LVMI – EUROPE Newsletter

Member's Autumn Edition 2024

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Presidential Address

"The inextricable knot: extreme Right versus (extreme) Left or Direct Democracy?

Nowadays the discussion is about the choice between extreme Right and extreme Left. As if the Middle Class (the most important part of society) does not matter anymore. That situation was also there in the thirties of the 20th century: people could switch from extreme Left to extreme Right in no time without a glimpse of remorse.

It is time to think this over.

Interview with Mark Lilla [1] on "Hillbilly elegy":

"The Left tried to use it (the book) as an instruction manual for dealing with voters from the white underclass: they were used to thinking about urban poverty among blacks and not about the impoverished white rural population, which until then they simply considered racists "

That was the biggest mistake and looks somehow patronizing: as if only the black population can be poor. It must be admitted that Trump took that as an item in his election program.

There are many tribes on the American right, none of them are classical conservative anymore. E.g. The Catholic "post-liberals" who blame modern liberalism for every social pathology we currently suffer from. Or the evangelicals from the southern who state that all politics must follow divine authority, the Bible.

There are also voices, nl one of the followers of Trump, according to Markus Brunnenmeier [2] who suggest that industry should return to the previous industrial era before globalization and digitalization: an impossible idea. Until now it was never a success to return to the past.

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[1] Mark Lilla in : "Vance gibt mir eine gewisse Hoffnung" in "Die Zeit" dd 18-7-2024, p. 3

[2] "Es wird eine andere Weltordnung entstehen. Sollte Donald Trump ins Weisse Haus ziehen, wäre Deutschlands Wohlstand in Gefahr" Die Zeit dd 25-7-2024, p. 20

There is another development: When in the 20th century the (state) propaganda could influence the public opinion, now in the 21th century the social media are influencing the public opinion. People are nowadays used to give their opinion on everything, so then they want also to be heard in politics. The crucial point is that people no longer want to be educated by (representants of) governments. That is why the following question can be discussed:

Direct democracy, but how could that function? It so seems that in California there is direct democracy and of course in Switzerland, but could that function? There is also another item to reconsider: too quickly the (extreme) Left (and extreme Right) rejects new ideas that are not theirs.

The adherents of the Democratic Left (in the US, but also elsewhere) see in every one who criticizes their politics a racist [3] Even if the (moderate) Right comes with suggestions to improve the situation. It is too easy to push people with different ideas in a corner, to be labeled extreme right when they are not. The accusation of populism is the killer argument to be used to attack opponents when you have no other arguments.

It must be clear that a democracy only deserves its name if people who think differently have their say [4]

The democratic party position differs fundamentally from the friend-enemy attitude that populism propagates. [5]

It could also be described as a struggle of the systems, nl. between that of the authoritarians, like Putin, Xi and Trump and the Democrats [6]

Or as a reflex on the female emancipation movement world-wide.[7]

Extreme Right is of course dangerous and reprehensible, but it does not help either to classify every new move and idea and put it in the same box.

There is this classification of the left:

Urban, green, globalist (?), pro-LGTB , Pro-Hamas, and in case of Die Linke, (or BSW), Pro-Russian.

[3] Die Zeit dd 8-8-2024, p. 12
[4] Harald Martenstein "Über die Meinungsfreiheit und die Rolle der Medien" Die Zeit Magazine dd 15-8-2024, p. 6
[5] Peter Moeschl "Damit die Mehrheit nich tyrannisch wird" in "Die Presse" dd 24-8-24 (Spectrum) III.
[6] Die Zeit dd 5-9-2024 p. 4
[7] Die Zeit dd 5-9-2024 p. 47 "Ich weiss nicht ob es ihr Spass macht"

while the (extreme) conservative -according the popular opinion -is: Rural, anti-green, nationalist and not really pro- LGTB, Pro-Russian (adherents of the AfD and Marine Le Penn).

But people can like some items of the one side without the whole package. For example Anti-Russian, Pro- Israel (although it has lost almost all sympathy nowadays), pro-Ukraine etc.

To return to Direct Democracy[8]: it could be an idea, but it would hamper the (traditional) politicians in their freedom to act. In any case this form of democracy should always be imbedded in the Rule of Law.

