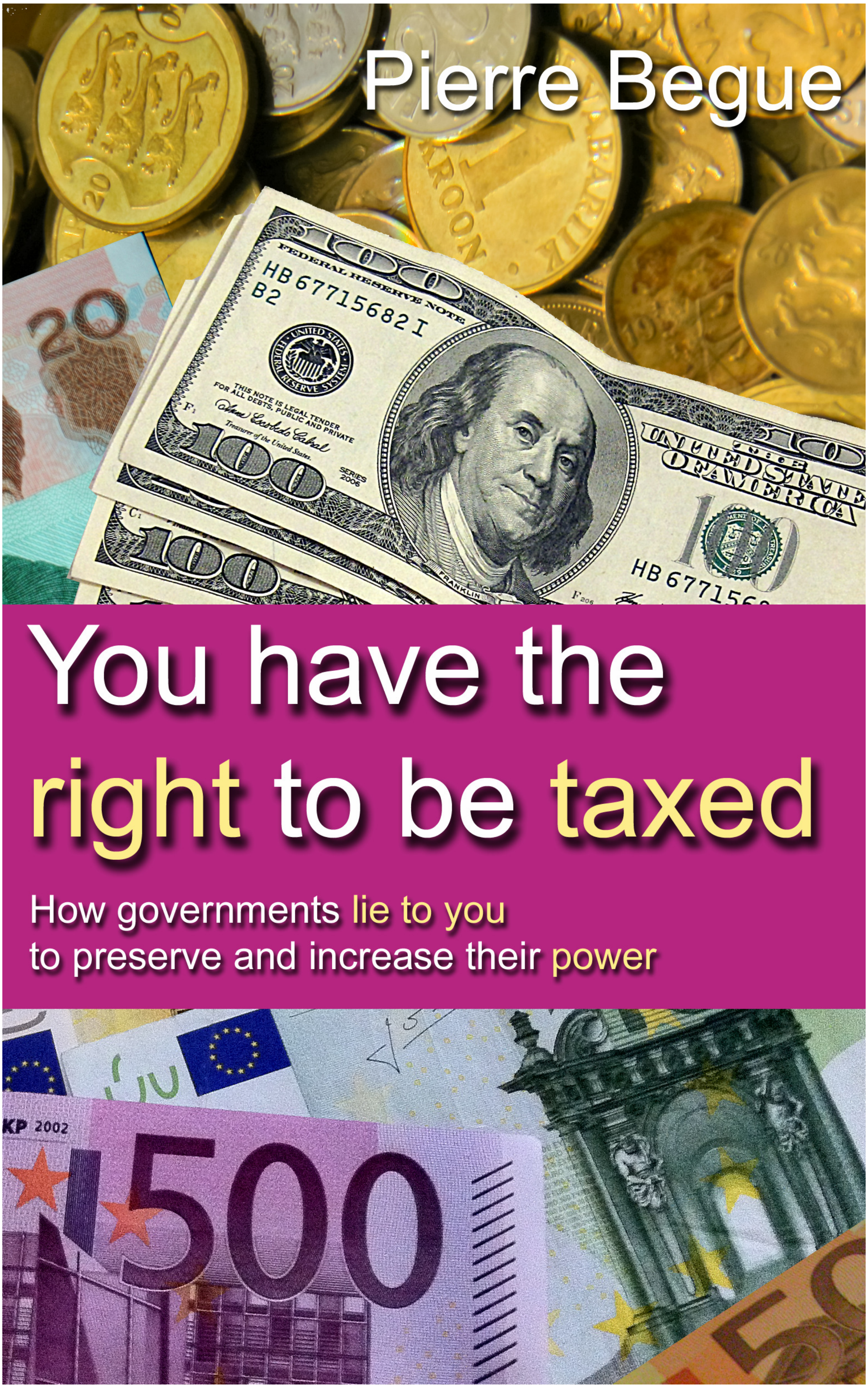

Pierre Begue
You have the right to be taxed
How governments lie to you
to preserve and increase their power

You have the right to be taxed

Decree 1

All citizens have an inalienable right to be taxed, to be a serf,
to be brainwashed by television and by schools,
to pay for the unearned benefits of others.

Decree 2

Decree 1 defines the full extent of your rights as a citizen
unaffiliated with the elite political class.

Guidelines For Newly Appointed Politicians

The purpose of the state is to ruin the economy.
The state does this with a three-pronged attack.
From the poor, it takes away the will to work.
From those who work, it takes away the fruits of their labour.
From the wealthy, it takes away the will to launch businesses.

Author: Pierre Begue

International performance chart

Government spending as percentage of GDP in 2011. Source: Heritage Foundation & Wall Street Journal

Singapore	Hong Kong	China	Switzerland	Japan	US	UK	Sweden	France
17	18.6	20.8	32	37.1	38.9	47.3	52.5	52.8

Unemployment rates in 2011. Source: CIA World Factbook

Singapore	Hong Kong	China	Switzerland	Japan	US	UK	Sweden	France
2.0%	3.4%	6.5%	3.1%	4.6%	9.0%	8.1%	7.5%	9.3%

Public debt as percentage of GDP in 2011. Source: IMF World Economic Outlook Database

Singapore	Hong Kong	China	Switzerland	Japan	US	UK	Sweden	France
100.8%	33.9%	25.8%	48.7%	229.8%	102.9%	82.5%	37.4%	86.3%

Budget surplus or deficit as percentage of GDP in 2011. Source: CIA World Factbook

Singapore	Hong Kong	China	Switzerland	Japan	US	UK	Sweden	France
1.3%	3.5%	-1.1%	0.5%	-8.9%	-8.6%	-8.3%	0.1%	-5.4%

Number of companies registered per 1,000 people in 2003. Source: www.nationmaster.com. (US:2010)

Singapore	Hong Kong	China	Switzerland	Japan	US	UK	Sweden	France
74.6	98.8	3.2	42.4	20.0	23.9	33.8	33.0	41.5

International Dollar GDP PPP (purchasing power parity) per person in 2010-2011. Source: IMF

Singapore	Hong Kong	China	Switzerland	Japan	US	UK	Sweden	France
59,711	49,137	8,382	43,370	34,740	48,387	36,090	40,394	35,156

Suicides per 100,000 people per year. Source: World Health Organization and Wikipedia

Singapore	Hong Kong	China	Switzerland	Japan	US	UK	Sweden	France
10.3	14.6	22.2	18.0	23.8	11.8	6.9	12.7	16.2

Life expectancy at birth in years in 2012. Source: CIA World Factbook

Singapore	Hong Kong	China	Switzerland	Japan	US	UK	Sweden	France
83.8	82.1	74.8	81.2	83.9	78.5	80.2	81.2	81.5

Murder rates per year per 100,000 inhabitants. Source: United Nations Office on Drugs and Crime

Singapore	Hong Kong	China	Switzerland	Japan	US	UK	Sweden	France
0.3	0.2	1.0	0.7	0.4	4.2	1.2	1.0	1.1

Part I Democracy

Direct democracy, representative democracy, benevolent monarchy

If we compare the relative success of countries like Switzerland, Singapore and the UK, a pattern seems to emerge and that pattern is not favourable to representative democracy.

Representative democracy as practised in the UK seems to bring all the negatives of the idea of democracy while bringing few of its benefits. The negatives include:

- Cost of organising elections
- Cost of maintaining the institutions of democracy
- Cost of maintaining the institutions of monarchy
- Cost and instability associated with frequent government change
- Government policies focused on the short term, never on the long term
- Government policies focused on overspending, never on saving
- The will of the people is routinely ignored and barely counts during elections.

Out of the three countries, the UK is the one that performs the worst economically.

Switzerland, out of all the countries in the world, is possibly the one closest to a system of direct democracy. At the other end of the democratic spectrum, Singapore has elections but is effectively led by a benevolent monarch.

It could be said that the Swiss system is one that offers a low-risk, low-reward approach while the Singaporean system is one that offers a high-risk, high-reward approach.

The Swiss system is safer because the will of the people is unlikely to change radically over a short period of time. For example, when people are given the freedom to choose, they tend to prefer for their country to be peaceful and avoid interventions in the international scene.

On the other hand, the Singaporean system is more at risk of a radical change because it depends on a few key personalities. Though the current leader is clearly benevolent, long-termist and competent, no guarantee exists that future leaders will have the same qualities.

Furthermore, the Swiss system is a low-reward system because it suffers from the usual defects of democracy as highlighted by the ancient Greek philosopher Plato and others.

For example, the Scottish historian Alexander Tytler once said: 'A democracy [...] can only exist until a majority of voters discover that they can vote themselves largess out of the public treasury.'

Singapore suffers from no such defect. Its government has the power necessary to keep the size of the state to a minimum level and preserve an effective justice system.

Like so many European countries with unsustainable spending, Switzerland forces its citizens to pay for the health care of others, through the compulsory health 'insurance' system.

Singapore subsidises the health care costs of the poorest and forces its citizens to save some of their income, but it does not force them to participate in a communist-style healthcare system. Likewise, Hong Kong subsidises hospitals but it does not force citizens to participate in a communist-style health care system.

Due to its democracy, Switzerland has expanded its public sector beyond reasonable limits. This is clear when looking at the percentage of the GDP that is spent by the public sector of each country. The UK is suffering even more from this symptom, with a ballooning state debt and state intervention in every sector of the economy.

Government by council

In China and particularly Hong Kong we have a slightly different system of government which seems more apt to protect individual economic freedoms and capitalism than representative democracy.

This system basically forgoes democracy and employs age and ability requirements to appoint a group of national leaders. With the absence of a democratic vote we avoid the problem of a majority of people voting for themselves the resources of others.

This protects a country from the catastrophe of the welfare state, but not completely (see in Part III: Welfare the article on the spread of socialism in Hong Kong).

With a group of leaders, we reduce the likelihood of a single person capturing all the power and acting as a tyrant. We also guarantee the presence of appropriate candidates for succession.

Democracy is flawed

Democracy is a fundamentally unstable system of government. The ancient Greek philosopher Plato once said that a democracy gives all the power to the poor. Naturally, the poor use the power of government to take from the non-poor and redistribute to them.

This makes democracy fundamentally unsustainable and unstable in the long run because the non-poor lose their incentive to produce wealth, knowing that this wealth is to be taken away and given to undeserving people. Therefore there is an incentive in society for everyone to be idle.

This natural result is visible in Europe and any country that has high tax rates. These countries have low rates of employment and earning. Consequently they do not produce or innovate as much as a true capitalist society. When these countries invest in research and development, they do it in response to the desires of the government. As a result, their research efforts do not focus on what the free market wants or needs.

A practical example

To demonstrate how flawed democracy is, as practised in Western countries, let us now look at a practical example. Assume that seven friends go to the bar every night. One is rich while the six others barely scrape by.

One night, the group decides that it should behave democratically. In this situation, it is in the interest of the six poor people to agree to take away all of the possessions of the seventh and redistribute these possessions among themselves.

Should the seventh man defend himself, it would be democratic to kill him. Right here we have the basic flaw: **democracy has absolutely no concern for morality or the law**. The fact that there are poor people and rich people in the same society does not make theft moral or legal.

How to fix democracy? We do this first by realising that some issues are not like the others. In the example of the seven friends, some issues could easily be resolved using a democratic selection. For example, they could decide whether to go to the beach or to the park. If four of them vote for the park, then that is chosen. It is the decision that makes the most people happy, so it's the best one for the group to take.

But as we have seen previously, if a decision concerns someone's property, then it cannot be resolved purely by a democratic vote without violating morality and the law.

The solution here is to introduce a concept of proportional voting right whereby each person who contributes to a fund has voting rights proportional to the amount they contributed.

Let's assume that the seven friends all contribute their personal wealth to a collective treasury. Then the rich one has an overwhelming right concerning the use of that fund, while the six others have marginal rights because they contributed so little.

The six friends cannot vote to redistribute the fund because the seventh one effectively has a veto right. For the fund to be used in any way, a majority must appear which will necessarily include the seventh friend.

From this discussion, we derive the three golden rules that a direct democracy should follow in order to be more sustainable and to better respect individual freedom.

Three golden rules for a direct democracy

1) Proportional voting rights on budget issues

A democracy should resolve issues concerning the use of public funds by giving each person voting rights proportional to the net amount they contributed to public funds. The net contribution is the amount of tax paid to the state minus benefits, subsidies and wages received from the state[1].

It follows that net recipients should not have any say in how public funds should be used, and that the approval of wealthy contributors should be obtained whenever an increase in public expenditure is proposed.

This is fair because the more a person contributes, the greater the burden imposed on him by the government. It is fair to give a greater influence on budget issues to people who account for a larger proportion of the state budget. This is exactly the same as an investor who gains an influence on the decisions of a company by acquiring a large stake in that company.

A left-winger could counter that if the government reduces spending on welfare, the people who suffer the most are welfare recipients. However, this is not a valid justification for welfare recipients to have a say on the amount of money spent on welfare.

It is not their money that the government spends. There is no responsibility or obligation for society to provide a minimum standard of living to everyone. It is not the fault of working people or the rich that some people are poor. That is why working people and the rich have no obligation for the poor, beyond the compassion that each individual may or may not have.

[1] For the purpose of practical implementation, it may well be that subsidies to companies and indirect tax payments should be ignored in the assessment of a person's net contribution. But it would be completely disingenuous to say that a country's tax authorities cannot quickly perform an assessment of a person's net contribution. They already know exactly how much every person pays in income tax and exactly how much every person receives in direct social benefits.
Similarly, it would be disingenuous to say that 'benefits have to be universal' because the government 'cannot assess the wealth of individuals'. Governments in the West already do a lot more busy work than that. Another argument against 'fixing democracy' is that no matter the system of approval, taxation would still be theft. While this is true, we have to consider the possible alternatives and realise that government is, in all likelihood, a necessary evil. If something is evil but we cannot eliminate it, it is logical to try and reduce it to the minimum. That is why people move from high-tax countries to low-tax countries: not because they support tax, but because they want to reduce it to the minimum.
In addition, democracy does have virtues because it takes into account the will of the people. For many issues and decisions (for example decisions concerning international diplomacy, immigration, the army, or justice) the freedom of citizens is not threatened. In such cases, democracy is the only process that takes into account the preferences of the people. Therefore, as long as individual freedom is protected, it makes sense to defend democracy. However, if the only possible choice is between oppressive democracy as prevails in Western countries, or a benevolent oligarchy, then clearly the latter should be preferred.

All new public investment projects should be subject to this special referendum, using Internet to remove the cost of referendum organisation. A modern society should not be afraid of using modern tools.

Asking benefit recipients and public servants whether the state should have a bigger budget is like asking a six-year-old whether his lunch should consist of spinach or chocolate[2].

The six-year-old does not have a long-term view, he just knows that chocolate tastes better. He does not care that spinach contains the vitamins and nutrients needed for developing muscles, organs and bones. He does not care that chocolate contains only fat and no nutrients or vitamins.

In democracies, benefit recipients and public servants are the only groups of people that are allowed to vote themselves increases in income. To do so, they only have to vote for the left-wing party.

Because of this voting power, welfarist governments regularly increase welfare benefits and public-servant advantages. They justify this by saying that benefits and advantages should not be eroded by inflation, but increase in real terms as befits a 'compassionate' society.

Of course, welfarist governments do not present inflation as what it is: a phenomenon created in large part by government. They present it as a purely extrinsic phenomenon created by mysterious forces, and they present the main culprit – the central bank - as the economy's protection against inflation.

Private-sector workers cannot vote for the transfer of wealth from others to themselves. At best, they can vote for a reduction in the amount of money that is stolen from them, and that too at the cost of a reduction in public services that they may want to preserve.

In practice, private-sector workers cannot even vote for a reduction in theft, because right-wing parties do not reduce state budgets. Right-wing parties only tinker with budget allocation. For example, they may allocate more money to the armed forces and less to public education. Total spending remains unchanged or keeps growing.

---

[2] Likewise, asking a large group of people whether 'the rich' should be taxed more in order to make people 'more equal' is no different from asking someone whether he wants $100 or not. Unless one has the insight required to understand that taxes do not mainly strike the rich **but the poor**, there is no reason for anyone not to approve the proposal. The same goes for asking people whether they support the action of the government to forcefully reduce prices, set minimum wages or protect the industry. People are not Austrian economists; they only know about their short-term self-interest and the 'propaganda economics' that are fed to them by the government and TV.
On this web page: http://econlog.econlib.org/archives/2005/07/hong_kong_stati.html a survey in Hong Kong showed that 74.7% of the people support 'taxing the rich more to reduce economic inequality'. The prosperity of any country depends on low taxes, but common people in Hong Kong naturally assume that prosperity does not depend on taxes at all. They just do not know any better. If Hong Kong ever becomes a democracy, it will join the European group on the same path of economic despair.
Also see the article on How the EU uses nonsensical surveys to justify international redistribution.

The website http://www.economicpolicyjournal.com/2013/05/should-everyone-have-right-to-vote.html has some interesting insights on the subject of the restriction of voting rights to net contributors:

<< If such a voting restriction had been in affect 100 year ago, it is difficult to see how the government could ever have grown to the size and cost that it now has in society.

In turn, if there were any way to implement such a vote-restricting rule, it is equally hard to see how the current, gigantic interventionist-welfare state could long remain in existence. Government, no doubt, would soon be cut down to a far more limited and less intrusive size.

Our dilemma, today, is that, to use John Stuart Mill's phrase, we have a political system in which many who have the right to vote, use it "to put their hands into other people's pockets for any purpose which they think fit to call a public one." >>

2) Equal universal rights on issues not related to the budget

A democracy should resolve issues that do not concern the use of public funds by giving each person an equal vote on the issue. It follows that people could vote on many issues like environmental rules, labour rules, conscription, nuclear weapons tests, immigration, international treaties, the death penalty or the justice system using a normal system of direct democracy as practised in Switzerland.

All adults should vote on these issues because all will be affected equally. They should also be able to launch new proposals. The result of referendums should be implemented immediately regardless of the opinion of self-appointed wise men.

Obviously, a system of direct democracy will make mistakes from time to time; for example it may introduce a high minimum wage. But as soon as the population realises that the net effect is negative (less employment, less production, higher prices), a direct democracy will be able to get rid of the faulty proposal.

By contrast, a representative democracy would be stuck with flawed proposals **for decades** due to the hubris of politicians who cannot accept that they are wrong sometimes. For a politician, cancelling a measure is an admission of error. This is why it rarely happens in representative democracies.

3) Transfer of political power from the nation to the cities

A democracy should resolve issues at a municipal or regional level whenever this is possible. The reason for this is that people located far away should not have any say on issues that do not concern them at all.

For example, if city A wants to have a harsh justice system, city B should not impose its will on city A. As a result, every city competes with all other cities for the best policies. If city B is found to have better policies, then city A has an incentive to adopt the policies of city B.

Competition is the natural way to improve quality. City A may have a minimum wage and high unemployment, while city B may have no minimum wage and no unemployment. In this case, companies and people would naturally move to B, forcing A to adopt the better policy, the one that respects the freedom of individuals.

With a system of representative democracy, the golden rule number three does not exist because of politician ego.

When a politician supports an initiative on any issue, such as healthcare, he deems his proposal to be absolutely better than any other proposal. Therefore, it must be **compulsory**, not optional, and it must be implemented **nationally without any exception**. This allows the politician to concentrate power on himself – a word from him and every region and city must reform according to his will.

In reality, initiative A may be most appropriate for city A at a certain time while city B would be best served with initiative B, city C with initiative C, and so on.

How to fix a *representative* democracy

In view of its flaws, I do not think that representative democracy can be fixed. In such a system, the electorate does not have an interest in policies that would be positive in the long term and damaging in the short term.

Similarly, the elected representatives do not have an interest in taking positive long-term decisions. They only have an interest in opportunistic short-term decisions designed to protect 'their' budget and their re-election chances.

The elected representatives also do not have any real interest in implementing the measures they promised to the electorate, because their job is guaranteed until the end of the mandate, and their lavish pension package is also guaranteed.

It is revealing to observe that most countries with a system of representative democracy fiercely hang on to their job-killing minimum wages, while a minimum wage does not exist in Switzerland, despite (or thanks to) its system of direct democracy. This example illustrates well the fact that representative democracies do not work for the majority of the people, but for the loudest minority groups.

Representative democracy is a system that routinely ignores the will of the people, while at the same time encouraging overspending and redistribution. Overspending and over-taxation are the traditional defects of pure democracy.

In essence, with a representative democracy we get the disadvantages of true democracy, but not the single advantage, which is that the will of the people is respected.

Nevertheless, it is likely that the following measures would improve slightly the performance of a representative democracy:

➔ Performance-based wages could be introduced for all Ministers and Parliament members. For example, wages could be inversely proportional to the taxation income, the number of people employed by public-sector organisations, the number of people looking for a job, the rate of inflation of food and energy products, the national debt and the budget deficit. The salaries and pensions of Ministers should be inversely linked to unemployment, inflation, tax and debt during their government term *and* future years.

➔ Age requirements could be introduced for Presidents and Ministers. For example, a minimum of 60 years and a maximum of 70. Considering that wisdom takes time to acquire, and that wisdom is of the utmost importance for a position that gives a person enough power to ruin the lives of millions, leaders should be selected among senior citizens exclusively.

➔ Ability requirements may be introduced for Presidents and Ministers. For example, they could be required to have occupied a position of Chief Executive of a company with between 20 and 100 employees. Managing a country efficiently can be compared to managing a company efficiently. However, large companies tend to behave monopolistically and are not to be taken as a model.

➔ Constitutional limits on the power of government may be used. For example, a constitution could mandate the use of gold in real and electronic form as the official currency. It could mandate that each year, public spending must not exceed 20% of the GDP, except in genuine wartime periods. A constitution could mandate that the national debt must not exceed 20% of GDP. Unfortunately, a constitution is useless if it is not respected by the government. Because the US constitution is held in contempt by US politicians, it is of no use whatsoever to the citizens of this country.

➔ A right to recall representatives, or short mandates of up to one year, would force ministers to better represent the will of the people. It is absurd to give politicians mandates of four years or more. Such mandates are a licence to trample on the wishes of the people.

➔ The use of online voting - not voting machines - would almost completely eliminate election costs. Bank cards can be used to identify people. They are already used to safely send money around the world. In addition, based on the fact that all voting data could be saved, the risk of electoral fraud may be reduced to zero. With paper systems, electoral fraud is almost guaranteed.

➔ We could introduce a rule saying that politicians cannot propose increases in redistribution unless they individually give at least 25% of their **own income** to charities. With this rule, forced charity imposed on the people would come to be associated with forced charity imposed on politicians. The rule would test the sincerity of politicians claiming to have good intentions. Presumably, the elected representatives would suddenly become more representative of common workers.

- ➔ All politicians should be required to top up the foreign-aid amount by paying a percentage of their salary equal to the percentage of GDP spent on foreign aid. Again, this rule is based on the idea that politicians should not use public funds to support causes and countries that they would not be willing to support individually with their own money. The same principle could be applied to other allegedly compassionate initiatives.

- ➔ We could also eliminate the salaries and pensions of Presidents and Ministers. This would ensure that candidates for these positions are not seeking to enrich themselves at the expense of others. It would reduce the cost of government and guarantee that only people with the ability to become and stay financially independent can be part of the government.

Because these measures all go against the self-interest of politicians, it goes without saying that politicians will not willingly adopt them. For a country to introduce the measures presented above, they have to be imposed directly by the people onto the government.

An important point to remember is that democracy is only harmful because of its tendency to kill capitalism. Capitalism is more important than democracy because capitalism is the prerequisite of prosperity, while democracy is not.

Therefore, if democracy is to remain, it must be reformed so as to peacefully coexist with capitalism and basic laws like ‘thou shall not steal the property of others’.

Economic freedoms are more important than other freedoms

There are many economic freedoms. They include: the freedom to own properties, the freedom to use a sound currency like gold, the freedom to keep and use the fruits of one’s own labour, the freedom to hire people at any price agreed with the employee, the freedom to work for any price agreed with the employer, the freedom to start a business, the freedom to buy, sell, import and export things without hindrance from the state, etc.

Economic freedoms are more important than freedoms like the freedom of speech, the freedom to criticise the government, the freedom of religion, the freedom of voting for representatives, the freedom of owning guns, or any other social or political freedom. The reason for this is the following.

When economic freedoms are absent or severely limited, none of the other freedoms mean anything. Humans naturally care for their own physical comfort and survival before caring for any other issue.

If one cannot work for a living and own anything, then one cannot even see to one’s physical comfort and survival. One cannot buy food, lodging or transport. Thus, economic freedoms are even superior to the freedom of movement.

Conversely, when economic freedoms are granted, no serious restrictions can be imposed on the person. For example, with capital, one can own a place, practice a religion in the comfort of one's home, acquire a licence to own guns, buy transport, become an expatriate or acquire political influence.

This means that economic freedom is the prerequisite and enabler of most of the other freedoms that an individual can enjoy.

As a result, some libertarians do not care about the right to vote for a politician or the right to print newspapers with views opposed to the government. Because welfare states do not respect *economic* freedoms, they can be described as oppressive, regardless of the number of *secondary* rights and freedoms that they grant to their citizens.

In this writer's opinion, individual property rights are more important than any other rights because they are essential to the operation of a civilised society. It is no coincidence that one of the first actions taken by mass murderers like Hitler and Pol Pot was the expropriation of large groups of people. This expropriation was conducted by forcing people to move out of their real-estate property.

A government hell bent on the enslavement of its population usually begins by revoking or severely curtailing individual property rights. Effectively, this gives the government carte blanche to take from any citizen anything it may desire.

Meanwhile, an impoverished population is one that is much easier to control. Once a government has wiped out property rights, it is only a tiny step away from wielding the unopposed power to kill, torture, maim, rape, imprison, coerce or enslave innocent citizens.

Responsibility is multiplied, never diluted

Have you noticed how most people take great pains to respect the property of others? And yet, when asked to select a government, most people vote for governments which happily steal from citizens in order to fund their military adventures, perverted welfare policies, lavish pensions, unjustifiable company subsidies, etc.

The core reason for this disconnect is the issue of responsibility. When people act individually of their own accord, they rightly feel that they are fully responsible for their actions. But when people are given a chance to act as part of a group and anonymously, all the noble moral principles seem to fly out of the window.

A group of hooligans or rioters may go on a rampage. However, when taken individually, each participant may be respectable and well-behaved. Likewise, citizens who wouldn't hurt a fly suddenly turn into state-control advocates, when given the chance to act collectively.

Each participant consciously or unconsciously has made the decision that they cannot be held responsible for their behaviour because, after all, many other people have done the same thing. The problem with this is that responsibility does not disappear when it is shared by many people. Instead, it gets multiplied by the number of participants.

To see this, imagine a situation where your only child gets taken away and murdered by a group of seven people, all of whom actively participated in the deed. Would you say that each participant is seven times less guilty than he or she would have been if they had acted alone? Of course not. If you are like most people, you would rightly want to see each participant receive the maximum penalty, and not just a fine of $100.

When decisions are taken collectively in a democracy, each person bears the responsibility for the consequences of these decisions. Unfortunately, in a representative democracy, citizens are usually not presented with valid alternatives.

They then have the option to abstain or vote for a lesser evil. Oftentimes, it is the greater evil that gets selected anyway, simply because of the phenomenon of 'vanishing' responsibility explained above. But when the lesser evil is selected, there is no consolation because a lesser evil is still evil. And because voting for a lesser evil amounts to giving credence to a morally-bankrupt system, some libertarians prefer to abstain from voting.

Why is nearly everyone *not* libertarian?

In view of the continuing success of countries offering a high level of personal economic freedom[3] and considering the abject failure of all communist experiments, one may be led to wonder why the libertarian point of view is not more popular. Most European countries do not even have a libertarian party and where a libertarian party exists, it usually gets less than 5% of the popular vote.

The reason for this is two-fold. Firstly, most people are unaware of economic facts and theories. And secondly, there is an issue of self-interest. To illustrate the issue of ignorance, let me talk about a discussion I have had with a woman from the Philippines. Trained as a lawyer, she has had to move to Singapore to find work.

One day, I mentioned to her that even people who own a portfolio of real-estate properties can claim unemployment benefits in France and the UK. Dismissing my meaning, she responded with the following:
<< Oh! I wish I would live in a country that provides unemployment insurance >>.

Apparently, even someone who has been forced to move to Singapore, where the state controls 17% of the GDP, would appreciate a move to France, where the state controls more than 50% of the GDP and unemployment is around 10% (versus 7% in the Philippines). All for the sake of receiving an income from the state during periods of unemployment.

[3] Among others, Singapore, Hong Kong, Taiwan…

Basically, people see the state as a big box full of money. They don't really care where the money comes from[4]. They assume that using the money in the box can only produce beneficial effects.

During periods of unemployment, the traditional resorts are personal savings and the family. But lo and behold, a government offers benefits for jobless people. Which option is then the most attractive? Let us review each one of them:

1) Using personal savings requires to have savings. Therefore, it is an option that forces people to be responsible and limit their standard of living.
2) Using help from the family requires to seek help from family members. It can be shameful and it can create difficulties for the family.
3) Receiving an income from the state is the easiest option. One does not need to have savings or to make use of them, and one does not need to seek help from anyone. Instead, perfect strangers are forced to pay for your upkeep.

Obviously, option number 3 is the best one if we consider the situation in a vacuum. Even though it is not a moral thing to do, it is rational for people to seek to offload their responsibilities onto others far away. That is why the statist point of view is so much more popular than the libertarian point of view.

Nevertheless, it should be noted that when people are given a choice, they often choose to move from a less-free country to a more-free country, rather than the reverse. Usually, it is the high level of unemployment of less-free countries that prompts people to move somewhere else for work and permanent residence.

For example, let us compare the number of immigrants[5] in France and Switzerland in 2010, as a proportion of their population. According to Eurostat, the number was around 4 per 1,000 in France and slightly more than 20 per 1,000 in Switzerland.

Because Switzerland is a freer country than France, Switzerland attracts four times more people, as a percentage of the population. We observe this difference despite the fact that it is easier for Europeans to move to France than to Switzerland, because France is part of the EU while Switzerland is not.

Historically, hard-core socialists have responded to the natural preference for freedom by erecting walls and prohibiting emigration. Quoting from Wikipedia[6]:

The Berlin Wall was a barrier constructed by the German Democratic Republic (East Germany) on 13 August 1961, that completely cut off West Berlin from surrounding East Germany and from East Berlin. The barrier included guard towers placed along large concrete walls, which circumscribed a wide area (later known as the "death strip") that contained anti-vehicle trenches, "fakir beds" and other defenses. The Eastern Bloc claimed that the wall was erected to protect its population from fascist elements conspiring to prevent the "will of the people" in building a socialist state in East Germany. In

[4] See the article on Two-level spending socialisation in Part VII to see how governments manage to hide the cost of their policies.
[5] See from the Eurostat website:
http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Migration_and_migrant_population_statistics#Migration_flows and http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Immigrants,_2010_(1)_(per_1_000_inhabitants).png&filetimestamp=20130204085114
[6] See http://en.wikipedia.org/wiki/Berlin_Wall

practice, the Wall served to prevent the massive emigration and defection that marked Germany and the communist Eastern Bloc during the post-World War II period.

Would a majority of people ever vote for a libertarian party in a representative democracy?

Because people naturally give more importance to what happens to them in the short term rather than what happens to them in the long term, they vote according to their perception of the short-term effects of their vote. Furthermore, most people are unaware of the long-term consequences of government policies.

Therefore, people simply ignore long-term effects. The result is that people who perceive that they are being helped by the state naturally vote for the state to expand. The expansion of the state provides a guarantee that the help they receive will remain, and possibly increase.

The political parties that support the expansion of the state are easy to identify. They are all of the non-libertarian parties, that is to say almost all political parties in Europe. The more promises a party makes, the more it supports the expansion of the state.

A man could vote for a small government only if he had a clear knowledge of the long-term consequences of state expansion and state reduction.

If people had the chance to experience two versions of the future of their society, one under an oppressive, wasteful nanny state (the pre-existing situation), and one under a small freedom-loving government, I believe that their eyes would open and they would naturally choose the freedom-loving society.

They would suddenly realise that a welfare state breeds poverty and suffering, while a freedom-loving state produces prosperity, hope, opportunities and living standards that could not even be imagined by people living in an oppressive nanny state.

They would then be able to make the right choice. They would perhaps not do it for their own sake, as the short-term effect of the change may well hurt them personally, but they could do it for the sake of their children's future.

But because the governments and public sectors of representative democracies tend to expand gradually, and because they do so in concert with nearby countries, people do not get a chance to directly observe the negative effects of this expansion. They have no point of reference to assess the quality of their governance.

Over the years people get used to the rules and systems they are forced to live in. They start to think that these rules and systems must be the best ones, simply because they exist. Politicians encourage this line of thinking because they stand to benefit from it. When politicians talk about other countries, they do their best to avoid mentioning countries with a significantly better economic performance.

When socialists talk about libertarianism, they sometimes make the argument that a libertarian society cannot be said to be any better than a non-libertarian one, because people have different values and libertarians cannot define for non-libertarians what constitutes a better society. Clearly, when they speak of values, socialists refer to the value of equality, which is paramount to them.

For many of them, supposedly, the idea of equality trumps everything else, including concepts like prosperity, wealth, material comfort, life expectancy, and technological advancement. But look closer and a different truth emerges. Give a socialist a choice of moving to a relatively egalitarian country, like North Korea, or to a relatively free country, like South Korea.

Naturally, he will choose the free country because he knows that it is in his best interest. Utopian ideas simply cannot override the fact that every human seeks happiness for himself first. Principles and doctrines do not matter one bit when self interest is at stake[7]; and the society that preserves our interests the best, as individuals, is a libertarian society.

Of course, a left-winger may say ‘oh, but I would reject North Korea not because it is socialistic, but because it is a dictatorship’. Isn’t it the case, though, that a system of pure socialism requires an authoritarian government? Similarly, it is likely that a system of pure capitalism requires an authoritarian government.

In this author’s opinion, the system of government is irrelevant to the assessment of a country. It is the end result that counts. If a society is more capitalistic[8], then it reaps the rewards. If it is socialistic, then it reaps the rotten fruits. But let us pretend for one second that the system of government matters, and that a dictatorship should be avoided.

Which country would a young person choose between Sweden, with its unemployment rate of 8.4% in April 2013, and Switzerland, with its unemployment rate of 2.9% in June 2013? Sweden has almost three times as much unemployment. It offers no hope and no future to young people. The conclusion is the same as earlier: utopian ideas of egalitarianism fade away when confronted with reality.

It is important to notice that, in general, people do not choose to move to a country specifically because they think that it offers more freedom. No - they move because they think that the target country is more economically successful.

Most people do not understand the close link between freedom and prosperity. They tend to assume that the wealth of nations is determined by extrinsic factors or pure

[7] Self interest is the main reason why restaurants distribute salt-laden foods, why eye doctors distribute harmful minus lenses to short-sighted people, and why even libertarians may accept benefits and subsidies from the state. It takes an uncommon amount of willpower for someone to act against his own best interest. However, notice that self interest is on the whole a force for good, because it leads companies to satisfy the demands of consumers.

[8] Note that capitalism cannot exist without the rule of law. A society that practices indiscriminate killing and expropriation cannot be said to be capitalistic in the slightest.

luck[9]. This is what the government wants them to believe, so that it cannot ever be blamed.

Sometimes, we hear about international rankings of happiness. These rankings are meaningless. If we ask people to rate their happiness on a scale from one to ten, the result only reflects the psychological frame of mind of respondents at the time when they responded. It does not provide any information as to whether people think that their country is treating them well.

A more interesting approach would be to ask people the following question:
If you could magically move your home, your family and your job to another country, would you do it, or would you choose to remain in your current country of residence?

Naturally, higher percentages of people desiring to leave would be associated with lower levels of happiness in the country of residence. The percentage itself can be seen as a misery index[10]. International comparisons would be possible and in all likelihood the index would be lower in countries with more economic freedom[11].

Sometimes, socialists criticise the libertarian principle of voluntary exchange, saying that voluntary exchanges do not always produce the best outcome. For example, on the website http://web.inter.nl.net/users/Paul.Treanor/libertarian.html, the author describes the situation of two islands that survive by trading food.

Then a trader visits the first island and buys all of its food production in a voluntary exchange, creating a shortage in the second island that ends up killing all of its population. Therefore, apparently, libertarianism does not produce a good outcome.

First of all, there is an issue of responsibility. It is not at all the responsibility of people in the first island, or the trader, to make sure that every one else in the world is properly fed. Otherwise, it means that everyone is always responsible for everything that happens in the world, which is ridiculous.

Are Japanese people responsible for people who die of cold in Europe? Are Africans responsible for the fact that people in England receive poor cancer treatment and then die from cancer? Is the entire world responsible for the fact that people die in accidents, or in earthquakes, or from old age?

Of course not. People themselves are responsible for what happens to themselves. When people die of hunger, or cold, or disease, it is usually not because of the criminal action of anyone, but because of our normal body metabolism. It is nature itself that kills us, and no-one else.

In the case of the two islands, it is not the responsibility of the trader to visit everyone in the world in order to ask them whether they agree to his trade with the first island.

---

[9] That is the reason why, even in Hong Kong, most people support socialistic redistribution. See footnotes in the article about Three golden rules for a direct democracy.

[10] Not to be confused with the misery index created by economist Arthur Okun. That index can be found by adding the inflation rate to the unemployment rate.

[11] See for example the comparison of immigration flows in France and Switzerland in the article on Why is nearly everyone not libertarian?

Instead, it is the responsibility of the people of the second island to look for a variety of food supplies.

But if the trader's action is in fact motivated by the desire to depopulate the second island, then the whole situation becomes a criminal case that a libertarian society would deal with by asking a judge to do his work.

The article seems to blame libertarianism for two things: first, that evil actions may be conducted, and second, that poor outcomes may be observed. Concerning evil actions, libertarians never make any claim that a libertarian society would magically eliminate evil.

Switching from a socialist society to a libertarian one would not make good people evil and it would not make evil people good. Because evil can exist under any system, libertarians support the existence of a police force and justice system. Libertarians consider that the ancestral laws that prohibit murder and theft are essential to the preservation of freedom and economic development.

Concerning poor outcomes, one should realise that the example of the two islands does not correspond to reality. The same freedom which allows the first island to sell to the highest bidder and the trader to buy from his chosen supplier, also allows the second island to trade with anyone it wants to trade with.

Why make the assumption that in the whole world, there exists only a single food supplier who suddenly decides not to trade with anyone?

We should also realise that there is only one alternative to economic freedom. That alternative is state control. By criticising the freedom of trade, the author is implicitly advocating a system whereby the state knows all, controls all, and is responsible for all transfers of resources.

The author probably envisions an all-powerful state who, in its great wisdom, first expropriates the residents of both islands, and then redistributes the resources so that the second island gets all the food it needs. That same state would then turn to the trader and bluntly tell him to go away.

We can immediately see that a communist government is necessarily heavy-handed. In order to redistribute resources, it must first take them away; and people have no choice but to put their trust in the government's wisdom. But these are only the most apparent problems with communism.

The picture given by the reality of history is a lot starker. Whenever a communist government undertakes the task of forcefully allocating resources, it completely fails, creating endemic shortages and surpluses and rampant corruption.

The reality that we observe is that genuinely free markets do not ever lead to food shortages[12], while government control frequently does. With that in mind, we reach

[12] When food becomes scarce in a free market, food prices automatically increase. The price increase leads producers to increase their production. The supply increase then prevents a food shortage.

the logical conclusion: it is not free trade that creates food shortages in island populations, but in fact the very socialism that the author of the web page seems to advocate!

It is not a blind faith in the superiority of the 'process' of voluntary exchanges that underpins libertarianism, but an awareness that both the process *and* the end result of the process are desirable for people as individuals and for society as a whole.

While communists believe that self-interest and the good of society are mutually exclusive, and that self-interest must be extinguished by hook or by crook, libertarians believe that self-interest and the good of society are mutually inclusive: a good outcome for society as a whole cannot be achieved without acknowledging the primacy of self-interest.

Illiberal democracy as defined by Wikipedia

In this author's opinion, the Wikipedia article[13] on 'Illiberal democracy' is a good illustration of the left-wing bias that is so prevalent today in the Western world. It also illustrates the fact that on Wikipedia, critical thinking is only to be found in the 'talk' page of each entry, where people can debate, and not in the main 'article' page, where encyclopaedic information is supposed to be provided.

