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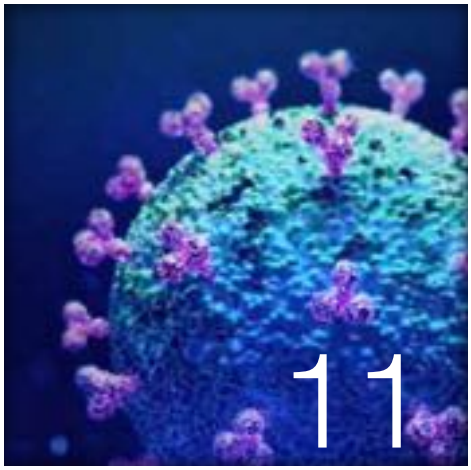

THE HEALTH AND ECONOMIC IMPACTS OF THE CORONAVIRUS

BY ROBERT P. MURPHY

There will be much more to say in future issues, but here is Bob's first take on the new crisis.

THE UNITED STATES HAS CHANGED DURING MY LIFETIME

BY L. CARLOS LARA

Even before the coronavirus, Carlos documented ways that our country has changed—many for the worse.

WHEN IS IT TIME TO LEAVE THE GAME?

INTERVIEW

David Lesperance is an international tax and immigration advisor specializing in high net worth clients. This interview was conducted before the crisis, and yet is even more timely now.

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ABOUT LARA & MURPHY

L. CARLOS LARA is CEO of United Services and Trust Corporation, a consulting firm specializing in in business advisory services with a primary focus on working with companies in financial crisis. His background in capital formation and business rehabilitation makes him a regular speaker at credit and business conferences.

In 2010 he co-authored the highly acclaimed book, *How Privatized Banking Really Works* with economist Robert P. Murphy.

He is a co-creator of the IBC Practitioner Program for financial professionals and sits on the board of the Nelson Nash Institute.

ROBERT P. MURPHY is Senior Fellow with the Mises Institute. He is co-author of *How Privatized Banking Really Works.* He is the author of *Choice: Cooperation, Enterprise, and Human Action* (Independent Institute 2015) and co-host with Tom Woods of the popular podcast Contra Krugman.

Murphy has a Ph.D. in economics from New York University. After spending three years teaching at Hillsdale College, he went into the financial sector working for Laffer Associates. With Nelson Nash, Carlos Lara, and David Stearns, Murphy is co-developer of the IBC Practitioner Program.

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"And we know that for those who love God all things work together for good, for those who are called according to His purpose."

— Romans 8:28

First things first: We sincerely apologize for our unplanned hiatus. We won't elaborate on our excuses, but a combination of challenges on our homefronts (including a new baby for Bob!) and the…unusual…events of March, led us to revamp our originally planned December 2019 issue, to give you this April 2020 version instead. **We have already credited our subscribers with an additional 6 months before their renewal date, to compensate for the missing four months.** (Please contact us if you believe this was not handled correctly for your subscription.)

To be clear, in this issue, Carlos' article and the interview with David Lesperance were prepared in December 2019, well before any of the current crisis hit. But ironically, both of these pieces are now even more poignant.

Long-time followers will know that we have been warning since the beginning of QE (quantitative easing) that the booming stock market and broader financial system were resting on quicksand, and that the artificial bubble would eventually pop. Furthermore, more recently one of us (Bob) has been arguing that the yield curve inversion in mid-2019 was a very strong signal that the U.S. would enter a recession by the summer of 2020.

It is of course true that we didn't have "global pandemic" in mind as the catalyst, but those who followed our three-pronged financial strategy that we advanced in September 2016 were certainly in a much better position when the coronavirus crisis struck. (Indeed, a few people have contacted us to personally express their gratitude for helping to protect their savings.)

We still stand heartily behind our recommendations from that September 2016 presentation, which you can see for yourself at:
https://lara-murphy.com/video0916/

This year is going to be very difficult for everyone. In the *Lara-Murphy Report,* we necessarily focus on the U.S. and Canada (because these are the countries where our Authorized IBC Practitioners reside), but the health crisis and related crackdown on civil and economic liberties is obviously a global phenomenon. We will continue to give our readers the content that they have come to expect: An unwavering pursuit of the truth, no matter how "crazy" it sounds, but at the same time maintaining a sense of perspective and an avoidance of disaster-marketing.

The two of us can rest solid in our faith. Although this crisis threatens the lives and/or livelihoods of just about everyone, we know that God can use apparent disasters in order to bring forth beauty and joy. For example, the extended lockdown may convince many parents to permanently keep their children out of the indoctrination factories known as "public schools," and the crash in the stock market may convince more households and business owners to embrace Nelson Nash's Infinite Banking Concept (IBC). More important, it is our sincere hope that the forced stay-at-home orders may bring many families together.

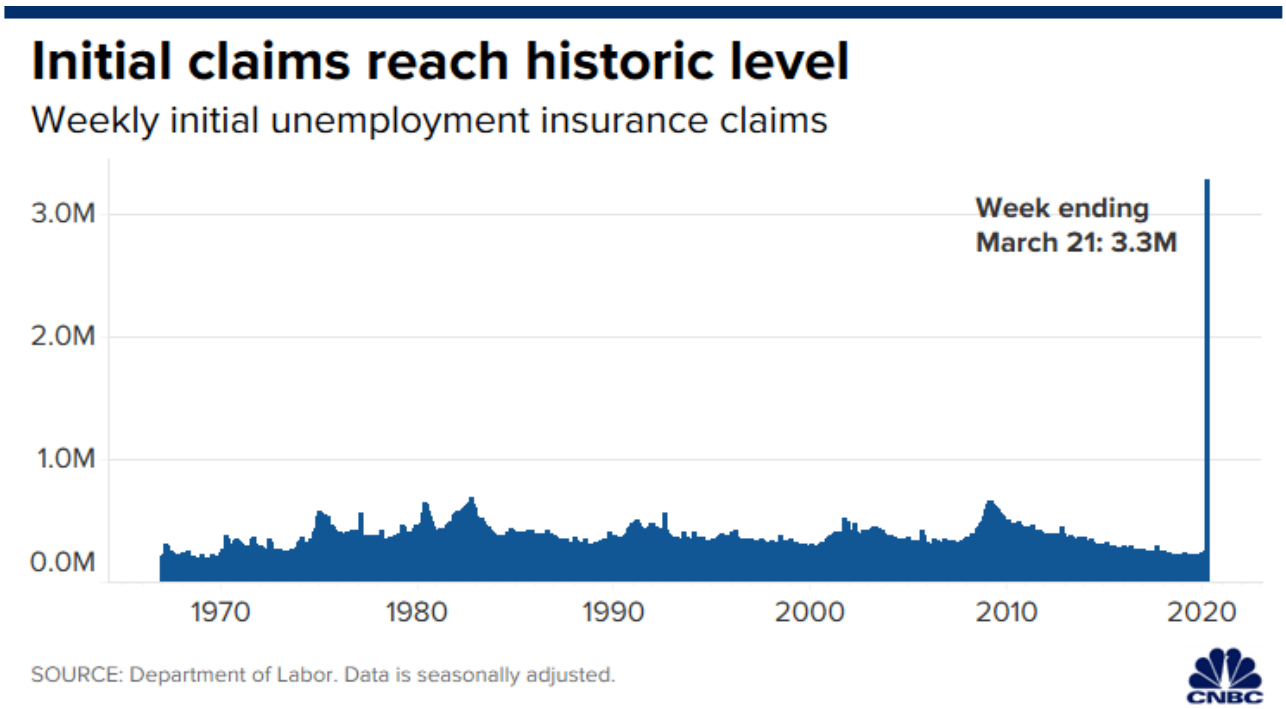
Please stay safe and use the coming days of isolation to enrich your mind, body, and soul. We will emerge from this crisis, ultimately stronger than we entered it. But let us not kid ourselves: the Leviathan State has already seized this opportunity for a quantum leap in its power over our daily activities and our finances.

We have a lot of work to do.

