



### LVMI - EUROPE Newsletter Autumn Member's Edition 2022

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# LVMI-Europe: Agenda

## Future events:

**Soon:** Launch of the book "The Austrian School of Economics in the 21st Century"

## Past Events

**November 16, 2022** Conference "Building a EU defence" in the Club des >Guides, Rue d' Arlon 32, 1050 Brussels

**October 12, 2022:** **LVMI-Europe 20 years**, Dinner Debate to celebrate the 20 years of existence of LVMI Europe

**June 29, 2022:** General Assembly

**June 15, 2022:** **Conference** Free Market Roadshow, "The Way Out of the Gridlock"  
A cooperation with Austrian Economic Centre and European Liberty Forum in the European Parliament . Host: Ilhan KYUCHYUK, MEP (postponed)

**May 11, 2022:** Board Meeting of LVMI Europe

**April 26, 2022:** Mises Circle with Robert Cutler. Location Holland House

**March 4, 2022:** Meeting of the Research project, set up by LVMI Europe, in Holland House.

**January 17, 2022:** Meeting of the Research project, set up by LVMI Europe, in Holland House

# Presidential address for the newsletter of Autumn 2022

## Inflation once again.

Written by Annette Godart van der Kroon

President of LVMI-Europe

The high inflation is **the** topic of the moment. While people relate it to the war in Ukraine, or the consequences of COVID, it is time to explain, what the opinion is of the Austrian School.

For example in the magazine "Trends" the inflation is attributed to the shortage of products, because they cannot be supplied as quickly as possible due to the war and COVID. It is also said, that inflation has been caused generally attributable to rising wages - and consequently to rising prices<sup>1</sup>.

That might be one of the causes but not **the** cause. Inflation has occurred a lot of times in History and will happen again. Only this time there have been warnings early enough against the ruinous politics of the banks and the governments.

Let us start to reconsider the several causes of inflation. Von Mises explains the phenomenon as follows "What people today call inflation is not inflation, i.e. the increase in quantity of money and money substitutes, but the general rise in commodity prices and wage rates which is the inevitable **consequence** of inflation. This semantic innovation is by no means harmless<sup>2</sup>. In fact-according to von Mises-"inflation is policy"<sup>3</sup>. A policy of spending money in an irresponsible way and that for decades, has caused the inflation (amongst others). Another important factor is the fact, that the central banks bear the main blame with their low interest rate policy. They contributed to the formation of a bubble in the real estate markets, which then did burst.

Whether it (the inflation) gets worse, also depends on whether people believe it is getting worse. Their expectations, which is a reliable detection, have a great influence on price formation<sup>4</sup>

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<sup>1</sup> Die Zeit dd 20-9-2020, p.21 "Das kann teuer werden"

<sup>2</sup> Ludwig von Mises "Planning for Freedom and Sixteen Other Essays and Addresses", Libertarian Press 1980 p. 79

<sup>3</sup> Ludwig von Mises "Economic Policy: Thoughts for Today and Tomorrow", Chicago Ill, Regnery Gateway 1979, p. 72

<sup>4</sup> Die Zeit dd 20-10-2022, p. 19 "Völlig losgelöst"

Inflationism, however, is not an isolated phenomenon. It is only one piece in the total framework of politico-economic and socio-philosophical ideas of our time. Just as the sound money policy advocates went hand in hand with liberalism, free trade, capitalism, and peace, so is inflationism part and parcel of imperialism, militarism, protectionism, statism, and socialism”<sup>5</sup>.

“Inflation and credit expansion, the preferred methods of present-day government open-handedness, do not add anything to the amount of resources available. They make some people more prosperous, but only to the extent that they make others poorer”<sup>6</sup>.

Easy (Cheap) money is also one of the causes of the high inflation. More money inevitably creates more inflation. For example the money put into circulation by the ECB has been increased tenfold, while the virtual money has only been tripled <sup>7</sup>

Look at the policy of President Biden: he creates a policy for renovating the infrastructure in the USA, which is very much necessary and combines it with a massive bloated program of 3, 5 Billion dollar for other expenses-which is a mistake.

Consider the promises made by European governments to help their citizens. For example the German government promises “you do not need to walk alone”, but those promises miss their target. That should help the people who really need it, not everybody.

These completely understandable promises go wrong not only economically but also socially. <sup>8</sup> The individual responsibility too threatens to wither away. The state is not a institution floating over its citizens, taking care of society and we must think of the future generation. They do not need to pay the bill of our debts.

These phrases include the call for a massive expansion of government spending. convincing arguments for this are missing<sup>9</sup>.

To conclude: only apparent and temporary relief can be won by tricks of banking and currency. In the long run they must land the nation in profounder catastrophe;For the damage such methods inflict on national well-being is all the heavier, the longer people

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<sup>5</sup> Ludwig von Mises “On the manipulation of Money and Credit”, p48

<sup>6</sup> Ludwig von Mises “Bureacracy” p. 84

<sup>7</sup> Die Zeit dd 20-9-2020, p.21 “Das kann teuer werden”

<sup>8</sup> Die Zeit dd 6 October 2022, p. 11 “Wirft der Staat mit zu viel Geld um sich?”

<sup>9</sup> Die Zeit dd 4-11-2021, p. 3“Eine Falke als Finanzminister”

have managed to deceive themselves with the illusion of prosperity with the continuous creation of credit has conjured up”<sup>10</sup>

In this context the role of the ECB should be discussed.

As we all know, the ECB started to take a role that was not foreseen in the Maastricht Treaty. Draghi succeeded to build up that because he used a vacuum: at the moment of his entrance into office, there was no common European economic and financial policy. He has formed from the ECB a kind of European economic government and he was first successful with it. Now however, the ECB's measures are hardly effective anymore.<sup>11</sup>

In the years of the Pandemic a lot of money has been pumped into the economy and on that followed a surge in demand.

The big question is how Europe, which has become accustomed to cheap money, will ever get rid of this habit.

The admirers of Draghi as their hero are partly to blame for the fact that an entire generation sees their financial assets and their expected private pensions melt like ice in the midday sun in terms of purchasing power<sup>12</sup>.

David Folkerts-Landau<sup>13</sup>, economist at the Deutsche Bank has concluded that the savers have lost 160 billion euro per year, while this redistribution of income has been approved by a parliament. The ECB has taken money from the savers on an enormous scale.

We need to revise the rules of the Maastricht Treaty, but we do not need more indebtedness margins. What we need is a balance between fiscal flexibility and solidarity on the one hand and discipline and also Hard budget restrictions on the other hand.

In case the expenses of countries have to be paid by the taxpayers of other countries, and if they then cannot influence these expenses, then the Monetary union does not work. The world -not only Germany- must set the right priorities in the tasks of the state, instead of always extending them.<sup>14</sup>

There will always be two groups with opposite views on the matter: on the one hand the pro-market economists who say, that spending this big amount of money will slow down

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<sup>10</sup> Ludwig von Mises “socialism” Liberty Fund 1981 p; 450 with reference to his book: “Theory of Money and credit” (1934)

<sup>11</sup> Die Zeit dd 24-10-2019, p. 22 “EZB: Missbrauch als Wirtschaftsregierung”

<sup>12</sup> Die Zeit dd 30-10-2019, p. 23 “Die Geister, die er rief”

<sup>13</sup> Die Zeit dd 1-8-2019, p. 23 “Dann halte lieber still!”