So in this article, we have the following pearls of wisdom:

<< in the west, electoral democracy and civil liberties (of speech, religion, etc.) go hand in hand >> and << a classic example of an illiberal democracy is the Republic of Singapore >>.

In other words, for this Wiki article, Europe is the paragon of freedom and democracy, while Singapore is the epitome of an evil, oppressive democracy. The article defines a pseudo democracy as a country where elections take place but civil liberties are repressed.

Clearly then, the author of the article does not consider that private property is an important civil liberty. Otherwise, it would not cite the West as the main example of a liberal democracy. It probably considers that the right to criticise the government is the be-all and end-all of human freedom.

In my opinion, a pseudo democracy can be more accurately defined as a country, state or city that pretends to be genuinely democratic, but in fact routinely ignores the actual will of the people. Therefore, it is not a true democracy.

I would also define an illiberal democracy as a country, state or city where the elected government uses its mandate to reduce individual freedoms using taxation and legislation. Therefore, though it may be democratic, it is not a free, liberal society.

[13] See http://en.wikipedia.org/wiki/Illiberal_democracy

The Wiki article is blatantly wrong, because it views Western states as paragons of democracy, which they are not.

First of all, governments in representative democracies cannot accurately reflect the will of the people, even when they are elected with an extremely high percentage of the votes. This is because people are not consulted when the elected government takes action. Just because someone has voted in favour of a party, does not mean that they then approve of everything that the party does during its mandate.

Secondly, political parties in Western states often come into power with very low support percentages, when you take into account people who do not vote. When a party governs a country with support from only 30% or 35% of the people, how can this be said to be democratic?

Genuine democracy is when 70% or 80% of the people agree on how to resolve a particular issue, not when 30% of the people agree to elect a party that will overtax the remaining 70%!

Thirdly, when prominent Western states tax their citizens for half of all that they receive or more, how could they be seen as being liberal? How does taxing people more and more increase their individual freedom?

It is therefore absurd to categorise Singapore as an example of illiberal democracy. Unlike the US and EU, Singapore does not claim to be a paragon of democracy. In addition, because of its low taxes and low government expenditures, Singapore offers more individual freedom to its citizens than EU states.

By contrast, EU states perfectly fit both the definitions for pseudo democracy and illiberal democracy.

Part II Minimum Wage

The absurdity of minimum wages

The minimum wage is, supposedly, a well-intended initiative. However, good intentions applied to economic policy usually create misery for the people.

The idea of a minimum wage comes from the idea of a living wage, a wage that would allow a man to sustain himself and his family. The problem with this concept is that **not every worker needs a living wage** and **not every company can afford to pay a living wage**.

As a practical example, let me talk about a friend of mine. Married to a doctor, she was unemployed in the UK. She offered to do cooking jobs for me for £10. The work could take up to three hours.

She did not need a living wage because her husband was already providing everything for her. She did not even need a wage for her own housing or food. Yet she wanted to feel more useful, to do good, and to make someone else happy.

How can the government, or anyone, come into this kind of set-up and say 'Hold it! you, lady, are not allowed to work for so little money; and you, sir, are not allowed to employ someone for so little money'. I could not afford to pay more, so if the price was to be higher, then there would be no job. Let us now compare two situations, one without a minimum wage and one with a minimum wage.

<u>Employment market without a Minimum Wage</u>

Low-Experience Worker Seeks Job + Low-Resource Employer Seeks Worker

Their meeting results in:

- ➔ The worker gets to work and gain work experience
- ➔ The employer gets his work done
- ➔ Investors find projects to invest in
- ➔ Low unemployment rate in society
- ➔ High production levels in society
- ➔ Low price levels in society
- ➔ Left-wing governments get rejected

The list of countries without a minimum wage includes Germany, Sweden, Singapore and Switzerland. In 2011, Singapore had an unemployment rate of 2% while Switzerland had a rate of 3.1%. Germany had a rate of around 7% while Sweden had 7.5%. Note that a country can still be riddled with unemployment simply because of the other policies of its government. Even though Germany and Sweden are pretty bad places for finding a job, their job market is better than that of countries like France or Spain. The most logical explanation for this difference is the minimum wage.

Employment market with a Minimum Wage

Low-Experience Worker Seeks Job + Low-Resource Employer Seeks Worker
+ Bureaucrat Says That Low-Wage Work Is Illegal

Results in:

- ➔ The worker cannot find employment at all, he gains no experience
- ➔ The employer must waste time doing small jobs himself
- ➔ Investors find no profitable projects to invest in
- ➔ High unemployment rate in society
- ➔ Students encouraged to stay in school & get into debt to pay for education
- ➔ Society forced to make large welfare payments to jobless people
- ➔ Society forced to levy high taxes to pay for welfare
- ➔ Low production levels in society
- ➔ High price levels in society
- ➔ Left-wing government gets elected, then re-elected, then re-re-elected…

In January 2012, Spain had a minimum wage of 748 euro per month while Greece had a minimum wage of 876 euro per month. At that time, the unemployment rate was 23.6% in Spain and 21% in Greece.

A few countries, including the Netherlands, have a high level of employment despite a high minimum wage. That is because the job market does not depend only on the minimum wage but also on a lot of other factors. Even in these countries, the job market would perform a lot better without a minimum wage. The fact that the job market is affected by many things is not an excuse to ignore the overall depressing effect of the minimum wage.

The presence of a national minimum wage, no matter its level, reflects the utter contempt of the government and government supporters for low-wage work. But even low-wage employment should be valued and cherished.

Firstly, any work that responds to a market demand is useful to society. Secondly, a man may draw satisfaction and pride from the good work he does. Thirdly, the experience acquired while working on a starter position for a low pay may eventually lead to a better job.

Lastly, a socialist government can always provide help[14] to the people that are considered to be receiving an insufficient wage. It would be entirely wrong for the government to do so, because any help from a government invariably originates from the theft of innocent citizens.

But it would be greatly preferable to have the government help workers than to have the government deny people employment and then keep idle, dependent people on 100% welfare support as a result of the minimum wage.

Spain or how not to turn around a bankrupt country

When the conservatives took power in late 2011, what Spain needed the most was not to cut its debt, cut its budget deficit, or cut its public services. What it needed the most was to put people back to work.

There was an easy way to do this: the removal of the minimum wage. That was the single most important thing Spain could have done. It was so important that it should have been the very first promise in the manifesto of the conservatives. Once elected, they would then have had a clear mandate to abolish the minimum wage without contestation from the left.

Instead, the Spanish government left labour regulations roughly unchanged and it slightly reduced its spending. As a result, the already very high unemployment rate kept on increasing and so did the anger of the people.

Centre-right conservatives have a magical belief that when you cut back the public sector, somehow the private sector will expand by an equal measure. Well, it cannot do that unless you remove the shackles on the private sector. The number-one shackle is the minimum wage. In second place, we have all the regulations that grant employer-paid benefits and make it difficult to dismiss employees. In third place, we have tax.

The abolition of the minimum wage should have been quickly followed by a unilateral default on 100% of the national debt and a barrage of measures to remove all employment regulations. Defaulting on the debt would have removed the need to service the debt. Furthermore, a default would have forced the country to live within its means, while allowing it to reduce the burden of tax.

Exactly the same observations could be made in the case of Greece, and in fact, all of the semi-bankrupt, semi-communist European nations.

The minimum wage is a good example of how socialist policies increase unemployment. The more a country introduces socialist plans, regulations and

[14] For example, vouchers redeemable for highly nutritious foods like porridge oats, whole grain rice, fruit and vegetables. The least a government should do is to make sure that the benefits it provides are not being used to acquire alcohol, tobacco or dangerous drugs.

initiatives, the higher the unemployment rate and, to a lesser extent, the higher the inflation rate.

Therefore, one only has to look at a country's unemployment rate in order to have a rough idea of how socialistic a country is. The more socialist initiatives there are, the more economic mismanagement we find.

The love affair of French TV channels with socialism

Socialist brainwashing is thorough and relentless in many European countries. For example, it is impossible to watch TV in France without getting exposed to (and sullied by) socialist propaganda. There are six main TV channels in France. It is no surprise that the public TV channels are staunch supporters of all *government-knows-better-than-you* initiatives.

What is perhaps more surprising is that all of the French private-sector channels also find excuses for the government. For example, on 5 May 2013, the private channel M6 aired Capital, a news programme focusing on economics. One of the topics was the cost of production of meat products.

The programme denounced the low-cost production of meat in Germany. The lack of a minimum wage in that country was presented as a diabolical initiative used by evil producers to hurt workers and consumers[15]. The evil producers were said to be <<imposing>> low wages of 4.5 euros per hour on German and Romanian workers.

Clearly, in the eyes of the journalist, the proper place of these workers was sitting at home in a government-funded house and surviving on a government-provided income. All through the broadcast, it was suggested that only high-grade, expensive meat products should be produced. The obvious unspoken conclusion: we need more, much more state to protect us. Truly, freedom is hated in France.

Let us quickly review some of the topics of the 8pm news programme of private-sector channel TF1 dated 19 July 2013. Firstly, the journalist tells us that the European Commission has decided to abolish the French export subsidies for chicken in 2015. We hear from the mouth of producers how essential the subsidies are. We are told by the journalist that the industry employs thousands of people and that the subsidies are there to guarantee the competitiveness of French producers[16].

The next topic examines the bankruptcy of the US city of Detroit. We are told how Detroit is being 'choked by its creditors'. We are told that Detroit has had to cut the number of police officers and firemen by up to 30%. We are told that the pension of public servants is being threatened.

[15] Never mind the fact that workers are free to look for other jobs, while consumers are free to look for other products. Presumably, the fondness of socialists for heavy-handed coercive action blinds them to the fact that most economic relationships are voluntary relationships. As a general rule, voluntary relationships are beneficial to their participants (they are win-win deals) and they are also beneficial to society as a whole.
[16] See the article on The consequences of state subsidies to companies in Part IV Corporate Welfare.

The following topics include a news item about the Belgian royal family, a news item about the British royal family, and a news item about a French Olympics champion. Regardless of its private ownership, TF1 is a stalwart supporter of socialism and statism. One day at a time, it works towards the complete indoctrination of French citizens into loyal national socialist fanatics.

The real fuel of an economy

Since the oil crises of the 1970s, it has been suggested that the long-term GDP of a country depends on energy prices. While energy prices certainly do impact an economy, I believe it is misguided to suggest that oil is the real fuel of an economy. Low wages are the real fuel of economies. Low-cost workers are the backbone of a dynamic economy that can grow sustainably and adjust to external shocks like increases in global energy prices.

Why are low wages so important? Because they are the only type of wages that most SMEs (small and medium-size enterprises) can afford. SMEs account for most jobs in all economies. Therefore, a working economy is an economy that relies on low wages.

Minimum wages are a slow poison for any economy. With high minimum wages and strict regulations concerning hiring and firing, no new company creation can take place. Only large businesses can easily afford high wages for basic jobs, with the result that national competitiveness, production, economic dynamism, and employment all decrease over time.

Because minimum wages are a slow poison that takes its full effect over the course of decades, myopic short-term studies may demonstrate the opposite – that minimum wages somehow increase employment. This is akin to pointing at a formerly capitalist economy that switched to communism six months earlier, and saying: 'look how efficient and fully functional communism can be!'.

Because low wages are so important to an economy, governments should not blindly focus on increasing wages. For people to prosper, wages do not need to increase – only their purchasing power. What good is a wage increase of 2%, when prices increase by 5% on average.

Nevertheless, government officials keep propagating the idea that higher wages are a desirable thing. For instance see the following statement[17] from the European Commission website (September 2012):

<< Despite its good performance, Germany cannot rest on its laurels and needs to address the challenges of an ageing population, potential skill shortages and readjusting for imbalances in the euro area **by creating the conditions for wages to grow in line with productivity**. >>

[17] http://europa.eu/rapid/pressReleasesAction.do?reference=MEX/12/0924&format=HTML&aged=0&language=EN&guiLanguage=en

Within the vague language that is so typical of politicians, lies the following core message: *we want Germany to increase its wages*.

The paradox of high productivity, high unemployment

In European countries ridden with high unemployment like France or Belgium, from time to time, we can hear a politician or the media boast about the country's high productivity, as if this was a redeeming grace.

However, high productivity in a country with high unemployment is not a paradox at all, but a logical consequence. Productivity for a worker is the quantity produced in a given amount of time. When companies are forced to cut jobs because of the unfavourable conditions created by the government, they do not choose to dismiss their most-productive employees. They dismiss their least-productive employees.

The natural consequence is that whenever a country has a high unemployment rate, the people who are unemployed are the least productive and the people who are employed are the most productive. This situation creates the illusion that a country is very productive, when in fact it is only the sub-group of the most productive employees that can be said to be very productive.

The high cost of labour also encourages companies to replace their employees with machines and robots to the greatest extent possible. Again, the result is a higher productivity among those who are still employed. Among those who remain unemployed for a long time, productivity plummets because of skill loss.

Should governments even boast about the productivity of the people? No, because productivity is only a matter of concern for companies. Whether employees are productive or not should be of no concern to the government at all.

A high productivity is not something that a government can rightly take credit for, because it is not within the power of the government to make people work harder or slower. The government can only deter people from working, using highly progressive taxation. It can decrease the total production but not affect productivity.

The consequences of high unemployment

The following effects can be observed in regions of high unemployment (i.e. most European regions):

- ➔ Young people feel pressured to spend long years studying, thereby reducing the country's production. This effect is not compensated by a higher productivity of graduates when they finally come out of the education system, because most of what is taught in the education system has no relevance to the later work life.

➔ Since they have access to a vast pool of jobless people, companies get to make absurd demands concerning the skills, experience and qualifactions of any prospective employee. Holders of Masters and PhDs end up in low-pay, low-responsibility jobs like Data Entry Assistant.

➔ For any employer with a sadistic streak, a high-unemployment market is a boon. They can freely humiliate male employees while treating female employees like semi-prostitutes. For the employee, to make any complaint would mean an immediate return to the jobless pool without any reference from the previous employer. For the employer, any employee that resigns can be replaced easily. Far from helping the 'little guy', labour rules actually create a hostile job market that concentrates power in the hands of a small number of large companies.

➔ The lack of competition between companies results in low wages for most jobs and no incentive for companies to increase wages. Because minimum wages reduce employment, they also reduce the level of competition between companies. Thus, minimum wages reduce the level of wages for everyone, except the few low-pay employees who directly benefited from the minimum wage.

➔ The high level of unemployment directly results in a low level of production, which in turn results in high prices for all products.

Inversely, the following effects can be observed in regions of high employment. These regions include[18] small low-tax states like Monaco, Gibraltar, Andorra, the Isle of Man and Switzerland; as well as many Asian territories and states like Singapore, Malaysia, Macao, Hong Kong, Taiwan, South Korea, Vietnam and Thailand.

➔ Young people are less likely to waste years of their life on theoretical studies of marginal benefit to society and themselves.

➔ Companies are forced to limit their demands in terms of skills, experience and qualifications to the bare minimum for each job, in order to attract candidates.

➔ Employers must treat their employees well, in order to retain them. Far from creating a cruel, dog-eat-dog environment, the absence of unfair rules against employers produces a plentiful job market where people can reasonably expect to find a job after leaving one that they do not like.

➔ The intense competition between companies forces them to pay employees wages that correspond to the value they produce. They have every incentive to increase wages in order to retain valuable employees.

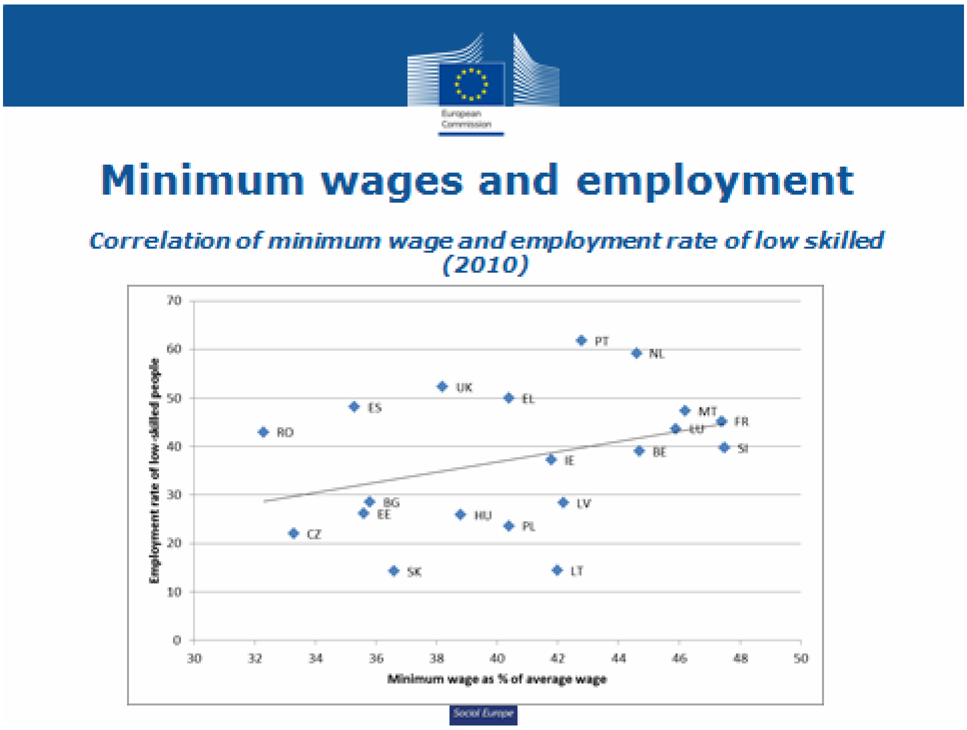
---

[18] Unemployment rates: Monaco 0% in 2012, Gibraltar 3% in 2012, Andorra 2.9% in 2012, Isle of Man 2.6% in 2013, Switzerland 3.4% in 2013, Singapore 1.8% in 2012, Malaysia 3.3% in 2013, Macao 1.9% in 2013, Hong Kong 3.4% in 2013, Taiwan 4.16% in 2013, South Korea 3.5% in 2013, Vietnam 2% in 2012, Thailand 0.5% in 2012. Simply from looking at unemployment in these countries, it seems obvious that any country with an unemployment rate of more than 5% must be actively contributing to joblessness through its oppressive taxation and regulation.

➔ The high level of employment directly results in a high level of production, which in turn results in low prices for all products.

How the EU misrepresents the effect of the minimum wage on employment

On 12 April 2013, the European Commission published an article[19] about the economic crisis in Europe. The article included the following graph.



The article also included the following pearls of wisdom:

<<Evidence from the crisis shows positive rather than negative impact of minimum wages on employment - even in a severe economic downturn, as this chart illustrates>>

<<People are only willing to work from a certain level of pay. Without minimum wages, there is a risk of more people relying on social benefits rather than contributing with their labour to the economy[20].>>

According to the article, the higher the minimum wage, the higher the rate of employment of low-skilled people. But any serious economist knows that unemployment increases (employment decreases) when the minimum wage increases. This is because wages are the cost of labour. The higher the cost of labour, the lower the demand for labour. Let us now focus on the apparent contradiction.

[19] See: http://europa.eu/rapid/press-release_SPEECH-13-309_en.htm
[20] Here, we have an admission that social benefits in Europe are so generous that people may decide not to work simply for the sake of obtaining said benefits. In typical left-wing fashion, we start by describing a problem created by the intervention of the state in the economy in order to justify an even more extensive intervention of the state into the economy.

Firstly, the article ignores one of the most important statistical facts: that an observed correlation does not imply a causation, and that correlation does not give the direction of a causation relationship even when such a relationship exists.

For example, if a study finds that smokers often have parents who smoke, it could incorrectly conclude that smoking is due to genetics. In reality, it is more likely to be due to the fact that children adopt the behaviours that they observe from their parents.

A study could likewise blame myopia on genetics when myopia is more likely to be caused by near work during childhood (see the article on How the state fails to intervene in those rare occasions where it should).

A study could find a 'strong link' between sales of ice cream and deaths by drowning and conclude that one causes the other. The true reason for the correlation being that when the weather is hot, people eat more ice cream, swim more and unfortunately die by drowning more often.

The article also ignores the fact that the rate of correlation is very low – the points are distributed in a cloud shape and not at all in the shape of a line. In fact, the rate of unemployment cannot be predicted by a country's minimum wage only.

Employment levels are affected by many factors, the minimum wage being just one factor among others. The other factors include the regulatory burden on small companies, the level of tax on companies and individuals, the availability of skills among employees, the attractiveness of the country to foreign investment, the presence of self-inflicted trade barriers, the amount of state intervention in the economy, and so on.

However, the fact remains that simply by having a minimum wage, all countries increase their unemployment rate. The level of increase is probably above two percentage points for most countries.

In the above graph, the European Commission has hand-picked countries that all have high minimum wages and low employment rates, thereby preventing a comparison with countries that have no minimum wage at all, like Singapore, Switzerland, Germany and Sweden.

In all but two of the countries of the sample, the employment rate of low-skilled people is below 55%. This means that in all but two of the countries, the unemployment rate among these people is **above 45%**. One can hardly call this a desirable situation, regardless of the level of the minimum wage.

Considering that unemployment is almost inexistent in Singapore, the graph should actually be used to encourage governments to remove their minimum wage, not to increase it!

The article mentions that 'employers may be deterred by high wages' but it does not explain why the graph seems to indicate the opposite – in essence the commission pays lip service to economic theory. Surely, out of the two hypotheses, only one can be true. Either minimum wages lower employment, or else they increase it.

The two cannot be true at the same time and there is no reason to believe that minimum wages result in more employment at certain levels and less employment at some other unspecified levels.

If high minimum wages are so good, why aren't we significantly increasing them in order to get even more employment out of them?

According to the graph, low minimum wages contribute to unemployment among young people. So why are we even allowing some EU countries to have significantly lower minimum wages? These poor benighted countries need to see the light too.

The article does not ponder these questions because its author knows that the purpose is merely propaganda, not genuine education.

Let us review some of the pearls of wisdom from the article.
One might call them EU-nomics:

<< We will not be better off if we all suddenly reduce our wages at the same time. Rather, there seems to be a case for reflation of wages and prices in countries with strong performance and strong surpluses. >>

<< Governments have tools to influence wage levels, for example through statutory minimum wages, by laws on regular indexation of wages to prices, or by extending the outcomes of collective agreements throughout a sector or through the whole economy. >>

<< Minimum wages have an important role in preventing deflation >>[21]

<< They essentially aim to ensure that all workers can buy a certain minimum decent amount of goods and services >>[22]

<< Evidence from the crisis shows positive rather than negative impact of minimum wages on employment >> << Higher minimum wages have been in fact associated with higher levels of employment of low-skilled people. >> << Minimum wages can help reduce the gender pay gap >>

The headline of the article is << Europe's social crisis: Is there a way out? >>. But when one realises how stubbornly counter-productive the EU's policy and attitude are, one can safely conclude that no, in fact there is no way out for Europe. The EU is much more interested in proving that it is right (against all evidence to the contrary) than in creating conditions for companies to hire.

[21] For more information on deflation, see the articles on The deflation-spiral boogeyman and Hong Kong's deflationary death spiral of doom.
[22] This is patently false because the amount of goods one can buy depends on prices and not just on the nominal wage. See the article on The absurdity of minimum wages.

Part III Welfare

Church socialism

Considering the historical association of communism with atheism, it may come as a surprise to see Christian leaders fervently advocate socialist initiatives. Yet, this is exactly what we observe[23]. Often, when a European Church leader speaks publicly, he advocates the intervention of the state to resolve imaginary problems.

The Archbishop of Canterbury Rowan Williams clearly supports forced redistribution. He once said that 'a tax of 0.05% [should be] levied on share, bond, and currency transactions and their derivatives'.

Meanwhile, the Catholic Church considers that the decreasing rates of fecundity represent a catastrophe in the Western World. It has called on governments to provide substantial subventions to families.

With this position, the Church shows that it has absolutely no faith in mankind, in the freedom of individuals and their ability to do the right thing. For if the fecundity rate decreases, it is because people choose not to have more children at this time.

It does not mean that mankind is going to shrink and disappear. It only means that families consider that their own situation and the environment they live in are not appropriate for having a big family. Introducing subsidies would not improve the environment but further deteriorate it, by undermining normal economic incentives.

In essence, the Church wants the state to distribute bribes for people to make the children that they do not want to have. Fundamentally, it is immoral because children may then be born out of a desire for money and not because of love.

When charitable organisations call on the government for funding, the state is only too happy to oblige. There are two reasons for this. Firstly, the government obtains a moral approval (moral backing, or credential) which it then uses to prove to people that its action is benevolent, beneficial and necessary. Secondly, the government gains a new justification to expand the public sector and increase taxes, allowing it to concentrate even more power onto itself.

However, a charity that uses funding from the state cannot be said to be compassionate, simply because it relies on coercion and the theft of citizens to perform its, allegedly, good actions. There is nothing charitable or compassionate about using stolen money for apparently good purposes. Only voluntary donations for a good purpose can be said to be truly charitable and compassionate.

[23] A good read on this subject can be found at the following address: http://www.sodahead.com/united-states/socialism-is-not-compassionate/question-3528369/

There is much support towards libertarianism in the Bible. See for example the following quotes. Particularly relevant words are highlighted:

Proverbs: 6:6 << Go to the ant, thou sluggard; consider her ways, and be wise: which having no guide, overseer, or ruler, provideth her meat in the summer, and gathereth her food in the harvest. >>

1 Thessalonians 4:10 << […] we beseech you, brethren, […] that ye study to be quiet, and to do your own business, and to work with your own hands, as we commanded you; That ye may walk honestly toward them that are without, and that ye may have lack of nothing. >>

2 Thessalonians 3:10 << […] when we were with you, this we commanded you, that if any would not work, neither should he eat. >>

Ephesians 4:28 << Let him that stole steal no more: but rather let him labour, working with his hands the thing which is good, that he may have to give to him that needeth. >> Also Exodus 20:15: << Thou shalt not steal. >>

Deuteronomy 15:7 << If there be among you a poor man […] Thou shalt surely give him, and thine heart shall not be grieved when thou givest unto him: because for this thing the LORD thy God shall bless thee in all thy works, and in all that thou puttest thine hand unto. >>[24]

2 Corinthians 9:6 << He which soweth sparingly shall reap also sparingly; and he which soweth bountifully shall reap also bountifully. Every man according as he purposeth in his heart, so let him give; not grudgingly, or of necessity: for God loveth a cheerful giver. >>

Galatians 5:1 << Stand fast in the liberty wherewith Christ hath made us free, and be not entangled again with the yoke of bondage. >>

1 Samuel 8:11 << This will be the manner of the king that shall reign over you: [...] He will take your fields, and your vineyards, and your oliveyards, even the best of them, and give them to his servants. And he will take the tenth of your seed, and of your vineyards, and give to his officers, and to his servants. And he will take your menservants, and your maidservants, and your goodliest young men, and your asses, and put them to his work. He will take the tenth of your sheep: and ye shall be his servants. And ye shall cry out in that day because of your king which ye shall have chosen you; and the LORD will not hear you in that day. >>

James 1:25 << Whoso looketh into the perfect law of liberty, and continueth therein, he being not a forgetful hearer, but a doer of the work, this man shall be blessed in his deed. >>

[24] This quote I selected to show that the Bible only accepts voluntary donations. The Bible never tells people to << provide to the poor, willingly or not, and let the state do it if people will not >>.

James 3:14 << If ye have bitter envying and strife in your hearts […] This […] is earthly, sensual, devilish. For where envying and strife is, there is confusion and every evil work. >>

Notice how the Bible urges people to be charitable, that is to say, it urges people to **willingly** give support to people that **they** perceive as poor. It does not urge people to be socialistic. It does not call for the creation of a tyrannical system whereby all workers are forced to provide universal benefits like pensions, free health care and free education to wealthy and middle-class people.

The Bible does not call on people to give to others in order to << reduce economic inequalities >>. The Bible does not care about inequalities; it only cares about poverty and suffering. It cares about personal choices. The Bible goes so far as to say that people who could work but decide not to, should not receive any help.

The message of the Bible is first and foremost that people should be self-sufficient to the greatest extent possible. People should save during the summer so that when winter comes, they have something to eat and they do not need to rely on extortion.

The purpose of money is not to massage one's ego, but to guarantee one's self sufficiency and to perform good deeds voluntarily. Money should not be recklessly distributed during one's work years, but saved in anticipation of one's needs in later life.

But if the state is there to guarantee the lifestyle of people, why should people be thrifty? Why should people even work at all? The vision of the Bible is a world where everyone works, not a world where the state takes care of everyone. It is a world of inequality that we accept, because rebelling against it for the sake of envy would be immoral and would only make things worse.

Unlike socialists, the Bible does not give a moment's thought to the false idea that << if we do not have a welfare system, then people are going to be selfish, cruel, heartless, merciless; they will prefer to watch poor people die in horrible conditions rather than give them a fraction of their wealth >>.

The Bible rightly puts the value of personal freedom above the delusions of socialists who think that an all-powerful state can eliminate poverty and suffering from the world.

Child benefits

Britain is a clear example of the catastrophe that ensues when the policy of state support for fecundity is given free reign. The policy of giving handouts to families for every child they have and the policy of providing government-owned houses to all single mothers have resulted in an explosion of single-parent families, where the mother raises her children alone.

In 2010, nearly 25% of children in the UK lived in single-parent families[25]. And in late 2012, a OECD study[26] showed that one in three children in the UK live in a single-parent family. When the state provides, a father is not needed nor wanted.

The children then grow in a father-less environment, an environment of poverty, state dependency and moral vacuity. Simply by not having a husband, the mothers have failed to give their children a good moral basis. The lack of a responsible attitude towards money and work then continues the moral vacuity.

This is even worse if the children were unwanted to begin with or if the mother needed the money because of an addiction to drugs, smoking or alcohol. In 2002, a study conducted by the UK Youth Justice Board showed that 70% of young offenders come from single-parent families.

The destruction of families is only the most direct, the most visible effect of subsidies. For there is a secondary effect, this one hidden, but just as important as the first effect. The secondary effect is the chains that are imposed on the economy.

Whenever the state decides to grant a subsidy to a segment of the population, this subsidy must be funded by a general increase in tax (or even worse, an increase in debt - see the article on Two-level spending socialisation).

The burden created by the state on productive society increases, with the result that companies cannot hire as they want or produce as they want, while individuals cannot work as they want or consume as they want.

Whenever the state increases its intervention in the society, the indirect result is an increase in unemployment and tax. In other words, we put innocent people into a modern form of servitude or serfdom.

Meanwhile, the government uses words like ‘compassion’ and ‘fairness’ to take credit for the oppression it created. People do not violently oppose this oppression because they do not even realise it exists. See the article on Two-level spending socialisation to understand why.

Thou shall hate smokers

In Western countries, smokers have been increasingly targeted by scare advertisements, smoking restrictions and appeals to stop, almost to the level of an harassment campaign.

Why does the government feel it has a right to impinge on individual freedoms? Because it has taken from the people the responsibility for their own health care. Any behaviour that increases the risk of disease is now seen as a source of cost for the government. It deprives politicians of the money they need to bribe foreign

[25] From the Life in the UK Test Study Guide, 2010 Edition.
[26] http://www.dailyrecord.co.uk/news/uk-world-news/fears-grow-for-family-values-as-study-1511091

governments, buy toys like fighter jets, pay subsidies to favoured companies, or create comfortable new jobs for their colleagues and themselves.

If there was no socialised healthcare, the government would have no reason to try and control our behaviours. The more a government takes responsibility for what happens to its people, the more it feels entitled to curtail freedoms.

Taking this principle to its logical conclusion, National-Socialist Germany thought that it fully owned its people and was responsible for everything that happened to them. So it had absolutely no problem with the mass murder of any German citizen presenting a defect or disability, regardless of age (Hitler's Action T4). With this action, the cost to the state of treating people and caring for them was reduced.

Similarly, it is the very existence of welfare benefits that leads governments to restrict the freedom of movement of individuals by implementing immigration controls.

There would be no reason for a government to control immigration flows if inflows of poor people did not create a welfare cost for the government. Countries that have lower levels of welfare than European countries often have less demanding immigration and residence requirements.

It is important to realise that nanny-state initiatives do not actually improve overall health outcomes, even though they do increase the power of the state and reduce individual freedoms.

The absence of positive health results is obvious when comparing the life expectancy in welfare states like France and Sweden to that of countries with more freedom like Hong Kong and Singapore. Life expectancy is several years higher in Singapore[27]. Even Hong Kong, with its elevated level of air pollution, beats clean-air countries like France and Sweden.

The reason for the difference can be found in the higher level of wealth in Hong Kong – something that results directly from economic freedom – and also in the fact that people naturally adopt a more cautious lifestyle when they know that they will be responsible for a large proportion of their future health expenses.

The recurring and distressing warning from socialists that 'people will die without massive help from the state' simply does not come true in countries that embrace economic freedom as the most important value. In fact, people live longer and more prosperous lives.

Making sure every citizen is in good health is a good and honourable goal. But the state should not own hospitals and health services and it should not rely on a system of compulsory insurance managed by hand-picked insurers.

As a very last resort, it is conceivable for a state to fund the healthcare of needy people. But anyone who can afford health care should have to pay for it: the only

[27] See the article on Inequality and health outcomes.

person responsible for one's health is oneself and having a poor health is no justification for the theft of other citizens.

How the British welfare state hurts the people

It is undeniable that the welfare state hurts people because it creates a tax burden and it reduces the incentive to work. But it also hurts people by increasing the cost of living. In fact, most government actions result in higher prices.

For example, the British policy of unfairly subsidising the winter energy expenditures of people aged 60 or more, regardless of their financial situation, increases the overall demand for energy in the UK. This higher demand results in higher prices[28], making everyone worse off, except those who are above 60.

With the subsidy, people who would normally have consumed very little energy, because of the high price of energy, are now encouraged to increase their consumption. There is no reason to limit consumption when this consumption is paid for by other taxpayers. To make the policy even more unfair, well-off people who typically move to a warmer country in winter time receive the subsidy anyway.

Government efforts to boost the UK housing sector provide another very good example. The government pretends to help the people by imposing low mortgage rates, through the action of the Bank of England[29]. It also offers a state guarantee to households to further encourage them to take on more debt and buy houses.

The result of these policies is, obviously, a higher demand for housing. A higher demand directly results in higher housing prices. In the absence of government intervention, responsible people desiring to buy a house without contracting any debt may have been able to do so using their own savings.

But because of the action of the government, they now have to seek a mortgage from a bank, forcing them to pay two times for a house: once for the house price, and once for the interest paid to the bank. In effect, a mortgage is a modern contract of servitude signed with the bank.

Similarly, the British policy of reserving part of the real-estate pool for social purposes (the so-called council housing) simultaneously reduces supply and increases demand.

It reduces supply by taking away housing from the private market. And it increases demand by allocating housing for free or for reduced rates to people who, in the absence of housing benefit, would have stayed with their parents or lived communally with colleagues or friends.

---

[28] See the article on The Fundamental Laws of Economics.

[29] As a side note, this policy clearly demonstrates that the so-called 'independent Bank of England' does not operate independently from the government. In fact, it is fair to say that no central bank in the world has ever done anything that a government did not first approve or actively request.

The phenomenon of higher demand, higher prices is further exacerbated by the fact that the housing benefit can be absolutely lavish in London, thus attracting people from far away, even from other countries. The immigration of resourceless people thus contributes to increasing housing demand further.

What a genuine welfare policy would look like in the housing sector

An interesting thought-experiment is to imagine what a true 'welfare' policy would be - in other words a housing policy intended to reduce housing prices so that the people can more easily afford that which they need so desperately - lodging.

It would clearly not consist in the allocation of housing by the state to hand-picked beneficiaries, because this allocation would artificially reduce the market supply and increase the market demand. Social housing creates artificial demand because it encourages people who would otherwise have stayed with their parents or partner to move to a social housing unit, where they live alone at the cost of the rest of society.

Therefore, the first order of business would be to <u>sell the stocks of social housing</u>, resulting in an increase in housing supply and a reduction in artificial demand. These sales should be open to anyone, not just benefit recipients, and the price should be the market price, not an artificially reduced price.

The proceeds from the sales can be used to reduce the national debt, and thus the amount of money wasted every year on interest payments. If there is no national debt, the proceeds should be used to reduce tax.

A true welfare policy may well include <u>artificially high mortgage rates</u> to discourage people from buying with borrowed money. A lower demand would reduce prices. Central banks have the power to manipulate the money market on a whim, resulting in higher or lower interest rates.

The policy may include <u>incentives for house construction</u>. A higher level of housing supply means lower prices. Government incentives are usually tax advantages or direct subsidies using taxpayer money. It goes without saying that all arbitrary <u>planning restrictions should be abolished</u>.

The policy may also include a <u>requirement for people not to own more than a single house</u>. If wealthy people are restricted to a single house, demand and prices decrease.

Alternatively, the policy may include a <u>tax applying specifically to unused buildings</u>. Owners of unused buildings would then have an additional incentive to sell or rent out their unused properties quickly. As US President Ronald Reagan once suggested, when we tax something, we get less of it. When unused buildings are put up for sale, this creates a downward pressure on prices.

The policy could also include tax incentives for people who rent out one of their bedrooms. By having several people willingly live under the same roof, housing demand is reduced, resulting in lower prices.

The policy may include the reduction or, better yet, the abolition of pensions for wealthy property owners. In welfare states, state-funded pensions allow wealthy people to avoid selling or renting out their properties. Reducing or removing pensions would naturally result in an increase in property sales and lower house prices.

Further, the abolition of all taxes on housing would allow people to spend less on housing, accomplishing a genuine welfare goal. Most welfare states tax people simply for owning or renting a home. In Britain, this is called the council tax. Welfare states also tax people when they buy a house, artificially increasing the cost of purchase.

The policy may also include barriers on immigration in order to reduce the domestic demand. When the immigration flow exceeds the emigration flow, the number of people needing lodging increases, resulting in a higher demand and higher prices. In fact, emigration could be encouraged too, to reduce the domestic demand.

Lastly, the policy may include the introduction of a sound currency like gold. A currency that cannot be printed retains its value a lot better than a currency that can be printed easily. Therefore, prices expressed in a sound currency will always be lower than prices expressed in fiat currency. Alternatively, the central bank could be forced to reduce the money supply, or at least banned from ever increasing it.

When the money supply is *stable* (i.e. constant – not rising by 2% by year or some other number), prices naturally decline thanks to technological improvements that increase productivity. And when the money supply is *reduced*, prices fall because of the decline in state spending.

A reduction in the money supply by the state is equal to a transfer of wealth from the state to the citizens. It is the opposite of an increase in money supply, which is a transfer of wealth from the citizens to the state.

From the above thought experiment, we can see that the state would have many ways of reducing the basic housing costs, if it really wanted to. Therefore, if a country has high housing costs, like Britain and Hong Kong, we can conclude that it is something that the state wants.

It is not difficult to understand why the state would want high housing costs. Politicians who themselves own houses have a direct interest in seeing house prices increase and remain high. Logically, they put their self interest above the interest of others.

The claim that people 'feel wealthier' with higher house prices is just a poor excuse. People feel wealthier when their purchasing power increases, not when government-selected assets appreciate due to myopic government policies.

In effect, government efforts to support housing demand and prices are a form of reverse welfare, or welfare for the rich. The people who are helped by such policies are not buyers, but sellers. Only in the twisted world of politics could someone claim with a straight face that he is making housing ‘affordable’ by propping up prices and flooding the market with cheap credit!

It should be noted that not even a genuine welfare housing policy would be desirable for the long-term well-being of a country. The best long-term policy is a policy of completely free markets combined with a sound currency.

Artificial interest rates and construction incentives both cause numerous distortions in the economy, ultimately reducing the country’s potential for economic development while restricting the freedoms of the people.

People who cannot get housing should first turn towards their family and charities. Only as a very last resort they should turn to the state. For this last resort, the state could arrange cheap communal bunk bed lodging in most cities.

A healthy person who gets housing for free or for an artificially reduced cost should not live comfortably, or else there would be no incentive for this person ever to get out of the ‘dependent’ situation, which represents a cost for taxpayers and a breach of morality (thou shall not steal).

The natural consequence of comfortable social housing is that there is never enough social housing, and never any incentive to move away from it once you get your hands on it.

