

PRICE VALUE PARTNERS

On liberty

*“Arise libertarians
Above totalitarians
Our guide is the mighty invisible hand
Reject state controllers
Collectors and patrollers
Our choices are better than government plans*

*Taxation is a form of theft
Free markets and free trade are best
Free speech, free movement, free minds and free choice
Our actions are all voluntary
Not coerced or compulsory
War we abhor, socialism does not work*

*No debt or inflation
No stealth confiscation
No pigs in the trough at the gravy to drink
No state education
To brainwash our nation
No experts dictate what to do, what to think*

*We scorn your fiat currency
Gold and bitcoin is our money
We own ourselves and we live and let live
We take responsibility
Life, love and liberty
Leave us alone, let a thousand flowers bloom.”*

- Lyrics to the *National Anthem of Libertaria* by [Dominic Frisby](#). Full choir version [here](#).

“If voting made any difference they wouldn’t let us do it.”

- Mark Twain.

“Hoping for a really FILTHY election campaign. I want to see proper threats, lawsuits, dirt, blackmail, galactic class hypocrisy, rent boy scandals, closet skeletons, the lot. Fleet Street, do your JOB.”

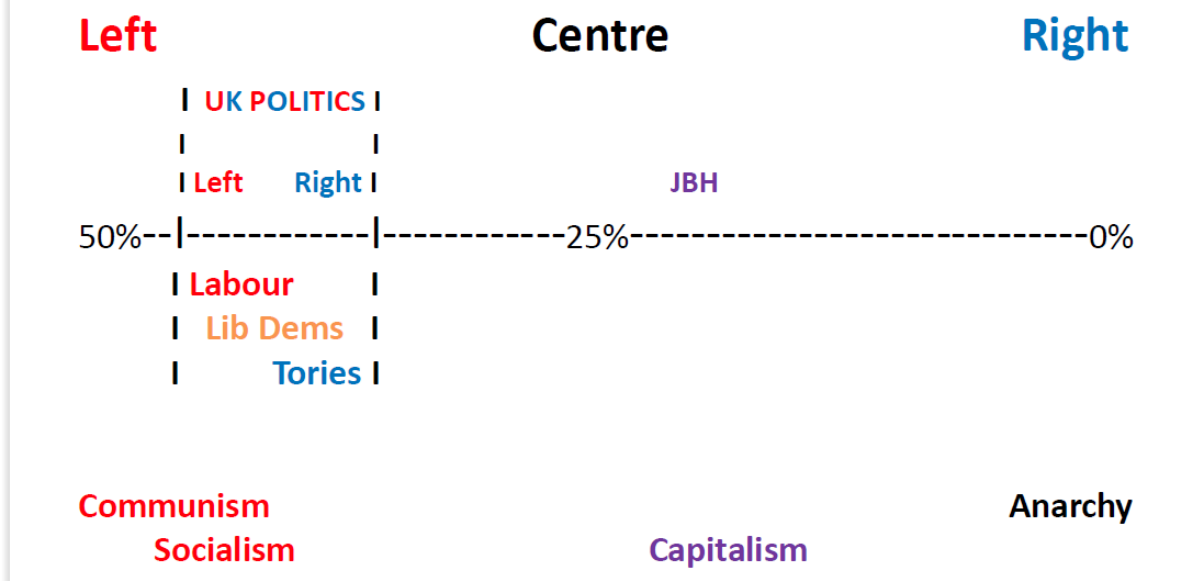
- Tweet by Old Holborn QC (@Holbornlolz).

Readers may be interested to hear our recent Halloween Brexitcast discussion with financial columnist and author [Jonathan Davis](#), investor and business developer [Sir Steven Wilkinson](#), [GoldMoney](#) head of research Alasdair Macleod and technical analyst [Paul Rodriguez](#), in our latest [State of the Markets podcast](#).

Despite the psychic political torture of the last three-and-a-half years, the coming UK General Election promises to be a doozy of epic proportions. For the hard of recall, here is a summary of what the three major British parties promised in their 2017 manifestos regarding the most pressing issue of the day (at least to this correspondent), namely Brexit. The Conservative Party pledged to “deliver a smooth and orderly departure from the European Union”; the Labour Party said that it “accepts the referendum result and.. will put the national interest first”; the Liberal Democrat Party announced, somewhat uncompromisingly, “Stop Brexit”. (Its unofficial campaign slogan is unsuitable for a family-friendly newsletter.) So the Conservative Party promised to deliver on the result of the 2016 referendum, Labour prevaricated, and the Liberal Democrats pledged to overturn a legitimate plebiscite altogether. (In days of yore the latter behaviour would not have been termed either liberal or democratic, but it might have been called treason.) For Leave voters and Brexiteers, the choice seems unusually clear.