This is how it works in Switzerland: there are three principal instruments[9]:

- An optional referendum: when the parlement has approved of a law or has approved a law or treaty, then 50,000 citizens can force a referendum on that decision by collecting signatures.
- People's initiative: if 100,000 citizens sign a bill written by citizens, a referendum will be held on it, possibly together with a counter-proposal from parliament. Citizens then have three choices: the popular proposal, the parliament's counter-proposal or the status quo (neither). A control question ensures that there is always an absolute majority in favor of one of the options.
- Mandatory referendum: in some cases, such as constitutional changes or the transfer of sovereignty to international organizations, a referendum must always be held.
  In the US there is not so much difference:

No fewer than 27 of the 51 American states have a form of direct democracy, which usually goes as far as the Swiss one. The vast majority of states have the popular initiative, there are usually no exceptions and turnout thresholds only exist in a few places. But the most well-known example is California.

In contrast to Swiss popular initiatives, Californian popular initiatives are 'direct initiatives': they are not first dealt with by parliament, but are immediately submitted to the population

Once again in contrast to Switzerland, Californian citizens' initiatives are also put to the vote quickly: if the thresholds are met in the summer, the citizens' initiative will be put to the vote in November. In principle, there is one voting day every two years, to which a maximum of one more voting day is added. As a result, the time for discussion is much

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[8] Lukas Leuzinger in “Schweizer Monat” dd 24-6-2024, p. 88-89 “Auch der Ausbau der direkten Demokratie ist massgeblich eine (links) liberale Errungenschaft.

[9] Wikepedia

shorter than in Switzerland, where popular initiatives sometimes wait for years before the vote, and on a voting day there are often many popular initiatives on the agenda at the same time. These points have also been criticized by proponents of direct democracy.

• In California, many popular bills – about a third – are subsequently overturned by the courts as inconsistent with the Constitution. This is bad for democracy: citizens should have the final say. It is extra bad that the annulment takes place after the entire effort of requesting and holding the referendum has already been made.

• As in Switzerland, voters receive a booklet ('Ballot Pamphlet') at home three to six weeks before voting day, which summarizes the essential information relating to the subject. Here you will find the full text of the people's initiative, a summary, an analysis of the tax consequences and arguments of the proponents and opponents (which are given equal space in the booklet). But we have also seen very bad examples of a referendum: like Brexit and the referendum held in Ireland to vote for the Lisbon Treaty: at first the Treaty was rejected, but later the result of that referendum was reversed and the result was pro-European. The tactic: let people vote until the population finally agrees to the proposal. Is that a good idea?

In Europe there is also the possibility to have a referendum when there are 50.000 citizens who want to force a referendum, but that seems not enough. In almost all European countries the government is not really doing well. In Germany the situation is even worse and they still have to wait a year, because the elections are only next year. All three parties, SPD, FDP and the Greens, have made themselves very unloved-to say the least.

To suggest that there is a (quick) solution at hand, is not according to the truth. What all these governments have to try is to win back the confidence of their people, how hard that may be. And we even do not know whether there are other elements mixing in, like fake news coming from Russia. But the politicians can start now with convincing the population of their good will.

Another element to reconsider: the governments have in the past sometimes decided against the will of the people: Adenauer went through with his plan to make Germany join the NATO -against the opinion of 81 % of the West-Germans. For the détente policy of Willy Brandt there was no majority, nor was there for the retrofitting under Helmut Schmidt or the introduction of the euro. [10]. But that does not mean that their decisions were wrong. Important is also not to rely on the "Gesundes Volksempfinden", that ruled during previous (NAZI) times. What is missing is an openness of the mind. People do not want to hear new or different theories. Dialogues have become monologues. More willingness to discuss is desirable. Look to what is possible and find the right balance

[10] Die Zeit dd 5-9-2024, p. 2 "Was ihr wollt"

REVIEW[11]

Hunter Lewis offers a critique of Keynesian economics from the perspective of the Austrian school of economics, which used to be the principal intellectual counterweight to the Keynesian school. Hunter Lewis's *Where Keynes Went Wrong: And Why World Governments Keep Creating Inflation, Bubbles, and Busts* (2009) is a basic critique of Keynesian economics offered from the perspective of the Austrian school of economics. Keynesian ideas spring from the work of John Maynard Keynes (1883–1946), the famous and influential British economist. Now a (relatively obscure) branch of the science, Austrian economics used to be the principal intellectual counterweight to the Keynesian school. Friedrich A. Hayek (1899–1992), the best-known proponent of the Austrian view, was awarded the 1974 Nobel Prize in Economics. The initial debate between the two schools took place during the first half of the 20th century, but it remains unresolved and has relevance for public policy to this day.