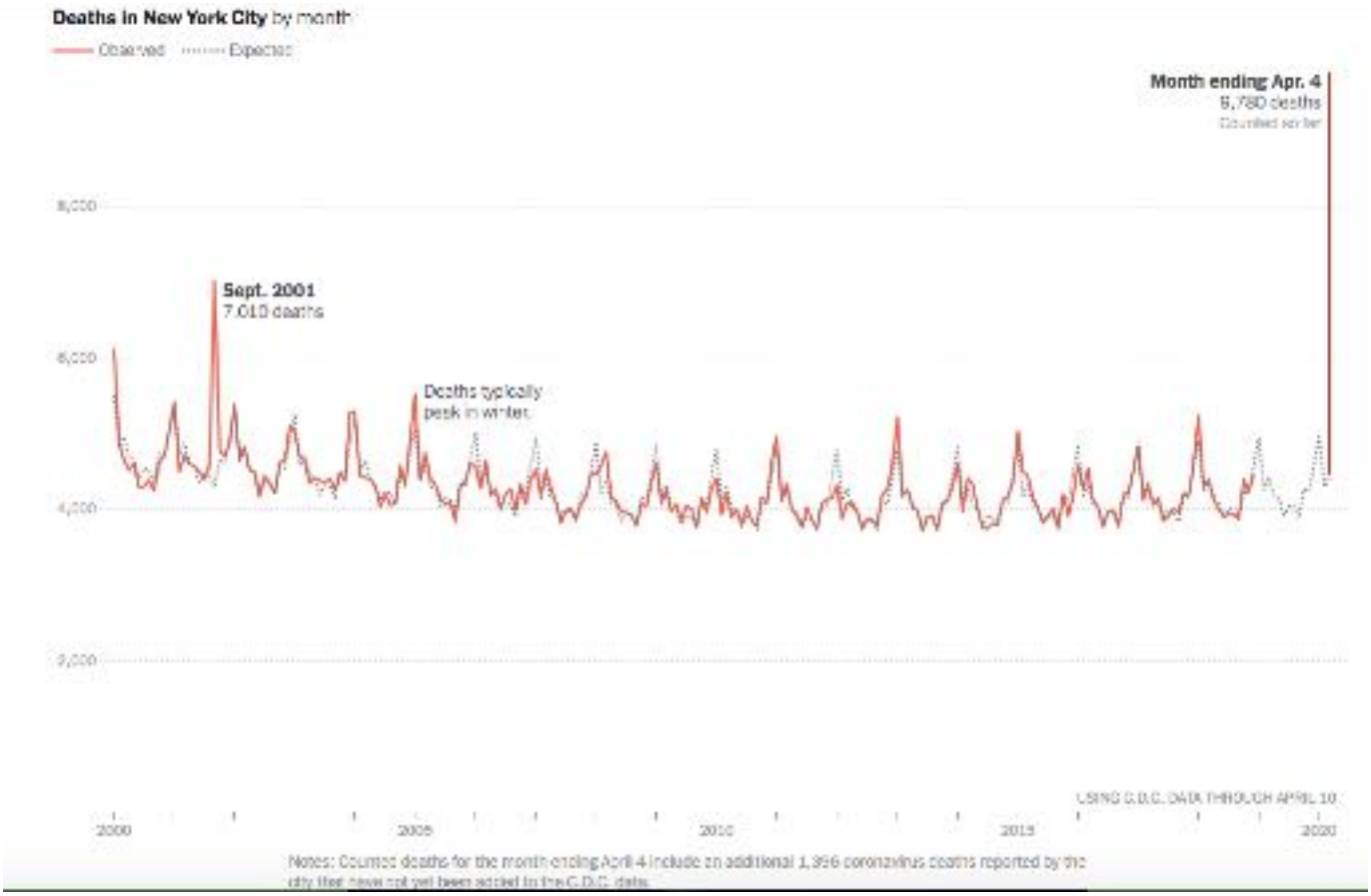
Sincerely,
Carlos and Bob

Three Shocking Charts

As we explained in the opening Letter of this issue, Carlos' article and the interview were prepared back in December 2019. Only Bob's article reflects the current coronavirus crisis. Let us therefore use this section of the issue to quickly summarize where things stand, by way of three shocking charts:



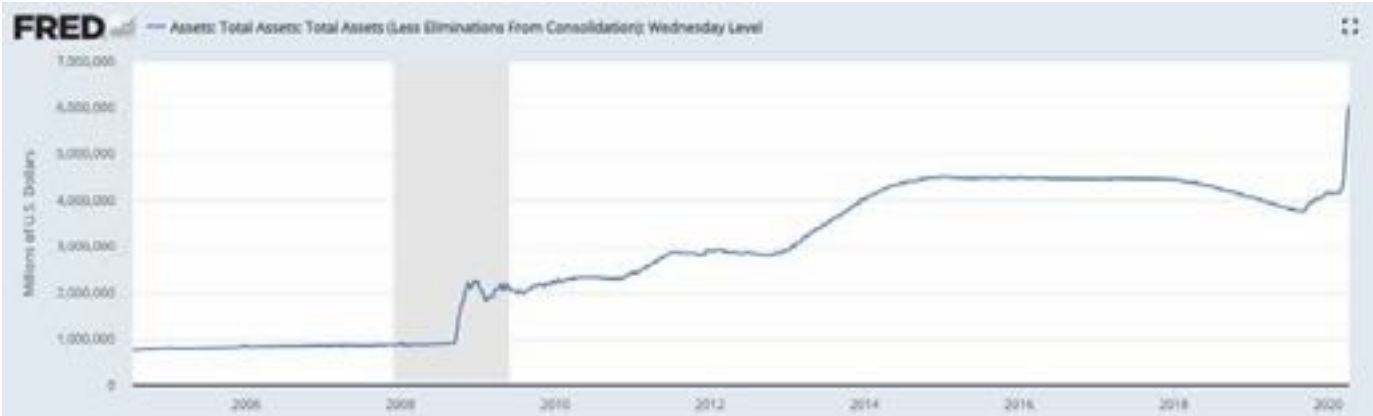
This first chart (taken from a CNBC article: https://www.cnbc.com/2020/03/26/weekly-jobless-claims.html) gives some perspective on just how unprecedented the economic fallout from the coronavirus lockdown has been. As Bob will discuss in his article this month, there are obvious differences between unemployment in a conventional business cycle, versus the present situation where the government is literally preventing people from going to work. Even so, it is worth noting just how enormous the hit to the labor market has been.



This second chart (taken from a NYT article: https://www.nytimes.com/interactive/2020/04/10/upshot/coronavirus-deaths-new-york-city.html) looks at total deaths *from all causes* in NYC, according to CDC data. For the 30-day period ending April 4, this year there were roughly *double* the number of deaths in the Big Apple, compared to a typical year.

The reason this is important is that some cynics have argued that it is difficult to accurately attribute a particular death to "the coronavirus" versus some other, underlying condition (such as asthma). But the data in the chart above indicate that the alarm over the coronavirus isn't *purely* based on misclassifying the cause of death. None of these observations justify coercive political "solutions," of course, but some of the more extreme contrarian takes have been unconnected with the basic facts on the ground.

Finally, here is a chart showing the Fed's balance sheet, as of April 8:



As the chart indicates, the Fed has *already* inflated more rapidly than it did during any comparable period following the financial crisis of 2008—and this chart doesn't reflect the latest Fed announcements.

Media Rejects Bernie

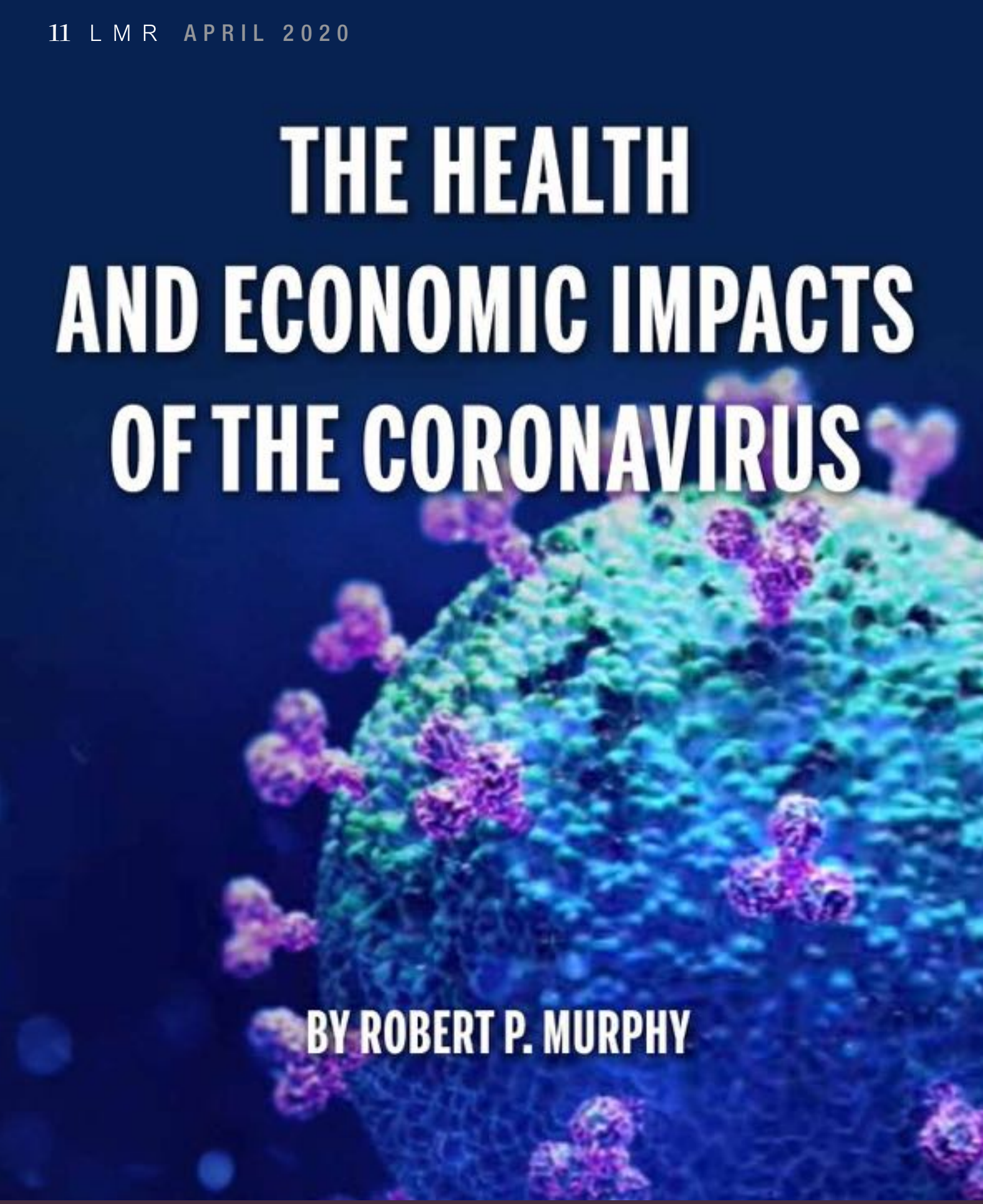
Although it hardly seems important right now, it is worth documenting that the corporate media thoroughly opposed Bernie Sanders when it looked as if he had a real shot of winning the Democratic Party's nomination with his populist left campaign. For just one example, on February 29 the NYT ran an article titled, "The Pied Pipers of the Dirtbag Left Want to Lead Everyone to Bernie Sanders." Now if you are astounded and want to see the context (https://www.nytimes.com/2020/02/29/us/politics/bernie-sanders-chapo-trap-house.html), you will learn that this terminology is ironic. But it is undeniable that once Bernie became a real possibility, the establishment circled the wagons to let everyone know just how "unserious" a candidate he was.

