics, condensed here in the form of the economic law of inclusive infinitics, which leads to the supreme stage of economic and social justice in the context of capitalism and liberal democracy. Subsequently, we will see how sovereign preference shares, the financial instruments of the implementation of inclusive infinitics, can allow for the elimination of poverty, inequality, high taxation and sovereign debt crises.

1 – The Economic Law of Inclusive Infinitics in Brief

The new economic law of inclusive infinitics is the following. To put it shortly: in a capitalist society under a democratic regime, the government can achieve the fundamental, universal, pure and perfect elimination of poverty and social inequality among citizens, equivalent to the supreme stage of economic and social justice, by forcing itself, through widely-known organic laws, to carry out an economic policy characterized and defined by the seven following points:

- (1) A surplus state budgetary balance (R) (excluding net investment expenses) each year.

- (2) An interest rate (i) less than or equal to the growth rate (g), in conjunction with the central bank and/or creditors, which determines the financing and the discounting parameters applicable to the state.

- (3) The taking into account of the perpetuity from which the state benefits: the state does not die from the point of view of the continuity of public affairs and benefits from the statutory perpetuity which is particular to it and which is not just a working hypothesis. Through the widely-known organic law, the state will commit to perpetually respect rules (1) and (2) above, which define its structural economic policy.

  These first three rules of economic policy are the technical conditions that allow the state to have at its disposal wealth (K) of infinite value, based on a fundamental evaluation and calculated as the sum of discounted net annual future revenue flows.

- (4) The acceptance or even the proclamation (via a constitutional amendment) of the state as a political and financial group equivalent to the sovereign property of all citizens, including all men and women without exception, through the economic recognition of the democratic regime based on the sovereignty of the people. This sovereignty of the people over the state must be

2 John Maynard Keynes (1883-1946), *Collected Writings of J.M.K.*, Cambridge University Press, 1993, IX, p.311; see also Pascal Combemale, *Introduction à Keynes*, La Découverte, coll. Repères, pp. 6-7.

effective, with financial effects, and not just declaratory.

- (5) The realization of the sovereign ownership of the citizens over the state is to be carried out in the same way that the property of private sector companies is treated; in other words, by issuing and holding capital securities, or rather, shares of the financial group called the state. To do this, the state is going to issue specific securities that are respectful of the status of the state; that is, sovereign preference shares. Keeping in mind the sovereignty and the non-profit goal of the state, the sovereign shares issued by the state will be without voting rights nor dividends, and will be exempt from taxation on capital and capital gains as a compensation for their lack of dividends and voting rights, and to give them appeal on financial markets. They will have a low or even null indicative nominal value (*no par value share*) to facilitate the implementation of the reform, knowing that their effective price will be fixed by the stock market according to supply and demand for these securities on the secondary market. If despite everything, it seems necessary or preferable to plan for dividends attached to sovereign shares, it will suffice to plan to pay them in sovereign shares or on the basis of the product of the transfer of a portion of sovereign shares held by the state in its own name onto the secondary market. However, that will likely reveal to be unnecessary: stock or equity derivatives do not require voting rights or dividends to prosper on financial markets.

- (6) The universal allocation of sovereign shares issued by the state: upon being issued, the sovereign shares will be sovereignly and exclusively distributed, without cost, in equal quantities (for example, one thousand) and as a right to all citizens as the primary sovereign shareholders of the state. The citizens are the sovereign shareholders of the state without having to pay for it, as democratic sovereignty is not censitary sovereignty. The sovereign shares held by citizens can then be exchanged on the secondary market in accordance with certain rules regarding the holding period, with a minimum quota (for example, 20%) of sovereign shares to be held for life by each beneficiary citizen;

- (7) The introduction of the state onto the stock market as a financial group, in the form of and in view of listing sovereign shares issued by the state on the secondary market. Moreover, the introduction of the state onto the stock market is the best way to promote and to guarantee the fundamental assessment of the wealth of the state based on the sum of discounted future revenue flows, and is the best systematic incentive for the good management of the state as well as for any company listed on the stock market.

All of these define the conditions that allow for the achievement of a fundamentally infinite value of wealth for the state, as well as for each citizen as the owners of the state and the holders of shares of the state. As a result, poverty and economic inequality will be fundamentally, universally, purely, simply and perfectly eliminated from society. The demonstration is detailed in Table 1, which follows.

