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Warrens' wealth tax would be more destructive than the existing ones on the books.

HOW AMERICA COULD END UP WITH TWO PRESIDENTS IN 2021

BY ROBERT P. MURPHY

This is an unusual article for the LMR, but we thought it important to point out just how crazy our political situation is.

STUDY HISTORY, LEARN FROM THE PAST

INTERVIEW

Richard Durana has a PhD in biochemistry, but he also happens to be one of the leading forces for economic liberty in Slovakia.

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ABOUT LARA & MURPHY

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In 2010 he co-authored the highly acclaimed book, *How Privatized Banking Really Works* with economist Robert P. Murphy.

He is a co-creator of the IBC Practitioner Program for financial professionals and sits on the board of the Nelson Nash Institute.

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"For to us a child is born, to us a son is given; and the government shall be upon his shoulder, and his name shall be called Wonderful Counselor, Mighty God, Everlasting Father, Prince of Peace. Of the increase of his government and of peace there will be no end…"

— Isaiah 9:6-7

There are many reasons to feel hopeless. It's not just our governing institutions, but even our fellow citizens, who seem to be going crazy. (And to be fair, many of them think *we're* crazy!)

At times like this, the two of us are relieved to know that saving the world isn't up to us. (It's good for all of you reading that this is the case.) We have placed our faith in someone with infinitely more wisdom, power, mercy, and justice than the hypocritical "authorities" who are actively debasing our money and provoking low-grade wars around the world.

As we near Christmas Day, consider the following excerpt from Wikipedia's entry on the "Christmas truce" of World War 1:

> The **Christmas truce**... was a series of widespread unofficial ceasefires along the Western Front of World War I around Christmas 1914.
>
> The truce occurred during the relatively early period of the war (month 5 of 51). Hostilities had lulled as leadership on both sides reconsidered their strategies following the stalemate of the Race to the Sea and the indecisive result of the First Battle of Ypres. In the week leading up to the 25th, French, German, and British soldiers crossed trenches to exchange seasonal greetings and talk. In some areas, men from both sides ventured into no man's land on Christmas Eve and Christmas Day to mingle and exchange food and souvenirs. There were joint burial ceremonies and prisoner swaps, while several meetings ended in carol-singing. Men played games of football [soccer] with one another, creating one of the most

> memorable images of the truce. Fighting continued in some sectors, while in others the sides settled on little more than arrangements to recover bodies.
>
> The following year, a few units arranged ceasefires but the truces were not nearly as widespread as in 1914; this was, in part, due to strongly worded orders from the high commands of both sides prohibiting truces.

And there you have it. Even in the midst of a mass murder operation orchestrated by the governments of the most "civilized" nations, the spirit of the Prince of Peace was able to restore sanity, if only fleetingly. And the next year around, the higher-ups were careful to prevent another outbreak of humanity.

We wish you happy holidays and success in the coming year. Although we ourselves are bracing for the coming financial storms, we are confident in our cause and appreciate all of your efforts to help us Build the 10%.

Sincerely,

Carlos and Bob

More On the Yield Curve Inversion

Some analysts are now arguing that the inverted yield curve earlier this year—and remember that one of us (Murphy) in the July 2019 issue covered this extensively—was a false alarm. The yield curve is no longer inverted, they argue, and we're not in a recession, so apparently that means smooth sailing ahead. Right?

Not so fast. Obviously, we don't have a crystal ball, and admittedly the period since 2008 has put us in uncharted waters. Even so, look at the below chart, which shows how the 10-year/3-month spread has behaved before the previous three recessions:

As the chart indicates, the yield curve first inverts (i.e. the blue line goes below the black line), then goes back to "normal," and only a bit *later* does the recession officially begin (shown by the gray bars). The fact that the blue line is now back above the black line at the far right of the chart does not mean we're out of the woods. Rather, it just means that the recession should begin sometime in 2020, if the historical patterns hold up.

PULSE ON THE MARKET

Rand on 401(k)s

A recent article on MarketWatch by Alessandra Malito discusses Senator Rand Paul's bill to help students pay down debt by dipping into their 401(k):

Paul, a Republican senator from Kentucky, proposed the HELPER Act — short for "Higher Education Loan Payment & Enhanced Retirement Act" — this week, which would allow Americans to either pay for college or pay down student debt using money in their 401(k) or individual retirement account. Under this proposal, employees would rely on their own contributions as well as employer matches to pay off student loans quicker, Paul said.

Naturally, the article quoted 4 or 5 (one of them was iffy) financial advisors who opposed the measure, but only 1 or 2 (depending on the iffy one) in favor of it.

Look folks: Rand Paul isn't telling people that they have to dip into their 401(k) to pay down student debt, he simply wants *to give them the option*. The fact that so many financial advisors are against *giving their clients more options* shows what they think of their clients.

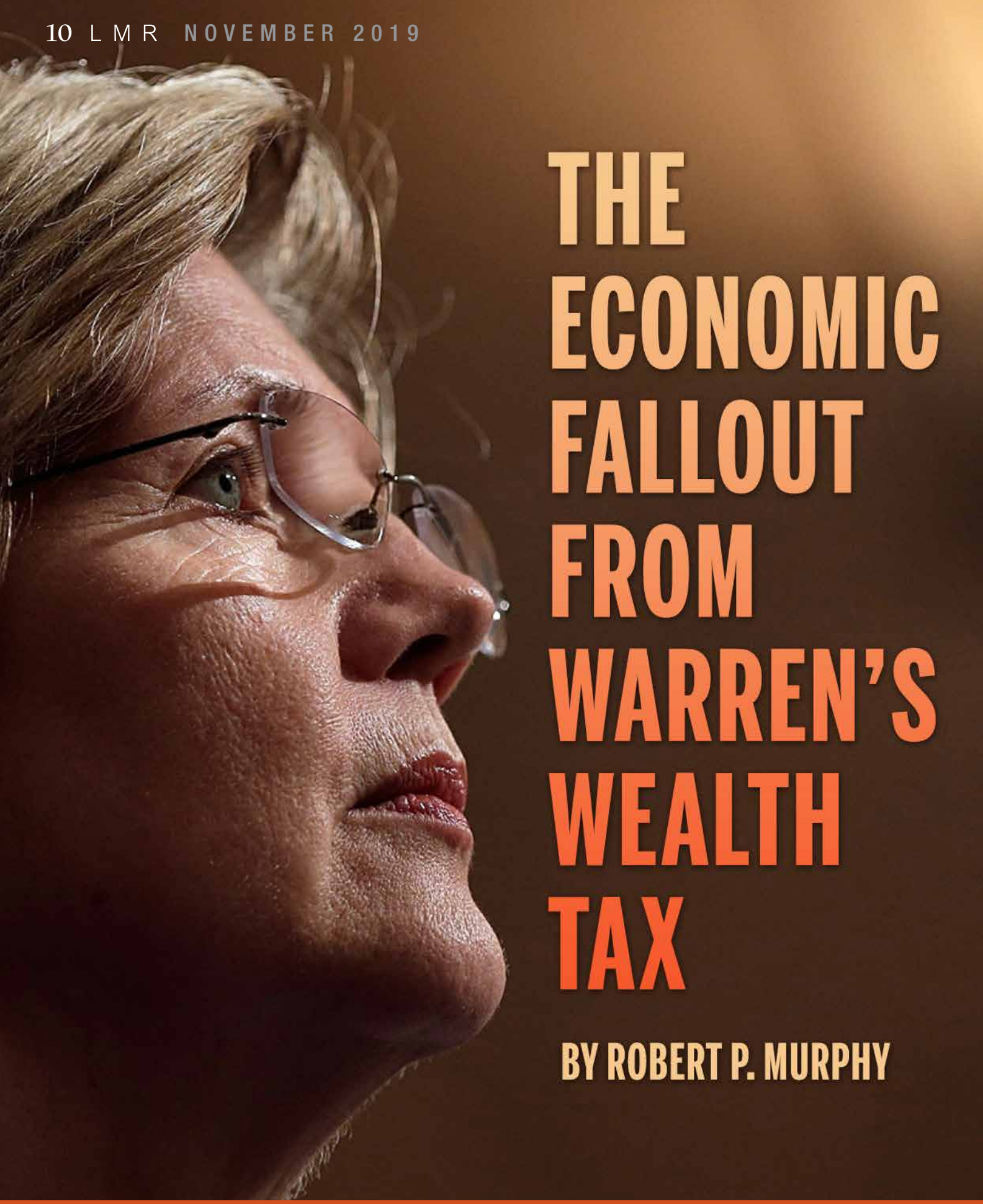
Needless to say, if you've been reading the *LMR* for a while, you know that Nelson Nash had nothing but contempt for tax-qualified plans that merely represent a subset of assets that the government *refrains* from taxing the heck out of.