Keynesian economists believe that recessions are the result of a shortfall in consumer demand. When people save an increased portion of their income, doing so may be good for them individually; in the aggregate, however, it reduces the demand for consumer goods. In response to the decrease in demand, producers lower their production capacity, which entails employee layoffs and thus increases unemployment. Markets, including the market for labor, do not automatically clear, as the classical economists who preceded Keynes had maintained.

To make up for the shortfall in private-sector demand, Keynesians argue, governments should increase their spending and finance the extra expenditures with borrowing. The increased demand encourages businesses to hire again, which reduces unemployment. The resulting fiscal government deficits do not pose a problem because, in effect, we owe the money to ourselves, and in any event, the deficits will be less than the increase in government spending given fewer unemployment benefit payments. In addition to these fiscal policy measures, the central bank should lower interest rates. Doing so reduces the cost of funding investments, which encourages business activity and thus leads, in turn, to the hiring of new employees. Accommodative monetary policy also helps prevent deflation. Deflation is undesirable because lower prices encourage consumers to further reduce demand in anticipation of even lower prices.

Economists from the Austrian school counter that although a reduction in demand may be a symptom of recession, it is not adequately explained by Keynesian economics. They explain reduction in demand by introducing the element of time into their analysis. People may reduce their present demand for consumer goods and use the

[11] LVMI EUROPE is not responsible for and does not share always the opinions, published by other writers in this newsletter.

savings to increase their future consumption. The savings today enable the funding of investments that allow an increase in production to help meet the future demand for more goods. The lower demand today need not cause unemployment: Workers can shift from industries that produce consumption goods to industries that produce capital goods. If left unfettered by government action, interest rates reflect the relative importance people assign to current consumption versus future consumption. If the central bank pushes interest rates below the level that reflects popular time preferences, doing so does not increase the economy's capacity to produce more goods. In the long run, all it does is inflate either consumer prices or the prices of financial assets. Deflation is not inherently undesirable. Lower prices mean that more people can afford consumption goods. In fact, lower prices should come to be expected as, over time, the production processes for specific goods become more efficient because of experience.

Where Keynes Went Wrong is well researched, providing a plethora of citations from many works by Keynes and others, both in support of and in opposition to Keynesian tenets. Unfortunately, the author's Austrian leanings get the better of him and the text comes across as biased. Many of the citations are brief and appear outside their original contexts, which may make readers cautious in their evaluation of Lewis's arguments. Consider the following passage as an example of how Lewis interprets Keynes: "Another solution to the problem of too much savings is simply to work less. In this case, working less is the responsible thing to do." This sort of paradox-laden phrasing is likely to leave readers questioning whether that is what Keynes truly thought. Similarly, not everyone is likely to come away persuaded that Keynes engaged in "sophistry" or that he "bamboozled" his fellow economists and policymakers into adopting his ideas. Lewis's choice of language is unfortunate because there is plenty to critique about Keynesian economics, even in a more objective voice. (Readers interested in consulting primary sources for a fuller debate between Keynes and Hayek may wish to peruse the volume *Contra Keynes and Cambridge: Essays, Correspondence* in Hayek's collected works.)[1]

Still, Lewis's book serves a purpose. Keynes fell into some disrepute following the Great Inflation of the 1970s, which was widely attributed to Keynesian policy prescriptions. During the recent global financial crisis, however, Keynes made a reputational comeback of sorts among both ivory tower economists and policymakers. The latter implemented the most accommodative monetary policy in modern history, including a fiscal stimulus package in the United States that, if anything, was not large enough in the opinion of some Keynesian economists. *Where Keynes Went Wrong* provides a measure of balance in the current state of the ongoing debate.—By (J.H.T.**)** Jerry H**.** Templeman, CFA (CFAInstitute.org)

Footnote: Friedrich A. Hayek, *The Collected Works of F.A. Hayek*, vol. 9, *Contra Keynes and Cambridge: Essays, Correspondence*, edited by Bruce Caldwell (Indianapolis: Liberty Fund, 1995).