<sup>14</sup> Die Zeit dd 4-11-2021, p. 3 “Eine Falke als Finanzminister”

recovery (why search for a job, if doing nothing is rewarded) and on the other hand the state economists who draw the opposite conclusion: Because helicopter money brings too little, the state must bypass the citizen: and invest in trains, power lines, iPads for children, social housing etc. Larry Summers<sup>15</sup> on the other hand wants to go back to a politics that stops inflation”

This principle has two aspects: “it is affirmative in approving the market’s choice of a commonly used medium of exchange. It is negative in obstructing the government’s propensity to meddle with the currency system. <sup>16</sup>

What is the remedy? What could help against this scenario?

Von Mises proposes the principle of sound money. That means hardly inflation and the Gold Standard <sup>17</sup> But that also means inelasticity<sup>18</sup> and that politicians do not like. They want to-need to -make debts in order to provide a certain level of welfare for their citizens. Then the Gold Standard is restricting the government to keep their budget in control.

Also perpetual vigilance on the part of the citizens could be of help.

Actually the danger lies not so much in the danger of the protagonists as well as in the weakness of the opposition. It is policy<sup>19</sup>.

It would help, when the creating of those bloated money projects would be stopped.

In fact at the moment not the money is scarce, but the resources like Energy, material, manpower. Therefore we do not need new rescuing programs, but less bureaucracy, lower tax rates and more trade. That is a liberal point of view represented by Christian Lindner<sup>20</sup> and he is right.

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<sup>15</sup> Die Zeit dd 27-5-2021, p. 22

<sup>16</sup> Von Mises “Theory of money and credit” p. 455

<sup>17</sup> Von Mises “Theory of money and credit” p. 480

<sup>18</sup> Huerta de Soto Jesus “Money, Bank Credit and Economic cycles”, von Mises institute USA, 2006

<sup>19</sup> Hayek FA “The constitution of liberty” London 1960, p. 337

<sup>20</sup> Die Zeit dd 20-10-2022, p. 3 “Unsterblichkeit bedeutet: Man muss sich im Leben keine Prioritäten mehr setzen”

# Fed's Journey to Low Inflation Always in Doubt But Meanwhile, Euro's Long Journey to Monetary Collapse has Just Gotten Shorter

Written by Dr. Brendan Brown

July 2022

The market reaction to Chief Powell's press conference (July 27) – a jump in the gold price, the US stock market, a fall in the dollar and long-maturity US T-bonds – has been widely attributed to some disappointment about the Fed's seriousness in "overcoming inflation".

Some market participants, at least those who trade on Fed meetings, thought that the Fed and its Chair had converted to the cause of good/sound money – or maybe at least the thought that some investors had become persuaded of this if not themselves.

Chief Powell's decision and remarks concerning quantitative tightening (QT) to cancel forward guidance and instead be guided exclusively by the data releases between policy meetings are critical in indicating a lack of seriousness.

In response to a question, Mr Powell said that it would be two-and-a-half years until the monetary base would return to a normal level, and the Fed did not have much clue where this normal level was in any case.

Any profound journey to good/sound money must involve replacing the present regime focused on the all-important decision to peg policy rates at each meeting with a solid anchoring of the monetary system where the monetary base is set to grow slowly, and interest rates are wholly market-determined.



For such a system to operate, reserves must pay no interest. They must have been reduced to a level where demand and supply for reserves in the overnight market would see rates usually at a significantly positive level.

Political forces may yet emerge that prompt or force the Fed to move in such a direction. The opposition in Congress to the Fed Executive Summary The most critical news in Chief Powell's press conference (July 27) was that it would take two and a half years to get the monetary base back to a normal level (and he has no idea where this is.) Political forces are likely to bring a shift here. The Federal Reserve paying banks vast amounts of interest on their reserve balances is not a prospect which will go down well in Congress. There will be a yearning to return to the pre2008 system where reserves pay no interest. In line with that, reserves would be shrunk to normal. That shrinking in reserves to normal is good news for monetary control. A path opens to the quantity of monetary base again becoming part of an anchoring system for money. That would mean an end to monetary policy-making based on a massive focus on choosing the peg for the policy interest rate and related distorted importance of short-term economic indicators. In contrast, any shift towards a monetary base as an anchor is impossible in the European Monetary Union. Indeed, last week's launch of a new antifragmentation policy instrument by the ECB makes a journey back to a normal monetary base impossible. Instead, in Europe, the journey to an eventual collapse of the euro has just become much shorter. 100 Pall Mall, London SW1Y 5NQ | Telephone +44 (0)203 995 4488 macrohedgeadvisors.com | mha@macrohedgeadvisors.com 2 paying interest to the banks in massive amounts as now foreseen might well grow considerably.

We should also note that the journey back to normal monetary base levels could occur quickly. The Fed could swap its holdings of Treasury bonds and mortgage-backed paper with the US Treasury getting T-bills in exchange; then, it would sell the latter in the markets, in a series of giant auctions, with no direct impact on the price of long-term bonds.

It is a wholly different question when it comes to the ECB. This institution has no possibility of selling off its giant portfolio of loans and paper issued by weak banks and sovereigns.

Before looking at this crucial difference in potential journeys to sound money, let's take an overview of present inflationary conditions on both sides of the Atlantic



## **An Assessment of Trans-Atlantic Inflation Differences**

It is impossible to confidently say whether monetary disinflation is now underway in the US, meaning the money supply persists below the demand for money. Perhaps the most plausible reality is that money is still veering ahead of demand, but by much less than in 2021 and early this year. Built-in price rises in the pipeline may mean that beyond the immediate, demand for money tends to run ahead of supply, indicating some monetary tightness. As these pipeline price rises tend to diminish, most likely occurring already, we may see a new tendency for money to be a new stimulus to inflation. Still, that story most likely lies several quarters ahead of the present. With less than complete confidence but on a balance of probabilities, some monetary tightness is now present in the US. The critical factors in that judgement include the erosion of real money balances by the climb of prices over the past year; and the substantially positive real interest rates now priced in short and medium-maturity US T-bond markets, as revealed in the TIPS market.

This monetary tightness comes after a pandemic spasm followed by a sharp and robust rebound highly skewed in a rotating fashion between economic sectors (first the frenzied buying of consumer durables and stay-at-home technology, now air travel). A sharp slowdown in broad money aggregate growth is part of the present picture.

The monetary tightness has not been sufficient to relieve asset inflation symptoms substantially. Yes, we have had crypto-winter, 100 Pall Mall, London SW1Y 5NQ | Telephone +44 (0)203 995 4488 macrohedgeadvisors.com | mha@macrohedgeadvisors.com 3 and the venture capital market in tech has frozen. But other signs of asset inflation are still robust in some cases: whether still highpriced and, in some instances booming real estate; a private equity sector which is remarkably powerful, at least outwardly; and a broad level of equity markets which are certainly not cheap or even discounting possible severe earnings downturns ahead.

At most, we can say that speculative temperatures have fallen, in some cases sharply. Still, a general pattern of distortions essential to the phenomenon of asset inflation lives on in broad areas, albeit in many cases fraying. The consensus of those who study the data of inflation symptoms in goods and services markets is that a downward trend has

set in. But that is a long way from heralding a substantial, sustained period of price declines ahead, such as would reverse some of the transitory price rises reflecting dislocations and shortages during the pandemic and the Russian War.