We Austro-libertarians recognized exactly what was happening here, because it was the same

treatment Ron Paul received from the GOP back when he was breaking money-raising records in the 2008 campaign. (See this Politico story for the details: https://www.politico.com/story/2007/12/ron-paul-becomes-6-million-man-007421) And in the 2012 campaign, Fox New's unbelievable dismissal of Ron Paul was so laughable—literally—that Jon Stewart devoted a segment to it: http://www.cc.com/video-clips/in35c7/the-daily-show-with-jon-stewart-indecision-2012---corn-polled-edition---ron-paul---the-top-tier

The actual political system in the United States is not at all what the kids are taught in school. We need to recognize that the actual powerbrokers running the DNC, for example, are not really socialists, and the people running the GOP aren't really capitalists. The truth is far more sinister, because the horrible policies flowing out of DC aren't merely due to intellectual error.

THE HEALTH AND ECONOMIC IMPACTS OF THE CORONAVIRUS



BY ROBERT P. MURPHY

Since Carlos and I last communicated with you, dear reader, through this venue, tremendous changes have occurred in the financial sector and broader economy, while the government and Federal Reserve response has been equally astonishing. These are all "bread and butter" topics for me to discuss here in the pages of the *LMR*, and of course I will do so in detail over the coming months.

However, before I dive into the economics of both the coronavirus itself, and of the various policies that the authorities have implemented in response to it, I want to spend some time addressing the underlying health threat, and to give some practical tips to readers who may have received erroneous information on how to remain safe. Some American libertarians—who are understandably skeptical whenever people at CNN or the New York Times warn them about the next "crisis"—have decided that the panic over the coronavirus is entirely a media creation, and that nobody should adjust behavior. As I'll argue in the first section, this could be a deadly mistake for people who are in vulnerable categories (or for their loved ones who are), and so I want to at least briefly address this issue before proceeding to the economic analysis.

The Very Real Threat of the (Novel) Coronavirus

To give some background (which I have discussed also in my personal podcast, The Bob Murphy Show[1]): My wife has a history of severe lung problems, and so she is one of the people who are most vulnerable to the effects of COVID-19. Consequently, she has been doing extensive research on this topic once the news broke about what was happening in Wuhan, and how it was coming to the United States.

Because of my special household circumstances, I was ahead of the curve on some of these issues well ahead of the average bear. For a specific example, I already had my own N95 mask that I wore when going to the store, back when the official line from the World Health Organization (WHO) and the U.S. Centers for Disease Control (CDC) was telling Americans, "Masks aren't effective, just wash your hands and maintain social distance."

So to be clear: The coronavirus—and I won't keep saying "novel," we all know I mean *this particular* coronavirus—primarily spreads from sharing the air with an infected person. This is why the initial CDC messaging was so horrible: It led many people to conclude that so long as you remembered to wash your hands before you touched your mouth or eyes, that you were safe. But no, that is not correct. Even if you don't physically touch a person or surface that has the virus on it, you can still contract it if you are in proximity to an infected person, especially if it's in tight quarters.

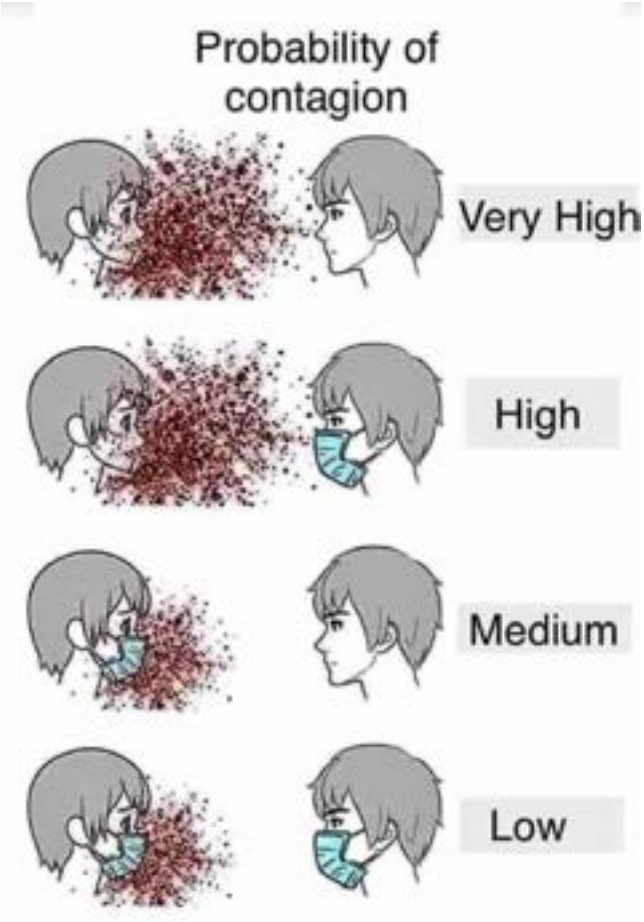
Now to be sure, there are nuances here. It seems that *part* of the initial messaging to the American public was designed to pre-

vent mass stockpiling of masks (and gloves), in order to reserve the initially scarce supplies for health care workers in the front lines. But think about it: If the people in the hospitals treating COVID patients desperately need face masks to protect themselves, then this clearly shows that *wearing a mask is a great idea.* (See the link in the endnotes for a discussion of the academic literature on this point.[2])

Indeed, I have seen some people ponder whether the success among some Asian countries in containing the spread of the coronavirus, even though they didn't impose draconian lockdowns, is that their cultures are more accepting of face masks (and everybody already had them to deploy when the scare first developed). So sure, *if the point is to act altruistically and leave masks available for health care workers (or other vulnerable people),* then it may have been a valid recommendation in the beginning to tell Americans, "Don't go stock up on masks." But that was not at all the way the message was broadcast from on high, and it's not hard to see why: Many Americans would *not* have acted out of altruism, but instead would have acted immediately to protect their own families and loved ones by rushing to get masks, along with hand sanitizer and toilet paper.

Another nuance on this topic is that wearing a face mask isn't *completely* effective in keeping the wearer safe, particularly if it's just a surgical mask. Yet I have two responses here: First, this is a bit like arguing to a member of the SWAT team, "Don't bother wearing a bulletproof vest, because if the bank robber shoots you in the head, it won't protect you." Second, perhaps the main virtue of widespread mask-wearing is that *people who are infected but don't yet know it, will contain much of their own dispersal of the virus by wearing a mask in public.* A lot of the contrarians who are now heaping scorn on the (much too late) embrace of mask-wearing by the U.S. public, have completely missed this last point.

I saw the following graphic on Twitter. Although the point is pretty basic, it's important to stress so that people can have a rational discussion of this issue:



Graphic 1: The Rationale for Widespread Mask-Wearing

This is a bit like arguing to a member of the SWAT team, "Don't bother wearing a bulletproof vest, because if the bank robber shoots you in the head, it won't protect you."

The last source of confusion I want to discuss is the comparison of COVID-19 to the ordinary flu. Here are two crucial differences, as relayed to me (in personal email communication) with a libertarian fan who works at a major medical facility:

1. The seasonal flu has a hospitalization rate of 0.7% – 1.8%, while COVID-19 (at least according to the numbers his administrators were using at the time of his briefing) has a hospitalization rate more like 5% – 15%. This is why so many people have been worried about overwhelming the hospital network (with its limited number of ventilators and ICU beds), and it's what gave rise to the "flatten the curve" mantra.

2. When someone catches the flu, he exhibits symptoms within 2 – 4 days. This limits how many other people he infects with it, because they can see he's ill, and also because he's probably at home in bed. In contrast, as of now the best guess is that a COVID-19 patient could have it and be contagious, and yet *not* exhibit symptoms for 2 – 14 days. This relatively long period of asymptomatic contagion is one of the main reasons so many experts were alarmed when the outbreak occurred: If a virus with these characteristics starts running loose in a new population, it can get out of hand very quickly.

Especially since I'm (obviously) not a medical expert, I'll wrap up this segment of my discussion. Let me mention in closing that in my household, besides wearing masks when we go out, another simple strategy we've adopted is to order groceries and other supplies online, to be delivered to our doorstep. Then, when they arrive, I move them to the garage where they can sit for a few days to detox. (I wipe down perishable items like milk with a virus-killing disinfectant, since I can't leave that in the garage.) Likewise, I grab my mail with a paper towel and let it sit in a pile in my garage for a few days before bringing it into the house.

I realize these latter steps might be overboard for the regular reader, but to repeat, if you are living with a vulnerable person, or if you visit your elderly relatives occasionally,

keep in mind that you might be giving them the virus without even knowing you have it. All of us will have a lot more information a month from now, so I urge readers to err on the side of caution in the meantime.

Major Firms Less Liquid Than a Responsible Household

Standard financial planning recommends that a typical middle-class (or wealthier) household have at least 6 months' worth of expenses available in very liquid funds ("cash in the bank"), to handle a sudden job loss, injury, or illness. And yet, when the coronavirus crisis struck, we saw not only small businesses but even many major firms brought to their knees because they couldn't handle even a temporary interruption in their revenue streams.

Indeed, the Fed's original actions in mid-March to massively expand their "repo" (repurchase agreement) facilities showed that some major U.S. firms couldn't even go a month—or in some cases, not even *overnight*—without access to a large and cheap line of credit.

