

LMR

BUILDING THE 10%

NOVEMBER • 2019

PULSE ON THE MARKET

More on the Yield Curve Inversion

Rand on 401(k)s

Warren's Financial Tax

HOW AMERICA COULD END UP WITH TWO PRESIDENTS IN 2021

by Robert P. Murphy

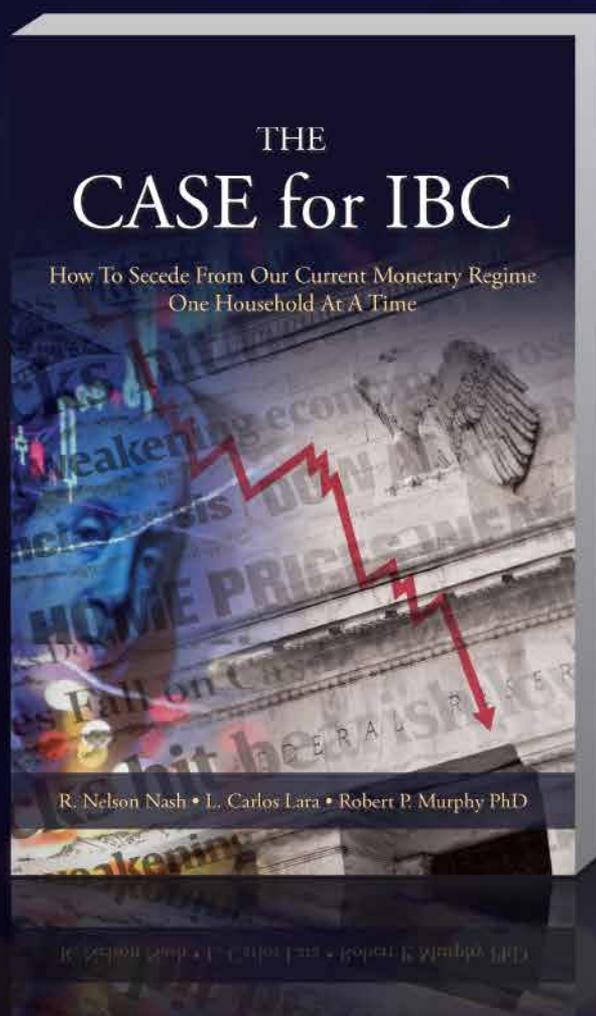
THE ECONOMIC FALLOUT FROM WARREN'S WEALTH TAX

by Robert P. Murphy

STUDY HISTORY, LEARN FROM THE PAST

Interview with Richard Durana

Something is FUNDAMENTALLY WRONG with our financial system.



R. Nelson Nash's Infinite Banking Concept (IBC) is a revolutionary method to take the banking function away from the "experts" and return it to the individual household and business owner.

In *The Case for IBC*, Nash is joined by business consultant L. Carlos Lara and economist Robert P. Murphy to provide the most succinct explanation to date of why IBC works.

Order The Case for IBC Now

Study History, Learn from the Past

INTERVIEW WITH

Richard Durana



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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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



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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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



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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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



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

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



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



LMR Lara-Murphy
Reporting

The Lara-Murphy Show

Episode 21: LMR's exclusive and detailed report on Russia "hacking"

Read the full report here

Download the full report here

LMR



LMR Lara-Murphy
Reporting



The Lara-Murphy Show

CLICK HERE TO LISTEN TO OUR PODCAST

Go to
lara-murphy.com/podcast
or just click on the
Podcast link



Lara-Murphy
Reporting