Indeed, when it comes to a long-run perspective on the US monetary situation, there is not much to cheer, except on a relative basis vis-à-vis Europe.

The media waves and US political arena is full of stories now about how the Fed and Biden Administration made deplorable decisions on policy through 2021, which in effect continued to fuel demand far above supply. But are now moving forward in ways that fully repent for those errors and may be successful in avoiding a hard landing. But there is no theme in politics or the media that the pandemic and war inflation stem from severe flaws in the present monetary regime – described as the "2 per cent inflation standard" – rather than just faulty judgements of those steering the ship. Still, all hope of regime change is not snuffed out. Some of the ideas are out there – including a reversion to a pre-2008 reserve control system, where reserves at the Fed pay no interest, and QT continues and deepens so that reserves fall to a level which begins to be tight and able to become a lever in overall monetary control.

## **European inflation more menacing than US**

Turning to Europe, by contrast, both the short-term and long-term outlook is now more inflationary than in the US. As measured by the CPI stripped of energy and food, the underlying inflation rate in the eurozone is running at just over 4 per cent, while just below 6 per cent year-on-year in the US. It is likely, though, that this difference in the statistics exaggerates the actual situation. The European index excludes housing versus the US, where rents calculated as "owners equivalent" now contribute substantially to the measured outcome. For example, house price inflation, including rents, has remained strong in Germany and Holland, though some weakening real estate indicators are now appearing. And the US core CPI data 100 Pall Mall, London SW1Y 5NQ | Telephone +44 (0)203 995 4488 macrohedgeadvisors.com | mha@macrohedgeadvisors.com 4 are 150 to 200 bp above other core inflation indicators for the US, in particular, the so-called trimmed mean inflation estimates as produced, for example, by the Dallas Fed (now running at around 4 per cent). We should note that in some European countries, price

subsidies to households help with food and energy costs and bear down on even the core measures of inflation. There is no counterpart to this in the US.

So, 2-year yields on Bunds of below 1 per cent compared to 3 per cent on Treasuries does suggest that the present stance of monetary conditions is easier in the eurozone than in the US – though an overall judgement should strictly depend on analysis of how the money supply is moving relative to demand. Moreover, the euro's plunge against the dollar transmits an inflationary impulse to the eurozone versus a deflationary impulse to the US. When we move to the bigger picture, there is no basis for optimism on Eurozone monetary inflation. The road to any solid anchoring of the European monetary system is blocked by the reality that the ECB has become a mega-bad bank fund.

Let's expand.

### **The ECB's fatal new instrument (TPI)**

The ECB's announcement on Thursday, July 21, of a "new instrument" for tackling "fragmentation risk" is ominous for the future of the euro.

The idea is to pre-empt serious break-up risk for the eurozone as the policy interest rate climbs towards "neutral". Chief Lagarde and her colleagues are determined to pre-empt rate rises from triggering financial stress in the form of market crisis for weak government and bank paper. Saving the euro from high inflation must go along with protecting the monetary union.

The new instrument has dangerous potential side effects which threaten to undermine the monetary union. Using the tool likely means that the new "save the euro" program will not bolster European money confidence.

The "transmission protection instrument" (TPI) will be the catalyst for the accelerated transformation of the ECB into a bloated European "bad bank" fund. This entity enjoys an enormous privilege. Its liabilities mainly circulate the European Monetary Union's money (bank notes and reserves).

Since the EMU crises of 2010-12, the ECB has been the agent who has "communalised" much of Italy's state and bank debt (also 100 Pall Mall, London SW1Y 5NQ | Telephone +44 (0)203 995 4488 macrohedgeadvisors.com | mha@macrohedgeadvisors.com 5 Spain, Portugal and Greece). It has done this by issuing monetary liabilities against big purchases of government paper and long-term lending (called LTROs) into the corresponding weak banking systems (most of all Italy).

This communalisation has created three big problems for the future of the euro.

First, the road back to monetary normality involves shrinking the monetary base (now almost 50% of eurozone GDP, compared to 27% in the US). But how to accomplish this when the ECB would have to dump vast quantities of weak sovereign and bank loans onto the open market?

Second, as interest rates rise, it becomes increasingly problematic whether those weak borrowers can service their loans from the ECB. New loans to pay the interest are a red flag regarding insolvency danger.

Third, the German public's tolerance for the ECB's transformation and its money could snap where the Federal Republic could pull out of the union. Already ECB holdings of loans and government paper issued by weak banks and sovereigns amount to over 100% of German GDP.

In the big picture, we should note no member country, jointly or severally, guarantees the monetary debts of the ECB. If Germany exits EMU, then the ECB's financial liabilities become worth a lot less in real terms (via currency collapse and inflation).

Ultimately, these monetary liabilities might cease to be monetary if EMU ends. Then the ex-monetary liabilities of the ECB would have to find a market price (in terms of real purchasing power) as the paper of a giant bad bank devoid now of monetary function.

Any break-up scenario has enormous costs, including write-offs for the German public. The existential question poses itself: if not now, when?

No one expects the present coalition government in Berlin to make any such decision. But market valuations, including exchange rates, reflect the shifting probability of future catastrophe even far ahead.

According to the official press release on the TPI, the ECB, at its discretion, can engage in unlimited purchases of paper from any member country if it considers the behaviour of its credit spread (say relative to Bunds) as having come out of line "with fundamentals". 100 Pall Mall, London SW1Y 5NQ | Telephone +44 (0)203 995 4488 macrohedgeadvisors.com | mha@macrohedgeadvisors.com 6 If, say, for whatever reason, the spread between Italian and German government bond yields widens in a "disorderly fashion", the ECB can turn on the taps. Yes, it will sterilize the new lending, disposing of German and Dutch paper in the ECB balance sheet to make room for Italian, for example, and so becoming even more of a bad bank.

There are decisive moments in monetary history. July 21 is likely to be one of them as regards the European monetary future.

# Boekbespreking “Pleidooi voor het kapitalisme”

Written by Boudewijn Bouckaert

Emeritus Professor of the University of Ghent

Published by MAKLU (Apeldoorn-Antwerpen)

2021

Een boek met zo een titel schrijven en uitgeven in dit tijdsgewricht, het vergt moed en durf. In zijn inleiding oppert de auteur, docent aan de universiteit van Tilburg, zijn vrees voor ‘deplatforming’ en ‘canceling’ in het academisch leven. Hopelijk loopt het niet zo een vaart.

Het boek is een kanjer van 323 bladzijden, maar dat hoeft de lezer, eventueel niet geschoold in de economische wetenschap, helemaal niet af te schrikken. Het is immers bijzonder vlot geschreven zonder van enige geheimtaal in de vorm van diagrammen, statistieken of wiskundige vergelijkingen gebruik te maken. Anderzijds is het boek verre van oppervlakkig. Appels gaat zeer grondig in op de succesfactoren van het kapitalisme, op de zwakheden ervan en op de kritiek erop. Al zijn stellingen zijn onderbouwd met talrijke voetnoten die meer zijn dan loutere verwijzingen. De meeste voetnoten brengen verdiepende commentaar of meer uitgebreide citaten van de besproken economische denkers.

