



A crisis must never be misused to extend state power

Interview with H.S.H. Prince Michael of Liechtenstein

In these times of great uncertainty and widespread fear, it is natural for many citizens to turn to their leaders for guidance and reassurance. However, these much-needed qualities of real leadership have proven to be elusive in many countries around the world. Instead of that, in the US and even more so in the EU, we saw a lack of consistency and planning in the face of the corona epidemic, adding to the overall confusion among citizens and further fueling the media-driven panic. This is why I decided to turn to Prince Michael of Liechtenstein, who kindly agreed to share his views and insights on the present crisis. His tempered and rational analysis, along with his deep understanding of history, have offered many valuable lessons in the past, but this approach is even more needed now that panic is so dangerously abundant.

His Serene Highness Prince Michael of Liechtenstein is the Executive Chairman of Industrie- und Finanzkontor Etablissement, a leading Liechtenstein-based trust company with a tradition and expertise in the long-term and trans-generational preservation of wealth, values and businesses. Furthermore, he is the founder and Chairman of Geopolitical Intelligence Services AG, a geopolitical consultancy company and information platform headquartered in Vaduz. In addition, Prince Michael of Liechtenstein is a Board Member of the Liechtenstein Institute of Professional Trustees and Fiduciaries, Chairman of the liberal think tank European Center of Austrian Economics Foundation and Board Member of the International Institute of Longevity.

Claudio Grass (CG): Thanks to the coronavirus epidemic, within a month, the entire planet has been swept by panic. The global economy has been forced to a screeching halt, citizens of most western nations are being ordered to stay in their houses, while we all constantly receive regular updates on the latest “death count” and infection figures. Did you anticipate that such a scenario was even possible? Is there anything comparable to this in recent historical memory?

HSH Prince Michael of Liechtenstein (PML): Since the end of World War II, Europe has gone through an unprecedentedly long period of peace and prosperity has constantly increased since then. Over time, the awareness of possible crises has been lost. This “spoiling” effect of the good times has caused societies to dismiss and ignore the eventuality of a possible crisis that could come at any time. People voted for safety and security, but the prevention of threats

was widely repressed and happily ignored. The welfare state, under the banner of protection, directed people to exchange individual freedom and self-responsibility for an illusion of security provided by the state.

We are now facing a health crisis, which is serious and has to be addressed, but it is not one of the greatest, world-wide humanitarian crises in modern history. Yet in Europe, it is perceived as precisely that. This shows just how comfortable we've been in the recent past, but it also blatantly discounts all the other crises: almost 10 years of war in Syria, the enduring conflicts in Afghanistan, the Ebola epidemic in West-African countries, the civil war in Rwanda, Burundi and Congo in the 1990s. However, the emergency measures we've seen in response to the threat that this virus poses – necessary as they may be deemed – constitute the largest restriction of fundamental rights in Western Europe since World War II, and in Central Europe since the end of the communist dictatorship. They might also result in a major recession. At the very least, this should serve as a reminder to us all to increase prevention measures in different sectors! Responsible politicians should prepare their countries against possible disasters, mainly by fostering and trusting the personal responsibility of their people. Decentralized preventive systems are necessary: engaging local and municipal responsibilities and relying on the positive outcomes of individual freedom.

CG: Could you elaborate more on your views regarding the governmental reaction to the epidemic? Do you see the damage being inflicted by the measures as a necessary evil and proportional to the threat posed by the disease?

PML: Certainly, measures to control or at least limit the spread of the virus are necessary. However, the opinions on how to achieve this differ in the various countries. To judge the different governmental reactions, for example that of the UK versus Sweden versus other European countries, is not appropriate and it is certainly premature. What can be seen so far, however, is that countries with more decentralized healthcare systems are better prepared to help people who are infected. The current epidemic has brought the inflexibility of oversized systems of many countries to light. Countries such as Italy, Spain and others with their centralized, rigid systems were not able to adapt and respond to the crisis quickly enough. The policy of many countries now is to slow down the spread of the virus in order to have enough treatment and hospital capacity for those who are infected. This should give them some breathing room, while we wait for the development of vaccines.