Warren's Financial Tax

Besides her direct tax on wealth (discussed in one of Murphy's articles in this issue), Senator Elizabeth Warren has proposed a tax on financial transactions. From an InvestmentNews article by Greg Iacurci: *"Ms. Warren's proposal includes a 0.1% tax on financial transactions that involve derivatives and most types of securities, like stocks and bonds. She estimates the tax will generate $800 billion in revenue over a decade."*

At this point, a tax projected to raise "only" $800 billion in its first ten years sounds like chump change—even though it's a bigger sum than most governments around the world raise through all taxes, period.

Although we think the Fed's shenanigans, as well as perverse government programs like FDIC, tend to encourage reckless financial activity, the solution isn't to enact a (modest) tax on every transaction. This won't prevent malinvestment (the term used by Mises) in improper sectors because of false interest rates; it will simply make the malinvestment process more sluggish.



THE ECONOMIC FALLOUT FROM WARREN'S WEALTH TAX

BY ROBERT P. MURPHY

Democratic presidential candidate Elizabeth Warren has been throwing out so many ludicrous campaign promises that she makes Andrew Yang—the guy literally trying to send everyone a monthly check from Uncle Sam—look reasonable in comparison. Recently, in order to explain how she'd pay for her $52 trillion (over ten years) "Medicare for All" program, Warren doubled her proposed wealth tax on billionaires, from the original 3% now up to 6%.

To repeat, this is an *annual* tax on *wealth,* not on income. As such, the economic fallout would be far more devastating than a comparable tax on income. In this article, I'll explain why a wealth tax is so much more destructive to economic growth than other types of taxes.

Beyond the nuts and bolts, and even putting aside the morality, it is ominous how quickly public figures transitioned to a demonization of the rich. It's ironic that Bernie Sanders, for example, can tweet out that "Billionaires should not exist," when (a) Bernie is himself a millionaire but (b) a strongman like Putin systematically took out rich tycoons who might oppose him.[1] And here I thought it was supposed to be *Trump,* not the Democrats, who was acting like a would-be dictator.

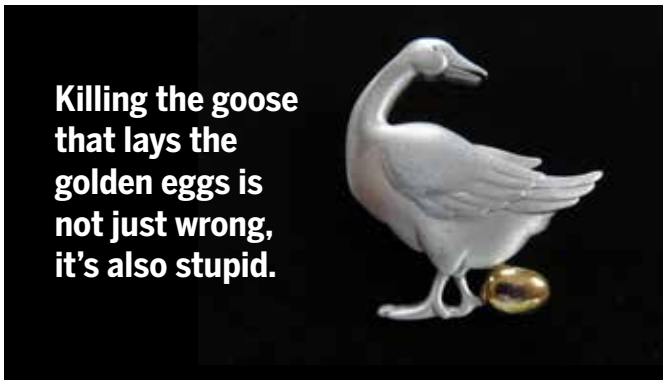
Bernie Sanders, for example, can tweet out that "Billionaires should not exist."

Enacting large income and wealth taxes, and demonizing the rich in popular culture, are surefire ways to cripple the long-run standard of living and to empower busybodies to regulate our lives.

The Case Against Taxes: Moral versus Economic

For most readers of the *Lara-Murphy Report,* levying punitive taxes on the rich is a bad policy because it violates the proper role of government or, in the case of philosophical anarchists, because "taxation is theft." In all responsible political philosophies, you can't take wealth away from some people just because you think they don't need so much.

Unfortunately, many Americans apparently *don't* have any moral or philosophical objections to soaking the rich. So I will spend the remainder of this essay explaining why punitive taxes on the rich—especially in the form of a *wealth tax*—are so harmful to economic growth. Killing the goose that lays the golden eggs is not just wrong, it's also stupid.



Taxes Distort Behavior

Specifically, the standard way economists illustrate the problem with taxes is to point out that they are *inefficient* ways of transferring purchasing power to the government. In other words, not only does a tax transfer money from taxpayers to politicians, but it also changes incentives and makes people behave in ways that make us all poorer. This distortion—or what is called *deadweight loss* in an economics textbook—is separate from, and on top of, the mere transfer of resources from the private sector to the government sector.

The reason for this type of accounting is that it remains fairly neutral with respect to who *deserves* to have control over resources. No matter how you slice and dice the economic pie, if certain policies *make the total pie smaller,* then there is less to go around and just about everybody should agree, these are bad policies.

Here's a simple example to show the difference between raising revenue and causing economic damage: Suppose the government levied a 500% tax on any soda products made by Pepsi. In the new equilibrium, once the dust settled, this ludicrous tax wouldn't raise much revenue, if at all, for government coffers. Just about *no one* would continue to buy Pepsi products through legitimate businesses, if consumers had to pay an extra 500% surtax. Instead, people who used to buy Pepsi would switch to Coke, or they would buy Pepsi on the black market, without paying the new tax.

Now from one perspective, it would seem as if this hypothetical 500% surtax on Pepsi products had no economic burden on citizens: Nobody would pay a single penny in tax. And yet, that obviously wouldn't be the full story. People who used to buy Pepsi now would have to switch to Coke—which they obviously didn't like as much, since they originally drank Pepsi—or they would have to engage in risky activity by purchasing their now-contraband Pepsi products from illegal dealers. Either way, previous Pepsi drinkers are clearly hurt by the tax, and nobody in society gains from it.

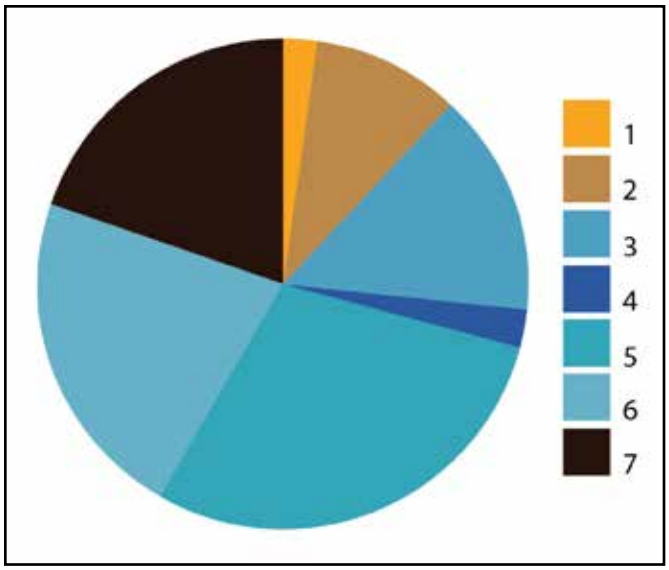
As this simple example illustrates, the harm

of a tax isn't *just* the money taxpayers hand over to the government. It also includes the impact of individuals changing their behavior in light of the new incentives that the tax introduces. Before the tax, people were making decisions based on "the fundamentals," including technology and their preferences. Now the tax makes them respond to artificial incentives, so that their new behavior doesn't properly line up with the underlying realities. Generally speaking, these widespread changes can create winners and losers, but the losers lose more than the winners gain. This is the sense in which society is made objectively poorer by inefficient taxes; the total economic pie shrinks, on top of whatever "redistribution" is occurring.

Different Taxes Have Different Impacts

When it comes to their economic fallout, not all taxes are created equal. In other words, *given* that we are going to put aside moral/philosophical objections and allow the government to forcibly take money from the private sector, there are ways to do it that are more efficient or less efficient.

Believe it or not, even though it is almost universally reviled as a monstrously unfair system, a simple *head tax* (or sometimes called a *poll tax*)—where each person (perhaps adult) just pays a flat dollar amount to the government—is actually pretty efficient, in the way economists typically define "economic efficiency."



Specifically, if the government simply says, "Every adult owes a check of (say) $5,000 every April 15," then that doesn't distort behavior very much. True, such a tax slightly penalizes the decision to have more kids, and (if it's levied annually rather than a one-shot lifetime payment) it also would give older people an incentive to "pull the plug" on life-

This is the sense in which society is made objectively poorer by inefficient taxes; the total economic pie shrinks, on top of whatever "redistribution" is occurring.

extending medical treatment. But other than that, a simple head tax doesn't distort economic decisions during one's lifetime.

The ostensible drawback of a head tax is that it is very regressive: it makes poor people pay just as much as rich people. Murray Rothbard didn't think this was a problem. After all, the grocery store charges the same price for milk to the poor as it does to Bill Gates.

The ostensible drawback of a head tax is that it is very *regressive:* it makes poor people pay just as much as rich people. Murray Rothbard didn't think this was a problem. After all, the grocery store charges the same price for milk to the poor as it does to Bill Gates. Furthermore, Rothbard pointed out, if the government were limited to a head tax, then the total *size* of the tax would necessarily be pretty modest, since the amount would need to be set low enough so that most people could afford it. (The truly indigent would presumably be exempt or covered through charitable foundations.)