De hoofdtekst wordt regelmatig afgewisseld met zogenaamde ‘capita selecta’ (CS) waarin dieper ingegaan wordt op een bepaalde stroming in het economisch denken (bv ‘transaction economics’), een bepaald onderwerp (bv. onderwijs en kapitalisme) of een historische casus (bv. de ontwikkeling van de luchtvaart). Deze ‘capita selecta’ kunnen desgevallend overgeslagen worden zonder de draad van het hoofdverhaal kwijt te geraken. Ze betekenen een aanzienlijke verlevendiging van het boek.

Bij het overlopen van de inhoud blijkt dat de auteur allesbehalve een ‘vakidoot’ is. Benevens economische theorie, geeft de auteur blijk van kennis over geschiedenis, politieke theorie en ideologie.

Heel didactisch begint hij met een definitie van ‘kapitalisme’, een begrip waarover talloze misverstanden de ronde doen. Hij definieert het als een systeem van aanbod en vraag, waarbij het aanbod van goederen en diensten verzorgd wordt door een

decentraal systeem van competitieve bedrijven en de vraag gegenereerd wordt door consumenten, die de vrije keuze hebben om met hun inkomen van de aangeboden goederen en diensten gebruik te maken.

Daarop volgt een historische wandeling vanaf de Italiaanse stadstaten tot de kapitalistische ontbolstering van China en India.

Een cruciaal hoofdstuk betreft de kracht van het kapitalisme, theoretisch verklaard. Bijzonder helder legt de auteur uit hoe het systeem van de vrije markt de inzet, de inventiviteit, de innovatiekracht en het gebruik van kennis bij de individuen maximaliseert en daardoor de welvaart bij een groot deel van de mensheid naar ongekende hoogten heeft gestuwd. De auteur legt uit hoe het proces van arbeidsdeling werkt, hoe de transactiekosten in bedrijven worden geminimaliseerd, hoe de bij de mensen verspreide kennis collectief bruikbaar gemaakt wordt via marktprijzen, hoe het winstmotief de bestendige innovatie aandrijft, hoe de markt in zijn geheel hobbelt van het ene onevenwicht naar het andere onevenwicht maar daarbij de allocatie van kapitaal en arbeid steeds efficiënter maakt. Het geheel wordt gespekt met leuke voorbeeldverhalen zoals de ontwikkeling van het internet, waarbij jammerlijk genoeg de familienaam van de enige Vlaming die in het boek wordt vermeld, nl. Caillau, verkeerd wordt gespeld.

De auteur is geen blinde apologet van het kapitalisme. Hij besteedt ruim aandacht aan de zwakheden ervan, namelijk het gevaar op monopolievorming en daaruit volgende superwinsten die niet bijdragen aan de economie, prijsafspraken waarvan hij ons pittige Nederlandse voorbeelden geeft, het gevaar van een vraagimplosie en algemene crisis, het gevaar voor de groei van extreme ongelijkheid en tenslotte het probleem van negatieve externe effecten, die de efficiëntie van de economie kunnen ondermijnen.

Deze zwakheden worden klassiekerwijs als reden aangevoerd voor overheidsinterventie. Ook dit bespreekt de auteur uitvoerig. Hij wijst erop dat de remedie dikwijls erger kan zijn dan de kwaal. Daarbij gaat hij rijkelijk te rade bij de 'public choice'-traditie, die een nuchtere analyse maakt van het overheidsoptreden. Veel overheidsoptreden heeft immers niets te maken met 'het algemeen belang' maar met het vrijwaren van politiek sterke groepen ('gepassioneerde minderheden') die het overheidsbeleid naar hun hand kunnen zetten. Hij wijst erop dat het samengaan van politiek gesteggel en bureaucratisch logica kan leiden tot hopeloos ingewikkelde en inefficiënte beleidsinitiatieven. Dit illustreert hij met sappige verhalen uit de Nederlandse politiek zoals de kindertoeslagenaffaire, de gaswinningsproblematiek, de jeugdzorg, de vluchtelingenproblematiek.

De laatste hoofdstukken zijn gewijd aan de niet-economische sterkten van het kapitalisme. Een aantal publieke voordelen van het kapitalisme zijn in feite onbedoelde effecten van het optreden van door het winstmotief gedreven ondernemers. Onbedoeld



genereren deze ondernemers een grote mate van vrijheid en welzijn voor de burgers. Het winstmotief zorgt ervoor dat we kunnen kiezen tussen allerlei goederen en diensten. Dankzij de door het kapitalisme gegenereerde welvaart kunnen de milieuzorg financieren. 'Wealthy is healthy'.

In een capitulum selectum besteedt de auteur ook ruim aandacht aan het cultuurmarxisme dat zich als de bliksem verspreidt aan de sociaalwetenschappelijke faculteiten in het Westen. In feite is de intellectuele 'bovenbouw' in het Westen marxistisch geworden, terwijl de economische 'onderbouw' kapitalistisch is gebleven. Het marxistisch verhaal is populair bij deze 'post-puberale mi-eduqués' omdat het een simpel verhaal is van goeden en slechten, omdat het deterministisch is en men aldus het gevoel heeft 'aan de goede kant van de geschiedenis te staan' en een goedkoop ticket inhoudt om zich bij de horde van zelfverklaarde kritische intelligentsia te kunnen voegen.

Het boek is adequaat tegengif voor de antikapitalistische hetze die nu door de universiteiten en de politiek waait. Veel argumenten, die door de cultuurmarxistische profeten tegen de vrije markt worden uitgeschreeuwd, kunnen aan de hand van dit boek gemakkelijk weerlegd worden. *Contra principia negantem non est disputandum*, aldus de Romeinen. Wie logica en empirische bewijsvoering aan zijn laars veegt en elk argument voor vrije markt als een uitvloeisel ziet van de kapitalistische samenzwering zal door dit boek niet overtuigd worden. Voor de grote groep die nog open staat voor kritische twijfel kan dit boek wel verhelderend werken.

# Subsidiarity, Secession and the Hayekian ‘Community of Free Men:’ Towards the Maximization of Freedom

Written by Marcos Falcone

## Abstract

### **Can legitimate criticism of contemporary international institutions and the goal of advancing freedom at a global scale coexist?**

The goal of this paper is to propose a consequentialist and a deontological argument that combine the strict enforcement of the subsidiarity principle and the acceptance of secession in order to strengthen multilateral cooperation while maximizing freedom at the local level. In a global context where the relevance of international organizations and nation-states appears unlikely to fade, this solution addresses Hayek’s call for an international rule of law by increasing competitiveness among states but avoids common issues that are associated to the growth of multilateral institutions and fosters self-determination.