The lesson that countries with more flexible and more decentralized healthcare systems are faring better should cast serious doubts over the push to find common European solutions or to embrace the global leadership of the World Health Organisation (WHO). The European Union and the WHO can support the handling of the crisis by giving some guidance. However, decentralized and local actions and policy decisions might be more to the point to respond to the crisis adequately. They can be much quicker to adapt to changes and developments and better equipped to address the specific needs of their regions and communities. It is important that institutions such as the WHO are not allowed to assume decision-making powers or to exert undue influence that limits the responsibility of local and regional authorities and constrains their capacity to act.

Also, in other areas of civil protection, such as cybersecurity, emergency plans for the population and strategic stockpiles of medicine or food are insufficient in a number of countries.

CG: In your own view, is there a better way of reacting to this as a state, than what we've seen in most western democracies? Might there be alternative policy approaches that could protect the public without decimating the economy?

PML: At the moment, the protection and preservation of human lives is certainly a priority. But indeed, it is also a duty of political leadership to apply common sense when introducing preventive measures. It is a great responsibility to maintain economic viability, which is also essential to the wellbeing and finally the health of citizens. Excessively harsh measures will alienate and marginalize large parts of society, especially those in the weaker and older segments of the population. Mankind needs social contact. Some people may become very lonesome and lose their purpose in life. Sound political leadership should not only be guided by medical expertise on the virus itself, but also by the courage to find the right balance between the protection of public health and the functioning of society and the economy, as well as between state-imposed measures and citizens' self-responsibility. A crisis must never be misused to extend state power. It is thus vital that governments will have the courage not to delay the return of the economy to its full capacity.

In China, the crisis was first ignored by the centralist system and then crushed by brutal, authoritarian measures. These measures will help the totalitarian state reinforce control over its citizens in the future. Our democratic countries must avoid the temptation to use the emergency measures taken today to control the citizens tomorrow, for example via tracking their movements and contacts through mobile phones. Although some lip service is paid to the contrary, we already hear suggestions from political leaders and NGO's in that direction.

CG: How is Liechtenstein handling this crisis? What measures are in place and what are the plans to protect the principality against both the virus and the economic fallout?

PML: Liechtenstein has functioning open borders with Switzerland and will therefore widely align with the Swiss measures. A big asset is that, contrary to many other European countries, Liechtenstein has no debts. A prudent fiscal policy allowed the country and its municipalities in the past to build up financial reserves. In the current situation, this allows Liechtenstein to effectively and efficiently support businesses that are strongly impacted by the measures eroding their income, without simultaneously building up an enormous debt burden.

CG: We saw an unprecedented fiscal and monetary response to this crisis, with central banks turning their printing presses to the maximum and governments pledging trillions in stimulus and bailouts. Do you expect this so-called "bazooka" response to suffice in keeping the economic system standing?

PML: Although normally governmental bailout policies are dangerous, it is now essential to help businesses which have lost their capacity to produce or sell their goods and services. This necessitates and legitimizes liquidity injections. The problem now is that a large part of the world's economy was already supported by cheap money over the past 10 years. Of course, cheap money can help fend off a crisis in the short-term, but it may never be seen as a long-term economic solution. The coronavirus has encountered a fragile global economy, weakened by too much government intervention and oversized public sectors. Now is the time to find a way back to more entrepreneurialism, individual freedom, personal responsibility, less public spending, more private savings and equity-building, as well as simplified tax regulations. That will be the most efficient long-term recipe to get out of any economic crisis.

Unfortunately, in the past, in most European countries overspending has led to significant public debts and aggressive tax policies have eroded the equity basis of businesses.

CG: Many investors have experienced “shock and awe” by the historic crash and volatility spike in the markets. What would be your advice for conservative investors and for ordinary savers who not only have to contend with the market rollercoaster but must also now live with even deeper negative rates and infinite easing policies?