This is just one illustration of the problem with the Fed's easy-money policies implemented during the *last* crisis, in the fall of 2008. Major firms became hooked on cheap credit, and this made them far more vulnerable to a "black swan" event such as, say, a global pandemic.

To pick a really obvious example, consider the major U.S. airlines, which are now clamoring for a federal bailout. Although some of the headlines are misleading about the extent to which the airlines in recent years concentrated on share buybacks, the spirit of the criticism is correct. And it is undeniable that the Poster Child of the problem, American Airlines, is looking quite reckless in retrospect. As an excellent March 25 article by Adam Levine-Weinberg[3] explains:

> Over the past five years, American Airlines spent $11.9 billion on buybacks. The vast majority of that share repurchase activity came in 2015 and 2016, when fuel prices were low and it seemed

The Fed's original actions in mid-March to massively expand their "repo" (repurchase agreement) facilities showed that some major U.S. firms couldn't even go a month—or in some cases, not even overnight—without access to a large and cheap line of credit.

> to many that airlines had entered a period of sustained high margins. American Airlines has also paid out over $1 billion of dividends over the past five years, for total capital returns of nearly $13 billion.
>
> American Airlines returned this cash to shareholders despite poor FCF [free cash flow] generation. On a cumulative basis, the airline generated operating cash flow of $24.9 billion and spent $25.9 billion on capex [capital expenditures] as part of an aggressive fleet renewal initiative over the past five years, putting FCF in negative territory.
>
> **American paid for most of this capex by issuing debt and entering sale-leaseback transactions. Meanwhile, it returned a little more than half of its operating cash flow to shareholders over this period, mainly through buybacks. This led to a huge increase in the company's leverage. CEO Doug Parker justified this policy based on the low interest rates available for financing** aircraft and his belief that the airline industry would be consistently profitable. [Bold added.]

For a different example, on April 11, it was reported that the U.S. movie theater giant AMC was obtaining counsel for Chapter 11 bankruptcy negotiations.[4] Again, I am merely pointing out that household-name corporations just zoomed through a record-setting bull market without setting aside the same amount of liquid assets that standard financial planning would recommend for a typical household.

During a period of booming asset values and ultra-low interest rates, what kind of a sucker would saddle his corporation with a bunch of "useless" cash reserves?

Although some progressives would no doubt blame "capitalist greed" for this strange outcome, I don't. I think it is the natural consequence of artificially low interest rates, as well as a general culture of "too big to fail" that the Fed and federal government have inculcated in our business leaders. During a period of booming asset values and ultra-low interest rates, what kind of a sucker would saddle his corporation with a bunch of "useless" cash reserves?

The Issue Isn't Economy vs. Lives, It's Freedom vs. Coercion

Unfortunately, the coronavirus alarm and consequent lockdown have shaped the arguments—at least as I've seen them among American pundits—to create a false dichotomy. Many people have been framing our choice between "saving lives" and "destroying the economy," as if we as a country have to pick one or the other. When the issue is framed *like that,* most Americans understandably opt to spare grandma and grandpa from an agonizing death on a ventilator, even if it means GDP and the stock market

take big hits.

Yet that's *not* the actual choice we must face. Rather, we must choose whether to allow *free individuals* (in their roles as consumers, employees, and business owners) to decide how to adapt their behavior in light of a contagious (and for some, fatal) virus outbreak, or whether government officials will *order them* to behave in prescribed ways.

This false dichotomy happens all the time in other contexts, and it is one of the classic ways that statism seduces a population. As the great French classical liberal Frédéric Bastiat wrote:

> Socialism…confuses the distinction between government and society. As a result of this, every time we object to a thing being done by government, the socialists conclude that we object to its being done at all. We disapprove of state education. Then the socialists say that we are opposed to any education. We object to a state religion. Then the socialists say that we want no religion at all. We object to a state-enforced equality. Then they say that we are against equality. And so on, and so on. It is as if the socialists were to accuse us of not wanting persons to eat because we do not want the state to raise grain.

In our current crisis, the knee-jerk assumption is that *only coercive government* can save the day during a pandemic. (See the three tweets from popular Twitter accounts that I captured to understand this mentality.) And yet, we know that *consumers themselves* want businesses to take measures to protect them—for example, by having their employees wear masks and establishing large spaces on the floor to keep customers apart from each other when standing in line at the register.

Many people have been framing our choice between "saving lives" and "destroying the economy," as if we as a country have to pick one or the other.

For those who want to see the theoretical possibilities in a truly free society, I refer you to my 2007 article, "How the Free Market Would Handle Quarantines,"[5] which I wrote after an American man was pilloried for taking an international flight while suffering from tuberculosis.

However, today in the real world, I can list some of the obvious ways in which the federal and state governments have *crippled* the U.S. response to the coronavirus outbreak.

First and most obvious, the CDC (along with the WHO) initially gave the horrible recommendation for Americans to *not* wear masks. Furthermore, Dr. Anthony Fauci said in a Feb. 17 interview that the risk to Americans from the coronavirus was "miniscule."[6] Had Fauci said the opposite at the time, yes, there would have been "panic" and "hoarding of masks," but that arguably would have helped contain the initial spread of the disease in the U.S.

Second, Americans need to realize that plenty of private labs developed legitimate testing for the coronavirus *but the CDC/FDA literally ordered them to only use the official, federally approved test.* Moreover, that initial, CDC-approved test *was flawed,* and put the U.S testing initiative back at least two weeks.[7] (There were some heroic doctors who went ahead and tested their patients with the unapproved kits in violation of regulations, while waiting on the CDC to get its act together.)

Interventionists want to blame the Trump Administration for being asleep at the wheel when it came to rapid testing and so-called contact tracing (where researchers hunt down anybody who had been in recent contact with a known infected person), but it's also true that the government's long-standing footprint in medicine—a fact that the interventionists *applaud*—allowed it to stand in the way of private researcher labs who were trying to do the right thing in the early stages of the crisis.

"Price Gouging": Unpopular but Desirable

Another major problem caused by the government was the crackdown on so-called "price gouging." Hard as it may be to hear, we as a society *want* to reward people for anticipating a brewing crisis and prepare for it by buying up goods that are selling at (what are now) incorrectly low prices. After all, if some guy buys up a bunch of hand sanitizer and then sells it on eBay for an "unconscionable" mark-up, what is the result? The high market price is a signal to everybody else to *conserve* the hand sanitizer they already possess, and it rations the available quantity to ensure more people get their hands on it.

Think of it the other way: If farsighted

Hard as it may be to hear, we as a society want to reward people for anticipating a brewing crisis and prepare for it by buying up goods that are selling at (what are now) incorrectly low prices.

people *don't* stockpile hand sanitizer (and masks, and gloves, etc.) in order to resell to the highest bidder, then we end up with an even more lopsided distribution of the available stocks. That is, the first families to hit the grocery store load up, while the people arriving later in the game see nothing but empty shelves.

One of the tragedies of this crisis was that thousands of health care workers (especially in New York City) had to deal with the initial wave of coronavirus patients while wearing inadequate personal protective equipment (PPE). Indeed, there are horror stories of hospital staff being instructed to go to work wearing *bandanas* rather than the much safer N95 masks. If market prices were allowed to float to "clear the market," then hospitals could have paid top-dollar for the available masks, gloves, etc., ensuring that these scarce items were channeled to their most important uses.

Supply vs. Demand Shocks

The fundamental economic impact from the crisis is that millions of Americans are prevented from going to work. This is a *supply shock,* for which throwing gobs of money at the problem is no solution, even according to standard Keynesian theory.

Starting next month, I will use my *LMR* column to analyze the specific interventions by the Fed and federal government to make more precise assessments of their likely impact. But for now, let me make two observations on the economics of these measures:

First, the government and the Fed don't have the ability to create more cans of tuna fish, or to foster the production of cars if workers aren't going to the factories. Any "liquidity" that the Fed provides to politically-connected groups, is simply redirecting resources away from other groups. Without massive deficit spending and money-printing, those farsighted individuals and companies with excess wealth could have provided loans and/or charitable contributions to assist the segments of our society hardest hit by the crisis.

Second, remember that the dollar didn't crash during the previous rounds of QE. Long-time readers know that Carlos and

I are very concerned about the *long-term* health of the dollar, which is why we have recommended households acquire physical gold (or silver). (I note that as of this writing, gold is matching its all-time highs not seen since 2012.) But during a global panic, investors—rightly or wrongly—rush to the "safe asset" of the U.S. Treasury, which bids up demand for U.S. dollars.

The government and the Fed don't have the ability to create more cans of tuna fish, or to foster the production of cars if workers aren't going to the factories.

Are the Life Insurers Safe?

From the perspective of IBC, a natural concern is to ask: How will this crisis impact the solvency and liquidity of life insurance companies? Is my IBC policy going to be all right?

Nobody knows the future, of course, and in a sufficiently awful meltdown, even life insurers would go under. However, as of right now, my initial assessment is that this crisis should not pose an undue burden on the life insurance sector.

First, as we document in our book *The Case for IBC,* as a sector the life insurers are concentrated in relatively safe fixed-income assets, including a large share of U.S. government bonds.

Second, although the coronavirus outbreak has tragically caused (as of this writing) over 25,000 deaths—a figure that is hotly contested by various sides—these are concentrated among older victims. According to a mid-March CDC analysis,[8] some 80% of U.S. fatalities at that point had occurred in those 65 years and older.

Please do not misunderstand me: I am not saying, "We as a society shouldn't worry so much if this virus mostly hits the elderly." Rather, what I *am* saying is that the outbreak's impact on the financial integrity of the life insurance sector is less severe, the more the excess fatalities in 2020 are concentrated among the elderly. This is because actuarially, the life insurers expected to pay out on these policies sooner rather than later; there is less "value at risk" in a block of policies covering people who are 75, rather than people who are 35 and in great health.