Consumption Taxes More Inefficient Than Head Taxes

The next type of tax we'll consider is the *consumption tax*, which—as the name suggests—taxes individuals a percentage of how much they spend on consumption in a given period. In practice, this could be implemented as an income tax but with any savings being fully deductible.

For example, suppose an individual earns $100,000 in salary and has no other income. During the year, he contributes $20,000 to various financial vehicles (perhaps including a dividend-paying Whole Life policy). He is able to fully deduct the $20,000 from his income, and pays the tax rate applied only to the $80,000 which he consumed (by spending it on rent, groceries, his children's tuition, etc.).

First of all, notice that a consumption tax is bad for the same reason a head tax is bad: It distorts the decision of how many kids to have, and how long to prolong your life, because humans necessarily engage in consumption while they're living. But remember with the head tax, once you move past the decision to live (or to bring another child into the world), the distortions stop.

But the consumption tax has *further* distortions beyond those of a head tax. A consumption tax distorts the labor/leisure tradeoff for workers. Specifically, when a person in his capacity as a worker is considering devoting more of his hours to a job versus "consuming" them as leisure, the presence of a consumption tax places the "work for pay" choice at an artificial disadvantage. In other words, the benefit of working is that you get paid money, with which you can buy things. So if the government slaps a consumption tax on your purchases, it reduces the benefit of working, and makes leisure more attractive than it really is.

Even if we assume a person is going to work a full-time job, the choice of jobs might also be distorted by a consumption tax.

Even if we assume a person is going to work a full-time job, the *choice* of jobs might also be distorted by a consumption tax. For example, if someone is considering moving into a big city to take a higher-paying job, part of the tradeoff is "more money to compensate for a longer commute and a more stressful work environment." Here again, the benefit of "more money" is artificially penalized by a consumption tax.

Income Taxes More Inefficient Than Consumption Taxes

In contrast to the consumption tax procedure, under a standard income tax, the individual *doesn't* get to deduct contributions to financial assets. Whether the individual spends $1,000 on fancy restaurant meals or on corporate bonds, the individual has to pay the income tax on that $1,000. (Note, here I am dealing with a "pure" income tax—in practice the government meddles, by providing *selective* deductions for "tax-qualified" assets that the government wants to encourage.)

Most economists agree that to raise a given amount of revenue, the income tax causes more economic damage than the consumption tax. There is also the issue of privacy: if the consumption tax is collected by businesses at the point of sale, then individuals don't need to report their personal financial information to the government at all. In contrast, with a standard income tax, the government necessarily needs to see all of your financial details, in order to compute your income.

To get an intuitive sense of why an income tax is less efficient than a consumption tax, consider: All of the problems I listed for a consumption tax in the previous section, also apply to an income tax.

Yet beyond that, the income tax has an *additional* problem: it distorts the decision of how much to save. This is why it's more economically destructive than a consumption tax (where both are calibrated to raise the same amount of revenue).

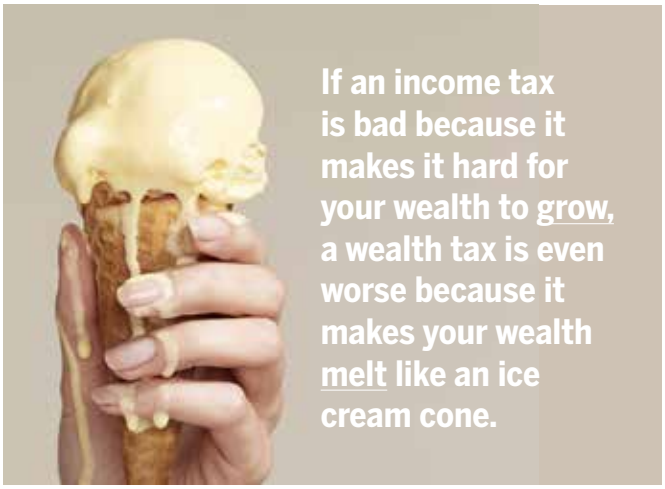
Let's consider a simple example. Suppose the interest rate is 10 percent, and we originally have a tax-free world. Then individuals will adjust their saving and borrowing decisions until the point at which an extra $100 of consumption today is about as valuable as an extra $110 of consumption to be enjoyed next year.

Now if the government levies a *consumption* tax in this framework, it will distort decisions, to be sure—just as I explained above. However, it *won't* distort the saving/borrowing decision, because it equally penalizes "consumption today" versus "consumption next year." For example, if there's a 10% consumption tax, then the after-tax tradeoff is between ($100 - 10%) = $90 today versus ($110 - 10%) = $99 of consumption next year. So although the absolute level of consumption has been reduced, the *relative* choice of consuming now versus later hasn't been distorted: individuals can either consume a certain amount right now, or consume 10% more if they can postpone gratification for a year.

In contrast, look at what happens if the government instead levies an income tax of 10%. *Now* if the individual earns $100 and spends it today, he ends up with $90 of after-tax enjoyment. In contrast, if the individual wants to take today's earnings and spend them *next year,* he must first pay the 10% income tax on his current wages. That knocks his $100 down to $90. *Then* he invests the $90 in the market, earning 10% interest, so it grows to $99 next year. If the individual were allowed to spend *all* of the $99, then it would be equivalent to our consumption tax analysis in the paragraph above. However, the individual *doesn't* get to spend the full $99. Under an income tax, *the interest earnings of the $9 are ALSO taxed,* because "interest income" is a form of income, after all. So the $9 interest is itself taxed at 10%, meaning the individual must pay an additional 90 cents in tax and so next year is actually only able to spend and enjoy $98.10 of after-tax money.

Yet beyond that, the income tax has an additional problem: it distorts the decision of how much to save. This is why it's more economically destructive than a consumption tax.

Notice in this last example that the income tax has introduced an additional distortion:



The benefit of postponing consumption for a year has been artificially reduced. Rather than being rewarded by a 10% increase (reflecting the market interest rate of 10%), the income tax—since it applies to interest income—reduces the reward to only a 9% increase.

Most Deadly of All: A Wealth Tax

Generally speaking, the wealth tax suffers from all of the problems of an income tax, but it also suffers from an *additional* problem: it reduces the incentive to hold wealth, period, and it also pushes people to invest in riskier assets.

Let's review the analysis so far: A head tax distorts decisions over the length of life, but other than that, once you've decided you're going to be alive for a certain time period, the head tax doesn't distort decisions within that time horizon.

A consumption tax is worse (in the sense of "more inefficient") because it also distorts decisions about how to turn your leisure into wages. But once you've decided to sell some leisure time for wages, the consumption tax doesn't distort your decision on whether to consume those wages now or in the future.

An income tax is worse, because even after you've earned some income today, it distorts your decision on whether to consume it now or in the future. However, once you've decided to save some of your income and turn it into financial wealth, the income tax doesn't distort your decision on *how long to carry that wealth into the future,* except in the sense that it deadens the reward of postponement by taxing away some of the interest earnings (or dividends/capital gains, depending on the asset). But my point is, if you just want to hold the financial asset without worrying about rates of return, the income tax doesn't put an additional penalty on you.

In contrast, under a *wealth tax* you get dinged, even if your wealth isn't generating any income! If an income tax is bad because it makes it hard for your wealth to *grow,* a wealth tax is even worse because it makes your wealth *melt* like an ice cream cone. Furthermore, although an income tax reduces the incentive to save, it doesn't distort the decision on the *riskiness* of the assets you use in order to carry wealth into the future. In contrast, not only does the wealth tax reduce the incentive to save, but on top of that it *also* gives an artificial advantage to more volatile assets. This is why a wealth tax is the most economically destructive of all the taxes we've considered in this essay.

Some commentators have tried to illustrate just how destructive a wealth tax is, by translating it into an "equivalent" income tax. For example, consider a billionaire facing Elizabeth Warren's newly proposed 6% wealth tax. For the portion of his fortune exceeding the threshold, suppose the billionaire is earning a rate of return of 3%. In this scenario, some might say that a wealth tax of 6% operates like an income tax (on interest/capital gains/dividends) of 200%!

Specifically, consider $1,000 in wealth that exceeds the threshold. It earns 3%, for an interest return of $30. But the 6% wealth tax applied to the $1,000 yields a total tax of $60. So a $60 tax payment on only $30 of interest income works out to an effective income tax rate of 200%.

After all, wealth and income are different economic concepts, and so it's not really correct to say that a 6% wealth tax is "the same as" a 200% income tax.