Table 1: Conditions to Achieve Infinite State Wealth			
Definitions	**State of parameters**	**Simplified formula for the calculation of the wealth K of the state, defined as the sum of discounted net future revenue flows (R) over a perpetual duration n → ∞**	**Particular value of the wealth K of the state (taking into account that n → ∞)**
In the case of the state, the lifespan n → ∞			
K is the wealth of the state calculated as the sum of discounted net future revenue	R constant i > 0	$K = \frac{R}{i}$	$\lim_{i \to 0} K = +\infty$
First variant: The net annual revenue R of the state is constant and positive (R > 0)	R constant i = 0	$K = n.R$	$K = +\infty$
i is the interest rate applied to the state			
Second variant: Revenue R is geometrically increasing at rate g	1st case: i > g	$K = \frac{R}{(i-g)}$	$\lim_{(i-g) \to 0} K = +\infty$
	2nd case: i < g	$K = \lim_{n \to \infty} R \frac{\left(\frac{1+g}{1+i}\right)^n - 1}{g - i}$	$K = +\infty$
	3rd case: i = g	$K = \lim_{n \to \infty} n.R/(1+i)$	$K = +\infty$

From this table, we can establish the following general rule:

$$\text{If each year until perpetuity} \begin{cases} R > 0 \\ i \leq g \end{cases} => K = +\infty => \forall N > 0,\ \frac{K}{N} = +\infty$$

With N being, for example, the population count (or the number of sovereign preference shares emitted or to be emitted by the state) and K / N being the fundamental wealth of each citizen.

2. Sovereign Shares Issued by the State and the Elimination of Poverty and Inequality

This rule means that, following an adequate economic policy, the state will have at its disposal infinite wealth in its fundamental value, and therefore, each citizen-shareholder of the state will also have infinite wealth (as well as each sovereign share), regardless of the population count (N) (or the quantity of N sovereign shares). From then on, mathematically, no citizen will be richer or poorer than another, which fundamentally translates into the universal, pure and perfect elimination of poverty and inequality within society. This result is achieved on a fundamental level starting with the implementation of this reform, which we call "*capitalism really (truly) inclusive for all, according to* *inclusive infinitics*" (crifall). It is worth noting that the current (initial) position of the budgetary balance of the state is irrelevant, given that the initial balance can be restricted (to be progressively amortized or transformed into a perpetual debt with the cooperation of the central bank and/or state creditors) before being added to the infinite value of the fundamental wealth of the state.

The specific securities that the state can issue must respect the particular status of the state: they must be sovereign preference shares inspired by Anglo-Saxon law and set forth in article L.228-11 of the French business code. Keeping in mind the sovereign and non-profit purpose of the state, sovereign preference shares issued by the state will not have voting rights nor dividends, and will be exempt from all taxation on capital and capital gains, as compensation for the lack of dividends and voting rights, and to ensure their appeal on financial markets. Their value will be null or not indicated (no par value shares). This is taking into account that the effective or market price of a share is established by the stock market depending on the supply and demand of the concerned securities on the secondary market. The sovereign shares will be traded on the secondary market given a floor-price that is publicly known as regulated or animated (by a treasury agency).

Upon being issued, the sovereign preference shares will be legally distributed in equal quantities to all citizens as the sovereign owners of the state, through the economic recognition of the democratic regime. The state will be proclaimed (via a constitutional amendment) to be a political and financial group that belongs to all citizens. In his campaign speech for the French presidential election in Dijon on March 3, 2012, François Hollande rightly declared: "*The state is the property of all citizens, and I will give them this justice and this right*." For inclusive infinitics, the ownership of citizens over the state must be concrete and not just declaratory, with a realization via the creation and distribution to citizens of sovereign preference shares issued by the state. Moreover, a part of the sovereign shares issued will be entrusted to a treasury agency to be transferred to the secondary market to the benefit of the state.

This universal allocation of sovereign shares constitutes the social dimension of inclusive infinitics and allows the government to eradicate poverty and wealth inequalities. For example, 1,000 sovereign shares per citizen listed at a regulated or animated floor-price of 50 euros per share is immediately at least 50,000 euros in the financial wealth of each citizen, without counting the expected increases in sovereign share price. All of this is at no cost to the state. It is quite the opposite, as the state finances itself via the same means. To avoid the deadweight effect and irrational behavior, holding periods will be established, with a quota of sovereign shares in the order of twenty percent of the sovereign allocation to be held for life by each beneficiary.

With such an instrument in the government's hands, poverty and inequality cease to be an economic problem without a solution and become the simple option of the political choice to introduce the state onto the stock market and the universal allocation of sovereign preference shares, based on inclusive infinitics.

3. The Elimination of High Taxation and Greek-Style Sovereign Debt Crises through Sovereign Preference Shares

As we have seen, as incredible as it may seem, capitalism reveals to be both mathematically perfectible and invincible in its room for systematic progress, which potentially extends to the fundamental, pure and perfect elimination of poverty, inequality and sovereign debt crises, without resorting to an anti-capitalist revolution or new taxation regime. Addressing the Greek sovereign debt crisis according to the tenets of inclusive infinitics leads us to propose the following solution: Greece and the other states facing sovereign debt crises need to change their financial paradigm.[3] Greece, for

3 Daniel Ngassiki (2015), *Sauvez la Grèce et l'ensemble des citoyens par les miracles de l'infinitique inclusive et de actions souveraines de préférence*, Le Financier d'Afrique, n° 426 of June 23, 2015.