I want to emphasize that these reflections are my own, and based on a very preliminary assessment of the broad situation. As we receive more data about the impact of the coronavirus, and to the extent that home office personnel are comfortable sharing their own views, I will try to provide our readers

with more specifics on this important issue.

Conclusion

In our household, we are still reeling from the shock of what has happened. Our entire world has been turned upside down in a mere month. I think all of us need more time to process what has happened. Regarding the economic impact, I will know much more once I see how soon, and in what manner, Americans are allowed to go back to work.

As I wrap up this long article, let me end on yet another somber note. Besides the tragic loss of life, I believe the coronavirus crisis will go down as a pivotal moment in which civil and economic liberties in the U.S. suffered a major blow. For an analogy, after 9/11 the government established the TSA and "naked body scanners" in the airports; those are never going away. Financial privacy was crushed through "know your customer" and other "anti-terrorism" statutes.

It may take time for them to roll out the infrastructure, but I predict that the federal government (perhaps working in concert with other major governments and international bodies such as the WHO and IMF) will use this crisis to implement much tighter control over business and labor markets. It would not surprise me if a year from now, major employers need to show that their workers have all been vaccinated against the next wave of the latest strain of coronavirus. When the public grumbles, health "experts" will remind them of how awful this lockdown period was, and say these measures are necessary to avoid a repeat.

These are dark times indeed. What we can do, at the very least, is continue to speak and write the truth, in hopes that The Remnant will find us and spread the message.

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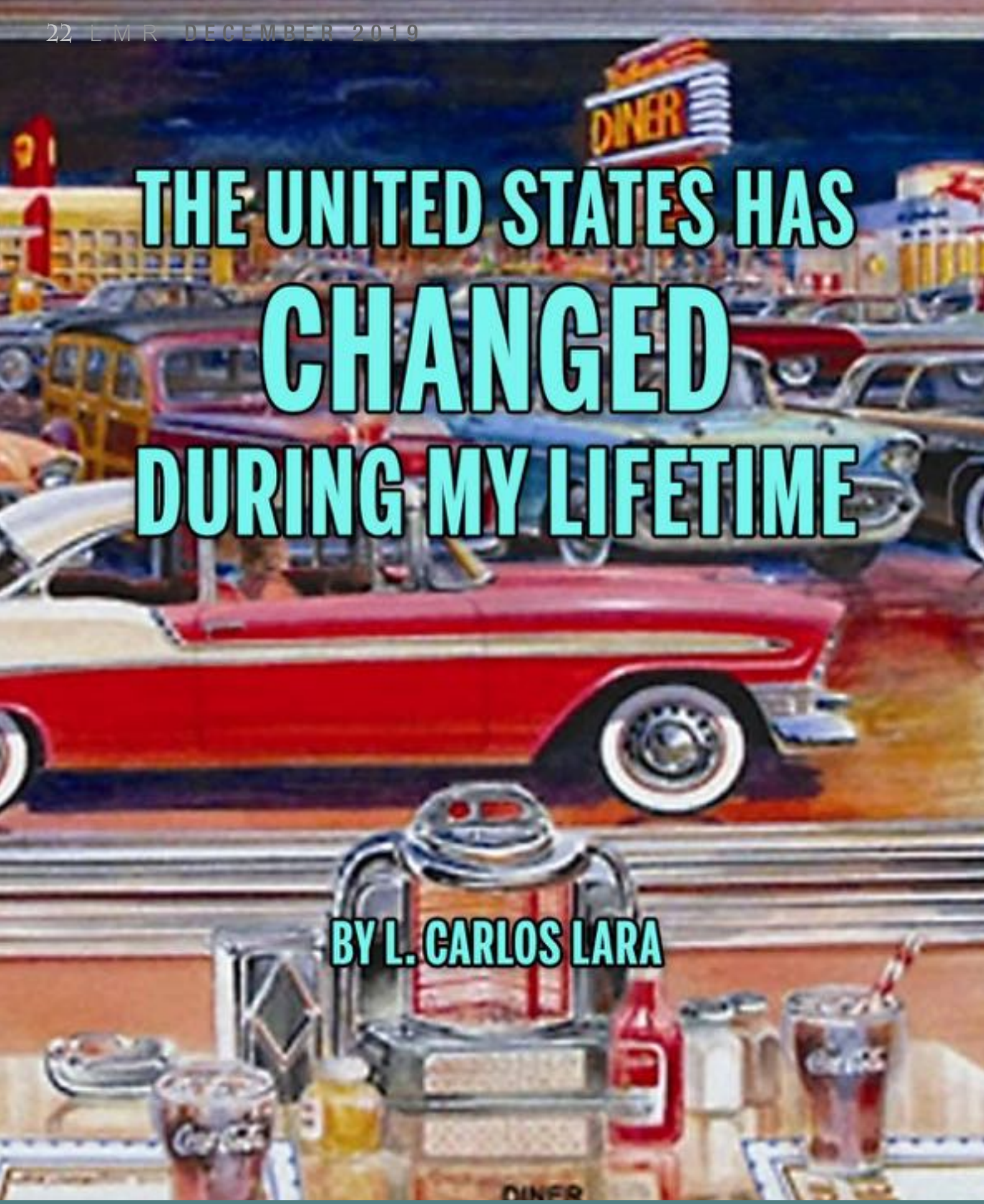

THE UNITED STATES HAS CHANGED DURING MY LIFETIME

BY L. CARLOS LARA

I was born in 1947. It's my hope that this date will alert you to the fact that I am a senior citizen and have *'been around the block a few times.'* That's a way of saying that I am not new to this world. In fact, this coming March I will turn 73 so I am also trying to let my readers know that I am somewhat qualified to write on this particular block of personal human history. The United States really has changed dramatically during my life time and in this article, I would like to share with you some of those historical changes. Of course, there is always good news and bad news to this type of story, plus my own viewpoints, but we'll skip the bad news for the moment and talk about some interesting news items first.

One noticeable difference in the U.S. of today is the sheer size of our population. The U.S. Census Figures report that the population is expected to reach "355 million citizens by 2030, 373 million by 2040, and 388 million by 2050."[1] When I compare this to the population of the United States in 1950 when I was three years old, it was only 151 million. That's a huge difference and I can certainly feel it. Space has gotten crowded. Even Nashville, Tennessee, where I make my home was a small cow-town when I first moved here 46 years ago. Today it is packed with high-rises, cars and unbelievable traffic. But practically every large city and town throughout the country finds itself in similar congested circumstances. The world of people, their production and their ideas, keep compounding in size.

Even Nashville, Tennessee, where I make my home was a small cow-town when I first moved here 46 years ago. Today it is packed with high-rises, cars and unbelievable traffic.

On Being a Child

If you ask any senior citizen about the 1950s and what they did for entertainment they will talk about going to local dance establishments, movie theaters, skating rinks, or simply watching the television set which was a brand-new invention, much like our iPhones

of today keep us fully entertained. In general, our entertainment was close to home and always with the children nearby. As an example, one of my favorite forms of entertainment was the *"Drive-In Movie Theater."*

Although they were made popular in most small towns as early as the 1930s they became extremely popular during the postwar baby boom of the 1950s. Drive-Ins offered the privacy provided by the car as well as helping to keep the children entertained and quiet during the movie. Food and snacks could be delivered straight to your car. It was also the ideal environment for a date, complete with the right amount of darkness and privacy all in a confined space. Every now and then you can still run across some of these unusual forms of movie theaters in rural areas of our country.

One other item of particular interest that surged on the scene among young people my age during this time was *"Rock-and-Roll."* While we loved it and could not get enough of it day and night, parents disapproved of it. The problem was the rock star Elvis Presley. He entered the living room through the Ed Sullivan variety show at a time when television was just getting started. It became the most powerful form of entertainment of the times and has continued to expand in different forms to this day. I see what it has done to Nashville ("Music City USA") with the country music sound, but I also see it with other US cities with different types of music genres.

But it was actually a life insurance company based in Nashville (The National Life & Accident Insurance Company) who launched the "Grand Ole Opry" country music radio hour on November 28, 1925.

This may surprise many of you reading this article but it was actually a life insurance company based in Nashville (The National Life & Accident Insurance Company) who launched the "Grand Ole Opry" country music radio hour on November 28, 1925. National Life, through its powerful radio station WSM is responsible for spreading country and western music to the entire nation. During those early years the leadership of National Life made the Opry maintain a very strait-laced image in its programing. Like our parents, the Opry and by extension National Life, did not like rock and roll, nor

did they like Elvis Presley. It's strange how much all of this has changed with the passing of time.

School was also very different in the 1950s in various important ways. For one thing it was the beginning of federally funded educational reform. Additionally, the post-World War II baby boom required more schools to be built along with the need for more schoolteachers. There were schools and kids everywhere and I was one of them. This time was also special because it marked the beginning point of the end of segregation in the schools. A most difficult time for students, teachers, and parents. Those who opposed the anti-segregation efforts voiced their opinions and sometimes they did so violently within the various school districts. Although the news was scarce and mostly withheld from children, this is when I first began to realize how men and women can develop deep hatred toward one another, to injure and even kill other humans they disagreed with.

From City Life to the Suburbs

In the United States, two World Wars *(World War I and World War II)* separated from each other by only 23 years generated a strong desire among soldiers to stop the bloodshed. That aim became more predominant with the use of destructive atomic weapons in the second World War. Returning soldiers wanted to start families and needed affordable housing. They also needed credit to be able to pay for both. Government programs such as the "G.I. Bill" granted the necessary funding for the expanding baby boom as well as the housing boom that now went hand in hand with suburban life. There were always the cities, but they were too expensive and dangerous to raise children. The suburbs which were located away from the cities proved ideal for young couples. For this reason, most of us during the 1950s lived in the suburbs where our parents had settled after the second world war.