Now in general, we should be careful about computing the "equivalent" tax rates. After all, wealth and income are different economic concepts, and so it's not really correct to say that a 6% wealth tax is "the same as" a 200% income tax. For one thing, investors have multiple assets to choose from, with different expected rates of return. If the investor had deployed his $1,000 in a risky asset

where he expected to earn 12%, then using our procedure the wealth tax would seem to be equivalent to an income tax of "only" 50%.

In any event, we can see the problems of a wealth tax. Other things equal, it will lead investors to hold smaller concentrations of wealth, and moreover it will distort the *composition* of their holdings, by pushing them into riskier assets than they normally would tolerate. I will illustrate this rigorously with a numerical example in the next section. However, if you just want to take my word for it, you can safely skip the next section and head right to the Conclusion.

Nerds, Assemble: A Numerical Example Showing Why Wealth Tax Worse Than Income Tax

One of my pitches for getting people to subscribe to the *Lara-Murphy Report* is the promise that I will go more deeply into is-

Table 1. Investor Faces 50% Income Tax, on an Asset Earning a Safe 5%

Weath (bop)	Gross Income	Income Tax	Weath (eop)
$1,000	$50	$25	$1,025

sues here, than in any other outlet. And so, let me show those of you who are interested, how I double-checked my intuition in the above section, to make sure there really is a legitimate sense in which a wealth tax is more inefficient than even an income tax.

In this example, we're going to consider an investor who starts with $1,000 in financial capital, and is choosing between three possible options: (1) He can consume it now. (2) He can invest it in a very safe asset that will yield 5%. Or (3) he can invest it in a risky asset that half the time will appreciate 30%, but the other half will lose 10%. We are going to analyze the investor's options, assuming three different tax environments: He either faces no tax, an income tax, or a wealth tax. We will calibrate the wealth tax to raise the same revenue as the income tax, in order to make it "comparable," and then see which of the two taxes distorts the investor's behavior more.

Things are pretty straightforward in the no-tax scenario. The investor can turn his $1,000 into a sure $1,050 with the safe asset, or he can go with the risky asset and have a ½ probability of ending up with $900 and another ½ probability of ending up with $1,300. In other words, he can earn a guaranteed 5% return, or he can earn an "expected" 10% return that carries with it more risk. (Without knowing more about the investor, we can't say which of the two assets he will prefer, but we don't need to know that for our purposes here, in analyzing the distortions of the two taxes.)

Now suppose the investor faces a 50% income tax, and goes with the safe asset. He is affected as I've show in Table 1, where "bop" stands for "beginning of period" and "eop" for "end of period."

Now let's fine the "equivalent" wealth tax, for the investor going with the safe asset. That is, we want to calibrate the rate of the wealth tax, so that our hypothetical investor—if he goes with the safe asset—ends up paying the same revenue to the government:

Table 2. Investor Faces 2.38% Wealth Tax, on an Asset Earning a Safe 5%

Weath (bop)	Gross Income	Weath Tax	Weath (eop)
$1,000	$50	$25	$1,025

To make sure the reader understands Table 2: After earning the $50 in gross income from the safe asset, the investor has $1,050. But then he is hit with the wealth tax of ($1,050 x 2.38%) = $25. I deliberately chose the wealth tax rate of 2.38% in order to make the investor owe the same $25 that he had to pay under the income tax.

Let's stop for a moment and assess our progress. We've seen that an income tax and a wealth tax *both* reduce the incentive to save. In reality the safe asset rewards the investor with 5% growth if he's willing to postpone consumption for a year, but both taxes mute that benefit, making current consumption look artificially more attractive.

However, good economists know that we need to "think on the margin." Even though I calibrated the wealth tax rate to yield the same flow of tax revenue to the government as occurred with the income tax, the two taxes still have different effects on behavior. An easy way for me to illustrate is to extend the analysis to see how the two taxes affect the investor if he puts his $1,000 of capital into the *risky* asset.

(Note that in Table 3, we are assuming that half the time, when the individual faces the bad outcome and loses $100 of his original $1,000 investment, he gets a $50 credit on his taxes. In other words, his income tax liability is *negative* $50, as shown in Table 3. You can think of this either as him literally carrying forward the loss to future years, or you can think of the loss being used to reduce his gains elsewhere in his portfolio, thus lowering his tax liability in the current period.)

As Table 3 illustrates, when facing the income tax levied at a 50% rate, the individual who invests his $1,000 into the risky asset has a ½ probability of ending up with $1,150, and a ½ probability of ending up with $950. The expectation of these outcomes is $1,050, meaning the investor faces an expected (after-tax) return of 5%, in the risky scenario. Also notice that he expects to pay $50 in income tax—half the time he pays $150, and the other half he gets a credit of $50.

Finally let's run the numbers for the wealth tax, when the investor goes into the risky asset:

Table 3. Investor Faces 50% Income Tax, on Risky Asset That Gains 30% Half the Time But Loses 10% Half the Time

	Wealth (bop)	Gross Income	Income Tax	Weath (eop)
Good Outcome	**$1,000**	**$300**	**$150**	**$1,150**
Bad Outcome	**$1,000**	**-$100**	**-$50**	**$950**
Expectation	**$1,000**	**$100**	**$50**	**$1,050**

Table 4. Investor Faces 2.38% Wealth Tax, on Risky Asset That Gains 30% Half the Time But Loses 10% Half the Time

	Wealth (bop)	Gross Income	Wealth Tax	Weath (eop)
Good Outcome	**$1,000**	**$300**	**$31**	**$1,269**
Bad Outcome	**$1,000**	**-$100**	**$21**	**$879**
Expectation	**$1,000**	**$100**	**$26**	**$1,074**

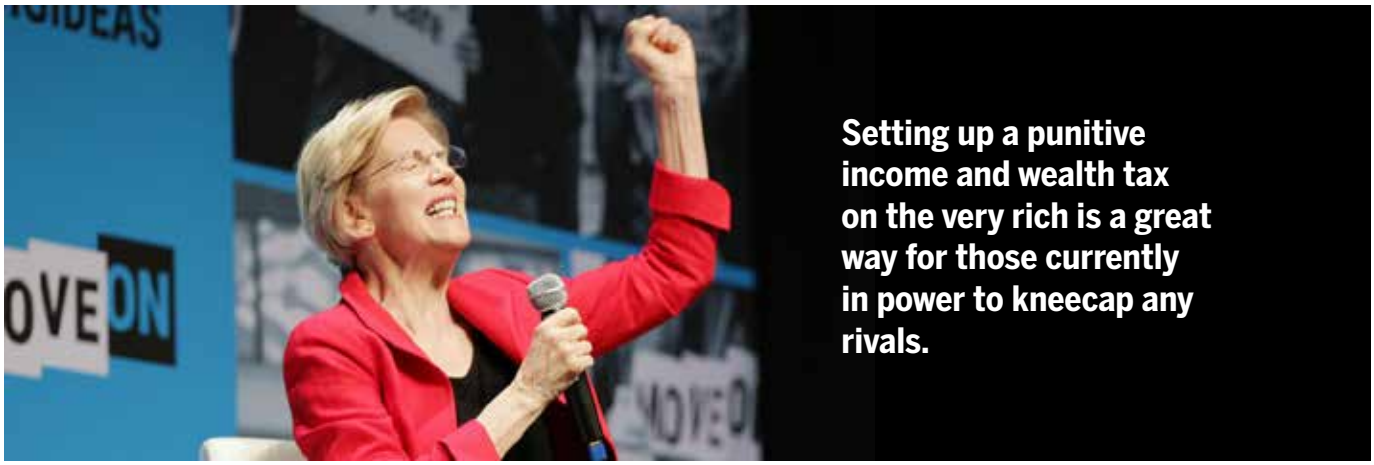
Now we see how things get really complicated. In this last scenario, when the investor goes in the risky asset while facing the wealth tax (which had been calibrated to be "equivalent to" the income tax for the safe asset), he ends up with an expected return of 7.4%, and furthermore he only expects to pay $26 on average in the wealth tax.

Let's summarize the big picture: Originally, in the no-tax scenario, the investor could choose between a sure 5% return, or a 50/50 return of either -10% or +30%, for an expected return of 10%.

When facing the 50% income tax, the investor could choose between a sure 2.5% return, or a 50/50 return of either -5% or +15%, for an expected return of 5%. So to reiterate, the income tax is inefficient, because it cuts the gains to saving in half; just compare the numbers in this paragraph with those from the previous paragraph. But the crucial point is that *the income tax doesn't distort the RELATIVE attractiveness of the safe or risky asset.* In the no-tax scenario, the risky asset offered twice as high an expected return, but in exchange for an equally balanced up/down risk, and the same pattern holds when we introduce the income tax. So even though the income tax will make the investor less willing to save, it won't distort what he does with those savings.

