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General articles

Between the poles of public debt and private asset protection

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Abstract

The past few years can be characterized by crises currently by a crisis of political institutions. Western democracies and political institutions are facing public debts that are far beyond one's imagination. The current situation is the result of a 'policy of promises' in the past that has developed from the desire for a 'guarantee for prosperity'. The problem arising out of this is that these public debts now jeopardize private assets.

Crisis of public debts

The past few years can be characterized by crises: financial crises, an enduring economic crisis with recessive tendency, and currently a crisis of political institutions. How could this all happen? Looking back at history the reasons for the current situation become evident. With the beginning of the early seventies, politics in Western democracies gave in to the temptation of promises and commitments that in the long term simply were not financially feasible. A 'policy of promises' came into being. But why? After World War II the economic recovery performed rapidly until the late 1960s. Already in the 1970s, the Western part of the world experienced prosperity on a very high level. At this time, a phase of saturation began and the Western World also faced the phenomenon of the 1968 generation. It was then when the desire for a 'guarantee for prosperity' developed. This desire led to a policy of promises and the procurement of an illusive governmental guarantee of safety. That again on the one hand led to excessive expenditures and commitments of the public authorities and politics and, on the other hand, to an enhanced public spending ratio compared with the national economy. The result of this historical development is obvious. Western democracies and political institutions now are facing public debts that are far beyond one's imagination.

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Public debts jeopardize private assets

The resulting problem is that public debts jeopardize private assets in the following ways:

- By way of direct destruction of investments in public debt notes.
- By way of an appropriation of private assets by the public authority through doubtful legislation.

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- By the way that excessive national debts impede economic growth.

Destruction of investments in public debt notes (sovereign bonds)

Unfortunately, one has to recognize that mathematics cannot be ignored, meaning that spending and income has to be in balance in the long term. But most Western governments will not be able to repay the debt or nor even service the debt in the long term in the appropriate value, debt is owed. Inevitably, something drastic will happen and will end up in measures such as a restructuring of government bonds, sovereign bankruptcy, or a considerable inflation. It is also likely that a cocktail of all three will be served to investors. However, heavy consumer goods inflation is unlikely because the economy is in a deflationary environment. For political reasons, governments (mostly those of the larger countries) still tend to avoid the discussion of restructuring their own debts as this would mean admitting to wrong politics and would cause social distress. This does not exclude the possibility that smaller states might be forced to restructure in the near future.

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Many investors, who strive for certainty and a safe income, are invested in government bonds as in the past they were considered as one of the safest investment classes. This is especially the case with pension funds since the largest part of private savings is invested in pension funds. This means that a possible erosion of pension funds will have a catastrophic social impact.

Unlawful appropriation of private assets

Due to excessive public debts, public authorities are no longer credit-worthy. Furthermore, it has become increasingly difficult to issue new public debt notes. The danger exists that public authority will attempt to appropriate private assets in order to be able to meet its obligations. This scenario is possible on account of the state's statutory monopoly on the use of force and taxation. The means for governments to appropriate funds are:

- confiscatory tax measures;
- emergency contribution;
- compulsory exchange of private assets into government bonds;
- prohibition to hold physical gold;
- inflation again; and
- monetary reform.

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This will deprive the middle class of its savings and the capacity to accumulate capital for investments in business and long-term family objectives.

Excessive national debts

An excessive national debt impedes economic growth with the effect that it harms society as a whole. Income from all possible assets declines. However, there is an even worse effect: excessive national debts reduce the possibility for economic growth.

Countermeasures for these risks: asset protection

As set out before, the present environment with increased political and economic uncertainties and confiscatory tax measures leads to an increased need for appropriate solutions. Asset protection—the term for protecting one's private assets not only against unjustified and unlawful third-party access, but also against economic erosion for various internal and external reasons—in particular, becomes a key in an extremely unsecure environment where assets are at risk.

Asset protection is neither an issue of rich people nor an issue of taxation. Asset protection is also not an issue of criminal money. Asset protection first and foremost is an issue of personal freedom and privacy, particularly of the middle class. It further has to be pointed out that private assets comprise not only a private, but also an economic component. Private assets have a positive effect on the overall economic development of a state because private assets tend to be invested with a long-term focus. As a result, these assets contribute considerably to the well-being of companies and institutions as well as to social development in general.

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In the context of asset protection the question arises whether the term 'cash is king' can still be applied. In this case, the two functions of money must be distinguished. First, money provides facilities for the support of trades and countertrades and, second, money provides a 'storage facility' (like a battery) between such trades. Talking about 'cash is king' means cash as a storage facility for wealth. However, in the present environment the high probability of a monetary reform of some leading currencies and/or inflation in the mid-term needs to be considered. Therefore, the main currencies are dangerous as a storage facility of wealth.

Many people also believe that gold is a secure investment alternative, as it is supposed to be a good hedge against inflation and monetary reform. However, history shows a number of examples where the ownership of physical gold was outlawed. Possible solutions can be:

- Own well-managed businesses.
- Asset protection instruments, such as trusts and foundations.
- And quite essentially, geographical and political diversification.
- Industrial shares with high dividend yield and solid financing, because well-managed industrial enterprises are more resistant to crises.

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As a résumé asset protection can be described as a combination of:

- a stable political and economic environment;
- geographic and political diversification of assets;
- appropriate legal structures, such as trusts and family foundations, and solid asset classes; and
- as a last resort in some cases, individuals, families and businesses physically moving to more liberal jurisdictions. Such a physical relocation of individuals, families and businesses to more liberal jurisdictions is an extremely unfortunate situation for all parties involved, as it leads to further costs and stress, mostly to the middle class which is the backbone of any society and economy.

Conclusion

The more oppressive governments become in controlling the citizens (due to the disastrous financial and budget situation) the more issues arise in the context of asset protection. With the resulting loss of privacy the issue of good asset protection becomes even more important. Trusts and foundations combined with a long-standing know-how in asset protection, high professionalism and appropriate skills are the appropriate approach to reach the goal of asset protection.