There were always the cities, but they were too expensive and dangerous to raise children. The suburbs which were located away from the cities proved ideal for young couples.

Looking back over this period of time I can see how my impression of America from the eyes of a young child of six years of age in 1950s were idealistic and highly impressionable. Everything from the movies to the TV programs we watched were totally unrealis-

tic. Our favorite programs such as *Ozzie and Harriet, Donna Reed, Leave It To Beaver, Father Knows Best* and other similar programs were mere caricatures of a world in which there is only the good in life. The bad aspects of real life were simply left out. Nevertheless, like discovering the truth about *Santa Claus* for the very first time, we all soon learned that there was something very bizarre and wrong with this picture. The world, and you may disagree, no matter where you live it, or in what year you live, is not only dangerous and destructive, but evil.

THE UNITED STATES TRAVELS TO THE MOON

As the *"hippie"* counterculture movement spread in the United States causing many adult Americans, including my parents, to think we had gone to hell in a handbasket, something brand new happened. In 1961 President John F. Kennedy committed the United States to land a person on the moon before the end of the decade. On July 29, 1969, Neil Armstrong and Edwin "Buzz"

Walter Cronkite, our most respected and trusted TV journalist at that time, said that "people living 500 years in the future would regard the Apollo 11 lunar landing as the most important feat of all time." I believed every word of it.

Aldrin became the first people to reach the moon when their Apollo 11 lunar *"Eagle"* touched down in the *"Sea of Tranquility"*. I stayed up all night watching it on television along with millions of other Americans and heard Armstrong say, *"That's one small step for a man, one giant leap for mankind."* I could hardly believe it all. It was all surreal and exciting. Walter Cronkite, our most respected and trusted TV journalist at that time, said that "people living 500 years in the future would regard the Apollo 11 lunar landing as the most important feat of all time." I believed every word of it.

IN GOD WE TRUST

The *Baby Boomers,* the people of my generation, born between 1946 and 1964 (and their parents), were able to keep this idealistic life going until 1963–*the day President John F. Kennedy was assassinated.* At that point the real world came crashing-in for most everyone of high school age. I was 16 at the time and after that incident life quickly took on a different form. It continued to change in

All the way into the 1970s I used to genuinely love the United States. In my eyes America truly was a great nation and one that proudly boasted in its belief in God, including the support of prayers in our classrooms.

that fearful way for many other young men like myself. War was raging again, this time it was Vietnam. The peaceful times we had enjoyed as children gave way to *conscription* (the draft), separation from loved ones and military service. Injuries and even dying in war became a reality again for many young men, women, and children.

Even so, as a young adult I still remember that all the way into the 1970s I used to genuinely love the United States. In my eyes America truly was a great nation and one that proudly boasted in its belief in God, including the support of prayers in our classrooms. But with each passing year this great nation began to change dramatically. Assassinations of prominent leaders and citizens, like Senator Bobby Kennedy and peaceful political activists such as Martin Luther King, became regular occurrences along with riots in the streets which also became commonplace. The United States also faced significant changes in its economic problems, also in its immigration laws, the woman's movement, abortion issues and a woman's "Right-to-Choose". All this led to dissension and dissatisfaction, especially among college students.

From Booms to Bailouts: The Banking Crisis of the 1980s

The 2008 banking and credit crisis has been considered the worst since the Great Depression of the 1930s. But there was another huge banking crisis that occurred earlier during the 1980s and early 1990s known as the S&L banking crisis. It was the worst credit disaster in history. In 1980, I was 40 years old with a wife and three young children, plus a lot of business and personal debt. So, this crisis was extra frightening for me. In essence this particular banking industry completely collapsed and it led to a taxpayer-funded rescue. This event may come as a surprise to those who are too young to remember, but it demonstrates that our financial system is repeatedly vulnerable to these events. Plus, Presidents take actions that contradict their free market rhetoric and turn to

big government bailouts for failing financial institutions. It never seems to change.

Of course, I could go on recounting everything I can possibly remember that happened years ago during my lifetime, but I would simply fill up the pages with a few thrilling moments punctuated with more tragedies, more booms and then more busts, more banking crises and then more wars. The only thing that remains to be experienced is the complete breakdown of the greatest superpower on earth, the United States. And now as we enter this New Year, we may all have a chance to witness the greatest financial crisis in world history. Yet more and more people every day doubt that it's even possible for our country to ever collapse.

I recall St. Augustine's comments in his classic book, *The City of God,* where he described that the citizens of ROME, even as they watched it being sacked and burning, could not make themselves believe that it was actually happening. ROME was believed to be invincible and yet it happened, just as it has happened to countless other major powers of the past.

It's also fitting to mention King Solomon in this context and his counsel in the book of Ecclesiastes. He was the most powerful king in the world at that time in history and he was the wealthiest ever to live. Yet, hear what he says about the world and everything in it, *"Vanities of vanities! ...All is vanity."* And then there is this exhortation, *"There is nothing new under the sun."* And finally, this last one, *"For everything there is a season, and a time for every purpose under heaven."*

Conclusion

America has changed during my lifetime and I hope that in this article I have described some of the ways in which it has. Although its impossible to list every single one of these changes over an entire span of seventy-four years you can be assured that most of the changes I was not able to name are unpleasant. Such is the nature of our world. We are fortunate that we don't live forever. No human would be able to bear it.

Nevertheless, I am not a pessimist. In fact, I am far from it and the same is true of Robert. We happen to be realistic about what we know is coming down the pike and it will be another major cataclysm. It is the main reason we keep informing the public and all our readers of the *LMR* and our books to get ready for the coming financial storms. Since most of the world's problems are financial in nature, we believe that watching our video, How to Weather the Coming Financial Storms would be especially helpful to everyone at this particular time in our history: https://lara-murphy.com/video0916/

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When Is It Time to Leave the Game?

Interview with David Lesperance

David Lesperance is an international tax and immigration advisor with over 30 years experience helping high-net-worth individuals and families. David is the co-author of *The Flight of the Golden Geese* with London School of Economics Professor Emeritus Ian Angell. David has written for or been featured in numerous media outlets including *The New York Times, Wall Street Journal, Bloomberg, The Economist, Financial Times, Mother Jones,* CNBC, BBC, and several leading Asian journals such as the *South China Morning Post* and *The Asia Times.*

David's interest in these areas grew from his experience working as a Canadian immigration and customs officer while studying law. Since being called to the bar in 1990, he has firmly established his expertise with several major law firms, his own law firm and as a private consultant. His blog, *'The Lesperance Letter'* can be found at: http://lesperanceassociates.com

NOTE TO READERS: This interview was conducted in December 2019, well before the coronavirus crisis struck.

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

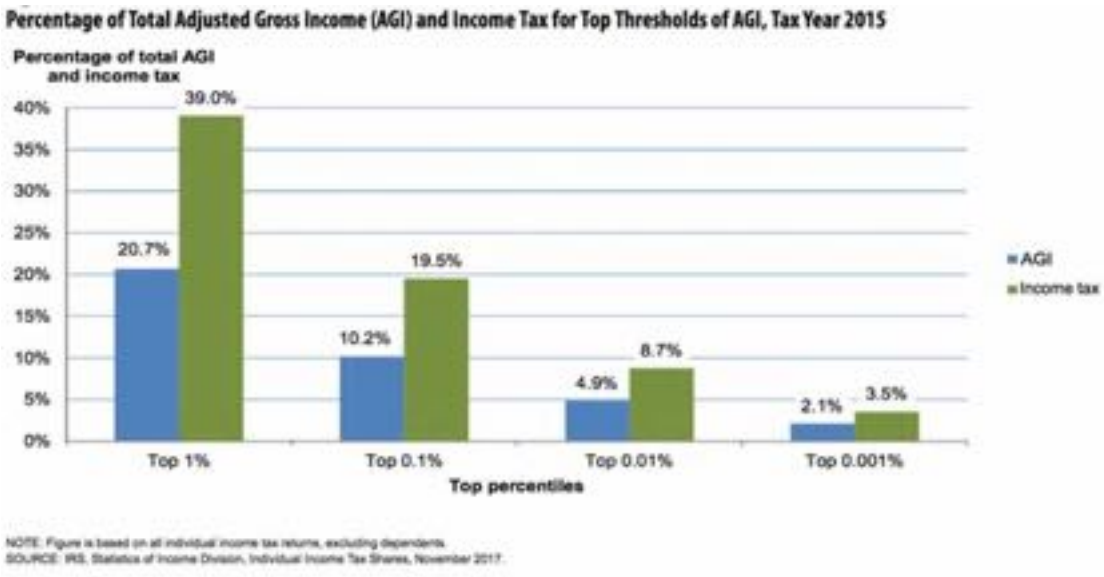
David Lesperance: Prior to law school I studied business at university. In my first economics course I was introduced to various theories, and it was the Austrian School that made the most sense to me. During the three decades since completing my formal studies, I have continually read in this area and been able to observe and speak with countless successful businesspeople as clients. Finally, I have travelled extensively in countries that experienced the harsh economic outcomes of alternative systems such as communism—and presently live in one. My first-hand observations have only served to reinforce my initial conclusions.

LMR: You responded to Bob Murphy's recent article on the wealth tax proposals of Elizabeth Warren and Bernie Sanders taking the position that they wouldn't raise the expected tax revenues. Can you summarize your argument?