Stimulating the economy works contra productive and creates tensions

By Heiko de Boer, The Netherlands, Board Member of LVMI Europe

Edited by Jure Otorepec, Slovenia, Member of the Editorial Board

We are living in an era of unprecedented economic stimulus. The European Central Bank (ECB) responded to the financial crisis in 2008 with unprecedented monetary measures such as negative interest rates. During the Covid-19 pandemic, governments increased their debt to levels previously only seen during war times. These stimulus policies are widely supported by most leading mainstream economists.

The idea behind these policies is that by creating new money and by increasing debt, economic activities can be financed that could otherwise not be sustained. Companies that would otherwise go bankrupt can continue their operations and additional investments can be made. Increasing debts and creating new money are seen as panacea to be applied to eternity. They are believed to stimulate economic growth and result in full employment.

Austrian School

Austrian School economists tend to disagree with these mainstream views. In a series of articles, the issues with stimulus policies will be explained and it will be shown that as a result, societies are not tuned to the requirements of the people, but to the economic growth ambitions of governments and central banks. The Austrian School is giving us important arguments why our current monetary and fiscal policies are counter-productive, based on a thorough theoretical framework.

The basis of the Austrian School is the theory of the price and interest rate mechanism. Prices are determined by supply and demand, step by step described for the first time by Carl Menger in 1871. Menger may have been inspired by the medieval ´School of Salamanca´ and their ideas that prices depend on the subjective value a consumer attaches to those goods.

When people are working together in an efficient manner and more efficient ways of production are being enabled, it is likely that prices will go down. Prices going down are a form of 'profit to society'. Everyone in society benefits from lower prices, because with the same effort and the same salary, more goods and services can be bought by everyone. If a society does generate benefits for all the people, this society will develop in a stable manner.

Side effects of monetary policies

Economists and central bankers are however scared for prices to go down. The task of the ECB is to make sure that prices go up, on average by nearly 2% a year. The ECB maintains that their policies result in a growing economy, as measured by a rise in GDP. Their policies consist of increasing the money supply and reducing interest rates. In this article, when the ECB is mentioned, a reference will be made to all major central banks.

Increasing the money supply and pushing down interest rate have negative side effects. Creating money out of thin air results in boom-and-bust economic cycles and an economy that is not developing in a stable manner. It is merely beneficial to those people or institutions who have access to newly created money first. People who do not have access only experience prices rising, which is the result of creating more money. They see their purchasing power going down. This is the reason people in many societies are complaining about not benefitting from a ʻgrowing economy´.

Whereas it may be true that GDP goes up at first due to monetary policies, it says nothing about an increase in welfare. Nothing can be said about this, because value cannot be measured, let alone be summarised in GDP-statistics. From an accounting point of view, profit can be measured. From a welfare point of view ´society´s profit´ cannot be measured.

There is no need for monetary policies. As given by nature, we have two mechanism that help shape society, benefitting people in society: The Price mechanism and the Interest Rate mechanism. Prices come about in a free marketplace based on preferences of people in society. The interest rate is a compensation for giving up time. The market interest rate comes about in a marketplace, based on the time preferences of people in society. Prices and interest rates determine the production structure and determine when and how much should be produced. Manipulating prices and interest rates, as central banks as the ECB do, are counterproductive. Prices and interest rates that are no longer in line with preferences of people, will eventually result in tensions in society.

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"BEWARE POPULIST SNAKE OIL"

By Dalibor Rohac and Jan Zilinsky[12]

(Although this article was published already in 2105, it has not lost its actuality)

The solutions proposed by the likes of Donald Trump and Alexis Tsipras come with a hefty price tag.