## **1. Introduction**

Skepticism about the effectiveness of international institutions is relatively high across the world (Friedrich Ebert Stiftung/YouGov 2021). Seen as a waste of money for taxpayers and as a source of high-paying jobs to an elite that contributes little to fighting authoritarianism and poverty in the world, multilateral institutions have come under attack in countries like the United States, which under the guidance of former President Donald Trump even withdrew from organizations like the UNESCO. Institutional criticism notwithstanding, the benefits associated to multilateralism are impressive. In particular, global trade has created enormous amounts of wealth across the world and has enabled billions of people to get out of poverty in just one century (Roser and Ortiz-Ospina 2013; Winters and Martuscelli 2014). And while it could be argued that free trade can theoretically take place without the existence of international institutions, existing

evidence shows a strong link between both of them. Indeed, major advances in free trade have occurred in the context of the development of organizations and agreements like the European Union, the North American Free Trade Agreement or the Trans-Pacific Partnership. This essay was presented at the Mont Pelerin Society meeting in Oslo where it won second place in the 2022 Hayek Essay Contest. Furthermore, multilateralism is not just linked to economic growth, but also to an increased number of liberal democracies (Desilver 2019) and the improvement of existing ones (Keohane et al. 2009). There is evidence that international organizations act as positive incentives for countries which transition to democracy (Keohane et al. 2009; Poast and Urpelainen 2018), which is understandable: The discourse that emanates from international organizations is eminently liberal in the sense that it opposes authoritarianism and supports democracy, a tendency that has been growing in recent years (Dingwerth et al. 2020). Of course, the existence of just one world makes it impossible to know what would happen in an alternative reality and determine whether international organizations cause economic growth or democratization. At the very least, however, the principles of multilateralism reflect those of globalization in terms of tolerance, openness and free trade, and the existence of international organizations still enjoys widespread support from governments around the world (Fagan and Moncus 2021). The idea that these organizations could dissolve themselves is, moreover, nonsensical, since all of their incentives align against such an outcome. Thus, the international order is likely to continue as it stands today, and those who seek to defend freedom at a global scale must then think of international organizations as a given. In this paper, we explore two relatively minor changes to the international order of the early 21st century which could result in greater levels of freedom at a global scale: A stricter enforcement of the subsidiarity principle and the acceptance of secession. In the second section, we analyze these proposals separately from a deontological and a consequentialist perspective. Following that analysis, a third section presents one current example of how the proposed changes could work at a different level: the case of Switzerland. In the fourth section, we examine the compatibility of the paper's proposals regarding subsidiarity and secession with Hayek's goals towards the international order. A fifth and final section summarizes the discussion and contains final remarks.

### **2.1.1. The Deontological Argument for a Strict Enforcement of the Subsidiarity Principle**

The principle of subsidiarity is generally understood as the idea that public issues must be managed at the most local level possible. This seems straightforward: From a classical liberal standpoint, a principle that brings political power closer to the people must be supported. However, some international organizations interpret the subsidiarity principle in ways that are potentially dangerous. The European Union, for example, states in Article 5, Section 3 of its Constitution: Under the principle of subsidiarity, in areas which do not fall within its exclusive competence, the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level. [Italics added.] This interpretation of the subsidiarity principle allows for the possibility of intervention if bureaucrats think they will perform better than local officials with regard to any given issue. In the case of the European Union, this ‘loophole’ exists because the subsidiarity principle is coupled by the conferral principle, which says that members of the EU must explicitly state which competences are to be given to the international organization. This situation makes for a ‘loose’ version of the subsidiarity principle in the sense that, by itself, it cannot guarantee the absence of interference by the international organization. Thus, a ‘strict’ version of the subsidiarity principle must be defended by classical liberals and libertarians if the world is to minimize the degree of intervention of states and international organizations in daily life and maximize freedom. The subsidiarity principle must always be presumed to apply to competences which are explicitly given by states to international organizations in a way that precludes a potential overlap of intervention.

### **2.1.2. The Consequentialist Argument for a Strict Enforcement of the Subsidiarity Principle**

If subsidiarity is to be understood in a ‘weak’ way, there is not just a possibility for illegitimate competence overlapping, but also for inefficiencies and higher costs for citizens. If an international organization is in charge of a policy that is also enacted at the national level, then citizens are simultaneously paying for two bureaucratic structures, at least one of which must be presumed superfluous. Whenever competences are not strictly defined, there is an opportunity for unwarranted bureaucratic growth. In South America, for example, the Mercosur organization has created a parliament that cannot pass legislation. Indeed, ‘Parlasur’ can issue recommendations and approve resolutions, but none of its decisions are binding for member states. Such a situation could not have arisen had Mercosur’s competences been clear from the beginning. However, the ambiguity in

the definition of responsibilities created room for waste. Clear rules, once defined, must also be enforced, something that is far from guaranteed. During the Brexit referendum campaign, for instance, one of the main arguments used by the Leave camp was that the United Kingdom paid an annual 13 billion pounds to the EU (in 2016 figures). At the time, those who supported staying in the EU argued that most of that money actually returned to the UK, for example, in the form of agricultural subsidies in poor regions (Henley 2016). But this means that the subsidiarity principle was not being followed: Why would a decision on subnational-level subsidies be taken outside of a country? This example shows the need to define the subsidiarity principle and enforce it. Otherwise, the resulting duplicate structures can contribute to the erosion of trust in international organizations which, in the case of the UK, would eventually lead to its exit from the EU. In any case, the 'cost' factor is far from irrelevant as a criterion for people to judge international organizations. A stricter enforcement of the subsidiarity principle would help in forcing international organizations to spend the least possible amount of money in areas that explicitly (and rightfully) fall under their competence.

### **2.2.1. The Deontological Argument for Secession**

Despite current and potential problems with not enforcing 'strict' subsidiarity, the principle itself does not normally come under attack and can be presumed to still enjoy widespread support. The second part of the initial argument for maximizing multilateral cooperation and freedom, i.e. the justification of secession, is more controversial. Why is secession morally acceptable from a classical liberal standpoint? Logically, secession necessarily brings government closer to people. An increase in the number of states while population figures are constant will always result in more bureaucratic structures to the service of relatively fewer people. This change is not just a mathematical consequence of secession, but also a purposefully defining feature of the new state: Secession can be such a costly process for those involved that the satisfaction that new citizens get is not necessarily related to state capabilities. The mere fact that there be a new state is, after all, the goal of secessionists. Bringing decision-making closer to the people is a process that can actually be supported by different kinds of liberals. In a context of increased secession, those who understand liberty in a 'negative' sense (in terms of Berlin 1958) will approve of the fact that decisions are made at lower levels, since citizens are then more likely to effectively defend their sphere of autonomy. At the same time, however, those who understand liberty in a 'positive' sense will appreciate the increase in opportunities to get involved in public affairs at the local level, given that secession

brings the community closer together. In conclusion, for those who cherish freedom in either of its predominant connotations, there is no contradiction in supporting secessionist movements.

### **2.2.2. The Consequentialist Argument for Secession**

Why is secession justified from a consequentialist standpoint? The classical liberal answer is straightforward: Secession is efficient in maximizing freedom. It is not just fair that citizens get the new identity they want in the form of a new nation-state, but also optimal in that those preferences are better accommodated under the new conditions. Furthermore, the increase in competitiveness among states forces them to offer better conditions to their citizens if they wish to retain them. It is not casual that competition is credited with deregulation and the lowering of fiscal pressure at the national level (as in the case of the United States) but also at the international level (as in the case of Ireland within the European Union, for example). By increasing the number of competing states, it becomes harder for them to agree on tax levels and regulations, which allows for the possibility of a 'race to the bottom' that usually hurts state revenue while benefitting taxpayers and investors (Edwards and Mitchell 2008). More generally, competition also offers people more possibilities to leave their countries if they start to lose freedoms. A world with more states is a world that offers more possibilities to migrate, provided that barriers to free movement remain constant. Critics of secession from a consequentialist standpoint may point to the potential dismantling of economies of scale as an inefficient effect of secession. However, existing evidence is mixed: Though recent data suggest that newly formed countries bear large economic penalties as a result of becoming independent (Madiès et al. 2018), the same authors and others find that this is not necessarily true for peaceful secessions (Rodríguez-Pose and Stermšek 2015). In any case, even if the economy suffered from a secessionist process, the positive consequences that have been outlined above would still hold.