But at an economic level, there is less clear water between the major parties than first appears. At the inaugural meeting of the Politics Society at the London Institute of Banking and Finance, the economist John Hearn pointed out the surprising uniformity of the Conservatives, Labour and the Lib Dems when it comes to government spending. Every major political party sees its duty to spend approximately half of Britain’s GDP on Big Government (John’s own preference for government spending as a proportion of national income is indicated as ‘JBH’ on the chart below):

Intervention by % of national income spent by government



Source: The London Institute of Banking and Finance / John Hearn

For some time, the UK electorate has been the victim of an elaborate practical joke, in which the Conservatives have pretended to be the party of free market capitalism, as opposed to what Steven Wilkinson calls 'crapitalism,' and to what Dominic Frisby, in his excellent show *Libertarian Love Songs*, calls 'crony capitalism'. Whether the rot set in during the Global Financial Crisis of 2007/8, or whether it developed slowly and insidiously after the defenestration of Margaret Thatcher in 1990, is something of a moot point.

The key political distinction in the UK – and elsewhere – is therefore no longer about 'right' versus 'left', but rather about the rather more important battle between authoritarianism and libertarianism. Or to put it in cruder economic terms, about just how much of our money the State decides to spend on itself – with the tacit approval of a large swathe of the population.

At the risk of stating the blindingly obvious, government does not create wealth, it merely redistributes it. Wealth is created by entrepreneurs, a truth that the Austrian school acknowledges, but that neo-Keynesians would rather forget. So the fundamental question facing British voters is really: just how much of a beating would you like to take? A Conservative government with a clear majority after December 12th would probably be the lesser of three evils, but it is by no means guaranteed, given the vigorous shaking that the collective political snow-globe has suffered as various motley bunches of chancers have grasped at it, these last three years. Any popular endorsement for a party of illiberal undemocrats would be toxic for the body politic. Any popular endorsement for a party of unashamed Marxists would be an economic disaster.

John Hearn in his presentation asks ‘Does the economy need politicians and politics ?’ He comes to the reluctant conclusion ‘Yes’, but with the caveat that it is not ‘Yes’ because government **ever** does anything efficiently (Milton Friedman is credited with the observation that if the federal government were put in charge of the Sahara Desert, in five years there’d be a shortage of sand); the **profit** motive creates efficiency, whereas the **vote** motive creates inefficiency, and lots of it.

John goes on to discriminate between free goods and economic goods. If there is enough of something to go around without any allocative mechanism, it qualifies as a free good of little interest to economists – air, for example. But if it requires an allocative mechanism then it counts as an economic good that is scarce. The following five slides are from John’s original presentation:

Why must government intervene?

- There are non-rival & non-excludable products we all require. These **PUBLIC GOODS** can only be purchased by a third party e.g. law and order & street lighting: **MARKETS FAIL**.
- **PRIVATE GOODS** are rival & excludable, have their own allocative mechanism & require minimal government intervention: **MARKETS WORK**.
- Some private goods have significant external benefits to society & arguably require some government support. These are **MERIT GOODS** e.g. health & education: **IMPERFECT MARKETS**.
- Other private goods have significant external costs to society & arguably require some government intervention. These are **DEMERIT GOODS** e.g. smoking & alcohol consumption: **IMPERFECT MARKETS**

How much should government intervene?

- Buying all the necessary public goods.
- Buying State Education but no interference in private education
- Buying a Health Service (NHS) but no interference in private health
- Taxing demerit goods
- Subsidising merit goods
- Balance their budgets over a three year term
- Instruct a Central Bank to target a 2% inflation rate without manipulating interest rates

How much will this cost?

- At the beginning of the 20th century the UK government was spending about 10% of the nation`s income
- Government spending of the nation`s income reached a peak in 2010 of 44.9%
- My guess is that if we limit government spending to the provision of only the public good and support for the provision of merit goods then about 20% of the nations income would suffice
- In all areas of government spending there can be significant bureaucratic savings if we stop measuring process and just investigate poor outcomes.

My blueprint, legally enforced

- As much capitalism as possible
- Government cannot spend more than 20% of national income
- Government must balance their budget over a 3 year term, at least, until they fall below the 20% rules for G spending/income and National Debt/GDP.
- Bank of England has an inflation target of 2% and cannot manipulate interest rates
- A universal basic income will be provided to all adults over the age of 18 through reverse income tax
- Only those registered as physically and mentally disabled will have access to welfare benefits

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8

My nightmare

- There seems to be an inexorable move towards total state control in every country including democracies
- The communist revolutions rushed things and were found wanting
- Who has heard a politician say that they cannot do something?
- Who would vote for a politician who says that they will not do something?
- Who sees cutting government spending and raising interest rates as a way to faster economic growth?
- Who sees Brexit as a way of reducing damaging national & international bureaucracy?

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9

We believe in true capitalism, in genuinely free markets and in the supremacy of the individual over the State. Faced with the perhaps inevitable compromise of post-Brexit politics (if only), we would endorse the Conservative party, albeit holding our nose while we did so.

As Professor Per Bylund (@PerBylund) puts it,

What causes poverty ? Nothing. It's the original state, the default and starting point. The real question is, what causes prosperity ?

Tim Price is co-manager of the [VT Price Value Portfolio](#) and author of 'Investing through the Looking Glass: a rational guide to irrational financial markets'. You can access a full archive of these weekly investment commentaries [here](#). You can access the archive of our regular 'State of the Markets' podcasts, with Paul Rodriguez of ThinkTrading.com, [here](#).

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