In contrast, when facing the wealth tax, the investor can choose between a sure 2.5% return, or a 50/50 return of either -12.1% or +26.9%, for an expected return of 7.4%. Again, compared to the no-tax scenario, our investor gets a lower return with either asset, and so he has less incentive to save. However, given that the investor is going to save and carry wealth forward in time, notice that the wealth tax has skewed things in favor of the risky asset. Rather than offering twice the expected return of the safe asset (2.5% vs. 5%), under the wealth tax it offers almost triple the return (2.5% vs. 7.4%).

And thus we see that the wealth tax introduces yet *another* distortion to economic behavior. It provides an artificial incentive for investors to shift their wealth into assets that are more volatile. To be clear, the problem here isn't with investors going into risky assets per se. Rather, the economic inefficiency



Setting up a punitive income and wealth tax on the very rich is a great way for those currently in power to kneecap any rivals.

occurs because these risky assets look more relatively attractive than they actually are, in a no-tax landscape.

Conclusion

Besides the commonsense revulsion at giving more money to the feds, economists have developed a sophisticated framework for analyzing the inefficiency of various types of taxes. Simply put, not all taxes are created equal; there are more and less efficient ways of raising a desired amount of revenue for the government.

Income taxes are a very destructive way of raising revenue. Not only do they invade financial privacy, but they also cripple the incentive to save. Yet for this very reason, a *wealth tax* is even worse. Not only does it reduce the incentive to carry wealth into the future, but it also provides an artificial incentive to move into risky assets with higher expected rates of return but more volatility.

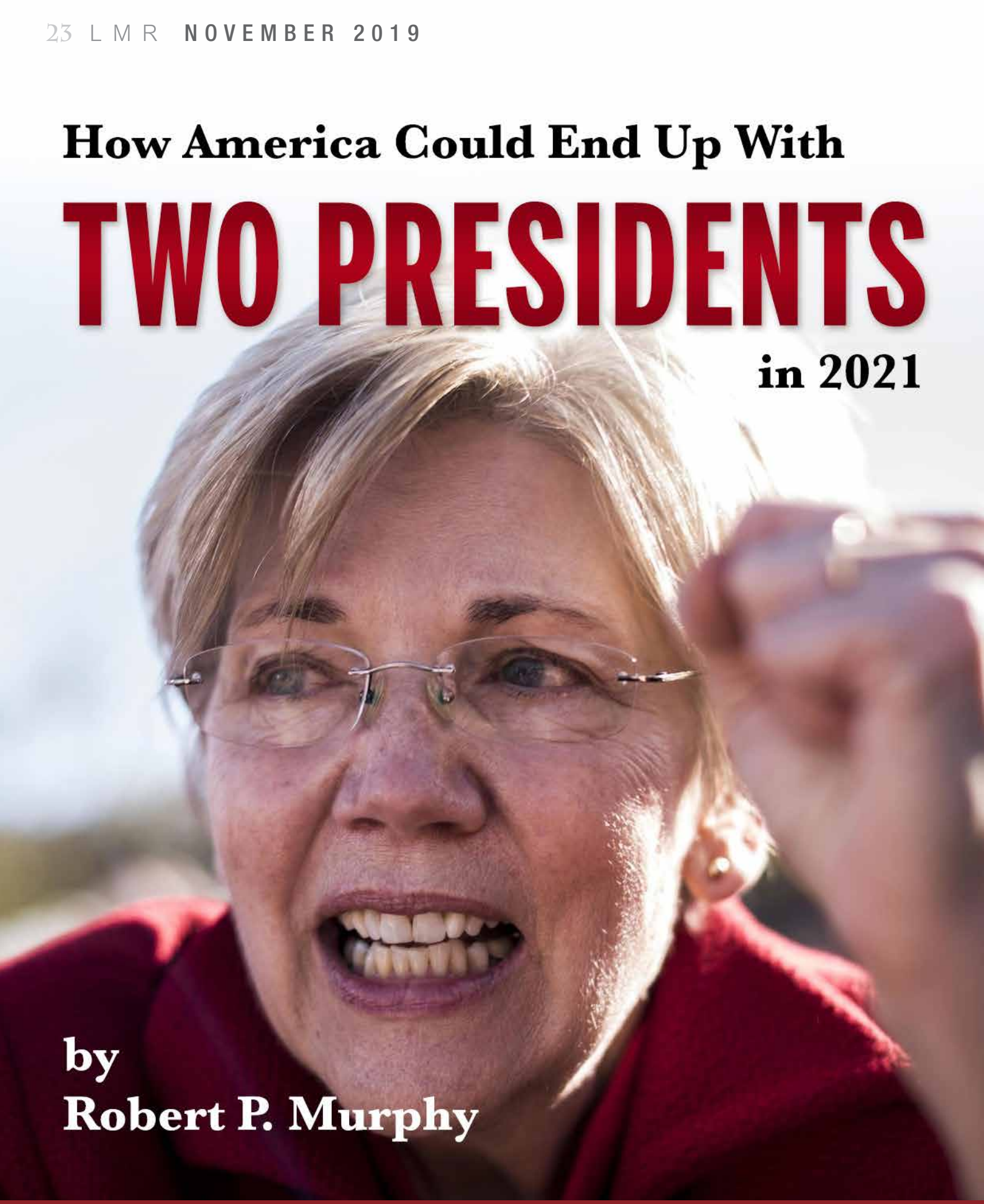
Consider: When progressive Democrats want to discourage activities like smoking and driving gas guzzlers, they propose "sin taxes" and "carbon taxes." So what do you think the result will be, if we levy taxes on high incomes and large concentrations of wealth?

Finally, putting aside all the technical details, there is the stark fact that the world is run by powerful individuals and families, working inside and outside government. Setting up a punitive income and wealth tax on the very rich is a great way for those currently in power to kneecap any rivals.

References

1. Mikhail Khodorkovsky as of 2003 was estimated to be the richest man in Russia, worth about $15 billion. He was imprisoned for fraud and tax evasion, but there was widespread belief that the charges were politically motivated, because Khodorkovsky had been critical of Putin. Likewise, Boris Abramovich Berezovsky was also a Russian "oligarch" (worth $3 billion in 1997) who fled the country fearing persecution from Putin, and later died under mysterious circumstances.

How America Could End Up With TWO PRESIDENTS in 2021



by
Robert P. Murphy

In this essay, I'm going to present a surprisingly plausible account of how America could end up with two presidents in 2021. Now I want to be clear, I'm not predicting that this will happen. Rather, my point is that *there's nothing outlandish about it*. Most of us at least vaguely remember learning about periods in history where there were two claimants to the crown, or even rival popes in the Catholic Church.

In a similar manner, I am about to walk you through an eminently reasonable scenario where Americans could end up with two presidents in 2021—and with their supporters passionately agreeing that *their* pick is the *real* president, while the other is the imposter attempting to hijack the government of the United States.

I won't here draw too many conclusions; my main contribution is just to show you *how realistic such a seemingly insane outcome has now become*. Since this is a financial publication, I suppose I can point you once again to the video Carlos and I did on "how to weather the coming financial storms," available at: https://lara-murphy.com/video0916/.

But really, my purpose here is to shake you in case you think the Trump presidency was an aberration, and that things will soon return to normal. No, I really don't think that they will. At the very least, the chance of an incredible disruption in our political system is much higher now than it's been in decades, and that alone is reason to review your plans.

Before diving into my narrative, a note to avoid confusion: It will make the reading easier if I tell the following tale as if it's history unfolding in real time. So to repeat, I'm not formally predicting that this is what *will* happen, I'm just saying *this is entirely possible*. There's nothing crazy about the following story, except for where it ends up.

I'm not formally predicting that this is what *will* happen, I'm just saying *this is entirely possible*.

Beating the "Russian Collusion" Drum

As the presidential campaign progresses, the Democrats ramp up their claims that Trump sought and received assistance from the Russians in 2016, and that he is repeating the ploy for 2020. Although he is impeached by the House, the Senate refuses to convict Trump, largely along party lines.

At the Democratic national convention (held in Milwaukee in mid-July), Elizabeth Warren wins the nomination. She and the

other speakers give public warning that the Russians will be targeting those states where the vote is expected to be close. They urge the state election committees to be vigilant in their efforts to safeguard our precious democratic tradition.

This time around Pennsylvania and Michigan both go blue, so that when the dust settles Trump has won 270 Electoral votes, while Warren nabs 268.

Election Day Results

The actual election is a nail-biter. Warren narrowly wins the popular vote by about two million votes, but—as happened in 2016—Trump wins a majority of Electoral College votes. However, Trump's margin is much tighter here than it was against Hillary Clinton. Because the economy had started showing signs of recession by the summer, and in conjunction with a sharp sell-off in the stock market in the fall, by the time of the election many of Trump's original blue-collar supporters had abandoned him.