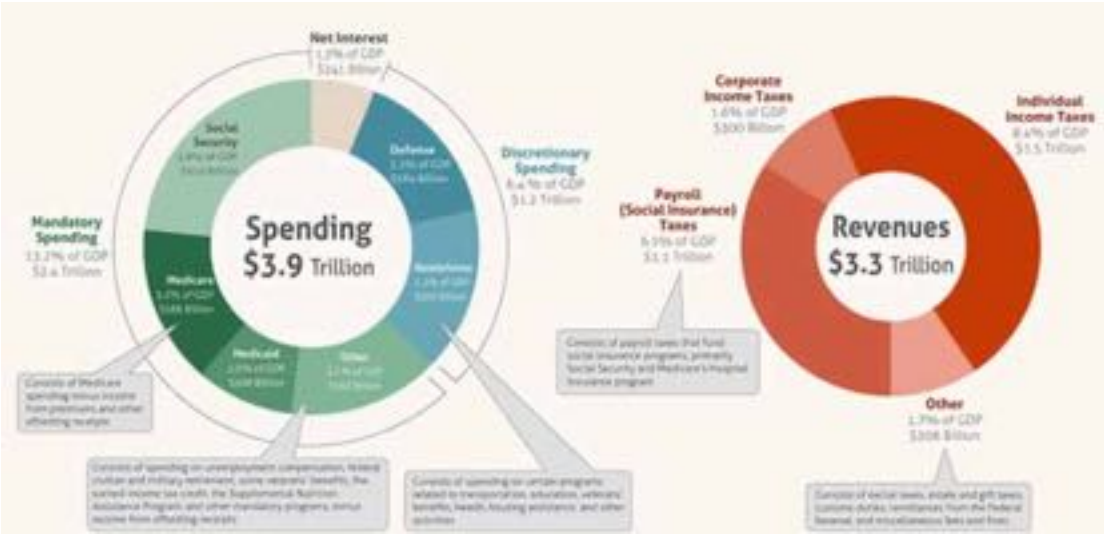
DL: Murphy's article was an insightful critique of the Warren/Sander's wealth tax proposals and their devastating impact on capital formation. I wished to point out that along with the negative economic impacts identified by Murphy and the Penn-Wharton Budget Model, another predictable but unwelcome consequence of a wealth tax could be an actual *reduction* in current tax revenue levels. Specifically, their wealth tax proposals could increase the departures of UHNW [ultra-high-net-worth] taxpayers from the US...taking their significant tax contributions with them.

In assessing my position, it is worth looking at two undisputed empirical facts:

Fact 1: Not all taxpayers are equal contributors. Whether you think it fair or not, currently 39% of the total personal tax take consistently comes from only the top 1% of taxpayers. Furthermore, 1/10th of each subset of the 1% pays about half of the total taxes paid for that entire group. So, clearly the US personal tax revenue model is dangerously overdependent on a minuscule number of taxpayers.



Fact 2: Personal tax revenues in the US form a significant percentage of total US government revenues. As the table below shows, 45% of US tax revenues in 2018 came from Individual Income Taxes.



Source: United States federal budget

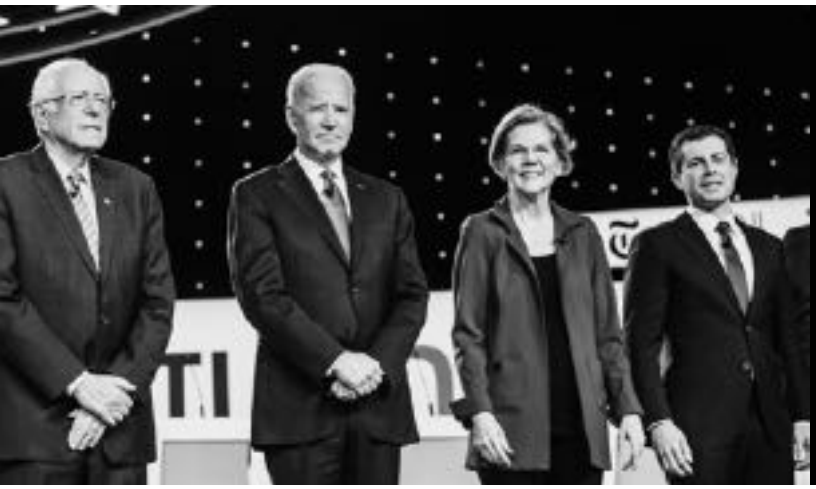
If one takes the position that Payroll Taxes (paid by individuals) should be also be included with Individual Income Taxes, then the percentage rises to 79%!

The simple and obvious conclusion from these two facts is that the US has an extreme over-dependence on a tiny number of individuals for a significant percentage of its government revenues. In short, the higher the taxable income or capital gains, the greater the revenue dependency. And it is UHNW Americans that the wealth tax is targeting. So if a wealth tax and other "tax the rich" policies were to trigger the departure of members of this small group, there would be a significant, negative impact on annual tax revenue collection.

The architects of the Warren/Sanders Wealth tax proposals, economists Gabriel Zucman and Emmanuel Saez, have tried to hide this fatal flaw by making the patently false assertion that the US is not subject to tax competition with other countries for its wealthy taxpayers. In a recent Washington Post OpEd, they wrote the following:

> *"The situation in the United States is different. You can't shirk your tax responsibilities by moving, because U.S. citizens are responsible to the Internal Revenue Service no matter where they live. The only way to escape the IRS is to renounce citizenship, an extreme move that in both Warren's and Sanders's plans would trigger a large exit tax of 40 percent on net worth."*

As someone who, since 1990, has assisted hundreds of wealthy American clients permanently legally leave the US tax system by renunciation, I can safely state that Mr. Zucman and Mr. Saez's statement is ridiculous. In fact, the *"extreme move"* of renunciation has been taken by thousands of wealthy Americans annually for years. And the reason the numbers are not even higher is that the system to book the interview to renounce US citizenship is tremendously backlogged!



Ever since the Democratic POTUS candidates changed their rhetoric from *"Getting money to spend on good things"* to *"Taking money from bad people"*, wealthy Americans have been equipping themselves with *"BackUp Plans"* which will give them the option to *"vote with their feet"*.

Ever since the Democratic POTUS candidates changed their rhetoric from *"Getting money to spend on good things"* to *"Taking money from bad people"*, wealthy Americans have been equipping themselves with *"BackUp Plans"* which will give them the option to *"vote with their feet"* should the increasingly possible outcome of a Democratic political grand slam happen in November 2020. If this occurs, those people with a quality backup plan can then decide whether or not to trigger their departure long before something like Senator Warren and Sander's proposed 40% exit tax could become law.

LMR: Part of your job is to help clients formally leave the United States for more hospitable tax climates. Can you first explain what the tax situation is, for Americans who want to live abroad but retain their U.S. passport?

DL: The first thing for advisors to understand is that the United States is pretty much unique in making citizenship a basis for being a taxpayer. All other countries apply a residence test of either physical presence and/or close connections to determine who is a taxpayer.

US citizens who live outside of the US are 'US persons for tax purposes' and are subject to the exact same income, capital gains, gift and estate tax and financial filing obligations as US citizens still living in the US. This is true even if they hold a foreign citizenship and may have never lived in the US.

The advantage that a US citizen living abroad *may* have is the ability to use the Foreign Earned Income Exclusion and/or the Foreign Tax Credit to reduce their US tax obligation.

LMR: Can you give our readers (who are primarily though not exclusively based in Canada and the U.S.) a framework to help them decide if and when they

US citizens who live outside of the US are 'US persons for tax purposes' and are subject to the exact same income, capital gains, gift and estate tax and financial filing obligations as US citizens still living in the US.

should seriously consider relocating?

DL: There are really two different decisions that an American citizen needs to consider. The first is whether they should establish a *BackUp Plan* that will give them and their family the ability to study, work, and live outside of the US. The second decision is whether or not to "trigger" their *BackUp Plan* ...and when.

A triggered *BackUp Plan* gives each family member the ability to vote with their feet, by taking advantage of the Foreign Earned Income Exemption and Foreign Tax Credit. They can also go further, completely and permanently severing their status as a US taxpayer by renouncing their US citizenship. It is worth noting that in almost all cases only one family member needs to actually renounce US citizenship for the family to enjoy the resulting tax benefits.

The actual renunciation of a US citizenship can only be done during an appointment at an American Embassy or Consulate outside of the US. However, the waiting time for such an appointment can vary from a month to over a year depending on the US mission.

LMR: And if someone does want to renounce U.S. citizenship, this isn't a matter of sending an email and waiting a week for confirmation, is it?

DL: The actual renunciation of a US citizenship can only be done during an appointment at an American Embassy or Consulate outside of the US. However, the waiting time for such an appointment can vary from a month to over a year depending on the US mission. Critically, prior to even considering making such an appointment, an individual needs to do a great deal of analysis and self-reflection, and then take specific actions.

Renunciation is a complex decision that understandably involves facing all of the issues that immigrants throughout history have had to grapple with. These include overcoming *'life inertia'* (for those still living in the US) and emotional ties to the US. One issue that they can rest easy about, however, is that they will have

no difficulty visiting the US after they have renounced. In fact, the problem is not getting in…it's staying too long and re-acquiring US taxpayer status as a result.

While each individual will ultimately have to make the decision on their own, those contemplating triggering their *BackUp Plan* by doing a US expatriation should consider the following thought process:

Step 1: Try to get an approximation of your total future US tax savings. This involves looking at your current US tax burden and then working with your tax advisor to calculate your future post-expatriation US tax burden. Then multiply this annual US tax savings by the number of years remaining in your life. For more realism you should also include in your current US estate tax burden. Death is a certain event…with an uncertain event date. This calculation should also take into account the potential cumulative impact of all current populist tax proposals such as the Wealth Tax.