### **3. A Potential Model: Switzerland**

The case that best exemplifies a kind of institutional order that fosters subsidiarity and secession is that of the Swiss Confederation. A federation that features coexisting units which retain high levels of autonomy and differ starkly in terms of size and culture, Switzerland is notable for being one of the most decentralized countries in the world (for a thorough description of the Swiss political system see Klöti et al. 2007). In some ways, the institutional arrangement by means of which Switzerland is governed resembles that



of international organizations. The central government is led by one of seven members of a council; the President's office is not only largely ceremonial, but also rotates every year. Furthermore, all Swiss major parties are represented in the same proportions in the federal government, which controls relatively few resources compared to the cantons. Indeed, these subnational units retain a very high level of political autonomy through their own constitutions and compete against each other in fiscal terms (Alber and Valdescalici 2012). Many of these characteristics are to be found in virtually all international organizations where the key to survival is the stability of the institution rather than the success of a particular leader: ceremonial leadership, guaranteed representation for all, and self-determination of the constituting parts. In this context, direct democracy is a defining feature of the Swiss Confederation. Most notably, constitutional changes need to be confirmed or rejected by the public via referendums, but it is also possible to challenge existing legislation. Underneath these national processes also lies a complex system of subnational decision-making that allows citizens to engage at a local level on everyday measures. In terms of the argument previously advanced, Switzerland is a good example of a federation that brings together a heterogeneous mix of subnational units in one institutional order and explicitly sets boundaries for the central government to act, which provides a model for supranational organizations that struggle to incorporate countries from different cultural backgrounds and could (if replicated) create the conditions for the acceptance of secession at that level. Moreover, by respecting the political and economic autonomy of cantons and by featuring constant local-level democratic checks, the Swiss Confederation strictly embraces the subsidiarity principle. These are the reasons why Switzerland looks like a model for those who support subsidiarity and secession. Indeed, the Swiss political system has performed so well in bringing about economic success while integrating diverse cultures that it has been proposed as a model for other countries (Linder and Mueller 2021) but also higher-level institutions such as the European Union (Vatter 2018). If a system with relatively unimportant leadership and the constitutionally guaranteed prevalence of its constituting units works so well at the national level, it may be worth applying it at the international level as well.

#### **4. Towards the Hayekian 'Community of Free Men'**

The argument of this paper is 'liberal' in that it aims to maximize freedom at the global level through a kind of multilateralism that simultaneously enlarges international organizations (by allowing secession) but places more limits on their power (by strictly applying subsidiarity). To test the compatibility of the argument with the liberal



mainstream, one can hardly make a better contrast than with Friedrich Hayek's ideas, since he was one of the most successful intellectuals of this tradition in the 20th century. In this section, it will be argued that the argument for secession and strict subsidiarity fulfills Hayek's goal of achieving an international 'community of free men'. In *The Road to Serfdom*, Hayek stated that an international authority which effectively limits the powers of the state over the individual will be one of the best safeguards of peace. The international Rule of Law must become a safeguard as much against the tyranny of the state over the individual as against the tyranny of the new super-state over the national communities. Neither an omnipotent super-state, nor a loose association of 'free nations', but a community of nations of free men must be our goal. (Hayek 1944:242) It is crucial to put this quote from Hayek in the appropriate historical context. By 1944, almost all liberal democracies in Europe had fallen. The League of Nations, created after the end of World War I, had failed to prevent yet another large scale war in just a few decades. Since 1914, Europe (and, increasingly, other parts of the world) had experienced thirty years of instability, tyranny and death. In a continent that produced Hitlers, Mussolinis and Stalins, it comes as no surprise that Hayek was skeptical of 'loose' international solutions for the problem of protecting freedom. But Hayek was far from demanding an international government in the way this concept could be interpreted today. Indeed, he deemed the idea of a powerful international administration 'impracticable' (Hayek 1944:239). In 'The Economic Conditions of Interstate Federalism,' Hayek stated that any international authority would have to be "restricted in scope" (1939:264) and actually argued that "there would have to be less government all round if federation is to be practicable" (1939:266, italics added). Indeed, in asserting that international government was needed, Hayek was actually advocating for federalism. Hayek argued in favor of a "Union that becomes one single market" (1939:258) but also admitted that, because of cultural differences, people would be reluctant to hand powers to a "government... composed of people of different nationalities and different traditions" (1939:264), all of which points to a kind of federalism where the 'central government' is relatively weak at most. In *The Road to Serfdom*, he explicitly acknowledged that the form of international government under which certain strictly defined powers are transferred to an international authority, while in all other respects the individual countries remain responsible for their internal affairs, is, of course, that of federalism. (Hayek 1944:239) But even if Hayek's assertions were considered to favor a relatively more encompassing international authority, such an argument should be qualified based on the whole of Hayek's intellectual trajectory. Decades after the World War II, Hayek would actually warn in *Denationalisation of Money* about measures like a single currency for Europe (1976:24). In the late 1970s, he would also complain about measures taken by the United

Nations against individual countries which, according to him, were arbitrary and contrary to the rules that were supposed to govern the institution (Hayek 1978:44-45). While not going so far as to reject the authority of the United Nations, these observations should caution against reaching premature conclusions about Hayek's stance on 'international government' based solely on his early thought. In fact, Hayek's initial insights on the international order in the 1930s and 1940s are rather contrary to the theories of institutional organization that he later proposed at the national level, in which the role of spontaneous development over history was central (see Hayek 1960 and 1978). This contradiction may not have been directly apparent given that the international order did not become his main research subject over the years (probably because of the relatively lower relevance of this problem after 1945), but it does surface when taking in consideration his later work. If Hayek was skeptical of a monetary union for one continent and criticized boycotts against individual countries, why would he favor the institution of an all-encompassing supranational government for the entire world? Van de Haar contends that "Hayek never applied his idea of spontaneous order to world politics" (2011:105). But if that exercise is done, the conclusion is that Hayek's early goal of protecting peace and liberty can be fulfilled by later Hayekian ideas that were seemingly unrelated and yet simultaneously foster cooperation and autonomy. Most of Hayek's quotes on the international order were produced in the 1930s and 1940s, but most of his work on spontaneous order and the errors of central planners appeared in the 1960s and 1970s. The Hayek who wrote *The Fatal Conceit* is definitely not the same as the one who wrote *The Road to Serfdom* (though one can find early traces of his later thought in papers like 'The Use of Knowledge in Society'): To be sure, Hayek's ideas have evolved, but just as importantly, the international context has significantly changed. The Hayekian "community of free men" can be achieved without supranational government.