If there is one common trend in Western politics, it is the rise of populism of all stripes. In Greece, Alexis Tsipras won the general election, in spite of failing to reverse austerity measures in the country – a promise he called "not negotiable" just a few months ago. In the U.K., Jeremy Corbyn was elected as leader of the Labour Party on an economic platform that essentially promises a return to the 1970s. And, in the United States, Donald Trump, who leads in the national polls of Republican voters, is offering an agenda that can be most charitably described as a revolt against the modern, globalized world.

These populists did not appear on the scene overnight. With his history as a billionaire businessman, vanity and crass manners, Trump appears to be the American incarnation of Italy's Silvio Berlusconi, who served for three terms as prime minister. Ten years ago, when populists would rarely win an election in economically advanced countries, Berlusconi was little more than an amusing exception. Today is different. In Austria, the far-right Freedom Party is leading the polls, as are the anti-immigration Sweden Democrats. Last year, Marine Le Pen's Front National won in elections to the European Parliament in France, and is expected to make significant gains in the regional elections in December.

The economic crisis almost certainly played a role in bringing populists to prominence. Greece, which has seen a dramatic rise of both the far left and the far right, is a case in point. The sociologist Alina Polyakova has found that the countries that were hit worst by the financial crisis of 2008 experienced a surge in nationalist sentiments. She argues that economically insecure citizens looked to their national governments for protection. Curiously, however, this instinct has not translated into stronger support for mainstream left-wing parties.

Lackluster economic performance is hardly the full story. After all, the U.S. economy has seen steady growth and job creation over the past several years, as have some

[12] Published on September 24, 2015 in US News and World Report

European economies, also with a strong populist presence. The deeper problem is the gradual breakdown of trust that Westerners have in their system of governance.

According to a 2014 Pew Poll, Americans' trust in their government was near historic lows, with only 24 percent of respondents saying that they trusted their government always or most of the time. Other Western countries have seen a similar shift. Fewer than one in five Europeans now trust political parties, according to the Eurobarometer survey. In every single survey since 2010, the Europeans who said they distrust the EU have outnumbered those who have confidence in the EU.

A nostalgia for the past feeds into this. Pew found that 72 percent of Hungarians believe that the economic situation in their country is worse than it was under communism. While Hungary's economic performance has been underwhelming, real per capita income has risen by at least 50 percent since 1991. And it's not just about money. Since 1990, life expectancy in Hungary rose by more than five years, neonatal mortality plummeted and a number of other indicators of wellbeing improved.

Modern economic growth and globalization breed social complexity, which, in turn, places increased cognitive demands on people. Labor markets are becoming more fluid and, in many professions, stable 9-to-5 jobs are rare. No wonder that some are "nostalgic about an era in which life was simpler and more predictable," as the Harvard psychologist Steven Pinker put it.

Politicians have to respond to the concerns of their voters, who feel that they are being left behind. But that does not mean that turning the clock back to the 1970s, as many peddlers of nostalgia and economic nationalism propose, would have the promised effect of a "return to greatness." Voters should reject the false advertising and deceptive tactics of cheerful salesmen.

Those who want closed borders (on the menu in the U.S.) or more state-led economic policy (served to voters in Europe) are naturally free to vote for populists. But are they told the truth about the price tag? Are they really prepared to sacrifice their living standards just to purchase government time for someone who looks like they will "get things done"? Beware of buyer's remorse. Look at the fine print, not just at the picture of the smiling face, or the amber toupée, on the package.

WHO PAYS WEALTH TAX: THE RICH OR THE POOR?

By Professor Jesús Huerta de Soto, University Rey Juan Carlos, Madrid Spain and Board Member of LVMI Europe

The Spanish government's announcement that it plans to introduce a new "solidarity tax" on the wealth of those who possess over three million euros has again brought to the fore the debate about taxes levied on wealth and capital. The issue is not merely that the announcement is highly politicized in what is already, de facto, a pre-election period, nor that it could disrupt the fiscal autonomy of Madrid, Andalusia, and Galicia. (Let us recall that these regions comprise eighteen million Spanish people; that is, almost 38 percent of Spain's total population.)

Neither must we focus on the possible illegality or even unconstitutionality of the tax due to its potentially confiscatory nature. Nor is the main question the fact that people have already paid taxes (for instance, personal income tax) on their accumulated wealth during the process of its formation, and, at the time, in many cases, these taxes absorbed practically half the income of the current owners – the vast majority of whom are today older people and widows who, after a lifetime of effort, saving, and sacrifice, are now "rich" because they have over three million euros.