This calculation is necessary even though it is always going to be an approximation because you do not know the following:

a) What is going to be your future income and capital gains? (So you might want to assume that it will stay the same as last year.)

b) How long will you live? (So you might want to assume you will live the average age.)

c) What will be your future US tax burden? (One of the key assumptions you will need to address is whether you anticipate that your tax burden will or will not naturally increase in the future as a result of an aging population impacting entitlement programs revenue requirements.)

Your own estimation as to whether your US tax savings will be greater or lesser will depend upon:

i) Whether you believe your income/capital gain will increase in the future;

ii) Whether you believe you are likely to outlive the average because of your healthy lifestyle; and

iii) Your reasonable expectations of future politicians' directions on tax policy over the remainder of your life.

Step 2: Determine the one-time cost of losing your US tax liability through renunciation.

There are several costs that will need to be estimated, so that the total can be compared to the estimated future tax savings:

A) Second Citizenship: In order to renounce US citizenship, an individual needs to possess a second citizenship. The cost of a second citizenship will vary widely depending on the method of acquiring same:

- Birth Citizenship: Having an existing citizenship from birth;
- Naturalization: Being naturalized in a foreign country after birth in the United States;
- Lineage: Being entitled to foreign citizenship through lineage (Note: Some nations grant citizenship up to the third generation and the US has a high percentage of first and second generation immigrant Americans);
- Aliyah: Being entitled to Israeli citizenship through Aliyah and
- Citizenship by Investment: Even though this is the path most discussed in the press, it should only be pursued if the other avenues are not available. The selection of the "right" CBI for any given client depends upon a number of factors including time available; where the person can live; cost; and so forth

B) Future Tax Home: Contrary to popular opinion, most clients will not choose a future tax home on a small island. Rather, depending on their stage in business and personal life, it is highly likely that they will chose a "high tax country" but on a "low or controlled tax basis".

Choices include those countries such as Canada which do not have an estate, gift, or wealth tax and which allow you to greatly reduce your income/capital gains tax burden through pre-immigration tax planning. Other countries like the UK,

In order to renounce US citizenship, an individual needs to possess a second citizenship.

Ireland, Portugal, Italy, and Switzerland have existing regimes that greatly reduce the global tax burden. The cost of acquiring permission to move to this future tax home may be included in the benefits obtained with the second citizenship.

C) Cost of payment of capital gains aka 'Exit Tax': Firstly, please note that this only applies if you are a Covered Expatriate.

Secondly, please note that there are cost-efficient practical strategies to deal with an Exit Tax. These include looking at valuation, discounting, liquidity, timing, and comparing this to potential increased rates for capital gains or Warren/Sanders expatriation penalty.

Thirdly, please note that many people mistakenly assume that the Exit Tax will be too high a barrier BEFORE they compare their future tax liability to the actual one-time cost if they follow proper strategies.

D) Cost of overcoming life inertia: This includes the costs to move their personal and business life out of the US and into another jurisdiction(s); and

E) The cost of renouncing US citizenship: This figure will include travel costs to the US mission for the appointment, professional fees, the $2,350 government fee for Renunciation of Citizenship and future filing of your IRS 8854 and terminal tax return.

Step 3: Compare the one-time cost of expatriation to the cumulative future US tax savings.

After completing this financial analysis, an individual can determine whether expatriation is a suitable strategy to consider. For many of the wealthiest people in the US, the financial analysis results in a compelling argument to consider expatriation. In fact, it is the realization of long-term savings—based on step-by-step analysis—that is driving the ever-increasing numbers of expatriations.

Step 4: Compare the tax savings to the benefits of US citizenship (i.e. living full-time, voting, passing US citizenship onto children):

Setting aside blind patriotism for a moment and looking at practical issues, the value that a person places on retaining their US citizenship depends greatly upon their position in life and their view of the future.

LMR: In your experience, what are the consdiderations that can motivate people to activate what you are referring to as their Back Up Plan and move abroad or actually renounce their US citizenship?

It is the realization of long-term savings —based on step-by-step analysis— that is driving the ever-increasing numbers of expatriations.

DL: Triggering Events can be categorized into two groups.

1) Concern about things with catastrophic outcomes but unknown dates:

These include concerns such as growing debt and deficits; huge costs to recover from increasing occurring natural disasters such as hurricanes and earthquakes; entitlement obligations for an aging population; costs to rebuild crumbling infrastructure; and future military expenditures...all made worse by political deadlock. These types of long-term concerns are extremely important but are often ignored because they are not immediate.

2) Concerns about things with unknown outcomes but specific dates

For high-net-worth Americans, *the* issue is the November 2020 election. This is where uncertainty abounds.

On one side are the questions of *"Who will be the Democratic POTUS candidate?"* and *"What will be the Democratic platform?"* Clarity will only occur at the conclusion of the July Democratic National Convention. However, all of the candidates have stated their tax policies...and there is an increasing possibility of a Democratic sweep no matter who is the Democratic POTUS candidate. So we know at a minimum there could be the loss of preferential treatment of carried interest and all capital gains would be taxed at ordinary tax rates. Additional possible Tax the Rich proposals include annual deemed dispositions; loss of step-up on death; limits on charitable contributions; significant estate tax increases; and of course, a new Wealth Tax.

On the other side of the uncertainty coin are a number of events that will occur and impact during 2020. These include the impeachment process, the health of the economy, the resolution of the current trade wars, and geopolitical crises such as Iran and North Korea.

The motivation driving getting a Back Up Plan varies with the client situation but can be a combination of:

1) Wanting to have the financial security of a certain lifestyle;

2) Desire for the financial security of children;

3) For Silicon Valley clients, the ability to self-fund their next business venture, so that they do not have to seek the assistance and restrictions of VC funding; and/or

4) Ability to engage in Strategic Philanthropy

Strategic Philanthropy is quickly becoming the major motivating factor for UHNW clients. If you realize that with the 2020 Unified Credit for combined couples is over 23M USD, then those contemplating the possibility of expatriation for tax purposes are well over this level. This means that they are more likely to be within the net worth range of the Sanders/Warren Wealth Tax proposals.

These individuals want to maintain control over the disposal of their after-tax wealth through strategic philanthropy and/or their chosen heirs. It is what I have called the Anand Giridharadas vs Reid Hoffman debate. In short, should the wealthy:

a) pay more in taxes and trust the government to decide on priorities and implement solutions to societal ills; or

b) use their skills, contacts and focus on determining and implementing strategic philanthropy in solving specific societal ills.

Leon Cooperman made this exact point in his recent rebuttal to Senator Elizabeth Warren. Clearly, the desire to maintain the ability to engage in strategic philanthropy is a powerful one.

Preparing oneself to be able to "leave the game" should you reach your personal triggering point is less complicated than most people assume.

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.

EVENTS & ENGAGEMENTS

NOTE: MANY OF THESE EVENTS ARE OPEN TO THE PUBLIC. CONTACT US FOR FURTHER DETAILS.

JULY 12-18
AUBURN, AL

Murphy teaches at Mises University

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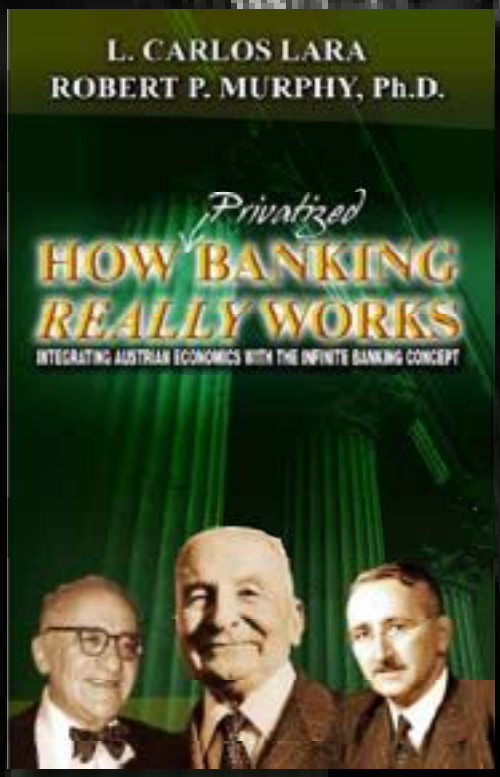

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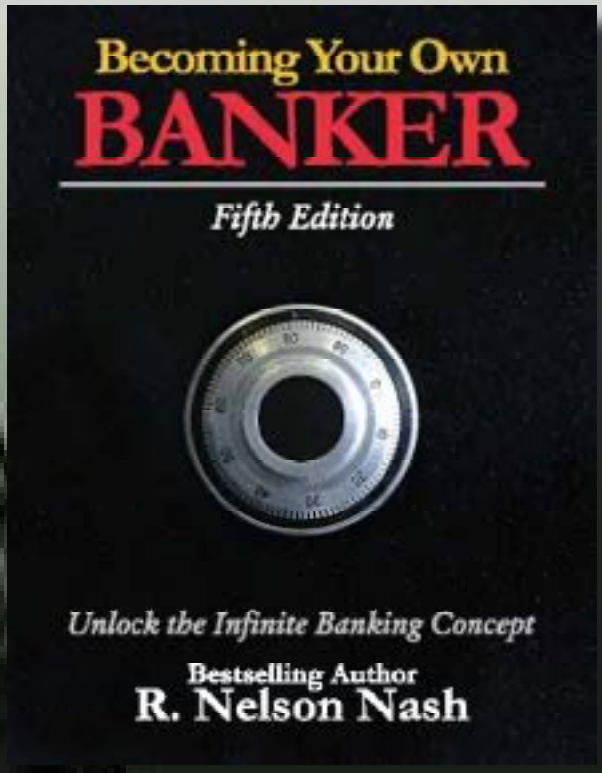

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