## 5. Conclusions

When examined closely, Hayek's argument for maximizing liberty at a global level looks similar to the case of this essay. For one thing, the ultimate goal of protecting individual freedom is exactly the same, but even the mechanisms for defending liberty are similar: What we call a 'strictly defined subsidiarity principle' is barely an extension of the 'definitely limited powers' for which Hayek called when instituting an international authority (1944:239). Additionally, our recognition of the cultural differences that typically foster secession is also acknowledged by Hayek, who rejected the idea of imposing an all-encompassing international government precisely because of the

potential issues involved. In this regard, the case of Switzerland, which represents the most functional form of a federalism where the central authority is largely irrelevant, appears as a model for the international community. The only major difference between Hayek's argument and the one that was presented in this paper lies in the threats of the context: While he was seeing a world full of violence and death due to global wars, the problems that we nowadays face (such as 'trade' wars or localized conflicts) pale in comparison. Hayek said that "unquestionably, the main purpose of interstate federation is to secure peace" (1939:255), and this purpose appears to have been achieved: As long as the United Nations has existed, and even if it has not been able to prevent several local wars, no World War III has taken place. In the 21st century, it is sensible to devise institutional arrangements that protect individual liberty. Despite the progress that has been made in the 20th century, the defense of freedom is not necessarily a defining feature of all nations around the world. The subsidiarity principle and the acceptance of secession, in this regard, are tools that help strengthen international organizations while allowing existing countries to retain their autonomy and new ones to rise, all of which fosters competition and maximizes freedom at the global level. Placing strict limits by enforcing subsidiarity while allowing for secession could also result in a popularity increase for international organizations. In the case of the European Union, for example, it is reasonable to suppose that there would have been little reason for the United Kingdom to leave the organization if its competences had not been perceived as too farreaching. But the Leave campaign would have also suffered if Scotland had been invited to stay in the EU, something at which Scottish citizens clearly hinted in the ballot box. An expanded European Union in terms of member states but restricted in scope would likely serve Europeans better than it does today. To conclude, the key to this paper's proposal is to support, not undermine international organizations. In an ideal world, of course, liberals would like to see no monopolies of force at all. But in the world in which we live today, where individuals accept the existence of nationstates and where minorities rightfully demand that their cultures be respected through independence, it is worth accepting diversity while acknowledging that it is not desirable (nor necessary) to impose a supranational government to maximize liberty. A strictly defined subsidiarity principle and the acceptance of secession can make a decisive contribution to the rise of a Hayekian community of free people.

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# Economic Perspectives

Written by: Emile Woolf

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## **The level of economic understanding has never been lower**

My last essay focused on the sheer insanity of current pseudo-Conservative policies. I sent it out on the “Going-Postal” blog platform, and was rewarded with some 3,700 responses, several of which went to the heart of the subject-matter of the essay. Their consistent theme was bewilderment that a Prime Minister elected to act on principles of low taxation, free trade and post-Brexit dismantling of bureaucratic regulation was instead implementing policies that embody the very opposite.

Well, he has now met his come-uppance and been forced out of Downing Street – yet it’s a tragic reflection on the caliber of UK governance that those key ministerial resignations and the ousting of the PM were triggered, not by the destructive perversity of its policies, but by widespread revulsion at repeated episodes of sleaze, dishonesty, lying and deception.

In a moment of reflection I revisited the ancient Hindu text on the four great cosmic cycles. The hallmark of the first cycle is that the people do not know they are being governed; in the second cycle they revere their leaders; in the third, they respect them. In the last cycle, the Kaliyuga, or age of the beast, they revile their leaders. Any suggestions on where we are?

## **Supply-side reforms**

In that essay I set out the rules of supply and demand that, “all other things being equal”, dictate the price level. I explained why the Keynesian demand-management formula for kick-starting a flagging economy is pure fantasy – as we now know after a decade of unbridled money-printing. In one of the last speeches of his comparatively brief tenure Boris Johnson cited his determination to emulate Margaret Thatcher’s legacy. But he failed to make any reference to the “supply-side” of the economy, the reform of which was her most significant contribution – and, incidentally, the basis of her uniquely positive collaboration with President Ronald Reagan.



The term “supply-side” distinguishes *production* from *consumption* which, by and large, looks after itself if markets are allowed to operate freely. An increase in the supply and availability of goods and services (not through government price-controls or any other form of state intervention) causes their market price to fall quite naturally. The reason Johnson didn’t refer to supply-side deregulation is that, despite all his familiar bluster, his grasp of basic recipes for growth has always been negligible. Indeed, few, if any, of the current crop of top-job contenders show any real understanding of the most needed policies, or of having learnt anything from past fiascos.

### **Declaration of unilateral free trade**

The economic philosophy that should have been introduced after the 2019 election would have embraced a declaration of unilateral free trade. Instead we are mired in the deepest round of protectionism for a generation. Tariffs slapped on imports of foreign steel make it more expensive for use in housebuilding, construction and heavy industry. If foreign producers can provide us with high-grade steel at lower prices, vote-seeking politicians who force us to pay for higher-priced domestic steel should be sacked. Far better to dismantle the regulatory regime that increases our domestic costs. Any half-decent trade secretary should repeat it daily: “*tariffs hurt only the countries that impose them – domestic consumers are always the losers!*”

### **Central banks are in panic-mode**

Having spent most of last year in denial, arguing that all those severe inflationary indications were merely transitory, central bankers now facing the consequences of their orgy of monetary expansion don’t know where to turn. They are confronted by the worst of all worlds: a brutal recession and runaway prices – yes, both.

Let’s dream that our policy-makers suddenly become capable of clear thought. (*I know that’s far-fetched, but indulge me!*) The Chancellor in my dream recognises that printing still more money, the standard remedy for every setback, has been a cause, not a cure, of the nation’s woes and is now strictly a *no-no*. Since our dream clearly sets no limits to fantasy, it even has the Treasury *reducing* the tax burden. Take fuel prices: the largest slice of petrol and diesel costs at the pump goes directly to the Treasury. It is therefore in its gift to funnel it straight back to households and businesses by cutting the tax component in energy and fuel costs.

In my dream a new chancellor concedes that his predecessor's plan to raise corporation tax to the French level of 25 per cent next Spring is not, after all, the greatest idea for helping ailing businesses to weather the cost-rises they now face, nor for making post-Brexit Britain more competitive. My new chancellor has decided to update income and inheritance tax brackets in line with inflation – thereby reversing Sunak's decision to freeze existing brackets, which dragged two million people into higher tax brackets since our "low-taxing" Tories won the 2019 election. He loved the way that government-induced inflationary momentum increases the tax haul without having to pass any further unpopular budgets.

### **Tax reform? There's no method in this madness**

The government's manifesto undertakings have fallen by the wayside. All its avowals of faith in the economic benefits of low taxes have been shown to be lies from the start. Conservative UK is now without doubt a "high-tax" jurisdiction. Over the past five years it has lost 12,000 higher-earners following the surge in inheritance tax bills and repeated Sunak-style tax raids, not to mention his wholly unprincipled proposals for a swingeing wealth tax. Will the next Chancellor recognise that, whatever populist label he attaches, *all* taxes are ultimately borne by people who detest a faceless authority pretending to know how to spend other people's money better than they do themselves?