France, a typical heavy-handed welfare state, perfectly illustrates the inability of the state to accomplish social goals. France steals and spends around 55% of the country’s GDP, yet it cannot even open in all medium-size and large-size municipalities an open house filled with many bunk beds that destitute people could use to avoid sleeping outside in freezing weather every winter.

No matter the amount of resources they steal from innocent people, the UK and France will never manage to eliminate homelessness, simply because politician pride dictates that when the welfare state helps someone, it must provide a standard of living that the welfare state considers ‘decent’ and ‘comfortable’. As a result, when people genuinely need help, none is forthcoming.

How to turn driving a car into a luxury

In many ways, the state contributes to the imposition of higher prices on the population. Aside from the housing policy, another example is the mandatory car insurance for drivers. By imposing the purchase of an insurance, the government artificially increases the demand for insurance. This higher demand triggers a higher price for everyone.

At the same time, the government restricts the insurance supply by imposing a number of requirements on insurance companies. The result is that only a few large companies can offer car insurance, and they can do so at much higher prices than what would prevail in the absence of government action.

This government action is of course always promoted as being for the good of the people. For example, politicians would say that 'car insurance protects the people' and that tight rules on insurance companies are necessary to protect the people.

No mention would ever be made by them of the few countries in the world that seem to get along just fine without mandatory insurance, or with a completely different system that better respects individual freedom.

The fact is that mandatory car insurance is a morally-bankrupt concept. In effect, car insurance is not an 'insurance' as defined traditionally. With a normal insurance, the insurer agrees to a specified payout to the insuree if the insuree suffers a specified illness or loss. In exchange, the insuree agrees to the regular payment of premiums to the insurer.

But with compulsory car insurance (and compulsory health insurance), we have a perverted form of insurance whereby the expenses of the few are socialised. They become the responsibility of the many. Through car-insurance premiums, innocent drivers are made to pay for the damage *caused by others* during car accidents.

But why should drivers as a whole be responsible for the damage caused by certain drivers? There is not a single reason. Innocent drivers are no more responsible for the damage caused by other drivers, than people who do not own a car and instead use the train, or walk, or stay at home.

The only person responsible is the one who caused the accident – if indeed someone caused the accident, because an accident can also be caused by non-human factors like a technical defect or a natural disaster. When a person drives, he or she accepts the risk of driving. People accept the fact that they may die in a car accident. Likewise, people accept that they may lose money if they have an accident.

If an accident happens and someone is responsible, fine: let the judge pass judgement. But there is no reason whatsoever why other drivers should somehow get involved and have to pay for the fact that accidents happen to other people. Because of the absence of responsibility, mandatory car insurance premiums can be seen as another form of tax: one that applies only to the population of drivers.

Therefore, for insurance to be a moral concept, it must be voluntary. It is fine for a person to agree to the socialisation of expenses that may arise in the future, in exchange for regular payments that will cover both the expenses of insured people *and the wage costs of the insurer*. However, it is not a wise course of action.

Insurers and the state often falsely claim that people are 'protected' by having an insurance. They are not. Having a car insurance does not reduce the risk of a car accident at all. The risk of dying or being seriously injured is not reduced by having a car insurance.

With a car insurance, the only ‘protection’ you have is that you *may* receive a payout if your car is damaged or you need to go to the hospital.

But even this is a false protection, because contributors are very likely to pay more in premiums than the value that they will receive from their insurer over a lifetime. It is highly unlikely for any contributing person to receive more from his insurer than the total amount paid in premiums during his lifetime.

This means that, should people be free not to take part in the insurance scam, they are very likely to be able to save more money than even the amount they would need to cover any accident during their lifetime.

The same amount of money that is wasted in insurance premiums – including the wages of insurers – could even be used by people to reduce the risk that they face during their lifetime. For example, new car safety systems could be purchased.

In the case of health care insurance, the same money could be used to pay for a better nutrition, for joining a sports centre, or any other initiative that reduces the risk of developing a health problem – thus providing genuine ‘protection’, as opposed to the false protection an insurer provides.

There are various reasons why the government works so hard to make life harder for the people but the main issue is an issue of power. Politicians like nothing more than to acquire more power and this can be done by expanding the responsibilities of the state. By expanding the state, politicians get to intervene in every sector of society. They can then claim to be the main source of prosperity of a country.

Politicians also love immobilism. The easiest course of action for politicians is not reform, but the status-quo. Their future personal situation is guaranteed to be good thanks to generous pensions and generous salaries. Therefore, politicians are not affected by the success or failure of a country’s economy as a whole. Aside from the risk of a revolution, politicians are insulated from the consequences of their inaction.

Lastly, politicians have to be democrats in a democracy. This means they have to follow the wishes of the people, however tenuously. Once a majority of the people has been convinced that the government really does work to protect the people, a democratic politician must respect the desire of citizens to be protected by the state.

In the case of car insurance, politicians and insurers have been so successful at brain washing the people with their ‘protection’ rhetoric, that when people complain about compulsory insurance, it is never about the immorality of it. It is only about the high cost of premiums that people complain about.

The very need for compulsory ‘insurance’ payments is not questioned. In fact, on news websites like the Daily Mail, most people gleefully join insurers in pointing the finger at people who – rightly - defy the law by not buying insurance! Never mind the fact that many of the people on these websites would buy no insurance at all if it was not mandatory.

An insurance allows people to convert a low risk of loss into a certainty of loss every month to the benefit of insurers. Insurers cannot understand that when someone chooses to go without insurance, it does not mean that the person ignores the risk or underestimates it.

It only means that the person thinks that he or she is better off not buying insurance. The person has simply accepted the existence of a risk and chosen not to cover that risk. It may be that the actual risk is too small for that person or that the cost of cover is too high for that person.

The confusion of poverty and inequality

It is a desirable goal to fight against poverty. No one would disagree with this objective, even though people often argue about how best to reach this goal.

But when the media and governments talk about reducing poverty, they almost always mean ‘we need to reduce poverty ***and*** inequality’. Not once do they question whether reducing inequality would, on average, reduce poverty or increase it. The unstated assumption is that if we reduce inequality, then obviously we reduce poverty.

However, it’s clear from economic observations and theory that the more we try to make everyone equal, the more we encourage poverty in a country. Persecuting the rich may reduce inequalities, but it does not make the population any better off on average.

In fact, it makes the population worse off because of the destruction of normal economic incentives, such as the incentive for foreign investors to invest in the country. With the destruction of incentives comes a decrease in economic activity, that is to say an increase in unemployment and company closures.

Inequality and health outcomes

From the UK newspaper The Independent, 22 December 2012:

<< Writing in the Journal of the Royal Society of Medicine, [Prince Charles] set out a vision of healthcare that includes "the physical and social environment, education, agriculture and architecture". [...] Charles drew on the work of several of his charities in Burnley, where inequalities have lowered life expectancy to one of the worst levels in the country, according to the article. >>

Left-wingers sometimes make the argument that inequality in societies ‘kills babies’ and other vulnerable people. We can see that this argument is false simply by looking at life expectancy in Singapore (83.8 years) and Hong Kong (82.1 years).

Both of these societies present high levels of inequality, as measured by the Gini coefficient. However, the life expectancy at birth in these two countries is clearly higher than in countries with a lower level of income inequality, like Sweden (81.2 years) and France (81.5 years).

Despite its high pollution level and high population density, life expectancy is higher in Hong Kong than in Sweden and France, where almost everyone can enjoy clean air and a beautiful countryside! If we were to use these four countries as the basis for a theory that explains death rates by the level of inequality, then we would have to conclude that ‘lower levels of inequality kill babies’.

Even on a theoretical basis, it would be difficult to associate inequality with poor health outcomes. For example, there is absolutely no reason to believe that when a wealthy person like Bill Gates acquires another million dollar, thereby increasing income inequality in society, suddenly the quality of health care decreases for all vulnerable people.

Assuming that 10,000 customers of Bill Gates each paid $100 to his company to buy a video game, we can safely assume that this money was part of the ‘entertainment’ budget of each of the 10,000 customers. It was not taken away from the ‘healthcare’ budget of any vulnerable person.

In fact, there is every reason to believe that using the government to force a level of income equality on people leads to worse outcomes. In practically every place of the world where communism was tried, mass killings have ensued.

Tens of millions of people died in the Soviet Union and China because of communist governments. In addition to the killings, in every place of the world where communism was tried, it has resulted in long periods of economic decline or stagnation, forcing millions into abject poverty.

Socialism, the more moderate brother of Communism, produces the same poverty in every country where it is applied, but it takes longer for it to do so. A low income disparity means low additional rewards for working more or doing anything special that society wants.

Hence, no one really puts in the effort to offer society what it wants, whether it is frivolous things like art pieces, or essential things like drugs and basic food. Instead, many of these goods are imported from countries where normal economic incentives prevail.

Having to pay a disproportionate amount of tax whenever you decide to work more is a clear message from society to the individual, saying: ‘Fool, do not work more! Why should you work for the benefit of others? Rather, consider working less!’.

It is undeniable that people will work more (longer hours) if they are offered more pay. Conversely, when people are offered less pay they work less (fewer hours). The logical, undeniable consequence is that the more a government works towards reducing inequality, the less the work that gets done by citizens.

This, in turn, leaves millions in poverty - financial poverty, but also the spiritual poverty that comes from not having any activity that is beneficial to society and from having to depend on the work of strangers to survive. Europe is a perfect illustration. The pauperization and joblessness in Greece and Spain is a mirror of things yet to come in all of the other European countries.

Blissfully unaware of economic realities, the European Commission has even adopted as one of its objectives the reduction of health inequalities between member countries. A recent press release[30] makes it clear that the EU only cares about **inequalities** in life expectancy and infant mortality. It does not care at all about the **improvement of health outcomes** for everyone.

The only thing that seems to matter is that every country be the same, as if the worsening of life expectancy in wealthier countries was a thing to be applauded! For this is exactly what equality entails. If the objective is the elimination of health inequalities, then above-average countries should be **hindered** while below-average countries should be helped using money stolen from taxpayers.

Should any single country adopt a superior health-care system based on the free market, and consequently enjoy improved outcomes, this would not help the European goal of increased equality, quite the opposite.

A good argument could be made that poverty, and not inequality, determines health outcomes. No one would deny this. But such a statement is not satisfying enough for many left-wingers.

Many leftists do not really want to reduce poverty. What they really want is to redistribute the possessions of people wealthier than them. This explains their constant focus on inequality and their stalwart defence of **universal** benefits[31].

A person genuinely desiring to alleviate poverty would be satisfied with benefits that go to the very needy only; but leftists in Europe only support schemes for the needy if they themselves stand to benefit from these schemes.

That is why they strongly support a 'universal' state-provided health care, a 'universal' state-provided pension system and a 'universal' state-provided unemployment benefit. For them, the fact that poor workers are made to pay for the benefits of wealthy landlords is entirely irrelevant.

When comparing the life expectancy in China (74.8 years) and India (67.1 years), one can rightly conclude that it is democracy that 'kills babies' by fostering poverty, and not capitalism through income inequality.

How 'tax the rich' affects the poor

Tax the rich is the standard motto of socialists. It is the idea that by taxing companies and wealthy people heavily, society can be made a lot more equal and happy. It is a

[30] See http://europa.eu/rapid/press-release_IP-13-823_en.htm
[31] Also see the article on The shambles of UK universal benefits.

great tool for politicians in representative democracies, because it seems to work in the short term. Politicians in representative democracies only care about short-term effects anyway.

In the short term, the effect of ‘tax the rich’ is a windfall effect for whatever group has been selected by the state as the main beneficiary. In the medium to long term the real effects become observable, they are the following:

* **Higher taxes for the working poor**: whenever the state increases its total tax take, it eagerly increases its spending by an equal percentage. With higher tax rates on the wealthy, come greater tax avoidance efforts. After the initial surge, the total tax take quickly decreases even though state spending does not. Since the state cannot accept a cut in its spending, it quietly starts taxing the lower income groups, down to the working poor.

* **Lower work opportunities for the poor**: jobs in any economy are created by companies and wealthy people. When they are made to pay more tax, the amount of funds available for them to invest decreases. With lower investment levels, come lower levels of employment. The private-sector employment loss greatly exceeds any public-sector job creation. This is because most spending by the state is neither productive nor wise. It often goes towards prestige projects, debt repayments, or the wages and pensions of high-ranking officials.

* **Lower wages for the working poor**: jobs in any economy are created by companies and wealthy people. When they are made to pay more tax, the amount of funds available for them to pay wages decreases. Companies simply cannot afford to pay good wages anymore and are forced to seek cheap employees. Often, they are forced to move to another country, further worsening work opportunities in the home country.

* **Higher prices for the poor**: when companies are made to pay more tax, their unit costs increase. In order to maintain profitability, they are forced to increase prices to a level which at least allows them not to generate losses. As an example, when food producers are made to pay more tax, they have to charge more for their food products. Food distributors (supermarkets) must then pay suppliers more for their products. In turn, distributors must charge consumers more.

Whenever the costs of a company are increased, the cost increase gets transferred to the consumer in the form of a higher price. If consumer demand then plummets, unprofitable firms go bankrupt and prices remain higher than they were before the tax increase.

The unintended consequences detailed above explain why poverty and unemployment are endemic in semi-communist countries like France, Sweden and the UK, despite their many government initiatives against poverty and unemployment.

Whenever a welfare state launches an initiative against poverty and unemployment, the initiative is funded through taxation and borrowing and is therefore self-defeating in the medium or long term.

Tax the rich is a wonderful tool for politicians of all colours[32] because it gives them a justification for the expansion of the state, and consequently, a justification for the increase in their personal power over others. As redistribution manager, the state extracts its commission.

The negative long-term consequences for the population are immaterial to politicians whose mandate lasts a few years, after which they can retire lavishly at the expense of taxpayers.

Europe's obsession with gender-equality statistics

Here is what the European Commission had to say[33] on 25 January 2013 about the presence of women in management boards:

"The proof is in the pudding: regulatory pressure works. Companies are finally starting to understand that if they want to remain competitive in an ageing society they cannot afford to ignore female talent: 60% of university graduates are women," said Vice-President Viviane Reding, the EU's Justice Commissioner.

"The example set by countries such as Belgium, France and Italy, who have recently adopted legislation and are starting to show progress, clearly demonstrates that time-limited regulatory intervention can make all the difference. The Europe-wide law we have put on the table will make sure existing talent is used boosting gender balance evenly across all company boards throughout our internal market."

From this little sample we can deduce the following:
1) The EU has no faith in companies. They cannot do the right thing on their own.
2) The EU loves using regulations, or the threat of it, to pressure companies.
3) The EU does not believe that women can become managers without state aid.
4) The EU supports discriminatory rules to help women become managers.
5) The EU believes that companies automatically become more competitive simply by having more female managers.

To a leftist, power-hungry politician, the world is never a perfect place. Such a politician feels a duty to 'improve' the world by accumulating laws. For this politician, if only one manager in 10 is a women, then it is obvious that companies are not being managed efficiently and they must receive 'help' from the state in the form of new rules.

In order to better justify control policies, socialist politicians define victim groups: groups of people that they believe are intrinsically weaker than other people and therefore are unable to live decently without the help of the state. The groups they define usually include women, elderly people, children and homosexual people.

When a socialist wants to introduce a control policy, he refers to one of the victim groups. For example, he would not refer to the plight of poverty. Instead, he would

[32] Except libertarians of course, but in Europe they don't come into power.
[33] From http://europa.eu/rapid/press-release_IP-13-51_en.htm

talk about new initiatives to reduce *child* poverty – thereby indicating that people who do not have children are somehow less important, and discarding the fact that the poverty of children is in fact the poverty of *parents*.

With this language, anyone who opposes the redistribution by the state of resources from workers to *poor children* can be accused of being selfish and cold hearted.

If you are a male adult, then you *must* pay to repair the 'natural injustice' suffered by all in the identified victim groups. You cannot make any claim to be 'disadvantaged', no matter how miserable your own situation may be, and no matter how prosperous the situation of those in the victim groups.

When a politician talks about indiscipline in national socialist schools, he prefers to refer to the violence *targeted at homosexuals* – not to violence *in general*. Consciously or unconsciously, he knows that he is not going to do anything against violence. But to increase his popularity, he can at least introduce a very visible measure targeted at a tiny subset of the population.

When a politician talks about domestic abuse, he does not talk about domestic violence *in general* – but about domestic violence *against women*. There are many other examples. By referring to sub-groups, the government creates an easy justification for creating new rules that specifically address the real or imaginary problems of each and every sub-group.

The government creates these rules not because they are effective, but because they create an illusion that the government is doing something good. It is somewhat important (but not essential) for politicians in representative democracies to appear to be doing something good. The illusion eliminates the risk of a violent revolution and allows politicians to get re-elected.

‘To each according to his need’ is meaningless

‘From each according to his ability, to each according to his need’ is the slogan created by Karl Marx to describe his communist philosophy. It cannot be applied for the following reason: the needs of citizens always exceed the output of citizens.

What are our ‘needs’? A need can be something that we require to survive. But it can also be something that we merely wish to possess, use or consume. If we are to assume that a communist society only provides every citizen the bare minimum to survive, then this means that the goal of a communist society is for everyone to merely survive with the bare minimum in terms of food and lodging, in a state of everlasting poverty.

Obviously, this is not what Marx meant. So he must have meant that our ‘needs’ actually encompass the whole range of our *wants*, our desires. In this case, it becomes much more difficult to define what everyone’s needs are. In fact, it is impossible. Do I ‘need’ a swimming pool? Do I need to play golf? Do I need savings to protect myself from future difficulties? Do I need a TV, a computer, a microwave oven? Do I need to eat meat?

The answer is different for every person. With a given budget, person A may decide to buy a computer, while person B may use the money to play golf. Only one person knows what is needed, that is the individual himself.

Furthermore, if the budget is unlimited, then the desires are also unlimited. After all, if we were to win the lottery, we would always find good uses for the money. Conversely, there is no budget figure which could fulfil our needs completely. If we can have more, we always want more.

Therefore, it is impossible to define the needs. Needs can only be defined on a per-person, per-budget basis. It is not within the ability of the state to fulfil the needs of every person.

The state can only provide every person with a certain amount of money that it deems equal to that person’s needs. But in fact, this money will not be equal to the person’s needs, simply because a higher budget amount would allow the person to fulfil more of his needs.

Furthermore, the more the state distributes money, the more it has to take money away from producers. When the state takes away the fruits of the labour of citizens, it makes work a less attractive proposition. In the Marxist society, all of the fruits of the labour of people are taken away, making work utterly unattractive.

So on the one hand we have needs that essentially grow to infinity, and on the other we have a total output that essentially shrinks to zero. Therefore, any Marxist society would probably be based on forced labour. The only way to get any production at all would be to force people to work. What little output gets generated, is then divided between all the citizens. Each person gets peanuts.

The gap between demand and supply is made even worse by the fact that a Marxist society distributes more money to large families. Therefore, there is an incentive simply to produce babies, regardless of the ability of families to raise more children and regardless of the future prospects of said children.

Marxism, then, is a recipe for a state to progress boldly towards third-world status. Its end result is a highly-populated country filled with millions of underworked people all living in abject poverty.

The other part of Marx's slogan, 'from each according to his ability', is equally meaningless. The 'ability' of a person is not an intrinsic value defined at birth. People choose to specialise into a particular line of work according to the perceived rewards of said specialisation. If there is no particular reward for doing specialist work, then there is no interest, no reason for anyone to specialise in that line of work.

For example, if there is no reward for being a surgeon, then there is no reason for anyone to do long and difficult surgeon studies, and no reason at all to do stressful surgeon work. On the other hand, there is every incentive to do work that is not stressful, not physically demanding and not intellectually demanding.

The end result is a society filled with millions of unskilled workers. The living standard and life expectancy of everyone plummets because essential specialist workers cannot be found. Working is hard. People do not do hard work if there is no reward.

Even in France, where the state controls nearly 60% of the GDP, there is no hope for the state ever to provide to 'everyone according to their needs'. As an example, we can look at young adults.

Young adults have needs just like every other person. However, they often spend years studying and looking for employment. A student must lodge and feed himself just like anyone else. Does France provide an income to every young adult? Not at all.

Would it be right to do so? No, because many students are supported by their families. But if a 'student benefit' was created, then every student would have an interest in claiming that their family does not help them.

Even if the state wanted to, it could not provide such an income. France already allocates all of the funds stolen from its producers to militarism, national-socialist services like health care and pensions, company subsidies, debt repayments and international transfers.

Social programmes are not well intentioned

Social programmes like the mandatory national health insurance, mandatory pension system or mandatory car insurance cannot be said to be benevolent. Why? Simply because they are mandatory!

If you were to provide a good or service to people and you had their best interests at heart, would you force your product down their throats? Would you force people to pay for your product or service and then claim that it is for their own good? Of course not. Only the government does that. Governments in Europe do not understand or care for the concepts of individual choice and voluntary action.

The reason why social programmes are compulsory is simply that politicians are smart enough to understand that if the services were *not* compulsory, a large number of people would not participate in them. They would go without or find private-sector alternatives. For the government, this would mean a loss of tax income and a constant reminder that 'glorious' state services are just not good enough to attract everyone.

A leftist would then respond 'oh, but if we allow people to opt out, we will end up having to pay for them anyway'. Or he may simply say 'but the scheme will go bankrupt'.

However, it is not at all the problem of people who opt out, that a social programme may go bankrupt, or that the state may still provide help to destitute people who opted out. It is not their concern!

If the government cannot or does not want to provide social security to people who opted out, then clearly it should not do it.

Why make the incorrect assumption that for every difficulty man faces during his lifetime, there is one and only one possible solution, called *government*? Do we see elderly people who lack a comfortable state pension dying in the streets of Hong Kong and Taiwan?

Of course not, because when the government does not provide a comfortable lifestyle, people have to rely on their own resources, on help from the family, on charitable organisations, and on whatever support the state does provide.

In a welfare state, people are made to rely on the state first, and on their own resources last. In a free state, the chain of reliance does not start with the state, but with the individual.

State-managed education, or the something-for-nothing society

Much is made of education by politicians. It is presented as the best way to reduce unemployment and poverty. Never mind that high levels of education have completely failed to eradicate unemployment in European countries suffering from a high rate of joblessness, like France, Spain or the UK.

However, the bigger issue about education is: why should the government be in charge of schools? Why should schools be funded with tax? As with many public services, free schools are promoted by philosophical left-wingers as something that all civilised societies should have, so that poor children can be educated.

The problem with this is the following: why should individuals who **do not** use schools pay, through their taxes, for individuals who **do** use schools?

If the government only wants to help the poor and make sure that poor children receive an education, then it only has to provide help directly to the poor, by giving them education vouchers that cover the cost of sending each child to the school. The amount covered by the state could decrease as the income of the household increases.

The government does not need to provide a 'universal' service which, more often than not, is funded by the working poor and used by well-off people who definitely should not receive financial help.

Right here we can see the moral perversity of so-called universal free services. Childless people in low-wage employment are made to pay tax (more so in high taxation societies) for services that they do not want or need.

Meanwhile, people with children and in high-wage employment receive a supposedly 'free' service. Viewed in this perspective, free universal services are revealed for what they are: a clever, albeit diabolical, scheme to transfer resources from the poor to the rich.

But the real reason why Western governments eagerly expanded into education is simply power. It feels good for politicians to be in charge of more services, and to decide what children must learn. It feels good for them to take credit for helping the poor, for providing 'free' services, for educating the population, and for creating teacher jobs.

To a politician, it does not matter whether policies are effective. It only matters that he or she can take credit for his or her policies!

By expanding into education, the government robs us of our money through taxes and it robs us of our liberty through the school monopoly it creates.

A freer and fairer system would be based on user fees. School users should pay for the service they require. Competition between providers would naturally reduce prices, while offering parents a greater choice.

Another argument advanced by big-government apologists is that a public service can be provided even in remote villages, where it would be unprofitable for a private company to operate.

To this argument we must answer: if taxing people to provide them a service is theft, then it must be an even worse crime to tax people without providing any service. If a service would be unprofitable in the private sector, it means that demand for that service is very low and any investment into that service would be mostly wasted. Many would suffer from higher taxes while only a few people would benefit.

There seems to be a demand from the philosophical left that every remote village should have a school and a post office. To which we can answer: why stop there? Why don't we require for every village a mail-sorting facility, a train station, a bus station, an airport, a high school, a university, a fire station, a police station, an army training camp and a UN conference centre?

When people settle in a remote location, they are aware that they will not get most of the services that they could get from a larger city. But when children grow up and want to go to a bigger educational facility, no-one complains that it does not exist locally! The children just have to move.

In conclusion, we can see that the argument of a 'universal' service provided free of charge everywhere is bogus. It is exactly the kind of idea that leads a country to become both morally and financially bankrupt. Universal services are rooted in politician 'generosity'. They are gifts that we want **other** people to pay for.

The left has been so successful in its efforts to promote government-managed education that people have come to believe that only the public sector can provide quality primary education. They have come to completely ignore the many failings of public education as well as the many successes of the private sector in providing quality products and services in every other sector of the economy.

But if the private sector can provide good computers, good cars and good consultancy services, why couldn't it provide good primary education services? And if McDonald's can cut the cost of its burgers, why can't we cut the cost of education?

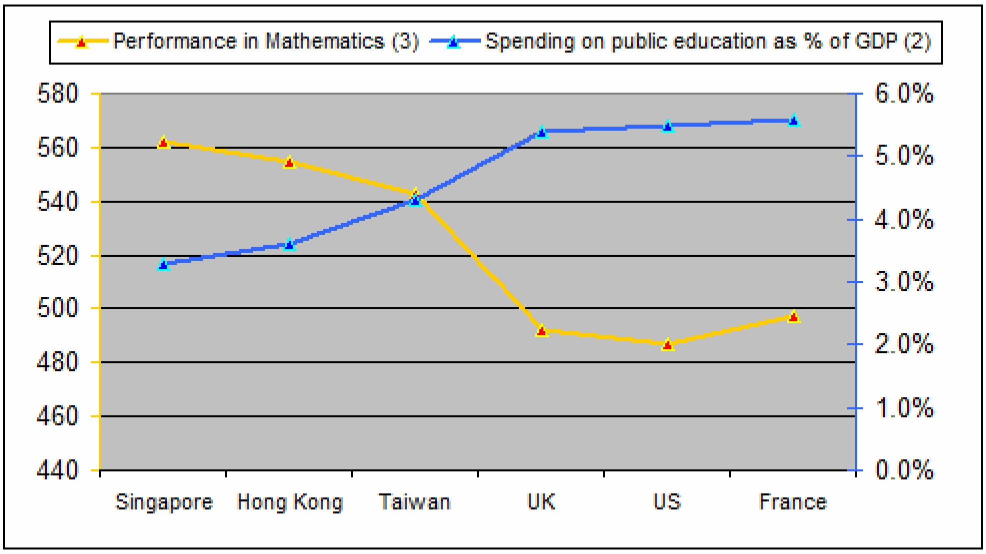
The outcome of high spending on education: international comparison

In the following chart, we review data on government spending and the performance in mathematics of students of the following countries: Singapore, Hong Kong, Taiwan, the UK, the US and France.

Country	Government spending as % of GDP (1)	Spending on public education as % of GDP (2)	Performance in Mathematics (3)
Singapore	17.0%	3.3%	562
Hong Kong	19.2%	3.6%	555
Taiwan	22.4%	4.3%	543
US	42.0%	5.5%	487
UK	49.1%	5.4%	492
France	56.1%	5.6%	497
(1) Source: 2013 Heritage Foundation Index of Economic Freedom			
(2) Source: http://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS and http://www.taipeitimes.com/News/editorials/archives/2007/08/19/2003374897			
(3) Source: http://en.wikipedia.org/wiki/Programme_for_International_Student_Assessment#Results			

We should first notice that all of these countries have quite a high percentage of GDP spent on public education. This means that all of them have accepted the Western idea that **'the state knows better than you'** when it comes to primary and secondary education.

Nevertheless, there are differences. For example, Singapore spends on public education only 58% of what France spends, in proportion of the GDP. Despite this, or rather **because** of this, countries like Singapore and Hong Kong achieve a much better performance result than European countries. Education is not a matter of throwing money around. The following chart makes this point even more evident.



The performance in mathematics of students seemingly declines when public spending on education increases. This is actually not surprising when one considers that all funds not spent by the state are managed by the private sector: the free market.

As explained in the article about *The difference between a public company and a private company*, the state cannot allocate resources efficiently. Thus, the result of increased government spending is a worsened outcome, not an improvement.

The web page: http://econlog.econlib.org/archives/2008/01/singapores_heal.html accurately describes the discrepancy between the Singaporean health care system and Western communist health care systems. The more people have to pay for their own health care, the better the health outcome. It is not a matter of compassion or solidarity, but a matter of natural incentives.

The conclusion that we draw for health care is the same as the one that we obtained for education: the result of increased government spending is a worsened outcome, not an improvement.

The Parentsforliberty website[34] has some interesting insights about private-sector education and the harmful interference of the state in the US education sector:

<< In 1650, male literacy in America was 60%. Between 1800 and 1840, literacy in the Northern States increased from 75% to 90%, and in Southern States from 60% to 81%. These increases transpired before the famous Common School Movement led by Horace Mann caught steam. Massachusetts had reached a level of 98% literacy in 1850. This occurred before the state's compulsory education law of 1852.[…]

The reason behind the successes of private, fee-based systems should be elementary to any student of economics: Private businesses are consumer oriented. The feedback of profit and loss tells an entrepreneur when they satisfy, or fail to satisfy, the needs of consumers.[…]

While public schools concerned themselves with the three R's, private schools offered courses in geography, bookkeeping, geometry, trigonometry, surveying, French, German, history, and sometimes dancing.[…]

Why then, did Mann and other so-called reformers lead a call-to-arms to bring public, free schools to all children? One reason is that consumers preferred the quality of the private schools. Although attendance per se did not decline from 1830 to 1840, attendance in public schools began to fall faster and faster. Mann and his followers developed many arguments to attack the private schools.[...]

Most people now realize the failure of public schools, even those who seek only to reorganize a bad system. Parents certainly realize this fact, since private and home schooling is again on the rise. Apparently, many people find that paying twice for education is better than receiving little education at all. >>

[34] See: http://parentsforliberty.org/youth-education/free-education-and-literacy.html

How the state fails to intervene in those rare occasions where it should

We have already seen[35] that governments love to intervene where they should not, with the usual consequence of higher taxes and higher prices for citizens. Equally, the government loves *not* to intervene in the rare cases where its intervention would be beneficial.

Do you think that the government cares for children? Well, if it did, would it really ask parents[36] to send their children to state-managed schools that could accurately be described as *prison centres for the innocent*?

Lawless prisons, where bright and disciplined young children are forced to mix with lawless teenagers, based on the utopian premise that the process would somehow make ignorant children smarter, and disciplined children more sociable. The whole idea is criminal.

An entire book could be written to show just how terrible the state is at educating people and how children benefit from being home educated, or educated by free-market institutions.

Instead, let us focus on child myopia for a while. If the government cared about children, it should do something *positive* about the myopia epidemic. Scientific evidence shows that myopia is not genetic but a behavioural disease. Because it is first and foremost a behavioural disease, preventive steps *could* be taken. Let us now review some of the evidence.

<u>1 - Eskimo study</u>[37]

> "The cause of myopia is […] clearly indicated in a study of 1200 Eskimos in Barrow, Alaska, published in the American Journal of Optometry in September, 1969, which showed that in one generation the Eskimo population had moved from no myopia to approximately 65% myopia among the offspring, and that neither the grandparents nor parents over 40 had any myopia.
>
> Thus the first generation between grandparents and parents was similar in that myopia was nonexistent, but in the second generation between the parents and their children, suddenly myopia occurs in a surprisingly high number of children. As a matter of fact, of 53 offspring who were in their early 20's, 88% had myopia.
>
> Such a sudden and great degree of change cannot readily be accounted for on the basis of heredity, especially when there has been no identifiable force which could have brought about this obviously considerable mutation in the genetic composition of the offspring. The obvious difference between the parents and the children is the amount of near work which is currently being done by the children.
>
> About the time of the second World War, the white man intruded into their lives, requiring the development of education among a population which was uneducated and illiterate. The Eskimo has become an avid reader because of his environment. While he spends a great deal of time out-of-doors

[35] See Part II Minimum Wage, Part III Welfare and Part IV Corporate Welfare.
[36] In the case of Germany, school attendance is compulsory for at least nine years. In the other European countries, education is compulsory until the age of 16 or 18. This means parents are at least allowed to home-educate their children, even though almost no-one does that in Europe.
[37] Quoted from http://www.myopia.org/brumerpaper.htm

in the warmer, daylight summer months, he spends relatively little time out-of-doors in the cold, dark winter months."

Study reference: Francis A. Young et al, "The Transmission of Refractive Errors within Eskimo Fainilies", American Journal of Optometry and Archives of the American Academy of Optometry 46, no.9 (September, 1969).

2 - Myopia in Asian populations[38]

'The idea that populations of East Asian origin have an intrinsically higher prevalence of myopia is not supported by the very low prevalence reported for them in rural areas, and by the high prevalence of myopia reported for Indians in Singapore. A propensity to develop myopia in "myopigenic" environments thus appears to be a common human characteristic.

Overall, while there may be a small genetic contribution to school myopia, detectable under conditions of low environmental variation, **environmental change appears to be the major factor increasing the prevalence of myopia around the world**. There is, moreover, little evidence to support the idea that individuals or populations differ in their susceptibility to environmental risk factors."

3 - First tree shrew study[39]

In this study, young tree shrews (Asian squirrels) were separated in two groups. One group was made to wear powerful minus lenses – the kind of lens that ophthalmologists prescribe to short-sighted people. The other group was made to wear powerful plus lenses – the kind of lens that long-sighted people use to read books.

Just like human babies, tree shrews are long-sighted at the start of their life. Their eyes then become more myopic, until they reach the ideal state of emmetropia (neither long-sighted nor short-sighted). However, when young tree shrews are made to wear lenses, their eyes adapt to the lenses. Their vision *with the lenses* becomes perfect.

Those who wear plus lenses become less myopic:

"Continued plus-lens wear […] produced a compensatory response in five of the six animals. The myopia in the eyes decreased so that they became emmetropic (0.0 ± 0.5 D)"

Those who wear minus lenses become more myopic.

"The animals in the young –5 D lens group were on average 5.6 ± 2.2 D hyperopic at the start of treatment. […] During the 13-day treatment period, the eyes of all animals emmetropized from the higher starting point. […] Thus, the minus lenses produced a rapid and consistent compensatory response. When recovery was begun […] by unclipping the goggle frame, the eyes were approximately 4 to 6 diopters myopic relative to age-matched normal eyes."

The logical conclusion is that school pupils could reduce their risk of developing myopia simply by wearing plus lenses for all near work. Instead, many children are prescribed minus lenses that worsen myopia.

4 - Second tree shrew study[40]

[38] Quoted from http://www.powervisionforum.com/forum/showthread.php?911-How-genetic-is-school-myopia
[39] Quoted from http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2962680/
[40] Quoted from http://www.ncbi.nlm.nih.gov/pubmed/22323488

In this second study, tree shrews were separated in two groups. Animals in the first group were made very myopic by forcing them to wear powerful minus lenses. Animals in the second group wore the same minus lenses for 23 hours per day and powerful plus lenses for just one hour per day. In this group, the animals avoided almost all of the myopia that was observed in the first group.

"Continuous wear of -9.5 D lenses […] induced a -10.8 D myopic shift […] whereas wearing -9.5 D lenses, interrupted by 1 hour every day of +4.0 D lens wear […] caused a myopic shift of only 0.7 D over 12 days."

"Conclusions: Daily intermittent +4 D positive lens wear effectively inhibits experimentally induced myopia and may prove a viable approach for preventing myopia progression in children."

5 - Study of the use of progressive lenses by Hong Kong school children[41]

In this study, short-sighted school children were separated in three groups. The first group (called SV) used single-vision minus lenses, while the two other groups (called P1 and P2) used progressive, or 'multifocal', lenses that allowed them to do near work through plus lenses.

"Results: Progressive lenses significantly retarded the progression of the myopia in these children. […] The mean myopic progressions over the 2 years of the study were -1.23, -0.76, and -0.66 D for the SV, P1, and P2 groups, respectively."

"Conclusion: **Progressive lenses reduce the progression of myopia.** It may be that the interaction of the progressive lenses with the accommodation system is the cause of this reduction in myopia progression because the +2.00 D addition appeared more effective than the +1.50 D addition in slowing the progression."

Conclusions

On the basis of this evidence, one can conclude that the state should take precautionary measures so that school-age children avoid ruining their eyesight. It should deter the use of minus-lens spectacles and distribute plus lenses to children for near-work at school.

Instead, politicians blissfully ignore the issue. This can be explained by the reluctance of politicians to go against the wishes of a powerful industry, and also by the natural tendency of politicians to focus exclusively on initiatives that benefit them.

The UK National Health Service provides another illustration of the general lack of care displayed by state-managed institutions. Even though blood pressure (BP) is an essential health indicator that can be measured easily, NHS general practitioners do not conduct BP checks as a routine procedure when they receive patients.

A person living in the UK could have seen ten doctors in a period of five years and not have been checked for blood pressure even once. Because of this simple neglect, the risk of an incorrect diagnosis and the risk of dying of stroke is significantly increased.

[41] Quoted from http://www.powervisionforum.com/forum/showthread.php?867-Progression-of-myopia-in-Hong-Kong-Chinese-schoolchildren-is-slowed-by-wearing-progressive-lenses-abstract

High blood pressure is an extremely dangerous and widespread health problem. However, it cannot be detected without a BP check. The absence of BP checks is without a doubt a contributor to the reduced life expectancy in the UK, compared to other countries.

The general lack of care can also be observed in the frequent ineptitude of doctors and the long delays imposed on patients who need to see a doctor or receive treatment. In this writer's very own personal experience, requests for appointments with hospital specialists are simply ignored in the UK, regardless of the gravity of the health problem.

Patients are left to endure the worsening of their condition while waiting for an appointment letter that never comes. In desperation, they are forced to go to the hospital emergencies. The poor quality and availability of health care in the UK is the result of supply shortages directly caused by central planning.

The following quote[42] aptly refers to the Swedish national socialist health care system, but the same could be said of the French and British health care systems:

<< If you have a serious condition, you will be started on a path of referrals to experts. This process can take months. […] This is an unavoidable characteristic of central planning, analogous to Soviet bread lines […]

This healthcare "bread line" is where people die. It happens regularly that by the time a patient gets to see an expert, his condition has progressed beyond remedy. It also happens frequently that referrals get lost. Bureaucracies create listless employees, who don't care, who refuse to go the extra mile, and who are never responsible for failures. >>

Fraud is rife in the world of socialistic health care. One illustration of the cancer of socialism can be found in the attitude of public-sector entities to cancer-causing radiations.

Public-sector entities think nothing of exposing citizens to unnecessary X-rays, if this can be used to guarantee higher budgets and higher wages. Millions of people in the Western world have been subjected to unnecessary X-rays at airports and dental practices.

For example, the Belgian authorities recently warned[43] that each year, 400,000 unnecessary panoramic dental X-rays are performed in Belgium – all paid for by the Belgian taxpayer. What do Belgians get in return? An increase in the cancer rate.

It is a fact that dentists are particularly serious offenders. Until recent years, dentists (and the governments that certified them and funded them) thought nothing of using dental fillings based on poisonous mercury.

As a general rule, dentists support the use of invasive surgery resulting in repeated, costly interventions all through the life of patients, rather than the promotion of effective prevention techniques.

---

[42] See: http://mises.org/daily/6476/The-Truth-About-SwedenCare
[43] See http://www.lalibre.be/actu/sciences-sante/l-inami-a-une-dent-contre-les-dentistes-520af9293570fb19a88d6951

By avoiding chocolate and other sugary foods, brushing your teeth with tea tree oil[44], washing your mouth with diluted hydrogen peroxide, and flossing your teeth once or twice a day, you can effectively prevent future damage.

Yet, dental practitioners carefully avoid mentioning tea tree oil and hydrogen peroxide, preferring instead to praise useless branded toothpastes and the virtues of dental scaling, fillings and tooth extraction.

State-funded general practitioners also focus on after-the-fact interventions rather than prevention. For example, they completely ignore or even discourage the use of nutritional supplements. Most general practitioners are literally clueless about beneficial supplements like vitamin B[45], grape seed extract[46], resveratrol[47], co-enzyme Q10[48], lutein[49], calcium[50], garlic[51], green tea[52], green vegetables[53] or omega-3 acids[54].