Nor, in short, is the issue that our politicians have employed a certain demagogy rooted in the moral disease of envy and in antisocial and divisive class warfare and have then attempted to sweeten and legitimize this demagogy semantically with the term "solidarity tax." (Who could dare to not promote Solidarity?)

No. The main argument against any tax on the stock of accumulated wealth or capital is none of those mentioned above, but the harm such a tax does to workers and, especially, the poorest, most vulnerable, and most disadvantaged among them. Employment, job quality, and wage levels depend directly on the volume of wealth and of capital wisely invested by its owners and provided to workers in the form of ever more sophisticated machinery, manufacturing plants, natural resources, computer equipment, etc.

In a market economy, wages tend to be determined by the productivity of each worker, and a continuous, sustainable rise in productivity can take place only if there is an increasingly large and sophisticated set of capital goods available to each worker.

If an Indian farmer earns only three euros a day, and an American farmer earns a hundred times that amount, the cause is not that the American worker is smarter or works more hours. It is simply that, on average, he or she enjoys the use of one hundred times as much capital equipment (for instance, a powerful, state-of-the-art tractor with the most modern accessories) as the Indian counterpart (who lacks this sophisticated equipment and is often obliged to go on plowing with animals and harvesting virtually by hand). And the huge difference in their wages derives from the fact that, with a cutting-edge tractor, the American farmer is able to plow an area one hundred times larger than the one the Indian farmer can plow with his or her rudimentary tools. But the cutting-edge tractor has been made possible only because a number of capitalists have saved, accumulated wealth and capital, and made them available to the American farmer in the form of a tractor, which is simply a sophisticated capital good that dramatically increases the productivity and, thus, the wages of the fortunate worker.

This reasoning sums up one of the most important teachings of economic science and illustrates the perennial piece of great popular wisdom that poor people do not so much need to be given a fish, which would satisfy their immediate hunger, but a fishing rod (that is, a capital good), which would solve their hunger problem once and for all. Here, again, science proves the best antidote to partisan demagogy.

If, for example, the owner of Zara, Amancio Ortega has a fortune of sixty billion euros, it would do no good to expropriate the entire amount and distribute it, say, among the two billion people who are, relatively speaking, the poorest in the world. Each person would receive a mere thirty euros, but the cost of this poverty-generating act would be heavy, since it would require the disappearance, liquidation, and closing of this distinguished capitalist's countless factories, facilities, and buildings, which, quite fortunately for his tens of thousands of employees and millions of customers, continue daily to generate wealth and well-being far and wide, and thus to boost the productivity and wages of many.

Therefore, if we wish to fight poverty and promote prosperity – particularly the prosperity of those with lower wages – we must treat all taxpayers with great care, especially the "rich" ones, by supporting them in their accumulation of wealth and avoiding any persecution or social condemnation.

In short, any tax levied on the accumulation of wealth or capital, such as the existing wealth tax or the announced "solidarity" tax, always ends up exerting a harmful impact on workers, particularly the most vulnerable in relative terms, who would benefit the most from an increase in their productivity if they had more and better capital equipment.

Moreover, it makes no difference whether capital or wealth is comprised, as is most common, of securities, investment funds, bank deposits, real estate, etc., since all of them represent an entire constellation of specific capital-equipment goods that invariably require the collaboration of labor, provide an increasing volume of employment of ever-higher quality, and, above all, make possible rises in workers' productivity and, as a result, in their wages. And in contrast, a tax like the one announced – a 3.5 percent tax on "large fortunes" – would, in under ten years, and by simple arithmetic, result in a reduction of more than one-third of the capital that could have been accumulated in the absence of such a wealth tax. And in turn, this reduction would generate the accompanying decrease in productivity and in real wages with respect to their potential level. Hence, we must conclude that, wealth taxes are always ultimately paid – and handsomely – by workers, and therefore are harmful and, above all, they are the antithesis of solidarity toward the poorest and most vulnerable.