Had Johnson been true to the principles that got him elected he would have known that inheritance and capital gains taxes are just about the most pernicious ever contrived, being taxes on the inflation inflicted by government itself, levied on money that has already been taxed. VAT too is the work of the devil, being a sales tax that penalises all commercial activity and hobbles growth.

### **Globally determined tax rates**

Our appallingly unprincipled notions of taxation are reflected in our signing-up to President Biden's initiative, unveiled at October's G20 Summit, of establishing a minimum global corporate tax rate. Supported enthusiastically by the EU, the nonsense Biden spouted claimed this was a huge step towards a "fairer" global economy. As you would have expected, the French finance minister whooped that *"the race to the bottom is over - this will stop companies shifting profits to lower-tax jurisdictions and compel tech companies to pay their fair share"* – as if those mentally challenged fools, steeped in the

miasma of socialist wealth redistribution ideology, are capable of knowing what's "fair", having for so long been cocooned from any need to work themselves.

Biden's proposal to impose a minimum global corporate tax rate of 15 pc was signed up to by 136 countries under the banner of ending "harmful tax competition" and raising extra revenue of \$125bn for participating governments round the world. Yet hardly any of those he arm-twisted into signing up have actually implemented it. Hungarian and Polish businesses, for example, have refused outright and in the USA the Republicans are blocking the deal's ratification. Even the pro-EU Irish government, with one of the lowest corporate tax rates in the world at 12.5 pc, has said it will not raise it to 15 pc until the rest of the world implements it!

If companies see advantage in shifting operations to places where they are charged less for existing there, so be it. Global competition is one of the most effective ways to curb the voracity of finance ministers. Biden's sole motivation was to reverse Trump's tax cuts and raise more money for his own extravagant spending programmes. *In any case who, in their right mind, would vote for globally imposed tax rates over which national administrations have no control?*

The single most crucial need for a new government is to cut state spending – and being dumped in the current economic morass should encourage some straight thinking. Yet welfarism reigns supreme, even to the extent of abandoning conditionality when benefit-seekers turn down jobs or miss interviews, despite today's extreme labour shortages. The discipline of limiting benefits to people who are actually needy is as remote as ever.

What an opportunity for a shift to real, positive, growth-oriented policies. We live in hope!

## Celebration of LVMI 20th anniversary

Organised by: The Ludwig Von Mises Institute – Europe

Date: Wednesday, October 12<sup>th</sup>, 2022.

Venue: The Club Royal des Guides

### **Speakers:**

- Annette Godart-van der Kroon, President, LVMI-Europe (LLM)
- His Excellency, Prof. Dr. Herman de Croo, Minister of State, Honorary President of the Chamber of Representatives, Former Minister and Member of Parliament. High Patron of the Ludwig Von Mises Institute-Europe.
- Dr. Andreas Schwarz, Director of Revenue and Multiannual financial framework European Commission, Directorate-General for Budget.

**The dinner** commenced with Mrs. Godart-van der Kroon giving a speech about how the organization was established and the accolades LVMI-Europe has claimed since its inception. The President also spoke about the organizations next publication called “The Austrian School of Economics in the 21st Century” that will be released at the end of this year.

This speech was followed by His Excellency, Prof. Dr. Herman de Croo, who discussed the necessity of refugees and immigrants integration within EU society. He pointed to education being an important tool not only for integration into society, but to create a more unified community within the EU. Encouraging more integrated pedagogical practices at the primary level was introduced as an extremely important measure for securing children’s inclusion into society. Dr. de Croo’s speech echoed the drive and ability of the EU to move forward towards a more unified future. In the face of crisis and mass movement of immigrants, his sentiments were focused on maintaining the rights and human liberties of our society through community building at an early age.

To conclude the speeches, Dr. Andreas Schwarz, Directorate-General for the Budget, explained how classical Liberalism and the Budget can co-exist and must not be a place for political division. He explained how liberal thinking can harmonize with European integration. One example was the discussion around the amount delegated to the Common Agriculture Policy. While many argue that too much time and money is spent

on this policy, Dr. Schwarz noted how the effort to maintain food prices and production has kept EU food security relatively stable since the start of the war in Ukraine.

The discussion of building an EU defence, Common Agricultural Policy, Next GenerationEU, and how the Multi-Annual Financial Framework can be discussed as a way to strengthen the future of the EU in times of crisis.

The dinner continued with pleasant conversation and discussion.

# European Union Legislation

## Commission Implementing Regulation (EU) 2022/2268

:terminating the 'new exporter' review of Implementing Regulation (EU) 2019/1379 imposing a definitive anti-dumping duty on imports of bicycles originating in the People's Republic of China following an interim review pursuant to Article 11(4) of Regulation (EU) 2016/1036 of the European Parliament and of the Council and terminating the registration of imports

## Council Decision (EU) 2022/2296

on guidelines for the employment policies of the Member States

## Commission Delegated Regulation (EU) 2022/2175

: supplementing Regulation (EU) 2021/1060 of the European Parliament and of the Council regarding the definition of unit costs and establishment of amounts for financing not linked to costs for certain operations facilitating the integration of young persons into the labour market, education and society in the framework of the 'Aim, Learn, Master, Achieve' (ALMA) initiative

## Commission Delegated Regulation (EU) 2022/2113

: supplementing Regulation (EU) 2020/1503 of the European Parliament and of the Council with regard to regulatory technical standards for the exchange of information between competent authorities in relation to investigation, supervision and enforcement activities in relation to European crowdfunding service providers for business ( 1 )

## Commission Delegated Regulation (EU) 2022/2118

: supplementing Regulation (EU) 2020/1503 of the European Parliament and of the Council with regard to regulatory technical standards on individual portfolio management of loans by crowdfunding service providers, specifying the elements of the method to assess credit risk, the information on each individual portfolio to be disclosed to investors, and the policies and procedures required in relation to contingency funds ( 1 )

Commission Implementing Regulation (EU) 2022/2189

mending Implementing Regulation (EU) 2021/1784 imposing a definitive anti-dumping duty on imports of aluminium flat-rolled products originating in the People's Republic of China

Council Decision (EU) 2022/2197

: on the position to be taken on behalf of the European Union within the Specialised Committee on Road Transport established by the Trade and Cooperation Agreement between the European Union and the European Atomic Energy Community, of the one part, and the United Kingdom of Great Britain and Northern Ireland, of the other part, as regards the technical and procedural specifications of the use of the Internal Market Information System (IMI) by the United Kingdom and the amount and modalities of the financial contribution to be made by the United Kingdom to the general budget of the Union in respect of the cost generated by its use of IMI



## Membership in the LVMI-Europe

LVMI-Europe's Individual Membership Program offers journalists, executives, politicians, civil servants and other individuals the opportunity to stay informed and learn about European and international politics and economics from a liberal, yet nonpartisan point of view.

### What we offer

**Stay updated** ~As private member, you will receive LVMI-Europe's extended monthly newsletter informing you about all relevant events.

Our newsletter covers the latest events organized by the institute, announces future events, comprises exciting articles and summarizes the most interesting conferences in Brussels. LVMI-Europe will be your window to European and international politics and economics and will provide you access to independent and liberal studies, opinions and publications.

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- Free access to regular LVMI conferences or a reduction when entrance fee is demanded;
- LVMI-Europe's monthly newsletter;
- Free access to LVMI-Europe research papers, articles and publications;
- Regular information on important events in Brussels;
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