PML: Due to the effect of money supply at “no” cost via zero to negative interest rates and quantitative easing, we face a real asset inflation. Bubbles developed in the equity, real estate, arts and other markets. A correction was long overdue, and this was not a soft landing but a harsh crash. Nevertheless, I still believe that equities of strong, solid companies remain a good investment. In fact, we should not be too impressed by the markets’ current volatility, as long as the basis of an investment is solid. Abundant money can even drive valuations again to excessive levels. However, this is not necessarily a sound development. Markets need to find prices that reflect the economic reality. An oversupply of money, as we have seen in the recent past, destroys savings and has the potential to erode trust in the currency. I am concerned that the current easy-money policies will go beyond the measures that are necessary to provide troubled businesses with short-term liquidity in order to make it through the crisis.

The Austrian School of Economics teaches the importance of the principle of “creative destruction”, according to which a crisis always has the potential to create innovation in business, society, the economy, etc. However, a crisis caused by an epidemic is not necessarily a creative destruction for businesses which are not viable anymore. It rather jeopardizes good businesses due to uncontrollable elements. Thus, a liquidity support is to be endorsed, however, if such support ends up in an illusion of a “healthy economy”, further delaying essential reforms, it has a detrimental long-term result. Again, what is needed after the corona-crisis is a hard turn towards entrepreneurship, free markets, less state intervention, and decentralization.

Currently, there is the belief that savers are punished again and debtors are rewarded. But in the mid- and long-term, everybody should watch out for building up some reserves to survive hard times to come. Such reserves can be a certain amount of cash or real estate properties with moderate mortgage loans, but also a good education and development of skills that will be demanded in the future. Gold also seems to be a solid hedge once again. Last but not least, especially in times of crisis, it is crucial that common sense and realism prevail over panic and fear.

CG: What are your expectations and projections for the next few months? Do you believe this crisis will cause structural changes and transformations in our economy and financial system or do you expect we will all go back to “business as usual” once the dust settles?

PML: There is the old adage: “Never let a good crisis go to waste”. The question now is, who will be using this crisis and to what end? A great concern that should be at the forefront of everybody’s mind is the misuse of power that goes along with the emergency situation. Bureaucratic principals and centralists may attempt to misuse and perpetuate the additional powers that the state is gaining from the current measures. This “opportunity” might also be grasped by supranational entities to increase their own influence excessively.

If we look back at the past 20 years, we see an obvious trend towards more centralization, regulation, bureaucracy and the limitation of individual freedom and self-responsibility, as well as the undermining of privacy and property rights. Weak national politics also allowed supranational institutions to influence and to limit national sovereignty. Judicial systems are increasingly becoming an instrument of the state, rather than an instrument of the citizens to protect themselves from arbitrary state decisions. These detrimental tendencies might be enhanced by the emergency measures.

On the bright side, a positive result might be that people become more aware of the necessity of individual and local responsibilities and of the necessity to plan ahead and to prepare for emergencies, instead of blindly and naively expecting solutions from the state. Another good development could be that the crisis may have positive effects on various businesses, in the services industries in particular. Certain procedures are now being reconsidered and realigned to become more productive, customer-friendly and cost-efficient. Also, the crisis may also incentivize regulators to streamline regulations in order to make them more market-oriented, slimmer, effective and less costly.

CG: On a global level, and especially in Europe, most of the private sector has already taken a severe hit, the media continues to spread panic, most people are locked in their houses and they increasingly see their basic rights curtailed through “emergency powers” and new government rules. There’s a lot of confusion, many are scared of the virus, and arguably even more are scared of losing their jobs and of financial ruin. What would be your advice to ordinary citizens during these difficult times?

PML: Try to live healthily. Although we have to behave carefully, it will be impossible to completely prevent infection, simply because it will be impossible to completely eliminate human contact. A healthy lifestyle and an optimistic mindset will certainly strengthen the immune system and that is the best hedge against the effect of the coronavirus, and many other diseases for that matter. On the flip-side, all fear and panic, not only lead to terrible decisions, but they also weaken the immune system. Therefore, my advice is to act prudently and responsibly. A healthy lifestyle and a clear mind are key in the current situation, together with common sense and realism in everybody’s economic and financial decisions.

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