Announcement of the publication of the "Entrepreneurship, A mindset"

By Professor Rudy Aernoudt
Publisher: ATHENA INTERNATIONAL PUBLISHING

"Isn't life too short to work for a boss?" This opening question challenges readers to consider their stance on entrepreneurship, highlighting that it is as much about culture and courage as it is about business. It is a mindset.

Entrepreneurship: A Mindset is a thought-provoking, scientifically grounded book exploring how entrepreneurship influences the economy and our quality of life. Historically, entrepreneurs who failed, faced public shame. Though this is changing, society still has a long way to go in fully embracing failure and fostering entrepreneurship.

This book covers the entrepreneurial journey from inception to growth, addressing concepts from unicorns to zombies, success to failure, offshoring to reshoring. The author advocates for a supportive entrepreneurial ecosystem in Europe, prioritizing entrepreneurs over managers, preferring industry over public administration and emphasizing entrepreneurship policy over employment policy to generate economic growth and sustainable jobs. Essential to this vision are entrepreneurial culture, venture financing, business angels, crowdfunding, incubators, accelerators, reshoring, second chance policies, and a robust industrial policy based on an open strategic autonomy.

Rudy Aernoudt is Professor of Corporate Finance and Enterprise Policy at the Universities of Ghent, Nancy and at BMI (a joint venture of HEC Paris and Louvain Management School). He was Director of Cabinet at European level, at Belgian federal level, at Walloon level and at Flemish level. He was also Director-General of One Laptop Per Child, a spin-off of the Massachusetts Institute of Technology, Secretary-General for Economy and Innovation in Flanders and Chief Economist at the European Commission.

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"IS INCREASED CONSUMER SPENDING GOOD FOR THE ECONOMY? "

By Patrick Barron

Just about every so-called business periodical touts an increase in consumer spending as "good for the economy". But is this really so? Can we really spend our way out of a recession? Lord Keynes thought so, and his teachings have become the standard narrative just about everywhere in the world.

Probably the most influential economic treatise of all time is Keynes' *General Theory of Employment, Interest and Money*, published in 1936 at the height of the Great Depression. Keynes theorized that the Great Depression was caused by insufficient aggregate demand, otherwise known as spending. A complementary concept is the Paradox of Savings, which theorized that savings is harmful because it causes aggregate demand to fall. Keynes (and others) preached that, although increased savings by an individual may be beneficial, a general increase in savings by most market participants would cause the economy to fall into a deflationary spiral.

The fallacy of the paradox of savings has had many excellent rebuttals. The fundamental problem is that it treats "the economy" as something separate from what each individual experiences for himself. An "economy" is a mental construct; it doesn't exist apart from its billions of individual components. For an excellent debunking of Keynes and his new economics, I suggest Where Keynes Went Wrong, by Hunter Lewis. Nevertheless, the Keynesian concept of aggregate demand combined with the paradox of savings is fully imbedded in the minds of most economists, financial reporters, and especially government functionaries because it liberated them from their status as a necessary parasite on the economy whose functions were protecting our life, liberty, and property. These necessary functions had to be funded in the most economical way. Now these functionaries' status has been flip-flopped to that of necessary driver of the economy through spending. This was a Godsend to government which has allowed it to confiscate the wealth of the nation, all in the supposed "greater good".

The favorite metric of the acolytes of the Keynesian concept of aggregate demand is Gross Domestic Product (GDP). According to Keynesian theory anything that increases GDP is good. It is represented by the formula C+I+G=GDP, whose components are **C**onsumer spending, plus business **I**nvestment, plus **G**overnment spending. My first essay accepted by the Mises Institute as suitable as a Daily Article was C+I+G=Baloney. I viewed GDP as baloney in 2010 and I view it as baloney today! Therefore, please be skeptical of any report that tries to convince you that all is well in the economy because, **Ta-Da!**, GDP has gone up. It is a fallacious metric that equates spending with economic progress.

Membership in the LVMI-Europe

Individual membership (75€) includes:

➢➢ Regular invitations to the LVMI-Europe symposiums, conferences and dinner debates, and conferences, also in the European Parliament

➢➢ Reduction on entrance fees or free entrance for the LVMI-Europe events

➢➢ The LVMI-Europe monthly extended newsletter

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