Sometimes, when a magazine wants a good headline, it releases an article about the 'myth of supplements'. Typically, these articles focus on vitamin A and E, two vitamins that are well known to be toxic in large doses. The articles use this fact to suggest that supplementation is pointless and potentially counter-productive.

However, just because A and E do not protect against cancer and heart disease and are toxic in large quantities, does not mean that the entire world of vitamins and supplements should be dismissed as a dangerous scam!

---

[44] It can help too to brush with a tiny amount of baking soda from time to time.
[45] All B vitamins are essential to the human body.
[46] Grape seed extract is very likely to help reduce the risk of cancer and heart disease and it may help with weight loss too. It is also a very inexpensive supplement.
[47] This is likely to reduce the risk of diabetes, heart disease, cancer and it may extend a person's life.
[48] Co-Q10 definitely increases one person's energy level, and may help with disease prevention.
[49] Lutein is likely to help the eyes and prevent eye disease.
[50] Calcium is positive for bone health, within limits.
[51] Garlic has been to shown to be positive for blood pressure, diabetes and the immune system.
[52] Drinking green tea (not black tea) is very likely to reduce the cancer risk, blood cholesterol, blood pressure and help with weight loss. See for example: http://www.webmd.com/hypertension-high-blood-pressure/news/20040726/tea-drinkers-reap-blood-pressure-benefits
[53] Consuming green vegetables is very likely to reduce the risk of all cancers.
[54] Omega 3s may help with heart health and cognitive performance.

Part IV Corporate Welfare

Corporatism and free-trade hypocrisy

The EU often deplores the lack of free trade and warns about increasing protectionism. On the other hand it keeps promoting EU trade barriers, justifying them using the fabricated notion of 'anti-dumping measures'. In essence, the European Commission wants its cake and eating it too.

An example among many is the EU Common Agricultural Policy. The policy is mostly known for subsidies to farmers[55], but it also contains import quotas and import levies intended to increase food prices in the EU.

Some trade barriers in the EU			
	Tariffs and duties	Non-tariff barriers	Total
Cereals	14.0%	5.0%	19.0%
Meat	11.2%	64.8%	76.0%
Dairy Products	9.7%	100.3%	110.0%
Tobacco	47.3%	0.0%	47.3%
Clothing	11.6%	19.0%	30.6%
Footwear	24.9%	0.0%	24.9%
Source: http://tutor2u.net/economics/revision-notes/a2-macro-protectionism.html			

Anti-dumping[56] is protectionism and like all protectionism, it hurts the country that uses it. While the protected industry receives windfall profits, the rest of society must pay for the largesse provided by the state to a small segment of society.

Society as a whole pays through higher prices for imported products. The net result is negative because the loss from higher prices far exceeds the gain enjoyed by a small number of recipients. This is yet another illustration of how representative democracy tends to kill the economy.

A small segment of the economy loudly calls for the state to help it, at the detriment of society as a whole. The government, guaranteed to govern for the duration of its mandate, is only too happy to respond. By helping companies in difficulty, the government fulfils some of its hidden objectives: to find a reason for the expansion of the state and to demonstrate the effectiveness of the action of the state.

Instead of taking advantage of international trade, something which would actually help the development of both poor *and* rich countries, the EU prefers to subsidise its agricultural sector at great taxpayer expense. As a result, each year the EU accumulates stocks of unwanted milk, butter, sugar, rice and cereals.

---

[55] Subsidies to encourage domestic production are themselves a form of protectionism called an 'export subsidy'.

[56] A so-called anti-dumping initiative is a trade barrier (import tariff or quota) designed to prevent the import of a product at a price that politicians consider to be too low.

The EU even exports some of these agricultural goods to the poor countries that should be producing them. Not a single second of thought is given by the European Commission to the damaging effect of the policy on the EU's economy and that of other countries.

Dumping should be taken advantage of, not fought against

If there is ever such a thing as dumping, that is to say the export of products by companies in a foreign country at a price deemed to be lower than the cost of production[57], then this phenomenon should be taken advantage of, not fought against.

The result would be lower prices in the importing countries for as long as the 'dumping' policy continues. Naturally, this may create difficulties for rival companies in the importing countries.

However, that is the nature of a free market. Companies that cannot compete in a free market should simply stop their current production and focus on some other segment where they can compete.

As we review in the following section about 'the consequences of state subsidies to companies', it is not at all advisable for any state to subsidise its domestic production. The net result of this policy is that the domestic economy is undermined while the population is impoverished.

But when this suicidal policy is being applied by *another country* in order to export cheap products, there is no reason not to take full advantage of it. At this point a statist would say 'oh, but we cannot become dependent on the production of another country'.

The answer to this is that if we choose to rely on free trade, then obviously we are dependent on all the countries we trade with. If at any time a necessary resource or product can no longer be imported from low-cost exporters, then domestic producers will emerge to fill the gap.

And if the resource is a natural resource that cannot be produced domestically, then domestic demand will adjust and alternative technologies will be developed.

Therefore, one could say that the fear of statists that a country can become too dependent on others in fact derives from their lack of faith in domestic companies. Statists place more faith and trust in a seemingly all-powerful government than they do in the infinitely-diverse, always-renewed world of free enterprise.

[57] In reality, there is no such thing as a unique 'cost of production' for any product. For example, it is obvious that the cost of producing tennis balls is much lower in a low-tax, low-wage Asian country than in a high-tax, high-wage European country. The notion of cost of production should not be used when talking about international trade, simply because each country has different costs, which may or may not include government subsidies.

Only a policy of complete autarky could allow a country not to depend on others. For the country that practices this policy, it means renouncing all the benefits that arise from international trade. A practical example is North Korea. Here we have a country that barely depends on others. Its citizens 'enjoy' a commensurate standard of living.

According to statist economists, a foreign firm that is allowed to export cheap products for a long time will eventually drive all of its rivals out of business and thus enjoy a dominant position. The argument goes that the foreign firm will then be able to exploit its dominant position by rising prices and lowering quality.

The problem with this argument is that free-market competition does not die when a company acquires a dominant position. If it did, then a dominant firm could be legitimately called a monopoly. But potential competition always exists in a free market. As a result, should a company in a dominant position increase its prices, new rivals will emerge to offers consumers a better value for their money.

As a side note on the issue of competition, an interesting and thorough analysis debunking the concept of 'natural monopoly' in sectors like water and gas distribution can be found on this web page: http://mises.org/daily/5266/The-Myth-of-Natural-Monopoly.

The consequences of protectionism

Together with the creation of windfall profit for interest groups, trade barriers in general produce the following effects.

- Consumers in the country that adopts trade barriers suffer from higher prices, reduced choice, reduced product quality, and reduced access to technological improvements. This is the most salient effect of protectionism and also the one that governments choose to talk the least about. Furthermore, tariffs on clothing and food hurt people on low incomes more than people on high incomes. EU trade barriers in the agricultural sector are thought[58] to generate an annual cost of EUR 50bn for taxpayers due to administration costs, plus an annual cost of EUR 50bn for consumers through higher food prices. Together, the cost is GBP 800 per year for a family of four.

- Trade barriers create production inefficiencies. They encourage the inefficient allocation of resources. For example, country A may block wine imports from country B even though country B offers the best land and weather for the production of wine. Thereafter, wine production is developed in country A even though an optimal allocation would locate production in country B. Likewise, a highly-populated country with low wages is an optimal location for labour-intensive manufacturing activities. Another source of inefficiency is the fact that trade barriers insulate companies from international competition. Companies that are protected from competition have no incentive to reduce

[58] See http://tutor2u.net/economics/revision-notes/a2-macro-protectionism.html.

their costs or improve their products. Producers also lose the opportunity to capture a larger market.

- Trade barriers do not protect jobs. From 1997 to 2004, UK textile manufacturers benefited from EU protection. However, employment in textile production[59] fell by 45% while employment in clothing production fell by almost 60%. Employment in footwear production fell by 50%. For each job protected, there was a cost of several hundreds of thousands of euros paid by EU taxpayers.

- Trade barriers in the sector of agriculture prevent the poorest countries of the world from exporting their main products. The income lost[60] because of trade barriers is thought to be USD 500bn per year. Furthermore, export subsidies depress world prices. In 2002, the EU sugar regime[61] reduced the value of sugar exports by South Africa, Brazil and Thailand by more than USD 700mn.

- Trade barriers can trigger trade wars. When a country imposes import controls, trade partners may decide to adopt retaliatory actions. The result is a decline in global trade volumes. When two countries impose trade restrictions between each other, other countries are hurt indirectly because the overall level of demand decreases in the entire region. And when two countries do not trade, political tensions are bolstered between them.

It should be clear simply by looking at the above list of consequences that protectionism is a net negative for any society, a lose-lose proposition. This is confirmed by the fact that Hong Kong and Singapore, possibly the most prosperous countries in the world, are also among the countries that are the most open to international trade.

In large countries, domestic trade is just as important as international trade. For example, the US greatly benefits from free trade within its borders.

How the government benefits from creating oligopolies and monopolies

Governments naturally want to increase their tax take at all times, in the same way a company wants to increase its profits and an individual wants to get ahead in life.

It follows that governments have a tendency to favour markets with limited competition. Markets with limited competition allow a small number of companies to generate large amounts of profit. Inversely, free markets with perfect competition[62] allow many companies to operate but with almost no profit at all.

[59] See http://tutor2u.net/economics/revision-notes/a2-macro-protectionism.html.
[60] See http://tutor2u.net/economics/revision-notes/a2-macro-protectionism.html.
[61] See http://tutor2u.net/economics/revision-notes/a2-macro-protectionism.html.
[62] Perfect competition is a situation where several companies sell a nearly-identical product or service, and companies can freely enter or leave the industry.

In a situation of perfect competition, whenever a company makes a certain amount of profit, a rival could ‘steal’ that company’s customers by offering the same product at a slightly lower price.

The natural result is that prices drop to a level that is only marginally higher than the cost of production. The margin of companies drops to a small positive number. Since the government taxes profits, it cannot tax much out of companies in perfect competition.

In a situation of reduced competition resulting from the action of the state[63], a small number of companies can impose prices much higher than the cost of production, because potential competitors are prevented by the state from entering the market.

This allows companies to record high profit margins. In turn, these profits are taxed by the government. It follows that there is every incentive for the government to promote oligopolies and monopolies, as opposed to free markets with perfect competition.

These oligopolies and monopolies allow the state to transfer a greater percentage of the wealth of individuals to the state. The result is a vicious circle where large companies and large governments behave according to the motto ‘you scratch my back, I scratch yours’, at the expense of the rest of society. An illustration of this behaviour is the support given by Western states to large failing banks after 2008.

On 16 August 2013, Peter Schiff on Peter Schiff Radio provided a remarkable example of US licensing laws. He mentioned that every day, Air New Zealand operates flights between US and New Zealand. However, because the airline is not allowed to sell US domestic travel tickets, every day the airline is being forced to operate completely empty inland flights over the US territory.

In this case, licensing laws are used to shut out competition from the US domestic flight market. The obvious objective is to protect US airlines. The indirect objective is to increase the government’s tax income. With a reduced level of competition, the oligopoly of US airlines can charge higher prices and record higher profits, generating a higher tax income.

By contrast, Air New Zealand does not pay tax in the US, so it is of no interest whatsoever to US politicians. What is the end result? A tiny segment of the economy receives windfall profits, while the entire population is forced to pay higher flight prices and prevented from enjoying higher-quality travel options[64]. Meanwhile, completely empty flights crisscross the US.

---

[63] This is usually achieved by requiring companies to hold state-issued licences or to meet other arbitrary requirements, allegedly to ‘protect consumers’ from the ‘dangers’ of the free market. Reduced competition is also often achieved by introducing trade barriers or by subsidising or nationalising a number of companies. In the case of a nationalised industry, the negative effect from the lack of competition is not necessarily a high user price, but a high cost of operation paid for by taxpayers, a low level of quality, and shortages. See the article on The consequences of state subsidies to companies.

[64] Also see the earlier article on The consequences of protectionism.

In order to ward off legitimate accusations and opportunistically latch on to recommendations to increase competition, all Western governments have created a layer of bureaucracy dedicated to the preservation of competition and the supervision of mergers and acquisitions.

The move reflects the lack of understanding of politicians in the free market, and their core belief that they are wiser than the free market.

In nearly all cases[65], harmful monopolies do not originate from mergers and acquisitions but from the action of the state. In a free market with perfect competition, the number of companies present in the market is in fact irrelevant, because no matter how few companies there are, none are able to overcharge consumers without attracting new competitors.

It is counter-productive for the government to try and guarantee the existence of an arbitrary number of competitors in all markets. In a free market, even a single company (technically a monopoly) can provide low prices, as long as that company faces competitive pressure from potential competitors.

How the government helps large firms at the expense of everyone else

Governments in Europe help large companies in a variety of ways. For example, minimum wages can often be afforded by large companies but not by small companies which have to count every penny to remain profitable.

At the same time, the dismal job market resulting from a high minimum wage helps large companies retain their large workforces. Employees wishing to find another job know that they are very unlikely to succeed.

Large failing companies are often bailed out by governments in democracies. This allows politicians to avoid a nasty headline, and to take credit for the job-saving action.

[65] Microsoft provides an interesting and rare illustration of a company enjoying a measure of monopolistic power that does not originate from the favour of the state, but from the specificity of the market for operating systems. People buy an operating system not so much for its intrinsic quality, but for its ability to run as many software products as possible.
Consequently, whatever company happens to have the largest share of the software market naturally enjoys a significant advantage. Nevertheless, one should realise that the largest competitor of Windows is probably Windows itself. People who are turned off by the high price of new Windows versions can at least purchase older versions at a reduced cost. In this author's opinion, there is no sufficient justification for state intervention even in the case of Microsoft.
More generally, any software product can be seen as enjoying a small measure of monopolistic power due to the fact that all software products offer unique features and benefits, and the fact that source code (the trade secret) is never disclosed. Equally, any new drug or technology benefiting from patent protection enjoys monopolistic power for as long as the patent lasts. In the US, drug patents last 20 years from the moment they are granted. The longer the patent life, the more the incentive and capital for future drug development; but the shorter the patent life, the lower the cost to patients.

When a single large company with 1,000 employees goes under, it is a bad headline for the government. But when 1,000 small companies each with one employee go under, it is just a piece of statistical data that can be dismissed easily by the government.

When a government tries to attract foreign companies, it introduces a preferential tax rate that only applies to large, hand-picked foreign companies. This tactic gives politicians a chance to obtain a good headline in the newspapers. It never comes to the mind of a politician to improve investment conditions for *all* companies: small ones, medium-sized ones, large ones, domestic ones and foreign ones.

Because subsidies are stolen money from innocent taxpayers, companies should be ashamed of receiving them, in the same way that able-bodied welfare recipients should feel shame from receiving stolen money.

The European Commission frequently launches investigations into cases of illegal state aid. This must mean that the European Commission actually has a dim understanding of the damaging impact of government intervention in the economy. Unfortunately, the action of the European Commission is made meaningless by the many exceptions it has itself created.

For example, in the bizarro world of the European Commission, it is fine for states to provide state aid to selected banks 'as part of efforts to mitigate a disturbance in the economy'. It is fine for states to provide loans and loan guarantees to hand-picked companies 'as long as the loan conditions are equivalent to those that would be offered by private companies'.

And it is perfectly fine to provide millions of euros stolen from taxpayers to public-sector institutes for research into biomass refineries[66] because 'it is a case of market failure'.

The consequences of state subsidies to companies

Aside from the windfall profit of direct recipients, subsidies granted by the state to companies generate a number of effects, including the following.

- Subsidies increase the power of the state. It gets to pick winners and losers. Politicians absolutely love this, it is their drug and they are addicted. They probably do not love anything more than to see companies vying for their good graces.

- Subsidies provide a justification for the state to increase taxes and the national debt. The national debt is a form of delayed tax. With higher tax levels, we have a reduced level of economic activity, increased prices, reduced innovation and increased unemployment. A politician does not care about such

[66] See: http://europa.eu/rapid/press-release_IP-13-433_en.htm

things because his personal situation is completely insulated from the effects of his policies.

- State-supported companies get to produce government-chosen goods in quantities vastly exceeding the real market demand. The excess production usually gets warehoused and destroyed. However, if the excess production is dumped on the market, prices decline and any producer that did not receive the subsidy may be wiped out or face serious difficulties due to the fact that it cannot lower prices below production costs.

- With subsidies, companies that should go bankrupt instead keep on operating at taxpayer expense. The risk of bankruptcy is removed, reducing the normal incentive to be competitive, to reduce prices and to increase quality. In fact, once companies - like banks - realise that that they will get bailed out no matter what, they then have every incentive to gamble with public money, increase prices and reduce product quality.

- Companies without state support operating in the same segment as state-sponsored companies must face competition from entities that operate with a virtually-unlimited budget. The competitive disadvantage may lead them to withdraw or go bankrupt. Because state-sponsored companies are invariably large companies[67], the end result is a concentration of the market around a few large public and private companies. Together with the concentration of the market, we have a reduction in employment, an increase in the cost to taxpayers, a reduction in competition, a reduction in product and service quality, and eventually an increase in user prices.

The consequences of subsidies and guarantees to banks

Considering that banks are companies like any other, the above conclusions apply to banks just the same. However, banks are different from other companies because their main product is toxic. Their product is money in the form of loans repayable with interest over a long time. Most responsible people rightly avoid going into debt, instead making the conscious effort of living within their means at any time.

The state, being an amoral entity, does not recognise the efforts of people who choose to live responsibly. It perceives a problem ('shock, horror, some people don't have a house!') and it applies its traditional myopic solution: more government intervention.

When the government helps banks, state-supported banks get to produce their product - loans - in vast quantities at taxpayer expense. They can afford to dump their product on the market at reduced prices. For example, they can offer low mortgage interest rates.

[67] Presumably, the state does not like to talk to small companies because it feels well above their level. Even when the state subsidizes an entire economic sector, it helps large companies disproportionately. See for example on the web page http://www.iisd.org/gsi/effects-subsidies the paragraph on 'the distribution of subsidies'. The largest 20% of companies typically receive 80% of all subsidy funds.

All subsidies are damaging to the economy, but bank subsidies are particularly pernicious and damaging to the economy because loans are a toxic product. People who go into debt become tied to their lender. They must work to repay their loan and the interest on the loan. Otherwise, they risk losing their assets in the repossession process.

At the same time, banks that lend take on the risk of not getting repaid and the other risk of receiving an asset that does not cover the value of the loan. With loans getting cheaper under the action of the government, more and more people are lured into debt even though they may not be able to repay the money. Further, with banks benefiting from a 100% guarantee from the state, they totally lose their incentive to make sure that customers can actually repay.

Bank subsidies are sometimes referred to as a ‘loose monetary policy’ or a policy of ‘low interest rates’. Once implemented, bank subsidies produce an artificial explosion of personal debt – in other words an explosion of irresponsibility – combined with an artificial explosion of housing demand and an artificial explosion of the insolvency risk faced by banks.

The outcome over time is an explosion in repossessions, an explosion in personal bankruptcies and an explosion in bank bailouts, as observed in the US in 2008. When this happens, politicians can take advantage of the crisis to criticise banks and further assert their control over them.

The professed need for bank bailouts allows politicians to vastly increase their power simply by issuing reams of new money. The issuance of new money is a direct transfer of wealth from the people to the government. Citizens only realise their loss when prices increase and by that time it is too late to stop it, and too late to point the finger at the government.

Issuing new money is not the only tactic used by the state to expand its power. In all of the countries that implemented bank bailouts, the national debt exploded, imposing a long-term burden on the private sector. On the basis of their cost alone, bank bailouts can be described accurately as economic suicide.

When the need for bank bailouts subsides, the desire to increase government budgets remains. The result is that new money and debt continue to be issued but in a more stealthy manner. The negative consequences of the issuance of new money are examined in more detail in Part VII - Inflation, Spending, Keynesianism.

Finally, when European governments need to raise money quickly, they are not opposed to simply raiding the bank accounts of residents. On 16 March 2013, Cyprus announced a surprise tax equal to 6.75% of deposits in all bank accounts, or 10% for all deposits exceeding EUR 100,000.

The proceeds would be used to rescue failing banks in Cyprus and expand the national debt further. In order to make sure that people could not escape the tax, measures were taken to prevent bank-account transfers, starting on the week-end of the 16.

On that day, I told my friend in Hong Kong that people in HK should rejoice, because Europeans have just decided to send more money to HK. It is evident that all wealthy individuals in Europe will now think twice about keeping deposits in EU countries.

Following a public outcry about the plan, it was later changed to target deposits exceeding EUR 100,000 only. People with such high deposits will lose a whopping 47.5%. See http://rt.com/business/cyprus-crisis-bailout-deposit-631/ for details.

When a large company must cut jobs in Europe

When a large firm plans to cut many jobs in a country like France or Belgium, as often happens, the following statements can usually be heard (although they are usually expressed in a more politically-correct fashion):

Company Manager: "In view of our loss of competitiveness, we must cut 1,000 jobs."

Minister for Social Economy: "These people, no matter how skilled and wealthy they are, will need all the help they can get from the state, in order to retrain and find a new job in our rotten economy. We should use the National Socialist fund[68] for dismissed employees at once."

Unions: "The company is not offering sufficient severance packages to its employees. It is a disgrace. We call on the government to take action to increase severance packages, prevent future job losses, and fine the company for breaching collective social agreements. If necessary, let the government nationalise the firm."

Politician: "This company's plan is a disgrace and we will not allow a jewel of our industry to cut a single job. As long as I am in charge, our national industries will be preserved, at all costs. Sleep well, good people."

[68] In the EU, this fund actually exists. It is called the European Globalisation Adjustment Fund.

Part V Social and Economic Policy

British efforts to ruin the HK economy

A remarkable aspect of controlling, power-hungry welfare states is their intense desire to influence the economic policies of other countries. On 15 July 2010, the magazine The Economist published an article[69] mentioning historical attempts by the UK to create a high-tax welfare state in Hong Kong. Quoting from the article:

> "[Hong Kong's economic freedom] was the result of resistance to the British government. No fewer than three times, starting in 1947, instructions came from London to raise tax rates "as high as possible" to lay the foundation of a modern welfare state, says Michael Littlewood of the University of Auckland.
>
> But each time the peculiar men sent to govern Hong Kong balked, with the support of locals, notably Chinese businessmen who perhaps learned too much about socialism from the devastation unfolding on the mainland to encourage importing it."

Tragically for Hong Kong's future prospects, it seems that socialism is now gaining ground in the Chinese special administrative region. Quoting from the same article:

> […] "A voluntary plan for a minimum wage was proposed in 2006. Only now is a pay floor becoming law. Lee Cheuk-yan, a union leader and member of the legislature, says this has occurred despite the private opposition of Donald Tsang, Hong Kong's chief executive, and many business groups."
>
> […] "Secondary consequences are inevitable. Miriam Lau, a Liberal member of the legislature, says that even at HK$24 an hour, the minimum wage would cost 30,000 jobs, or 1% of the workforce. At HK$32, 170,000 jobs would go, doubling unemployment. Young people and immigrants from China, who are scooped by the territory's abundant restaurants, building sites and cleaning and delivery businesses, would be the likeliest to be out of work. Such industries also employ disabled and older workers on low pay. Subsidies to support such people may have to be expanded if they lose their jobs.
>
> The minimum wage will also expand the rules involved in doing business in Hong Kong. Especially at the entrepreneurial end of the spectrum, business people long enjoyed a lack of red tape. Until 1999 companies were required to tell the government when an employee arrived or departed, and to provide information on their incomes once a year so that taxes could be calculated. But because income tax was paid only above HK$90,000 and then HK$100,000, perhaps 60% of the population paid nothing. Tiny businesses often did not bother to file and their non-compliance was largely ignored. Even sophisticated multinationals could set up a representative office in hours without concern for continuous paperwork.
>
> This changed in 2000 with a compulsory pension scheme, one of many social-policy efforts championed by the last colonial administration. Companies were required to file monthly data to one of a few selected intermediaries and to remit 5% of pay for any employee on more than HK$5,000 a month. The minimum wage will increase the demand for paperwork again, and by a lot. Hours and wages will be filed for all workers, right down to people in the knick-knack shops and markets that have been a vibrant component of Hong Kong's economy. The government will have to spend more money on collecting data and inspecting firms."

[69] See http://www.economist.com/node/16591088

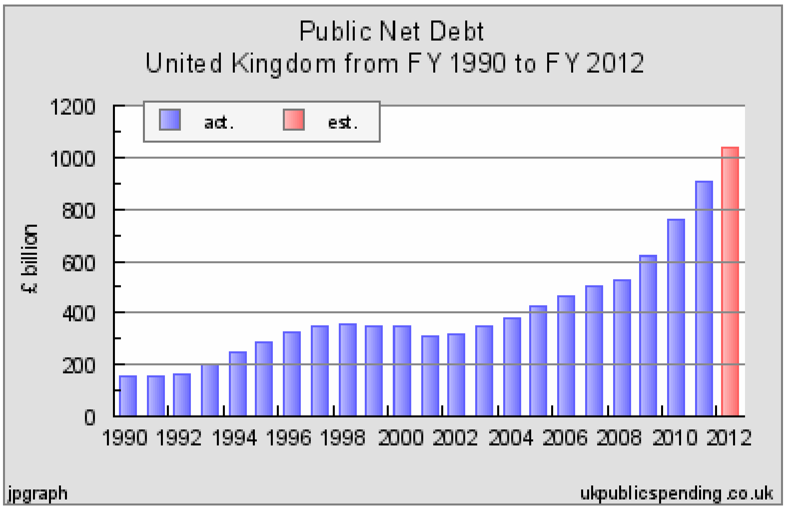
In 2008 Mr Tsang announced that he had succeeded in having Hong Kong included within China's five-year plans. Last year he said that in light of the global financial crisis, 'we have to revisit the government's role in promoting economic development'"

The above statement could very well have come from former UK New Labour leader Gordon Brown, one of the main architects of the UK's disastrous increase in budget deficit and national debt.

"The huge growth in government spending during the last colonial administration was required, according to Lord Patten, the final governor, because 'Hong Kong's economic vitality and strength were not matched by adequate social-welfare.'"

Here we see the lack of economic understanding of a politician who cannot see how any harm could ever originate from the welfare state. For this person, economic prosperity creates a need for the welfare state, while in fact it is the *absence* of a welfare state that is a prerequisite for the prosperity of a country.

As a quick reminder of the wonders of the British welfare state, let's have a look at the country's ballooning national debt[70] in the last decades:



How the EU wants to ruin the economy of all other countries

To demonstrate the malevolent intentions of the European Union, I will refer to a European Commission press release[71] published on 24 August 2012 and concerning the European approach to international development cooperation.

"Despite the recent growth in the world's economy, social protection still remains an unachieved goal for billions of people. Too often, the most vulnerable members of society (women, children, the disabled, the elderly, etc.) are left behind the creation of wealth. The lack of social protection represents a strong obstacle to the long-term and sustainable development of middle and low income countries. The Communication explains how EU development cooperation can support the

[70] See http://www.ukpublicspending.co.uk/spending_chart_1990_2012UKb_12c1li111mcn_G0t
[71] See the following link:
http://europa.eu/rapid/pressReleasesAction.do?reference=MEX/12/0824&format=HTML&aged=0&language=EN&guiLanguage=en

strengthening of social protection policies and systems. It includes proposals such as supporting nationally-owned policies, introducing measures to support job creation and employment, bringing in the civil society and the private sector, and tackling the underlying causes of vulnerability – particularly those that affect women"

Here, again, we see the lack of economic understanding of a bureaucrat who cannot see how any harm could possibly come from the welfare state.

In the first sentence, "Despite the recent growth […] social protection remains an unachieved goal", the basic assumption is that economic prosperity creates a need or justification for the welfare state. But in fact it is the absence of a welfare state that is a prerequisite for a country's sustained prosperity. It is not the only prerequisite, because a cheap and effective justice and police system is needed too.

In this sentence: "lack of social protection represents a strong obstacle to the long-term and sustainable development", the author goes further into the territory of economic absurdity by making a claim that the absence of welfare is actually an obstacle to development!

The author must never have heard about the British industrial revolution which occurred from 1760 to 1840, long before the emergence of the UK welfare state. He probably thinks that Hong Kong is a backwards province of China.

For the author of the press release, clearly government is responsible for job creation. Not for one second would the author imagine that a free economy is an economy that naturally produces full employment at all times.

Never mind that the EU totally failed at the task of creating jobs. The EU official unemployment rate reached 10.4% in June 2012, with Spain (24.8%) and Greece (23.1%) leading the way into state-sponsored idleness. No matter what, the EU wants to be right and it wants to tell others how they should manage their affairs.

The above statement also highlights the strong desire of leftist politicians to assign categories to people and condescendingly define their level of 'vulnerability' according to the category they belong to: "Too often, the most vulnerable members of society (women, children, the disabled, the elderly, etc.) are left behind".

If you are a woman or a senior citizen, then you *must* be a vulnerable member of society who, evidently, needs help from the state. Inversely, if you are a middle-aged man, then clearly you must be a powerful member of society who, evidently, needs to be taxed heavily in order to help the other groups. They deserve help from you by virtue of their intrinsic vulnerability[72].

[72] Also see the article on Europe's obsession with gender-equality statistics in Part III Welfare.

The shambles of UK universal benefits

For any economy, the provision of welfare by the state is a severe, long-term drag. One of the reasons for this is that welfare is very often a *universal* service. It is provided to citizens regardless of their own resources.

In the UK, even millionaires receive a state pension, 'free' healthcare services, child benefits, 'free' school services, unemployment benefit, and the list goes on. As a result of universal services, the cost of welfare in European countries is many times higher than what it would cost simply to provide help to destitute people.

In defence of universal benefits, left-wingers often claim that it would be too expensive to assess the resources of each individual. But it is very easy for the state to assess resources simply by looking at how much tax each person pays each year on their income, properties and assets.

There is absolutely no justification for the provision of welfare services to high income earners. In fact, true welfare should be targeted at destitute people and other people in serious difficulty – not working people who can afford to pay for their own healthcare, education, etc.

Left-wingers also defend the operation by the state of services like health care and education. But the existence of welfare does not justify the operation by the state of these services.

The state could just as well provide welfare by reimbursing all or part of the health care expenses made by individuals at private-sector health care providers. This would give individuals more choice while allowing competition to take place. The fact that the state prefers to operate its own facilities can only be explained by the desire for more power and control.

Sometimes, we hear the argument[73] that it would be 'humiliating' for recipients if welfare was based on means-testing, or if vouchers and goods were distributed rather than cash. But when we talk about welfare, the issue of *cost* is paramount – not the issue of the psychology of recipients.

Actually, it would be a good thing for welfare not to be perceived as something that is convenient and appealing. Because welfare should address genuine needs and not be a convenience. If welfare is not perceived as attractive, then only people with genuine needs will apply, thus limiting costs.

Because welfare is based on taxation, it rests on the theft of resources from innocent taxpayers. Through this action, the state impoverishes its citizens. Therefore, welfare provision should be kept to a minimum.

Another argument of leftists[74] against restricting welfare to the needy is that people would then have no incentive to save for their later life, and instead would have an

---

[73] See for example http://straysilvers.blogspot.co.uk/2012/01/to-help-poor-help-everyone.html
[74] See for example http://blogs.independent.co.uk/2012/06/10/why-pick-on-rich-pensioners-bus-passes/

incentive to impoverish themselves in order to take advantage of welfare. But this could only happen if welfare was perceived as being attractive and generous.

If welfare is limited to emergency help provided to destitute people and other people in serious difficulty, then it cannot be seen as a lifestyle choice. Likewise, if state pensions are considered to be low[75], then people have an incentive to increase their savings in expectation of their later life.

If a government really wanted to encourage people to work and save, it would focus on reducing or abolishing income taxes[76], not on the creation of a far-reaching welfare state which itself would guarantee the need for high levels of income tax.

The very idea that a healthy person could express a desire to get onto welfare is a symptom of an over-generous welfare system. But if welfare cannot ever be seen as last-resort assistance, and must be seen as a comfortable lifestyle choice, then it is better to abolish welfare entirely.

The sinister truth about the Left is that leftists do not really want to help the poor - they could do this through personal charity, if they wanted to.

What they really desire is for the state to extract as much money as possible from the people they perceive as being richer. Ultimately, this is the reason why universal benefits exist. Well-off left-wingers are only willing to help the poor if they themselves get a bigger piece of the action.

They do not see welfare as a system designed to provide emergency help to poor and unfortunate people in desperate situations. They see it as a system designed to protect *them* from any risk of losing money[77]. There is no clearer indication of this than the attitude of left wingers towards houses. They want the state to protect *them* from the risk of having to sell *their* house, which they presume is a traumatic experience.

Many senior citizens own a house (or two) and they could sell it and convert this capital into an income flow that would allow them to live within their means in rented accommodation, without any support from the state. But left-wingers do not make a difference between a senior citizen who owns a house worth £ 200,000 and a poor worker who is barely able to survive one day at a time.

They think nothing of taxing the worker[78] so that the senior citizen can live comfortably in his house without having to worry about selling it. For them, one of the many functions of the state is that it should protect people from having to sell their house, period.

[75] Or if state pensions are replaced with food vouchers and cheap communal accommodation.
[76] Because an income is the main reward for work, any income tax reduces the reward for work.
[77] Hence the left-wing support for compulsory car insurance, bank bailouts, or the many measures introduced by the government to prop up the real-estate market – a real orgy of interventionism.
[78] Or higher-income workers, for that matter. In fact, stealing from high-income workers is no less immoral than stealing from low-income workers. Both actions are evil and both have disastrous consequences for people and the economy.

Quoting from a recent Greek news article[79]:
<< Prime Minister Antonis Samaras said on [22 August 2013] that the government will completely protect the main residences of poor Greeks affected by the crisis >>

As this article shows, for a government bureaucrat, there is such a thing as a << poor house owner >>. Such bureaucrats would much rather come to the rescue of irresponsible house buyers than do anything in favour of responsible people who have decided to live in cheap rental housing due to the high housing prices.

For welfarist bureaucrats, it is important to be able to say that 'the government is protecting people' and 'doing something'. They want **dependent** people and have no use for free, responsible people.

Britain in the late eighteenth century did not confuse *compassion* with *socialism.* The fact that Britain offered great economic freedom to individuals was probably a major contributor to the emergence of the Industrial Revolution.

Other significant technological revolutions *could* be happening even now – but they don't because the Western world chooses to do all of the wrong things and none of the right things. One of the wrong things it does is sacrifice economic freedom for the sake of oppressive welfare states.

Welfare turns people into serfs

Welfare is a charge on productive society and an injustice. It makes us *serfs*[80] by:

- Increasing house prices, through an artificially reduced house supply. A part of the housing stock gets allocated to people who otherwise would have stayed with parents or shared with other people.

- Increasing the price of using a car, through insurance laws. A mandatory car insurance scheme forces people to buy insurance, thereby increasing insurance demand artificially. Insurers fully take advantage of this state-given bounty by charging the highest prices they can get away with.

- Increasing the tax burden. This burden is required to pay for the income benefit, housing benefit, child benefit, pensions and other benefits of people on welfare. Any poor person *not* on welfare must contribute to the welfare that they do not receive, because it would be impossible for the state to generate enough tax money from just taxing 'the rich'.

- Creating broken families. When the state assumes the role of provider to young mothers, there is no more need for a father. The slightest disagreement with a man becomes a good reason to split up. When the state provides an income and an entire

[79] See http://www.ekathimerini.com/4dcgi/_w_articles_wsite2_1_23/09/2013_519762
[80] In the meaning of someone who lacks freedom and who is forced to work for the local lord.

house to all single mothers, the offer is too good to pass up. Once the family is broken, the risk that children will not be properly educated increases tremendously.

Additionally, welfare makes us *indolent* by reducing the incentive to work and the availability of work:

- It reduces the attractiveness of work by reducing the net wage. Any increase in the income tax reduces wages by an equal amount, making work a less attractive proposition.

- It reduces the unattractiveness of idleness by reducing the discomfort of not working and the fear of losing one's job. The natural disadvantages of being idle, i.e. not having an income and not having your own place to stay, are removed.

- The receipt of benefits over a long period creates a false belief of entitlement, a sense that it is right for others to work for you. But it is no more right to ask people in Europe and the US to work for the benefit of poor people in India and China, than it is to ask people within a country to work for the benefit of poor people in the same country.

The only person truly responsible for the well-being of a capable adult is that person himself or herself. There is no reason or justification for totally unrelated others, near or far, to be made into serfs for the benefit of said person.

When a welfare state is imposed for a long enough period, even the well-off come to believe that they are owed something, that people must be enslaved to pay for their pensions, healthcare costs, child expenses, and other routine expenditures.

- By imposing minimum wages, special rules on dismissals, and special requirements on employee pensions, employee sickness and employee holidays, the incentive for a would-be entrepreneur to launch a company or hire employees is greatly reduced. As a result, the levels of job creation, product creation and wealth are greatly reduced.

A person who knows cooking, cleaning or shopping would not be unemployed in a free market if they were looking for work. But in a job market shackled by welfare, such a person may well decide not to work; or, if he/she does decide to work, he/she may well fail to find even a simple job.

As a last resort, the government may see to the survival of destitute people, by providing shared housing at the lowest cost possible to itself (i.e. taxpayers). But it should not provide a comfortable lifestyle to people other than those who are genuinely unable to work, genuinely resource-less *and* genuinely unable to find help from family or charities[81].

Any other kind of welfare is simply an abuse of innocent taxpayers. Even this much welfare may be too much, if it gives the state a justification to expand the welfare state. If the only alternative is to have no welfare or a bloated welfare state, then the

---

[81] When private charities, families or replacement families can provide help, help should come from them and not from the state. The state is not a replacement family and it should not be seen as such.

only acceptable option, the one that does not sacrifice the economy for the sake of false compassion[82], is to not have any public-sector welfare at all.

If they had any conviction and integrity, right-wing parties would campaign on the unfairness of the Left. Usually, they campaign on the issue of economic management[83] but they completely surrender the moral argument.

They reluctantly agree with the Left that being rich is a sin which must be punished. For many on the Left, inequality is a crime even more evil than theft. They naturally conclude that theft is justified in order to fight inequality and help the elite caste of bureaucrats.

But it is unfair to take away the fruits of one's labour, unfair to give someone something for nothing, unfair to provide houses to single mothers, appalling and unfair to provide pensions to the rich, and unfair to provide a cash income for each baby a mother has.

And it is cruel to inflict poverty on people by taxing them not only with an income tax and a house tax but also with stealth taxes like VAT, inflation, employer contributions and mandatory insurances. In essence, all forms of redistribution constitute amoral favouritism, and should be presented as such by the Right.

The myth of EU tax harmonisation as a way to resolve financial troubles

Occasionally in the EU we hear economic analysts making the wonderful claim that if only the EU could be just a little bit more integrated, with a harmonised tax system, then the member states would resolve many of their economic problems.

The reasoning, here, is that since entrepreneurs and investors are free to move within the EU, naturally they choose to move to regions with a lower rate of tax, worsening the financial difficulties of EU regions with higher rates of tax. Therefore, the argument goes, tax harmonisation would stop companies from moving away. This reasoning does not stand the slightest scrutiny.

Firstly, the EU is not the world. If equally high levels of tax were imposed all across Europe, people with capital – the ones with the most freedom to move – would naturally choose not to grow companies in Europe.

Instead, many of them would move to places like Switzerland and everywhere else in the world where taxes are lower. Far from improving the situation of indebted countries in the south of Europe, the harmonisation of tax would spread economic misery onto every EU country.

[82] Compassion based on stolen money is what I call false compassion. A crucial element of genuine charity is the fact that it is provided willingly. Because of this, no expense made by the state using tax money or state debt can be said to be charitable.
[83] That, too, without any great conviction.

Secondly, let us take the reasoning to its logical conclusion: what if high taxes were imposed everywhere in the world with a global harmonisation agreement? Surely, there would be nowhere for talented wealthy people to escape to.

Well, in this case, we would see a global decrease in levels of investment and entrepreneurship. If mankind deliberately destroys all opportunities to develop a profitable company, then mankind will simply stop developing such companies. Far from improving the financial situation of welfare states, a global harmonisation of tax would spread economic chaos and misery on a scale never seen before.