Specifically, this time around Pennsylvania and Michigan both go blue,[1] so that when the dust settles Trump has won 270 Electoral votes, while Warren nabs 268. It is the closest margin (in the Electoral College) in modern history; we have to go back to the 1876 election of Rutherford B. Hayes to see a closer vote.[2]

"Faithless Electors"

The Warren campaign refuses to concede defeat. They begin challenging several of the close states' vote-counts in court. The Democrats and their allies in the corporate media bring forth numerous accounts—many of which fall apart under scrutiny—alleging election-day fraud at the voting booths, with the sinister personage of Vladimir Putin always wafting in the wings.

Now technically, Trump hasn't formally won in the Electoral College. Voting day for the public is November 3. But the 538 members of the Electoral College don't formally meet until December 14. Remember, even though Americans think they're "voting for the president" in November, according to the rules established in the Constitution, strictly speaking they are voting for *electors* to be members of the Electoral College, who in turn have pledged to vote for the respective tickets of the various candidates on the ballot.

Behind the scenes and in the open, the

Democratic establishment pinpoints some of the "weakest links" among the 270 electors who are pledged to vote on December 14 to re-elect Trump. Legal scholars and historians begin making the rounds on network television and radio programs, explaining the rules. It turns out the issue of "faithless electors" is still a gray area.

Many Americans, curious about the issue, do the obvious thing and go to Wikipedia, where they learn:

> After the 2016 election, electors who attempted to switch their votes in Washington and Colorado were subjected to enforcement of their state's faithless elector laws. The electors received legal assistance from the non-profit advocacy group Equal Citizens founded by Lawrence Lessig. The Colorado case, Baca v. Colorado Department of State, was initially dismissed by the United States District Court for the District of Colorado. On appeal, the 10th Circuit ruled that Colorado's faithless elector law is unconstitutional. Specifically, the opinion held that electors have a constitutional right to vote for the presidential candidate of their choice and are not bound by any prior pledges they may have made. It said electors are federal officials, the act of voting for president in the electoral college is a federal act not subject to state law, and state laws requiring electors to vote only for the candidates they pledged are unconstitutional and unenforceable. On October 16, 2019, Colorado appealed the 10th Circuit's decision to the Supreme Court. [Wikipedia entry on "faithless elector," hyperlinks and endnote citations removed.]

One of the electors from the state of Texas is very passionate and articulate. He makes the rounds on Fox News and conservative radio, explaining in his charming drawl why it is the duty of him and his peers to vote according to the will of the people. Yet on December 7, one week before the big vote, this Texan dies in his sleep, even though he apparently been in excellent health. The internet floods with "memes" involving the dead Texan, Hillary Clinton, and Jeffrey Epstein.

Naturally, chaos ensues, as not since 1796 have "faithless electors" changed the outcome of a U.S. presidential election.

When December 14 rolls along (and after the dead Texan has been replaced), the

Electoral College actually casts 272 votes for *Warren* and only 266 for Trump. Even though Trump *should* have won the Electoral College vote based on how the state totals panned out on November 3, technically speaking, they voted for Warren instead.

Naturally, chaos ensues, as not since 1796 have "faithless electors" changed the outcome of a U.S. presidential election. To be sure, some of the electors who "voted their conscience" are in store for punishment at the hands of their state parties—not to mention their friends and colleagues—but after some legal skirmishing, the U.S. establishment breathes a sigh of relief: Most of the power brokers in Washington and around the country accept the fact that Donald Trump is now a lame duck.

Assessing the landscape, Trump makes a bold ploy.

Presidential Pardons

While he is officially still the president, Trump engages in a massive pardoning spree. He frees Roger Stone and "preemptively" pardons several other of his allies—as Gerald Ford did for Richard Nixon—in order to make it difficult for prosecutors to lean on them while going after Trump, once he returns to civilian life.

In the meantime, President-Elect Warren promises to deliver on her agenda for the people. She will usher in Medicare for All, but that will take some time to work through Congress. What she intends to do as soon as she takes office is push for much stricter federal gun control laws and enforcement, as well as a 2% annual wealth tax on anyone worth more than $30 million. (This is lower than the $50 million threshold on which she had campaigned. Her staff had used a consultant group and determined that the public wouldn't balk at tweaking the level, and hence bringing in a lot more revenue.)

Warren also pledges to fully investigate the criminal and indeed treasonous activities of the Trump team, both in their handling of the Administration and his re-election campaign. Because roughly 40% of American adults believe Warren is a usurper who stole the election, it is imperative that she ramp up the pressure on Trump, with daily accusations of Russian collusion being repeated on CNN.

Trump in Exile

Assessing the landscape, Trump makes a bold ploy. He approaches Texas Governor Greg Abbott, who has been one of the loudest critics of what happened in the Electoral College—not the least reason being that it was a Texan elector who had died under mysterious circumstances.

As Trump's staff briefed him, Abbott had been a loud proponent of states' rights; in January 2016 he had called for a national constitutional convention to correct the abuses of the U.S. Supreme Court in allowing the growth of federal power. Abbott had also signed "campus carry" and other pro-gun-rights legislation. In light of Warren's announced intention to unleash the BATF to work with state and local law enforcement to begin cracking down on unlawful weapons, Abbott and a few other concerned governors have been contemplating their next move.

In this context, Trump visits Abbott in late December 2020 with an audacious proposal: Trump will become a "president in exile," residing in Austin under the protection of the Governor. Abbott will in fact declare all of Texas to be a "sanctuary state"—patterned after the "sanctuary cities" that progressive mayors established against the immigration crackdown during the Trump Administration. Texas would become a safe haven, a beacon for Americans who did not want to surrender their guns and money to an illegitimate Warren Administration that was founded on lies and murder.

Abbott knows this is an incredibly risky maneuver, but it also comes with a tremendous opportunity. If in fact he (and many other Republican governors) are arguing that the Warren Administration is illegal, then it would be justified for them to withhold their citizens' federal tax payments, pending the outcome of various legal proceedings. Abbott also checked with various military personnel, and thinks that the various forces stationed in Texas would be willing to adopt a defensive posture, pledging to remain neutral on political controversies but also that they would defend the integrity of Texan soil from any hostile force.

If it were its own country, Texas would have (as of the 2016 ranking) the 10th largest economy in the world.

If it were its own country, Texas would have (as of the 2016 ranking) the 10th larg-

est economy in the world. Abbott realizes that in many respects, Trump's offer would make Abbott no longer a mere governor, but the president of the new Republic of Texas. His people might not originally endorse full-throated secession, but Abbott looks ahead and realizes how the Warren Administration—as well as "mainstream" America as represented in the corporate media—will react to his initial move to protect Trump. Their hysterical reaction, and calls for invasion, will be what Abbott needs to make the case for an outright break with the Union, down the road.

In any event, even if things simmer down, U.S. states will come out the other end with much greater autonomy. With the experience of a U.S. president "in exile" in Texas, issuing his own decrees, Americans will no longer view the federal government with the fear and reverence that it used to enjoy. This can only be a good thing, for the cause of federalism.

Conclusion

And thus ends my fanciful tale. If events unfolded the way I described, we would have a scenario where 40% of the adults in the

country genuinely believed that the Democratic nominee were the legitimate president, while another 40% genuinely believed it was the Republican.

The last thing I'll mention: If *I'm* thinking through these types of scenarios, you can bet that the official consultants, as well as certain members of the CIA and other "Deep State" organizations, are doing so as well, but with far more detail. We are in very uncertain times. Much of our day-to-day society depends on expectations of continuity. When things begin to unravel, drastic change can occur very quickly.

If you haven't already, start preparing.

References

1. For the breakdown of the 2016 election, see: https://en.wikipedia.org/wiki/2016_United_States_presidential_election.
2. For a list of presidential elections by the margin of victory in the Electoral College, see: https://en.wikipedia.org/wiki/List_of_United_States_presidential_elections_by_Electoral_College_margin.

Study History, Learn from the Past

INTERVIEW WITH *Richard Durana*

Dr. Richard Durana is a co-founder and Director of INESS – Institute of Economic and Social Studies, the leading Slovak free market think tank formed in 2005. He has published numerous articles in Slovak and foreign newspapers, magazines, and books and he has appeared frequently in broadcast media.

Dr. Richard Durana holds M.Sc. in organic chemistry and Ph.D. in biochemistry. Prior working at INESS, he was working as a research scientist at the Institute of Chemistry, Slovak Academy of Sciences, where he was developing vaccines. He is an amateur music composer and lyrics writer, and has released three albums with his band Space Recorder.

Lara-Murphy Report: How did you discover Austrian economics?