its sovereign financing, can and should carry out the issuing of reimbursable bonds and the issuing of non-reimbursable sovereign preference shares of an appropriate design, in the same way that private sector companies finance themselves not only through reimbursable bonds but through non-reimbursable securities (shares). This is a very precious financial instrument that will end up establishing itself, which we support with the conviction of Mandela: "*It always seems impossible until it is done.*" Our conviction is also boosted by the rule of Gabor, recipient of the Nobel Prize in physics in 1971: "*Everything that is doable will be done.*"[4] It is hard to imagine that people's weak support for new products before they are created and not as soon as they are presented with the idea is also applied to the history of the automobile, according to Henry Ford:

"*There was no demand for cars. There never is for something new. They welcome them with the same suspicion as they did the airplane. First of all, the idea of a vehicle without horses was considered pure fantasy and a large number of knowledgeable people did their best to demonstrate in great detail why the automobile would never be anything more than a toy. Not one businessman would promise commercial success [...]. In the beginning, almost nobody predicted the great industrial development of the automobile. The most optimistic only counted on progress analogous to that of the bicycle.*"[5]

As shares are non-reimbursable financial securities, this type of financing of the state could resolve Greek-style sovereign debt crises (in 2015) almost as if by magic. What remains is to call upon the creativity of finance to make the solution completely operational and in conformity with the particular status of the state. Sovereign shares issued by the state will have specific features, and the state will have to establish an adequate economic policy that allows it to publicly display a predictive wealth of a large value and even an infinite fundamental value, calculated based on discounted net future revenue. To achieve infinite wealth, the technical condition is that the state must commit, via publicly-known organic laws, to carry out in perpetuity an economic policy characterized by a surplus budgetary balance (not including net investment) and an interest rate less than the economic growth rate, in conjunction with the central bank and/or creditors. It will do that without sacrificing anything regarding social justice; on the contrary, inclusive infinitics is a policy for the elimination of poverty and inequality in society.

In the case of Greece in the first half of 2015 (population: 11 million inhabitants; debt: 321.7 billion euros or 177% of GDP[6]), we recommend an economic policy based on inclusive infinitics, and the issuing of sovereign preference shares by the state. The first part of these securities will be distributed to all citizens; the second part will be directly allocated by special dispensation to a treasury agency in view of their transfer to the secondary market to finance the state itself. In this situation, for example, the progressive transfer of 1 billion sovereign preferences shares on the secondary market at an animated or regulated floor price of 50 euros (for an infinite fundamental value per share) could provide Greece with over 50 billion euros in the short term, and would end the Greek debt crisis practically as if by magic. This would then allow for the underlying questions regarding the debt itself to be resolved peacefully in the meantime. Moreover, with the creation of sovereign preference shares, the trading of sovereign shares for state bonds will be among the technical matters of the processing of sovereign debt. In light of the total capital available on financial markets and the search for secure shares and strong capital gains opportunities, including tax-exempt capital gains, the sale of sovereign shares issued by a perpetual state should not be a difficulty, as it is equivalent to a drop of water in a vast sea. At the end of May 2015, according to the statistics of the World Federation of Exchanges, the total shares listed on the stock market had a value of 70,056 billion dollars.[7] This is without taking into

4 Jean-Luc Dagut (2015), *Citations d'économie*, Studyrama, p.26.
5 Henry Ford, *Ma vie, mon œuvre*, 1924; cf Jean- Luc Dagut, Citations d'économie, p.48
6 Source: data.lesechos.fr (retrieved on 25/05/2015).
7 *Statistiques de la Fédération mondiale des bourses*, World Federation of Exchanges, http://www.world-exchanges.org/statistics (retrieved on June 14, 2015).

account the bonds and derivatives markets, which are even larger.

The issuing of sovereign preference shares (non-reimbursable) should also reduce stress on the state treasury, allowing to reduce taxes and to stimulate the economic growth of the country. As the state will have a huge source of non-reimbursable financing at its disposal, traditional taxation will not be far from becoming obsolete. The state can have an impact on its treasury by selling or taking back sovereign shares on the secondary market, without strictly having the need to go into debt or to charge taxes in the old way, which is currently in effect. All of this constitutes a new economic paradigm which is able to beget a new civilization of shared prosperity in our societies, against sovereign debt crises, poverty and inequality between citizens. With inclusive infinitics and sovereign preference shares issued to all citizens, the latter become the holders of sovereign securities listed on the stock market, which allows them to gain access to market capital gains. As a result, not one citizen will remain a simple proletarian.

Conclusion

Taking everything into account, inclusive infinitics, backed up by sovereign preference shares, is not far from being the magic potion of economists in the 21st century, insofar as it allows for the elimination of poverty, inequality and sovereign debt crises at the same time without additional taxation or new social expenditures at the expense of the state, companies or individuals. It also does not require any anti-capitalist revolution or new taxation proclaimed in the name of the fight against poverty and inequality in society.

For more information (main source):

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