The desire to somehow 'corner' wealthy, talented people in a high-tax region is a typical leftist sentiment. It is a negation of the natural human desire to succeed for one's own sake and for the sake of one's own family, and not for anyone else and especially not for an inhuman machine called 'the state'.

There is no justification for imposing the same policies over a block of countries, because not every country is the same, not every country has the same people and not every country has the same desires.

In the one area where a united Europe would be beneficial, the development of a common language, the EU institutions are completely absent. But in every sector where they can be harmful, they are present. Thus we can see that government at the supra national level presents the exact same undesirable characteristics as government at national level and local level.

Aside from tax harmonisation, another issue that European politicians like to mention when they seek to get elected or re-elected is the issue of tax simplification. They rightly observe that their socialistic tax codes are over-complicated. Once they get elected, politicians quietly discard their plans.

Politicians have no interest in creating a simple tax code. If the tax code was simple, then it would be immediately obvious to the people how much they pay in tax. They may then clamour for lower taxes. Lower taxes result in weaker government, the very last thing that welfarists desire.

It is much easier for a government to increase the total tax take by deploying a multitude of small taxes that affect different groups. This tactic allows the government to avoid giving the appearance of taking too much from any single group.

Robotisation does not justify welfare

An argument of welfare proponents is that society will eventually develop robots that will be able to do all our work for us. The argument goes that companies will not need to employ people any longer. Thus, the state will have to be their only provider, perpetually stealing wealth from the robot owners and giving it to the now-idle workforce.

As with so many ideas originating from the left, the argument does not stand any amount of scrutiny. Society has not been waiting for this argument to develop robots and other automation technologies.

Have we seen joblessness increasing in proportion to robotisation? Of course not. People still get employed. Why? Because an employee is a resource like any other, and it will remain a resource like any other in the future.

A resource has a cost and a usefulness. In a free market, prices adjust themselves all the time to demand and supply. This produces a situation of full employment[84] at all times. This is why we see unemployment rates close to zero in places like Singapore, regardless of the development of technology.

The situation of a man competing with a robot is no different from the situation of a man competing with another man. When more men are looking for work, wages must decrease so that companies hire people in greater numbers. If you add robots into the mix, wages must also decrease so that people remain employed. But because humans have usefulness, they will continue to be employed and their wage will never drop to zero.

Therefore, the argument that people would suddenly lose their jobs and incomes is invalid. At best, one could make the argument that wages would fall to a level that would not allow people to survive. But even this argument is unacceptable.

First of all, it is impossible to determine what a living wage means. Individuals do not all have the same needs. People do not all need or want the same lifestyle. Some individuals have a house, so they don't need to pay rent or mortgage instalments.

Some individuals have children, so they need to pay for their care. Some individuals live with their parents. Some individuals have an income from owning shares. Some individuals have an income from selling a digital product.

Each person has a different situation and a different lifestyle. Because it is impossible to determine what a living wage means, the argument of leftists that everyone must be paid at least a 'fair wage' or 'living wage' is worthless.

Secondly, the cost of living will plummet if we ever develop robots with the ability to perform any kind of human work; particularly if these robots are cheap. Whenever companies manage to reduce their costs, they can afford to increase their supply.

The total increase in supply would quickly result in a sharp decrease in the price of all products produced by robots. If products like food and houses are much easier to produce, then the cost of living plummets. And if the cost of living plummets, then the government does not need to step in to save us all[85].

---

[84] Even in a purely free market, it would not be surprising to see an unemployment rate of 1% or 2%, simply because people who decide to change jobs naturally need time to find another suitable employer. This is called frictional unemployment.

[85] Much to its sorrow!

Thirdly, people are not idiots. If robots can be purchased to do any work that previously people were doing, what would be stopping them from acquiring their own robots to cater for their own needs?

You put a robot in your garden and he will grow your own food. You acquire a robot to publish your own newspaper. You acquire another robot to distribute that newspaper to people. Far from killing capitalism, cheap robots would actually multiply entrepreneurial economic activity, threatening the role of the state as a provider.

Fourthly, we should never forget that a free market does not remove from good people the desire to help others. A free market allows good people to help others by allowing them to keep the fruit of their own labour.

In a socialist society, almost everyone is poor, unless they get special advantages from the state. In a capitalist society, the majority of people become prosperous and the poor get relief thanks to the charity of good people.

From this discussion, we can draw the conclusion that capitalism is not in any way threatened by the development of technology. The cost of each resource determines its use, regardless of how many resources are available and in what quantities.

Multiple personalities disease: government's attitude towards the free market

Have you ever noticed how most welfarist governments seem to be perfectly satisfied with a (relatively) free-market approach for some economic sectors? Let's count some of them: Retail, Food, Drinks, Cars, Computers, Furniture, Chemicals, Hotels, Taxis, Cosmetics, IT services, Telecommunications, Clothing, Books, Video games, Cinemas, Advertising.

On the other hand, all welfare states are adamant about the state management, complete or partial, of certain economic sectors. They often include Education, Housing, Hospitals, Drugs, Trains, Buses, Banks, Insurance, Job agencies, Aerospace, Airlines, Energy, Water, Waste collection and disposal, TV channels, Telephone networks, Casinos and lotteries, Science, International trade, Agriculture.

Naturally, one is led to ask the question: if the government deems that the free market is good enough to supply food, then why in heaven's name does it feel obligated to get involved in education, housing, healthcare, railways and any of the other sectors it routinely mismanages or interferes in?

The answer is probably a mixture between a desire for power and a reluctant awareness that only the free market can provide quality products in sufficient quantities.

The desire for power is obvious in senior government officials[86] of all nations. But with this desire alone, the government would have no issue managing all sectors of the economy in the same fashion as the former Soviet Union, the Khmer Rouge Cambodia or the current North Korea.

Government officials in welfare states are well aware that if government was to run all sectors of the economy, shortages would be rife and quality would plummet. The result is a bizarre compromise whereby government has decided that it would mismanage as many sectors of the economy as possible without giving the impression or appearance of failing.

For if government botches the education of children, who will complain? In order to complain about quality, one must have a reference point. Children, obviously, do not have any reference point as to what the quality of education can be.

And if someone is misdiagnosed and dies early, who is to complain? The dead person certainly cannot complain, and his family can rest assured that the National Socialist health services have done all they could to help that person.

And what cold-hearted person could ever complain about the generosity of a state that freely hands over residential properties to poor people, and people who are not poor but well-connected?

If the state was to manage the sectors it specifically chooses to avoid, its flaws would become more obvious. That would put the state in a much more vulnerable position, particularly in countries that follow the ritual of elections.

A modern myth: making insurance compulsory reduces its cost

A much-loved argument of insurers and the government is the idea that somehow the cost of insurance can be reduced by making it an offence not to buy insurance. The argument goes that the more people buy insurance, the less each person has to pay to cover for the total cost of insurance claims. Unfortunately, this argument is not supported by observation or theory.

Let us review a bit of evidence. A study conducted by Insure.com and published in 2012 in the magazine Forbes showed that the average annual cost of car insurance in the US state of New Hampshire was $1,133. New Hampshire is one of the few places in the world where car insurance is **not** mandatory.

In the ranking of US states from the one with the cheapest car insurance to the one with the most expensive car insurance, New Hampshire was ranked 9th out of 50. Louisiana was ranked last with car insurance priced $2,536 on average.

[86] Obviously, they do not give voice to this desire, but instead pretend that they have a great vision to make society a better place. What this means is that they have a great vision of their future lifestyle.

Immediately, we can see that the claim of ‘more people, lower price’ is completely bogus. If the claim was true, then New Hampshire should be one of the states with the most expensive car insurance.

Now, let us review the theory. Firstly, let us assume that insurance is a purely non-profit process without any cost other than the cost of paying claims. Let us also assume that the risk of accident is equal for all individuals.

In such a situation let us now assume that out of every 100 insured people, every year one of them gets in an accident and makes a claim of $10,000. In this case, the cost to an insurer with 100 customers is $10,000 per year. Therefore, the insurer must seek premiums of $100 per year[87] from each customer in order to cover claims.

Should this same insurer acquire another 100 customers, the cost of claims will increase from $10,000 to $20,000. Therefore, the insurer must continue to seek premiums of $100 per year[88] from each customer.

Hence, when insurance is a non-profit process, and individuals present equal risks, then increases in customers come together with increases in claim payments. The result is that premiums cannot decrease.

Right here we can see that there is no basis to the claim of ‘more people, lower prices’. In fact, there is every reason to believe that insurance prices increase when insurers get bigger.

Insurance is an entirely for-profit business that has many costs other than paying claims. It is strictly regulated (manipulated) by states, dominated by a few companies, and it often deviates from the principle of paying pre-established claims.

Since the level of insurance claims each year is fundamentally uncertain, insurers need a lot of reserves in order not to go bankrupt on a bad year. It follows that governments feel justified in strictly regulating the insurance sector.

Naturally, only a few large companies, well-loved by the government, can comply with the heavy regulation. The result of heavy regulation is the creation of an oligopoly, i.e. a market dominated by a few large companies[89].

As a general rule, the level of competition between firms in any market is proportional to the number of firms in that market[90]. The more companies there are, the more intense the competition. So the insurance oligopoly is a market with low competition and high coordination between providers.

---

[87] Because $10,000 divided by 100 is $100.

[88] Because $20,000 divided by 200 is $100.

[89] Also see the paragraph on 'How the government benefits from creating oligopolies and monopolies' in Part IV Corporate Welfare.

[90] However, note that competitive pressure can come from actual competitors but also from the threat of new entrants. Therefore, a completely free and unregulated market always offers a high level of competition, regardless of the number of companies in the market. But in markets shackled by state-created barriers to entry, the number of companies does indicate the level of competition.

The low level of competition allows insurers to provide products at a price much higher than the cost of production. In other words, the total of premiums can greatly exceed the total of claims, because customers do not have the option to switch to a cheaper provider.

In effect, the price level is unrelated to the production cost. Should the total income of an insurer increase thanks to an increase in customers, the company does not have any incentive to reduce prices. Assuming claims don't increase, the income increase is totally converted into profit for the insurer.

In this situation, the only factor that would work in favour of a price decrease would be a decline in demand. But with insurance being mandatory, there is no risk of a decline in demand.

Hence, mandatory insurance is a gift from the government to insurers, and a pure transfer of wealth from the population to insurers[91]. A company that does not need to convince customers to buy its products does not need to reduce prices, ever.

Conversely, when insurers must contend with a free market where individuals are free to buy their product or not, as they do in New Hampshire, they are forced to cut their prices simply to attract and retain customers.

The Economist and left-wing brainwashing

On 31 May 2013 I had to wait some time before I could pick up drugs at a pharmacy, so I went to the Tesco supermarket to read the magazine called The Economist. The cover story was about the increasingly liberal mentality of young people in Britain. Naturally I was interested: what did they mean by liberal?

'Liberal' and 'progressive' are two words that have lost their meaning in the English-speaking world, because of their abuse by politicians. 'Liberalism' in particular could either refer to a European-like socialist government, or to the opposite, a libertarian government. In addition, saying that someone is a 'liberal' could also be interpreted as saying that the person is a libertine – again a totally different thing.

Upon reading the article it became clear that what they really meant was **classical liberalism**, in other words, **libertarianism**. They meant that 'young' people (anyone born after 1970) are more supportive than older people of a freer society based on low taxation and the acceptance of all attitudes towards sexuality and drugs.

Logically one could wonder: why did The Economist not use the word libertarianism? My theory is that The Economist is fundamentally a left-wing newspaper. It is left-wing in the same sense that the UK Conservative party is left-wing, or the French UMP party is left-wing. In this writer's opinion, these parties are left-wing because they support socialist institutions. They only pay lip service to libertarian ideas.

[91] And the government, indirectly.

Like the magazine The Economist, these parties may have a crude understanding that economic liberalism is a superior system in theory. But because they are afraid of the potential consequences of economic liberalism, they are content with preserving and defending the institutions of socialism.

They lack the integrity, principles and moral values required to defend libertarianism. In other words, they have been brainwashed. Reading the article in The Economist makes it more obvious.

The article begins by claiming that The Economist is a long-time supporter of classical liberalism. But later in the article, it is insinuated that when the 'young' people of today get older and their 'knees are failing', then they will start supporting the welfare state.

What does this mean? In essence, there is a suggestion that the libertarianism of young people is only valid as long as they stand to benefit from it. There is a suggestion that as soon as these people would receive subsidies, they would then return to the fold of wise statists.

At some other point, an insinuation is made that the young people of today are more 'hard-hearted' than their predecessors. I find the use of this expression particularly revealing. It indicates that for The Economist, **libertarianism is hard-hearted**: a cruel and insensitive ideology.

This is exactly the kind of discourse one would expect from leftist ideologues. The true feelings of The Economist are revealed to be the same as those of socialists. The free market is perceived as a dog-eat-dog, savage world where the weak are preyed upon mercilessly by greedy, heartless capitalists, and then left to starve[92] and die an agonising death in the street.

Despite all the evidence in support of capitalism, The Economist does not believe that the free market is more effective than the state at alleviating poverty, hunger, disease and other social ills.

The careful exclusion of the word 'libertarianism' also points towards a reluctance to promote the ideas of libertarianism. This word is mentioned only once in a one-page article. It is buried in the middle of the article, and certainly not mentioned in the magazine's cover.

In the same article, The Economist depicts the UKIP political party as 'the most disruptive force' in today's UK politics. The article describes UKIP as a party hell bent on limiting immigration and taking the UK away from Europe. However, any libertarian living in the UK would think that the attitude of The Economist towards UKIP is laughable. UKIP is probably the only genuinely libertarian party in the UK!

---

[92] A recurring accusation levelled at capitalism is that it makes people starve. But it is the free market that guarantees that the demand for food is met by the supply of food. Inversely, communism is the system that guarantees the occurrence of food shortages, forcing people to starve. Also see the article on Would a majority ever vote for a libertarian party?

In this writer's opinion, UKIP does not intend to isolate the UK but to reduce the size of the state. Certainly a libertarian would support free immigration flows; but a libertarian would support the abolition of the welfare state first and foremost. As long as the welfare state is alive and well, immigration is a potential burden for taxpayers.

Therefore, plans by UKIP to reduce immigration make sense as part of the transition towards less state intervention. Likewise, a policy of independence towards the European Union only makes sense considering that EU initiatives are, more often than not, socialistic in nature.

The bias of The Economist towards left-wing ideas is further confirmed in the article that follows the one on the mentality of young people. In the next article, they reviewed poverty initiatives around the world. Towards the end, a suggestion is made that **redistribution initiatives** are effective in reducing poverty. This point of view cannot be reconciled with the earlier claims made by The Economist that it is a long-time supporter of classical liberalism.

If it does not come from the state, it does not happen

A cornerstone of the statist mentality is the idea that the free market cannot be relied upon, that services offered by the public sector would simply not exist if they were not provided by the state at taxpayer expense. This idea is often used by politicians to justify any supposedly well-intentioned spending by the state.

For example, here is a recent statement from the European Commission[93]:

> The European Commission has earmarked some €150 million of funding for 20 new international brain research projects. It will bring the total EU investment in brain research since 2007 to over €1.9 billion. […]
>
> European Research, Innovation and Science Commissioner Máire Geoghegan-Quinn said: "Many Europeans are likely to be affected by brain-related disease or illness during their lifetime. Treating those affected is already costing us €1.5 million every minute and this burden on our healthcare systems is likely to rise as our population ages. Brain research could help alleviate the suffering of millions of patients and those that care for them. Unlocking the secrets of how the brain works could also open up a whole new universe of services and products for our economies."

So we are already spending EUR 1.5mn per minute on this issue (through statist, tax-funded health care systems) but, hey, why don't we spend even more of your tax money for the same purpose?

The last sentence really highlights a total lack of faith in the free market. In spite of all evidence to the contrary, the EU Science Commissioner cannot imagine for one second that a market free from government interference would develop the products and services that people need.

[93] See http://europa.eu/rapid/press-release_IP-13-380_en.htm

All over the report, the underlying assumption is clear: we know better than companies. We know what is good for you. We know what kind of research we must undertake. We must take your money for it. And if we don't do it, no one will, and you will lose out.

In the same vein, let us now have a quick look at recent statements from the European Commission concerning smart phones[94]:

<< European Commission Vice President Neelie Kroes: "Consumers increasingly care about their Internet being fast enough to watch videos [...] For those who run businesses from their home, speed is also a competitiveness issue. Consumers now focus on both speed and price when making their choices."

[...] over half (54%) of households limit their national and international mobile phone calls because of concerns about cost. Kroes says "This is the smart phone era, where high quality mobile services are an essential part of daily life. **It's not acceptable for half the population to be limiting their phone calls because of cost issues** >>

Here, the good commissioner is letting the little people know how essential smart phones have become to their life, just in case they did not know it yet. People who, for a reason or another, have no smart phone or (heaven forbid) no mobile phone, are no better than cavemen. They are almost an insult to the great European empire, the paragon of modern technology.

The last statement really oozes arrogance and economic stupidity. It could be rephrased thusly: "In our great wisdom, we the European Commissioners have now decreed that people must not take cost into consideration!"

Remember that our so-called elites are all hard-core Keynesians[95]: consumption is paramount to them. Heaven forbid anyone should feel that they have to restrict their mobile phone use because of the insignificant issue of money and cost.

[94] See: http://europa.eu/rapid/press-release_IP-13-660_en.htm
[95] See the article on The fatal flaws of Keynesianism, in Part VII.

Part VI Justice

When a serial murderer is caught in Europe

The chain of events that unfolds when a serial murderer is caught in Europe typically involves the following people and the following respective declarations:

Head of Social Services: "We need to create a psychological support cell for the victims and the presumed perpetrator. Exceptional crimes create exceptional trauma."

Psychologist: "We need to fully understand the psychological reasons of the presumed perpetrator. Exceptional criminals have exceptional minds."

Defence Lawyer: "We need to make sure that the presumed perpetrator is properly defended and that his human rights are fully respected. For an exceptional case like this one, only the very best defence lawyer will do."

Judge: "We shouldn't judge this case too hastily. I will need an expert commission to review the facts for me."

Prison Manager: "Our entertainment room is at full capacity at the moment, so we will need an expansion project. Exceptional offenders need exceptional facilities."

Politician: "We shall fully understand the complex causes of this crime and, thanks to my zealous efforts, we will make sure that this horrible crime can never happen again. We will protect you, the people, at all costs. Gun control will be tightened and video cameras will be deployed. Lessons will be learned. Sleep, good people, sleep."

Victims Representative: "The families of the victims must receive compensation, we should use the STTP[96] National Socialist Compensation Fund at once."

Judge, two years later: "This court finds the defendant guilty, but with attenuating circumstances due to his impaired rationality. Therefore, the court sentences the defendant to 'life'. As you know, 'life' means eight years in our special taxpayer-funded entertainment facilities, with release on parole after four years. We should all remember that everyone deserves a *second chance*."

[96] Screw-The-Taxpayer-More.

When a serial murderer is caught in China

When policemen catch a serial murderer in China, first they identify him, and second they shoot him until he or she dies. Then they close the case. What is the moral of this story? Simply, that not every criminal needs a trial.

When a crime is obvious, witnessed by many, and the guilt is undeniable, then no trial is necessary. This idea is well accepted for minor offences like speeding.

But for more serious crimes, representative democracies make an exception and lavishly spend taxpayer money on prosecutors, defence lawyers, judges, analysts, psychologists, assistants, guards and prison personnel. All to demonstrate the facts of a crime that is obvious to all. The cases of Anders Behring Breivik in Norway and Mohammad Ajmal Amir Kasab in India are good examples.

When the perpetrated crime is an atrocity, then death should follow swiftly in order to spare unnecessary expenses for innocent taxpayers. But if a serial murderer was caught and then intentionally shot down in Europe, the reaction would be as follow:

Head of Social Services: "How awful! Think of the murderer's family! Two wrongs don't make a right!"

Psychologist: "We have forever lost the rare chance to understand the inner recesses of the mysterious criminal mind!'

Defence Lawyer: "My potential client was murdered in cold blood by brutal goons. Hence, the police officers that participated in this atrocity must immediately face prosecution. For a case like this, only the best lawyer will do."

Politician: "The murder of the presumed perpetrator was a heinous crime. As you know, the abolishment of the death penalty is our most sacred dogma, I mean, belief."

Deterrence effect of the death penalty

Let us review some of the evidence concerning the deterrence effect of the death penalty. Quoting from the AmericanThinker[97] website:

<<over the last ten years, several studies have confidently asserted […] that capital punishment deters murders, saving three to eighteen lives for every one person executed. Dr. Naci Mocan, a death penalty opponent and economics professor at the University of Colorado at Denver, co-authored a 2003 study and a 2006 study reexamining evidence. The studies evaluate state-level data on the influence of individuals removed from death row, those executed, and those who received commuted sentences between 1977 and 1999. Dr. Mocan concluded that the effect of one execution is five fewer murders.>>

[97] http://www.americanthinker.com/2011/02/can_executing_murderers_save_1.html

<<Using a panel data set of over 3,000 counties from 1977 to 1996, Professors Hashem Dezhbakhsh, Paul R. Rubin, and Joanna M. Shepherd of Emory University found that each execution, on average, results in 18 fewer murders.>>

<<Two studies by Paul R. Zimmerman, a Federal Communications Commission economist, also support the deterrent effect of capital punishment. Using state-level data from 1978 to 1997, Zimmerman found that each additional execution, on average, results in 14 fewer murders.>>

<<Using a small state-level data set from 1995 to 1999, Professor Robert B. Ekelund of Auburn University and his colleagues analyzed the effect that executions have on single incidents of murder and multiple incidents of murder. They found that executions reduced single murder rates, while there was no effect on multiple murder rates.>>

If we are to believe the above studies, each execution of a murderer saves of number of innocent lives in the region where the execution takes place. This is because a number of potential murderers are deterred by the prospect of themselves facing capital punishment.

However, this is a controversial subject, so plenty of other studies contradict the assertion. But in this writer's opinion, it is enough to compare the murder rates of large cities in countries with a lenient justice system to the murder rates of large cities where judges are not afraid to use the death penalty.

The fact that overall crime rates and murder rates are much lower in Singapore and Tokyo than in Paris, London and New York is sufficient evidence to believe that yes, the death penalty does indeed protect innocent citizens.

The death penalty is also recommended by the Bible. Quoting from the Old Testament, Leviticus 24:17: 'He that killeth any man shall surely be put to death'. In this respect at least, one could say that China is closer to the teachings of the Bible than Europe, a supposedly Christian continent.

When you take into account the reduction of costs, the saving of innocent lives through deterrence, and the respect of religious rules, only one conclusion can be made: that Europe should not have abolished the death penalty or lectured any other country about it.

Imprisoning serial murderers is really a triple punishment for the population. The population suffers first from the loss of innocent lives at the hand of murderers. Then it suffers to see that justice is not being done. Lastly, it suffers by having to pay tax towards the cost of housing, feeding, entertaining and guarding murderers and giving them health care.

Whenever crime is perceived as increasing in any European country, politicians from both the left and the right can be heard complaining about the lack of police presence. It is the traditional behaviour of a politician to call for an increase in the size of the state as a solution to any and all problems. Crime is no different.

However, in the case of Europe, increasing the number of police officers is not the solution. This would do no good unless the justice system was reformed. Sentences must be sufficiently painful (literally) to deter as many people as possible and they should also guarantee that dangerous individuals are removed from society. There is no point in catching criminals when the justice system releases them soon after.

Singapore provides a good example of a justice system that provides better results than the European and American systems while requiring fewer police officers. Quoting from TheologyOnline.com[98]: << Singapore and Los Angeles have equivalent populations, yet in one year Singapore had 58 murders (most followed by swift execution) while Los Angeles had 1,063 >>.

This means that on that year, for every murder committed in Singapore, 18 murders were committed in Los Angeles. If that is not deterrence, I don't know what it is. Deterrence does not have to be 100% effective to be greatly desirable.

Because of the weak law enforcement in Los Angeles, every year 1,000 innocents die at the hand of murderers. And all of it because Los Angeles does not have the courage to deal with evil people the way it should. The Singaporean deterrence is also due to the use of school and judicial corporal punishment. For example, Singapore is not afraid to cane rapists.

Rapists survive the punishment, are less likely to re-offend, and require shorter jail sentences. At the same time, justice is seen to be done. But in Europe, society has descended into such a state of pusillanimous feminisation that even the worst criminals may not be touched for fear that their precious human rights may be violated.

A lenient justice system is a symptom of a society that has lost its moral compass; a society where it has become dangerous or politically incorrect to declare that evil actions are indeed evil and that good actions are indeed good. It is in the interest of politicians in representative democracies to promote a loose sense of morality.

Should a strict sense of morality prevail in any society, politicians could be accused of numerous crimes: the relentless pillaging of citizens, the restriction of freedoms, the participation in wars of aggression like the 2003 Iraq war, the use of torture, the creation and fostering of monopolies, and the list goes on.

Some crimes are 100% certain

An argument that is often mentioned by opponents of harsh sentences is that no crime is ever certain. If no crime is ever certain, then innocents may be unjustly sentenced. But it is plainly false to say that no crime is ever certain.

Many crimes are 100% certain. This is the case whenever many unrelated people have directly witnessed the crime, or when several police officers catch a criminal red-handed, or when the weight of evidence is crushing – possibly because of repeated offences by the same person. In such cases there is no doubt whatsoever about guilt.

[98] http://www.theologyonline.com/death.html

Because many such cases do exist, the above argument against sentences like the death penalty, corporal punishment or castration is invalid. To say that such cases do not exist would be equivalent to saying that the sun may be filled with chewing gum, simply because no one has actually gone inside to prove otherwise.

A perfect, god-like level of information is never required to have a perfect certainty of most facts. It would be hypocritical for someone to claim that a perfect level of information is required.

A person making this claim probably opposes harsh sentencing not on the basis of the risk to innocents, but on the basis of an unspoken belief that the justice system should be lenient with everyone because ‘no-one is completely guilty and no-one is completely innocent’.

The fact that most courts only require to prove someone’s guilt beyond a reasonable doubt is totally irrelevant to the fact that for many crimes,. guilt is completely certain. In these cases, there is no reason to limit sentencing to prison terms, especially considering that sentencing the person to a prison term would most likely be costly to society *and* inefficient in terms of deterrence and the reduction of the re-offending risk.

The fact that many criminals in Europe commit crimes after spending several years in prison shows that many criminals are not deterred by jail time. In the mind of these criminals, jail time probably represents nothing more than an annoyance, a hindrance.

It stands to reason that flogging or caning should be used to reduce the rate of recidivism to the minimum and reduce the need for expensive prison stays. The empathy that we may feel for criminals as fellow human beings should never trump the desire to protect innocents.

Detroit’s bankruptcy

On 29 July 2013, Peter Schiff on Peter Schiff Radio talked about the bankruptcy of the US city of Detroit. He wondered how to get Detroit back on the right track, considering that most people in Detroit are hard-core supporters of the US Democratic party. Surely these people will never vote in favour of free-market capitalism.

Mr. Schiff suggested two alternatives. The first one would be for the city’s leadership to be taken over by outsiders. The other would be to allow Detroit to hit rock bottom, forcing the city reluctantly to accept the policies that would actually work.

Other people online have suggested to transform Detroit into an independent, libertarian city similar to Hong Kong or Singapore.

In this author’s opinion, the best outcome would be achieved by wrestling power away from the city’s bureaucrats. After all, if Detroit chooses not to reform, it will then become an increasingly heavy burden for the state of Michigan and the US federal state. Therefore, it is legitimate for Michigan or the federal state to take action to prevent Detroit from becoming a burden.

What is the goal of Detroit's politicians? It is simply to be allowed to be a parasite on taxpayers forever. Detroit's politicians do not care whether the taxpayers that feed them are Detroit citizens, state citizens or federal state citizens.

Therefore, they will do their best to get bailed out by the state or by the federal state. Just like the socialist politicians in Greece, the socialist politicians of Detroit will not willingly adopt policies that would be beneficial to citizens.

So Detroit's democratic government should be toppled and replaced by a libertarian government independent from the state and federal governments. But what should this government do? Abolishing the minimum wage, all labour regulations, almost all welfare benefits and almost all taxes is only the beginning of the task.

Mr. Schiff pointed out several times that Detroit has a lot of surplus residential properties. The problem being that no-one wants to live there. Houses get vandalised and fall into disrepair.

Law and order is a pre-requisite for prosperity. Talking about capitalism is pointless when law and order is not guaranteed. People will not live in a city of crime and people will not invest there.

One of the things Detroit needs urgently is strong law and order. Law and order is <u>not</u> established by having the state recruit an army of psychologists, lawyers, prosecutors, judges and additional police officers. What law and order requires is harsh sentencing.

If Detroit adopted judicial caning as it is practiced in Singapore, Detroit could eliminate most of its crime in a matter of months. This would save millions of dollars of taxpayer money because of the reduced need for prison sentences and because of the reduced level of crime.

Detroit's situation and standing would dramatically improve from the very moment that strong law and order and strong free-market capitalist policies are adopted. The price of some houses would suddenly surge from hundreds of dollars to hundreds of thousands of dollars.

Like Greece, the other thing that Detroit needs badly is a total default on its debt. Government bureaucrats have no right to transfer the burden of <u>their</u> massive debt onto citizens.

Because creditors failed in their duty of due diligence, it is fair for them to lose 100% of their investment. It makes no difference that the lenders may be pension funds, banks and insurance companies, or that the default may trigger a string of bankruptcies.

Contrary to the claims of Keynesian leaders, an economy is made **stronger** when poorly managed entities **go bankrupt**, and it is made much weaker when poorly managed entities are bailed out by the government.

If the members of the G8 or UN actually had the interests of mankind at heart, and not their petty self-interest, they would create an automatic system of 100% default for all entities reaching a debt level of 100% of their GDP.

Uncertainty is highly damaging to economies. Creditors need to know exactly when a country is about to default. Citizens need to know exactly when they will be released from the burden of their government's debt. Politicians need to be limited in their ability to accumulate debt willy-nilly.

But the members of the G8 and UN have no interest beyond the safeguarding of their personal lifestyle and the expansion of state power.

Part VII Inflation, Spending, Keynesianism

The problem faced by all countries in the world

The fundamental problem faced by all countries[99] is that a government (any government) has many reasons to increase its spending and no reason to reduce spending.

Most economists can agree that in some rare cases the free market cannot produce an investment that may nevertheless be required for future growth. For example, private operators may be unwilling or unable to lay a railroad between the eastern and western parts of a country if the line would have to pass through a large desert region without customers.

The unwillingness or inability may come from the high cost of the project or from the fact that it would take many years for the project to generate a profit. However, through the future increase in trade, we can expect such a project to be greatly beneficial in the long run.

In this particular case a government could arguably have an economic justification in commandeering the resources necessary to build the line, though it would still lack the moral justification.

That is not the problem. State spending when it is absolutely necessary is not a problem. The problem is that when a necessary project is completed, the government is very reluctant to dismiss the workers and cut its budget.

What was presented as a punctual spending then becomes permanent spending. What represented a marginal, temporary impact on consumers and companies then becomes a long-term drain on the economy, a long-term force for the impoverishment of the population.

Since tax is unpopular, politicians in representative democracies naturally turn towards government borrowing as a favoured source of funds.

Unfortunately, the debt that a government issues is the worst kind of debt because there is no personal responsibility associated with it. Many people may not support the government's action. Thus, it would be unfair to ascribe to taxpayers as a whole the responsibility for a government's reckless spending and borrowing.

Government borrowing is also the worst kind of borrowing because there is no collateral. The government cannot say 'this is my house, this is my guarantee'. The

[99] Or rather, faced by the citizens of these countries. To governments, spending is not a problem but an enjoyable pastime.

only guarantee a state can give is the guarantee that, should it not be able to repay, it will just impoverish its people by force through inflation, in order to repay.

The fundamental laws of economics

In this article I will outline the set of basic laws discovered by economists. They are widely applicable and easy to observe. Some of the laws have a few exceptions. Nevertheless, anyone[100] making statements that run counter to these laws probably has a hidden agenda and should be treated with suspicion. The rules are 'ceteris paribus': they are valid only when all other things remain constant.

Lower Prices	*result in*	Higher Consumer Demand
		Lower Company Profit

Example: As a result of the low cost of labour in India, many Indians employ cooks, cleaners and gate keepers. A low cost of labour creates a high demand for labour[101].
Note that sometimes, companies can increase their profit by cutting prices. This is the case whenever the loss from the price cut would be more than compensated by the increase in demand due to the price cut. Supermarkets and hypermarkets take advantage of this by focusing on transaction volumes rather than price.

Higher Prices	*result in*	Lower Consumer Demand
		Higher Company Profit

Example: As a result of the high cost of labour in France, car washing is now done entirely by robots. A high cost of labour creates a low demand for labour.
Note that sometimes, price increases can reduce the profit of companies. This is the case whenever the gain from the price increase is more than compensated by the decrease in demand due to the price increase.

Higher Demand	*results in*	Higher Consumer Prices
		Higher Company Profit

Example: In the last decade, central banks in the US and Europe have been supporting real-estate sectors using artificially low interest rates[102]. Low mortgage rates create an

[100] Usually politicians and the left-wing economists (Keynesian economists) that support them.
[101] For exceptions to this rule, see the footnote in the article on 'Inflation, a necessary evil?'.
[102] Note that any interest rate resulting from the decision of a central bank, could be said to be artificial. The only interest rate that could be said to be natural is the one that emerges from a free market.

additional demand for houses. This additional demand then triggers an increase in the price of houses, as more buyers bid for the same houses available in the market[103].

Lower Demand results in Lower Consumer Prices

Lower Company Profit

Example: The deflation recorded in Japan from 1999 to 2002 was due to a genuine decline in demand. Citizens would have benefited from even lower prices if there had been no central bank to increase the money supply.

Higher Supply results in Lower Consumer Prices

Lower Company Profit

Example: The industrial revolution from 1760 to 1840 and US Fordism (mass production) from 1900. Any improvement in productivity allows a company to increase production. When the total output of a product increases in the economy, the price of this product is forced to decline in order to return to a balance of supply and demand. The number of buyers remains constant while the quantity of available product increases, so for each product there are fewer bidders. Retailers have to cut prices in order to sell their increasing stocks.

Lower Supply results in Higher Consumer Prices

Higher Company Profit

Example: Perhaps the most striking ezample is the oil embargo launched in October 1973 by the Organisation of Arab Petroleum Exporting Countries. The member countries wanted to increase the price of oil by 70% to increase their profit. The means to this end was the reduction of supply in five-per-cent increments until the price objective was achieved. The plan was a complete success. From 1973 to 1974, the price of a barrel of oil quadrupled from USD 3 to USD 12. Confirming their ineptitude, central banks in Western countries responded by lowering interest rates, thereby increasing the money supply and adding fuel to the fire.
When supply is reduced, the number of buyers remains constant while the quantity of available product decreases. Thus, for each unit of product there are more bidders. This naturally increases the price and the distributor's profit.

More Competition results in Lower Consumer Prices

Lower Company Profit

Example: Any free trade agreement signed between two countries forces companies in these two countries to compete with each other. They are forced to reduce prices

[103] More generally, any increase in the money supply triggers an increase in demand of equal proportion. The end result is a price increase of equal proportion and a transfer of wealth from citizens to the central bank exactly equal to the money-supply increase.

and increase quality in order to gain market shares. An increase in competition is functionally equivalent to an increase in supply.

Less Competition *results in* Higher Consumer Prices
Higher Company Profit

Example: Any barrier to international trade and any subsidy to a company favoured by the state reduces the level of competition. This allows firms to increase prices. Autarchy and protectionism are functionally equivalent to a reduction in supply. If the US was to ban imports from China, it would be like adding fuel to the fire of inflation which the US Federal Reserve nurtures so lovingly.

Increased Money Supply *results in* Higher Consumer Prices

Example: Whenever a central bank issues new money, this new money sooner or later gets spent in the economy. Therefore, demand increases in the same proportion as the increase in money supply. In turn, prices increase in the same proportion. When the money supply is doubled, the expected consequence is for prices to double.

The value of a unit of currency is cut in half. The currency holdings of citizens have effectively been taxed at the rate of 50%. Wages expressed in the currency have been effectively cut by 50%.

The new money is typically concentrated in the hands of central planners specialised in mis-management. Naturally, a large part is spent on short-sighted wasteful projects.

Citizens who try to escape the inflation tax are forced to make high-risk investments. The focus on high-risk investments results in additional capital destruction. All in all, printing money is a very efficient way of impoverishing a population.

Reduced Money Supply *results in* Lower Consumer Prices

Example: When citizens increase their holdings of currency or gold and they retain these assets in their own house rather than a bank, effectively the supply of money in the economy is reduced for as long as citizens choose not to make purchases with their savings. This is equivalent to a reduction in demand and it has the same beneficial effect on prices.

What do all the rules mean for the consumer? If we want lower prices, we should first encourage **competitive free trade** as much as possible. Then we should encourage production: a genuinely **free market** is optimal for this objective[104].

[104] Note that politicians have perverted the concept of a free market so that, when they talk about it, they only mean a market where participants are allowed to buy, or not to buy. However, a market cannot be said to be free if it is permanently hampered by regulations, direct taxes, indirect taxes, price controls, trade barriers, subsidies or the intervention of public companies. A natural consequence of this is that illegal black markets are usually more free than official markets. The very existence of a black market in any sector of the economy is **indicative of the lack of freedom** of official markets.

The use of a **sound currency** like gold is necessary to guarantee the accumulation of capital and prevent the emergence of runaway prices that depend more on the artificial money supply than on the natural supply and demand.

Finally, we draw the conclusion that we should **never** encourage a higher demand.

However, increasing demand is precisely what politicians focus on. They want[105] houses for everyone, higher education for everyone, computers for everyone, high-speed Internet for everyone, highly-paid jobs for everyone, high-quality health care for everyone, and so on. Of course, they do not ever succeed in providing any of these, but they do succeed in increasing prices for everyone.

In some deeply socialistic countries like Belgium, the government is involved both in measures intended to increase prices and in measures intended to curb price increases.

For example, Belgium uses its central bank to issue new euro bank notes each year and it uses a system of wage indexation to guarantee increases in the cost of labour and in social benefits. Of course, all of these are inflationary.

Then the government turns around and uses heavy-handed initiatives to control the price of electricity, gas or mobile-phone services. It is a win-win strategy for the state to use power-reinforcement initiatives that create a problem, and additional power-reinforcement initiatives that supposedly resolve the problem.

The deflation-spiral boogeyman

Supporters of high government spending – mainly, the government itself, those directly in its employ and those financially supported by it – have concocted the myth of the deflation spiral in order to ward off legitimate accusations that the government stealthily siphons off the population's savings.

As with many other assertions originating from left-wing thinking, the myth offers the appearance of good sense but fails to withstand any amount of scrutiny. It goes like this: 'should prices be allowed to decrease, people will realise that prices are decreasing, they will therefore reduce their purchases and consumption as much as possible in the eager expectation of even lower prices.'

It goes on: 'the decline in demand will force companies to reduce production and cut jobs. The job cuts will in turn reduce consumption, producing a vicious circle that every sane person should be terrified about'. Hence, the argument concludes, central banks must perpetually guarantee an inflation rate of *at least* 2%!

Why is this a myth and not a reality? For the simple reason that when prices decline, people consume more, not less. This is a well known fact and the very reason why low-price supermarkets and hypermarkets sell so much more than high-price

[105] Or so they claim.

convenience stores. It is also the very reason why someone who wants to find a buyer for his overpriced house must reduce the price. Consequently, when prices decline over time, this encourages people to consume more over time.

For example, have you noticed how fast the price of USB flash memory declined from 2000 to 2010? Have a look at the following chart. Has this decrease ever stopped anyone from buying a USB flash drive? **No** - because people buy the things that they need, when they need them **and** the price is right.

People do not particularly enjoy depriving themselves of the things that they need in the hope that they may get a discount later on[106]. When people do deprive themselves voluntarily, it is usually because they simply cannot afford the product yet[107]. The price is not right for them.

They may delay their purchase decision because of this reason (price not at the right level) - not because of a futile hope of future gain[108]. Then, as the price declines, the purchase decision can finally be taken because the price has dropped to the right level.