Richard Durana: First touch with Austrian Economics came relatively late. I was born in Czechoslovak Socialist Republic, a country which was under communist rule, a satellite state of the Soviet Union. My family lived in the central part of the country. Unlike Slovakia's biggest city, Bratislava (the capital of Slovakia after the split of Czechoslovakia in 1993), which is located at the border with Austria—back then the imperialist western enemy state—we did not have an access to any foreign TV, radio shows, or books where ideas of freedom would have been articulated.

The communist regime was characterized by omnipresent fear and people rarely took a risk of talking about fundamental human rights, or freedom of speech and expression. Anyone around you was a potential KGB-like secret security agent and you were under the risk of serious troubles, troubles for your family members, or even jail and sudden "disappearance."

"The communist regime was characterized by omnipresent fear and people rarely took a risk of talking about fundamental human rights, or freedom of speech and expression."

In 1989—I was 14 years old—the communist regime collapsed and a transition period began. Obviously, Austrian economics was not an economic thought discussed back then. Fortunately, not long after 1989, pioneering free market organizations appeared in Prague (Liberal Institute) and Bratislava (F.A. Hayek Foundation). Especially Liberal Institute had a great publishing activity and released translations of many important Austrian School economists. But this was during my high school studies and I was more interested in computer programming and chemistry than social sciences.

This is why I started my chemistry studies at the Comenius University in Bratislava. I've got my university masters in organic chemistry. I was synthesizing mimicking AIDS drug precursors as a part of my diploma thesis. Afterwards, I received my PhD. in the field of biochemistry; I was working on a preparation of sub-cellular vaccines against candidiasis, a widely

spread dangerous fungal disease. I was working at the Institute of Chemistry at Slovak Academy of Sciences as a research scientist.

During my studies I got influenced by my brother Radovan and a friend Juraj Karpis, who both were studying economics. They were reading stuff that was not a part of curriculum and attended a liberal summer university organized by Liberal Institute. We were having never-ending discussions about how society works, what are the motives for human action, what are the effects of government interventions into society. I was 25 years old when great works of Bastiat, Mises, Hayek, and Rothbard were introduced to me for the first time. We three started to contribute to newspapers, magazines, and various internet forums. After couple of years I quit my biochemical scientific career as we three decided to run The Institute of Economic and

"After couple of years I quit my biochemical scientific career as we three decided to run The Institute of Economic and Social Studies (INESS)."

Social Studies (INESS). INESS started its activities in late 2005 and it has quickly become the most frequently cited and most influential economic think tank in the country.

LMR: One of us (Murphy) recently presented at an educational conference in Slovakia organized by INESS. Can you explain the mission of INESS?

RD: After a boom of free market ideas from the early '90s and pro-market reforms adopted by Dzurinda's reformist government in the early 2000s (first flat tax reform on the continent, Chilean-like pension reform, extensive labor market reform, further privatization, introduction of competition amongst health care insurance agencies, banking system restructuring, etc.), pro-market development was considered as granted. The first fruits

of these free market reforms transformed into speedy economic growth, thanks to the unprecedented inflow of foreign investors (one of the fastest in the world, Slovakia is the biggest car manufacturer in the world when considering per capita production). However, social democrats saw their opportunity and started to promise higher pensions, broader social allowances (just to remind, it is not exceptional e.g. to have 2 years paid maternity leave in central Europe) and soon took over. Old bastions of free market thoughts were slowly fading away and we felt we can fill the gap. This was the time when we founded INESS in late 2005—as a private, non-governmental, apolitical, and independent think tank.

Since the very beginning we had a very clear mission: to broaden public awareness of the principles of market mechanisms' functions and the ef-

"Since the very beginning we had a very clear mission: to broaden public awareness of the principles of market mechanisms' functions and the effects of state interventions."

fects of state interventions and their impact on society and everyday life.

Our operations can be basically divided into two categories. We are trying to play an active role in policy advocacy, and at the same time we see the importance of education.

In policy advocacy area, INESS monitors the functioning and financing of the public sector, evaluates the effects of legislative changes on the economy and society, conducts sector in-depth analyses and economic policy recommendations, and comments on current economic and social issues with more than 1,000 appearances per year in all major national broadcast and print media. Our priority areas include taxation and contributions to the state budget, social system (including pensions and labor market), the

public health care system, monetary policy, EU membership issues, and government regulation and property rights. INESS, as a recognized think tank, has a long tradition of working with open-minded politicians affiliated with parties across the whole political spectrum and inviting worldwide recognized reformers, as well as top foreign politicians and experts, to take part in our international and domestic conferences, discussion forums, and public lectures.

INESS has also been very active in articulating free market principles through its educational programs. Recently, we had you (Robert Murphy) and nine other renowned speakers presenting in our 9th *Seminar on Austrian Economics* for elite university students. At this intensive four-day long event we have hosted many recognized experts and scholars in the past,

"The idea that educating the general public on 'how much you really pay for services you believed were free' is the best way to increase public pressure on political representatives to restrain public expenditure."

just to mention a few: Guido Hülsmann, Michael Munger, Larry White, Edward Stringham, Tom Palmer, Philipp Bagus, Daniel J. Mitchell, etc.

We have been organizing the first ever economic contest for high school students – *The Economic Olympiad*. This contest is complemented with publishing the first comprehensive economics textbook for high school explaining the market principles – *Economics in 31 Hours*, which we prepared with our friends from the Lithuanian Free Market Institute.

For 13 years we have been operating *The Price of the State* (priceofthestate.org), our internationally recognized flagship project which received two Templeton Freedom Awards from The Atlas Network and which has been replicated in many countries. The Price of the State is a unique internet

presentation with accurate, detailed, and easy-to-understand information on the components of public finance. It shows the costs of government provided services and how the money is used. The design of this unique internet presentation followed the idea that educating the general public on "how much you really pay for services you believed were free" is the best way to increase public pressure on political representatives to restrain public expenditure.

I was interviewed by Reason.tv some 8 years ago about this project and the video is still accessible on their website at: https://reason.com/2011/01/06/reasontv-slashing-spending-in/

We have also founded and developed *The Bureaucracy Index* (bureaucracy-index.org), a simple and transparent quantification of the proverbial "red tape." The goal was to establish a comprehensive list and subsequent cost of bureaucratic burden for a SME in a country. Each year think tanks from several countries join the index calculations and we traditionally announce the results on September 29th, the birthday of Ludwig von Mises, author of an amazing book *Bureaucracy.* On this day, we have established and celebrate *International Bureaucracy Day* to commemorate the wasted resources and talent lost due to excessive bureaucracy around the world.

Our recent most ambitious educational program *The Political Academy* challenges the observed trend of decline of fundamental knowledge of problems that members of Parliament are deciding about. We have recently kicked off the 4th year for another 30 ambitious politicians. Almost 40 crème de la crème lecturers present at this unique professional capacity-building program promoting competence and expertise in decision-making and equipping participants with knowledge and practical skills. Lecturers include several prime ministers, ministers, ambassadors & diplomats, members of parliament (national and European), mayors, strategists, journalists, newsmakers, campaign agencies, marketing experts, psychologists, lawyers, researchers, lobbyists, economists, analysts, activists, and others.

We also have been publishing our own books. To mention a few: *Bad Money: Financial Crisis Guide* from my colleague Juraj Karpis quickly became the best-selling economic book in Slovak history and we expect a similar fate for a recent book from another colleague, Robert Chovanculiak, which we have released this week: *Progress Without Permission: How the*

sharing economy, crowdfunding, and cryptocurrencies have changed the world. The translation of *Bad Money* into English is being finalized these months.

We also have been organizing a pop format *#econtalks,* interactive public events focused on specific topics discussed from an Austrian perspective. At *INESS Readers Club* we have been discussing interesting books in the evenings with people who have been allowed to join only if they read the book.

Besides all of this, we have been publishing two regular newsletters and delivering lectures at universities. Given our experience, this is the maximum of what 7 full-timers and 4 interns can accomplish.

LMR: What is your opinion of Slovakia's decision to adopt the euro as its currency?

"*Bad Money: Financial Crisis Guide* from my colleague Juraj Karpis quickly became the best-selling economic book in Slovak history."

RD: Euro adoption was perceived as a fulfillment of the transition and reforming process in the beginning of the millennium. "The euro, which was good for Germans, could surely not be a worse option for Slovaks than the Slovakian crown," we heard from everywhere. Everyone in Slovakia, not only government representatives, was keen on joining the Eurozone. Opposition politicians, businesses, economists, and the general public were expecting a more stable currency, lower transaction costs for international trade, and diminishing money exchange speculation at the borders. Moreover, it would bestow a kind of prestige and national pride. At last, Slovaks, who were behind our post-communist neighbors in almost all economic indicators, could lead the way! With euro adoption we would finally outcompete our benchmarking rival—the Czech Republic.