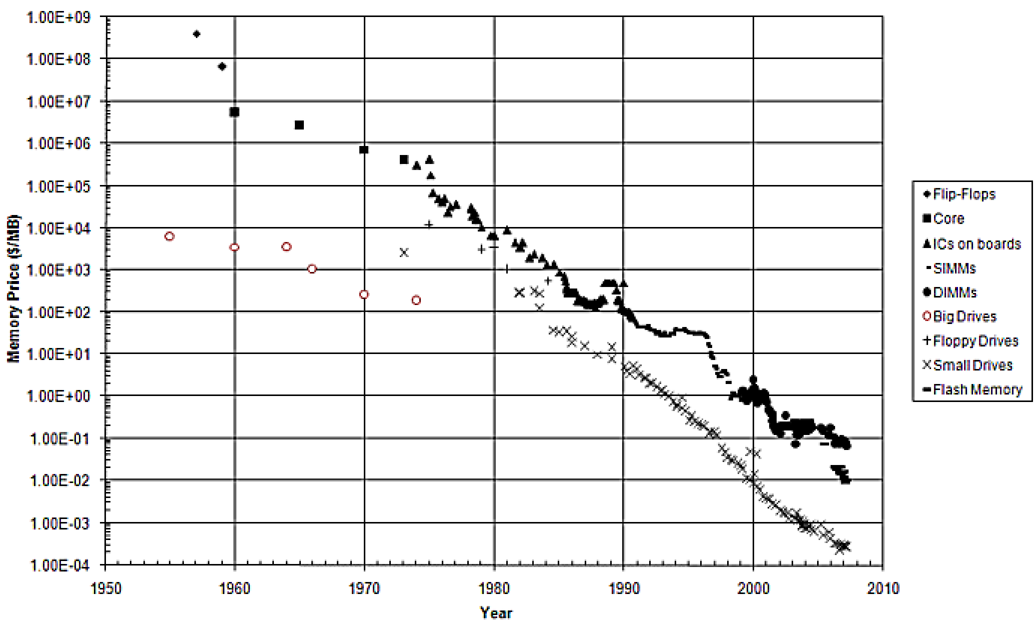


Chart: The continuous decrease in the price of computer memory from 1950 to 2010. Source: http://www.jcmit.com/mem2007.htm

Video game players know the phenomenon of price decline very well. High-budget video games are usually high-priced upon release. Soon after release, the price begins to decline. Do people wait all the way to the bottom price level before buying?

Of course not! They buy as soon as the price reaches the level that is right for them. Some people buy upon release, some buy at a middle point and some buy at a late point. When someone buys, it means the price is right for them.

[106] It should also be said that no-one can accurately predict how the price of a particular product will evolve - even in a market which, on the whole, is trending towards lower prices.
[107] Or else, they have made the conscious decision that the product is in fact unnecessary, and that it would be better for them to save money in order to buy more expensive things later on.
[108] For exceptions to this rule, see the footnotes of the article on ‘Inflation, a necessary evil?’.

Imagine, instead, that the price went from a high level to an even higher level. Who would then buy the game? Only those for whom the release price was right in the first place. These people would buy upon release; and then no-one else would buy. The seller could increase the price as high as he wants to, but there would be absolutely no buyer!

If one accepts the theory of state supporters that demand drops when prices drop, then logically one should also accept the reverse: that demand increases when prices increase. If this was really the case, then video game distributors should continually increase their prices in order to attract more and more customers. As we have just seen, this is absurd.

While the disastrous effects of hyper-inflation on economic life are well documented and accepted by all, there is not one piece of evidence that clearly points to the existence of a 'deflationary spiral' in any country and in any period of history, including the US Great Depression!

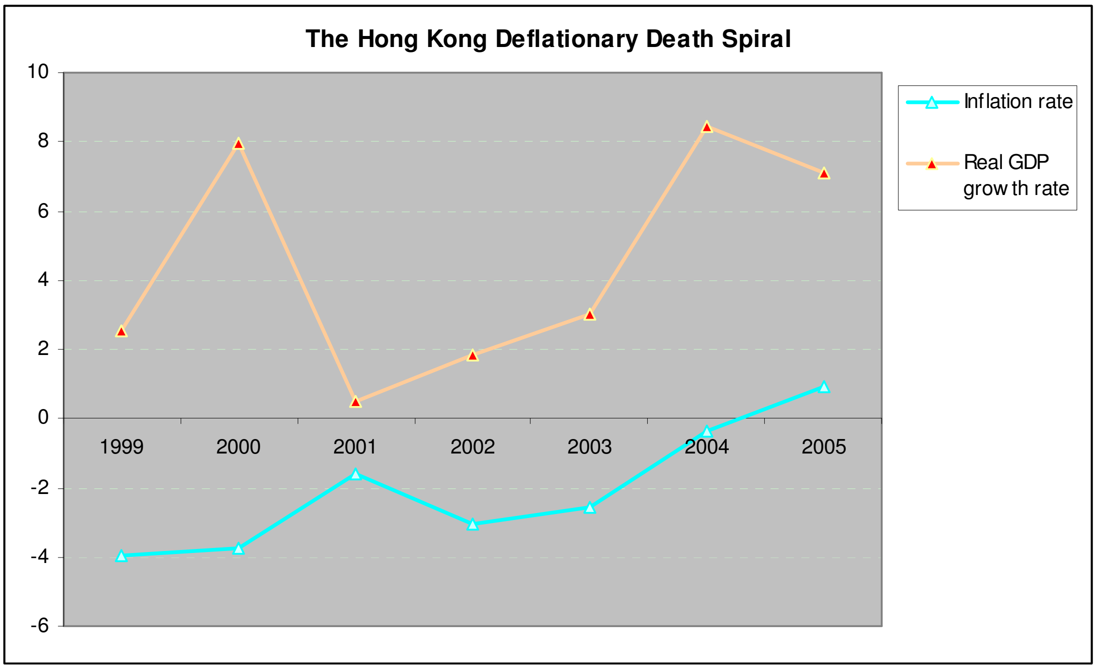
Plenty of evidence does exist to show that a lower demand results in lower prices. But no evidence exists to show that, in general, lower prices result in a lower demand. The myth of the deflationary spiral, and its corollary, the claim that inflation can be beneficial to an economy, can both safely be relegated to the dustbin of history.

Hong Kong's deflationary death spiral of doom

In the decades since World War II, central banks in almost all countries have been printing currency without hindrance. As a result, it is not very easy to find periods of deflation anywhere. If it was in their power, central banks would make sure that no country in the world ever experiences any amount of deflation. It would then be easier for them to deny the truth.

Nevertheless, Hong Kong in the seven-year period from 1999 to 2005 provides a shining illustration. In that period, Hong Kong experienced an average **deflation** rate of 2%.

Here is what a statist (Keynesian or monetarist) would say: 'Oh no! People will all postpone their purchases for all time! The aggregate demand will drop! Businesses will close! Joblessness will skyrocket! **Great depression, remember the great depression!!**'.



But, as you can see in the above chart[109], Hong Kong's real GDP increased in every year of the considered period. In 2000, the GDP even increased by a whopping 8%, while prices fell by a whopping 4%!

To any serious economist not employed by the government, it is not at all surprising that activity would increase when prices decline. After all, when prices decline, the cost of doing business declines. The cost of acquiring equipment declines. Thus, economic development is facilitated. At the same time, the aggregate demand increases, as people take advantage of the lower prices.

Furthermore, the data shows that increases in the inflation rate cannot be used to predict increases in the GDP.

For example, in 2001 the inflation rate increased from -3.7 to -1.6. A statist would say 'Oh that's good, the evil of deflation is going away! What a relief for us statists!' But if you were to look at the GDP growth rate, it actually declined from +8% to +0.5% in that same period. In 2002, the inflation rate went from -1.6 to -3, while the GDP growth rate improved from +0.5% to +1.8%.

Naturally, we draw the conclusion that economic activity does not benefit from increases in the inflation rate.

This is consistent with common sense: a higher inflation rate means an impoverished population, a higher cost of doing business, and an increased incentive for people to conduct high-risk investments that often result in the loss of capital. None of these things are likely to make a country prosperous; quite the contrary.

[109] HK inflation
http://www.indexmundi.com/hong_kong/inflation_rate_%28consumer_prices%29.html
HK GDP http://www.indexmundi.com/hong_kong/gdp_real_growth_rate.html

Had Hong Kong been using gold or a gold-backed currency as its main currency, rather than the Hong Kong dollar, it would have benefited from even larger price declines during the period, possibly -6% or -7% per year.

The difference between a public company and a private company

Sometimes an argument is made that private-sector companies are more productive or more efficient than public-sector companies. In this writer's opinion, the main difference between a public-sector company and a private-sector company is not employee productivity. After all, public-sector companies can rely on authoritarian managers just as well as private-sector companies.

The main difference lies in the adaptation of the company to its market. A private-sector company operating in a free market is forced to adapt to the market forces of demand and supply. It is forced to provide a product or service at price and quality levels that meet the desires of the people. If it does not do that, it loses money until it goes bankrupt and is shut down.

Inversely, a public-sector company does not need to adapt to market forces. Its production can exceed the level of market demand without any negative consequence to the company. The level of product quality does not need to be as high as that of competitors. Often, public-sector companies operate as a monopoly: there are no competitors.

The idea of profit and loss is **meaningless** to a public-sector company, just as it is to the government. A public-sector company cannot go bankrupt because it is supported by the government.

The expenses and costs of public-sector companies are socialised. While a private-sector company charges each customer according to what each customer purchases or consumes, a public-sector company usually provides products and services at a price well below the cost of production.

The state, that is to say taxpayers, are responsible for most of the cost of production. Taxpayers are forced to fund public-sector companies regardless of their individual wants or needs.

It follows that a private-sector company receiving subsidies or contracts from the state does not operate as a **private-sector company** but as a **public-sector company**. It is hypocritical for the state to claim that it is liberalising, or privatising, a segment of the economy by transferring production from a public company to a subsidised private company.

Because of the fundamental difference that exists between private-sector companies operating in a free market and public or semi-public companies removed from market pressure, the allocation of capital by the state cannot ever be as efficient or more efficient than the allocation of capital that would prevail in a purely free market.

This is true no matter how the state chooses to spend money. It is impossible for the state to invest money as well or better than the free market. Even when the state provides loans to supposedly private companies, it does not ever do so in the same conditions that a private-sector bank would.

While a private-sector bank may look for profitable projects, the state simply hand picks winners and losers arbitrarily. To the winners, it provides cheap capital. On the losers, it imposes taxes. When a company receives artificially cheap capital, it does not invest it as well as it would have invested its own capital, or capital received at a cost fixed by the free market.

A company holding high-cost capital is forced to find the best uses for it, or else lose money. A company holding cheap capital has every incentive to gamble with the capital and avoid using it productively. The Bible says: treasures of wickedness profit nothing. In other words, ill-gotten money cannot be put to good uses, despite the best intentions.

Efficiency and quality of service of public-sector organisations

In the web page http://www.governmentisgood.com/articles.php?aid=20&print=1, an argument is made to defend the action of government and prove that public-sector organisations are not inefficient and do not offer poor services.

First of all, when people talk about government waste and bureaucratic inefficiency, it is mostly the usefulness of the work of bureaucrats that is put into question - not the productivity or efficiency of individual government workers. Bureaucrats are not necessarily inefficient at what they are doing. The main problem is the nature of their work.

For example, a public-sector agency could be very efficient at digging holes and filling them up. In so doing, the agency would also be very efficiently wasting the money that taxpayers had to work for.

You may think that digging holes is a far-fetched idea but really it isn't. One of the favourite activities of socialistic governments is to hide their country’s high unemployment rate by creating fake jobs (also called ‘pretend jobs’ or ‘non-jobs’).

These jobs do not serve any real purpose other than to lower unsightly unemployment statistics. People in such jobs may be very efficiently filling up forms, but society is not made better off because of their work.

On the contrary, society is held back by the taxes that pay for the non-jobs, and by the fact that people who could be working productively in a free market instead are employed in non-productive positions.

In the same line of thought, a hypothetical public-sector company in the Soviet Union may be very efficient at producing single-size army boots. But people should never,

ever, expect such a company to produce anything other than standard army boots in the single size that they have chosen to produce! Public-sector companies do not need to respond to market forces, so they do not innovate or produce items that cater to niche markets.

All the companies that launch new smart phones or innovative watches or creative software are private-sector businesses seeking to generate profit by satisfying the desires of the people.

They do so without requiring that money be stolen from taxpayers. That is another essential difference between the public sector and the private sector. A private-sector business can operate without breaching moral rules (i.e. without stealing), while a public-sector business cannot.

Secondly, let us address the issue of the quality of service. It is not necessarily the case that bureaucrats offer a poor service. However, a private-sector business would be much more actively listening to the desires of the people.

In the 'GovernmentIsGood' web page, the author tries to destroy the notion that bureaucrats offer a poor service by citing surveys of customer satisfaction. It first mentions the high satisfaction rate associated with services like fire-fighting, parks and public libraries. The author then makes a comparison of satisfaction rates in a few public-sector segments, like mail, and a few private-sector segments, like fast food.

But surveys of satisfaction are useless when trying to disprove the poor-service argument. This is because the real rate of satisfaction with a product or service can only be gauged by customers when the cost of the product or service is known to the customers.

When it comes to public-sector services and products, the cost is usually hidden from customers because it is paid, partly or entirely, through taxes. Many products and services from the public sector may thus appear to customers to be 'free' regardless of their actual cost!

Meanwhile, private-sector businesses cannot hide the cost of their products and services: they have to charge for them. Therefore, when someone talks about his satisfaction with a private-sector business, he talks about the 'value for money' he gets from that business.

But when someone talks about his satisfaction with a public-sector organisation, he talks only about the 'usefulness' of the product or service provided to him, and not at all about the 'value for money' of that product or service.

Therefore, we end up comparing two different things. In the public sector, cost is ignored; in the private sector, cost is paramount.

In addition, it is totally pointless to compare the satisfaction received from, say, public-sector mail companies, to the satisfaction received from, say, fast-food businesses. The fact that people may be happy with public-sector mail companies does not indicate that bureaucrats would be any good at producing burgers.

In fact, public-sector companies do not produce fast food at all. Therefore, they provide absolutely no satisfaction in this sector. This is equivalent to a satisfaction rate of zero percent!

But if government employees were to produce burgers, their product would probably be the most basic burger ever devised by mankind and it would have to be a monopoly. Nobody would know the actual price of a burger because it would be paid for partly or entirely through taxes.

And the sad thing about it is that a majority of people would probably express satisfaction with that product, simply because they would not know any better.

If government burgers are the only burgers that people know, then a majority will say that they are satisfied with them. That is the very reason why high satisfaction rates can be observed in Europe for 'welfare' services provided by the state in quasi-monopoly environments.

Furthermore, why focus on the fast-food sector when the private sector actually offers a wide range in terms of food quality? Why not ask customers of five-star restaurants if their satisfaction is high or low? The focus on lower-quality, lower-price food is obviously intended to produce statistics that are palatable to the author.

And when people say that they do not like the services of fast-food restaurants, it is most likely **not** because they think that fast-food companies do a poor job of making burgers and serving burgers.

It is most likely because they do not like fast food in the first place! After all, if a fast-food chain did not satisfy its customers, customers would leave and the business would be forced to improve its products, quality and prices!

The same goes for the other sectors mentioned in the study like cinemas and taxis: the people who view those services unfavourably are probably not rating the quality of the service provided. Instead they are expressing their dislike of the product itself, or their decision to avoid the product due to a price that they consider to be too high.

Imagine a company focusing on the production of hearing aids. If a majority of people said that they do not like the service because they do not **need** a hearing aid, does that mean that the company is doing a poor job of supplying hearing aids to customers who need them and like them? Does that mean that a public-sector firm would do a much better job? Of course not.

If we were to compare the customer 'satisfaction' obtained from tax services and public-sector schools with the customer satisfaction obtained from five-star hotels, five-star restaurants and leisure parks like Disneyland, I bet that the results of the study would be a little bit different from those presented in the web page.

For obvious reasons, the study chooses to ignore the 'satisfaction' of people with state services that are more evidently damaging to the economy and living standards, such as military interventionism, drug enforcement, bank bailouts, trade barriers, monetary inflation, border controls, agricultural subsidies or spying on citizens.

Only a biased researcher with a direct personal interest in defending the government could conclude that public-sector organisations offer roughly the same level of quality of service as private-sector businesses operating in a free market.

There are three great things which can be said about private-sector firms that cannot be said of public-sector firms.

Firstly, a private-sector firm **does not cost anything** to people who do not like that company and do not want to use its products. By contrast, a public-sector organisation is funded through taxes. Thus, people who are morally opposed to its activities are forced to contribute to its funding anyway.

Secondly, a private-sector firm **does not need to focus on the 'average customer'** to the exclusion of everyone else. Small and medium-sized firms often focus on small, profitable 'niche' markets. It is very difficult for a public-sector company to serve a profitable niche market, simply because of the greatly reduced profit motive.

When public-sector firms do focus on small markets, these activities are loss-making operations that do not result from market demand, but from the hubris of politicians.

Thirdly, private-sector firms are facing a **constant pressure to innovate**. Innovation from private-sector firms is the main driver of increases in living standards!

By contrast, innovation that originates from government subsidies is often devoid of useful applications and always requires more resources than it would have required had the same research been conducted by private-sector firms operating in a free market without government support.

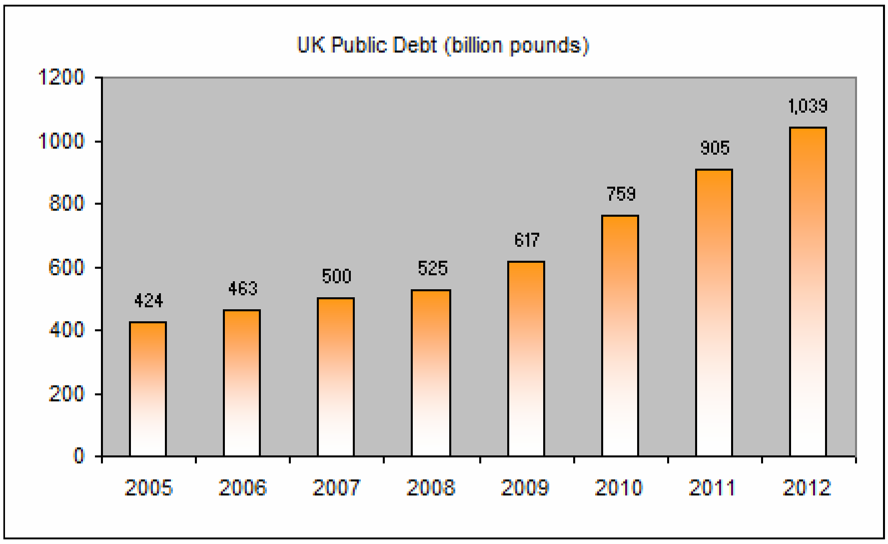
It simply boggles the mind to think how much farther along on the road of technological advancement mankind would be if only we had responsible governments that understood that safeguarding economic freedom is the single best thing a government can do for society.

In every sector of human activity, including health care, housing and transport to name a few, mankind is being held back by oppressive governments, with the result that people live shorter lives, experience more difficulties and face greatly lowered living standards all through their lives.

Two-level spending socialisation

When the UK launched the Olympic stadium project in 2005, many people (not part of the government) thought that this was a pharaonic project that the country simply could not afford considering its over-indebtedness.

The prediction was confirmed with the increase in the cost[110] of the UK Olympic Games from an expected £2.37bn in 2005 to more than £12bn in 2012, or even £24bn including public transport upgrade costs[111].



From 2005 to 2012, the UK's public debt increased from £424bn to £1,039bn, as highlighted in the above chart[112].

How do politicians get away with such extravagant waste? As a first approach we could say that this is because they are not really democratic. They do not care that the majority may not want pharaonic projects.

While this is true, it is probably not the real reason why politicians of indebted countries get away with wasteful projects. Because a majority of the people is in fact likely to support the projects.

Among those who actually contribute to public funds, a good part will support the project because they stand to benefit directly or indirectly. And among those who do *not* contribute to public funds, support for the projects is to be expected simply because these people will not have to pay any increase in tax to fund them.

Therefore, it is likely that a majority would support the projects. However, this does not mean that the projects are legitimate. In fact, those who do not contribute to public funds should not have a say on the use (or increase) of public funds. Furthermore,

[110] See: http://www.dailymail.co.uk/news/article-2092077/London-2012-Olympics-cost-spiral-24bn--10-TIMES-higher-2005-estimate.html
[111] See http://www.guardian.co.uk/commentisfree/2012/apr/04/price-of-london-olympics
[112] Source: http://www.ukpublicspending.co.uk/spending_chart_2005_2015UKb_XXs1li111mcn_G0t

those who do contribute to public funds should have a say in proportion to the amount that they do contribute to public funds.

With such a system it is very likely that a pharaonic project would be rejected by the people of an over-indebted country, and rightly so.

Now we get to the question: how do politicians manage to present pharaonic projects as a net good to society, even though their cost is enormous and their utility, minimal?

<<Look, child! £200,000 stolen from taxpayers[113], going up in smoke!>>

The answer is that they use a **two-level system of socialisation of expenses**. The first level is a socialisation of expenses among the people of a country.

When a private-sector project is launched, only people who have an interest in the project contribute to it. But when a public-sector project is launched, everyone contributes to that project through tax, whether they want the project or not.

It would be fair for people who support the Olympic stadium project to fund it. Those who do not support it should be left alone.

Evidently, the government could not launch a pharaonic project with such a system.

The government's answer is the socialisation of the cost across all people of the country. Since the expenditure is divided between millions of taxpayers, it seems negligible, even though it is not. In effect, the cost is converted into a general increase in tax. This creates a burden on the economy which is then reflected in more unemployment and inflation.

[113] See http://www.dailymail.co.uk/news/article-2255449/Happy-New-Year-Enormous-firework-display-lights-central-London-UK-celebrates-2013-style.html

The second level of socialisation is a **socialisation of expenses over time**. When politicians launch a pharaonic project, they do not immediately increase tax by the exact amount that would cover the cost of the project.

Again, this would risk jeopardising the project because opponents would then be able to criticise the government by pointing at the economic downturn resulting from higher taxes.

The answer from the government is to convert the cost into debt over a long period, say 10 or 15 years. Even after 10 years, debt can be refinanced to prolong the repayment period. In this way, not only people who were there at the time of the project contribute to it, but also their children.

By spreading the cost over time, the government makes the cost seem even more negligible, even though it is **still not**. In fact, spreading the cost over time increases the total cost, because now taxpayers not only have to repay the principal amount, but also the interest on the debt, which over a decade is significant!

Finally we can ask the question: why do politicians launch pharaonic projects? Are they not intelligent, well-educated people?

The answer is two-pronged. Firstly and most importantly, pride is a human trait. A politician loves to think of himself as ‘the one who launched the space programme’, ‘the one who created the national health service’, ‘the one who built the pyramids’, or ‘the one who organised the Olympic games’. Therefore, it is often a case of a single person deriving selfish pleasure at the expense of others – a no-brainer for politicians.

The second part of the answer is that even well-educated ministers do not have a good grasp of economics. The extent of their knowledge can usually be summarised with a couple of ideas: ‘Keynes said that government spending is good for the economy, so I’m going to spend, period.’ and ‘I’ve seen it mentioned in some economic textbooks that devaluing a currency helps exporters, and surely what helps exporters is good for the entire economy, so therefore I’m going to do just that.’

A politician usually does not care about causes and consequences, long-term effects, who gets hurt and who benefits, and other fine details of economics. Often, he sees the public sector as the economy itself. He sees the private sector as a necessary evil, a secondary factor.

The other tools politicians use to hide the burden of tax are **tax scattering** and **progressive taxation**. Tax scattering is the introduction of taxes on many different things. This way, each individual tax element is perceived as inconsequential by uninformed taxpayers. Progressive taxation is the imposition of higher tax rates on wealthier taxpayers. By targeting a minority, politicians avoid criticism from the majority.

The fatal flaws of Keynesianism

First let me quickly explain the principle of the Keynesian multiplier as presented in the book of John Maynard Keynes in 1936. It is the idea that every dollar spent by the government generates more than a dollar of economy activity.

The argument goes like this: every dollar spent by the government is a dollar received by the suppliers of the government. These suppliers then spend a percentage of the dollar they have just received, by buying things from retailers. Retailers then spend a percentage of the amount they receive. Thus, the initial amount of government spending continues to trickle down through various sectors of the economy.

Because the economy's output is typically calculated as a sum of transaction amounts, each of the transactions occurring along the trickle-down process contribute to increasing the output. Therefore the total effect on output of the spending of one dollar by the government is not one dollar, but the sum of all the successive spending amounts by all the suppliers in the chain.

For example, let us assume that when people receive one dollar, they spend 80 cents. Then, when the government spends 1, the government's suppliers spend 1 x 0.8; the suppliers of the suppliers spend 0.8 x 0.8; their suppliers spend 0.8 x 0.8 x 0.8 and so on and so forth. The total is 1 + 0.8 + 0.64 + 0.512 + ...

We recognise a mathematical series called a geometric series. It can be easily proven[114] that any geometric series of the form: 1 + r + r*r + r*r*r + … where r is any real number above zero and below one, is actually equal to 1 divided by 1 – r.

So the above series is equal to 1 divided by 1 – 0.8, or 5. This means that the original one dollar of government spending triggered purchases worth a total of 5 dollars throughout the economy.

This simple idea was used by Keynes to support the intervention of the state in periods of declining output (recessions). Since each dollar of government spending generates more than one dollar of output, the economy's output and employment level can be propped up by government spending.

Keynes went much further. He even urged governments to spend taxpayer money on completely fruitless initiatives:

<< If the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coal mines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well-tried principles of laissez-faire to dig the notes up again (the right to do so being obtained, of course, by tendering for leases of the note-bearing territory), there need be no more unemployment and, with the help of the repercussions, the real income of the community, and its capital wealth also, would probably become a good deal greater than it actually is. It would, indeed, be more sensible to build houses and the like; but if there are political and practical difficulties in the way of this, the above would be better than nothing. >>

[114] By showing that when multiplied by (1 - r), the series is equal to 1.

What is Keynes saying here? In essence, that whenever a municipality or nation has an unemployment problem, it should simply raise taxes and use the proceeds to hire jobless people to do fruitless work. Taken to the logical conclusion, it means the creation of a society based on three castes.

The **productive caste** produces food and other goods necessary for life. These goods are then stolen by the **elite caste** and redistributed to the **idle caste** for consumption. The system sponsored by Keynes is a system of enslavement similar to communism. This is the model of development Keynes preferred over a capitalist system where everyone is gainfully employed[115] in the free market.

Let us further examine the idea of the multiplier. Firstly, we should realise that the trickle-down effect does not originate from the government, but from spending in general. Therefore, any economic agent spending one dollar triggers a spending chain similar to that which may be created by a government.

This means that the Keynesian theory does not necessarily support government spending per se, but **spending in general**. It suggests that wealth originates from spending.

But let us assume for a moment that a government spends one million dollars digging holes and filling them up. What wealth did the government create? What value did it bring to the world? Did the government produce goods worth one million dollars?

No – no value was created.

The government only wasted, or misallocated, resources worth one million dollars. It took away one million from the free market (the productive caste) and transferred it to welfare recipients (the idle caste).

Left in the free market, the funds would have been used in productive, useful endeavours like the production of goods demanded by the market. Instead, human resources were assigned to a fruitless endeavour, the digging of holes. The goods that the free market would have produced in the absence of redistribution, are not produced. Thus, the intervention of the state resulted in the destruction of value.

---

[115] A genuinely free market cannot produce unemployment (other than temporary frictional unemployment) any more than it could produce a shortage or surplus of food. The nature of the free market is to equalise demand and supply through the adjustment of prices. Hence, should unemployment exist in a free market at any time, wages would drop as much as necessary for companies and individuals to hire the unemployed.
Should there ever be a massive demand for work, wages for simple jobs would drop to near-zero levels, to the benefit of everyone. In such a situation, large segments of the population would be able to hire a personal assistant, a cleaner, a cook or a driver.
And who would not want to do that, if wages were low enough? The intervention of the state in the economy eliminates most of these jobs, thereby sending the signal that they are unworthy of mankind, and that people are better off being idle rather than working those jobs. To this argument the left usually opposes the idea that working people would starve. However it is simply not the case. For example, cooks and helpers in India survive on a very low wage. Labour costs are a major component of any price, including food prices. When labour costs decline, food prices also decline.

It goes without saying that only a government could envision the undertaking of fruitless endeavours. No private-sector agent would ever consider wasting its own resources intentionally. However, a state is perfectly willing to do this, because the resources it wastes are not its own, but those it plundered from the productive caste.

From this illustration, we see that the act of spending does not in itself create wealth. Only useful work creates value. It does so by producing goods that people desire. These statements are self-evident to libertarians but incomprehensible to Keynesians.

As we have seen, value is destroyed whenever resources are misallocated. The main problem of the Keynesian multiplier is that any dollar spent by the government is a dollar that was stolen from the private sector (the productive caste).

Once this dollar is moved into the hands of government bureaucrats, it is inevitably misallocated. The misallocation then generates a destruction of value, compared to the situation of a free market left to its own devices.

All of the possible uses of capital by agents in the private sector are in fact superior to the use of this same capital by the public sector. Capital can of course be spent by private-sector agents for immediate consumption. Consumption in itself is beneficial to the agent, and it gives a meaning to the production of goods.

Capital can be saved in a bank. This allows future investment by the agent, while providing lending capital to the bank. Capital can be hoarded. This allows future investment by the agent, while reducing prices[116] for everyone in the market, to the benefit of everyone.

Capital can be invested in a productive endeavour. This allows the production of goods beneficial to everyone in the market, and the potential generation of a profit for the agent. All of these possible uses are not only beneficial to everyone, but also **devoid of coercion**.

From this last observation, we may rightly conclude that coercion and misallocation are inextricably connected. Whenever private-sector agents are coerced by the state, resources cannot be allocated properly.

It should be immediately obvious when looking at unemployment rates around the world that national employment levels do not increase with government spending. As a general rule, government spending creates a number of fruitless bureaucrat jobs while destroying more jobs in the private sector.

Thus, we see much higher unemployment rates in France and Sweden than in Switzerland or Singapore. The more a government spends, the more society slides (degenerates) towards a system of enslavement of the productive caste.

Two further arguments can be raised against temporary stimulus programmes of Keynesian inspiration.

[116] Hoarding is equivalent to a temporary reduction of the money supply. A reduction of the money supply has the same effect as a reduction in demand. It results in lower prices, to the benefit of everyone.

Firstly, governments do not cut back spending after a stimulus programme. Once politicians have tasted the power, they do not let go. Therefore the idea that the government could jump in to soften a crisis and jump out when the economy recovers is purely theoretical. In reality, the state jumps in and stays there.

Secondly, whenever the public sector expands, the private sector shrinks. Therefore, it is unreasonable to expect a market-led recovery after a Keynesian stimulus programme.

Consumers reduce their spending in the legitimate expectation of higher taxes. Purely private companies go bankrupt or shrink down because they cannot compete against government-supported, monopolistic competitors. The intervention of the state also prevents a virtuous price decline which would naturally result in an increase in demand in the private sector.

When governments inspired by Keynesian theory attempt to lure people into spending more, they are in fact jeopardising the future investment and consumption of the population. In essence, Keynesianism is the promotion of irresponsibility over responsibility, consumption over saving, and short-term thinking over long-term thinking.

It is equivalent to telling people to buy the car and house they desire regardless of the capital they own. 'Don't worry about a thing my friend! Let yourself go, be happy, carpe diem! Only the present day matters! Don't worry about debt, let the wise benevolent government guarantee your debt! Let it provide you with cheap credit!'

With these injunctions, people are lured into a form of debt slavery. For the sake of quick material pleasures, they are made to repay their debts over a lifetime. They become poorer and more dependent on state aid during emergencies. And when they fail to repay their debts for whatever reason, the government can then use the cost of debt guarantees as a new excuse to raise taxes.

Modern Keynesian initiatives have two main beneficiaries: the politicians who get to meddle in the economy a little more and the banks that receive cheap funds and cheap guarantees from the government's central bank. But for society as a whole, they are wholly detrimental.

Effect of immigration on wages and the economy

The economic theory says that the consequence of an increase in labour supply in a free market is an increase in employment and production combined with a decrease in wages and prices. But in a sabotaged market where wages cannot go below the national minimum wage, it is natural to expect an increase in unemployment.

Typically, nationalists use the above conclusions to call for severe restrictions in immigration numbers. The slogan they use is that ‘immigrants steal the jobs of local people’. Socialists also blame immigration for ‘social dumping’, the deterioration of wage and labour conditions.

They fail to realise firstly that the ability to relocate is a basic freedom, and secondly that immigration does bring undeniable benefits. For instance, imagine you live in a small village lacking a bakery, supermarket, pharmacy and hairdresser.

Would it not be a great thing if a baker was to open in your village? How about a new pharmacy right next to your door, or a hairdresser? And if a discount supermarket staffed by low-wage foreign workers was to open, would that not be great?

In many real-life instances, immigration brings unique benefits. A particularly skilled foreign surgeon may extend the life of local citizens more than any local doctor could. Should this person be refused entry in order to give more work to local surgeons with less competence?

If we refuse entry, we give an advantage to a small group of doctors at the expense of the whole population. If we grant entry, the whole population benefits at the expense of a small group. The choice should be obvious to any rational person.

In fact, anyone needing treatment would prefer to get healthcare from a skilled foreign surgeon than from an inexperienced local surgeon. When personal interest is at stake, ideological considerations suddenly become completely irrelevant[117].

In European cities, the Chinese language is almost completely unknown. Translators focus on European languages exclusively. Let us assume a professional Chinese translator wants to settle in Europe. If she gets hired to head a business dedicated to the promotion of trade between China and the UK, whose job is she stealing?

Often, the work that a foreign worker does cannot be done, and would simply not be done, by local workers. In such a case, foreigners simply expand the job market.

Furthermore, not every immigrant is a job seeker. It is particularly absurd for a country to stop the permanent settlement of entrepreneurs, investors and people with their own source of income. Not only are these people not going to steal anyone’s job, they may also create jobs that would otherwise not be created.

[117] For more comments on this subject, see the article on Would a majority of people ever vote for a libertarian party in a representative democracy?

Nevertheless, they get refused entry to the US and EU. The US and EU do not close the door entirely, but they make the whole immigration and settlement process so difficult and lengthy that most people are deterred from even trying. In almost every segment of activity managed by the government, bureaucrats operate clumsily and inefficiently. Immigration is no different.

Immigration opponents naturally focus more on unskilled and low-skilled immigrants. In the absence of a minimum wage, it is reasonable to expect a decrease in wages for low-skill jobs as a result of the immigration of low-skill workers. In the presence of a minimum wage, the immigration of low-skill workers logically results in an increase in unemployment. In welfare states, the cost of welfare increases.

Therefore, it may appear reasonable for a country to limit its number of low-skill immigrants and unreasonable to limit high-skill immigration. However, such a proposal is suboptimal, compared to a fully free market without a minimum wage[118].

It is better to provide low-paid jobs to immigrants than to refuse them entry. Society as a whole would then benefit from their low-cost labour.

Because it reduces prices[119] and increases quality, competition is an essential aspect of prosperous economies. The fact that local low-skilled workers may face more competition is not a justification for immigration barriers, because competition is a good thing. The local workers too will benefit from the lower prices that result from an ample labour supply.

As with the case of the skilled surgeon, we have a situation where immigration barriers may provide a small advantage to a group of people at the expense of the population as a whole.

When faced with this situation, politicians in representative democracies normally select the action that is most detrimental to the population. A politician's natural instinct is to provide favours to small groups at the expense of the population. Typically, the cost of the favours is diluted over the whole population, removing any risk of a serious opposition[120].

The Mises website, always an excellent reference on all issues related to libertarianism, has the following to say about immigration barriers[121]:

<< To a nation [the US] built on immigration, it should seem strange to have a President investing in keeping foreigners out, and considering fines on employers hiring immigrants, but the objective is not a healthy, vigorous society: with border controls come easier surveillance, regulation and control. The Europeans are leading the way in their attempt to secure inbreeding and economic stagnation throughout the continent, through what has become known as "Fort Europe." No one enters, no one leaves.

[118] And without government-provided welfare, naturally. The abolition or minimisation of state welfare is actually a more important issue than the issue of immigration restrictions.
[119] More precisely, competition to sell a resource reduces the price of that resource, while competition to buy a resource increases the price of that resource. The more companies want to hire an IT expert, the higher the expected wage. The more companies want to sell shampoo, the lower the expected price.
[120] See the article on **Two-level spending socialisation** for more details.
[121] Source: http://mises.org/daily/1980

Immigration is not different from other kinds of licensing even though it has been awarded a special name. Licensing has the same result regardless of what is licensed: licensing of physicians causes poor health care at higher cost just as licensing taxi businesses causes poor and untimely service at high cost — licensing on movement means restricted freedom and higher taxes for people (whether "citizens" or "foreigners"). From a libertarian point of view it should be clear that all licensing needs to be done away with, including immigration. […]

We must not forget libertarianism is not a teleological dogma striving for a certain end; it rather sees individual freedom and rights as the natural point of departure for a just society. When people are truly free, whatever will be will be. Hence, the question is not what the effects of a certain immigration policy would be, but whether there should be one at all. >>

The fallacy of credit destruction

In this article I will talk about the idea that the rapid expansion of the US money supply in recent years cannot cause much price inflation because of compensating credit destruction by banks.

The idea goes like this: banks can make mistakes and are vulnerable to market fluctuations. For example, banks may issue mortgage loans to people who cannot repay.

In a falling housing market, they may then seize the collateral, a devalued house. In the process, banks lose value. When a bank records a decline in total asset value, it naturally has to reduce its lending to maintain its reserves. This then reduces the total money supply.

We can answer this argument with the following points.

1) Asset prices do not affect the amount of currency in circulation

Since the argument centres on falling asset prices, let us first imagine the case of a consumer who decides to buy a car priced one million dollars. He enjoys the car for one month and then thinks about selling, but the price has dropped from one million to half a million.

The consumer ends up selling the car back to the original owner for half a million. Has the total money supply declined? Let us review the sequence of events:

Before the purchase, there are in the economy:
one car and **one million dollars** in the pocket of the consumer, the future buyer.

After the purchase, there are in the economy:
one car and **one million dollars** in the pocket of the seller, the original owner.

One month after the purchase, there are in the economy:
one car and **one million dollars** in the pocket of the original owner.

After the sale of the car back to the original owner, there are in the economy:

one car and **one million dollars** divided between the first owner and second owner.

At no point in time has the total currency in circulation ever declined. The depreciation of the car simply resulted in the redistribution of wealth. Thus we conclude: changes in asset prices cannot affect the amount of currency in circulation.

The transactions conducted by citizens cannot affect the monetary base (defined as the total of currency). This is valid whether the transactions are intended for consumption or for speculation.

Fluctuations in stock markets, real-estate markets and any other market cannot reduce the stock of currency, nor can they affect deposit accounts. When assets depreciate, their owners lose value, but the money (currency or deposit account) that was used to acquire the assets in the first place continues to circulate in the economy. For every loser there is a winner; and for every winner there is a loser.

2) Money transfers are not money destruction

Because bank activities are money transfers from one entity to another, they cannot result in the destruction of money. When a bank issues a loan, the money is transferred to the recipient. Typically, the recipient then makes a purchase.

The purchase itself is another transfer of funds, this time to the seller. The seller typically keeps the funds as a deposit in his own bank. Therefore, the end result is a transfer of funds from one bank to another. From that point, the money continues to circulate.

Now let us imagine that the loan was a mortgage credit of one million dollars. The result is a transfer of one million dollars from one bank to another. At no point in time do the one million dollars disappear. In fact, another million soon gets created once the original one million arrives on the accounts of the second bank.

This is because the second bank sees the increase in deposits as an opportunity to increase its own lending. So bank B uses the new one million deposit as the basis for lending one million to someone.

At this point, we have a situation where bank A has loaned out one million and bank B has loaned out one million. Therefore the total money supply is two millions. However, the amount of currency in circulation has not changed.

The example above shows that banks create new ‘deposit’ money (non-currency money) as part of their normal activity. We refer to this phenomenon as ‘fractional reserve banking’ or the ‘money multiplier’. The cash reserve held by banks is only a fraction of the total amount on deposits; the rest is loaned out. In other words, banks loan out money that is not theirs.

When bank A gets 100, it keeps 10 as reserves and loans out 90 while still claiming to be holding 100 for the depositors. The 90 ends up as a deposit on the accounts of bank B. Bank B loans out 80 while still claiming to be holding 90 for its depositors.

The 80 ends up as a deposit on the accounts of bank C. Bank C loans out 70 while still claiming to be holding 80 for its depositors. The whole process continues until deposit increases are too small to be loaned out.

Therefore, from a single injection of 100, banks end up circulating non-currency money worth several times the original amount. The ratio of the total money in circulation divided by the bank reserves is equal to the money multiplier.

3) Banks multiply the monetary base, they cannot shrink it

From the above discussion we can see that banks are active participants in the money creation process. Using the monetary base (defined as currency plus bank reserves), they expand the total money supply (currency plus all account balances).

The actual expansion depends on the willingness of banks and opportunities of banks to distribute credit. The willingness to distribute credit declines when banks are required to hold larger reserves.

In recent years, Western banks have been urged to increase their reserves. As a consequence, they have tended to allocate newly-issued central-bank money to their reserves rather than to new credit. The money multiplier has thus declined.

A decrease in the money multiplier is like a car slowing down, not like a car going in reverse. It just means that banks are not amplifying the effect of new money emissions as much as they did before.

There is a very important difference between a money supply that does not expand as fast as it used to, and a money supply that actually decreases. The same difference exists between a national debt that does not expand as fast as it used to, and a national debt that actually declines. A car headed towards a wall can avoid the wall by going in reverse, not by slowing down slightly.

However, it is impossible for the money multiplier to drop below 1, a situation where banks would actually be in a position to reduce the money supply. This is because the money supply includes bank reserves.

To see this, imagine that the only acceptable currency was gold. Because gold is not as easy to obtain and transfer as a digital fiat currency, it is likely that banks would operate on a full-reserve system.

They would retain gold deposits in individual safes and they would not be able to plunder those deposits at will in order to issue new loans. A bank that distributed loans would face a high risk of not being able to return gold deposits. For a real-life example, see the online company BullionVault.

So in this situation we have banks holding reserves equal to 100% of deposits. What is the money multiplier? Exactly 1. There is no multiplication, but there is no shrinkage either. The amount of money that people can use is exactly what they already have. No more, no less.

From this illustration we conclude that bank reserves are part of the money supply. They are real money that banks can use at their own discretion. Just like money kept in a safe or under the mattress, bank reserves can be spent. The money multiplier cannot drop below 1. Dividing a number by a smaller number cannot result in less than one.

This conclusion is interesting because it allows one to highlight the fraudulent statistics issued by the US Federal Reserve. According to the Federal Reserve[122], in late May 2013 the M1 money multiplier was around 0.8. In the fantasy land of the Fed, banks actually reduce the money supply, rather than expand it.

It is useful for the Fed, the issuer of new money, to publish statistics that minimise the extent of the money supply. The more people see money creation as a non-issue, the less likely they are to complain about it. The same intent can be deduced in the Fed's decision in November 2005 to stop publishing data on M3, the widest measure of the money supply[123].

The official goal was to reduce costs. But if M3 is too costly to calculate, then what about M1, M2 and inflation figures? Why not just stop producing dubious statistics? In fact, why not just close the Fed? The very concept of 'cost' cannot exist for a central bank authorised to issue money. The 'cost' of central banking is entirely borne by citizens, not by the central bank.

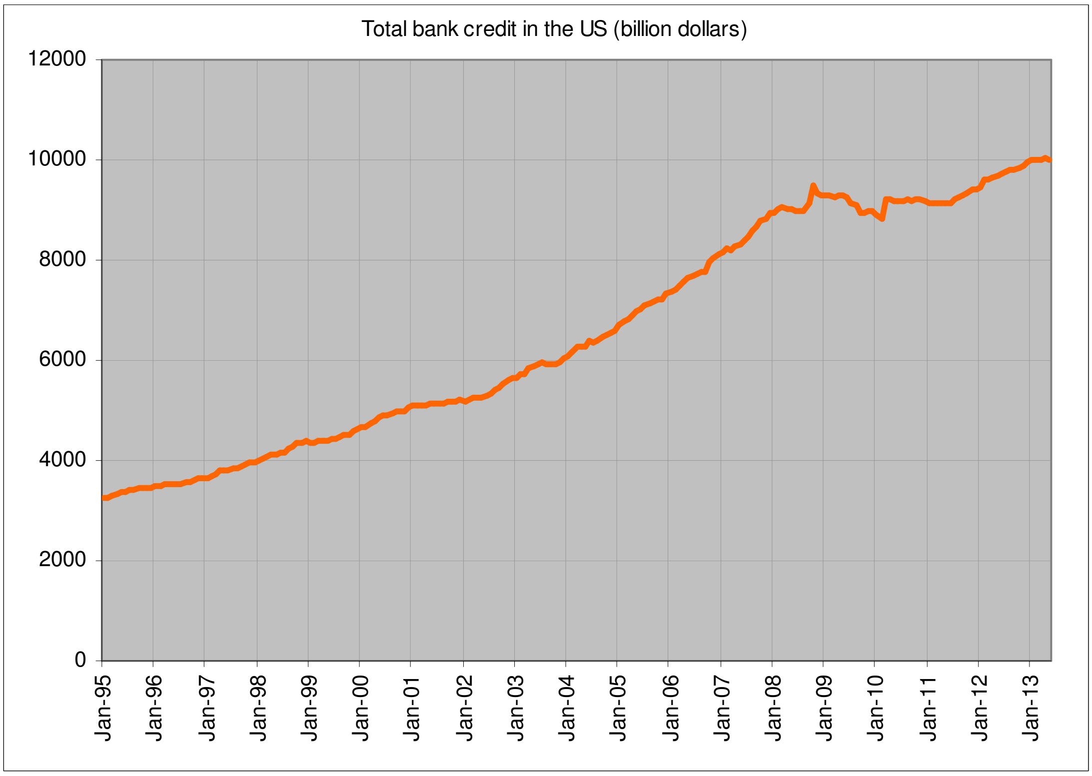
4) US banks have never stopped lending

The fact that banks in the US have never stopped lending is obvious from the following chart[124].

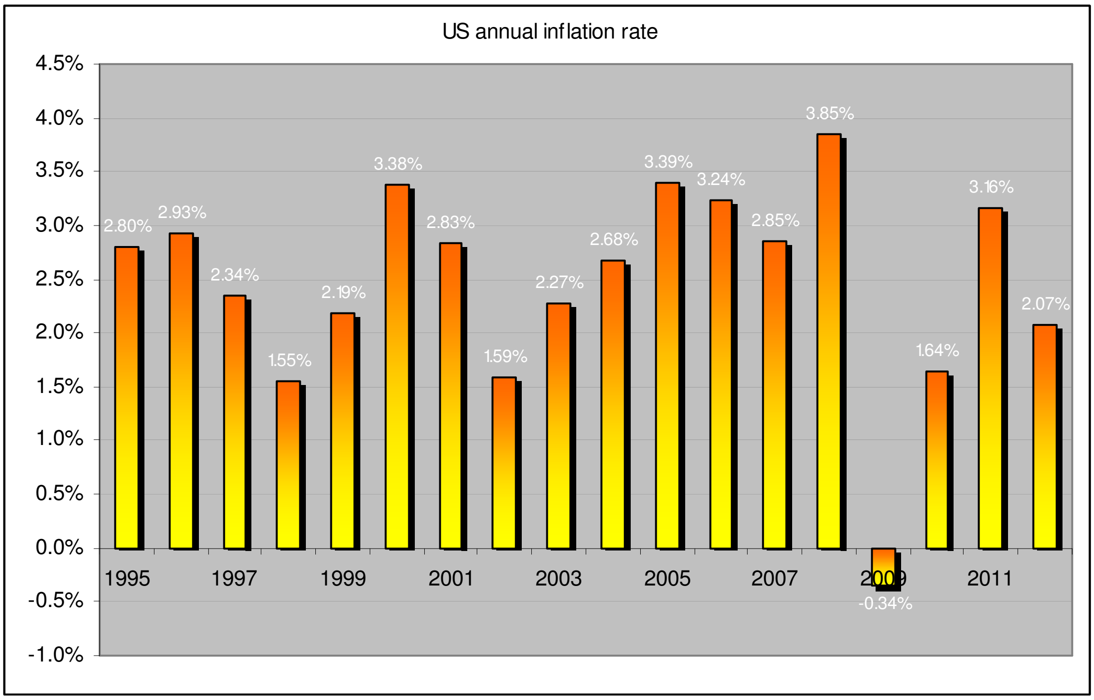
Total credit by commercial banks exceeded 8.9 trillion dollars in the beginning of 2008. From that point on, the total never declined below 8.9 trillions.

---

[122] See: http://research.stlouisfed.org/fred2/series/MULT
[123] See: http://mises.org/daily/4859/
[124] See: http://research.stlouisfed.org/fred2/series/TOTBKCR/downloaddata?cid=33078



From the following chart[125] of the official inflation rate in the US, we observe that a negative rate of inflation was recorded in one year only (-0.34% in 2009). This was also the only year of decline in the total bank credit. We conclude that banks do have the ability to slightly slow down the effect on prices of the expansion of the money supply by the central bank.



[125] See: http://inflationdata.com/inflation/Inflation_Rate/HistoricalInflation.aspx

In this writer's opinion, changes in prices result first and foremost from supply and demand changes. While all increases in money supply increase demand, other factors also play both on demand and on supply.

Therefore, on any given year the official inflation rate can decrease while the money supply expands. The one certainty we can have is that US prices would be lower, much lower[126], in the absence of the US central bank.

Devaluations can only sabotage a country

In this article we will have a look at the modern myth that devaluation can help an economy. The argument goes like this:

'If we debase our currency, foreigners will be able to acquire units of our currency at a lower cost. This will allow them to buy more of our products. Our exports will become cheaper to foreigners, so foreign demand for our products will increase. Being good Keynesians, we want to increase demand, so let's debase our currency.'

Before looking into the absurdity of the idea, let us first observe that the myth of beneficial devaluations is an indirect admission that demand actually increases when prices go down.

Therefore, Keynesians who wish to devalue in order to increase exports contradict other Keynesians who wish to print currency in order to avoid an imaginary deflationary spiral – a situation where price decreases supposedly trigger demand decreases.

Either price decreases trigger demand increases, or else they trigger demand declines. Both statements cannot be true at the same time. Right here we see the hypocrisy of Keynesians: the reality does not matter to them. All that matters is that the state be free to print currency.

Let us now focus on the effect of so-called competitive devaluations. In this author's view, a devaluation is an effort to sabotage a country's economy. There are two main reasons for this. The first one is the effect on trade of currency debasement. The second one is the effect on the domestic economy of money printing.

When a country's currency is made cheaper against other currencies[127], its exports are made cheaper to foreigners, while imports are made more expensive to the country's own citizens. Citizens cannot benefit from the import of goods as much as they did before. In other words, they are made poorer.

[126] On this subject, also see the article on Keynesians versus monetarists, or Statist versus Statist.
[127] This can be achieved easily by a central bank by issuing new money and using the new currency units to buy foreign currencies. The foreign currencies appreciate while the local currency is debased.

The increase in money supply and the higher cost of imports soon trigger a general increase in the price of all domestic goods[128]. It becomes more difficult to acquire machines and technologies, the building bricks of an economy.

Contrary to the belief of Keynesian politicians, imports are more important than exports to the well-being of citizens. The reason for this is that imports allow to accumulate goods while exports allow to accumulate currency units.

Currency units do not provide any intrinsic benefit beyond the potential of future consumption, while goods and services are, well, goods that can be consumed, exploited or enjoyed. Therefore, a policy that kills imports while promoting exports is a policy that works against the citizenry while helping trade rivals.

Exports are exports of goods to other countries for the people of those countries to benefit from. So when a country exports, it actually deprives itself of some of its production.

Exporters, being reasonable people, are well aware that demand increases when prices decrease. They have the freedom to cut their prices, if this would be beneficial to them. They do not need the services of the state to do so.

Therefore, a politician who claims that a devaluation is necessary to cut the price of exports has exactly the same condescending attitude as a politician who claims that inflation is necessary to reduce real wages. The real objective of a devaluation is not to remedy a supposed inability. It is simply to expand the intervention of the state in the economy to the benefit of a few groups, mainly exporters and politicians.

The second main reason that devaluation amounts to sabotaging a country's economy lies in the effect on the domestic economy of money printing. Money printing creates inflation, a general increase in prices without any relation to productivity or resource availability.

This artificial increase in prices impoverishes citizens, undermines beneficial saving behaviours and creates false price signals. The effect on the economy is wholly negative, even though temporary positive effects can be recorded in the short and medium term. For more information please read the articles on **Effects of money printing and inflation** and **The consequences of ending central banks**.

The following article[129] from Mises.org contrasts the policy of devaluation with a policy of sound-money capitalism:

<<The so-called improved competitiveness resulting from currency depreciation in fact amounts to economic impoverishment. The "improved competitiveness" means that the citizens of a country are now getting fewer real imports for a given amount of real exports. While the country is getting rich in terms of foreign currency, it is getting poor in terms of real wealth — i.e., in terms of the goods and services required for maintaining people's lives and well-being.

---

[128] A consequence of this is that the price of exported products increases, eliminating the initial advantage enjoyed by exporters. Any benefit obtained from a devaluation can only be transitory.
[129] See: http://mises.org/daily/5904/will-currency-devaluation-fix-the-eurozone

[…] Contrast the policy of currency depreciation with a conservative policy where money is not expanding. Under these conditions, when the pool of real wealth is expanding the purchasing power of money will follow suit. This, all other things being equal, leads to currency appreciation. With the expansion in the production of goods and services and the consequent falling prices and declining production costs, local producers can improve their profitability and their competitiveness in overseas markets while the currency is actually appreciating. Note that while within the framework of loose monetary policy exporters' temporary gains are at the expense of other activities in the economy, within the framework of a tight monetary stance gains come not at any one's expense but are just the outcome of the overall real-wealth expansion.

[…] Commentators such as Nouriel Roubini advocate a depreciation of up to 30 percent. Between April and December last year, the euro weakened against the US dollar by almost 13 percent, yet economic activity has continued to slide. Why then should a depreciation of 30 percent revive the economy? We suggest that the recommendation for currency depreciation to fix the eurozone is based on an erroneous framework of thinking. If anything, such a policy can only make things much worse as far as eurozone economic conditions are concerned. >>

The following article[130] from Mises.org provides another accurate description of devaluation. Exporters are in fact the recipients of a subsidy, and currency debasement may not remove the inefficiency inherent to welfare states.

<<The Exporter as Wealth-Transfer Agent

It should be clear that there is no net benefit to the country that drives down the purchasing power of its currency through monetary expansion. The only reason the exporter makes more sales is that the buyer of the exporter's goods gets a lower price. This lower price was not the result of manufacturing efficiencies, but of a subsidy — a transfer of wealth — from some in the exporting country to the foreign purchaser of the goods. With each successive monetary expansion, wealth is funneled to the exporter, his employees, and others who get the money early in the expansion phase. All others are harmed. In effect, the exporter's sales have been subsidized by his fellow citizens who are the late receivers of the new money. The exporter is the unseen means by which the transfer is effected. The nation as a whole is worse off; it is not more competitive.

Delaying Real Reform in a Fruitless "Race to the Bottom"

Politicians and their professional economist supporters are doing their fellow citizens an injustice by pursuing devaluation as a quick and easy means to improve national competitiveness. The source of real competitive advantage is through liberal reform of economic policies that reward industriousness in a people, protect their property and even that of foreigners from confiscatory taxation, and encourage savings. Over time the country's capital base in relation to its population will increase — an increase in capital per capita, as economists say — raising real prosperity through increased worker productivity. But instead of forthrightly pursuing economic reform, which one must admit will be difficult, politicians and their professional-economist supporters are fomenting a "race to the bottom," by which each country tries to boost exports via competitive devaluations against all others. The nation's capital base will slowly dwindle through the backdoor export subsidy made possible through monetary debasement.

The Moral Hazard of the Welfare State

There is nothing preventing any member of the EMU[131] from becoming more competitive right now. All that is required is a willingness to lower prices. As the common medium of exchange, the euro reveals uncompetitive economic structures. So why do those countries wishing to become more competitive refrain from lowering prices? The answer is the welfare state. In an unhampered market economy, there is no structural unemployment. All who wish to work can do so, because there is never a dearth of work to be done. But the welfare state removes the cost of pricing one's labor or one's goods and services too high. One might say that the welfare state underpins structural rigidities in an

[130] See http://mises.org/daily/6043/
[131] European Economic and Monetary Union

economy, such as labor laws, licensing, etc., by removing the cost of market interventions. Devaluation does not address this underlying problem; therefore, devaluation will not cure a country's lack of competitiveness.

Conclusion

Devaluation means monetary expansion. The new money must enter the economy somewhere — payments to exporters, for example. The ensuing bubble is misinterpreted as a sign of the success of devaluation. But the bubble is accompanied by the well-known deleterious effects of a rising price level, income redistribution, and malinvestment. As the prices for exporters' factors of production rise and the benefits of devaluation fade away, there will be calls for more money expansion. If more than one country pursues this policy, there ensues a disastrous race to the bottom.

The solution is sound money. Sound money reveals bad economic policy and forces each country to live within its means. Governments will come under pressure to liberalize their economies and shed themselves of the parasitic destroyers of wealth. Devaluation retards this process.>>

Effects of money printing by central banks

In recent years, central bankers have referred to their policy of money printing as 'quantitative easing', evidently to hide the true meaning of this policy from the masses.

The action of printing new money is also called inflation of the money supply. It includes the issuance of bank notes and coins as well as the issuance of new electronic money for banks to use. When central banks issue electronic money, they call this policy a programme of asset purchases, in order to hide the true meaning of the policy.

All other things being equal, the inflation of the money supply automatically results in higher prices. Increasing prices are also referred to as price inflation, or simply inflation. The reason why money-supply inflation causes price inflation is that the new money is used to buy products and services, artificially increasing the total demand.

It is a fundamental economic rule that when demand increases, prices in a free market also increase[132]. The buying behaviour of people who receive the new money determines how fast prices increase and what products are affected first.

Once all of the new money has been spent in the economy, prices stop increasing and demand drops back to the initial, natural, demand level. At this point, the price increase, in percentage, is exactly equal to the money-supply increase, in percentage.

Please note that, in the real world, prices may very well drop during a period of money printing. This is because prices are not affected only by a central bank's money supply. Prices in a free market are fully determined by supply and demand. Therefore, anything that affects supply or demand also affects prices.

[132] See the article about The Fundamental Laws of Economics.

In this author's opinion, a genuinely free market can be expected to generate average price decreases of between 3% and 6% per year due to improvements in technology and productivity and population increases.

Assuming a natural rate of deflation of 2% in a market, and an increase in money supply of 1.5% that is immediately spent in the economy, one could logically expect a price decrease of 2% - 1.5%, or 0.5%.

The effect on prices of money printing is affected by how fast the new money is spent in the economy. If the money supply is increased by 10%, but the new money is spent over a period of two years, then one could expect a price increase of 5% in the first year and another increase of 5% in the second year.

We will now examine the effects of money printing on the economy. I will first talk about the one small advantage that money printing can have. I will then review the many negative effects of this policy.

The one advantage is the potential decrease in real wages. During a period of inflation, companies may decide to (or be forced to) leave wages unchanged. When prices increase by 5% while wages remain unchanged, then real wages (wages adjusted for inflation) decrease by 5%. Assuming a company manages to increase sales by 5% thanks to inflation, then it has effectively cut its wage costs by 5%.

When prices increase faster than wages, there is a decrease in real wages and the purchasing power of citizens. This decrease in real wages in not affected by minimum wages because nominal wages (wages not adjusted for inflation) remain the same. In other words, labour becomes cheaper and is not as much hampered by minimum wages as before. As a result of inflation, minimum wages become less meaningful.

However, this effect is usually not sufficient to increase employment significantly. In addition, a purely free market would produce equilibrium wages and full employment much faster than a market that is shackled both by a minimum wage and central-bank inflation. When the job market is genuinely free, employers do not hesitate to reduce wages whenever this action would be beneficial to them.

Statists and Keynesians often claim that the advantage of money printing is that it encourages people to consume more. But as we have seen in the article about The fatal flaws of Keynesianism, it is absurd and pointless for the government to set as an objective an increase in consumption.

Wealth does not come from consumption but from the efficient allocation by the market of resources towards productive uses. When consumption increases due to an injection of new money, the increase in demand is completely artificial: it results from the action of the government rather than from any genuine desire of citizens to consume more. The demand increase is therefore unsustainable.

Keynesians also explain that people have a new incentive to consume, because they know that the value of their currency savings is being eroded by the rate of inflation every year. The Keynesian sees a positive effect in the manipulation of demand.

He does not see that any demand increase is unsustainable and that it comes at the expense of capital accumulation. When consumption increases because people are afraid to save, their total savings decrease, compared to a situation where they could freely and confidently save the fruits of their own labour.

The process of capital accumulation that is absolutely essential to investment and the development of civilisation is undermined.

Not only is capital accumulation undermined because of consumption increases, but also because more and more people divert their capital towards high-risk speculative assets. They do this in the hope of preserving the value that is rightly theirs.

When all capital held in currency loses its value at a rate equal to the rate of inflation, capital holders are forced to seek investment opportunities with a yield above that the rate of inflation. In the investment world, a higher yield potential is always associated with a higher amount of risk for the investor. Therefore, the higher the level of inflation, the more people are forced to direct their capital towards risky investments.

This phenomenon results in the misuse and destruction of more and more capital as inflation increases. Capitalists who lose their capital cannot launch new businesses. Therefore, the creation and operation of businesses is threatened.

The operation of businesses is not only undermined because of the destruction of capital in high-risk ventures, but also because of errors in economic calculations. By economic calculation, we refer to the measurement of demand, expected profit and expected rate of return by entrepreneurs, potential entrepreneurs, investors and potential investors.

When a market is being flooded by currency units freshly issued by the central bank, the demand for a product or service is divided into two parts. The first part is the genuine demand that results from long-term consumer desires.

The other part is the artificial demand that results solely from the action of the government. Note that, for all intents and purposes, a central bank is a government agency that could also be called Ministry of Money Printing and Currency Debasement.

Businesspeople cannot separate the two elements. Misled by inflated figures, they launch investments into sectors of activity that are not genuinely in demand. This phenomenon is called bubble creation, or the beginning of the Austrian business cycle[133].

Money printing creates artificial demand. Artificial demand is the increase in demand that originates specifically from the reception of newly printed money by the beneficiaries. For example, the newly printed money may trigger an artificial increase in demand for cars.

[133] See: http://wiki.mises.org/wiki/Austrian_Business_Cycle_Theory#The_Theory_Explained

Households who would not have purchased a car (due to the high price of cars) suddenly feel rich and decide to buy one. In response, car companies increase their production capacity. They anticipate a long-term positive trend.

Soon, the new money is entirely converted into price increases, and the total demand falls back to its genuine, natural level. Car companies end up facing a recession. The capital they invested into additional car production is wasted. As a result of central-bank inflation, misleading price signals are produced by the market. The end result is often disastrous.

While the effect of money printing is thoroughly negative for businesses, it is even worse for citizens. People complain about inflation without realising that the increase in price does not matter as much as the price differential.

By price differential I refer to the difference between the inflation rate in the presence of the central bank, and the deflation rate in the absence of the central bank. Assuming the real inflation rate is 4% while the inflation in the absence of a central bank would be -3%, the price differential is then 7%. This means that the action of the central bank increased prices by 7% on this year – not 4%.

What, then, is the effect on citizens of an inflation rate of 4% and a price differential of 7%? It is the impoverishment of citizens. Not only are citizens **denied** an improvement of 3% in their purchasing power, which they could use to improve their life, pay for essential health treatments or launch businesses.

They also face a 4% cut in the value of all their currency holdings and a 4% cut in the value of all their wages and incomes. The living standard of all citizens, including poor workers, is undermined so that the government can enjoy the proceeds from a stealth tax of 7%, which it then uses to shower largesse on hand-picked companies and favoured population groups.

This bring us to the next point: central-bank inflation is morally unjustifiable. It is theft, plain and simple. As we see in the article about **Keynesians versus monetarists, or Statist versus Statist**, the amount of new money issued by a central bank on a given year is exactly equal to the amount stolen by the government from the citizenry on that year. As soon as the new money is created, it can be said to be stolen.

In this writer's opinion, it would be a serious contradiction for any true Christian to work for a central bank. While a central bank is similar to a country's tax authorities, it is at the same time more devious, more cruel, more devoid of morality, more dangerous, more disastrous in its effects and more corrupt in its mentality.

One reason why a central bank is more disastrous in its effects[134] than even a country's tax authorities is because of the enabling effect of central banks. Central banks are sometimes called the enabler of the welfare state, with good reason.

[134] As a side note, the article on this webpage: http://azizonomics.com/2012/06/27/fiat-money-kills-productivity/ suggests that the US productivity started to stagnate from around 1970, after the US foolishly discarded the gold exchange standard.

They are the government’s last-resort cash provider. A government does not ever need to worry about running out of taxpayer money when it knows that the central bank is there to bridge the gap.

Central banks allow governments to accumulate debt beyond all reason. Their mere presence allows governments to acquire cheap debt, because investors blissfully lend their capital to a government they know will always be able to repay them, using freshly printed money if necessary.

Central banks allow bankers and politicians to accumulate power beyond all reason and they provide a strong incentive for wasteful government spending. When money is plentiful, there is no need or expectation of efficient use. While a government cannot ever hope to manage money as efficiently as its citizens would, this statement is even more true in the presence of a central bank.

In view of its effects, money printing could be accurately described as economic vandalism, economic sabotage, or government-sponsored pauperisation.

How do we stop it? By forcefully shutting down central banks and by giving gold and silver a predominant role in the definition of money and prices. Because gold cannot be printed by governments, and because the quantity of gold present in the world is finite, gold is superior to fiat currencies and it could replace them.

People who own gold are sometimes called ‘gold bugs’. Gold bugs are criticised for advocating gold as the official currency, on the basis that they would benefit from an increase in the value of the gold that they hold.

But a gold bug holds gold in the first place because he opposes quantitative easing (QE) and supports the end of fiat money. The fact that gold bugs are loudly opposed to QE demonstrates the fact that they put integrity above the concern of getting their gold to be worth more. For if QE was to stop forever, as they desire, fiat money would then be more valuable and the value of their gold assets would inevitably drop.

The consequences of ending central banks

First of all, we should realise that there is no 'ideal' amount of money (currency units) that should circulate in the economy. This is because the 'ideal' amount is any amount that stays constant[135].

If the money supply does not change, then the prices of all goods adjust upwards and downwards according to demand and supply in the free market. That is the best possible situation. Prices send accurate signals, allowing capitalism to function.

However, when the money supply constantly increases – as is the case in all countries using fiat[136] currency – people cannot easily save money and all the economic calculations of businesses are rendered inaccurate.

Increasing the money supply guarantees inflation in the short term and medium term. But because prices depend on supply and demand and not just on the money supply, the actual rate of inflation on any future year cannot be predicted.

The main consequence of abolishing a central bank would be that the money supply can no longer increase. An identical outcome can probably be achieved by forcing the government to allow the use of gold, or a 100% gold-backed electronic currency, as a competitor for the official fiat currency. This is called the Ron Paul competing currencies proposal.

Obviously, the central bank would not be able to increase the supply of gold in the economy by pressing a button. Because of this, gold is a better store of value than any fiat currency. As a result, savers would naturally convert their fiat holdings into gold holdings.

The only reason why most people do not already do this is that gold is not an official currency. This means that products and services are not priced in gold units. You cannot be paid a gold wage to a gold bank account. You cannot use a gold bank account to buy potatoes using gold units.

Currently, people only receive fiat. If they want gold, they have to buy gold with their fiat. If they want to buy something with gold, they have to sell gold for fiat first. The simple fact that fiat must be used as an intermediary creates an additional cost that most people are not willing to accept.

When currencies are competing freely, sellers prefer to receive gold rather than fiat for any product or service that they sell. Buyers prefer to pay in depreciating fiat rather than gold for any product or service that they buy.

Initially, employers would seek to pay their employees in fiat rather than gold. Employers naturally want to pay their employees as little as possible. But as the value

---

[135] I explain this fact in further detail in the comments section of the Forbes article at this address: http://www.forbes.com/sites/timothylee/2012/09/21/yes-printing-money-can-create-wealth/

[136] A fiat currency is a currency that is backed solely by government orders, and not by any tangible asset like gold or silver.

of fiat quickly drops due to the free competition with gold, employees would easily be able to convince their employers to pay them in gold and not fiat.

The main advantages of ending the central bank system are the following.

1) Virtuous deflation. Currently, the general population is robbed of any improvements achieved by the free market. When productivity increases, the result should be lower prices that everyone can enjoy. Central banks prevent this decrease from happening.

2) Improvement in the overall economic efficiency. Without central-bank interference, the calculation of expected profits for any given project or investment will become more accurate. There will be a reduction in what Austrian economists call unsustainable malinvestment. Crises born from the malinvestment created by increases in the money supply will disappear[137].

3) Smaller government and more honesty in governance. A government without a central bank is forced to find resources for every increase in expenditure. A government that must increase tax or the debt level to get more resources may start to consider whether some of its expenses are genuinely needed. Such a government may still guarantee a part of the deposits of bank account holders, even though it would be wrong for the government to provide any guarantee at all.

4) Capital accumulation. Without a central bank, people will again be allowed to save with confidence, allowing capitalism to work. People will be able to focus on low-risk sustainable investments, as opposed to the situation of a fiat-money economy suffering from inflation.

When people are subjected to inflation, they naturally seek high-risk, high-return investments for the only purpose of protection from devaluation. This benefits fund managers but not society as a whole.

The effects mentioned above would all contribute to the prosperity of countries. Central banks can be described accurately as a plague on the land. Because large-government advocates oppose the removal of central banks, they resort to disinformation about the consequences of deflation.

[137] Economic crises (i.e. decreases in output) can result from the monetary policy of the central bank, but also from other factors like market saturation, resource depletion, a natural disaster, a war, a trade war, trade barriers, foreign investment barriers, state taxation, state regulation, the lack of property rights or a faulty justice system. Crises do not originate from psychological factors or the flaws of capitalism, real or imaginary.

Inflation, a necessary evil?

To prove that inflation is ‘necessary’, statist economists usually mention the fear of deflation, or they mention that inflation allows companies to reduce real wages. The first point is debunked in the earlier article about The deflation-spiral boogeyman.

The second point is easily refuted by observing that companies have no trouble cutting wages when it is possible for them to do so, that is to say, when market wages have fallen due to changes in demand and supply.

In a free economy, this can be done through straightforward negotiation or through the dismissal of existing employees for economic reasons. The dismissed employees can then be replaced with new employees at the market wage. It is condescending for statists to suggest that companies cannot adjust the wages of their own employees, and need the help of the state to do so.

The essential element to remember is that a work contract is an **agreement** between two parties. In a free economy, a contract between two parties can be ended as soon as one of the parties no longer agrees to the deal. This means employees can leave their job whenever they want to, and employers can dismiss their employees whenever they want to.

In other words, a company should not be able to force anyone to work, and neither should someone be able to force any company to employ them.

Companies usually benefit from retaining trained employees; that is why they do not fire them or impose wage cuts willy-nilly. But it would be foolish to presume that any company will retain employees that it considers to be over-priced.

Obviously, the situation is somewhat different when a labour market is shackled with socialist rules that prevent the dismissal of employees. In this case, a good argument can be made in favour of removing the socialist shackles.

Adding monetary mismanagement to labour-market mismanagement produces exactly the situation observed in countries like Spain and Greece: extreme unemployment, extreme national debt and extreme taxation.

The UK in the last few years has been using larges doses of money-supply expansion in order to increase the inflation rate, allegedly to reduce unemployment. The Bank of England successfully produced official inflation rates of between 4% and 5% per year, resulting in a commensurate impoverishment of the population to the benefit of the state.

But the bank was not so successful at creating jobs. In the three years from January 2010, the UK unemployment rate never fell below 7.6%. In all likelihood, the real (not official) unemployment rate was significantly higher.

History is littered with illustrations of the disastrous consequences of allowing governments to dilute the value of currencies[138]. On the other hand, there is hardly any evidence of a useful trade-off between economic growth and inflation.

There may well be evidence of a *correlation* in certain periods between a country's GDP growth rate and inflation. This would not be surprising at all because increases in demand can and do trigger higher prices[139] when the level of supply is, for one reason or another, unable to catch up[140].

However, the reverse cannot be said. Higher prices do not, as a general rule, trigger increases in demand, but *decreases* in demand. For example, when the supermarket price of bananas is raised, people naturally reduce their banana consumption[141].

Governments are well aware of this fact. For example, a congestion charge allows a government to reduce the car traffic. A fuel tax allows a government to reduce CO2 emissions. Of course, each new measure reduces freedom while impoverishing the population, to the benefit of the state.

Like Keynesians who call for more state intervention when state intervention fails, central-bank managers just call for more 'quantitative easing' when quantitative easing fails, eloquently claiming that the previous intervention was insufficient.

In all likelihood, the claim that there exists a practical trade-off between inflation and economic growth originates from a confusion of correlation and causation. Because it is a useful claim, it is endlessly repeated by central banks and other apostles of government intervention with no regard whatsoever to the reality of the claim.

---

[138] Weimar Germany and the Zimbabwe dollar being just two extreme examples among many.

[139] Also see the earlier article on The Fundamental Laws of Economics.

[140] In a free economy with a sound currency, as a general rule, supply is expected to increase faster than demand thanks to continuous technological advances. This naturally leads to a virtuous association of economic growth and deflation. Illustrations of this association can be found in the US under the gold standard in peace-time years; and in the last few years, in Switzerland. Also see the earlier article on Hong Kong's deflationary death spiral of doom.

[141] An exception to this is the special case of speculators focusing their purchases on a low-priced share as soon as the price begins to increase. In this special case, speculators hope to catch an ascendent price wave. Similarly, speculators may well sell off a share or commodity, simply because they expect the price to decrease. This is because they base their purchase and sale decisions not on the intrinsic benefit gained from the product that they purchase, but exclusively on the expectation of a price increase. However, almost all economic transactions are **not** speculative in nature; on a day-to-day basis people buy the products that they buy for the benefit gained from the use of the product, and not because of any expectation of a price increase.

In economies suffering from a high inflation rate, speculation becomes more prominent; but even in these economies, people buy products and services first and foremost to consume them or make use of them. Another rare exception can be found in the behaviour of poor Asian people faced with an increase in the price of a base product like rice. The increase may well force poor people to reduce their purchases of even more expensive food products, like meat. They may then replace the lost meat consumption with more rice consumption.

Have you noticed how politicians understand the law of demand when it suits them, and then forget about it when it's not convenient? Here is the evidence. They frequently call for a currency devaluation, thereby showing that they understand that lower export prices would trigger higher export volumes. At the same time, they call for central banks to guarantee a minimum of inflation, thereby showing that they do not want lower prices domestically. The rule of 'lower price, higher volume' that prevails in export markets is suddenly forgotten when it comes to the domestic market.

A convenient lie to reinforce the idea that people are not mature enough to take care of themselves, but must be led, and dispossessed, by a wise and benevolent welfare state who will make a much better use of resources than the individuals who earned them.

Using inflation to reduce real wages is akin to using a hammer in order to kill a fly: it is a clumsy attempt, heavy-handed and, in the end, counter-productive.

It takes a strange kind of magical thinking to believe that an operation which results in the impoverishment of the population can somehow 'make everything all right' in the economy.

In reality, central bank managers do have a clear understanding of inflation; and in all likelihood they know that the net result of inflation is negative for any economy[142]. But they still make use of this unfortunate tool simply because it is in their personal interest.

Money printing is a great source of power for central-bank managers; it is one of the powers that allow them to present themselves as the high priests of the economy. The argument about lowering real wages and avoiding harmful deflation is just a rather clever set of smoke and mirrors.

The issue of government-created inflation is so important that one could envision as the first article of a national constitution the words 'citizens shall have an absolute right to benefit fully from the falling prices that naturally result from improvements in technology and productivity, without any stealth debasement of the currency by government-sponsored agencies'!

In fact, the US constitution does already contain words about gold and silver being the only legal currency of the country. Realistically though, a constitution is just a piece of paper that only exists to be ignored or trampled upon by politicians.

[142] Similarly, in all likelihood, opticians and ophthalmologists do know that negative lenses hurt the eyes of myopic people. But their compassion for others is overridden by the prospect of personal gain. See the article on How the state fails to intervene in those rare occasions where it should.

Why politicians love inflation

From the article on The consequences of ending central banks, we can see that the solution to eliminating most inflation in our economies is simple and within our reach. But we do not use this solution because inflation is desirable for politicians.

If you, the reader, have any doubt as to whether governments desire higher prices, read the following justification[143] of quantitative easing by Ben Bernanke, the Chairman of the US Federal Reserve (the central bank).

<< This approach [quantitative easing] eased financial conditions in the past and, so far, looks to be effective again. Stock prices rose and long-term interest rates fell when investors began to anticipate the most recent action. Easier financial conditions will promote economic growth[144]. For example, lower mortgage rates will make housing more affordable[145] and allow more homeowners to refinance. […] Higher stock prices will boost consumer wealth and help increase confidence, which can also spur spending[146]. >>

The Fed is clearly saying that it supports money printing, increases in share prices, and the increases in house prices that result from lower mortgage rates. In other words the Fed supports higher prices in the economy on the grounds that it may promote economic growth.

But as we have seen in the article Inflation, a necessary evil? there is no reason to believe that inflation promotes economic growth. Let us now examine the true reasons behind the desire for higher prices.

One of the core reasons why politicians love inflation is that it allows them to produce statistics that hide declines in living standards. Thanks to inflation, politicians in 'demerging' economies[147] (almost all of the economies of the EU) can claim that a country's GDP is increasing when in reality, it is decreasing.

A politician can claim that wages are increasing when they are decreasing. People remain clueless about the actual decline in living standards and they cannot blame politicians for it.

Another core reason is that the inflation produced by central banks is a clear source of power for politicians. New money created from the theft of citizens is money that the government can use for its own purposes.

Monetary inflation is equal to the mass expropriation of citizens to the benefit of the public sector and the government. It allows a government to pay itself lavish salaries, pensions and flights around the world. Because of this, politicians are completely insulated from the consequences of higher prices.

---

[143] See http://www.goldmadesimplenews.com/analysis/contra-richard-koo-and-the-keynesians-it-is-not-about-aggregate-demand-but-about-real-prices-8700/

[144] See the article on Effects of money printing by central banks.

[145] See the article on What a genuine welfare policy would look like in the housing sector.

[146] Here we see a reference to Keynesianism. See the article on The fatal flaws of Keynesianism.

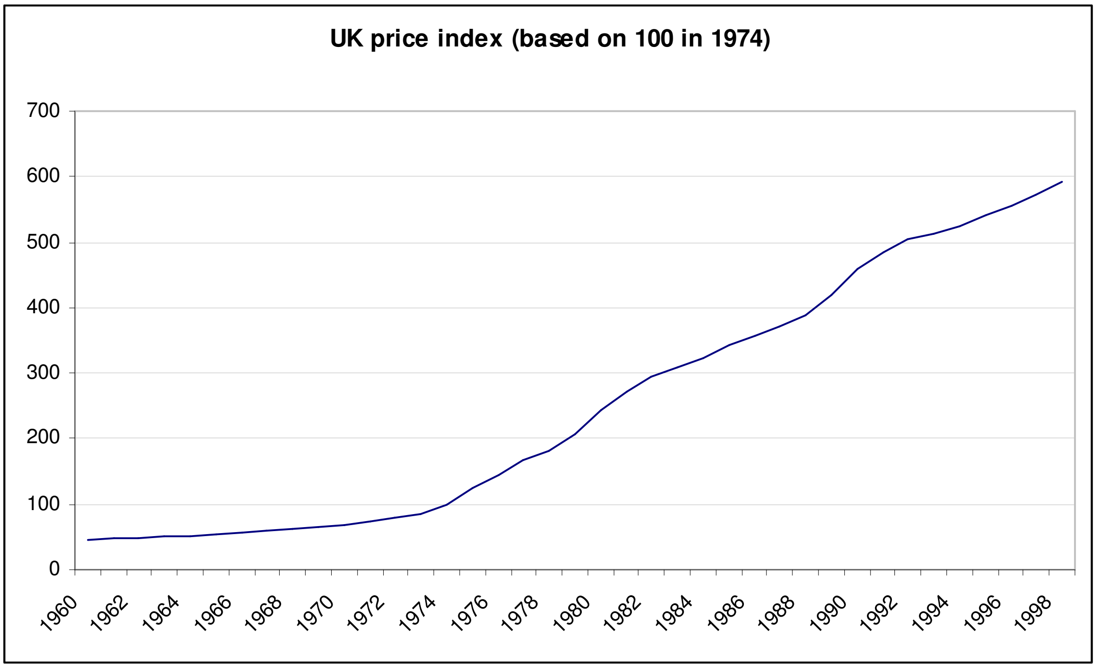
[147] Since growing economies are sometimes referred to as 'emerging markets', it is logical to use the word 'demerging' for markets that are moving in the opposite direction.