A depth of public debate about the advantages/disadvantages was obviously affected by this keenness for the euro. It was poor. Even the weaker claims that there was simply no other way were also ridiculous. In the European Union, the rules have routinely been broken without more serious consequences for sinners. Despite the fact that every EU member country was bounded to adopt the euro only after fulfilling defined economic parameters in the access treaty, there are countries which negotiated opt-out, e.g. Denmark, or the U.K. And there is a country, Sweden, which simply ignores this commitment after matching the convergence criteria.

The euro survived, despite the fact that European sovereign-debt crisis almost buried this political currency in its peak in 2011-2012. The European Central Bank (ECB) intervened at the very last moment. However, it was

"'The euro, which was good for Germans, could surely not be a worse option for Slovaks than the Slovakian crown,' we heard from everywhere."

not cheap. The ECB promised to buy an unlimited amount of state bonds of irresponsible Eurozone countries for newly printed euros. In fact, the ECB created a new European bond without bothering with the necessity of difficult agreement negotiations or asking voters from individual member countries. This step represented a faster integration regardless the people's opinion. The conditions of Euro club functioning have changed dramatically from 2009 when we enthusiastically entered the Eurozone. And nobody in Slovakia noticed this change. "Everyone responsible for himself," as written in the Lisbon Treaty, has transformed in practice to mean "all responsible for one."

For an example, today Slovaks are effectively guaranteeing Italian government bonds through the ECB. Italians can thus enjoy extremely low in-

terest rates despite extremely high government debt. And we Slovaks are co-financing this with the common currency, but without any influence on Italian public expenditures or pensions of Italian retirees.

Politicians say this will be solved with a new Fiscal Compact or other rule keeping an eye at fiscal responsibility in the Eurozone. However, the biggest Eurozone countries broke these rules even before the ink on the treaty dried. This is the reason why the euro cannot survive in the long term. The tragedy of the commons will do its job. Sadly enough, we at INESS were the only isolated voice in the country pointing to these risks before Slovakia joined the Eurozone.

Obviously, there is an alternative question: the Slovak crown could do even

The ECB promised to buy an unlimited amount of state bonds of irresponsible Eurozone countries for newly printed euros.

worse. If the money-printing machines are in Bratislava, local politicians may misuse the money even more than the Eurozone representative in Frankfurt. Moreover, if you destroy the value of a currency used by 5 million people, the effects show faster than if you destroy the value of a currency used by 300 million.

The Czechs are showing us that economic growth is possible even without the euro. But we could have had the best from these two worlds. If Slovak politicians had negotiated an exception or they simply ignored the commitment to adopt the euro, let's say by 2145, we could have an alternative of enabling the free use of the euro in our country without becoming an official member. This approach would not only decrease the costs of an all-society leap into the currency with enforced legal tender, but Slovakia

would also have insured against Eurozone membership risks in the form of bailing out big foreign banks and the irresponsible governments of much richer countries.

Unlocking the legal tender law would enable business and citizens to enjoy free will in terms of choosing the preferred currency for accounting, paying taxes, and even savings. We could enjoy the benefits of lower transaction costs and at the same time eliminate the exchange rates risks for those who care.

LMR: Do the average people in Slovakia remember the hardships of Soviet domination, or do they look back fondly on socialism?

RD: How quickly people forget and forgive must be a kind of magic. People tend to remember the positive things of socialism—free education, free health care, full employment, housing subsidies for families, etc. Negative

"Sadly enough, we at INESS were the only isolated voice in the country pointing to these risks before Slovakia joined the Eurozone."

things—total propaganda in education, poor health care services, enforced employment, and assigning people vocal against the regime into factories and low skill jobs—have been expelled to the dark hollows in the brain.

Obviously, for those people who conformed with the regime, life was relatively secure. They had jobs and state safety nets. But just imagine the life of artists, innovators, natural born entrepreneurs, students curious to understand the history and differences between rich West and poor East, thinkers, philosophers, academicians. They lived lives of genuine hardships. Yet, now, 30 years after the fall of communism, sentiment for "old good times" tends to appear more frequently, even amongst politicians. As everywhere in the western hemisphere, populists have become a real power and a real threat. Often the sentiment after socialism serves as the fuel for their agenda. We hear them say: "No, socialists did not do things well 30 years ago. Now we will do it well!"

"People should be reminded that those who wanted to escape the regime and cross the borders were shot dead."

LMR: What advice do you have for Americans who are considering "democratic socialism"?

RD: Study history, learn from the past. Mankind has a strange gift of repeating the same mistakes. Read Mises's *Socialism* where he predicted precisely what will happen in socialist countries even long before many of them became socialist. Very often, the ignorance of what happened in the Soviet bloc leads to false conclusions and admirations. People in Western countries are now calling for more equality. Indeed, in socialism we were all equal—we were equally poor. Price controls, state ownership of factors of production, redistribution, and regulation which was rather privilege permission, leads to shortages, stagnation, or even decline, a war of each against everybody, and ever-present fear in society over the period of a few decades as we experienced half a century ago. Textbooks say political freedoms are closely connected with economic freedoms. We tried it ourselves. People should be reminded that those who wanted to escape the regime and cross the borders were shot dead.

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Note: The economists and financial professionals interviewed in the LMR are given the freedom to express their views, without necessarily implying endorsement from the editors.

EVENTS & ENGAGEMENTS

NOTE: MANY OF THESE EVENTS ARE OPEN TO THE PUBLIC. CONTACT US FOR FURTHER DETAILS.

NOVEMBER 13-14, 2019
VIENNA, AUSTRIA

Murphy presents at Austrian Economics Conference

FEBRUARY 5-6, 2020
BURMINGHAM, AL

Lara and Murphy present at the IBC Practitioner Think Tank.

SOME EVENTS MAY BE CLOSED TO GENERAL PUBLIC.
FOR MORE INFORMATION ON EVENTS CONTACT: RPM@CONSULTINGBYRPM.COM

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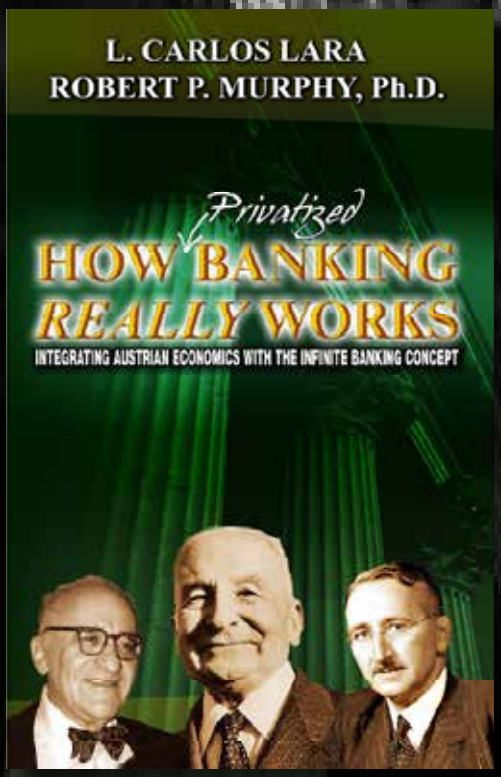

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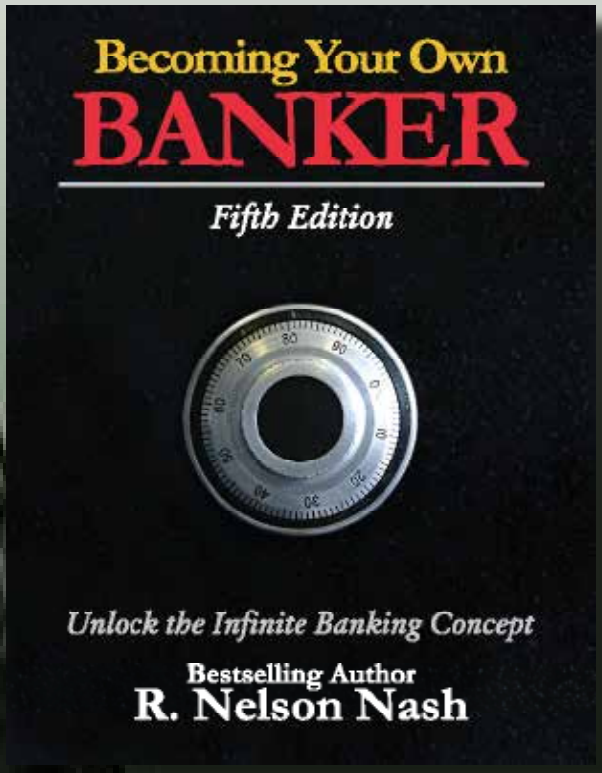

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