Inflation also allows a government to keep promising more public investment, welfare, company bailouts and subsidies. It allows a government to accumulate debt without limit and without fear of consequences since any interest payment can be made using newly-printed money whenever traditional taxation is not enough.

Lastly, many politicians own real-estate properties and company shares. A high rate of inflation helps them increase the value of their personal property and share portfolios. As mentioned in the article about the Effect of immigration on wages and the economy, when personal interest is at stake, ideological considerations are irrelevant.

Because the true reasons for wanting inflation are unsightly and dangerous to their career, politicians do not publicly talk about them. Instead, they talk about philanthropic things like keeping interest rates low for people on a mortgage, ensuring that small companies get loans from banks, or stimulating the economy.

As an additional layer of security, politicians like to claim that central banks are independent institutions. But since central banks get their mandate from the government and regularly meet with members of the government, they should be seen as just another government department. It is fair to say that no central bank in the world has ever done something that a government did not want it to do.



Graph of UK prices from 1960 to 1998, based on an index value of 100 in 1974.
Source: http://www.parliament.uk/documents/commons/lib/research/rp99/rp99-020.pdf

In the above chart of UK prices, notice how there has **never** been an overall decline in prices in the UK from 1960 to 1998. At best, the rate of inflation slowed down in some years, but it never turned negative. That is what a government truly wants – to transfer as much wealth as possible from the citizenry to itself.

It is safe to assume that for every consumer product in existence, 90% of the price results from the nefarious action of the government, including money printing, taxes, regulations, trade barriers, subsidies and the operation of public companies. It is likely that less than 10% of the price results from the genuine cost of production.

The following quote could be read in the Financial Times of 20 January 2013[148] in an article concerning Japan's monetary policy:

"the meeting is expected to result in a policy pact between the Bank of Japan and Shinzo Abe's new government to overcome the mild deflation that has dogged Japan for much of the past two decades."

Notice the article's underlying dogma that deflation is something terrible and that simply by having prices increase by 2% per year on average, then everything and everyone in the economy would become happy again.

A central bank cannot accept deflation because accepting deflation as a positive force in the economy would mean that the central bank does not play an important role in the economy.

It is a matter of survival (at least, survival of their job and lifestyle) for people who work for central banks to make the case, against all evidence to the contrary, that inflation is beneficial to the economy.

Governments are only too happy to amplify and propagate the lies produced by central banks and the economists they employ. Most journalists lack critical-thinking skills, so they immediately pick up the lies and make them their own official doctrine.

According to the market commentator Peter Schiff, the Western central banks will not stop printing money because of the failure of their economic stimulus programmes. The failure of economic plans gives central banks a justification to maintain and expand their quantitative-easing programmes.

In this writer's opinion, Mr. Schiff is correct that the central banks will not stop printing money - not only in the West but everywhere else in the world too - but the real reason is not the success or failure of economic policies.

The real reason is an issue of power. The relentless printing of money gives a significant amount of power to the usual suspects: central banks, banks, governments and public-sector institutions.

Once a government and a central bank have tasted this power, they simply do not want to relinquish it. What they *may* do is stop talking about it. What they *will not* do is stop the money printing which begins as soon as a fiat currency is created, only to stop when the fiat currency disappears and is replaced with something else.

A thorough presentation of government-created inflation can be found at the following address: http://www.adamsmith.org/research/articles/inflation-the-ultimate-corruption.

148 http://www.ft.com/cms/s/0/e97ab0d6-62c8-11e2-8497-00144feab49a.html#axzz2IW3wneXN

Once we are free of unfounded Keynesian and monetarist[149] doctrines, we can then naturally ask: what are the goals of a modern economy? And clearly one of the goals should be to reduce prices as much as possible.

We make people - all people low or high in society's hierarchy - wealthier by reducing the price of the things they need.

The ideal economy is one that produces goods for free. Reducing prices is the process through which we get closer to this goal. To guarantee this process, we need to satisfy a second goal: the goal of allowing every person to enjoy the freedom needed to prosper.

[149] See the article on 'Keynesians versus monetarists, or Statist versus Statist' for information about monetarism.

Governments cannot reduce prices, only increase them

From time to time, governments claim to help households by taking measures like price freezes and price controls in order to 'contain the inflation of necessities'. Never mind the fact that long-term inflation comes solely from the action of the government.

The best price that can be had for any product or service is the price that emerges in a free market with perfect competition. In such a market, the price of any consumer product drops to the cost of production. Any company that charges more than the cost of production can be undercut by a competitor charging a price nearer to the cost of production.

Therefore, any action that a government takes to reduce a price is counter-productive. The three main actions that can be taken are the following.

1) Exhorting companies to reduce prices: this course of action ignores the fact that prices are not set by companies according to what they *want* to charge, but according to what they *can* charge. By reducing prices arbitrarily, a company reduces its profit and its capacity for future investment. Potentially, it takes its first step towards bankruptcy. Naturally, any exhortation from the government is ignored by companies.

2) Setting a maximum price: by setting a legal price lower than the market price, the government artificially restricts the number of suppliers that can provide the product and make a profit while doing it. Those suppliers with a cost of production higher than the legal price can no longer operate. Thus, the level of production decreases.

At the same time, demand increases because the demand of any product increases when its price decreases. Because supply decreases while demand increases, a **shortage** is created: there is no longer enough supply to meet the demand.

Far from helpfully reducing prices for households, the government creates an environment where people have to queue for the products they want to buy. Because of the action of the government, a part of the population is totally unable to acquire the products that they absolutely need.

3) Setting a maximum price and subsidising companies for the difference between the legal price and the cost of production: this option is well-liked by modern socialists because it does not create the shortages that the government could be criticised for, and because it allows politicians to have a hand in the management of companies.

When the government uses tax money to fund a company, the company no longer needs to respond to market pressures. Effectively, the company becomes a public-sector company, an agency of the state. It can thus offer prices lower than market prices without any negative consequence to itself.

Obviously, there is a cost to this government action. The total cost is equal to the amount of the subsidies, plus the cost of the bureaucrats needed to manage the collection and distribution of the funds, plus the 'efficiency' cost associated with the intervention of the state in the economy.

In order to operate the scheme, the government must now tax people an amount equal to the subsidies plus the wage of bureaucrats. This is the direct cost. Compared to the situation where people have to pay market prices, we see that people are now made to pay for something completely unrelated: the wages of additional bureaucrats.

On top of the direct cost, we must add the indirect cost: reduced employment and higher inflation. When the government increases taxes, the natural result is more unemployment and more inflation. Taxes are a production cost like any other cost. When costs increase, fewer companies can operate and they must charge higher prices.

In addition, subsidies distort private-sector enterprise. Recipient companies can no longer compete on their own merits; the state decides who wins and who loses. Businesses reallocate their production and investments in order to take advantage of the subsidies, without regard for the actual level of demand.

Far from helping households, the government threatens the country's future prosperity by imposing on everyone a burden that only some people should face. One is then reminded of a Bible proverb: 'treasures of wickedness profit nothing' (Proverbs 10:2).

Beyond the safeguarding of a country's rule of law, a government cannot improve society in any way through the use of taxation, i.e. theft. It can only make society worse than it would otherwise be.

How the EU uses nonsensical surveys to justify international redistribution

The European Commission loves to publish surveys that invariably demonstrate a high percentage of popular support among Europeans for increases in international aid to poor countries. But these surveys are worthless.

Why? Because they portray international aid as something that respondents are totally disconnected from. For the normal respondent, international aid is just something that gets done in the **black box of government**, something that happens among a myriad of other expenditures and that probably has **no consequences** whatsoever for individuals.

Given this, it is no surprise that most people would support 'more aid' for poor countries. Most people have good intentions, or at least they like to pretend that they have good intentions. The survey simply reflects these good intentions.

We all have particularly good intentions when these intentions do not affect us, but possibly some other people, like 'the rich'.

Therefore, a much more interesting question to ask Europeans would be 'are you **personally willing to pay more tax** so that more international aid can be distributed to poor countries?', 'what percentage of additional income tax would **you** be willing to pay?'. If the EU was to ask these questions, chances are it would not like the result.

It is one of the traditional tricks of politicians to suggest that public spending can be increased without an equal increase in tax. Another deceptive mind trick is the suggestion that public spending benefits everyone while tax only hurts the rich. In reality, it would be more accurate to say that tax hurts everyone while public spending benefits the few against the many.

Keynesians versus monetarists, or statists versus statists

Among the prominent schools of economic thought, we have Keynesianism and monetarism. In this author's opinion, the differences between the two are superficial. They are two statist schools of thought in the sense that they both support the intervention of the state in the economy.

Politicians love Keynesianism as it gives a justification for their failed economic policies. Meanwhile, central bankers, who are themselves just another category of public servants, love monetarism as it gives a justification for their failed monetary policies. Each school of thought seems to have been created for the sole purpose of providing these justifications.

Like pyromaniac firemen, monetarists propose using the central bank to manipulate interest rates and the supply of money in order to limit inflation and create favourable economic conditions. At no point whatsoever do they question the necessity and usefulness of having the state control interest rates and the supply of money.

There is a basic assumption that the state knows better, and that single-digit inflation rates are good for you[150], period. Because of this, one could say that Keynesians and monetarists are twin brothers and not at all opposed ideologues.

They both support the creation of funny money by the state and the use of this money to further the state's objectives. The two doctrines reinforce each other, with monetarism claiming that money creation by the state is a good thing, and Keynesianism claiming that the use by the state of this new money is also a good thing. Together, they proclaim: 'Don't ever rock the boat! Don't touch our perfect system!'.

Monetarists are the friends of the US Federal Reserve. Let us now quickly review one of the arguments they put forward in opposition to the message of US libertarian Ron Paul. As a libertarian, Ron Paul naturally supports a greatly diminished role for the US central bank, if any at all.

Quoting from a monetarist blog[151]:
<< [US] currency […] is just short of $1 trillion, so let's call it $1 trillion just for argument's sake. Then, with 2% inflation, the revenue from the inflation tax is about $20 billion per year, or 0.7% of

[150] See the articles on The deflation-spiral boogeyman and Hong Kong's deflationary death spiral of doom.
[151] See http://newmonetarism.blogspot.co.uk/2011/03/end-fed_11.html

government spending, or 0.14% of GDP. Small potatoes, and certainly not enough to justify an armed mob outside the Fed in Washington screaming 'End the Fed,' as Paul seems to envision. >>

The claim here is, first, that the inflation tax is tiny in its amount and, second, that because it is tiny, we cannot say that inflation is immoral. However, the argument does not withstand scrutiny. First, let us quickly address the issue of morality. Then we will address the issue that arises from equating the inflation tax with the observed price increase.

1) The amount of the theft does not make theft moral or immoral.

Let us assume that a person owns a car and a home. If someone steals that person's gold necklace, is it a moral action simply because the value of the necklace is so small, compared to the man's total asset portfolio? Of course not. Theft is immoral and forbidden by traditions that were created thousands of years ago. This fact remains true whether we are talking about one dollar or one trillion dollars.

Now, the blog article is right in stating that if we say that tax is immoral, then we have to define what the role of the state should be and how we should fund it. And this is exactly what libertarianism is all about.

Libertarians want to shrink the state to the smallest size possible while still maintaining the country's rule of law. They support a low level of taxation if the funds are used to provide the functions of police, justice and army, and nothing more.

Just because they would tolerate a low level of tax to guarantee these functions, does not mean that state taxation would then not be a theft. It would still be theft but a more tolerable and acceptable theft, in view of the absence of a more acceptable alternative. For a libertarian, the state is no more than a necessary evil.

Let us now examine another fundamental flaw in the article's argument.

2) The inflation tax is equal to money-supply increases, not price increases.

Just because prices increase by 2% in a given year does not mean that the inflation tax is equal to 2% of the value of the currency in circulation. After all, prices are affected by many factors[152] and not only by the increase in the money supply.

In reality, the amount of the inflation tax is equal to the increase in the money supply, and not to the increase or decrease in prices. We will return to this idea shortly.

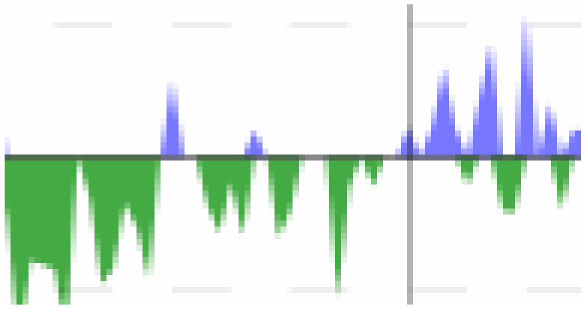
But, for a minute, let us imagine that we do not know the extent of the theft, and that we must deduce it purely from the observation of price changes.

The natural long-term trend for consumer prices in a free-market economy is a decline. No-one knows exactly what the natural rate of decline is. It depends on the speed of technological progress and on the availability of resources.

[152] All of the factors that can potentially affect supply and demand for every product and service.

In this author's opinion, the annual rate of decline is between 3% and 6%. This means that every year, the purchasing power of citizens in a free-market economy increases by between 3% and 6%. Obviously, this assumes that there is no central bank.

As an illustration, let us review inflation in the US under the gold standard from 1870 to 1900. The following chart[153] from Wikipedia covers US inflation from 1870 to 1914. Green is a deflation period, blue an inflation period and the dotted lines at the top and bottom represent +5% and -5% respectively. The vertical line corresponds to the year 1900. The left edge is around 1870 and the right edge is 1914.



Prices declined on most years during the period from 1870 to 1900. Rates of deflation above 4% were not uncommon. After the end of World War I in 1918 and the return to the gold standard, again there were large deflation rates in the US.

Demand changes can account for variations in the short term and medium term, because demand declines trigger price declines[154] while demand increases trigger price increases.

Now let us assume that on a given year, the natural rate of price decline is 4% due to technological improvements. Therefore, if on this year prices increase by 2% as a result of a loose monetary policy, it means that the monetary policy is responsible for an increase in prices[155] of at least 6% - not 2%!

To see this, let us set the price level at 100 at the beginning of the year:

* Price level without a central bank at the end of the year: 96 (4% deflation).
This is the price level that people would enjoy at the end of the year if there was no central bank to debase the currency.

* Price level with a central bank at the end of the year: 102 (2% official inflation).

---

[153] Source: http://en.wikipedia.org/wiki/File:US_Historical_Inflation_Ancient.svg
I also talk about this period on my website:
http://www.heroicfantasygames.com/Forums/viewtopic.php?f=3&t=405#p3619
[154] See the article on The Fundamental Laws of Economics.
[155] Here we touch on a fallacy often repeated by people with a superficial knowledge of economics: the idea that inflation does not exist if we do not increase the money supply by a percentage that is higher than the rate of economic growth. In fact, all increases in money supply increase prices, relative to the price level that would prevail in the absence of monetary inflation. In other words, price increases take place 'ceteris paribus': all other things being equal.
The fact that consumers may not see actual increases in the prices that they are made to pay for basic goods does not negate or justify in any way the forced transfer of wealth orchestrated by central banks, an action that could best be described as economic vandalism.

This is the actual price level recorded at the end of the year.

* The central bank is therefore responsible for a price increase of:

(102-96)/96 = 6.25%

This is the inflation rate required to increase prices from 96 to 102. It does not necessarily mean that the money supply has been increased by just 6.25%.

For example, it is possible that the money supply was increased by 12.5% (two times 6.25%) and that it will take a full two years for all of the new money to circulate in the economy, impacting prices in the process. So, after a single year, half of the new money may have impacted prices, resulting in a price increase of 6.25%.

If the 'tax base' is just 1 trillion, and the inflation tax rate is 6.25%, then the observable inflation tax for this year is USD 62.5 billions, or 2.2% of government spending for this year.

However, the 'tax base' is not merely the number of physical dollars in circulation. The blog author conveniently forgets that the inflation tax erodes not only the value of all banknotes, but also the value of all bank deposits denominated in dollars! This includes all demand deposits and savings accounts. The total is called the M2 index of money supply.

In June 2013, the official value[156] for M2 was 10.59 trillions. But since the blog article referred to late 2010, let us keep the value[157] of 9 trillions for M2.

If this is the real base of the inflation tax, and if we assume that the rate of the inflation tax is 6.25%, then the amount of the inflation tax is equal to 9 trillions times 6.25%: 562.5 billions. If we accept the figures[158] of the blog article for GDP and government expenditures, then the inflation tax is equal to 3.77% of the GDP and 18.75% of government expenditures.

We can therefore assume that the US government uses inflation to pay for around 20% of all its expenditures. From this quick calculation we see that the amount of the hidden tax is actually enormous. Inflation is absolutely essential to the maintenance of the US welfare state and the country's military expenditures.

In reality, the inflation tax is exactly equal to the amount printed by the government. Since December 2012, the US government openly admits that it increases the money supply by 85 billion dollars every month.

The real increase, of course, is higher than this amount. But let us assume that this is the true amount. This means that each year, 1,020 billion dollars of new money is created by the government[159]. In other words, more than one trillion dollars are printed every year.

---

156 Source: http://www.federalreserve.gov/releases/h6/current/

157 See the historical chart of M2 on http://research.stlouisfed.org/fred2/series/M2/

158 They are: 3 trillions for government expenditures and 14.9 trillions for the GDP.

159 Central banks are not subjected to any transparency requirements, so the actual amount of new money issued every year may far exceed the official figures.

This is the exact amount stolen by the government from the citizenry each year. It does not really matter that the actual spending of the new money may take place over several years, producing the illusion that money printing does not have much impact. As soon as the new money is created, it can be said to be stolen.

To see why this is true, imagine the situation of an economy prior to the doubling of the money supply by a central bank. Let us call this economy E1, its equilibrium price level P, the money supply M, and the amount of assets held by the people A.

Now let us imagine an economy (E2) that is absolutely identical to E1 except that all monetary values in that economy are doubled. It follows logically that in E2, the money supply is 2M (two times M), the assets held by the people are 2A (two times A) and the equilibrium price level is 2P (two times P).

The market equilibrium in E2 is identical to that of E1: demand is identical, production is identical, the people are identical and most notably their **purchasing power** is identical. The people in E2 are not in any way better off than the people in E1. They are no better and no worse.

Now let us start from E1 and imagine that the central bank of E1 doubles the money supply and uses the newly printed money for its own evil purposes. Let us call the economy E3 after the change.

We have now moved to a situation rather similar to E2: the money supply has increased from M to 2M and the price level is now moving from P to 2P (all other things being equal). The difference between E3 and E2 is that in E3, the assets of the people are still A, while the assets of the government have **increased** by A. The new assets of the government come from the direct theft of A from the people.

The pre-existing situation was E1, but E1 was functionally equivalent to E2 where the assets of the people were 2A. Therefore, through the money-printing operation, A was forcibly transferred from the people to the government. And because A was the amount printed by the central bank, we can say that A is the amount stolen from the people. It is the value stolen from the people expressed in units of the new currency.

The currency was debased by 50% so we can indeed say that there is now a new currency that is worth 50% less than the old one. Now, of course, expressed in units of the old currency, the amount of the theft is lower; but why should the amount be expressed in units of a former currency?

* E1 is what the economy looks like with the old currency.

* E2 is what the economy would look like if it used the new currency, but the government had not perpetrated its shameless plunder. Functionally the same as E1.

* E3 is what the economy actually *is* after money printing.

More than just another stealth tax, the inflation tax provides a guarantee that the US government will always be able to repay at least some of its debt, simply by robbing taxpayers of the desired amount.

This allows the state to expand its total debt much more easily. This is why libertarians sometimes call the central bank the **enabler of the welfare state**. Central banks help countries move towards bankruptcy by allowing them to accumulate debt at an artificially low cost.

Even when the official inflation rate is as low as 2%, inflation already accounts for a large part of government spending. But there is no guarantee that the rate of inflation will stay at 2%. In fact, it is very likely that the real inflation rate, not the one reported by public servants, is already higher than 2% in the US.

Public servants have every incentive not to report the actual rate of inflation, in the same way that the government has every incentive to hide the actual amount of tax it collects from the population. In coming years, the real rate of inflation is very likely to increase in the US as a direct result of increases in the money supply.

The monetarist concept of bad deflation

On the following website: http://www.fee.org/the_freeman/detail/deflation-the-good-the-bad-and-the-ugly#axzz2jDzkU7dT, we can read a description of the monetarist concepts of good deflation and bad deflation.

In essence, good deflation is defined as a decline in prices resulting from productivity increases. Bad deflation is defined as a decline in prices resulting from a higher demand for money unmatched by the money supply of the central bank.

Allegedly, bad deflation triggers deflationary spirals where demand declines to such an extent that companies go bankrupt, leading to more demand declines and more bankruptcies. The monetarist does not explain where the vicious circle ends or what happens afterwards. He only points a shaky finger at the US Great Depression.

The thing that monetarists do not seem to understand is that both scenarios, good deflation and bad deflation, are one and the same. Let me explain:

* In the first scenario, we have a given level of consumer demand (let's call it C) and a given level of production (let's call it P). Since we are in a situation of equilibrium, C is equal to P. Now, productivity increases and P suddenly increases to P2, a higher value. Companies find that the current level of demand is not high enough to sell their current output. So companies have to cut prices in order to sell their additional output and return to the equilibrium.

* In the second scenario, again we have a consumer demand C and a production level of P. Again, we are in a situation of equilibrium, so C is equal to P. Suddenly, people want more cash, so C declines to C2, a lower value. Companies again find that the

current level of demand is not high enough to sell their current output. So companies have to cut prices in order to sell their excess output and return to the equilibrium.

For companies, the only thing that matters is the mismatch of supply and demand. It makes absolutely no difference to them whether the mismatch is due to a supply increase or a demand decline!

Likewise, companies increase prices both when the total supply declines and when demand increases. It makes no difference to companies whether the mismatch of supply and demand is due to the supply or to the demand.

It follows that there is no reason to believe that a price decline due to increased savings would result in any more bankruptcies than a price decline due to productivity increases.

Whenever prices decline in any sector of any economy, companies that cannot offer the product at a cost lower than the market price face bankruptcy. This is a normal part of the life of any free-market economy. Inefficient companies must give way to efficient ones.

Fundamentally, the two situations of 'good deflation' and 'bad deflation' are one and the same. One could say that whenever the production level increases, the so-called demand for money (I prefer to call it demand for savings) becomes too high! In both cases, the economy just makes too much stuff that people do not want to buy at current prices.

When this happens, no-one knows and furthermore no-one needs to know exactly why it happens. As a general rule, neither a company nor a government could say whether the cause of a price decline was an output increase or a demand decline, because the two situations are indistinguishable from each other and could happen at the same time.

It would be totally futile for a central bank to try to extricate one factor from the other.

Now, of course one could wonder: what factors could lead people to seek a higher level of savings? Since humans are all different and all lead different lives, it is really not the job of any economist to say what a 'normal' level of savings is or whether savings should increase or decrease.

But it seems logical to think that when people are faced with suicidal government policies, such as trade barriers, minimum and maximum wages, stifling employment regulations, currency debasement, public-sector monopolies, subsidies, bailouts, high tax levels and extreme government spending levels, they naturally fear for their own future, with the effect that personal saving levels tend to increase.

In this situation, a demand decline is not the disease faced by the economy, but a mere **symptom** of the disease of state intervention in the economy.

A free-market economy would quickly respond to demand declines and output increases by reducing prices and wages, to the benefit of all consumers. In so doing, long-term unemployment would be avoided. But a welfare state would prevent prices and wages from going down, instead forcing businesses to go bankrupt and generating long-term unemployment.

It would be a serious mistake to believe that savings are not important or that they should be reduced, minimised or sacrificed to the god of consumption.

Savings are the backbone of capitalism; there can be no investment without prior savings. Savings are also necessary for people to be independent, for people to protect themselves from expected and unexpected difficulties and for people to buy big-ticket items.

For other consumers, savers bring the added blessing of lower prices, through the reduction of the total demand for products. For banks, savers provide capital that banks use to create reserves and distribute loans.

But for both Keynesians and monetarists, the human desire to save is a disease! Keynesians ‘fix’ the disease by having the state spend more, while monetarists ‘fix’ the disease by having the central bank issue more money.

The author of the online article mentioned above correctly blames government initiatives for the Great Depression in the US. But, being a true monetarist, he then contradicts himself by suggesting that the US Fed should have reacted to the demand decline by multiplying the money supply. In other words, the Fed should have launched a grand theft programme designed to oppress savers.

Monetarists do not realise that increasing the money supply is the epitome of government intervention in the economy. There is no more solace to be found in a government's monetary policy than there is in a government's fiscal policy. Both of them are equally disruptive to the economy.

Part VIII The Road Ahead

How to get out of the economic morass

In this article, we will review the measures needed to bring back economic dynamism to Western countries.

* We need to abolish the minimum wage to give people a chance to find work, and companies a chance to operate at a low cost. This should be done first. It makes absolutely no sense to dismiss public servants when the job market is shackled.

In the same vein, we need to abolish all restrictions on hiring and firing, with the same purpose of giving people a chance to work. Companies, especially SMEs, are the most important engine of prosperity.

* We need to abolish all subsidies to companies and all bank bailouts. In order to preserve fair competition, no company should receive any subsidy. Allowing the government to pick and choose its favourite companies which it stops from going bankrupt amounts to creating a rigged market made up of a few huge monopolistic state-supported companies producing junk that no one wants!

For every bankrupt company that the state saves, it kills a number of SMEs that could have emerged to fill up the gap in the market left by the large company. Bankruptcy is a reflection of the fact that a company is not trusted, or not wanted sufficiently. Therefore the process of bankruptcy should never be stopped by the government at taxpayer expense. No exception should be made for banks or any other supposedly essential industry.

* We need to abolish all direct and indirect trade barriers, even with countries that have trade barriers against us. The removal of domestic trade barriers should be a unilateral move. Taxpayer money should never be wasted on futile diplomacy that only benefits embassy personnel. Trade barriers should be removed because low-cost imports are an engine of prosperity. Any restrictions on incoming foreign investment should also be removed, as foreign investment is another engine of prosperity.

* We need to introduce a new gold-based currency. A sound currency is a prerequisite for a sound economy. Currently, people are not being allowed to save the fruits of their labour serenely. The accumulation of capital is being hampered. A gold currency is needed to restore the foundation of capitalism.

The central bank should be closed. It should only be reopened in the case of an all-out defensive war. This is the only time that citizen expropriation would be morally justified. All interest rates must be set privately without any interference from the state.

* We need to reform the justice system in order to improve its effectiveness and greatly reduce the cost. For this purpose, the death penalty should be reintroduced for murderers. Flogging or caning should be reintroduced for rapists and repeat offenders.

Those who think that those measures would somehow make society more brutal should first spend a few months in the high-crime areas of London and then another few months in Singapore. In this author's opinion, serious criminals should not be allowed to drag down an entire economy, as they do in Europe. From the moral point of view, society does not prove its benevolence by being kind to the cruel, but by being cruel to those who are cruel.

* The 'National Socialist Housing Stock' should be sold on auction, except for a few buildings in each city, depending on population. These buildings should be reconverted into dormitories for destitute people. In order to reduce housing prices, it is absolutely essential to remove the interference of the state in housing.

* We need an immediate and unilateral default on all national debt. The state must live within its means without any payment of interest or principal to other countries. Politicians have no right to transfer the burden of their own massive debt onto citizens.

* We need to stop all foreign aid payments. Why do governments distribute foreign aid? After all, they could just as well point the people towards an international aid institution like the Red Cross and ask them to donate to them. This way, the aid would be voluntary and not coerced.

So what is the real reason for us to go through the government to pay foreign aid? There are several reasons. Firstly, bribing countries make them dependent and compliant, in the same way that people on welfare are dependent. So it is a useful tool for world policing. It stands to reason that countries with imperial pretensions would distribute a lot of so-called international aid.

Secondly, the more tax, the more power for the government. It gets to manage an entirely new department, with the almost-total support of the masses who, generally, think that the intentions of the government are genuinely compassionate.

Thirdly, allocating huge amounts of tax money to good causes such as poor countries or HIV drug development, while not actually helping those causes[160], provides the state an excellent means of defence against criticism. Indeed, how could anyone criticise a government so generous that it willingly spends billions to help others and develop drugs against diseases?

If we are to turn a country like the UK around, the government must shrink down its ambitions for world policing and power, and adopt the common sense of real households. Would an over-indebted household dedicate a part of its income to helping people in other countries? Not likely!

[160] State investment into drug research is not helpful because a free market would more efficiently work towards the goal of disease eradication. Likewise, free trade between two countries would lift people out of poverty in both countries more efficiently than any tax-funded state initiative ever could.

When catastrophes do happen, let the government call on people to be privately charitable. No tax should ever be paid towards foreign aid, unless we really want our country to tax us so that it can manipulate other countries. Which country could be said to have superpower status: a near-bankrupt one that distributes lavish foreign aid, or a wealthy, prosperous one that keeps to itself?

* We need to introduce a ‘transitory weaning period’ of five to ten years. ‘Weaning’ is the action of rendering people less dependent on the state. During this transitory period, we can retain the National Socialist relics while charging increasing prices for their direct use.

People who use public schools should directly contribute to their funding, people who use museums should directly contribute to their funding, people who use public housing should directly contribute, people who use public healthcare should directly contribute, etc.

During this weaning period, the state must reduce spending in order to reduce tax and allow the private sector to pick up the slack. In the UK, the National Insurance Contributions and Council Tax should immediately be merged with the Income Tax, which should then be progressively reduced.

Non-monetary welfare benefits, such as public-transport discounts, should be abolished. All monetary welfare benefits, such as the state pension, winter fuel payment, incapacity benefit, child benefit and unemployment benefit, should be merged into a single benefit called ‘Poor’s Grant’.

The name of this benefit should not be neutral. It should reflect the fact that it is not a normal situation for someone, anyone, to receive benefits. It should reflect the fact that a forced payment is being made, out of compassion, to someone who genuinely lacks resources.

Once it is established, the Poor’s Grant should be progressively reduced for all, except destitute people who are genuinely unable to work. The golden rule should be not to provide any benefits to people who are not destitute.

Concerning people who are destitute and capable of working, the state can help them survive but it should not make them comfortable. Hence, the earlier suggestion concerning the housing stock. However, it would be greatly preferable if private charities were given a chance to provide the help that these people may need, so that the state does not have to.

Concerning people who are destitute and genuinely incapable of working, the state can make them comfortable but only if private charity does not take care of them first. The government should not make use of public funds (forced funding) when voluntary sources of funding can actually be found. Voluntary sources normally include a person’s family and private charities.

At some point during the weaning period, individuals and companies must be allowed to completely opt out of National Socialist healthcare and pensions. People should not be forced to pay for a system that they neither want, nor use, nor support.

* Assuming welfare benefits continue to exist, we should then introduce an auction-based system of visa delivery. All visas should be issued through an online auction. There is absolutely no reason to prevent wealthy individuals from entering a country, and every reason to let them come!

With an auction system, only people with sufficient financial means get to enter the country, and through their purchase of the visa they contribute to the country's budget surplus.

Once welfare benefits have been reduced to the point that they no longer attract destitute foreigners, visa requirements should be eliminated altogether. Imagine that – not being harassed by customs officers every time you take a flight or return from a flight to another country!

* Based on the fact that nuclear bombs carried by submarines provide ample protection against the risk of a large-scale conflict, we need to reduce military expenses drastically. A country teetering on the brink of bankruptcy should totally forget about its world-domination ambition.

The world does not need a 'security council' to bully weaker powers into submission. In France, the UK and the US, substantial savings can be made by reducing the army personnel and by selling fighter aircraft, combat vehicles and warships. It is fair to say that the larger a country's military, the larger the ego of its government and the poorer its people.

* Finally, we need a reform of government. If democracy is to be preserved, then the principles described in the article 'Three golden rules for a direct democracy' should be adopted. Some of the principles described in the article 'How to fix a representative democracy' may also be adopted.

In this author's opinion, genuinely conservative and libertarian proposals can only fail in representative democracies as they currently exist. These initiatives do not necessarily get rejected because of a lack of popular support[161], but because the system is stacked against them.

The few people who could actually take positive action have no interest in doing so. Hence, there is an absolute necessity to change the system. It would do no good simply to change politicians or tinker with socialist initiatives.

[161] While people naturally support socialistic initiatives that they perceive as being in their direct, short-term self interest, they are just as likely to reject socialistic initiatives that they do not perceive as being profitable. For example, there is nothing to stop Swiss citizens from adopting a minimum wage, but they wisely prefer not to do so.

What will actually happen

Out of all the suggestions that a government receives from economists, libertarian suggestions are the ones that politicians in representative democracies are the least likely to follow[162]. This is because none of the traditional libertarian recommendations are in the interest of politicians.

Libertarian policies would not help them, but reduce their power[163]. One cannot be expected to act against one's interest. This is true of every entity, whether it's an individual, a company or a state.

While a representative democracy (a pseudo democracy) follows the short-term whims of elected representatives catering to their favoured minority groups, a direct democracy (true democracy) follows the will of the majority of the people, while a more authoritarian system follows the long-term guidance of the leaders.

In a direct democracy, better decisions are taken than in a representative democracy, *as long as* people are not allowed to vote on the expropriation of others - or as long as people have to rely on a special vote as defined in the article on 'Three golden rules for a direct democracy'.

In an authoritarian system, better decisions are taken than in a representative democracy, *as long as* the leaders have the long-term interest of the population at heart and not only their own.

Complete abnegation is not necessary for a good authoritarian leader. It is enough for him to understand that his own prosperity depends on the prosperity of the people as a whole. The interest of the population does not need to be sacrificed. This line of thinking has meaning only for leaders with a long-term approach.

But because libertarian policies conflict directly with the short-term interest of politicians in representative democracies, they are not going to be adopted by the Western world in the future.

Instead, tax and debt levels will continue to increase at a slow rate in both the US and the EU. Their unemployment levels will remain high. The US dollar, the euro, the pound sterling and all the other fiat currencies will continue to be debased slowly.

Some of these currencies may change their name to better trick populations into using them. Slowly but surely, state dependency will increase, while living standards will decline and poverty will take hold. New financial crises are likely in the future,

---

[162] As a recent example, it is only after completely running out of ideas that the Greek government reluctantly agreed to reduce - not abolish - the national minimum wage. The stranglehold of the state on the economy is such that libertarian policies can only be adopted after every other option has failed.

[163] When a politician must take a decision concerning any proposal, he naturally asks himself the following questions: Will this increase the level of control I enjoy over others? Will this improve my reputation and that of my colleagues? Will this directly or indirectly increase my bank account? Will the policy ingratiate me with certain groups of people whom I have chosen to lure and whom I consider to be useful idiots? Will I be able to justify the policy using easy sound bites?

because of the massive intervention of Western states in the financial sector in recent years.

Because China is better managed than the US or European countries, it will continue to develop faster. Asian living standards already exceed Western living standards in places of high economic freedom like Singapore, Hong Kong, Macau and Taiwan. In the future, more and more places in Asia will surpass the West in terms of living standards.

The Western countries will continue to grapple with economic difficulties for decades. The end result in some countries will be a change in the form of government. Democracy is already under threat in Italy and Greece. In some European countries, representative democracy will be replaced by a form of authoritarianism.

It is easy for politicians in representative democracies to switch to authoritarianism, because this does not involve a decrease in politician power, but an increase. Therefore, there is no conflict of interest. Politicians only need a justification for this and the justification can be an economic collapse or a war.

The switch to authoritarianism can be a good thing. As mentioned earlier, economic prosperity does not depend on the institution of democracy at all, but on the economic freedom of individuals. Therefore, authoritarianism can be used for good or evil.

There is no interest for politicians to switch to direct democracy because it would amount to removing their own authority and power. This explains why direct democracy is uncommon in the world today.

What is a decent person to do

When one realises that the government does not work for the interest of the people but for its own interest and almost always to the detriment of innocent people, the natural reaction is to adjust one's behaviour. The course of action for a decent man who chooses not to encourage state theft and state profligacy may include:

* Avoiding, to the largest extent possible, the payment of taxes and mandatory insurance premiums.

* Reducing the number of hours worked to the largest extent possible, if the extra work would result in the payment of taxes.

* Withdrawing all investments and resources from semi-socialist countries, to the extent that it can be done.

* Investing a part of one's portfolio into gold. As a strategy against money printing, it seems reasonable to hold gold equal to between 10% and 20% of one's portfolio.

* Not buying from companies that receive state subsidies or benefit from licensing laws, to the extent that this can be done.

* Not contributing to charities that receive state subsidies.

In many ways, the governments of representative democracies are like alcoholics. They are three times drunk: drunk on power, drunk on money and drunk on waste. People who pay tax to them are like the spouse of an alcoholic partner: captive, resigned, depressed, helpless.

One does not help an alcoholic by giving him a budget to buy drinks, but by withdrawing from him and leaving him to fend for himself.

According to another line of thinking, one should attempt to obtain for oneself as many welfare benefits as possible. The main purpose of this being to accelerate the bankruptcy of the state, and thus the eventual removal of the welfare state.

Unfortunately, this course of action is just as likely to increase the servitude of the population through higher taxes and prices, as it is to force a government to abolish welfare.

Freedom links

- Daily US news and forum site: **The Daily Paul** http://www.dailypaul.com/
- Austrian economic theory: **Ludwig von Mises Institute** http://mises.org/
- Daily radio: **Peter Schiff Radio** http://www.schiffradio.com/
- Daily French news articles: **Contrepoints** http://www.contrepoints.org/
- Gold investor forum: **Kitco** https://www.kitcomm.com/forumdisplay.php?f=7
- US **Freedom State Project** http://freestateproject.org/
- **Heritage Foundation** international ranking of economic freedom http://www.heritage.org/index/ranking

The author's website is http://www.heroicfantasygames.com/. On this site, you can find information about this book and about the author's video games, Knights of the Chalice and Battle of the Sands.

Knights of the Chalice is a 2D computer role-playing game based on the OGL 3.5, the set of rules at the root of Dungeons & Dragons 3.5. Battle of the Sands is a 2D real-time strategy game inspired by Dune 2, Dune 2000 and Red Alert.

If you like this book, please support the author by writing a review on Amazon Kindle or by buying one of the author's games. Thank you!

You have the right to be taxed is a libertarian or classical-liberal outlook on Europe, written by a European. It is partially about basic economics and partially about basic philosophy.

It examines the modus operandi of European welfare states and spends some time unwinding the myths that are propagated to ensure the persistence of the state as a virtually all-powerful provider. The book also examines the flaws of democracy and some possible remedies.

For the record, a libertarian is not an anarchist because he agrees with a limited role for the government. For the libertarian, the government must focus on maintaining at a low cost a small army, a small police force, and a cheap and effective justice system. Any other function should be carefully examined to determine if it really should be the state's responsibility. In nearly all cases, it should not[164].

Pierre has a master's degree in international economics and finance. He has studied at the universities of Bordeaux in France and Bradford in the UK. He has lived and worked in France, India and the UK. He works as an analyst in the UK and is also an independent video-game developer. His website is www.heroicfantasygames.com.

Famous quotes

"Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things."

Adam Smith (1723-1790)

"Hell is full of good intentions or desires."

Saint Bernard of Clairvaux (1091-1153)

"By a continuing process of inflation, government can confiscate, secretly and unobserved, an important part of the wealth of their citizens."

John Maynard Keynes (1883-1946)

"A weak currency arises from a weak economy
which in turn is the result of a weak government"

Gordon Brown (born 1951)

[164] In fact, it may well be the case that society would benefit from leaving even the functions of police and justice to private-sector entities. See for example: http://mises.org/daily/5270